

ORKO SILVER CORP.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
AS AT APRIL 30, 2009 AND OCTOBER 31, 2008
(Expressed in Canadian Dollars)
(UNAUDITED)

NOTICE OF NO AUDIT REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended April 30, 2009.

	April 30, 2009 \$ (Unaudited)	October 31, 2008 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	5,159,891	424,871
Short-term investments (Note 4)	-	3,000,000
Receivables (Note 15(b))	489,360	1,085,372
Prepaid expenses and deposits	74,296	175,471
Advances to related parties (Note 14 (a))	30,650	15,059
	<u>5,754,197</u>	<u>4,700,773</u>
DEPOSITS	42,154	27,154
PROPERTY AND EQUIPMENT (Note 5)	390,061	401,831
MINERAL PROPERTIES (Note 6)	1,316,163	1,316,163
	<u>7,502,575</u>	<u>6,445,921</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	1,922,114	1,290,447
Due to related parties (Note 14(b))	23,853	36,707
	<u>1,945,967</u>	<u>1,327,154</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)	50,960,655	45,887,061
CONTRIBUTED SURPLUS (Note 9)	8,818,755	8,171,246
DEFICIT	(54,222,802)	(48,939,540)
	<u>5,556,608</u>	<u>5,118,767</u>
	<u>7,502,575</u>	<u>6,445,921</u>

COMMITMENTS (Note 17)

Approved on behalf of the board of directors:

_____ **"Gary Cope"** Director

_____ **"Ross Wilmot"** Director

The accompanying notes are an integral part of these consolidated financial statements.

ORKO SILVER CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2009 AND 2008
(Expressed in Canadian Dollars)
(UNAUDITED)

	Three months ended April 30,		Six Months Ended April 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
EXPLORATION EXPENSES (Schedule 1)				
Drilling	-	2,775,704	555,210	4,464,355
Geological	231,515	262,012	482,725	449,611
Assay	68,838	331,255	178,121	422,887
Site costs	80,300	300,700	257,000	506,800
General exploration	71,411	100,937	139,708	152,516
	<u>452,064</u>	<u>3,770,608</u>	<u>1,612,764</u>	<u>5,996,169</u>
GENERAL EXPENSES				
Amortization	5,885	7,378	11,770	14,756
Bank charges and interest	801	4,740	2,432	7,478
Consulting fees (Note 7)	1,515,044	7,124	1,528,000	17,888
Investor relations	246,615	149,319	330,416	298,663
Management fees	96,115	82,800	180,240	162,000
Office and miscellaneous	87,114	41,475	133,132	80,125
Professional fees	252,609	52,945	318,134	115,228
Rent	18,390	18,390	36,780	36,780
Repairs and maintenance	13,481	34,902	21,235	47,695
Stock-based compensation	280,097	1,972,527	735,203	2,440,055
Telephone and communications	14,697	11,342	21,118	18,445
Transfer agent and filing fees	17,941	42,730	30,998	45,769
Travel and entertainment	239,537	136,350	314,282	357,317
	<u>2,788,326</u>	<u>2,562,022</u>	<u>3,663,740</u>	<u>3,642,199</u>
LOSS BEFORE OTHER ITEMS	(3,240,390)	(6,332,630)	(5,276,504)	(9,638,368)
OTHER ITEMS				
Foreign exchange gain (loss)	85,431	(31,905)	(15,896)	(18,713)
Interest income	576	48,088	9,138	97,065
	<u>86,007</u>	<u>16,183</u>	<u>(6,758)</u>	<u>78,352</u>
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(3,154,383)	(6,316,447)	(5,283,262)	(9,560,016)
DEFICIT - BEGINNING OF PERIOD	(51,068,419)	(30,633,545)	(48,939,540)	(27,389,976)
DEFICIT - END OF PERIOD	(54,222,802)	(36,949,992)	(54,222,802)	(36,949,992)
BASIC AND DILUTED LOSS PER SHARE	(0.03)	(0.06)	(0.05)	(0.10)

The accompanying notes are an integral part of these consolidated financial statements.

ORKO SILVER CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2009 AND 2008
(Expressed in Canadian Dollars)
(UNAUDITED)

	Three months ended April 30,		Six Months Ended April 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
CASH AND CASH EQUIVALENTS FROM (USED IN):				
OPERATING ACTIVITIES				
Loss for the period	(3,154,383)	(6,316,447)	(5,283,262)	(9,560,016)
Items not involving cash				
Amortization	5,885	7,378	11,770	14,756
Stock-based compensation expense	280,097	1,972,527	735,203	2,440,055
	(2,868,401)	(4,336,542)	(4,536,289)	(7,105,205)
Change in operating assets and liabilities:				
Receivables	211,433	(393,092)	511,451	(594,721)
Deposits and prepaid expenses	(46,045)	(3,050)	85,115	42,168
Due from related parties	(19,063)	(24,731)	(15,591)	(5,099)
Accounts payable and accrued liabilities	1,814,807	611,954	695,519	378,300
Due to related parties	23,865	(2,644)	(13,330)	(61,589)
	(883,404)	(4,148,105)	(3,273,125)	(7,346,146)
INVESTING ACTIVITIES				
Redemption of short-term investments	900,000	3,000,000	3,000,000	5,500,000
FINANCING ACTIVITIES				
Proceeds from common shares issued, net of issuance costs	4,985,900	682,375	4,985,900	1,082,200
EFFECT OF EXCHANGE RATES ON CASH	(26,747)	-	22,245	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,975,749	(465,730)	4,735,020	(763,946)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	184,142	737,519	424,871	1,035,735
CASH AND CASH EQUIVALENTS - END OF PERIOD	5,159,891	271,789	5,159,891	271,789

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

The accompanying notes are an integral part of these consolidated financial statements.

SCHEDULE 1**ORKO SILVER CORP.****(An Exploration Stage Company)****CONSOLIDATED STATEMENT OF PROPERTY ACQUISITION AND EXPLORATION EXPENDITURES****APRIL 30, 2009****(Expressed in Canadian dollars)****(UNAUDITED)**

MINING PROPERTIES	LA PRECIOSA	SANTA MONICA	SAN JUAN	TOTAL
Balance, October 31, 2008	\$ 1,234,163	\$ 50,000	\$ 32,000	\$ 1,316,163
Additions in the period:	-	-	-	-
Balance, April 30, 2009	\$ 1,234,163	\$ 50,000	\$ 32,000	\$ 1,316,163

EXPLORATION EXPENDITURES YEAR TO DATE	LA PRECIOSA	SANTA MONICA	SAN JUAN	TOTAL
Drilling	\$ 555,210	\$ -	\$ -	\$ 555,210
Geological	452,861	11,061	18,803	482,725
Assay	178,121	-	-	178,121
Site costs	252,800	600	3,600	257,000
General exploration	95,815	25,416	18,477	139,708
Total Expenditures for the period	\$ 1,534,807	\$ 37,077	\$ 40,880	\$ 1,612,764

EXPLORATION EXPENDITURES 2008	LA PRECIOSA	SANTA MONICA	SAN JUAN	TOTAL
Drilling	\$ 10,126,477	\$ 317,805	\$ 71,285	\$ 10,515,567
Geological	881,084	119,691	100,090	1,100,865
Assay	1,570,940	9,239	3,442	1,583,621
Site costs	991,600	108,500	22,500	1,122,600
General exploration	210,531	76,960	48,292	335,783
Total Expenditures for the year	\$ 13,780,632	\$ 632,195	\$ 245,609	\$ 14,658,436

EXPLORATION EXPENDITURES 2007	LA PRECIOSA	SANTA MONICA	SAN JUAN	TOTAL
Drilling	\$ 4,706,470	\$ -	\$ 388,723	\$ 5,095,193
Geological	324,838	86,576	74,383	485,798
Geophysical	-	106,740	10,343	117,083
Assay	1,014,494	15,872	61,079	1,091,445
Site costs	565,592	117,722	98,735	782,049
General exploration	163,241	98,820	44,680	306,741
Total Expenditures for the year	\$ 6,774,635	\$ 425,730	\$ 677,943	\$ 7,878,309

EXPLORATION EXPENDITURES TOTAL TO DATE	LA PRECIOSA	SANTA MONICA	SAN JUAN	TOTAL
Drilling	\$ 20,164,052	\$ 317,805	\$ 460,008	\$ 20,941,865
Geological	2,067,343	217,328	193,276	2,477,947
Geophysical	96,712	106,740	10,343	213,795
Assay	3,029,434	25,111	64,521	3,119,066
Site costs	2,676,615	252,692	124,835	3,054,142
General exploration	563,346	206,013	111,449	880,808
Total Expenditures to date	\$ 28,597,502	\$ 1,125,689	\$ 964,432	\$ 30,687,623

ORKO SILVER CORP.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2009
(Expressed in Canadian Dollars)
(UNAUDITED)

1. NATURE AND CONTINUANCE OF OPERATIONS

Orko Silver Corp. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada on August 5, 1983. The Company's principal business activities include the acquisition and exploration of mineral properties domiciled in Mexico. The Company is in the exploration stage and has not yet determined whether any of these properties contain ore reserves that are economically recoverable.

As at April 30, 2009, the Company had working capital of \$3,808,230, and accumulated losses of \$54,222,802 since inception. The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's investments in mineral properties, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Current market conditions make the present environment for raising additional equity financing unfavourable. An inability to raise additional financing may impact the future assessment of the Company as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned Mexican subsidiary, Orko Silver de Mexico S.A. de C.V., which was incorporated on October 4, 2006. All significant inter-company balances and transactions have been eliminated upon consolidation.

These interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the fiscal year ended October 31, 2008, with the adoption of new accounting pronouncements as disclosed in Note 3. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company's annual report for the year ended October 31, 2008.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the recoverability or valuation of receivables and mineral properties, the useful lives of property and equipment, income tax rates, the utilization of future income tax assets, the valuation of asset retirement obligations and stock-based compensation. Actual results may ultimately differ from those estimates.

(c) Financial Instruments

(i) Cash Equivalents

The Company considers all highly liquid investments with a term to maturity of three months or less on the date of purchase to be cash equivalents.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments (continued)

(ii) Short-Term Investments

Short-term investments consist of highly liquid short-term interest bearing securities with a term to maturity of greater than three months on the date of purchase. Short-term investments are classified as held-for-trading and are recorded at their fair values using quoted market prices at the balance sheet date. Unrealized gains or losses on held-for-trading investments are recognized in the statement of operations. Investment transactions are recognized on the trade date. Transaction costs incurred to acquire short-term investments are recognized in the statement of operations when incurred.

(d) Property and Equipment

Property and equipment is recorded at cost less accumulated amortization. Amortization is recognized on the declining balance basis at the following rates per annum:

Building	5%
Automobile	30%
Computer equipment	30%

(e) Mineral Properties

Mineral property acquisition costs are capitalized, exploration costs are expensed, and development costs are capitalized once a mineral property is determined to be economically viable. Capitalized mineral property costs will be amortized upon the commencement of commercial production using the unit of production basis.

(f) Translation of Foreign Currencies and Subsidiary

The Company's functional currency is the Canadian dollar and the functional currency of the Company's wholly-owned Mexican subsidiary is the Mexican Peso. Transactions in foreign currencies are translated into the functional currencies of the Company and its subsidiary at the exchange rates in effect on the transaction date. Monetary assets and liabilities expressed in foreign currencies are translated into the functional currencies of the Company and its subsidiary at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in income. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

The accounts of the Company's integrated foreign operations in Mexico are translated using the temporal method of translation. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction dates. Revenue and expense items are translated at the exchange rates prevailing at the date of the transaction except for amortization, which is translated at the exchange rates applicable to the related property and equipment. Exchange gains and losses on translation are included in the determination of loss for the period.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Earnings/Loss per Share

Basic earnings/loss per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share is calculated by adjusting the weighted average number of common shares outstanding using the treasury stock method, to reflect the potential dilution of securities that could result from the exercise of "in the money" stock options, warrants and agent unit options.

(h) Long-Lived Assets

The carrying value of long-lived assets, which includes property and equipment and mineral properties, is assessed when an event occurs indicating impairment. The carrying value is assessed using factors such as future asset utilization and the future undiscounted cash flows expected to result from the use or sale of the related assets. An impairment loss is recognized in the period when it is determined that the carrying amount of the asset is not recoverable and exceeds its fair value. At that time, the carrying amount is written down to fair value.

(i) Stock-Based Compensation

The Company has a plan for granting stock options to management, directors, employees and consultants as described in Note 8(c). The Company recognizes compensation expense under this plan using the fair value method in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". Under this method, the fair value of stock options granted to employees is recognized as stock-based compensation expense over the vesting period and credited to contributed surplus. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to non-employees is recognized as stock-based compensation expense from the date of grant to the reporting date and credited to contributed surplus. Upon the exercise of stock options, consideration paid and the fair value amounts previously credited to contributed surplus are recorded as share capital. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted.

(j) Asset Retirement Obligations

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the declining balance method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation. As at April 30, 2009, the Company has not incurred any asset retirement obligation related to the exploration of its mineral properties.

(k) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

(m) Recent Canadian Accounting Pronouncements

Recent Canadian accounting pronouncements that have been announced but are not yet effective are as follows:

(i) CICA 1582, "Business Combinations", CICA 1601, "Consolidated Financial Statements" and CICA 1602, "Non-controlling Interest"

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning November 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

(ii) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of adopting IFRS and has not yet determined its effect on its financial statements.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

(a) CICA 3064, "Goodwill and Intangible Assets" and amended CICA 1000, "Financial Statement Concepts"

These sections clarify the criteria for the recognition of assets, intangible assets and internally developed intangible assets. The Company adopted these standards on November 1, 2008. The adoption of these standards did not have a significant impact on the Company's financial statements.

(b) CICA 1400, "General Standards of Financial Statement Presentation"

In May 2007, the CICA issued amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. The Company adopted this standard on November 1, 2008. The adoption of this standard did not have a significant impact on the Company's financial statements.

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4. SHORT-TERM INVESTMENTS

At the beginning of the period, the Company's short-term investments consisted of a guaranteed investment certificate issued by a major Canadian financial institution bearing interest. Due to redemptions of the certificate during the six months ended April 30, 2009, the Company did not hold any short-term investments at April 30, 2009.

5. PROPERTY AND EQUIPMENT

			April 30, 2009	October 31, 2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Land	113,024	-	113,024	113,024
Building	270,928	24,817	246,111	252,423
Automobile	33,342	14,288	19,054	22,416
Computer equipment	34,089	22,217	11,872	13,968
	<u>451,383</u>	<u>61,322</u>	<u>390,061</u>	<u>401,831</u>

6. MINERAL PROPERTIES

	La Preciosa Mexico	Santa Monica Mexico	San Juan Mexico	Total
	\$	\$	\$	\$
2009				
Mineral properties, beginning of the period	1,234,163	50,000	32,000	1,316,163
Acquisition costs capitalized during the period	-	-	-	-
Mineral properties, end of the period	<u>1,234,163</u>	<u>50,000</u>	<u>32,000</u>	<u>1,316,163</u>
2008				
Mineral properties, beginning of the year	1,234,163	50,000	32,000	1,316,163
Acquisition costs capitalized during the year	-	-	-	-
Mineral properties, end of the year	<u>1,234,163</u>	<u>50,000</u>	<u>32,000</u>	<u>1,316,163</u>

(a) La Preciosa, Mexico

During the year ended October 31, 2006, the Company completed the acquisition of a 100% interest in the La Preciosa mineral property from a subsidiary of Goldcorp Inc. (formerly Wheaton River Minerals Ltd.). To earn the 100% interest, the Company incurred cumulative exploration expenditures of US\$1,500,000 on the property, issued 50,000 common shares of the Company valued at \$21,000 during the year ended October 31, 2005, and issued 2,378,750 common shares of the Company valued at \$1,206,521 during the year ended October 31, 2006.

On a portion of the La Preciosa property, the Company is obligated to pay 3% of net smelter returns on all product sold to certain royalty holders.

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6. MINERAL PROPERTIES (continued)

(b) Santa Monica, Mexico

During the year ended October 31, 2008, the Company completed the acquisition of a 51% interest in the Santa Monica mineral property from a subsidiary of Goldcorp Inc. To earn the 51% interest, the Company incurred cumulative exploration expenditures of US\$1,000,000 on the property, issued 50,000 common shares of the Company valued at \$21,000 during the year ended October 31, 2005, and issued 50,000 common shares of the Company valued at \$29,000 during the year ended October 31, 2007.

The Company elected not to exercise an option to acquire an additional 24% interest in the property and instead, on October 10, 2008, entered into a new agreement to acquire the remaining 49% interest in the Santa Monica property in exchange for 2,000,000 common shares of the Company, valued at \$1,480,000, which were subsequently issued on June 16, 2009.

(c) San Juan, Mexico

During the year ended October 31, 2008, the Company completed the acquisition of a 75% interest in the San Juan mineral property from a subsidiary of Silver Standard Resources Inc. (the "Vendor"). To earn the 75% interest, the Company incurred cumulative exploration expenditures of US\$750,000 and issued 40,000 common shares of the Company valued at \$32,000 during the year ended October 31, 2006.

On March 27, 2009, the Company entered into a new agreement to acquire the remaining 25% interest in the San Juan property in exchange for 306,263 common shares of the Company, valued at \$226,635, which were subsequently issued on June 16, 2009.

The Company is required to make semi-annual payments of the greater of US\$5,000 and 2% of direct exploration expenditures incurred on the property. The Company is obligated to pay 0.25% of net smelter returns to certain royalty holders on all product sold.

7. JOINT VENTURE AGREEMENT WITH PAN AMERICAN SILVER CORP.

On April 13, 2009, the Company reached an agreement with Pan American Silver Corp. ("Pan American") for the joint development of the La Preciosa, Santa Monica and San Juan properties, together termed the "La Preciosa project". Pan American will contribute 100% of the funds necessary to develop and construct an operating mine, in consideration for a 55% interest in the joint venture, while the Company will contribute the La Preciosa project and related concessions to retain a 45% interest. Over the next 36 months, Pan American has agreed to spend an estimated US\$16 million on the project to conduct resource definition drilling, acquire necessary surface rights, obtain permits, and ultimately prepare and deliver a feasibility study to maintain its interest in the joint venture. Furthermore, Pan American has agreed to spend a minimum of US\$5.0 million in the first 12 months of the development program to maintain its interest in the joint venture, of which a minimum of US\$2.5 million will be spent to continue to explore the land package that the Company is contributing to the joint venture.

The joint venture agreement was subject to approval by the TSX Venture Exchange, which was received subsequent to the period-end, on May 14, 2009. The Company incurred significant costs in connection with the transaction, and in the second quarter of fiscal 2009, recorded legal fees of \$190,695 and consulting fees of \$1,502,239 for two independent fairness opinions of the transaction, which were required to meet the Evidence of Value criteria used by the TSX Venture Exchange in their approval process.

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8. SHARE CAPITAL

(a) Authorized Share Capital

Unlimited number of common shares without par value.

(b) Issued and Outstanding Share Capital

	Number of Shares	Amount \$
Balance at October 31, 2007	96,798,278	31,847,472
Issued during the year		
For cash:		
Brokered private placement, net of share issue costs	7,320,000	10,890,231
Exercise of options	1,625,000	512,350
Exercise of warrants	1,984,438	1,671,887
Transferred from contributed surplus:		
Exercise of options	–	471,611
Exercise of warrants	–	493,510
Balance at October 31, 2008	107,727,716	45,887,061
Issued during the period		
For cash:		
Non-brokered private placement, net of share issue costs	4,000,000	4,916,650
Exercise of options	125,000	69,250
Transferred from contributed surplus:		
Exercise of options	–	87,694
Balance at April 30, 2009	111,852,716	50,960,655

(b) Issued and Outstanding Share Capital

On June 12, 2008, the Company issued 7,320,000 common shares at \$1.65 per share for gross proceeds of \$12,078,000 under a brokered private placement. The Company issued 439,200 broker warrants as a commission. Each whole broker warrant entitles the holder thereof to purchase one additional common share before June 12, 2010 at a price of \$1.65 per common share. The fair value of the warrants was computed to be \$265,980 using the Black-Scholes option-pricing model and was recorded as a non-cash share issuance cost. The Company paid cash commissions of \$724,680 and incurred other cash share issuance costs of \$197,109.

Coincident with the formation of the La Preciosa project joint venture, on April 21, 2009, the Company issued 4,000,000 common shares to Pan American at \$1.25 per share for gross proceeds of \$5,000,000 under a non-brokered private placement. The Company incurred cash share issuance costs of \$83,350.

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8. SHARE CAPITAL (continued)

(c) Stock Options

The Company has a plan to grant stock options to directors, officers, employees and consultants of the Company. On April 2, 2009, the Company adopted an amendment to its 20% fixed plan, which was subsequently approved by shareholders at its annual general meeting of shareholders to grant options to directors, officers, employees and consultants of the Company. Options are generally for a term of up to five years from the date granted and are exercisable at a price that is not less than the market price on the date granted.

Stock option activity since October 31, 2007 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2007	13,370,000	0.69
Granted	5,530,000	1.76
Exercised	(1,625,000)	0.32
Cancelled	(150,000)	1.52
Forfeited	(25,000)	1.79
<hr/>		
Outstanding, October 31, 2008	17,100,000	1.06
Granted	800,000	0.46
Exercised	(125,000)	0.55
Forfeited	(100,000)	0.53
<hr/>		
Outstanding, April 30, 2009	17,675,000	0.88

On November 21, 2008, the Company announced its intent to reduce the exercise price of 13,190,000 incentive stock options as to 6,595,000 options to \$0.45 per share and 6,595,000 options to \$0.60 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of Insiders of the Company, the approval of disinterested shareholders. Accordingly each of the subject option holders will have the exercise price of half their options reduced to \$0.45 per share and the other half to \$0.60 per share. There has been no change to the expiry date of the options. The Company received TSX Venture Exchange acceptance on January 12, 2009 and thus reduced the exercise price for 4,175,000 options not subject to disinterested shareholder approval. On May 7, 2009, the Company received disinterested shareholder approval for the remaining 9,015,000 options and thus reduced the exercise price for these options.

On February 2, 2009, the Company announced its intent to reduce the exercise price of 525,000 stock options from \$1.55 to \$0.61 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of insiders of the Company, the approval of disinterested shareholders. The Company received TSX Venture Exchange acceptance on March 11, 2009 and thus reduced the exercise price for 325,000 options not subject to disinterested shareholder approval. On May 7, 2009, the Company received disinterested shareholder approval for the remaining 200,000 options and thus reduced the exercise price for these options.

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8. SHARE CAPITAL (continued)

(c) Stock Options (continued)

The following table summarizes the stock options outstanding and exercisable at April 30, 2009:

Options Outstanding			
Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$0.13	75,000	0.5	\$0.13
\$0.25	100,000	0.7	0.25
\$0.45 - \$0.47	2,762,500	3.6	0.45
\$0.53 - \$0.58	3,060,000	2.1	0.55
\$0.60 - \$0.69	2,857,500	3.1	0.62
\$0.82 - \$0.85	4,740,000	3.3	0.85
\$1.55	525,000	4.1	1.55
\$1.79 - \$1.80	3,555,000	3.8	1.79
	17,675,000	3.2	0.88

(d) Warrants

Warrant activity since October 31, 2007 is presented below:

	Number of Shares	Weighted Average Exercise Price
		\$
Outstanding, October 31, 2007	3,392,188	0.91
Issued	439,200	1.65
Exercised	(1,984,438)	0.84
Outstanding, October 31, 2008 and April 30, 2009	1,846,950	1.15

The following table summarizes the warrants outstanding at April 30, 2009:

Number of Shares	Exercise Price	Issue Date	Expiry Date
1,407,750	\$1.00	August 24, 2007	August 24, 2009
439,200	\$1.65	June 12, 2008	June 12, 2010
1,846,950			

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8. SHARE CAPITAL (continued)

(e) Shareholder Rights Plan

The directors of the Company approved the adoption of a shareholder rights plan, dated December 4, 2007, (the "Rights Plan") which was ratified by the Company's shareholders on March 13, 2008. The Rights Plan is intended to ensure that all shareholders of the Company are treated fairly in any transaction involving a potential change of control of the Company. The rights become exercisable only when a person or party acquires or announces its intention to acquire 20% or more of the outstanding shares of the Company without complying with certain provisions of the Rights Plan. Each right would entitle each holder of common shares (other than the acquiring person or party) to purchase additional common shares of the Company at a 50% discount to the market price at the time. The Rights Plan is subject to a confirmation vote by the Company's shareholders every third year after coming into effect, and failing such confirmation vote, the agreement will terminate.

9. CONTRIBUTED SURPLUS

	Amount
	\$
Balance at October 31, 2007	4,647,477
Stock-based compensation recorded during the year	4,222,910
Fair value of warrants issued in private placement	265,980
Transferred to share capital upon exercise of stock options	(471,611)
Transferred to share capital upon exercise of warrants	(493,510)
Balance at October 31, 2008	8,171,246
Stock-based compensation recorded during the period	735,203
Transferred to share capital upon exercise of stock options	(87,694)
Balance at April 30, 2009	8,818,755

10. STOCK-BASED COMPENSATION

During the six months ended April 30, 2009, the Company granted 800,000 (2008 – 5,005,000) stock options to directors, officers and consultants of the Company. The weighted average fair value of each option granted was calculated using the Black-Scholes option-pricing model at the date of each grant using the following assumptions:

	Six Months Ended April 30,	
	2009	2008
Expected option lives	2 years	2 years
Risk-free interest rate	2.9%	2.6%
Expected dividend yield	0%	0%
Expected stock price volatility	64%	69%

During the six months ended April 30, 2009, the Company also reduced the exercise price of 4,500,000 (2008 – Nil) stock options to consultants of the Company.

During the six months ended April 30, 2009, the Company recognized \$735,203 (2008 - \$2,440,055) of compensation cost which has been recorded in stock-based compensation expense.

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11. SUPPLEMENTAL CASH FLOW INFORMATION

	April 30, 2009	October 31, 2008
	\$	\$
Cash and cash equivalents consist of:		
Bank deposits	5,159,891	424,871

	Six Months Ended April 30,	
	2009	2008
	\$	\$
Cash paid for:		
Interest	—	—
Income taxes	—	—
Non-cash financing and investing activities:		
Warrants issued for share issuance costs	—	—
Common shares issued for share issuance costs	—	—
Common shares issued for interest expense	—	—
Common shares issued for mineral properties	—	—

12. LOSS PER SHARE

The weighted average number of shares outstanding used in the computation of loss per share for the six month period ending April 30, 2009 was 107,946,000 (2008 – 97,435,000). Outstanding stock options, warrants and agent unit options have not been considered in the computation of diluted loss per share as the result is anti-dilutive.

13. CAPITAL MANAGEMENT

The Company defines capital as all components of shareholders' equity. The Company has no debt obligations. The board of directors does not establish quantitative return on capital criteria for management due to the nature of the Company's business. The Company does not pay dividends. The Company is not subject to any externally imposed capital requirements.

The Company raises capital to fund its corporate and exploration costs through the sale of its common shares or units consisting of common shares and warrants.

14. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Advances to Related Parties

As at April 30, 2009, advances to related parties consists of \$30,650 (2008 – \$15,059) advanced to officers of the Company for travel expenses to be incurred on behalf of the Company. These amounts are non-interest bearing and will be applied in the future against travel expenses incurred by the officers on behalf of the Company.

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14. RELATED PARTY BALANCES AND TRANSACTIONS

(b) Due to Related Parties

As at April 30, 2009, due to related parties consists of \$1,492 (2008 - \$13,709) payable to officers of the Company for travel expenses incurred on behalf of the Company and \$22,361 (2008 - \$22,998) payable to a company controlled by a director of the Company for exploration expenditures. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

(c) Related Party Transactions

During the six months ended April 30, 2009 the Company entered into the following transactions with related parties:

- (i) A company controlled by a director of the Company incurred \$97,209 (2008 - \$77,169) in exploration expenditures on behalf of the Company for which the company is subsequently reimbursed.
- (ii) Companies controlled by officers of the Company earned management fees of \$180,240 (2008 - \$162,000).
- (iii) The Company subleases office premises to related parties (see Note 17(b)).

All of the above noted transactions have been in the normal course of operations and are recorded at their exchange amounts, which is the consideration agreed upon by the related parties.

15. FINANCIAL INSTRUMENTS

(a) Fair Value of Financial Instruments

The Company has various financial instruments including cash and cash equivalents, short-term investments, receivables, advances to related parties, accounts payable and accrued liabilities and due to related parties. The carrying values of these financial instruments approximate their fair values due to their near-term maturities.

(b) Credit Risk

The Company maintains a majority of its cash and cash equivalents and short-term investments with a major Canadian financial institution. The Company maintains the remainder of its cash and cash equivalents with a major Mexican financial institution. Deposits held with these institutions may exceed the amount of insurance provided on such deposits.

The Company's receivables consist of \$120,857 of value added taxes ("VAT") receivable from an agency of the Canadian government and \$368,503 of VAT receivable from an agency of the Mexican government.

(c) Liquidity Risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and purchasing short-term investments with early redemption features. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

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15. FINANCIAL INSTRUMENTS (continued)

(d) Currency Risk

As the Company operates in an international environment, some of the Company's transactions and balances are denominated in currencies other than the Canadian dollar. The Company's foreign exchange risk arises primarily with respect to the Mexican peso. Fluctuations in the exchange rates between this currency and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

At April 30, 2009, the Company has cash and cash equivalents of \$17,370 and receivables of \$368,503 denominated in 200,810 and 4,258,576 Mexican pesos, respectively. A strengthening (weakening) of the Canadian dollar against the Mexican peso of 10% would result in an increase (decrease) in the Company's loss and comprehensive for the six month period of approximately \$40,000.

(d) Interest Rate Cash Flow Risk

The Company's short-term investments are subject to interest rate price risk as they carry variable rates of interest. The Company does not engage in any hedging activity to mitigate this risk.

A plus or minus 1% change in interest rates would affect loss and comprehensive loss for the six month period by \$4,000.

(e) Commodity Price Risk

Mineral prices, in particular gold and silver, are volatile, and have risen and fallen sharply in recent years. The prices are subject to market supply and demand, political and economic factors, and commodity speculation, all of which can interact with one another to cause significant price movements. These price movements can affect the Company's ability to operate and to raise financing through the sale of its common shares.

16. SEGMENT DISCLOSURES

The Company operates in the mining industry. Management of the Company makes decisions about allocating resources based on the one operating segment. The following table summarizes property and equipment and mineral properties by geographic segment:

April 30, 2009	Canada	Mexico	Total
Property and equipment	\$ 11,872	\$ 378,189	\$ 390,061
Mineral properties	–	1,316,163	1,316,163
Total	\$ 11,872	\$ 1,694,352	\$ 1,706,224

October 31, 2008	Canada	Mexico	Total
Property and equipment	\$ 13,968	\$ 387,863	\$ 401,831
Mineral properties	–	1,316,163	1,316,163
Total	\$ 13,968	\$ 1,704,026	\$ 1,717,994

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17. COMMITMENTS

- (a) On February 20, 2006, the Company entered into a joint lease agreement with an unrelated third party to lease office premises commencing July 1, 2006 for a term of five years. The lease commitment is shared equally between the two parties. The Company's portion of the lease payments for the remaining term of the lease is as follows:

	\$
2009	35,000
2010	70,000
2011	46,700

- (b) On April 16, 2007, the Company entered into a lease agreement, amended June 1, 2007, to lease office premises commencing June 1, 2007 for a term of three years. The Company's gross lease payments for the remaining term of the lease are as follows:

	\$
2009	26,190
2010	30,540

The Company subleases these premises to two companies having directors in common with the Company. The Company expects to recover approximately two-thirds of the above amounts over the remaining term of the lease.

18. SUBSEQUENT EVENTS

- (a) On May 7, 2009, during the Annual General Meeting, the Company's shareholders ratified a directors' resolution to re-price 9,215,000 options held by directors and officers of the Company. Accordingly 4,507,500 options were re-priced \$0.45, 4,507,500 options were re-priced to \$0.60 and 200,000 options were re-priced to \$0.61. There was no change to the expiry date of the options.
- (b) On May 7, 2009, during the Annual General Meeting, the Company's shareholders approved amendment No. 2 to the Company's 20% stock option plan. Accordingly, the number of common shares reserved for the grant of options was increased from 19,438,030 shares to 21,570,543 shares.
- (c) On May 14, 2009, the Company received TSX Venture Exchange approval of the joint venture agreement with Pan American Silver Corp. The Company incurred significant costs in connection with the transaction, and in the second quarter of fiscal 2009, recorded legal fees of \$190,695 and consulting fees of \$1,502,239 for two independent fairness opinions of the transaction, which were required to meet the Evidence of Value criteria used by the TSX Venture Exchange in their approval process.

The agreement with Pan American, reached on April 13, 2009, calls for the joint development of the La Preciosa, Santa Monica and San Juan properties, together termed the "La Preciosa project". Pan American will contribute 100% of the funds necessary to develop and construct an operating mine, in consideration for a 55% interest in the joint venture, while the Company will contribute the La Preciosa project and related concessions to retain a 45% interest. Over the next 36 months, Pan American has agreed to spend an estimated US\$16 million on the project to conduct resource definition drilling, acquire necessary surface rights, obtain permits, and ultimately prepare and deliver a feasibility study to maintain its interest in the joint venture. Furthermore, Pan American has agreed to spend a minimum of US\$5.0 million in the first 12 months of the development program to maintain its interest in the joint venture, of which a minimum of US\$2.5 million will be spent to continue to explore the land package that the Company is contributing to the joint venture.

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18. SUBSEQUENT EVENTS (continued)

- (d) On May 15, 2009, the Company announced that it had entered into an agreement with Incorporated Communications Services (ICS) of Los Angeles, California under which ICS will conduct media awareness and investor-relations programs on behalf of the Company. Pursuant to the agreement, the Company also granted 150,000 incentive stock options to principals of ICS, at an exercise price of \$0.80. The stock options have a three-year term, and vest in respect of 25% of the shares under option three months from the date of the agreement, and in respect of an additional 25% every three months thereafter.
- (e) On June 16, 2009, the Company issued 2,000,000 shares to Desarrollos Mineros San Luis S.A de C.V. pursuant to the terms of the agreement to acquire the remaining 49% of the Santa Monica property.
- (f) On June 16, 2009, the Company issued 306,263 shares to Silver Standard Resources Inc. pursuant to the terms of the agreement to acquire the remaining 25% of the San Juan property.