

ORKO SILVER CORP.
(An Exploration Stage Company)

Interim Financial Statements
April 30, 2011

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

ORKO SILVER CORP.
(An Exploration Stage Company)
Balance Sheets
As at April 30, 2011 and October 31, 2010
(Unaudited)

	April 30, 2011 \$ (Unaudited)	October 31, 2010 \$
Assets		
Current		
Cash	9,456,922	384,542
Short-term investments (note 3)	5,237,116	13,513,019
Receivables	122,737	114,136
Prepaid expenses and deposits	227,399	95,150
Advances to related parties (note 9)	15,912	2,729
	15,060,086	14,109,576
Deposits	55,563	38,003
Property and Equipment (note 4)	350,289	358,659
Investment (note 5)	3,501,124	3,633,507
	18,967,062	18,139,745
Liabilities		
Current		
Accounts payable and accrued liabilities	72,064	63,527
Due to related parties (note 9)	10,833	39,045
	82,897	102,572
Shareholders' Equity		
Share Capital	71,767,586	67,568,456
Contributed Surplus	11,214,877	12,613,190
Deficit	(64,098,298)	(62,144,473)
	18,884,165	18,037,173
	18,967,062	18,139,745

Nature of operations and going concern (note 1)
Commitment (note 11)
Subsequent events (note 13)

Approved by the Board:

"Gary Cope"
..... Director
Gary Cope

"Rick Sayers"
..... Director
Rick Sayers

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Operations
Three and Six Months Ended April 30, 2011 and 2010
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
		(Restated - note 5)		(Restated - note 5)
Exploration Expenses				
Geological	222,784	30,086	253,662	56,162
General exploration	8,465	4,170	12,423	8,460
	231,249	34,256	266,085	64,622
Expenses				
Amortization	4,185	4,908	8,370	9,816
Consulting fees	12,803	12,142	27,112	24,790
Investor relations	169,608	216,729	351,152	358,078
Management fees (note 9)	210,500	90,550	357,500	175,300
Office and miscellaneous	77,062	53,112	145,238	105,866
Professional fees	27,057	100,833	77,421	151,010
Rent	19,379	24,338	43,647	51,117
Repairs and maintenance	23,071	4,254	23,353	23,832
Stock-based compensation (note 7(d))	60,928	-	180,902	99,636
Telephone and communications	12,765	12,350	27,051	22,541
Transfer agent and filing fees	48,717	25,023	54,319	27,330
Travel and entertainment	185,057	179,114	336,532	247,385
	851,132	723,353	1,632,597	1,296,701
Other Items				
Interest income	(42,546)	(981)	(81,992)	(2,323)
Foreign exchange loss	3,610	1,478	4,752	2,969
Share of loss on equity accounted investment (note 5)	291,287	1,080,824	917,138	1,897,212
Gain arising on capital contributions by Pan American (note 5)	(228,377)	(1,336,979)	(784,755)	(2,087,946)
	23,974	(255,658)	55,143	(190,088)
Net Loss for Period and Comprehensive Loss for Period	1,106,355	501,951	1,953,825	1,171,235
Loss Per Share				
- basic and diluted	0.01	0.00	0.02	0.01
Weighted Average Number of Common Shares Outstanding	127,709,000	115,110,000	126,932,000	114,910,000

ORKO SILVER CORP.
(An Exploration Stage Company)
Statement of Shareholders' Equity
At April 30, 2011
(Unaudited)

	Common Shares #	Share Capital \$	Contributed Surplus \$	Deficit \$	Equity \$
Balance, October 31, 2009	114,458,979	52,985,254	12,208,311	(59,338,569)	5,854,996
Issued for cash:					
Brokered private placement, net of share issue costs (note 7(b))	8,500,000	12,566,499	471,263	-	13,037,762
Non-brokered private placement, net of share issue costs (note 7(b))	700,000	1,082,689	-	-	1,082,689
Exercise of options	973,500	507,435	-	-	507,435
Transferred from contributed surplus:					
Exercise of options	-	426,579	(426,579)	-	-
Stock-based compensation	-	-	360,195	-	360,195
Net loss and comprehensive loss	-	-	-	(2,805,904)	(2,805,904)
Balance, October 31, 2010	124,632,479	67,568,456	12,613,190	(62,144,473)	18,037,173
Issued for cash:					
Exercise of warrants	510,000	841,500	-	-	841,500
Exercise of options	2,786,500	1,778,415	-	-	1,778,415
Transferred from contributed surplus:					
Exercise of warrants	-	471,263	(471,263)	-	-
Exercise of options	-	1,107,952	(1,107,952)	-	-
Stock-based compensation	-	-	180,902	-	180,902
Net loss and comprehensive loss	-	-	-	(1,953,825)	(1,953,825)
Balance, April 30, 2011	127,928,979	71,767,586	11,214,877	(64,098,298)	18,884,165

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Cash Flows
Three and Six Months Ended April 30, 2011 and 2010
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2011 \$	2010 \$	2011 \$	2010 \$
		(Restated - note 5)		(Restated - note 5)
Operating Activities				
Net loss for period	(1,106,355)	(501,951)	(1,953,825)	(1,171,235)
Items not involving cash:				
Amortization	4,185	4,908	8,370	9,816
Stock-based compensation expense	60,928	-	180,902	99,636
Share of loss on equity accounted investment	291,287	1,080,824	917,138	1,897,212
Gain arising on capital contributions by Pan American	(228,377)	(1,336,979)	(784,755)	(2,087,946)
Unrealized loss on foreign exchange	1,482	835	1,792	1,058
	(976,850)	(752,363)	(1,630,378)	(1,251,459)
Changes in non-cash working capital items:				
Accrued interest on short-term investment	(16,533)	245	(11,597)	(907)
Receivables	69,594	3,225	(8,601)	(6,555)
Prepaid expenses and deposits	(74,544)	1,299	(149,809)	49,526
Advances to related parties	10,821	(4,822)	(13,183)	(1,577)
Accounts payable and accrued liabilities	23,508	(17,100)	8,537	(27,363)
Due to related parties	8,007	11,520	(28,212)	6,896
Cash Used in Operating Activities	(955,997)	(757,996)	(1,833,243)	(1,231,439)
Investing Activities				
Redemption of short-term investments	-	500,000	8,287,500	600,000
Cash Provided by Investing Activities	-	500,000	8,287,500	600,000
Financing Activities				
Proceeds from common shares issued, net of share issue costs	734,300	182,385	2,619,915	431,635
Cash Provided by Financing Activities	734,300	182,385	2,619,915	431,635
Foreign Exchange Loss on Cash Held in Foreign Currency	(1,482)	(835)	(1,792)	(1,058)
Increase (Decrease) in Cash During the Period	(223,179)	(76,446)	9,072,380	(200,862)
Cash, Beginning of Period	9,680,101	88,125	384,542	212,541
Cash, End of Period	9,456,922	11,679	9,456,922	11,679
Supplemental Information				
Cash paid for interest	-	-	-	-
Cash paid for income taxes	-	-	-	-

ORKO SILVER CORP.
(An Exploration Stage Company)
Notes to Financial Statements
Three and Six Months Ended April 30, 2011 and 2010
(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 in Mexico through its investment. The Company is in the exploration stage and has not yet determined whether any of the properties it has an investment in contain ore reserves that are economically recoverable.

As at April 30, 2011, the Company had working capital of \$14,977,189 (2010 - \$14,007,004) and accumulated deficit of \$64,098,298 (2010 - \$62,144,473) since inception. The continuance of the Company's operations, for the next 12 months and beyond, is dependent on obtaining sufficient additional financing and the recoverability of the Company's investment, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals.

These 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. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The functional and reporting currency of the Company is the Canadian dollar.

(a) Basis of Presentation

Prior to the Company signing a definitive shareholders' agreement with Pan American Silver Corp. ("Pan American") on October 23, 2009 (note 5), Proyectos Mineros La Preciosa S.A. de C.V. ("Proyectos Mineros") (formerly Orko Silver de Mexico S.A. de C.V.) was a wholly-owned subsidiary in Mexico and its accounts were consolidated for the purpose of preparing the Company's financial statements. Subsequent to October 23, 2009, the Company's investment in Proyectos Mineros is an investment where only significant influence exists as its equity interest was reduced to 45%. Accordingly, the accounting for Proyectos Mineros was changed to the equity method of accounting on October 23, 2009, but with effect from April 13, 2009, when a binding letter of intent with Pan American was signed.

These interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended October 31, 2010, with the adoption of new accounting pronouncements as disclosed herein. These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto in the Company's annual report for the year ended October 31, 2010.

ORKO SILVER CORP.
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Notes to Financial Statements
Three and Six Months Ended April 30, 2011 and 2010
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Investments

Investments in which the Company has the ability to exert significant influence but does not have control are accounted for using the equity method of accounting whereby the original cost of the investment is adjusted annually for the Company's share of earnings, losses, dividends and other changes to the investment's capital structure during the current period.

(c) Property and Equipment

Property and equipment are recorded at cost and amortized over their estimated useful life on the declining balance basis at the following annual rates:

Building	5%
Automobile	30%
Computer hardware	30%

(d) Mineral Properties

The Company capitalizes acquisition costs related to investments in mineral properties on a property-by-property basis. Exploration costs are expensed as incurred. Mineral property acquisition costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, or the Company's assessment of its inability to sell the property for an amount exceeding the acquisition cost, a provision is made for the impairment in value.

After a mineral property interest has been assessed as commercially feasible, expenditures specific to the property are capitalized. In deciding when a mineral property is likely to be commercially feasible, management may consider, among other factors, the results of pre-feasibility studies, detailed analysis of drilling results, the supply and cost of required labour and equipment, and whether necessary mining and environmental permits can be obtained.

These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of cost is recognized in income.

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Notes to Financial Statements
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(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) **Asset Retirement Obligation (“ARO”)**

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

(f) **Use of Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include collectability of receivables, the carrying value of investments, the fair value of financial instruments, rates for amortization of property and equipment, determination of AROs, balance of accrued liabilities, determination of the valuation allowance for future income tax assets, and the variables used in the fair value calculations of stock-based compensation and warrants issued for share issue costs. While management believes these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(g) **Loss Per Share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted earnings (loss) per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(h) **Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences), and losses carried forward. Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

ORKO SILVER CORP.
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Three and Six Months Ended April 30, 2011 and 2010
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in the statements of operations. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

The Company categorizes its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(j) Non-Monetary Transactions

Shares issued for consideration other than cash are valued at the quoted market price at the date of issuance.

(k) Foreign Currency Translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange in effect at the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the statements of operations.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earliest of the date at which the counterparty performance is completed, the date the performance commitment is reached and the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus. For directors and employees the fair value is recognized over the vesting period, and for non-employees the fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(m) Future Accounting Pronouncements

(i) International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that January 1, 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The IFRS standards will be effective for the Company for interim and annual financial statements relating to the Company's fiscal year beginning on or after November 1, 2011. The effective date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and year ending October 31, 2011. The Company has begun the planning and scoping phase of the transition to IFRS and intends to transition to IFRS financial statements during fiscal 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

(ii) Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

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Notes to Financial Statements
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(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) **Future Accounting Pronouncements** (Continued)

(ii) **Business Combinations** (Continued)

These new sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

3. FINANCIAL INSTRUMENTS

The Company has designated its cash and short-term investments as held-for-trading; receivables and advances to related parties as loans and receivables; and accounts payable and accrued liabilities and due to related parties as other liabilities.

(a) **Fair Value**

The carrying values of cash, short-term investments, receivables (excluding value added taxes receivable), and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these financial instruments. The fair values of advances to related parties and due to related parties have not been disclosed as their fair values cannot be reliably measured as there is no market for such instruments.

The Company's measurement of fair value of financial instruments at April 30, 2011 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments	\$ 5,237,116	\$ 5,237,116	\$ -	\$ -

The Company's short-term investments are classified within Level 1 of the fair value hierarchy, as they are valued using quoted market prices.

As the carrying values of the Company's remaining financial instruments approximate their fair value, disclosure is not made of their level in the fair value hierarchy.

(b) **Credit Risk**

The Company is exposed to credit risk with respect to its cash, short-term investments and advances to related parties. This risk is minimized as the cash and short-term investments have been placed with major Canadian financial institutions. The Company is not exposed to credit risk on its receivables as they primarily consist of amounts due from government agencies.

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(Unaudited)

3. FINANCIAL INSTRUMENTS (Continued)

(b) **Credit Risk (Continued)**

Concentration of credit risk exists with respect to the Company's cash and short-term investments as all amounts are held at major Canadian financial institutions. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	April 30, 2011	October 31, 2010
Bank accounts	\$ 9,456,922	\$ 384,542
Short-term investments	5,237,116	13,513,019
	\$ 14,694,038	\$ 13,897,561

The short-term investments are comprised of two guaranteed investment certificates ("GIC") which are cashable within 30 days without a significant risk of change in value. The GICs earn interest at rates of 1.20% to 1.30% and mature on December 17, 2011.

(c) **Liquidity Risk**

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At April 30, 2011, the Company had accounts payable and accrued liabilities of \$72,064 (2010 - \$63,527), which are due in the third quarter of fiscal 2011, and due to related parties of \$10,833 (2010 - \$39,045), which is payable on demand.

(d) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) **Interest rate risk**

Interest rate risk consists of two components:

- (a) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (b) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

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(Unaudited)

3. FINANCIAL INSTRUMENTS (Continued)

(d) **Market Risk (Continued)**

(i) Interest rate risk (Continued)

The Company's cash and short-term investments consist of cash held in bank accounts and two guaranteed investment certificates that earn interest at rates of 1.20% to 1.30%. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of April 30, 2011. Future cash flows from interest income on cash and short-term investments will be affected by interest rate fluctuations. At April 30, 2011, a hypothetical change of 1% in the interest rate would have a \$37,000 effect on net loss and comprehensive loss in the upcoming quarter.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk on its investment in Proyectos Mineros. Expenditures by Proyectos Mineros are incurred in US dollars and Mexican pesos. At April 30, 2011, a hypothetical change in the foreign exchange rate between the Canadian and US dollars of 10% would have a \$7,000 effect on net loss and comprehensive loss. A hypothetical change in the foreign exchange rate between the Canadian dollar and Mexican peso of 10% would have a \$60,000 effect on net loss and comprehensive loss.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

4. PROPERTY AND EQUIPMENT

	April 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 113,024	\$ -	\$ 113,024
Building	270,928	48,817	222,111
Automobile	33,342	24,006	9,336
Computer hardware	34,089	28,271	5,818
	\$ 451,383	\$ 101,094	\$ 350,289

ORKO SILVER CORP.
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Three and Six Months Ended April 30, 2011 and 2010
(Unaudited)

4. PROPERTY AND EQUIPMENT (Continued)

	October 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 113,024	\$ -	\$ 113,024
Building	270,928	43,121	227,807
Automobile	33,342	22,358	10,984
Computer hardware	34,089	27,245	6,844
	\$ 451,383	\$ 92,724	\$ 358,659

5. INVESTMENT

Prior to April 13, 2009, the Company owned a 100% equity interest in Proyectos Mineros, which was a consolidated subsidiary. Proyectos Mineros holds title to the La Preciosa Project mineral properties located in Durango, Mexico, comprised of the La Preciosa, Santa Monica and San Juan properties.

On April 13, 2009, the Company signed a binding letter of intent and on October 23, 2009, a definitive shareholders' agreement with Pan American for the joint development of the La Preciosa Project properties. The terms of the shareholders' agreement allow Pan American to earn a 55% equity interest in Proyectos Mineros, and thus, the La Preciosa Project properties, by contributing 100% of the funds necessary to develop and construct an operating mine.

Upon signing of the definitive shareholders' agreement, Proyectos Mineros issued additional common shares to Pan American with the effect of diluting the Company's percentage ownership to 45%. To reflect this change to one of only significant influence, the Company's accounting for Proyectos Mineros was changed to the equity method of accounting at that time, but with effect from April 13, 2009. The shares of Proyectos Mineros held by Pan American are in escrow pending completion of Phase I and Phase II, as described below.

To complete Phase I, Pan American was required to spend a minimum of US \$5,000,000 prior to April 13, 2010, of which a minimum of US \$2,500,000 must be spent to further explore the land package outside of the known resource zone. Pan American satisfied both of these spending requirements during fiscal 2010. Furthermore, Pan American is required to spend an estimated additional US \$11,000,000 on the project prior to April 13, 2012 to conduct resource definition drilling, acquire necessary surface rights, obtain permits, and ultimately prepare and deliver a feasibility study. At April 30, 2011, Pan American was on schedule to deliver a feasibility study prior to this deadline.

To complete Phase II, Pan American will incur 100% of the expenditures estimated by the feasibility study for practical completion of a mine on one or more of the properties. All contributions made by Pan American for the development of the mineral properties are treated as additions to the contributed surplus account of Proyectos Mineros.

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5. INVESTMENT (Continued)

If Pan American fails to fund, or elects not to continue with the expenditures required during Phase I or Phase II, Pan American will have no further rights, interest or obligations in Proyectos Mineros and its shares, thus far held in escrow, will be surrendered and cancelled. If Pan American decides not to continue funding exploration expenditures and surrenders its shares in Proyectos Mineros after delivering a feasibility study that demonstrates a positive rate of return for the construction of a mine on the properties, then an agreement will be entered into pursuant to which Pan American will receive a cash payment equal to 1.5% of the net smelter returns ("NSR") commencing on commercial production. The Company can acquire the NSR for a cash payment of US \$8,000,000 within three years from the date Pan American surrenders its shares in Proyectos Mineros. Following completion of Phase I and Phase II, the Company and Pan American will fund their proportionate share of all costs, expenses and liabilities incurred by Proyectos Mineros.

For the period from October 31, 2009 to April 30, 2011, the following changes to the carrying value of the Company's investment in Proyectos Mineros were recorded:

Investment, October 31, 2009	\$	3,303,222
Gain arising on capital contributions by Pan American		4,730,448
Share of loss on equity accounted investment		(4,400,163)
Investment, October 31, 2010		3,633,507
Gain arising on capital contributions by Pan American		784,755
Share of loss on equity accounted investment		(917,138)
Investment, April 30, 2011	\$	3,501,124

During fiscal 2010, the Company changed its method of accounting for Pan American's contributions to Proyectos Mineros. Until the fourth quarter of fiscal 2010, the amount was reflected as additional contributed surplus. The Company now accounts for this as a gain arising on capital contributions in the statements of operations. The change in accounting has been applied retrospectively. The impact of this change in the accounting method resulted in a decrease in net loss and comprehensive loss for the three months ended April 30, 2010, from \$1,838,930 to \$501,951, and for the six months ended April 30, 2010, from \$3,259,181 to \$1,171,235.

Condensed balance sheet information for Proyectos Mineros as at April 30, 2011 and October 31, 2010 is presented below:

Balance Sheets	April 30, 2011		October 31, 2010	
Assets:				
Current assets	\$	1,384,468	\$	2,072,354
Capital assets		31,041		44,882
Total assets	\$	1,415,509	\$	2,117,236
Liabilities	\$	343,680	\$	751,224

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5. INVESTMENT (Continued)

Condensed operations information for Proyectos Mineros for the six months ended April 30, 2011 and 2010 is presented below:

Statements of Operations	Six Months Ended April 30,	
	2011	2010
Exploration expenditures	\$ 1,777,586	\$ 4,043,679
Other expenditures	260,498	172,349
Net loss	\$ 2,038,084	\$ 4,216,028

6. MINERAL PROPERTIES

(a) La Preciosa Property, 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.

(b) Santa Monica Property, 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 issued during the year ended October 31, 2009.

(c) San Juan Property, 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. 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.

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6. MINERAL PROPERTIES (Continued)

(c) **San Juan Property, Mexico (Continued)**

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 issued during the year ended October 31, 2009.

On October 23, 2009, the Company ceased consolidating Proyectos Mineros, which holds the mineral properties (note 5) and, accordingly, derecognized the mineral properties.

(d) **Title to Mineral Property Interests**

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(e) **Realization of Assets**

Realization of the Company's investment in mineral properties is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs represent costs incurred to date and do not necessarily reflect present or future values.

(f) **Environmental**

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of the properties in which it has an interest that may result in material liability to the Company.

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7. SHARE CAPITAL

(a) **Authorized**

Unlimited number of common shares without par value

(b) **Issued**

(i) On September 21, 2010, the Company issued 8,500,000 common shares at \$1.65 per share for gross proceeds of \$14,025,000 under a brokered private placement. The Company issued 510,000 share purchase warrants as a commission. Each share purchase warrant entitles the holder thereof to purchase one additional common share until September 21, 2012 at a price of \$1.65 per common share. The fair value of the warrants was computed to be \$471,263 using the Black-Scholes option pricing model and was recorded as a non-cash share issuance cost. The Company paid cash commissions of \$841,500 and incurred other cash share issuance costs of \$145,738.

(ii) On September 21, 2010, the Company issued 700,000 common shares at \$1.65 per share for gross proceeds of \$1,155,000 under a non-brokered private placement. The Company paid cash commissions of \$69,300 and incurred other cash share issuance costs of \$3,011.

(c) **Stock Options**

The Company has a 20% fixed stock option plan that allows the Board of Directors to grant stock options to directors, officers, employees and consultants of the Company. On April 2, 2009, the Company increased the maximum number of stock options available for grant to 21,570,543. Options are exercisable at a price that is not less than the market price on the date granted. Any option granted under the plan will vest fully upon the date of grant, subject to the discretion of the Board. Options issued to consultants providing investor relations services must vest in stages over a minimum of 12 months with no more than one-quarter of the options vesting in any three-month period.

Stock option activity since October 31, 2009 is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding, October 31, 2009	17,225,000	\$ 0.53
Granted	825,000	\$ 1.46
Exercised	(973,500)	\$ 0.52
Forfeited	(75,000)	\$ 0.80
Outstanding, October 31, 2010	17,001,500	\$ 0.58
Exercised	(2,786,500)	\$ 0.64
Expired	(25,000)	\$ 0.55
Outstanding, April 30, 2011	14,190,000	\$ 0.56

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7. SHARE CAPITAL (Continued)

(c) Stock Options (Continued)

The following table summarizes the stock options outstanding and exercisable at April 30, 2011:

Options Outstanding				Options Exercisable		
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	
\$ 0.45	6,180,000	1.6	\$ 0.45	6,180,000	\$ 0.45	
\$ 0.55 - \$ 0.58	1,375,000	0.4	\$ 0.55	1,375,000	\$ 0.55	
\$ 0.60 - \$ 0.61	6,085,000	1.5	\$ 0.60	6,085,000	\$ 0.60	
\$ 0.78	100,000	3.4	\$ 0.78	100,000	\$ 0.78	
\$ 1.48 - \$ 1.75	450,000	3.1	\$ 1.58	275,000	\$ 1.49	
	14,190,000	1.5	\$ 0.56	14,015,000	\$ 0.55	

(d) Stock-Based Compensation

The Company applied the fair value method in accounting for its stock options granted to directors, officers and consultants of the Company using the Black-Scholes option pricing model. During the six months ended April 30, 2010, the Company granted 200,000 stock options to directors, officers and consultants. The stock-based compensation expense for stock options, granted in the prior year, that vested in the current period was \$180,902 (2010 - \$99,636).

During the six months ended April 30, 2010, the weighted average fair value of each option granted was \$0.48 and was calculated using the following weighted average assumptions:

	Six Months Ended April 30, 2010
Expected option life	2 years
Risk-free interest rate	1.3%
Expected stock price volatility	94%
Expected dividend yield	0%

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7. SHARE CAPITAL (Continued)

(e) **Warrants**

Warrant activity since October 31, 2009 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, October 31, 2009	439,200	\$ 1.65
Expired	(439,200)	\$ 1.65
Issued	510,000	\$ 1.65
Outstanding, October 31, 2010	510,000	\$ 1.65
Exercised	(510,000)	\$ 1.65
Outstanding, April 30, 2011	-	-

(f) **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.

8. CAPITAL MANAGEMENT

The Company considers its capital under management 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 has in the past invested its capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns on unused capital. 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. There have been no changes to the Company's approach to capital management during the period.

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9. RELATED PARTY TRANSACTIONS

- (a) As at April 30, 2011, \$15,912 (2010 - \$2,729) was advanced to officers of the Company for travel expenses to be incurred on behalf of the Company and is included in advances to related parties;
- (b) As at April 30, 2011, \$2,179 (2010 - \$4,604) is due to officers of the Company for travel expenses incurred on behalf of the Company and is included in due to related parties;
- (c) During the six months ended April 30, 2011, geologist fees of \$107,800 (2010 - \$51,600), included in exploration expenses, were paid to a company controlled by a director of the Company. As at April 30, 2011, \$8,654 (2010 - \$34,441) is payable to this company and included in due to related parties;
- (d) During the six months ended April 30, 2011, management fees of \$357,500 (2010 - \$175,300) were paid to companies controlled by officers of the Company; and
- (e) The Company subleases office premises to related parties (note 11).

All advances and amounts due to related parties have repayment terms similar to the Company's other accounts receivable/payable, and are unsecured and without interest. All of the above transactions and balances are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. SEGMENT DISCLOSURE

The Company operates in one industry and geographical segment, the mineral resource industry, with all current exploration activities being conducted in Mexico through its investment in Proyectos Mineros.

11. COMMITMENT

On June 16, 2009, the Company entered into an agreement to lease office premises commencing October 1, 2009 and expiring on March 30, 2013. The Company's gross lease payments, including operating costs and property taxes, for the remaining term of the lease are as follows:

2011	\$	120,258
2012	\$	240,516
2013	\$	100,215

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.

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12. COMPARATIVE FIGURES

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

13. SUBSEQUENT EVENTS

The Company issued 295,000 common shares on the exercise of stock options for gross proceeds of \$234,025.