

ORKO SILVER CORP.
(An Exploration Stage Company)

Financial Statements
October 31, 2010 and 2009

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF ORKO SILVER CORP. (An Exploration Stage Company)

We have audited the balance sheets of Orko Silver Corp. (an exploration stage company) as at October 31, 2010 and 2009 and the statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
February 14, 2011

ORKO SILVER CORP.
(An Exploration Stage Company)
Balance Sheets
October 31

	2010	2009
		(Restated - note 5)
Assets		
Current		
Cash	\$ 384,542	\$ 212,541
Short-term investments (note 3(b))	13,513,019	1,802,663
Receivables	114,136	42,700
Prepaid expenses and deposits	95,150	107,355
Advances to related parties (note 9)	2,729	29,070
	14,109,576	2,194,329
Deposits	38,003	36,333
Property and Equipment (note 4)	358,659	378,291
Investment (note 5)	3,633,507	3,303,222
	\$ 18,139,745	\$ 5,912,175
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 63,527	\$ 52,555
Due to related parties (note 9)	39,045	4,624
	102,572	57,179
Shareholders' Equity		
Share Capital (note 7)	67,568,456	52,985,254
Contributed Surplus	12,613,190	12,208,311
Deficit	(62,144,473)	(59,338,569)
	18,037,173	5,854,996
	\$ 18,139,745	\$ 5,912,175

Nature of operations and going concern (note 1)
Commitment (note 11)
Subsequent events (note 14)

Approved by the Board:

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

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

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Operations
Years Ended October 31

	2010	2009
		(Restated - note 5)
Expenses		
Amortization	\$ 19,632	\$ 23,540
Consulting fees	51,140	1,551,614
Exploration	136,424	1,737,493
Investor relations	691,697	760,488
Management fees (note 9)	540,250	349,490
Office and miscellaneous	234,659	309,427
Professional fees	177,561	673,333
Rent	98,428	87,720
Repairs and maintenance	26,348	54,210
Stock-based compensation (note 7(d))	360,195	4,302,723
Telephone and communications	52,558	52,243
Transfer agent and filing fees	37,396	51,064
Travel and entertainment	720,746	713,711
	3,147,034	10,667,056
Other Items		
Foreign exchange loss	5,082	25,223
Interest income	(15,927)	(12,826)
Share of loss on equity accounted investment (note 5)	4,400,163	1,488,901
Gain arising on capital contributions by Pan American (note 5)	(4,730,448)	(1,769,325)
	(341,130)	(268,027)
Net Loss for Year and Comprehensive Loss for Year	\$ 2,805,904	\$ 10,399,029
Loss Per Common Share		
- basic and diluted	\$ 0.02	\$ 0.09
Weighted Average Number of Common Shares Outstanding	116,130,000	110,815,000

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Shareholders' Equity
Years Ended

	Common Shares	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
			(Restated - note 5)	(Restated - note 5)	
Balance, October 31, 2008	107,727,716	\$ 45,887,061	\$ 8,171,246	\$ (48,939,540)	\$ 5,118,767
Issued for cash:					
Non-brokered private placement, net of share issue costs (note 7(b)(iii))	4,000,000	4,916,650	-	-	4,916,650
Exercise of options	425,000	209,250	-	-	209,250
Issued for property:					
Issued for the Santa Monica property (note 6(b))	2,000,000	1,480,000	-	-	1,480,000
Issued for the San Juan property (note 6(c))	306,263	226,635	-	-	226,635
Transferred from contributed surplus:					
Exercise of options	-	265,658	(265,658)	-	-
Stock-based compensation	-	-	4,302,723	-	4,302,723
Net loss and comprehensive loss	-	-	-	(10,399,029)	(10,399,029)
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)(i))	8,500,000	12,566,499	471,263	-	13,037,762
Non-brokered private placement, net of share issue costs (note 7(b)(ii))	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

ORKO SILVER CORP.
(An Exploration Stage Company)
Statements of Cash Flows
Years Ended October 31

	2010	2009
		(Restated - note 5)
Operating Activities		
Net loss for year	\$ (2,805,904)	\$ (10,399,029)
Items not involving cash		
Amortization	19,632	23,540
Stock-based compensation	360,195	4,302,723
Share of loss on equity accounted investment	4,400,163	1,488,901
Gain arising on capital contributions by Pan American	(4,730,448)	(1,769,325)
Unrealized loss on foreign exchange	984	5,334
	(2,755,378)	(6,347,856)
Changes in non-cash working capital items		
Accrued interest on short-term investments	(10,356)	28,300
Receivables	(71,436)	1,011,709
Prepaid expenses and deposits	10,535	58,937
Advances to related parties	26,341	(14,011)
Accounts payable and accrued liabilities	10,972	(1,237,892)
Due to related parties	34,421	(32,083)
Cash Used in Operating Activities	(2,754,901)	(6,532,896)
Investing Activities		
Purchase of short-term investments	(13,500,000)	(3,000,000)
Redemption of short-term investments	1,800,000	4,200,000
Cash Provided by (Used in) Investing Activities	(11,700,000)	1,200,000
Financing Activity		
Proceeds from common shares issued, net of share issue costs	14,627,886	5,125,900
Foreign Exchange Loss on Cash Held in Foreign Currency	(984)	(5,334)
Increase (Decrease) in Cash During the Year	172,001	(212,330)
Cash, Beginning of Year	212,541	424,871
Cash, End of Year	\$ 384,542	\$ 212,541
Supplemental Information		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Shares issued for property	\$ -	\$ 1,706,635
Warrants issued for share issue costs (note 7(b(i)))	\$ 471,263	\$ -

See notes to financial statements.

ORKO SILVER CORP.
(An Exploration Stage Company)
Notes to Financial Statements
Years Ended October 31, 2010 and 2009

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 October 31, 2010, the Company had working capital of \$14,007,004 (2009 - \$2,137,150) and accumulated deficit of \$62,144,473 (2009 - \$59,338,569) 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.

(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 year.

ORKO SILVER CORP.
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Notes to Financial Statements
Years Ended October 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

ORKO SILVER CORP.
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Notes to Financial Statements
Years Ended October 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 year. 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 year. 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.

(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.

ORKO SILVER CORP.
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Notes to Financial Statements
Years Ended October 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) **Financial Instruments (Continued)**

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).

Other than additional disclosure in note 3, the adoption of this revised section did not result in a material impact on the Company's financial statements.

(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.

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
Years Ended October 31, 2010 and 2009

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 October 31, 2010 in accordance with the fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments	\$ 13,513,019	\$ 13,513,019	\$ -	\$ -

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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Years Ended October 31, 2010 and 2009

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:

	2010	2009
Bank accounts	\$ 384,542	\$ 212,541
Short-term investments	13,513,019	1,802,663
	\$ 13,897,561	\$ 2,015,204

The short-term investments are comprised of a series of guaranteed investment certificates ("GIC"), which are cashable within 30 days without a significant risk of change in value. The GICs earn interest at 1.10% and mature on September 30, 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 October 31, 2010, the Company had accounts payable and accrued liabilities of \$63,527 (2009 - \$52,555), which are due in the first quarter of fiscal 2011, and due to related parties of \$39,045 (2009 - \$4,624), 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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Years Ended October 31, 2010 and 2009

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 1.10%. 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 October 31, 2010. Future cash flows from interest income on cash and short-term investments will be affected by interest rate fluctuations. At October 31, 2010, a hypothetical change of 1% in the interest rate would have a \$135,000 effect on net loss and comprehensive loss.

(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 October 31, 2010, a hypothetical change in the foreign exchange rate between the Canadian and US dollars of 10% would have a \$20,000 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 \$80,000 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

	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

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Years Ended October 31, 2010 and 2009

4. PROPERTY AND EQUIPMENT (Continued)

					2009
	Cost		Accumulated Amortization		Net Book Value
Land	\$	113,024	\$	-	\$ 113,024
Building		270,928		31,129	239,799
Automobile		33,342		17,650	15,692
Computer hardware		34,089		24,313	9,776
	\$	451,383	\$	73,092	\$ 378,291

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 October 31, 2010, 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 April 13, 2009 to October 31, 2010, the following changes to the carrying value of the Company's investment in Proyectos Mineros were recorded:

Company's contribution of mineral properties (note 6)	\$	3,022,798
Gain arising on capital contributions by Pan American		1,769,325
Share of loss on equity accounted investment		(1,488,901)
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

During the year, the Company changed its method of accounting for Pan American's contributions to Proyectos Mineros. In 2009, 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 of contributed surplus, as at October 31, 2009, from \$13,977,636 to \$12,208,311; a decrease in deficit, for the year ended October 31, 2009, from \$61,107,894 to \$59,338,569; a decrease in net loss and comprehensive loss, for the year ended October 31, 2009, from \$12,168,354 to \$10,399,029; and a decrease in loss per common share, for the year ended October 31, 2009, from \$0.11 to \$0.09.

Condensed balance sheet information for Proyectos Mineros as at October 31, 2010 and 2009 is presented below:

Balance Sheets	2010		2009	
Assets:				
Current assets	\$	2,072,354	\$	558,009
Capital assets		44,882		88,493
Total assets	\$	2,117,236	\$	646,502
Liabilities	\$	751,224	\$	14,457

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5. INVESTMENT (Continued)

Condensed operations information for Proyectos Mineros for the year ended October 31, 2010 and the period from April 13, 2009 to October 31, 2010 is presented below:

Statements of Operations	Year Ended October 31, 2010	Period from April 13, 2009 to October 31, 2009
Exploration expenditures	\$ 9,650,379	\$ 3,292,296
Other expenditures	127,761	16,373
Net loss	\$ 9,778,140	\$ 3,308,669

6. MINERAL PROPERTIES

The Company's mineral properties are as follows:

	La Preciosa	Santa Monica	San Juan	La Preciosa Project Total
Balance, October 31, 2008	\$ 1,234,163	\$ 50,000	\$ 32,000	\$ 1,316,163
Acquisition costs	-	1,480,000	226,635	1,706,635
De-recognition of mineral properties on ceasing to consolidate investment (note 5)	(1,234,163)	(1,530,000)	(258,635)	(3,022,798)
Balance, October 31, 2009 and October 31, 2010	\$ -	\$ -	\$ -	\$ -

(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.

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6. MINERAL PROPERTIES (Continued)

(b) Santa Monica Property, Mexico (Continued)

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.

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.

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6. MINERAL PROPERTIES (Continued)

(f) **Environmental (Continued)**

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.

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.
- (iii) 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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7. SHARE CAPITAL (Continued)

(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, 2008 is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding, October 31, 2008	17,100,000	\$ 1.06
Granted	1,050,000	\$ 0.54
Exercised	(425,000)	\$ 0.49
Forfeited	(500,000)	\$ 0.53
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

- (i) On November 21, 2008, the Company reduced the exercise price of 13,190,000 incentive stock options as to 6,595,000 options (of which 4,507,500 options were subject to shareholder approval received on May 7, 2009) to \$0.45 per share and 6,595,000 options (of which 4,507,500 were subject to shareholder approval received on May 7, 2009) to \$0.60 per share.
- (ii) 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, 200,000 of the options being subject to shareholder approval (received on May 7, 2009).

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7. SHARE CAPITAL (Continued)

(c) Stock Options (Continued)

The following table summarizes the stock options outstanding and exercisable at October 31, 2010:

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 - \$ 0.47	6,780,000	2.0	\$ 0.45	6,780,000	\$ 0.45	
\$ 0.55 - \$ 0.58	2,860,000	0.7	\$ 0.55	2,860,000	\$ 0.55	
\$ 0.60 - \$ 0.61	6,436,500	1.9	\$ 0.60	6,436,500	\$ 0.60	
\$ 0.78 - \$ 0.95	300,000	2.0	\$ 0.89	300,000	\$ 0.89	
\$ 1.48 - \$ 1.75	625,000	3.2	\$ 1.62	275,000	\$ 1.49	
	17,001,500	1.8	\$ 0.58	16,651,500	\$ 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 year ended October 31, 2010, the Company granted 825,000 (2009 - 1,050,000) stock options to directors, officers and consultants. The stock-based compensation expense for stock options, granted in the current and prior year, that vested in the current year was \$360,195 (2009 - \$626,802).

During the year ended October 31, 2010, the weighted average fair value of each option granted was \$0.70 (2009 - \$0.22) and was calculated using the following weighted average assumptions:

	2010	2009
Expected option life	2 years	2 years
Risk-free interest rate	1.4%	1.5%
Expected stock price volatility	91%	85%
Expected dividend yield	0%	0%

The Company applied the fair value method in accounting for the re-pricing of stock options previously issued to directors, officers and consultants of the Company (notes 7(c)(i) and (ii)) using the Black-Scholes option pricing model. During the year ended October 31, 2009, the additional stock-based compensation expense related to the re-pricing of options was \$3,675,921.

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7. SHARE CAPITAL (Continued)

(d) **Stock-Based Compensation (Continued)**

The fair value of stock options re-priced during the year ended October 31, 2009 was calculated using the following weighted average assumptions:

	2009
Expected option life	2 years
Risk-free interest rate	1.2%
Expected stock price volatility	91%
Expected dividend yield	0%

(e) **Warrants**

Warrant activity since October 31, 2008 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, October 31, 2008	1,846,950	\$ 1.15
Expired	(1,407,750)	\$ 1.00
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

The following table summarizes the warrants outstanding at October 31, 2010:

Exercise Price	Number of Warrants	Issue Date	Expiry Date
\$ 1.65	510,000	September 21, 2010	September 21, 2012

The following table summarizes the warrants outstanding at October 31, 2009:

Exercise Price	Number of Warrants	Issue Date	Expiry Date
\$ 1.65	439,200	June 12, 2008	June 12, 2010

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7. SHARE CAPITAL (Continued)

(e) **Warrants (Continued)**

The Company applied the fair value method in accounting for 510,000 warrants issued on September 21, 2010 as a commission for a brokered private placement (note 7(b)(i)). The fair value of the warrants was computed to be \$471,263 using the Black-Scholes option pricing model with the following assumptions:

	2010
Expected warrant life	2 years
Risk-free interest rate	1.5%
Expected stock price volatility	92%
Expected dividend yield	0%

(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 year.

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9. RELATED PARTY TRANSACTIONS

- (a) As at October 31, 2010, \$2,729 (2009 - \$29,070) 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 October 31, 2010, \$4,604 (2009 - \$4,624) 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 year ended October 31, 2010, geologist fees of \$103,200 (2009 - \$109,938), included in exploration expenses, were paid to a company controlled by a director of the Company. As at October 31, 2010, \$34,441 (2009 - \$nil) is payable to this company and included in due to related parties;
- (d) During the year ended October 31, 2010, management fees of \$540,250 (2009 - \$349,490) 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	\$	240,655
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. INCOME TAXES

The Company has accumulated non-capital losses of approximately \$16,509,000 that expire in various years to 2030 as follows:

2014	\$	247,000
2015		651,000
2026		1,867,000
2027		3,551,000
2028		1,370,000
2029		5,623,000
2030		3,200,000
	\$	16,509,000

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision using a 28.75% (2009 - 30.13%) statutory tax rate is as follows:

	2010	2009
Income tax recovery at statutory rates	\$ (807,000)	\$ (3,133,000)
Non-deductible expenditures	143,000	1,335,000
Change in timing differences:	(161,000)	3,467,000
Change in future income taxes resulting from enacted tax rate reduction	258,000	133,000
Change in valuation allowance	567,000	(1,802,000)
	\$ -	\$ -

Significant components of the Company's future income tax assets and liabilities after applying enacted corporate income tax rates are as follows:

	2010	2009
Future income tax assets (liabilities)		
Non-capital losses carried forward	\$ 4,127,000	\$ 3,605,000
Canadian exploration expenses	141,000	147,000
Capital losses carried forward	52,000	54,000
Share issuance costs	325,000	250,000
Future income tax assets	4,645,000	4,056,000
Valuation allowance	(4,177,000)	(3,607,000)
Future income tax asset	468,000	449,000
Future income tax liability		
Investment	(453,000)	(428,000)
Property and equipment	(15,000)	(21,000)
Future income tax assets, net	\$ -	\$ -

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13. COMPARATIVE FIGURES

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

14. SUBSEQUENT EVENTS

- (a) The Company issued 2,591,400 common shares on the exercise of stock options for gross proceeds of \$1,553,970.
- (b) The Company issued 357,000 common shares on the exercise of warrants for gross proceeds of \$589,050.