
ORKO SILVER CORP.
(An Exploration Stage Company)
ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007
(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED OCTOBER 31, 2008 AND 2007

(Dated February 18, 2009)

Management's Responsibility for Financial Reporting:

The accompanying audited annual consolidated financial statements have been prepared by management and are in accordance with Canadian Generally Accepted Accounting Principles. Other information contained in this document has also been prepared by management and is consistent with the data contained in the consolidated financial statements. Management maintains a system of disclosure controls and procedures ("DC&P") designed to provide reasonable assurance that the assets are safeguarded and the financial and other factual information contained herein is accurate and reliable. Further, management has evaluated these disclosure controls and procedures and determined that they are appropriate and effective, and have so certified. As part of the system of disclosure controls and procedures, the Company maintains a set of internal controls over financial reporting ("ICFR") which were developed in accordance with the guidance from the framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management's evaluation and conclusions on the effectiveness of the Company's DC&P thereby apply to the Company's internal controls over financial reporting also. In the current year, there has been no change in the Company's internal control over financial reporting that has materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

The Board of Directors approves the financial statements and ensures that management has discharged its financial responsibilities. The Board's review is accomplished principally through the Audit Committee, which meets periodically to review all financial reports prior to filing.

Certain statements in this report may constitute forward-looking statements that are subject to risks and uncertainties. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made. See Notes to the Financial Statements regarding going concern, commitments, contingencies, legal matters, environmental matters and other matters, which could materially affect the Company's future business, results of operations, financial position and liquidity.

Description of Business:

La Preciosa Property:

On December 1, 2003, the Company entered into a joint venture with Minas de Sanluis S.A. de C.V., a subsidiary of Wheaton River Minerals Ltd. ("Wheaton") (now Goldcorp Inc.), with Luismin, S.A. de C.V., and with Minera Thesalia, S.A. de C.V. to acquire an interest in the La Preciosa gold/silver project located in the State of Durango, Mexico. Under the terms of the agreement, Orko earned a 75 per cent interest in the project by incurring exploration and development expenditures of US\$1.5 million. The Company issued 50,000 common shares to Minas de Sanluis upon TSX Venture Exchange approval. On March 3, 2006, the Company reached an agreement with Goldcorp Inc. to acquire 100 per cent ownership of the La Preciosa Project. Pursuant to the agreement, the Company acquired the remaining 25 per cent interest in La Preciosa from Goldcorp Inc. for consideration of US \$1 Million, satisfied by issuing to Luismin S.A. de C.V. (a subsidiary of Goldcorp Inc.) common shares of the Company at a deemed price of CDN \$0.48 per share. In June 2006, the Company issued 2,378,750 shares to Luismin S.A. de C.V. and completed its acquisition of 100% of the La Preciosa property.

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Description of Business (continued):

La Preciosa Property (continued):

The La Preciosa property hosts tertiary-aged gold and silver bearing epithermal quartz vein systems, associated with barite and minor quantities of base metals. The vein trend is principally north/south, although there are subordinate, mineralized vein systems that run in an east/west direction. Veins have been traced for over 5 km along strike with thicknesses of up to 40 metres encountered in drill intercepts. The La Preciosa claims cover over 1,300 hectares and are located about an hour and a half from Durango, Durango State, Mexico.

In 2005, the Company retained a geophysics contractor to conduct an IP survey on the La Preciosa property and a number of targets were identified, and subsequently, management signed an agreement with Major Drilling de Mexico, S.A. de C.V. to undertake a drilling program, initially estimated at approximately 5,000 metres. Drilling commenced in March 2005, and based on the early results, the Company extended the program for an additional 5,000 metres, and engaged a second drill capable of greater depths. The results of this extension were encouraging, and the Company was able to release an Inferred Resource Estimate indicating an in-situ resource of approximately 22.3 million ounces of Silver – Equivalent, based on the assay results from 18 of its first 24 holes completed.

The Company has since completed multiple phases of the drilling program on the La Preciosa property and drilled continuously through to December 2008 such that 354 holes have been drilled in the main area, plus 12 peripheral target holes, for a total of 145,976 metres. At the site, five core shacks have been constructed and a new road access route to southern targets completed. The Company has released assay results for all holes drilled to date, and has been able to extend the strike length to 3.5 km in the resource area to date, and has added a major vein deeper in the stratigraphy, named the “Martha” vein.

In addition, a geochemical program consisting of 1,167 soil samples has been conducted over the southern part of La Preciosa. La Preciosa soil grid is contiguous with the soil grid on the southern end of San Juan. Multiple geochemical anomaly targets have been identified for future follow up. A surface trenching program has commenced recently on the El Orito Norte sector.

Subsequent to the year-end, on February 18, 2009, the Company released an independent resource estimate, completed by Mine Development Associates (MDA) of Reno, Nevada, reporting an Indicated Resource of approximately 68.9 million ounces of Silver – Equivalent and an Inferred Resource of approximately 77.6 million ounces of Silver – Equivalent. This current resource estimate was based on all holes drilled to date.

Santa Monica Property:

On June 21, 2004, the Company announced that it had acquired an option for a 51 per cent participation in a second property from Wheaton (now Goldcorp Inc.) through its subsidiary, Minas de Sanluis S.A. de C.V. The terms of this second option are similar to those of the first with Wheaton on the La Preciosa property. The Company is required to make expenditures of US\$1 million over the next five years and to issue 100,000 common shares, the first 50,000 shares upon acceptance by the TSX Venture Exchange and the remaining 50,000 shares after one year from the date of approval. The property, termed “Santa Monica”, covers 16,000 hectares and is located in the Municipality of Panuco de Coronado, Durango State, Mexico, and is adjacent to the La Preciosa property. On February 9, 2007, the Company issued the second tranche of 50,000 common shares to Luismin S.A. de C.V.

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Description of Business (continued):

Santa Monica Property (continued):

On the Santa Monica property, an initial work program has been completed, including mapping of the Mesa de los Panuqueños area, together with sampling of 706 rock float samples and 1,920 soil samples, plus an ASTER alteration satellite imagery study by PhotoSat Inc of Vancouver, BC. Results from the testing have been received and reported. An IP geophysical survey by Peter Walcott & Associates Inc. of Vancouver, BC, which commenced in March 2007, has completed 212 line-kilometres over the sample area in the northeast sector of the property. In 2008, the Company completed an initial drilling program on Santa Monica, consisting of 6 diamond drill holes totaling 2,498 metres.

During 2008, the Company's cumulative exploration expenditures on the Santa Monica Property exceeded US\$1,000,000, consequently fulfilling all of the terms required to earn the 51% interest in the property.

On October 10, 2008, the Company entered into a letter agreement to acquire the remaining 49% interest in the Santa Monica Property from Minas de Sanluis for 2,000,000 common shares of the Company. Approval of the letter agreement was subsequently received from the TSX Venture Exchange on November 26, 2008. The Company expects to receive 100% title to the property in the near future at which point, the 2,000,000 common shares will be issued.

San Juan Property:

On April 25, 2006 the Company had announced that it had signed an Option Agreement with Silver Standard Resources Inc. ("Silver Standard") to acquire a 75 per cent interest in its "San Juan" property located in the state of Durango, Mexico. The San Juan property is immediately adjacent to the west of the Company's La Preciosa property and Santa Monica Joint Venture. Under the terms of the Option Agreement, Orko Silver can earn a 75 per cent interest in the San Juan property from Silver Standard Mexico S.A. de C.V. (a wholly owned subsidiary of Silver Standard Resources Inc.) by incurring exploration expenditures of US \$750,000 over a three year period, and by issuing 40,000 common shares to Silver Standard upon acceptance of filing of the Option Agreement by the TSX Venture Exchange. In addition, after satisfying the option expenditure requirement to earn the 75 per cent interest in the San Juan property, the agreement provides that the Company grant Silver Standard a "Back-in Right" to increase its interest by 10 per cent, to a 35 per cent total interest in the Joint Venture by incurring the next US \$750,000 in expenditures on the property. On May 16, 2006 the Company issued 40,000 common shares to Silver Standard as per the terms of the agreement for acquiring the 75 per cent interest in the San Juan property.

An ASTER alteration satellite imagery study by PhotoSat Inc. of Vancouver, BC, for the San Juan property has been completed, as well as geological mapping, extending the strike length of the Nancy Sur, La Plomosa, El Vaquero and the La Plomosa Sur structures. In addition, an expanded geochemical survey of the property was initiated and included 1,164 soil samples and 256 rock chip samples. The San Juan soil grid is contiguous with the soil grid on the southern end of La Preciosa. Multiple geochemical anomaly targets have been identified for future follow up.

In late 2007, the Company initiated a 10,000 metre drilling program for the first phase of the San Juan project, initially targeted for La Plomosa and El Vaquero veins. Eight drill holes have been completed in the La Plomosa target area for 3,372 metres. Additional targets remain to be drilled.

During 2008, the Company's cumulative exploration expenditures on the San Juan Property exceeded US\$750,000, consequently fulfilling all of the terms for the 75% interest in the property and on July 21, 2008, the Company provided formal notice to Silver Standard that it had met the required expenditure level. The Company anticipates forming a joint venture with Silver Standard in the near future, per the terms of the original agreement.

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Results of Operations for the Three Months Ended October 31, 2008 and 2007:

During the fourth quarter of 2008, the Company incurred exploration expenses amounting to \$4,284,574, which were 87 per cent higher than the \$2,288,534 incurred in fiscal 2007. The increase was due to the higher level of exploration activities undertaken in the current year. The current year costs were incurred primarily on the La Preciosa property.

General operating costs totalled \$1,583,939 for the fourth quarter, which were 17 per cent lower than those incurred in the fourth quarter of the prior year of \$1,917,377. The decrease was almost entirely due to a \$853,516 charge the Company recorded to reflect the imputed non-cash cost of stock options granted to directors, officers, staff and consultants. In the comparable quarter of 2007, the cost was \$1,194,492. Other administrative costs were in line with those of the prior year.

Overall, the loss in the fourth quarter of fiscal 2008 amounted to \$6,096,421 or \$0.06 per share, which is significantly higher than the loss for the fourth quarter of 2007 of \$4,078,252 or \$0.04 per share.

Results of Operations for the Years Ended October 31, 2008 and 2007:

In 2008, the Company incurred significantly higher exploration costs of \$14,658,436 compared to \$7,878,309 incurred last year. These costs were incurred primarily on the La Preciosa property with costs on this property amounting to \$13,780,632, up 103 per cent over the 2007 costs of \$6,774,635. Early in the year, the Company added two more rigs dedicated to La Preciosa, doubling the rate of drilling. The Company also incurred exploration costs of \$632,195 on the Santa Monica property and \$245,609 on the San Juan property in the year. Of the exploration costs incurred, drilling costs for the year aggregated \$10,515,567, more than double those incurred in the prior year of \$5,095,193, geological costs were \$1,100,865, assay costs were \$1,583,621, site costs were \$1,122,600 and general exploration costs totaled \$335,783.

In 2008, the Company also incurred significantly higher general expenses of \$6,839,807, up 30 per cent over those incurred last year of \$5,267,457. The higher costs reflect increased management activity in support of the La Preciosa project.

Management fees of \$329,675 rose 35 per cent from \$243,600 incurred in 2007, as a result of the addition of one senior staff member early in the year. Office costs of \$217,391 were also higher due to increased support staff costs and greater operational presence in Mexico, up from \$168,581 in the prior year. Higher professional fees, of \$205,980, also resulted, up 77 per cent from \$116,587 in 2007, all related to additional legal and accounting professional support required in Mexico. Travel costs of \$952,532 were up 23 per cent from those incurred last year of \$774,918 as management conducted more frequent travel to the project and overseas as part of the Company's investor relations efforts. Through this extended travel effort, the Company has developed a significant and loyal shareholder base in Europe. Renovations to the office in Mexico resulted in higher repairs and maintenance costs of \$71,248 compared to \$45,698 incurred in 2007. Also, the Company recorded a higher non-cash charge of \$4,222,910 to earnings representing the imputed value of stock options granted to directors, officers and consultants, up 35 per cent compared to the charge of \$3,124,089 recorded last year.

Overall, in 2008, the Company incurred a loss of \$21,549,564 or \$0.21 per share, 67 per cent higher than the loss last year of \$12,925,523 or \$0.16 per share. The dramatic increase is attributable primarily to the significantly higher exploration costs, up 86 per cent, and the impact of the higher stock-based compensation expense.

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Statement of Mining and Exploration Expenditures to October 31, 2008:

MINING PROPERTIES	LA PRECIOSA		SANTA MONICA		SAN JUAN		TOTAL
Balance, October 31, 2007	\$	1,234,163	\$	50,000	\$	32,000	\$ 1,316,163
Additions in the period:		-		-		-	-
Balance, October 31, 2008	\$	1,234,163	\$	50,000	\$	32,000	\$ 1,316,163

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

EXPLORATION EXPENDITURES	LA PRECIOSA		SANTA MONICA		SAN JUAN		TOTAL
TOTAL TO DATE							
Drilling	\$	19,608,842	\$	317,805	\$	460,008	\$ 20,386,655
Geological		1,614,482		206,267		174,473	1,995,222
Geophysical		96,712		106,740		10,343	213,795
Assay		2,851,313		25,111		64,521	2,940,945
Site costs		2,423,815		252,092		121,235	2,797,142
General exploration		467,531		180,597		92,972	741,100
Total expenditures to date	\$	27,062,695	\$	1,088,612	\$	923,552	\$ 29,074,859

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Restatement of Prior Periods due to Correction:

During the year, the Company identified that it had inappropriately accounted for stock options issued to non-employees during the years ended October 31, 2005, 2006 and 2007. As a result, the Company has restated its financial statements for these periods. The overall effect of this restatement on the financial statements for these years represented additional stock-based compensation expense aggregating \$776,543.

Selected Annual Financial Information:

	For the year ended October 31, 2008	For the year ended October 31, 2007 (Restated)	For the year ended October 31, 2006 (Restated)
Total revenues	Nil	Nil	Nil
Loss before discontinued operations and extraordinary items:			
(i) total for the year	21,549,564	12,925,523	7,251,019
(ii) per share	0.21	0.16	0.13
(iii) per share fully diluted	0.21	0.16	0.13
Net loss:			
(i) total for the year	21,549,564	12,925,523	7,251,019
(ii) per share	0.21	0.16	0.13
(iii) per share fully diluted	0.21	0.16	0.13
Total assets	6,445,921	10,364,538	4,624,252
Total long-term financial liabilities	Nil	Nil	Nil
Cash dividends declared per-share	Nil	Nil	Nil

The loss for 2008 includes approximately \$14.7 million in drilling, up \$6.8 million, and other exploration costs incurred primarily on the La Preciosa property. The loss also includes \$4,222,910 in stock-based compensation for options granted in 2008 and prior years.

The loss for 2007 includes approximately \$7.9 million in drilling, up \$3.2 million, and other exploration costs incurred primarily on the La Preciosa property. The loss also includes \$3,124,089 in stock-based compensation for options granted in 2007 and prior years.

The loss for 2006 includes approximately \$4.7 million in drilling, up \$2.9 million, and other exploration costs incurred on the La Preciosa property. The loss also includes \$935,441 in stock-based compensation for options granted in 2006 and prior years.

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Selected Quarterly Financial Information:

	4th Quarter Ended October 31, 2008	3rd Quarter Ended July 31, 2008	2nd Quarter Ended April 30, 2008	1st Quarter Ended January 31, 2008
(a) Revenue	Nil	Nil	Nil	Nil
(b) Loss for period	6,096,421	5,893,127	6,316,447	3,243,569
(c) Loss per share	0.06	0.06	0.06	0.03
	4th Quarter Ended October 31, 2007	3rd Quarter Ended July 31, 2007	2nd Quarter Ended April 30, 2007	1st Quarter Ended January 31, 2007
(a) Revenue	Nil	Nil	Nil	Nil
(b) Loss for period	4,078,252	3,026,578	3,742,498	2,078,195
(c) Loss per share	0.04	0.04	0.05	0.03
	4th Quarter Ended October 31, 2006	3rd Quarter Ended July 31, 2006	2nd Quarter Ended April 30, 2006	1st Quarter Ended January 31, 2006
(a) Revenue	Nil	Nil	Nil	Nil
(b) Loss for period	2,167,216	2,088,310	1,892,052	1,103,441
(c) Loss per share	0.03	0.04	0.04	0.03

Continuing the general trend of the last two years, the level of drilling and other exploration activity increased through the year, from \$2.2 million in the first quarter to \$3.8 million in the second quarter, \$4.4 million in the third quarter and \$4.3 million in the fourth quarter, incurred primarily by the continued drilling on the La Preciosa property. Stock-based compensation recorded to reflect the computed value of stock options that vested was \$0.5 million in the first quarter, \$2.0 million in the second quarter, and \$0.9 million in the third and fourth quarters each. Other operating expenses amounted to approximately \$0.6 million in each of the quarters.

During 2007 drilling and other exploration costs increased throughout the year, from \$1.4 million in the first quarter to \$2.3 million in the fourth quarter, as the Company contracted a third and then a fourth drill rig and also expanded its drill program to the San Juan property. For all four quarters of 2007, a major component of general operating expenses was the charge for stock-based compensation recorded to reflect the computed value of stock options that vested in the year, which fluctuated between \$0.2 and \$1.2 million over the quarters. Other operating expenses were fairly consistent throughout the year and averaged \$0.5 million.

During 2006 drilling and other exploration costs increased throughout the year, from \$0.9 million in the first quarter to \$1.6 million in the fourth quarter, as the Company continued drilling on the La Preciosa property and incurred increasing assay costs. For the second, third and fourth quarters of 2006, a major component of general operating expenses was the charge for stock-based compensation recorded to reflect the computed value of stock options that vested in the periods, which amounted to \$0.4 million in the second and third quarters and \$0.2 million in the fourth quarter. Stock-based compensation was negligible in the first quarter. After increasing from \$0.2 million in the first quarter, other operating expenses were fairly consistent for the last three quarters of the year, averaging \$0.5 million per quarter as the Company completed three private placements.

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Capital Stock:

Authorized: An unlimited number of Common shares without par value.

	Number of Shares	Amount \$
Balance at October 31, 2006	65,311,296	14,172,827
Issued during the year		
For cash:		
Private placements, net of share issue costs	3,943,000	2,495,296
Exercise of options	2,220,000	1,069,950
Exercise of agent unit options	346,575	103,973
Exercise of warrants	24,927,407	10,793,836
For property:		
Issued for Santa Monica property	50,000	29,000
Transferred from contributed surplus:		
Exercise of options	—	526,262
Exercise of agent unit options	—	100,221
Exercise of warrants	—	2,556,107
Balance at October 31, 2007	96,798,278	31,847,472
Issued during the period		
For cash:		
Brokered private placement, net of share issue costs	7,320,000	10,890,231
Exercise of options	1,625,000	512,350
Exercise of warrants	1,984,438	1,671,887
Transferred from contributed surplus:		
Exercise of options	—	471,611
Exercise of warrants	—	493,510
Balance at October 31, 2008 and February 18, 2009	107,727,716	45,887,061

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Options:

The Company has a plan to grant stock options to directors, officers, employees and consultants of the Company. On January 21, 2008, the Company adopted an amendment to its 20% Fixed Plan, which was subsequently approved by shareholders at its Annual General Meeting of Shareholders to grant options to directors, officers, employees, contractors and consultants of the Company. Under the amended plan, the board of directors has the discretion to issue the equivalent of up to 19,438,030 shares. Options are generally for a term of up to five years from the date granted and are exercisable at a price that is not less than the market price on the date granted.

Stock option activity since October 31, 2006 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2006	6,215,000	0.45
Granted	9,375,000	0.80
Exercised	(2,220,000)	0.48
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Outstanding, October 31, 2007	13,370,000	0.69
Granted	5,530,000	1.76
Exercised	(1,625,000)	0.32
Cancelled	(150,000)	1.52
Forfeited	(25,000)	1.79
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Outstanding, October 31, 2008	17,100,000	1.06
Granted	800,000	0.46
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Outstanding, February 18, 2009	17,900,000	1.04

On November 21, 2008, the Company announced that that it intends to reduce the exercise price of 13,190,000 incentive stock options as to 6,595,000 options to \$0.45 per share and 6,595,000 options to \$0.60 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of Insiders of the Company, the approval of disinterested shareholders. The Company intends to seek such disinterested shareholder approval at its next Annual General Meeting scheduled for May 2009. Accordingly each of the subject option holders will have the exercise price of half their options reduced to \$0.45 per share and the other half to \$0.60 per share. There has been no change to the expiry date of the options. The Company received TSX Venture Exchange acceptance on January 12, 2009.

On February 2, 2009, the Company announced that that it intends to reduce the exercise price of 525,000 incentive stock options to \$0.61 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of Insiders of the Company, the approval of disinterested shareholders. The Company intends to seek such disinterested shareholder approval at its next Annual General Meeting scheduled for May 2009. There has been no change to the expiry date of the options.

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Options (continued):

The following table summarizes the stock options outstanding and exercisable at October 31, 2008 and February 18, 2009, at the original exercise prices:

Number of Shares		Exercise Price \$	Issue Date	Expiry Date
October 31, 2008	February 18, 2009			
75,000	75,000	0.13	November 30, 2004	November 30, 2009
100,000	100,000	0.25	January 28, 2005	January 28, 2010
50,000	50,000	0.63	April 22, 2005	April 22, 2010
1,310,000	1,310,000	0.55	March 3, 2006	March 3, 2011
100,000	100,000	0.47	March 23, 2006	March 23, 2011
1,450,000	1,450,000	0.55	September 11, 2006	September 11, 2011
300,000	300,000	0.58	February 6, 2007	February 6, 2012
1,720,000	1,720,000	0.69	March 8, 2007	March 8, 2012
150,000	150,000	0.92	April 13, 2007	April 13, 2012
25,000	25,000	0.95	May 10, 2007	May 10, 2012
350,000	350,000	0.85	June 14, 2007	June 14, 2012
1,040,000	1,040,000	0.82	July 12, 2007	July 12, 2012
4,825,000	4,825,000	0.85	August 31, 2007	August 31, 2012
200,000	200,000	1.15	September 20, 2007	September 20, 2012
50,000	50,000	1.26	September 25, 2007	September 25, 2012
4,680,000	4,680,000	1.79	March 20, 2008	March 20, 2013
150,000	150,000	1.80	April 1, 2008	April 1, 2013
200,000	200,000	1.55	June 27, 2008	June 27, 2013
325,000	325,000	1.55	June 27, 2008	June 27, 2011
–	450,000	0.45	November 21, 2008	November 21, 2013
–	250,000	0.45	December 19, 2008	December 19, 2013
–	100,000	0.53	January 29, 2009	January 29, 2011
17,100,000	17,900,000			

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Warrants:

Warrant activity since October 31, 2006 is presented below:

	Number of Shares	Weighted Average Exercise Price \$
Outstanding, October 31, 2006	26,001,520	0.45
Issued	2,318,075	0.91
Exercised	(24,927,407)	0.43
Outstanding, October 31, 2007	3,392,188	0.91
Issued	439,200	1.65
Exercised	(1,984,438)	0.84
Outstanding, October 31, 2008 and February 18, 2009	1,846,950	1.15

The following table summarizes the warrants outstanding at October 31, 2008 and February 18, 2009:

Number of Shares		Exercise Price	Issue Date	Expiry Date
October 31, 2008	February 18, 2009			
1,407,750	1,407,750	\$1.00	August 24, 2007	August 24, 2009
439,200	439,200	\$1.65	June 12, 2008	June 12, 2010
1,846,950	1,846,950			

Agent Unit Options:

During the year ended October 31, 2006, the Company issued 680,000 agent options to purchase 680,000 units, each unit consisting of one common share and one share purchase warrant. All agent unit options were exercised prior to their expiry date of February 3, 2007. Agent unit option activity since October 31, 2006 is presented below:

	Number of Units	Exercise Price per Unit \$
Outstanding, October 31, 2006	346,575	0.30
Exercised	(346,575)	0.30
Outstanding, October 31, 2007 and 2008 and February 18, 2009	-	-

Shares in Escrow:

Nil.

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Financial Position:

The Company's financial position declined from the opening level, including cash and short-term investments, of \$8,035,735 to the year-end level of \$3,424,871, comprised of cash on hand of \$424,871 and \$3,000,000 in short-term investments due primarily to its aggressive drilling program which ran continuously throughout the year.

To fund this program and its ongoing corporate costs, the Company completed a significant financing, issuing 7,320,000 common shares priced at \$1.65 per share for gross proceeds of \$12,078,000 under a brokered private placement. The Company paid cash commissions of \$724,680 and incurred other cash share issuance costs of \$197,109. In conjunction with the financing, the Company also issued 439,200 broker warrants as commission, which were valued at \$265,980 using the Black-Scholes option-pricing model and recorded as a non-cash share issuance cost. In addition, the Company issued 1,625,000 shares on the exercise of options receiving proceeds of \$512,350 and issued 1,984,438 shares from the exercise of warrants for proceeds of \$1,671,887 during the year, for total cash received of \$13,340,448.

However, offsetting this cash inflow, the loss for the year of \$21,549,564, after adjusting for non-cash items and changes in non-cash working capital accounts, amounted to a \$17,997,695 cash requirement.

Consequently, the aggregate net cash inflows from financing activities, which totaled \$13,340,448, substantially funded the adjusted cash operating loss for the period of \$17,997,695. The shortfall, amounting to \$4,610,864, was funded by a drawdown from its short term investments in the amount of \$4,000,000, with the remaining shortfall of \$610,864 bringing about the reduction of the opening cash position from \$1,035,735 to the closing position of cash on hand of \$424,871, with \$3,000,000 in short-term investments remaining at the end of the year available to fund the Company's ongoing exploration program for the La Preciosa property.

Commitments:

Santa Monica Property:

As mentioned above, in 2008, the Company's cumulative exploration expenditures on the Santa Monica Property exceeded US\$1,000,000, consequently fulfilling all of the terms for a 51% interest in the property. The Company has no further cash commitments under the option agreement to fulfill.

On October 10, 2008, the Company entered into a letter agreement to acquire the remaining 49% interest in the Santa Monica Property from Minas de Sanluis for 2,000,000 common shares of the Company. Approval of the letter agreement was subsequently received from the TSX Venture Exchange on November 26, 2008. The Company expects to receive 100% title to the property in the near future at which point, the 2,000,000 common shares will be issued.

San Juan Property:

As mentioned above, in 2008, the Company's cumulative exploration expenditures on the San Juan Property exceeded US\$750,000, consequently satisfying all of the requirements to earn its 75% interest in the property. On July 21, 2008, the Company provided formal notice to Silver Standard that it had met the required expenditure level. The Company anticipates forming a joint venture with Silver Standard in the near future, per the terms of the original agreement.

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Commitments (continued):

Office Leases:

- (a) On February 20, 2006, the Company entered into a joint lease agreement with an unrelated third party to lease office premises commencing July 1, 2006 for a term of five years. The lease commitment is shared equally between the two parties. As at October 31, 2008, Company's portion of the lease payments for the remaining term of the lease is as follows:

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

- (b) On April 16, 2007, the Company entered into a lease agreement, amended June 1, 2007, to lease office premises commencing June 1, 2007 for a term of three years. As at October 31, 2008, the Company's gross lease payments for the remaining term of the lease are as follows:

	\$
2009	52,380
2010	30,540

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

Corporate Summary:

At this time, management believes it has adequate working capital to meet its short-term corporate operating obligations and the commitments noted above with respect to its leasing obligations, but anticipates that additional working capital will be required to resume its drilling program, and this will be met by additional placements of its common shares with investors. As reported regarding the La Preciosa property, all drills were halted in early December 2008 for the year-end break, and to allow the independent consulting firm to complete an updated Resource Estimate, which would include all data from drill holes completed to that point. This independent report is expected in the near future, and the Company will use the updated information to develop its next steps, such next steps to include a new drilling program.

While there has been great volatility in the stock markets, which would raise questions about the Company's ability to raise new capital and thereby sustain or expand its operations, the Company has received indications from current and interested investors of their willingness to invest further in the Company due to its progress to date and the strength of its previously-reported Inferred Resource Estimate. More recently, there have been numerous public financings completed by major mining companies and by junior companies, adding further support to this market-receptive perspective. However, there is no certainty that the Company will be successful in its efforts to raise the needed capital, which would cause the Company to reconsider its viability as a going concern at that time and how best to sustain its reduced level of operations, pending a return to better market conditions where a financing could be completed. However, because the drills have been halted, the Company's current "core costs" cash requirement has reduced to approximately \$150,000 per month, which, if necessary, would require only a small financing to sustain both its corporate and Mexican operational needs for the next year.

Off Balance Sheet Arrangements:

The Company has no material off balance sheet arrangements in place.

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Related Party Transactions:

(a) Advances to Related Parties

As at October 31, 2008, advances to related parties consists of \$15,059 (2007 – \$19,632) advanced to the President for travel expenses to be incurred on behalf of the Company. These amounts are non-interest bearing and will be applied in the future against travel expenses incurred by the President on behalf of the Company.

(b) Due to Related Parties

As at October 31, 2008, due to related parties consists of \$13,709 (2007 - \$79,761) payable to the Executive Vice-President for travel expenses incurred on behalf of the Company and \$22,998 (2007 - \$nil) payable to a company controlled by the Vice-President of Exploration for exploration expenditures incurred. These amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

(c) Related Party Transactions

During the year ended October 31, 2008 the Company entered into the following transactions with related parties:

- i) A company controlled by the Vice-President of Exploration incurred \$185,802 (2007 – \$2,009,143) in exploration expenditures on behalf of the Company for which the company was subsequently reimbursed.
- ii) Companies controlled by the President, Executive Vice-President, Chief Financial Officer and Corporate Secretary earned management service fees related to their position of \$329,675 (2007 – \$243,600).
- iii) The Company subleases office premises to related parties.

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

Investor Relations:

In July 2008, the Company retained the services of two firms to provide corporate finance advisory services to the Company. The agreement with Raifin S.A., based in Switzerland, is subject to termination with 60 days notice. The agreement with Arcon Group Inc., based in Montreal, is subject to termination with 30 days notice.

Adoption of New Accounting Standards and Developments:

(a) CICA 3862, “Financial Instruments – Disclosures”

This standard relates to the disclosure of financial instruments. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. CICA 3863, “Financial Instruments – Presentation” must be adopted at the same time, replacing CICA 3861, “Financial Instruments – Disclosure and Presentation”. The Company adopted the standard on November 1, 2007.

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Adoption of New Accounting Standards and Developments (continued):

(b) CICA 3863, "Financial Instruments – Presentation"

This standard relates to the presentation of financial instruments. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. CICA 3862, "Financial Instruments – Presentation" must be adopted at the same time, replacing CICA 3861, "Financial Instruments – Disclosure and Presentation". The Company adopted the standard on November 1, 2007.

(c) CICA 1535, "Capital Disclosures"

This standard relates to the disclosure of capital management strategies. It applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company adopted the standard on November 1, 2007.

(d) CICA 3031, "Inventories"

This standard relates to the measurement and disclosure of inventories. It applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. Early adoption is permitted. The Company adopted the standard on November 1, 2007. The adoption of the standard did not have a significant impact on the Company's financial statements.

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

These standards clarify the criteria for the recognition of assets, intangible assets and internally developed intangible assets. They apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2008. Early adoption is permitted. The Company will adopt these standards commencing for its interim and annual financial statements for the fiscal year ending October 31, 2009. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

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

In May 2007, the CICA issued amended Handbook Section 1400, "General Standards of Financial Statement Presentation". The section provides revised guidance related to management's responsibility to assess and disclose the ability of an entity to continue as a going concern. This amended standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company will adopt the standard commencing for its interim and annual financial statements for the fiscal year ending October 31, 2009. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

(g) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board confirmed that public companies will be required to prepare interim and annual financial statements under International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company continues its assessment of the impact of adopting IFRS and has not yet determined its effect on its financial statements. Management's assessment to date indicates that there will be minor effects on the Company's disclosures on adoption of IFRS, but there will be no major financial impact or accounting changes. However, it is recognized that the IFRS requirements are evolving daily in advance of the transition date, and such changes may alter this early assessment in the intervening period.

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Critical Accounting Estimates:

In the preparation of these financial statements, the Company is required to make estimates and assumptions, which impact on the accounting and reporting of its assets, liabilities, revenues and expenses in the period. The critical accounting estimates arise in relation to the following:

(a) Mineral Properties

The initial value attributed to a property on acquisition and the ongoing reported value reflect management's assessment of the continuing interest it has for performing additional work and incurring the related additional expenditure to advance the information base on which it will determine the potential magnitude of mineralization and ultimately, whether it has economic value. If information is learned which, in management's view, impairs the ongoing level of its interest and consequent plans for further project work, the carrying value of each of the Company's mineral properties, on an individual basis, is adjusted to reflect the level of impairment experienced. Such information on a property would include a significant unfavourable change in the political, legal, regulatory, or title status, the environmental conditions, property accessibility, or disappointing geophysical, geochemical or assay results. The impairment adjustment would be computed, based on management's assumptions, estimates and judgment, to reduce the carrying value of each impaired property to an appropriate value based on the information, and ultimately to the net realizable value to the Company on sale or abandonment.

(b) Asset Retirement Obligations

The Company routinely assesses whether there is any need for property remediation on a property-by-property basis to determine whether there will be a need for future costs to be incurred when a property is abandoned. The Company relies on its professional, technical advisors to provide these assessments, drawing from their expertise, historical documentation and experience. To date, there have been no costs identified for future expenditure with respect to any of the Company's properties.

(c) Impairment of Long-Lived Assets

The Company routinely assesses whether the carrying values of its long-lived assets continue to be appropriate and have not been impaired. When an impairment has been identified for an individual asset or group of assets, the individual or group carrying value is adjusted to reflect the degree of impairment experienced, and ultimately to reflect the net realizable value to the Company on sale or abandonment.

(d) Income Taxes

The Company calculates its income tax liabilities in accordance with prevailing income tax regulations in Canada and other jurisdictions in which it operates, and in doing so, makes assumptions, interpretations and estimates on the treatment, timing and eligibility of various costs in the determination. The Company also makes interpretations of the regulations and their applicability to the Company's circumstances. Finally, the Company makes assumptions and estimates on the overall tax impact on the Company's consolidated operations.

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Critical Accounting Estimates (continued):

(e) Stock-Based Compensation

The Company awards options as compensation to its directors, officers, staff and consultants, and determines the expense associated with such option grants using the Black-Scholes pricing model in accordance with Canadian accounting practice. The application of this model requires that a number of input variables be determined by the Company for each reporting period using historical data and assumptions and estimates.

Risks and Uncertainties:

(a) Exploration and Development Risks:

Resource exploration and development has inherently considerable risk and is therefore highly speculative in nature. The Company's exploration activity to date involves procedures which are not definitive and are subject to considerable interpretation and inference, and consequently the results reported are subjective in nature and may not reflect actual mineralization present. Further, there is no indication that the success achieved to date will continue, and that the Company will be able to report sufficient mineralization for there to be economically recoverable quantities of minerals determined at some point in the future.

In addition, the Company's operations rely on the availability of skilled labour and materials in the region of its operations, and there can be no assurance that these resources will continue to be available and available at cost levels which will be affordable to the Company.

(b) Uncertainty of Title Risks:

The Company has obtained clear title of its properties and has received assurances from its joint venture partners that they also hold clear title to their properties under our joint venture agreements. However, the procedures taken to ensure clear title may not be sufficient, and future challenge of title may result, due to unregistered prior entitlements or prior regulatory non-compliance.

(c) Environmental Risks:

The Company manages its exploration and development activities to minimize the environmental damage at all times, and it endeavours to remediate the sites and facilities immediately upon withdrawal from any particular location to the full satisfaction of landowners and governmental requirements. However, there remains the risk that some aspect of our activity may have caused or will cause environmental damage, and the Company will need to further remediate the land and facilities and incur added costs in so doing.

(d) Political and Regulatory Risks:

The Company's operations are subject to control and scrutiny by several levels of government, various departments within each level, and corporate, environmental and mining regulations. Consequently, the Company is exposed to a large array of conditions to satisfy on a daily basis in its activities, and considerable risk exists that the Company will fail to be fully compliant in all respects in this political and regulatory environment.

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Risks and Uncertainties (continued):

(e) Foreign Exchange Risks:

The Company incurs most of its expenditures in foreign countries and consequently is exposed to foreign exchange risks due to changes in the value of the Canadian dollar with respect to these foreign currencies. A weakening of the Canadian dollar with respect to these foreign currencies would increase the costs of the Company's activities in these foreign jurisdictions. The Company does not hedge its exposures to movements in the exchange rates at this time.

(f) Financial Risks:

The Company has financed its exploration and development activities through the sale of its common shares. The Company has a history of losses from its activities to date and has incurred an operating loss from its current operations this year. The Company does not expect to earn revenues in the foreseeable future, which would offset the costs of its exploration and development activities, and consequently expects to continue to report operating losses for the foreseeable future. The Company plans to continue to finance its day-to-day operations through the sale of common shares of its capital. However, there is no assurance that the Company will be successful in selling its common shares to the investing public, and thereby raise sufficient capital to continue its activities. Further, there is no assurance that the capital markets will be available, and will support the sale of resource-based common shares in the future.

(g) Mineral Price Risks:

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

Financial Instruments:

(a) Fair Value of Financial Instruments

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

(b) Credit Risk

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

The Company's receivables consist of \$30,963 of interest receivable from a major Canadian financial institution accrued on its short-term investments, \$16,163 of value added taxes ("VAT") receivable from an agency of the Canadian government and \$1,038,246 of VAT receivable from an agency of the Mexican government.

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Financial Instruments:

(c) Liquidity Risk

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

(d) Currency Risk

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

At October 31, 2008, the Company has cash and cash equivalents of \$25,509 and receivables of \$1,038,095 denominated in 265,641 and 10,810,111 Mexican pesos, respectively. A strengthening (weakening) of the Canadian dollar against the Mexican peso of 10% would result in an increase (decrease) in the Company's loss and comprehensive for the year of \$106,360.

(d) Interest Rate Cash Flow Risk

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

As at October 31, 2008, the Company had \$3,000,000 of short-term investments earning interest at rates which are variable. A plus or minus 1% change in interest rates would affect loss and comprehensive loss for the year by \$30,000.

(e) Commodity Price Risk

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

Subsequent Events:

- (a) On November 21, 2008, the Company granted 200,000 stock options to a director and 250,000 stock options to a consultant, each option being exercisable at an exercise price of \$0.45 for a period of five years ending November 21, 2013.
- (b) On November 21, 2008, the Company announced that that it intends to reduce the exercise price of 13,190,000 incentive stock options as to 6,595,000 options to \$0.45 per share and 6,595,000 options to \$0.60 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of Insiders of the Company, the approval of disinterested shareholders. The Company intends to seek such disinterested shareholder approval at its next Annual General Meeting scheduled for May 2009. Accordingly each of the subject option holders will have the exercise price of half their options reduced to \$0.45 per share and the other half to \$0.60 per share. There has been no change to the expiry date of the options. The Company received TSX Venture Exchange acceptance on January 12, 2009.

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Subsequent Events (continued):

- (c) On November 26, 2008, the Company received TSX Venture Exchange acceptance of the Option Agreement for the remaining 49% right, title and interest in and to the Santa Monica Property.
- (d) On December 19, 2008, the Company granted 250,000 stock options to a consultant, each option being exercisable at an exercise price of \$0.45 for a period of five years ending December 19, 2013.
- (e) On January 29, 2009, the Company granted 100,000 stock options to a consultant, each option being exercisable at an exercise price of \$0.53 for a period of two years ending January 29, 2011.
- (f) On February 2, 2009, the Company announced that it intends to reduce the exercise price of 525,000 incentive stock options to \$0.61 per share, subject to TSX Venture Exchange acceptance, as well as, in the case of Insiders of the Company, the approval of disinterested shareholders. The Company intends to seek such disinterested shareholder approval at its next Annual General Meeting scheduled for May 2009. There has been no change to the expiry date of the options.
- (g) On February 18, 2009, the Company released an independent resource estimate, completed by Mine Development Associates (MDA) of Reno, Nevada, reporting an Indicated Resource of approximately 68.9 million ounces of Silver – Equivalent and an Inferred Resource of approximately 77.6 million ounces of Silver – Equivalent.

Additional information:

Additional information relating to the Company may be accessed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.