ORKO SILVER CORP.

(An Exploration Stage Company)

Condensed Interim Financial Statements

(Unaudited - Expressed in Canadian Dollars)

January 31, 2012

Notice to Reader

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

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

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

ORKO SILVER CORP.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
As at January 31, 2012, October 31, 2011 and November 1, 2010
(Unaudited - Expressed in Canadian Dollars)

	January 31, 2012 $	October 31, 2011 $ (note 13)	November 1, 2010 $ (note 13)
Assets			
Current			
Cash	5,787,037	8,318,095	384,542
Short-term investments (note 4)	6,979,933	5,247,766	13,513,019
Receivables	140,661	149,282	114,136
Prepaid expenses and deposits (note 5)	260,522	102,351	95,150
Advances to related parties (note 10)	18,896	8,171	2,729
	13,187,049	13,825,665	14,109,576
Deposits	55,563	55,563	38,003
Property and Equipment (note 6)	333,845	337,127	358,659
Investment (note 7)	3,875,144	3,429,999	3,633,507
	17,451,601	17,648,354	18,139,745
Liabilities			
Current			
Accounts payable and accrued liabilities	165,748	90,373	63,527
Due to related parties (note 10)	14,584	30,627	39,045
	180,332	121,000	102,572
Shareholders' Equity			
Share Capital	73,790,063	73,539,796	67,568,456
Contributed Surplus	10,455,222	10,589,489	12,613,190
Deficit	(66,974,016)	(66,601,931)	(62,144,473)
	17,271,269	17,527,354	18,037,173
	17,451,601	17,648,354	18,139,745

Nature and continuance of operations (note 1)
Commitment (note 12)
Events after the reporting date (note 14)

Approved by the Board of Directors and authorized for issue on March 14, 2012:

"Gary Cope"
………………………………………………… Director
Gary Cope

"Rick Sayers"
………………………………………………… Director
Rick Sayers

ORKO SILVER CORP.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Three Months Ended January 31, 2012 and 2011
(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended January 31, 2012 $	Three Months Ended January 31, 2011 $
		(note 13)
Exploration Expenses		
Geological	164,180	30,878
General exploration	23,968	3,958
	188,148	34,836
Expenses		
Amortization	3,282	4,185
Consulting fees	13,985	14,309
Investor relations	151,908	181,544
Management fees (note 10)	172,500	147,000
Office and miscellaneous	85,116	68,176
Professional fees	65,972	50,364
Rent	24,652	24,268
Repairs and maintenance	547	282
Stock-based compensation (note 8(c))	-	119,974
Telephone and communications	9,658	14,286
Transfer agent and filing fees	2,211	5,602
Travel and entertainment	136,571	151,475
	666,402	781,465
Other Items		
Interest income	(36,070)	(39,446)
Foreign exchange loss (gain)	(1,250)	1,142
Share of loss on equity accounted investment (note 7)	634,475	625,851
Gain arising on capital contributions by Pan American (note 7)	(1,079,620)	(556,378)
	(482,465)	31,169
Net Loss for Period and Comprehensive Loss for Period	372,085	847,470
Loss Per Share		
- basic and diluted	0.00	0.01
Weighted Average Number of Common Shares Outstanding	129,621,000	126,423,000

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

ORKO SILVER CORP.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
At January 31, 2012
(Unaudited - Expressed in Canadian Dollars)

	Common Shares #	Share Capital $	Contributed Surplus $	Deficit $	Equity $
Balance, November 1, 2010 (note 13)	124,632,479	67,568,456	12,613,190	(62,144,473)	18,037,173
Issued for cash:					
Exercise of warrants	357,000	589,050	-	-	589,050
Exercise of options	2,301,500	1,296,565	-	-	1,296,565
Transferred from contributed surplus:					
Exercise of warrants	-	329,884	(329,884)	-	-
Exercise of options	-	876,176	(876,176)	-	-
Stock-based compensation	-	-	119,974	-	119,974
Net loss and comprehensive loss	-	-	-	(847,470)	(847,470)
Balance, January 31, 2011 (note 13)	127,290,979	70,660,131	11,527,104	(62,991,943)	19,195,292
Issued for cash:					
Exercise of warrants	153,000	252,450	-	-	252,450
Exercise of options	2,177,500	1,585,550	-	-	1,585,550
Transferred from contributed surplus:					
Exercise of warrants	-	141,379	(141,379)	-	-
Exercise of options	-	900,286	(900,286)	-	-
Stock-based compensation	-	-	104,050	-	104,050
Net loss and comprehensive loss	-	-	-	(3,609,988)	(3,609,988)
Balance, October 31, 2011 (note 13)	129,621,479	73,539,796	10,589,489	(66,601,931)	17,527,354
Issued for cash:					
Exercise of options	200,000	116,000	-	-	116,000
Transferred from contributed surplus:					
Exercise of options	-	134,267	(134,267)	-	-
Net loss and comprehensive loss	-	-	-	(372,085)	(372,085)
Balance, January 31, 2012	129,821,479	73,790,063	10,455,222	(66,974,016)	17,271,269

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

ORKO SILVER CORP.
(An Exploration Stage Company)
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
Three Months Ended January 31, 2012 and 2011
(Unaudited - Expressed in Canadian Dollars)

	Three Months Ended January 31,	
	2012	2011
	$	$
		(note 13)
Operating Activities		
Net loss for period	(372,085)	(847,470)
Items not involving cash:		
Amortization	3,282	4,185
Stock-based compensation expense	-	119,974
Share of loss on equity accounted investment	634,475	625,851
Gain arising on capital contributions by Pan American	(1,079,620)	(556,378)
Unrealized loss (gain) on foreign exchange	(1,928)	310
	(815,876)	(653,528)
Changes in non-cash working capital items:		
Accrued interest on short-term investments	(15,048)	4,936
Receivables	8,621	(78,195)
Prepaid expenses and deposits	(158,171)	(75,265)
Advances to related parties	(10,725)	(24,004)
Accounts payable and accrued liabilities	75,375	(14,971)
Due to related parties	(16,043)	(36,219)
Cash Used in Operating Activities	(931,867)	(877,246)
Investing Activities		
Purchase of short-term investments	(2,429,619)	-
Redemption of short-term investments	712,500	8,287,500
Cash Provided by Investing Activities	(1,717,119)	8,287,500
Financing Activities		
Proceeds from common shares issued, net of share issue costs	116,000	1,885,615
Cash Provided by Financing Activities	116,000	1,885,615
Foreign Exchange Loss (Gain) on Cash Held in Foreign Currency	1,928	(310)
Increase (Decrease) in Cash During the Period	(2,531,058)	9,295,559
Cash, Beginning of Period	8,318,095	384,542
Cash, End of Period	5,787,037	9,680,101
Supplemental Information		
Cash received for interest	21,022	44,382
Cash paid for interest	-	-
Cash paid for income taxes	-	-

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Orko Silver Corp. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada, on August 5, 1983. The Company's principal business activities include the acquisition and exploration of mineral properties in Mexico through its investment. The Company is in the exploration stage and has not yet determined whether any of the properties in which it has an investment contain ore reserves that are economically recoverable. Accordingly, the Company has no source of revenue.

The head office of the Company is located at Suite 1180 - 999 West Hastings Street, Vancouver, British Columbia, Canada, V6C 2W2. The registered address and records office of the Company are located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC, Canada V6C 2X8.

The Company's financial statements ("condensed interim financial statements") are presented in Canadian dollars.

As at January 31, 2012, the Company had working capital of $13,006,717(2011 - $13,704,665) and accumulated deficit of $66,974,016 (2011 - $66,601,931) since inception. The continuance of the Company's operations, beyond twelve months, is dependent on obtaining sufficient additional financing and recovering the Company's investment whether by sale of the investment or commencing production, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals.

These condensed interim 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. 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. BASIS OF PREPARATION

These condensed interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening IFRS balance sheet as at November 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 13.

2. BASIS OF PREPARATION (Continued)

Critical Accounting Estimates

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(a) The recoverability of receivables which are included in the condensed interim financial statements of financial position.

(b) The inputs used in calculating the fair value for share-based payment expense included in profit and loss and share-based share issuance costs included in equity.

(c) The valuation of shares issued in non-cash transactions.

(d) The valuation allowance applied against deferred tax assets.

3. SIGNIFICANT ACCOUNTING POLICIES

(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%.

(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.

3. 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%

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Asset Retirement Obligation ("ARO")

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

(f) Use of Estimates

The preparation of financial statements in conformity with IFRS 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 share-based payments 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) **Financial Instruments**

(i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) **Financial Instruments**

(ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities - This category includes promissory notes, amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash and short-term investments as fair value through profit and loss. The Company’s receivables and advances to related parties are classified as loans and receivables. The Company’s accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

(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**

The functional currency is the currency of the primary economic environment in which the Company operates and has been determined to be the Canadian dollar. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Share-Based Payment

Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period as expense, with a corresponding increase in equity. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

(m) New Standards Not Yet Adopted

The following standards have not yet been adopted and are being evaluated to determine their impact on the Company's financial statements.

(i) IFRS 9 - Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 9 is required to be applied for annual periods beginning on or after January 1, 2013. IASB has proposed to move the effective date of IFRS 9 to January 1, 2015.

(ii) IFRS 10 - Consolidated Financial Statements ("IFRS 10")

For annual periods beginning on January 1, 2013, IFRS 10 will replace portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidation - Special Purpose Entities. The new standard requires consolidated financial statements to include all controlled entities under a single control model. The Company will be considered to control an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) **New Standards Not Yet Adopted**

(ii) IFRS 10 - Consolidated Financial Statements ("IFRS 10") (Continued)

As required by this standard, control is reassessed as facts and circumstances change. Additional guidance is given on how to evaluate whether certain relationships give the Company the current ability to affect its returns, including how to consider options and convertible instruments, holding less than a majority of voting rights, how to consider protective rights, and principal agency relationships (including removal rights), all which may differ from current practice.

IFRS 10 is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

(iii) IFRS 11 - Joint Arrangements ("IFRS 11")

IFRS 11 applies to accounting for interests in joint arrangements where there is joint control. The standard requires the joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures (previously called jointly controlled entities) using proportionate consolidation will be removed and replaced by equity accounting.

IFRS 11 is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

(iv) IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. Due to this new section, the Company will be required to disclose the following: judgments and assumptions made when deciding how to classify involvement with another entity, interests that non-controlling interests have in consolidated entities, and the nature of the risks associated with interests in other entities.

IFRS 12 is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) **New Standards Not Yet Adopted**

(v) IFRS 13 - Fair Value Measurement ("IFRS 13")

IFRS 13 will converge the IFRS requirements for how to measure fair value and the related disclosures. IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. Upon adoption, the Company will provide a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied. In addition, fair value will be defined as the 'exit price' and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities.

IFRS 13 is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

(vi) IAS 1 - Presentation of Financial Statements ("IAS 1")

IAS 1 was amended by the IASB in June 2011 and relates to the presentation of items in other comprehensive income. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged.

The amendments to IAS 1 are required to be applied for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. The Company has not yet assessed the impact of the amendment or determined whether it will adopt the amendments early.

(vii) IAS 12 – Income Taxes ("IAS 12")

IAS 1 was amended by the IASB in December 2010 and the amendment provides a solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes.

The amendment to IAS 12 is required to be applied for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The Company has not yet assessed the impact of the amendment or determined whether it will adopt the amendment early.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) **New Standards Not Yet Adopted**

(viii) IAS 19 – Employee Benefits ("IAS 19")

IAS 19 was amended by the IASB in November 2011 and the amendment introduces changes to the accounting for defined benefit plans and other employee benefits. The amendments include elimination of the options to defer, or recognize in full in earnings, actuarial gains and losses and instead mandates the immediate recognition of all actuarial gains and losses in other comprehensive income and requires use of the same discount rate for both the defined benefit obligation and expected asset return when calculating interest cost. Other changes include modification of the accounting for termination benefits and classification of other employee benefits.

The amendments to IAS 19 are required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the amendments or determined whether it will adopt the amendments early.

(ix) IAS 27- Separate Financial Statements ("IAS 27")

IAS 27 was amended by the IASB in September 2011 and the amendments have the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, associates when the entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

The amendments to IAS 27 are required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the amendments or determined whether it will adopt the amendments early.

(x) IAS 28 – Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 was amended by the IASB in September 2011 and the amendments prescribe the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

The amendments to IAS 28 are required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the amendments or determined whether it will adopt the amendments early.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) New Standards Not Yet Adopted

(xi) IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20")

IFRIC 20 was issued by the IASB in December 2011 and clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) useable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods.

IFRIC 20 is required to be applied for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4. FINANCIAL RISK MANAGEMENT

The Company has classified its cash and short-term investments as fair value through profit and loss. The Company's receivables and advances to related parties are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

(a) Fair Value of Financial Instruments

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 January 31, 2012 and October 31, 2011 in accordance with the fair value hierarchy is as follows:

As at January 31, 2012	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments	$ 6,979,933	$ 6,979,933	$ -	$ -

As at October 31, 2011	Total	Level 1	Level 2	Level 3
Assets				
Short-term investments	$ 5,247,766	$ 5,247,766	$ -	$ -

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(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 for recoverable value-added taxes paid.

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:

	January 31, 2012	October 31, 2011
Bank accounts	$ 5,787,037	$ 8,318,095
Short-term investments	6,979,933	5,247,766
	$ 12,766,970	$ 13,565,861

As at January 31, 2012, the short-term investments are comprised of two guaranteed investment certificates ("GIC"), which are cashable within 30 days without a significant risk of change in value. The GICs earn interest at rates of 1.36% to 1.40% (2011 - 1.30% to 1.40%) and mature on December 21, 2012 and May 7, 2012 respectively (2011 – May 7, 2012).

(b) **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 January 31, 2012, the Company had accounts payable and accrued liabilities of $165,748 (2011 - $90,373), which are due in the second quarter of fiscal 2012, and due to related parties of $14,584 (2011 - $30,627), which is payable on demand. As at January 31, 2012, the Company has cash and short-term investments of $12,766,970 to meet these obligations.

(c) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) **Market Risk** (Continued)

(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.

The Company's cash and short-term investments consist of cash held in bank accounts and two GICs that earn interest at rates of 1.36% to 1.40%. 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 January 31, 2012. Future cash flows from interest income on cash and short-term investments will be affected by interest rate fluctuations. At January 31, 2012, a hypothetical change of 1% in the interest rate would have a $32,000 effect on net loss and comprehensive loss.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk on its cash and indirectly through its investment in Proyectos Mineros. Expenditures by Proyectos Mineros are incurred in US dollars and Mexican pesos. At January 31, 2012, a hypothetical change in the foreign exchange rate between the Canadian and US dollars of 10% would have a $80,000 (2011 - $42,000) 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 $9,000 (2011 - $10,000) effect on net loss and comprehensive loss.

The Company had the following balances in foreign currency as at January 31, 2012 and October 31, 2011:

		January 31, 2012		**October 31, 2011**
	US $	Pesos	US $	Pesos
Cash	37,168	-	107,188	-
Investment	759,943	1,223,175	310,367	1,350,134

(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.

5. PREPAID EXPENSES AND DEPOSITS

		January 31, 2012		October 31, 2011
Deposits for engineering firms	$	88,488	$	25,000
Prepaid travel costs		94,111		17,366
Prepaid investor relations costs		25,237		25,011
Prepaid rent		23,034		-
Prepaid insurance		15,825		4,371
Other prepaid expenses		13,827		30,603
Total	$	260,522	$	102,351

6. PROPERTY AND EQUIPMENT

					January 31, 2012	
		Cost		Accumulated Amortization		Net Book Value
Land	$	113,024	$	-	$	113,024
Building		270,928		57,218		213,710
Automobile		33,342		26,231		7,111
	$	417,294	$	83,449	$	333,845

					October 31, 2011	
		Cost		Accumulated Amortization		Net Book Value
Land	$	113,024	$	-	$	113,024
Building		270,928		54,513		216,415
Automobile		33,342		25,654		7,688
Computer hardware		34,089		34,089		-
	$	451,383	$	114,256	$	337,127

7. INVESTMENT IN PROYECTOS MINEROS

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. Between 2005 and 2009, Proyectos Mineros acquired 100% interest in these properties for total consideration of $3,022,798 paid by issuance of the Company's common shares to the property vendors.

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 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.

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.

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.

7. INVESTMENT IN PROYECTOS MINEROS (Continued)

For the period October 31, 2010 to January 31, 2012, the following changes to the carrying value of the Company's investment in Proyectos Mineros were recorded:

Investment, October 31, 2010	$	3,633,507
Gain arising on capital contributions by Pan American		556,378
Share of loss on equity accounted investment		(625,851)
Investment, January 31, 2011		3,564,034
Gain arising on capital contributions by Pan American		723,924
Share of loss on equity accounted investment		(857,959)
Investment, October 31, 2011		3,429,999
Gain arising on capital contributions by Pan American		1,079,620
Share of loss on equity accounted investment		(634,475)
Investment, January 31, 2012	$	3,875,144

Condensed balance sheet information for Proyectos Mineros as at January 31, 2012 and 2011 is presented below:

Balance Sheets		**January 31, 2012**		**October 31, 2011**
Assets:				
Current assets	$	2,019,295	$	933,824
Capital assets		16,636		21,479
Total assets	$	2,035,931	$	955,303
Liabilities	$	132,949	$	41,530

Condensed operations information for Proyectos Mineros for the three months ended January 31, 2012 and 2011 is presented below:

		Three Months Ended January 31,		
Statements of Operations		**2012**		**2011**
Exploration expenditures	$	1,335,917	$	1,162,976
Other expenditures		74,028		227,803
Net loss	$	1,409,945	$	1,390,779

7. INVESTMENT IN PROYECTOS MINEROS (Continued)

During the three months ended January 31, 2012, the Company incurred exploration expenditures of $188,148 (2011 - $34,836) related to the monitor of the progress of Proyectos Mineros.

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 title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

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.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. 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 a material liability to the Company.

8. SHARE CAPITAL AND RESERVES

(a) Authorized

Unlimited number of common shares without par value.

(b) 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.

8. SHARE CAPITAL AND RESERVES (Continued)

(b) **Stock Options** (Continued)

Stock option activity since October 31, 2010 is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding, October 31, 2010	17,001,500	$ 0.58
Exercised	(4,479,000)	$ 0.64
Expired	(25,000)	$ 0.55
Outstanding, October 31, 2011	12,497,500	$ 0.55
Exercised	(200,000)	$ 0.58
Outstanding, January 31, 2012	12,297,500	$ 0.55

The following table summarizes the stock options outstanding and exercisable as at January 31, 2012:

Options Outstanding				Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.45	6,062,500	0.9	$ 0.45	6,062,500	$ 0.45
$ 0.60 - $ 0.61	5,882,500	0.8	$ 0.60	5,882,500	$ 0.60
$ 0.78	40,000	2.6	$ 0.78	40,000	$ 0.78
$ 1.48 - $ 1.75	312,500	3.2	$ 1.52	312,500	$ 1.52
	12,297,500	0.9	$ 0.55	12,297,500	$ 0.55

The following table summarizes the stock options outstanding and exercisable as at October 31, 2011:

Options Outstanding				Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 0.45	6,062,500	1.1	$ 0.45	6,062,500	$ 0.45
$ 0.58	200,000	0.3	$ 0.58	200,000	$ 0.58
$ 0.60 - $ 0.61	5,882,500	1.0	$ 0.60	5,882,500	$ 0.60
$ 0.78	40,000	2.8	$ 0.78	40,000	$ 0.78
$ 1.48 - $ 1.75	312,500	3.4	$ 1.52	312,500	$ 1.52
	12,497,500	1.1	$ 0.55	12,497,500	$ 0.55

8. SHARE CAPITAL AND RESERVES (Continued)

(c) Share-Based Payments

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. The Company did not grant any stock options during the three months ended January 31, 2012 or during fiscal 2011 The share-based payment costs, for stock options granted in a prior period that vested during the three months ended January 31, 2012, was $nil (2011 - $119,974).

(d) Warrants

Warrant activity since October 31, 2010 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, October 31, 2010	510,000	$ 1.65
Exercised	(510,000)	$ 1.65
Outstanding, October 31, 2011 and January 31, 2012	-	-

(e) Shareholder Rights Plan

The directors of the Company approved the adoption of a shareholder rights plan, dated December 4, 2007 (the "Rights Plan"), which was ratified by the Company's shareholders on March 13, 2008 and reconfirmed on July 15, 2011. The Rights Plan is intended to ensure that all shareholders of the Company are treated fairly in any transaction involving a potential change of control of the Company. The rights become exercisable only when a person or party acquires or announces its intention to acquire 20% or more of the outstanding shares of the Company without complying with certain provisions of the Rights Plan. Each right would entitle each holder of common shares (other than the acquiring person or party) to purchase additional common shares of the Company at a 50% discount to the market price at the time. The Rights Plan is subject to a confirmation vote by the Company's shareholders every third year after coming into effect and, failing such confirmation vote, the agreement will terminate.

9. 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.

9. CAPITAL MANAGEMENT (Continued)

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.

10. RELATED PARTY TRANSACTIONS

(a) As at January 31, 2012, $18,896 (2011 - $8,171) was advanced to an officer 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 January 31, 2012, $360 (2011 - $10,793) 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 three months ended January 31, 2012, geologist fees of $38,100 (2011 - $25,800), included in exploration expenses, were paid to a company controlled by a director of the Company. As at January 31, 2012, $14,224 (2011 - $19,834) is payable to this company and included in due to related parties;

(d) During the three months ended January 31, 2012, management fees of $172,500 (2011 - $147,000) were paid to companies controlled by officers of the Company; and

(e) The Company subleases office premises to related parties (note 12).

All advances and amounts due to related parties have repayment terms similar to the Company's other accounts receivable and 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.

11. 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.

12. COMMITMENT

On June 16, 2009, the Company entered into an agreement to lease office premises commencing October 1, 2009 and expiring 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:

2012	$	185,096
2013	$	102,831

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.

13. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these condensed interim financial statements were prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the condensed interim financial statements for the three month periods ended January 31, 2012 and 2011, the condensed financial statements for the year ended October 31, 2011 and the opening IFRS statement of financial position on November 1, 2010, the "Transition Date".

While there were a number of changes to the Company's accounting policies, management determined that the adoption of IFRS did not impact the Company's statements of financial position as at November 1, 2010, January 31, 2011 and October 31, 2011, or the statements of operations and comprehensive loss, statements of changes in equity or statements of cash flows for the three month period ended October 31, 2011 and the year ended October 31, 2011. Therefore, reconciliation adjustment schedules to transition Canadian GAAP to IFRS have not been provided.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

(a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election.

(b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002 or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to November 1, 2010.

(c) Consolidated and separate financial statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 Business Combinations retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guideline to its opening statement of financial position dated November 1, 2010:

(a) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of November 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

14. EVENTS AFTER THE REPORTING DATE

The Company issued 1,835,000 common shares on the exercise of stock options for gross proceeds of $970,875.