**OREX MINERALS INC.**
(An Exploration Stage Company)
QUARTERLY REPORT TO SHAREHOLDERS
July 31, 2009
(Expressed in Canadian Dollars)

**MANAGEMENT DISCUSSION AND ANALYSIS**
**FOR THE THREE MONTHS ENDED JULY 31, 2009 AND 2008**

Dated: September 17, 2009

Management's Responsibility for Financial Reporting:

The accompanying consolidated interim 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 annual consolidated financial statements.

The Company's certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by these interim filings, and these interim financial statements together with the other financial information included in these interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented in these interim filings.

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.

Description of Business:

The Company is engaged primarily in the acquisition and exploration of mineral properties.

SANTA CRUZ, MEXICO:

Following these determinations, management turned its attention to acquiring additional properties of merit, and on June 21, 2007, the Company announced that it had entered into an option agreement with Silverex S.A. de C.V. ("Silverex") to acquire up to a 75% interest in its Santa Cruz property in Durango, Mexico. Under the terms of the agreement, to earn an undivided 50% interest, the Company will issue 500,000 common shares and pay US $800,000 to Silverex upon the TSX Venture Exchange (the "Exchange") acceptance of the agreement. After one year from the date of acceptance, based on the success of the exploration, the Company may issue an additional 500,000 common shares and pay an additional US $800,000. After the second anniversary, the Company may make an additional cash payment to bring the total value of cash payments and share issuances to US $4,000,000. In addition, the Company is required to incur a minimum of US $500,000 of expenditures on the property in each year from the acceptance date for a total period of four years. At any time during this initial four-year program period, the Company has the option to earn an additional undivided 25% interest, having met the above share issue and cash payment requirements, by issuing additional common shares having a deemed value of US $1,000,000 and pay an additional US $3,000,000. Upon earning an undivided 75% interest, Orex and Silverex will participate on a joint venture basis in further exploration and development of the Santa Cruz property.

Description of Business (continued):

SANTA CRUZ, MEXICO (continued):

Located in the Sierra Madre Occidental Mountains, Otaez Municipality, midway between Tayoltita (San Dimas) and Topia mining camps, the Santa Cruz property is in one of the world's most prolific mineral belts. Santa Cruz is an epithermal gold-silver camp divided into three structural districts. The property hosts three main gold-silver bearing districts, the Eastern, Central and Western, as well as the previously operating Santa Cruz Mine. Road access to the Orozco area of the Eastern District and, more recently, the Zambraneña area of the Western District was completed.

Following construction of drill pads, in April 2009, the Company commenced a drill program. Diamond drilling was performed by Major Drilling Group International Inc. and took place in the Western structural district. This initial phase of drilling consisted of 3,070 metres in 12 holes, starting in the Zambraneña area and continuing northwest toward the Carmen area. The Zambraneña structure is interpreted to be a fault zone, with quartz veining at the contact between an andesite unit and an altered dioritic intrusive. The intrusive also contains multiple zones of quartz veinlet and stringer mineralization. All 12 drill holes hit the target structure, but most were low-grade.

To date, the Company has paid acquisition costs of $1,318,700 (US $1,250,000) and issued 1,000,000 common shares to Silverex pursuant to the terms of the Santa Cruz property agreement. The Company did not complete the required payments under the option agreement and was required to make an additional US$350,000 payment prior to November 1, 2008. During fiscal 2010, Silverex and the Company entered into negotiations to amend the agreement and the Company continues to maintain an interest in the property.

The Company has also advanced funds to rehabilitate old access roads, construct new access roads and an airstrip and to install an on-site communication system. As reported previously, there is a flotation mill at the Santa Cruz Mine which has been reconditioned. In November 2007, the Company paid $506,750 (US $500,000) to reinstate an existing 90 ton/day mill facility to operating condition. Any net proceeds generated from operations will be shared equally by the Company and Silverex. Silverex will operate the mill and oversee test milling and the Company will serve in an advisory role.

The Santa Cruz Mill commenced test operation in mid-June 2008 at an initial rate of 50 tpd, utilizing the south ball-mill and south banks of flotation cells. The north ball-mill and flotation cells are planned for operation, increasing capacity to 90 tpd. For a brief period before the rainy season, the hand-cobbed tennantite program operated in the La Fragua area, under the direction of Silverex. In August 2008, severity of the rainy season lead to a shutdown of the mill due to difficulties moving material from the mining portal to the mill site. Repairs to the haulage roads were completed after the 2008 rainy season ended. Milling operations are currently halted pending a review of the mill feed sourcing from the Santa Cruz and Zambraneña areas.

CONETO, MEXICO:

On July 16, 2009, the Company signed a letter of intent to purchase 100% of the core mineral concessions within the Coneto silver-gold mining camp in Durango State, Mexico. This agreement, with a number of private Mexican mining companies, gives the Company a strategic position in an important historic mining camp, with multiple targets for exploration.

The pending purchase agreement will provide for a 100% transfer of the core mineral concessions in exchange for 11,000,000 common shares of the Company. The property is subject to a 2.5% NSR royalty payable to the vendors. The agreement is subject to the approval of the TSX Venture Exchange.

Located in the Mesa Central on the eastern flank of the Sierra Madre Occidental Mountains, Coneto is centrally positioned in the "Mexican Silver Trend". This silver trend, stretching from Guanajuato in the southeast, through the states of Zacatecas and Durango, hosts some of the world's largest silver deposits, including: Real de Angeles, Zacatecas, Fresnillo, La Preciosa, and La Pitarilla mining camps.

Description of Business (continued):

CONETO, MEXICO (continued):

The Coneto mining camp, consisting of approximately 3,300 hectares of claims, with a history going back over 400 years. More than 30 epithermal silver-gold quartz veins have been documented in a window of exposed Tertiary Lower Volcanic andesites. Past underground production was achieved on three of the veins down to the watertable. Very little diamond drilling has been carried out within the property in spite of its long history of episodic production.

The Company has commenced exploration of Coneto and is currently mapping the concessions in order to prioritize drill targets on the property.

Ben Whiting, P.Geo., is the Qualified Person, as defined in National Instrument 43-101, and takes responsibility for the technical disclosure in this report.

Results of Operation for the Three Months Ended July 31, 2009 and 2008:

During the first quarter of fiscal 2010, the Company incurred exploration expenses amounting to $798,083, which was 68 per cent higher than the $476,091 incurred in the first quarter of fiscal 2009, with the increase primarily due to the costs associated with the drill program conducted on the Santa Cruz property. The current quarter expenses consisted of drilling costs of $318,867, geological costs of $108,314, assay costs of $68,702, site costs of $259,999, and other general exploration costs of $42,201. Of the current quarter exploration expenditures, $741,042 were incurred on the Santa Cruz property, $53,541 were incurred on the Coneto property and $3,500 were incurred to conduct due diligence on other properties. All of the costs in the first quarter of 2009 were incurred on the Santa Cruz property.

General operating costs totalled $188,072 for the current quarter, which is 31 per cent lower than those incurred in the same quarter of fiscal 2009 of $272,224. The decrease can be attributed primarily to lower stock-based compensation expense. In the first quarter of fiscal 2010, the Company recorded a $579 charge to reflect the imputed non-cash cost of stock options to directors, officers, staff and consultants that vested in the period, which was significantly lower than the charge of $59,135 in the first quarter of the prior year. Travel costs of $9,327 were also down, from $40,092 incurred in the same period last year when more travel was required for a financing that was subsequently withdrawn due to weakening market conditions. Also in connection with the financing effort last year, the Company incurred professional fees of $38,896 in the first quarter of fiscal 2009, compared to $5,560 incurred in the current quarter. The Company incurred higher investor relations costs of $71,523 this quarter, to raise investor awareness of the Company's new Coneto property, up from $30,569 incurred in the first quarter of last year. All other costs were consistent with those incurred in the same period of the prior year.

The loss in the first quarter of fiscal 2010 amounted to $961,917 or $0.01 per share, which is 29 per cent higher than the loss in the same quarter of last year of $748,003 or $0.02 per share. The increase can be attributed primarily to the higher exploration costs incurred this quarter on the Santa Cruz property.

(Expressed in Canadian Dollars)

Property Acquisition Costs:

| | | Santa Cruz, Mexico |
|---|---|---|
| Balance, as at April 30, 2008 | | 1,617,850 |
| Acquisition costs | | 477,600 |
| Balance, as at April 30, 2009, July 31, 2009 and September 17, 2009 | $ | 2,095,450 |

In June of 2007, the Company announced that it had entered into an option agreement with Silverex S.A. de C.V. to acquire up to 75% interest in the Santa Cruz property in Durango, Mexico. Per the terms of the agreement, to date the Company has paid acquisition costs of $1,318,700 (US $1,250,000), issued 1,000,000 common shares valued at $270,000 to Silverex and paid $506,750 (US $500,000) for refurbishment of the existing mill, for total capitalized costs of $2,095,450.

Property Exploration Expenditures as of July 31, 2009:

| | Santa Cruz, Mexico $ | Coneto, Mexico $ | Other Properties $ | Total $ |
|---|---|---|---|---|
| **FISCAL 2009** | | | | |
| Drilling | 318,867 | - | - | 318,867 |
| Geological | 66,742 | 38,072 | 3,500 | 108,314 |
| Assay | 67,446 | 1,256 | - | 68,702 |
| Site costs | 259,999 | - | - | 259,999 |
| General exploration | 27,988 | 14,213 | - | 42,201 |
| **Total expenditures for the period** | 741,042 | 53,541 | 3,500 | 798,083 |
| **TOTAL TO DATE** | | | | |
| Drilling | 392,261 | - | - | 392,261 |
| Geological | 535,950 | 38,072 | 3,500 | 577,522 |
| Assay | 105,199 | 1,256 | - | 106,455 |
| Site costs | 2,635,271 | - | - | 2,635,271 |
| General exploration | 135,556 | 14,213 | - | 149,769 |
| **Total expenditures to date** | 3,804,237 | 53,541 | 3,500 | 3,861,278 |

(Expressed in Canadian Dollars)

Selected Annual Financial Information:

| | | | For the year ended April 30, 2009 | For the year ended April 30, 2008 | For the year ended April 30, 2007 |
|---|---|---|---|---|---|
| Total revenues | | | Nil | Nil | Nil |
| Loss before discontinued operations and extraordinary items: | | | | | |
| | (i) | total for the year | $ 3,038,835 | $ 2,034,009 | $ 2,311,292 |
| | (ii) | per share | 0.06 | 0.05 | 0.09 |
| | (iii) | per share fully diluted | 0.06 | 0.05 | 0.09 |
| Net loss: | | | | | |
| | (i) | total for the year | $ 3,038,835 | $ 2,034,009 | $ 2,311,292 |
| | (ii) | per share | 0.06 | 0.05 | 0.09 |
| | (iii) | per share fully diluted | 0.06 | 0.05 | 0.09 |
| Total assets | | | $ 2,664,803 | $ 2,516,307 | $ 2,103,514 |
| Total long-term financial liabilities | | | Nil | Nil | Nil |
| Cash dividends declared per-share | | | Nil | Nil | Nil |

In fiscal 2009, the loss for the year was significantly higher than prior years due to higher exploration costs of $2,119,600 associated with initiating a drill program on the Santa Cruz property in Mexico. General operating costs were lower than prior years at $873,685 and included a $191,719 charge for stock-based compensation.

In fiscal 2008, the loss for the year was lower than the previous year as the focus of exploration, which cost $1,024,237, transitioned to the Company's new Santa Cruz property in Mexico. General operating costs were also slightly lower than prior years at $966,740 and included a $324,926 charge for stock-based compensation.

In fiscal 2007, the loss for the year increased significantly due to the active exploration program underway which cost $1,332,792. General operating costs were also up significantly from prior years at $984,708 due to the inclusion of a $430,214 charge for stock-based compensation.

Selected Quarterly Financial Information:

| | | 4th Quarter Ended April 30, 2010 | 3rd Quarter Ended January 31, 2010 | 2nd Quarter Ended October 31, 2009 | 1st Quarter Ended July 31, 2009 |
|---|---|---|---|---|---|
| (a) | Revenue | | | | Nil |
| (b) | Loss for period | | | | $ 961,917 |
| (c) | Loss per share | | | | $ 0.01 |
| | | **4th Quarter Ended April 30, 2009** | **3rd Quarter Ended January 31, 2009** | **2nd Quarter Ended October 31, 2008** | **1st Quarter Ended July 31, 2008** |
| (a) | Revenue | Nil | Nil | Nil | Nil |
| (b) | Loss for period | $ 998,364 | $ 603,195 | $ 689,273 | $ 748,003 |
| (c) | Loss per share | $ 0.02 | $ 0.01 | $ 0.01 | $ 0.02 |
| | | **4th Quarter Ended April 30, 2008** | **3rd Quarter Ended January 31, 2008** | **2nd Quarter Ended October 31, 2007** | **1st Quarter Ended July 31, 2007** |
| (a) | Revenue | Nil | Nil | Nil | Nil |
| (b) | Loss for period | $ 647,319 | $ 476,537 | $ 652,231 | $ 257,922 |
| (c) | Loss per share | $ 0.02 | $ 0.01 | $ 0.02 | $ 0.01 |

(Expressed in Canadian Dollars)

Selected Quarterly Financial Information (continued):

The loss in the first quarter of fiscal 2010 was primarily due to exploration costs, which amounted to $798,083 as the Company completed its drill program on the Santa Cruz property. General operating expenses for the quarter were $188,072.

The loss in each quarter of fiscal 2009 was primarily due to the exploration costs on the Santa Cruz property, which amounted to $476,091, $466,866, $462,846 and $713,797 for the first, second, third and fourth quarters respectively. For the fourth quarter of fiscal 2009, a major component of general operating expenses was a charge of $85,034 for stock-based compensation recorded to reflect the computed value of stock options that vested in the period.

The loss in the first quarter of fiscal 2008 was primarily due to the costs of sustaining the Company. The higher second, third and fourth quarter losses were primarily due to exploration costs on the Santa Cruz property, which amounted to $342,742, $293,362 and $358,565 respectively. General operating costs remained relatively in line for all quarters.

Outstanding Share Data:

(a) Share capital and contributed surplus

| | Number of Shares | Share Capital | Contributed Surplus |
|---|---|---|---|
| Authorized: | | | |
| Unlimited number of common shares without par value | | | |
| Issued: | | | |
| Balance at April 30, 2008 | 43,885,920 | 8,615,455 | 1,574,510 |
| Private placement | 16,000,000 | 1,600,000 | - |
| Finders Fees | 1,200,000 | 120,000 | - |
| Mineral properties | 500,000 | 25,000 | - |
| Warrants exercised | 3,535,550 | 956,896 | (249,786) |
| Stock-based compensation | - | - | 191,719 |
| Share issuance costs | - | (145,148) | - |
| Balance at April 30, 2009 | 65,121,470 | 11,172,203 | 1,516,443 |
| Private placement | 2,525,000 | 505,000 | - |
| Finders Fees | 189,375 | 37,875 | - |
| Warrants exercised | 1,550,000 | 310,000 | - |
| Stock-based compensation | - | - | 2,884 |
| Share issuance costs | - | (50,049) | - |
| Balance at July 31, 2009 and September 17, 2009 | 69,385,845 | $ 11,975,029 | $ 1,519,327 |

(a) Share capital and contributed surplus

On February 24, 2009, the Company issued 16,000,000 units at $0.10 per unit for gross proceeds of $1,600,000 under a non-brokered private placement. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant entitles the holder thereof to purchase one additional common share for 24 months from the date of closing at a price of $0.15 per common share. The full value of $1,600,000 was assigned to the common shares based on their fair values at the closing date of the private placements. In connection with the private placement, the Company issued 1,200,000 units valued at $120,000 as a commission with terms similar to those issued under the private placement. The Company incurred cash share issuance costs of $25,148 on the private placement.

(Expressed in Canadian Dollars)

Outstanding Share Data (continued):

(a) Share capital and contributed surplus

On June 22, 2009, the Company issued 2,525,000 units at $0.20 per unit for gross proceeds of $505,000 under a non-brokered private placement. Each unit consisted of one common share and one half of one non-transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share for 24 months from the date of closing at a price of $0.30 per common share. The full value of $505,000 was assigned to the common shares based on their fair values at the closing date of the private placement. In connection with the private placement, the Company issued 189,375 units valued at $37,875 as a commission with terms similar to those issued under the private placement. The Company incurred cash share issuance costs of $12,174 on the private placement. As at April 30, 2009, the Company had received share subscriptions of $485,000 toward this private placement.

(b) Stock options and warrants

The Company has a plan to grant stock options to directors, officers, employees and consultants of the Company. Under the plan, the board of directors has the discretion to issue the equivalent of up to 10% of the issued and outstanding shares of the Company from time to time. Stock 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. Vesting terms are determined at the discretion of the board of directors.

Stock option and share purchase warrant transactions are summarized as follows:

| | Warrants | | Stock options | |
|---|---|---|---|---|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Outstanding, April 30, 2008 | 9,907,900 | 0.27 | 3,882,000 | 0.35 |
| Granted | 17,200,000 | 0.15 | 700,000 | 0.15 |
| Exercised | (3,535,550) | 0.20 | - | - |
| Expired | (2,353,600) | 0.50 | - | - |
| Forfeited | - | - | (45,000) | 0.39 |
| Outstanding, April 30, 2009 | 21,218,750 | 0.16 | 4,537,000 | 0.22 |
| Granted | 1,357,187 | 0.30 | 300,000 | 0.15 |
| Exercised | (1,550,000) | 0.20 | - | - |
| Expired | (2,468,750) | 0.20 | (50,000) | - |
| Outstanding, July 31, 2009 and September 17, 2009 | 18,557,187 | $ 0.16 | 4,787,000 | $ 0.22 |

(Expressed in Canadian Dollars)

Outstanding Share Data (continued):

(b) Stock options and warrants (continued)

The following options and warrants to acquire common shares of the Company were outstanding at July 31, 2009 and September 17, 2009:

| | Number of Shares | Exercise Price | Expiry Date |
|---|---|---|---|
| **Options** | | | |
| | 99,000 | $ 0.10 | June 7, 2014 (1) (2) |
| | 425,000 | 0.40 | June 7, 2014 (1) (3) |
| | 100,000 | 0.33 | June 7, 2014 (1) (3) |
| | 111,000 | 0.10 | March 23, 2010 (2) |
| | 92,000 | 0.10 | May 6, 2010 (2) |
| | 535,000 | 0.10 | September 11, 2011 (2) |
| | 520,000 | 0.43 | September 11, 2011 (3) |
| | 150,000 | 0.43 | September 11, 2011 |
| | 200,000 | 0.10 | November 6, 2011 (2) |
| | 25,000 | 0.10 | May 9, 2012 (2) |
| | 755,000 | 0.10 | September 27, 2012 (2) |
| | 50,000 | 0.27 | September 27, 2012 |
| | 725,000 | 0.27 | September 27, 2012 (3) |
| | 200,000 | 0.26 | June 17, 2013 (3) |
| | 250,000 | 0.10 | December 19, 2013 |
| | 250,000 | 0.11 | January 30, 2011 |
| | 300,000 | 0.15 | July 17, 2011 |
| **Warrants** | | | |
| | 17,200,000 | 0.15 | February 24, 2011 |
| | 1,357,187 | 0.30 | June 22, 2011 |

(1) During fiscal 2009 the expiry date of these options was extended from June 7, 2009 to June 7, 2014 resulting in additional stock-based compensation of $35,840.
(2) During fiscal 2009, a total of 1,817,000 options were repriced to $0.10 per share on January 7, 2009 resulting in additional stock-based compensation of $39,419.
(3) A total of 1,970,000 options are subject to disinterested shareholder approval, in order to be repriced to $0.10 per share. The Company will seek such disinterested shareholder approval at its next annual general meeting scheduled for September 29, 2009.

(Expressed in Canadian Dollars)

Liquidity:

The Company's cash position declined from the opening level of $510,362 at the beginning of the year to the period-end level of $83,720.

On June 22, 2009, the Company issued 2,525,000 units at $0.20 per unit for gross proceeds of $505,000 under a non-brokered private placement. Each unit consisted of one common share and one half of one non-transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share for 24 months from the date of closing at a price of $0.30 per common share. The Company incurred cash share issuance costs of $12,174 on the private placement. As at April 30, 2009, the Company had received share subscriptions of $485,000 toward this private placement.

Additional funding was received during the quarter from the exercise of 1,550,000 warrants whereby the Company issued 1,550,000 shares for cash proceeds of $310,000.

The operating loss for the quarter of $961,917, after adjustments for non-cash items and changes in other working capital balances, required total cash funding of $744,468.

To summarize, the funds on hand at the beginning of the year of $510,362, supplemented by the net cash proceeds from financing activities aggregating $317,826 were used to fund the cash requirements in the period of $744,468 such that at July 31, 2009, the Company held $83,720 in its accounts.

Commitments:

Pursuant to an agreement dated June 14, 2007, the Company was granted an option by Silverex S.A. de C.V. to acquire up to a 75% interest in the Santa Cruz property in Durango, Mexico. Under the terms of the agreement, to earn an undivided 50% interest, the Company will issue 500,000 common shares and pay US $800,000 to Silverex upon the TSX Venture Exchange (the "Exchange") acceptance of the agreement. After one year from the date of acceptance (November 1, 2007), based on the success of the exploration, the Company may issue an additional 500,000 common shares and pay an additional US $800,000. After the second anniversary, the Company may make an additional cash payment to bring the total value of cash payments and share issuances to US $4,000,000. In addition, the Company is required to incur a minimum of US $500,000 of expenditures on the property in each year from the acceptance date for a total period of four years. At any time during this initial four-year program period, the Company has the option to earn an additional undivided 25% interest, having met the above share issue and cash payment requirements, by issuing additional common shares having a deemed value of US $1,000,000 and pay an additional US $3,000,000. Upon earning an undivided 75% interest, Orex and Silverex will participate on a joint venture basis in further exploration and development of the Santa Cruz Property.

As reported under the terms of the option agreement with Silverex, the phasing of exploration expenditures for the Santa Cruz property is as follows:

| | | (US$) |
|---|---|---|
| November 1, 2008 | $ | 500,000 |
| November 1, 2009 | | 500,000 |
| November 1, 2010 | | 500,000 |
| November 1, 2011 | | 500,000 |
| | $ | 2,000,000 |

Commitments (continued):

The Company has incurred exploration expenditures on the Santa Cruz property totaling $3,804,237 to July 31, 2009 and consequently, has met all of the exploration expenditure requirements of the option agreement.

To date, the Company has issued 1,000,000 shares, valued at $270,000, and paid $1,318,700 (US $1,250,000), to Silverex. The Company has also paid $506,750 (US $500,000) for refurbishment of the existing mill on the property so that a small-scale mining operation can commence. The Company did not complete the required payments under the option agreement and was required to make an additional US$350,000 payment prior to November 1, 2008. During fiscal 2010, Silverex and the Company entered into negotiations to amend the agreement and the Company continues to maintain an interest in the property.

CORPORATE SUMMARY:

On July 16, 2009, the Company announced that it had signed a letter of intent to acquire a second property representing 100% of the core claims in the Coneto silver-gold camp in Durango, Mexico. New work on this property, when the acquisition is completed will also warrant additional funding. The terms of the Coneto acquisition call for the issuance of 11,000,000 common shares of the Company in exchange for the 100% interest.

Currently, the Company does not have adequate funds on hand to sustain its corporate operations and to fund new exploration work on its properties. Management believes that the Company will require substantial funding to undertake new exploration work in fiscal 2010 and is planning to raise additional capital in the near future by means of a private placement.

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 pending agreement to purchase 100% of the core mineral concessions within the Coneto silver-gold mining camp. Furthermore, there have been numerous public financings recently 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 capital needed, 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.

Related Party Transactions:

During the three months ended July 31, 2009, the Company entered into the following transactions with related parties:

(a) Paid or accrued management fees of $42,100 (2009 - $42,600) to companies controlled by officers of the Company.

(b) Paid or accrued rent of $24,390 (2009 - $18,390) to a company with common directors.

(c) Paid or accrued fees of $15,000 (2009 - $2,545) to companies controlled by directors. These amounts were included in exploration expenditures.

These 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 April 2009, the Company retained the services of a firm to provide investor relations services to the Company. The agreement with A.J.F. Consultants Ltd. is subject to termination with 30 days notice.

Adoption of New Accounting Standards and Developments:

Effective May 1, 2009, the Company adopted the following standard of the CICA Handbook.

*Goodwill and Intangible Assets*

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior period financial statements will be required. The Company does not expect these changes to have an impact on its consolidated financial statements.

Future Accounting Pronouncements:

(a) International financial reporting standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of May 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 30, 2011. The Company continues its assessment of the impact of adopting IFRS and has not yet determined its effect on its financial statements. The Company's staff members have completed coursework focused on the application of IFRS requirements related to the mining industry, and are currently completing the Company's detailed assessment of its accounts. As previously reported, management's assessment to date indicates that there will be revisions to 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, in particular related to the mining industry, are evolving in advance of the transition date, and such changes may alter this preliminary assessment.

(b) Business combinations

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

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

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

Financial Instruments:

(a) Fair value of financial instruments

The Company has various financial instruments including cash, receivables, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to the near-term maturity of these financial instruments.

(b) Concentrations of business risk

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

As the Company operates in an international environment, some of the Company's transactions are denominated in currencies other than the Canadian dollar. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations.

(c) Credit risk

The Company is exposed to credit risk only with respect to uncertainties as to timing and amount of collectability of receivables. The Company believes its credit risk is low because its receivables are primarily comprised of input value-added tax (IVA) and goods and services tax (GST), which are recoverable from the governing body in Mexico and Canada respectively. As the Company's exploration operations are conducted solely in Mexico, the Company's operations are also subject to the economic risk associated with that country.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities are due within the current operating period.

(e) Foreign exchange risk

A significant portion of the Company's operational transactions are originally or effectively denominated in US dollars. As well, because the Company's primary operations are in Mexico, some costs are denominated in Mexican pesos. Accordingly, the results of Company's operations and comprehensive loss as stated in Canadian dollars will be impacted by exchange rate fluctuations. The Company does not hedge its exposures to movements in the exchange rates at this time.

The Company's exposure to foreign currency risk is on its cash, receivables and accounts payable and accrued liabilities. At July 31, 2009, a hypothetical change of 10% in the foreign exchange rate between the Canadian dollar and US dollar would have a $42,000 effect on loss and comprehensive loss while a hypothetical change of 10% in the foreign exchange rate between the Canadian dollar and the Mexican Peso would have a $6,500 effect.

Financial Instruments (continued):

(f) Interest rate risk

The Company has interest rate risk arising from its bank deposits. The Company does not engage in any hedging activity to reduce its exposure to interest rate risk. Based on bank deposit balances at July 31, 2009, a hypothetical change of 1% in the interest rate for the upcoming quarter would have a negligible effect on net loss and comprehensive loss.

(g) Price risk

Mineral prices, in particular gold and silver, are volatile, and have fluctuated 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.

Subsequent Events:

None.

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.