ORVANA

MINERALS CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

UNAUDITED

(EXPRESSED IN UNITED STATES DOLLARS)

ORVANA MINERALS CORP.
Condensed Interim Consolidated Balance Sheets
Unaudited
(In thousands of United States dollars)

	As at December 31, 2012	As at September 30, 2012
Assets		
Current assets		
Cash and cash equivalents (note 3)	$ 11,988	$ 13,200
Restricted cash (note 4)	14,338	16,783
Concentrate and dore sales receivable (note 5)	9,235	10,052
Value added taxes and other receivables and prepaid expenses	15,201	13,035
Inventory (note 6)	22,005	16,404
	72,767	69,474
Long term value-added taxes and other receivables	7,649	7,554
Long-term restricted cash (note 4)	1,616	1,616
Reclamation bonds (note 4)	9,844	9,647
Property, plant and equipment (note 7)	198,401	197,843
	$ 290,277	$ 286,134
Liabilities		
Current liabilities		
Bank debt (note 9)	$ 9,856	$ 7,581
Accounts payable and accrued liabilities (note 8)	31,646	34,873
Income taxes payable (note 21)	6,943	5,244
Short-term debt (note 10)	5,826	4,171
Current portion of long-term debt (note 10)	12,023	11,917
Current portion of obligations under finance leases (note 11)	1,228	1,486
Current portion of financial instruments (note 13)	6,500	9,482
	74,022	74,754
Long-term debt (note 10)	42,677	44,706
Obligations under finance leases (note 11)	339	558
Decommissioning liabilities (note 12)	7,936	7,851
Financial instruments (note 13)	13,529	23,847
Provision for statutory labour obligations (note 14)	2,795	2,832
Deferred income tax liability	8,890	5,432
Long-term compensation (note17(b))	370	173
Long-term warrants (note 15 (c))	158	167
	150,716	160,320
Shareholders' equity		
Share capital (note 15)	116,148	116,148
Contributed surplus	3,049	2,953
Retained earnings	20,364	6,713
	139,561	125,814
	$ 290,277	$ 286,134

Commitments and contingencies (note 23)

The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.

ORVANA MINERALS CORP.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
Unaudited
(In thousands of United States dollars except per share amounts)

For the three months ended December 31,		**2012**		**2011**
Revenue	$	34,028	$	15,373
Cost of sales				
Mining costs (note 18)		18,623		12,582
Depreciation and amortization		4,019		2,437
		22,642		15,019
Gross margin		11,386		354
Expenses				
General and administrative (note 19)		3,131		1,920
Exploration		7		123
Community relations		119		87
Other (income) expense		(166)		85
Finance costs (note 20)		1,213		1,039
Expenses before financial instrument loss		4,304		3,254
Financial instrument (gain) loss (note 13)		(11,748)		1,956
Income (loss) before income taxes		18,830		(4,856)
Provision for income taxes				
Current income taxes (note 21)		1,726		201
Deferred income taxes (recovery) (note 21)		3,453		(552)
		5,179		(351)
Net income (loss) and comprehensive income (loss)	$	13,651	$	(4,505)
Earnings (loss) per share (note 22)				
Basic	$	0.10	$	(0.03)
Diluted	$	0.10	$	(0.03)

The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.

ORVANA MINERALS CORP.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited

(In thousands of United States dollars)

		Share Capital		Contributed Surplus		Retained Earnings		Total
Balance, September 30 2011	$	115,930	$	2,466	$	9,866	$	128,262
Exercise of stock options		218		(71)		-		147
Stock-based compensation		-		163		-		163
Net loss		-		-		(4,505)		(4,505)
Balance December 31, 2011	$	116,148	$	2,558	$	5,361	$	124,067

		Share Capital		Contributed Surplus		Retained Earnings		Total
Balance, September 30, 2012	$	116,148	$	2,953	$	6,713	$	125,814
Stock-based compensation		-		96		-		96
Net income		-				13,651		13,651
Balance December 31, 2012	$	116,148	$	3,049	$	20,364	$	139,561

The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.

ORVANA MINERALS CORP.

Condensed Interim Consolidated Statements of Cash Flows
Unaudited
(In thousands of United States dollars)

Three months ended December 31,		2012		2011
Operating activities				
Net income (loss)	$	13,651	$	(4,505)
Depreciation and amortization		4,077		2,468
Loss on disposal of assets		12		-
Accretion		85		80
Amortization of deferred financing fees		170		271
Amortization of government grant		(95)		-
Stock-based compensation		96		163
Warrants		(9)		-
Long-term compensation		270		(240)
Deferred income taxes (recovery)		3,453		(552)
Provision for statutory labour obligations		(37)		32
Foreign exchange		(184)		490
Financial instrument unrealized (gain) loss (note 13)		(13,300)		1,787
		8,189		(6)
Changes in non-cash working capital				
Concentrate and dore sales receivable		817		2,033
Value added taxes receivable and prepaids		(2,166)		2,631
Inventory		(4,165)		(6,236)
Accounts payable and accrued liabilities		(4,323)		6,758
Income taxes payable		1,699		110
Cash provided by in operating activities		51		5,290
Financing activities				
Increase in bank debt		2,275		4,556
Proceeds from short-term debt (note 10)		2,000		-
Repayment of short and long-term debt (note 10)		(3,266)		(227)
Repayment of finance leases		(518)		(480)
Exercise of stock options		-		147
Cash provided by financing activities		491		3,996
Investing activities				
Capital expenditures		(4,229)		(7,694)
Restricted cash		2,445		-
Cash used in investing activities		(1,784)		(7,694)
Change in cash		(1,242)		1,592
Cash, beginning of the period		13,200		12,244
Effect of exchange rate change on cash held in foreign currencies		30		(73)
Cash, end of period	$	11,988	$	13,763
Income taxes paid	$	-	$	35
Interest paid	$	681	$	268

Amounts paid for interest and income taxes are included in cash flows from operating activities in the condensed interim consolidated statement of cash flows.

The notes to the condensed interim consolidated financial statements are an integral part of these financial statements.

1. Nature of operations and corporate information

Orvana Minerals Corp. (the "Company" or "Orvana") is a Canadian mining and exploration company involved in the evaluation, development and mining of precious and base metal deposits. The Company owns and operates the El Valle-Boinás/Carlés Mine (the “EVBC Mine") in Spain, which is held indirectly through its wholly-owned subsidiary Kinbauri España S.L.U. ("Kinbauri") and the Don Mario Upper Mineralized Zone Mine (the “UMZ Mine”) in eastern Bolivia which is held indirectly through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("EMIPA"). In addition, the Company holds mineral leases in the state of Michigan, USA, referred to as the Copperwood Project which is held indirectly through its wholly-owned subsidiary, Orvana Resources US Corp. ("Orvana Resources").

The Company is controlled by Fabulosa Mines Limited (“Fabulosa”) which holds 51.9% of the Company’s common shares. The Company’s ultimate controlling party is the Oslo Trust, which controls Fabulosa.

The Company’s principal place of business is 181 University Avenue, Suite 1901, Toronto, Ontario, Canada. The Company is incorporated under the laws of Ontario, Canada and its common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol TSX:ORV.

2. Basis of preparation

The Company has prepared its unaudited condensed interim consolidated financial statements in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”), which do not include all of the information required for full annual consolidated financial statements. Accordingly certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), have been omitted or condensed and these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended September 30, 2012.

The accounting policies applied in preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended September 30, 2012.

The preparation of these unaudited condensed interim consolidated financial statements requires the use of certain significant accounting estimates and judgments by management in applying the Company’s accounting policies. The areas involving significant judgments and estimates have been set out in Note 4 of the Company’s audited consolidated financial statements for the year ended September 30, 2012.

The condensed interim consolidated interim financial statements of Orvana have been prepared in compliance with IFRS and were approved by the Board of Directors of the Company upon recommendation of the Audit Committee on February 7, 2013.

3. Cash and cash equivalents

Cash and cash equivalents at December 31, 2012 were $11,988 (September 30, 2012 - $13,200). The terms of a loan agreement (the “EVBC Loan”) with a third-party lender (the “EVBC Lender”) require the deposit of certain cash generated from operating activities of Kinbauri into restricted cash accounts and restricts the distribution of cash outside of Kinbauri in certain circumstances. Refer to note 4 – Restricted Cash.

(In thousands of United States Dollars unless otherwise noted)

4. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at December 31, 2012 was $14,338 (September 30, 2012 – $16,783), and included restricted cash on deposit with the EVBC Lender for approximately $7,708 (September 30, 2012 - $8,806) for a debt service reserve for future principal and interest loan payments, a potential future reclamation bond payment of €5,000,000 or approximately $6,598 (September 30, 2012 - $6,465) and a reserve for future royalty payments of $32 (September 30, 2012 - $884).

Long-term restricted cash represents approximately $1,616 (September 30, 2012 - $1,616) on deposit with a local bank in favour of the Bolivian government pending the appeal of a value added taxes ("VAT") audit. The VAT audit relates to an audit by the Bolivia National Tax Service, for which EMIPA filed a tax lawsuit in January 2011 before the Bolivian Supreme Court. As of the date of these statements, the matter remains unresolved.

Reclamation bonds

At December 31, 2012 cash backing these reclamation bonds held in a Spanish financial institution is $9,844 (September 30, 2012 - $9,647) and is expected to be released after all reclamation work has been completed. Prior to its acquisition by Kinbauri, the EVBC Mine had been shut down by its then owner and remediation measures required were completed. On Kinbauri's acquisition of the EVBC Mine a reclamation bond of €894,684 was deposited, as required by Spanish mining regulations. In fiscal 2010 and 2011, additional reclamation bonds in the amounts of €1,521,960 and €5,000,000, respectively were deposited by Kinbauri relating to its new tailings facility, with an additional €5,000,000 which may have to be deposited by Kinbauri and which is available for this purpose under restricted cash.

5. Concentrate and dore sales receivables

		December 31, 2012		September 30, 2012
Concentrate and dore sales receivables	$	9,235	$	10,052
	$	9,235	$	10,052

6. Inventory

		December 31, 2012		September 30, 2012
Ore in stockpiles	$	1,787	$	2,151
In-process		8		37
Gold dore		2,418		145
Concentrate		6,115		2,657
Materials and supplies		11,677		11,414
	$	22,005	$	16,404

(In thousands of United States Dollars unless otherwise noted)

7. Property, plant and equipment

	Land	Plant and equipment	Furniture and equipment	Equipment under finance lease	Mineral properties in production	Mineral properties in exploration and evaluation	Total
Net book value, September 30, 2012	$3,629	$68,728	$1,608	$7,021	$100,432	$16,425	$197,843
Additions	-	1,424	33	-	3,280	1,070	5,807
Capitalized finance fees	-	-	-	-	276	-	276
Disposals	-	(12)	-	-	-	-	(12)
Depreciation	-	(2,297)	(58)	(215)	(2,943)	-	(5,513)
Net book value December 31, 2012	$3,629	$67,843	$1,583	$6,806	$101,045	$17,495	$198,401
Total cost	$3,629	$113,361	$2,041	$8,515	$114,246	$17,495	$259,287
Total accumulated depreciation	-	(45,518)	(458)	(1,709)	(13,201)	-	(60,886)
Net book value, December 31, 2012	$3,629	$67,843	$1,583	$6,806	$101,045	$17,495	$198,401

(1) Depreciation includes amounts allocated to inventory and capitalized to mineral properties.

8. Accounts payable and accrued liabilities

		December 31, 2012		September 30, 2012
Accounts payable	$	18,734	$	23,591
Provision for debenture conversion (note 23)		3,105		3,132
Accrued liabilities		9,807		8,150
	$	31,646	$	34,873

9. Bank debt

EMIPA has short-term credit facilities with certain Bolivian banks for up to approximately $10,000 payable in 60-180 days from the date of advance with annual interest rates ranging from 6.25% to 7.50%. Certain of EMIPA's assets are pledged as security against these loans. As at December 31, 2012, approximately $9,856 (September 30, 2012 - $7,581) was drawn under these facilities.

In addition, at December 31, 2012, EMIPA provided bank guarantees to a Bolivian bank amounting to approximately $633 (September 30, 2012 - $633), related to refunded amounts of VAT and natural gas and chemical purchases. The bank guarantees on the VAT credit notes expire after 120 days and are pending the final approval and audit of these credit notes by the Bolivian government. EMIPA also has provided guarantees for the purchase of natural gas from government suppliers that are for one year and are renewed annually and would only be enforceable by the government suppliers if EMIPA failed to pay the invoices related to these purchases.

10. Short-term and Long-term debt

Short-term debt

The Company has a secured loan facility (the "Fabulosa Loan") with Fabulosa Mines Limited, the Company's 51.9% shareholder, in the amount of $11,500. The Company is using proceeds drawn under the Fabulosa Loan for working capital purposes. Interest on the outstanding principal is calculated at a rate per annum of 12% and is payable monthly and the Company pays withholding taxes imposed by Canadian taxing authorities. During the first quarter of fiscal 2013, the repayment terms were amended and principal amounts outstanding under the Fabulosa Loan are required to be repaid in the minimum amount of $1,000 per month commencing on June 1, 2013. The Fabulosa Loan also contains covenants that, among other things, require principal repayment in the event of the sale of all or substantially all of EMIPA's assets. The Fabulosa Loan is available for draw down until June 30, 2013 and matures on December 31, 2013.

In the event that, prior to March 1, 2013, Fabulosa requests that Orvana add an additional Orvana director nominated by Fabulosa and Orvana does not do so within ten business days, the Fabulosa Loan will convert to a demand loan. The Fabulosa Loan is secured by, among other things, a general security assignment over present and future assets of Orvana excluding all amounts owing by Kinbauri to the Company. Concurrently, the Company entered into an agreement with Fabulosa pursuant to which, for so long as it owns at least 10% of the outstanding Common Shares, Fabulosa has the right to designate, at any shareholders' meeting at which directors are to be elected, that number of management's nominees for election as directors of the Company that is the same proportion as its ownership interest is of the Common Shares.

Long-term debt

In October 2010, Kinbauri entered into the $50,000 five-year term EVBC Loan. The funds were primarily used to complete the construction of the EVBC Mine. In February 2012, the EVBC Loan was extended by one year to September 30, 2016 and increased by $13,844 including $6,500 (€5,000,000) to fund an environmental bond which may be required to be posted with governmental authorities in Spain, $3,000 to fund a debt service reserve account to cover one quarter-year's debt service charges and the balance for general corporate purposes. To the extent that the environmental bond is less than $6,500, these funds may be used for general corporate purposes.

The EVBC Loan contains covenants that restrict, among other things, Orvana's ability to incur additional indebtedness and make distributions in certain circumstances, to sell material assets or to carry on business other than one related to the mining business. During the first quarter of fiscal 2013, the Company obtained a waiver in respect of compliance with a specific reporting requirement until February 28, 2013. The Company is currently negotiating certain amendments to the EVBC Loan. As at December 31, 2012, the Company was otherwise in compliance with all covenants.

The EVBC Loan required gold, copper and Euro/US dollar financial instruments which have already been put in place. Refer to note 13 - Financial Instruments. Orvana is required to maintain certain financial ratios, which calculations exclude the unrealized adjustments resulting from the mark-to-market of the metals and currency financial instruments required under the terms thereof. The security for the EVBC Loan includes a fixed and floating charge over the assets of Kinbauri and a pledge by Orvana of all of the shares of Kinbauri. Kinbauri's obligations under the EVBC Loan are guaranteed by Orvana. The interest on the EVBC Loan is Libor plus 4% per annum and management expects the cost of the EVBC Loan, including fees but excluding the costs associated with the required financial instruments, to average approximately 5% to 6% per annum, based on current interest rates.

(In thousands of United States Dollars unless otherwise noted)

The balance outstanding at December 31, 2012 was $57,672 (September 30, 2012 - $60,438). Subsequent to the end of the period on January 3, 2013, the Company repaid $5,331 in principal and interest under the EVBC Loan from the amount included in restricted cash at December 31, 2012 and reduced the principal balance to $52,990. The total annual principal repayment required in each fiscal year ending September 30, expressed as a percentage of the total amount of the EVBC Loan are: 2013 - 18.7%; 2014 - 23.3%; 2015 - 27.6%; and 2016 - 25.1%.

Minimum long-term debt repayments are as follows:

Long-term debt repayments at:	**December 31, 2012**	**September 30, 2012**
2013	$ 9,151	$ 11,917
2014	14,843	14,843
2015	17,637	17,637
2016	16,041	16,041
	57,672	60,438
Less: current portion	(12,023)	(11,917)
Total – long-term debt	45,649	48,521
Financing fees	(2,972)	(3,815)
Total	$ 42,677	$ 44,706

11. Obligations under finance leases

During fiscal 2010 and fiscal 2011, the Company entered into leases with three-year terms to purchase certain mining equipment at a total cost of approximately $8,515 including deposits of $2,255 paid at the time of purchase. The leases are repayable in quarterly instalments at annual interest rates of 5.5% to 6.6%. At December 31, 2012, the obligation outstanding was $1,567 (September 30, 2012 - $2,044). During the three months ended December 31, 2012, the Company made lease payments of approximately $542 (December 31, 2011 - $654). Each lease contract contains a bargain purchase option of €10 per contract.

The following is a schedule of future minimum lease payments under these finance leases which expire in June 2014:

		December 31, 2012	**September 30, 2012**
Fiscal	2013	$ 1,040	$ 1,550
	2014	576	565
		1,616	2,115
Amount representing interest at 5.95%		(49)	(71)
		1,567	2,044
Less: current portion		(1,228)	(1,486)
		$ 339	$ 558

The equipment under finance leases is being amortized over the estimated useful life of the assets.

(In thousands of United States Dollars unless otherwise noted)

12. Decommissioning liabilities

Decommissioning liabilities relate to the dismantling of the mine facilities and environmental reclamation of the areas affected by mining operations. Mine facilities include structures and the tailings dam. Environmental reclamation requirements include mine water treatment, reforestation and dealing with soil contamination. It is possible that the Company's estimates of the ultimate amounts required to decommission its mines could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, cost estimates or the estimated remaining ore reserves.

The following table summarizes the changes in decommissioning liabilities during the periods presented:

		As at December 31, 2012		As at September 30, 2012
Balance, beginning of period	$	7,851	$	7,900
Revision in estimated cash flows, timing of payments and discount rates				
– EVBC Mine		-		(1,383)
– UMZ Mine		-		730
		7,851		7,247
Accretion expense		85		604
	$	7,936	$	7,851

For the EVBC Mine, revisions in estimated cash flows at September 30, 2012, includes the impact of the change in discount rate, the delay of the timing of the payments in line with the longer mine life and the impact of the foreign exchange rate of Euros versus the US dollar.

For the UMZ Mine, revisions in estimated cash flows at September 30, 2012, includes the impact of the change in discount rate and additional expected remediation costs related to the expansion of the tailings dam.

Balance consists of:		As at December 31, 2012		As at September 30, 2012
EVBC Mine	$	3,745	$	3,691
UMZ Mine		4,191		4,160
	$	7,936	$	7,851

(In thousands of United States Dollars unless otherwise noted)

At December 31, 2012		Undiscounted Cash Flows Required to Settle Decommissioning Liabilities	Discount Rate		Discounted Cash Flows Required to Settle Decommissioning Liabilities
EVBC Mine (1)	$	5,918	5.7%	$	3,745
UMZ Mine		5,556	2.8%		4,191
Total	$	11,474		$	7,936

(1) Accretion expense is recorded using the discount interest rates set out above. It is expected that these amounts will be incurred in 2019 through 2022 in respect of the UMZ Mine and the EVBC Mine, respectively.

Cash held in a Spanish financial institution backing reclamation bonds totaled approximately $9,844 at December 31, 2012 (September 30, 2012 - $9,647) and is expected to be released after all reclamation work has been completed (refer to note 4).

13. Financial instruments

Pursuant to the terms of the EVBC Loan, the Company entered into a number of gold, copper, and Euro/US dollar forward contracts (economic hedges) relating to a portion of the expected gold and copper production from the EVBC Mine and relating to operating costs of Kinbauri incurred in Euros, while revenue is earned in US dollars.

In connection with the increase in the EVBC Loan, the Company entered into additional financial instruments in respect of 1,400 ounces of gold per month from January 2012 to September 2015. The economic hedge is in the form of a collar with puts at US$1,550.00 per ounce and calls at US$1,855.00 per ounce. The Company has the right but not the obligation to sell gold under the hedge at US$1,550.00 per ounce. At prices over US$1,855.00 per ounce, the Company will be required to sell the gold under the hedge at US$1,855.00 per ounce.

In addition, on February 15, 2012 the Company entered into additional gold collar hedges in connection with an increase in the EVBC Loan of 200 ounces of gold per month from July 2012 to September 2015 with puts at $1,550.00 per ounce and calls at $1,855.00 per ounce and 1,600 ounces per month from October 2015 to September 2016, with puts at US$1,250.00 per ounce and calls at US$2,270.00 per ounce.

Changes in the fair value of financial instruments are recognized through earnings. The mark-to-market fair value of all contracts is based on independently provided market rates and determined using standard valuation techniques, including the impact of counterparty risk.

For the three months ended December 31, 2012 the gain resulting from the settlement of financial instruments that matured during the first quarter of fiscal 2013 and mark-to-market fair valuation of these contracts was $13,300 (a loss at December 31, 2011 - $1,787) and related deferred income tax expense was $3,990 (recovery at December 31, 2011 - $536).

The Company realized losses for the cash settlement of contracts that matured during the three months ended December 31, 2012 of $1,552 (December 31, 2011 – $169) and related deferred income tax recovery of $466 (December 31, 2011 - $51).

For the periods ended:		December 31, 2012		December 31, 2011
Change in unrealized fair value during the period (gain) loss	$	(13,300)	$	1,787
Realized loss on cash settlements of financial instruments		1,552		169
Financial instrument (gain) loss	$	(11,748)	$	1,956

Financial instruments included in the balance sheet are comprised of:

As at December 31, 2012:	Contract Rate/Price	Avg. Forward Rate/Price	Fair Value Asset (liability)
Fair value of currency contracts – US/Euro	$1.38	$1.33	$(2,616)
Fair value of copper forwards per tonne	$7,260.00	$7,974.00	(6,427)
Fair value of gold forwards per ounce	$1,333.70	$1,691.00	(10,038)
Fair value of gold collars	-	-	(948)
Total fair value of financial instruments at December 31, 2012			$(20,029)
Less: current portion			6,500
Total non-current financial instruments			$(13,529)

The following table summarizes the gold, copper and foreign exchange forward contracts:

	As at December 31, 2012	As at September 30, 2012
Gold forwards:		
Ounces	28,125.00	30,468.75
Price per ounce	$1,333.70	$1,333.70
Copper forwards:		
Tonnes	9,035.00	9,825.75
Price per tonne	7,260.00	7,260.00
Price per pound	$3.29	$3.29
US dollar/Euro forwards:		
Amount in US ($ 000's)	60,000	65,000
Contracted Average Euro/US dollar exchange rate	$1.38	$1.38

(In thousands of United States Dollars unless otherwise noted)

The following table summarizes the gold puts and call contracts outstanding:

	As at December 31, 2012	As at September 30, 2012
Gold puts (January 2013 to September 2015):		
Ounces	52,800	57,600
Price per ounce	$1,550.00	$1,550.00
Gold calls (January 2013 to September 2015):		
Ounces	52,800	57,600
Price per ounce	$1,855.00	$1,855.00
Gold puts (October 2015 to September 2016):		
Ounces	19,200	19,200
Price per ounce	$1,250.00	$1,250.00
Gold calls (October 2015 to September 2016):		
Ounces	19,200	19,200
Price per ounce	$2,270.00	$2,2750.00

14. Statutory labour obligations

Under Bolivian law, EMIPA has an obligation to make payments to employees in the amount of one month's wages for each year of service. The employee can elect to receive payment after five years of service in the amount of five months of wages while continuing employment with EMIPA. At December 31, 2012, the obligation outstanding for these payments was $2,795 (September 30, 2012 - $2,832). In accordance with IFRS, this obligation was fair valued using an actuarial valuation to determine the present value of the future payments on this obligation, taking into consideration employee turnover, historical record of employees cashing out, salary increases and the local inflation rate projected at 5%. These amounts were discounted at 4% to the present valued based on the mine life of the UMZ Mine.

15. Share capital

(a) Authorized - unlimited number of common shares.

(b) Common shares issued:

	Number of common shares		Stated Value
Balance, September 30, 2011	136,323,171	$	115,930
Exercise of stock options	250,000		147
Fair value assigned to exercise of stock options	-		71
Balance, September 30, 2012 and December 31, 2012	136,573,171	$	116,148

(c) Warrants

The Company issued to Fabulosa five-year warrants to purchase up to 2,725,000 common shares. The warrants will be exercisable only upon the issuance of, and in numbers equal to the number of common shares issuable upon the exercise of any of Orvana's outstanding stock options as of May 16, 2011. On September 6, 2011 the Company issued the first tranche of 1,300,000 warrants with an exercise price of C$1.90 with the second tranche of 1,425,000 warrants issued on March 5, 2012 with an exercise price of C$0.97. At December 31, 2012, 400,000 warrants were exercisable as a result of 400,000 stock options being exercised during fiscal 2012 from the options outstanding as of May 16, 2011. The warrants have a Canadian dollar exercise price which differs from the Company's functional currency. As a result, these warrants are treated as a liability and measured at fair value with changes in fair value recognized through earnings. The liability for these warrants are valued using the Black-Scholes model and was $158 at December 31, 2012 (September 30, 2012 – $167).

(In thousands of United States Dollars unless otherwise noted)

16. Compensation of key management

Key management includes directors (executive and non-executive) and senior management of the Company and its affiliates. The compensation paid or payable to key management and directors for services is shown below:

Three months ended		December 31, 2012		December 31, 2011
Salaries and short term employee benefits	$	467	$	506
Share-based payments[1]		366		(78)
Termination benefits[2]		-		320
Total compensation of key management	$	833	$	748

(1) Share-based payments include the mark-to-market adjustments on RSUs and DSUs.

(2) Termination benefits include contractual severance payments for the Company's former CEO who ceased to be an employee of the Company on December 5, 2011.

17. Share based payments

(a) Stock options

A summary of the stock option transactions is as follows:

	Stock options	Weighted Average Exercise Price C$
Balance, September 30, 2011	2,575,000	$1.97
Granted	1,641,667	0.93
Exercised	(250,000)	0.60
Expired	(25,000)	0.69
Forfeited	(489,998)	1.50
Balance, September 30, 2012	3,451,669	$1.66
Granted	100,000	$0.93
Expired	(738,334)	1.19
Forfeited	(66,666)	0.86
Balance, December 31, 2012	2,746,669	$1.75

Stock options have been expensed as follows:

	Cumulative expense to December 31, 2012	Remainder to be expensed	Total Stock-based compensation
Stock-based compensation expense	$ 3,743	$ 161	$ 3,904

As at December 31, 2012, outstanding and exercisable stock options were as follows:

Grant Date	Fair value US$000's	Number of unvested options	Weighted average contractual life (in years)	Number of vested options	Exercise price C$	Expiry date
March 3, 2008	$ 22	-	0.18	50,000	$ 0.75	March 3, 2013
March 5, 2009	40	-	0.18	150,000	0.64	March 4, 2014
October 23, 2009	65	-	1.81	150,000	0.88	October 23, 2014
February 26, 2010	61	-	2.16	125,000	1.01	February 26, 2015
May 17, 2010	12	-	2.38	20,000	1.31	May 17, 2015
August 13, 2010	56	-	0.59	66,667	1.57	August 3, 2013
December 10, 2010	1,275	-	2.94	743,334	3.65	December 10, 2015
April 1, 2011	163	33,333	3.25	66,667	3.01	April 1, 2016
December 20, 2011	284	187,500	3.97	354,167	1.03	December 20, 2016
March 28, 2012	129	166,668	4.24	124,999	0.88	March 28, 2017
June 1, 2012	157	233,331	4.42	116,669	0.86	June 1, 2017
August 30, 2012	11	16,666	4.67	8,334	0.92	August 30, 2017
September 1, 2012	16	-	1.00	33,334	0.86	September 1, 2017
October 2, 2012	46	33,334	4.76	66,666	0.93	October 2, 2017
	$ 2,337	670,832	3.18	2,075,837		
Total vested and unvested stock options				2,746,669		

The Company uses the fair value method of accounting for stock options and, during the three months ended December 31, 2012, recognized stock-based compensation expense of $96 (December 31, 2011 - $163).

The fair value of the options granted during the three months ended December 31, 2012 was estimated using the Black-Scholes model with the following assumptions:

Grant date:	October 2, 2012
Options granted:	100,000
Exercise price (C$ per share)	$0.93
Risk-free interest rate:	1.22%
Expected life in years:	5.00
Expected volatility:	59.4%
Expected dividend yield:	Nil
Expected forfeiture rate:	10%
Fair value per option granted C$:	$0.45
Weighted average grant date fair value US$000's:	$46

The compensation expense associated with the stock options for the three months ended December 31, 2012 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (2012 - 10%).

(In thousands of United States Dollars unless otherwise noted)

The weighted-average grant date fair value of the options granted is expensed over the vesting periods of the option being 24 months from the grant dates.

As at December 31, 2012, the fair value associated with unvested options is $419 (December 31, 2011 - $804).

(b) Long-term compensation

(i) DSU plan

The Company established a DSU plan, effectively a phantom stock plan, for directors, effective October 1, 2008. The initial fair value of units issued is expensed and is included in long-term compensation expense under general and administrative expenses in the consolidated statement of loss. The fair value of the DSUs are marked to the quoted market price of the Company's common shares at each reporting date and changes in their fair value are recorded under general and administrative expenses. Payouts are settled in cash within a specified period following a director's departure.

A summary of the DSUs transactions during the period are as follows:

	Number of DSUs		Fair Value
Balance, September 30, 2011	216,586	$	317
Issued	66,710		103
Redeemed	(56,897)		(50)
Gain on redemptions	-		(37)
Mark-to-market adjustment	-		(128)
Less: current portion	(130,807)		(118)
Balance, September 30, 2012	95,592	$	87
Issued	59,480		54
Mark-to-market adjustment	-		(9)
Less: current portion	(42,432)		(33)
Balance, December 31, 2012	112,640		99

(ii) RSU plan

The Company established a RSU plan, effectively a phantom stock plan, for designated executives, effective October 1, 2008, with awards made as determined by the Board of Directors of the Company. RSUs are settled in cash and are valued using the market value of the underlying common shares of the Company at the grant date. The fair value of the RSUs is marked to the quoted market price of the Company's common shares at each reporting date and changes in their fair value are recorded in long-term compensation expense under general and administrative expenses.

(In thousands of United States Dollars unless otherwise noted)

	Number of RSUs		Fair Value
Balance, September 30, 2011	476,372	$	733
Issued	200,984		324
Redeemed	(323,684)		(380)
Gain on redemptions	-		(109)
Forfeited	(43,627)		(67)
Mark-to-market adjustment	-		(220)
Less: current portion	(215,251)		(195)
Balance, September 30, 2012	94,794	$	86
Issued	314,485		284
Redeemed	(137,370)		(116)
Mark-to-market adjustment	-		(28)
Reversal of current portion	42,576		45
Balance, December 31, 2012	314,485		271

Balance, December 31, 2012 – Long-term compensation ((i) DSUs and (ii) RSUs)	$	370

18. Mining costs

Mining costs include mine production costs, transport costs, royalty expenses, site administration costs, applicable stripping costs and other related costs, but not the primary mine development costs, incurred at the EVBC Mine, which are capitalized and depreciated over the specific useful life or reserves related to that development. The mining costs for the three months ended December 31, 2012 relate to the EVBC and UMZ Mines. During the three months ended December 31, 2011 the mining costs related to the production from the EVBC Mine. The UMZ Mine was in commissioning during that period.

Three months ended December 31:		2012		2011
Direct mining costs	$	15,899	$	12,043
Royalties and mining rights		1,083		539
Mining royalty taxes		1,641		-
Total mining costs	$	18,623	$	12,582

19. General and administrative expenses

Three months ended December 31:		2012		2011
Salaries, directors fees and office administration and other	$	2,685	$	1,759
Depreciation		58		31
Stock-based compensation expense		96		163
Warrants		(9)		-
Long-term compensation		270		(240)
Foreign exchange		31		207
Total general and administrative expenses	$	3,131	$	1,920

(In thousands of United States Dollars unless otherwise noted)

20. Finance costs

Three months ended December 31:		2012		2011
Interest on credit facilities	$	780	$	548
Other interest (income) expense		178		140
Amortization of financing fees		170		271
Accretion		85		80
Total finance costs	$	1,213	$	1,039

21. Income tax

The Company estimates the effective tax rate, including the impact of changes in exchange rates for foreign currency, expected to be applicable for the full year and uses that rate to calculate the income tax expense for the interim reporting periods.

The effective income tax rate varies from the combined Canadian federal and provincial statutory income tax rate. The difference between the effective income tax rate and combined statutory rate is due to fluctuations in exchange rates for foreign currency, the non-recognition of losses and certain other items.

22. Earnings (Loss) per share

For the three months ended December 31:		2012		2011
Earnings (loss) per share				
Basic and diluted	$	0.10	$	(0.03)
Weighted average number of common shares outstanding – basic		136,573,171		136,369,367
Dilutive effect of stock options		44,337		374,025
Dilutive effect of warrants		-		-
Weighted average number of common shares outstanding – diluted		136,617,508		136,743,392

23. Commitments and contingent liabilities

(a) The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations may change and are generally becoming more restrictive. The Company records provisions for decommissioning liabilities based on management's estimate of such costs. These estimates are, however, subject to changes in laws and regulations.

(b) The Company is subject to certain risks, including currency fluctuations and possible political or economic instability, which may result in the impairment or loss of mineral concessions or other mineral rights. Any changes in laws or regulations in the jurisdictions in which the Company operates, or shifts in political attitudes are beyond the control of the Company and may adversely affect its business.

(c) On June 27, 2011, as a condition of obtaining an environmental permit on that date, the Government of the Principality of Asturias, required the Company to commit to post an additional reclamation bond in the amount of €10,000,000 (approximately $12,900). The Company deposited €5,000,000 (approximately $6,465) in September

2011 with a local bank in favour of the Spanish regulatory authorities and may have to deposit another instalment of €5,000,000 (approximately $6,465) which the Company is challenging based on technical considerations. The Company has such funds available as restricted cash in the event that it has to meet this potential obligation.

(d) Production from the EVBC Mine is subject to a 3% net smelter return royalty ("NSR"), referred to herein as the EVBC Royalty, payable quarterly. The EVBC Royalty rate decreases to 2.5% for any quarter in which the average price of gold is below $1,100 per ounce. In consideration for the EVBC Royalty, the royalty holder advanced C$7,500,000 in 2008 evidenced by a convertible debenture in the same principal amount. The debenture is settled through payments calculated in the same manner as the EVBC Royalty as sales are made.

As the rate of production from the EVBC Mine was less than a specified amount within the 2012 calendar year, the royalty holder exercised its conversion right under the debenture in respect of the outstanding principal amount of the debenture at December 31, 2012. The royalty holder converted the debenture resulting in the 'EVBC Debenture Conversion Amount" of $3,105 (accrued at September 30, 2012 at $3,132). The Company is financing the EVBC Debenture Conversion Amount at a rate of 12% over six equal installments commencing on January 31, 2013 and ending on June 30, 2013.

In addition, the aggregate amount paid as at December 31, 2012 under the EVBC Royalty was less than C$7,500,000 and as a result the royalty holder required a pre-payment of future EVBC Royalty payments. The prepayment amount is based on the C$7,500,000 less the royalty payments made to December 31, 2012. This pre-payment right is being financed until January 1, 2014 at a rate of 12%, with all royalty payments made between January 1, 2013 and December 31, 2013 serving to reduce such amount. To the extent that any pre-payment is due and paid on January 1, 2014, it will serve to reduce future royalty payments. Royalty expense under this NSR totaled $2,471 for fiscal 2012 and $440 for fiscal 2011.

(e) On November 22, 2011, the Company reported that an employee at the EVBC Mine was fatally injured when he was caught between two pieces of equipment at the EVBC Mine. The Company has cooperated fully with the authorities in their investigation of the accident. Currently, certain proceedings are ongoing to determine whether any standards have been breached that may give rise to criminal charges. In addition, the Company has been notified by the applicable mining regulatory authorities that, following the completion of the current proceedings, there will be an administrative investigation pursuant to which the Company may be fined. At this time, the Company cannot predict the outcome of any of these proceedings.

(f) Production from the UMZ Mine is subject to a 3% NSR royalty payable to a third party quarterly. Royalty expense under this NSR totaled $496 for the first quarter of fiscal 2013 (2012 – Nil). The Bolivian government collects a mining royalty tax on the revenue generated from copper, gold and silver sales from the UMZ Mine at rates of 5%, 7% and 6%, respectively. These amounts totaled $1,641 for the first quarter of fiscal 2013 (2012 – Nil).

(g) Minerals leases entered into by Orvana Resources are subject a 2% to 4% NSR royalty payable on copper production determined on quarterly on a sliding scale based on inflation-adjusted copper prices. The mineral leases may be terminated by Orvana Resources on 60 days' notice.

24. Related party - Fabulosa

Refer to Short term and Long-term debt note 10 and Share Capital note 15 (c) Warrants.

(In thousands of United States Dollars unless otherwise noted)

25. Segmented information

The Company primarily operates in the gold and copper mining industry and its major products are gold dore and gold and copper concentrates. Its activities include gold and copper concentrate production and exploration and development of gold and copper properties. The Company's primary mining operations are EMIPA in Bolivia, Kinbauri in Spain and the Copperwood project in the United States. The reported segments are those operations whose operating results are reviewed by the Chief Executive Officer and that pass certain quantitative measures. Operations whose revenue, earnings or losses or assets exceed 10% of the total consolidated revenues, earnings or losses, or assets are reportable segments. The Company has administrative offices in Toronto, Canada; Stockholm, Sweden; and Nicosia, Cyprus. The following tables set forth the information by segment:

As at December 31, 2012:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
EMIPA	$ 6,177	$ 32,494	$ 1,616	$ 30,392	$ 70,679
Kinbauri	4,596	145,813	24,182	23,191	197,782
Copperwood	51	19,591	-	16	19,658
Canada and other	1,164	503	-	491	2,158
	$ 11,988	$ 198,401	$ 25,798	$ 54,090	$ 290,277

As at September 30, 2012:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
EMIPA	$ 3,146	$ 32,659	$ 1,616	$ 30,410	$ 67,831
Kinbauri	3,952	146,102	26,430	16,281	192,765
Copperwood	75	18,521	-	-	18,596
Canada and other	6,027	561	-	354	6,942
	$ 13,200	$ 197,843	$ 28,046	$ 47,045	$ 286,134

For the three months ended December 31, 2012:

	Revenue	Mining costs(1)	Depreciation Amortization(2)	Derivative (gain) loss	Other (recoveries) costs	Income (loss) before taxes
EMIPA	$ 16,750	$ 8,892	$ 1,536	$ -	$ 259	$ 6,063
Kinbauri	17,278	9,731	2,483	(11,748)	792	16,020
Copperwood	-	-	-	-	183	(183)
Canada and other)	-	-	58	-	3,012	(3,070)
	$ 34,028	$ 18,623	$ 4,077	$ (11,748)	$ 4,246	$ 18,830

(1) Mining costs includes royalties, mining rights and mining taxes.

(2) Depreciation is included under General and Administrative expenses for non-operating companies.

(In thousands of United States Dollars unless otherwise noted)

For the three months ended December 31, 2011:

	Revenue	Mining costs[1]	Depreciation amortization	Derivative (gain) loss	Other (recoveries) costs	Income (loss) before taxes
EMIPA	$ -	$ 75	$ -	$ -	$ 437	$ (512)
Kinbauri	15,373	12,507	2,437	1,956	1,193	(2,720)
Copperwood	-	-	-	-	167	(167)
Canada and other[2]	-	-		-	1,457	(1,457)
	$ 15,373	$ 12,582	$ 2,437	$ 1,956	$ 3,254	$ (4,856)

(1) Mining costs includes royalties, mining rights and mining taxes.

26. Financial instruments and fair values

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table summarizes the fair value of financial assets and liabilities at December 31, 2012 and September 30, 2012:

	December 31, 2012		September 30, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	$11,988	$11,988	$13,200	$13,200
Restricted cash	14,338	14,338	16,783	16,783
Concentrate and dore sales receivables	9,235	9,235	10,052	10,052
Value added taxes, other receivables and prepaids	15,201	15,201	13,035	13,035
Long-term restricted cash	1,616	1,616	1,616	1,616
Total financial assets	$52,378	$52,378	$54,686	$54,686
Financial liabilities				
Bank debt	9,856	9,856	7,581	7,581
Accounts payable and accrued liabilities	31,646	31,646	34,873	34,873
Short term debt	5,826	5,826	4,171	4,171
Long-term debt	54,700	54,700	56,623	56,623
Obligations under finance leases	1,567	1,567	2,044	2,044
Derivatives instruments	20,029	20,029	33,329	33,329
Long-term compensation	370	370	173	173
Warrants	158	158	167	167
Total financial liabilities	$124,152	$124,152	$138,961	$138,961