# ORVANA MINERALS CORP.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# MARCH 31, 2011

# (UNAUDITED)

# (EXPRESSED IN UNITED STATES DOLLARS)

# ORVANA MINERALS CORP.

**Interim Consolidated Balance Sheets**
**(In thousands of United States dollars)**

| (Unaudited) | As at March 31 2011 | As at September 30 2010 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 23,546 | $ 11,947 |
| Value-added taxes receivable and prepaid expenses | 9,623 | 10,992 |
| Gold inventory | 1,478 | 753 |
| Supplies inventory | 7,032 | 5,473 |
| Income tax receivable | - | 79 |
| | 41,679 | 29,244 |
| Long-term value-added taxes receivable | 3,074 | - |
| Restricted cash (note 3) | 2,206 | 753 |
| Reclamation bonds | 3,433 | 3,287 |
| Property, plant and equipment (note 5) | 151,752 | 123,188 |
| Future income tax asset (note 9) | 9,422 | - |
| | $ 211,566 | $ 156,472 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank debt (note 4) | $ 3,636 | $ 3,049 |
| Accounts payable and accrued liabilities | 15,225 | 15,346 |
| Income taxes payable | 94 | - |
| Current portion of long-term debt (note 6) | 833 | 1,749 |
| Current portion of obligations under capital leases (note 7) | 1,344 | 975 |
| Current portion of derivative instruments (note 9) | 5,101 | - |
| | 26,233 | 21,119 |
| Long-term debt (note 6) | 46,471 | 833 |
| Obligations under capital leases (note 7) | 1,678 | 1,547 |
| Asset retirement obligations (note 8) | 7,834 | 7,538 |
| Derivative instruments (note 9) | 26,305 | - |
| Provision for statutory labour obligations | 1,694 | 1,771 |
| Future income tax liability | 12,958 | 12,402 |
| Long-term compensation (note 11) | 2,151 | 1,860 |
| | 125,324 | 47,070 |
| **Shareholders' equity** | | |
| Share capital (note 10(b)) | 77,230 | 76,227 |
| Contributed surplus | 2,222 | 1,674 |
| Retained earnings | 6,790 | 31,501 |
| | 86,242 | 109,402 |
| | $ 211,566 | $ 156,472 |

Commitments and contingencies (note 12)

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

# ORVANA MINERALS CORP.

## Interim Consolidated Statements of Loss and Comprehensive Loss

### (In thousands of United States dollars except per share amounts)

| (Unaudited) | Three months ended March 31 2011 | Three months ended March 31 2010 | Six months ended March 31 2011 | Six months ended March 31 2010 |
|---|---|---|---|---|
| **Revenues** | | | | |
| Gold sales | $ 6,330 | $ 5,978 | $ 12,757 | $ 17,854 |
| **Costs and expenses of mining operations** | | | | |
| Cost of sales | 3,702 | 3,897 | 7,872 | 8,733 |
| Royalties and mining rights | 229 | 221 | 457 | 602 |
| Mining royalty taxes | 445 | 423 | 895 | 1,252 |
| Depreciation and amortization | 617 | 594 | 1,198 | 1,724 |
| Accretion (note 8) | 148 | 63 | 296 | 99 |
| | 5,141 | 5,198 | 10,718 | 12,410 |
| | 1,189 | 780 | 2,039 | 5,444 |
| **Expenses (other income)** | | | | |
| General and administration | 1,247 | 1,622 | 2,289 | 2,743 |
| Exploration | 12 | 363 | 12 | 463 |
| Stock-based compensation | 244 | 80 | 872 | 323 |
| Long-term compensation | (467) | 221 | 640 | 307 |
| Community relations | 279 | 55 | 350 | 87 |
| Interest on long-term debt | 77 | 86 | 169 | 171 |
| Other expense | 147 | (38) | 195 | (30) |
| Foreign exchange | (47) | (63) | (81) | 5 |
| Derivatives loss (gain) (note 9) | 4,800 | - | 31,406 | - |
| | 6,292 | 2,326 | 35,852 | 4,069 |
| **(Loss) income before provision for income taxes and provision for future income taxes** | (5,103) | (1,546) | (33,813) | 1,375 |
| Provision for income taxes | | | | |
| Current income taxes | 24 | 265 | 320 | 1,802 |
| Future income tax expense (recovery) (note 9) | (1,440) | (153) | (9,422) | 31 |
| | (1,416) | 112 | (9,102) | 1,833 |
| **Net loss and comprehensive loss** | **$ (3,687)** | **$ (1,658)** | **$ (24,711)** | **$ (458)** |
| **Loss per share** (note 14) | | | | |
| Basic and diluted | $ (0.03) | $ (0.01) | $ (0.21) | $ (0.00) |

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

# ORVANA MINERALS CORP.

## Interim Consolidated Statements of Shareholders' Equity

**(In thousands of United States dollars)**

| (Unaudited) | Share capital | Contributed surplus | Retained earnings | Total |
|---|---|---|---|---|
| **Balance, September 30, 2009** | $ 74,777 | $ 1,658 | $ 33,932 | $ 110,367 |
| Exercise of stock options | 471 | (149) | - | 322 |
| Stock-based compensation | - | 323 | - | 323 |
| Net loss | - | - | (458) | (458) |
| **Balance, March 31, 2010** | $ 75,248 | $ 1,832 | $ 33,474 | $ 110,554 |

| (Unaudited) | Share capital | Contributed surplus | Retained earnings | Total |
|---|---|---|---|---|
| **Balance, September 30, 2010** | $ 76,227 | $ 1,674 | $ 31,501 | $ 109,402 |
| Exercise of stock options | 1,003 | (324) | - | 679 |
| Stock-based compensation | - | 872 | - | 872 |
| Net loss | - | - | (24,711) | (24,711) |
| **Balance, March 31, 2011** | $ 77,230 | $ 2,222 | $ 6,790 | $ 86,242 |

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

# ORVANA MINERALS CORP.

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

| (Unaudited) | Three months ended March 31 2011 | Three months ended March 31 2010 | Six months ended March 31 2011 | Six months ended March 31 2010 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net loss | $ (3,687) | $ (1,658) | $ (24,711) | $ (458) |
| Depreciation and amortization | 617 | 594 | 1,198 | 1,724 |
| Accretion (note 8) | 148 | 63 | 296 | 99 |
| Stock-based compensation | 244 | 80 | 872 | 323 |
| Long-term compensation | (467) | 221 | 640 | 307 |
| Future income taxes (recovery) | (1,440) | (153) | (9,422) | 31 |
| Provision for statutory labour obligations | 605 | 41 | 411 | 138 |
| Payments for statutory labour obligations | (488) | - | (488) | - |
| Foreign exchange | 511 | 54 | 362 | 186 |
| Derivatives loss (gain) (note 9) | 4,800 | - | 31,406 | - |
| | 843 | (758) | 564 | 2,350 |
| Changes in non-cash working capital items (note 16) | (2,245) | (3,594) | (8,782) | (7,253) |
| | (1,402) | (4,352) | (8,218) | (4,903) |
| **Financing activities** | | | | |
| Bank debt | 587 | - | 587 | - |
| Proceeds from long-term debt (note 6) | - | - | 50,000 | 1,000 |
| Financing fees | (734) | - | (4,272) | - |
| Repayment of long-term debt (note 6) | (671) | (636) | (1,332) | (1,265) |
| Exercise of stock options | 585 | 322 | 679 | 322 |
| Settlement of long-term compensation | - | - | (32) | - |
| | (233) | (314) | 45,630 | 57 |
| **Investing activities** | | | | |
| Capital expenditures | (15,602) | (6,853) | (24,585) | (11,890) |
| Restricted cash (note 3) | (1,420) | - | (1,420) | - |
| | (17,022) | (6,853) | (26,005) | (11,890) |
| **Change in cash and cash equivalents** | (18,657) | (11,519) | 11,407 | (16,736) |
| **Cash and cash equivalents, beginning of period** | 41,954 | 52,751 | 11,947 | 58,036 |
| **Effect of exchange rate changes on cash held in foreign currencies** | 249 | 63 | 192 | (5) |
| **Cash and cash equivalents, end of period** | $ 23,546 | $ 41,295 | $ 23,546 | $ 41,295 |

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

## 1. Nature of operations

Orvana Minerals Corp. (the "Company" or "Orvana") is a Canadian mining and exploration company based in Toronto, Ontario, involved in the evaluation, development and mining of precious and base metal deposits. The Company owns and operates the Don Mario Mine and property in eastern Bolivia which is held indirectly through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("EMIPA"). The Company also owns the El Valle-Boinas/Carles Mine ("EVBC") in Spain, which is held indirectly through its wholly-owned subsidiary Kinbauri Espana S.L. ("Kinbauri"). 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's shares are listed on the Toronto Stock Exchange ("TSX").

## 2. Basis of presentation and new accounting policies

(a) Basis of presentation

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of the financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements, except as noted below. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended September 30, 2010, since they do not contain all disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

(b) New accounting policies

**Derivatives**

The Company has entered into derivative instruments (forward contracts) as required under the terms of the credit facility with Credit Suisse A.G. All of the forward contracts the Company has entered into are classified as held for trading. Changes in the fair value of these derivatives are recognized in the income statement.

Fair values for derivative instruments held for trading are determined using valuation techniques, incorporating assumptions based on market conditions existing at the balance sheet date. Realized gains and losses are recognized in the income statement.

**Long-term debt**

Long-term debt instruments are initially recognized at fair value, net of debt issuance costs incurred. Debt instruments are subsequently valued at amortized cost. Debt issue costs are deducted from the balance of the underlying debt and amortized using the effective interest rate method.

(In thousands of United States Dollars unless otherwise noted)

**2. Basis of presentation and new accounting policies (continued)**

(c) New accounting policies not yet adopted

*Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*
The CICA issued three new accounting standards in January 2009: Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-Controlling interests”. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. Sections 1601 and 1602 together replace section 1600, “Consolidated Financial Statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is in the process of evaluating the requirements of the new standards.

**3. Restricted cash**

Cash and cash equivalents includes approximately $786 (September 30, 2010 **-** $753) of cash on deposit in favour of the Spanish government pending audit by the government of compliance with the terms of certain capital investment subsidies received by the Company and $1,420 (September 30, 2010 **-** $nil) of cash on deposit in favour of the Bolivian government pending the appeal of the VAT audit.

**4. Credit facility**

EMIPA has short term credit facilities with Banco de Credito de Bolivia S.A. and Banco Bisa S.A. for up to $5.0 million dollars payable in 90-150 days with annual interest rates ranging between 4% to 6% with certain of the Company’s assets pledged as security against these loans. As at March 31, 2011, $3,636 (September 30, 2010 **-** $3,049) was drawn on these facilities.

In addition, at March 31, 2011, EMIPA has bank guarantees with Banco Bisa S.A. amounting to approximately **$**1,210 (September 30, 2010 - $716), related to refunded amounts of value-added taxes and chemical and natural gas purchases.

**5. Property, plant and equipment**

| March 31, 2011 | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Land | $ 2,258 | $ - | $ 2,258 |
| Plant and equipment | 86,938 | 31,899 | 55,039 |
| Furniture and equipment | 873 | 157 | 716 |
| Equipment under capital lease | 5,819 | 239 | 5,580 |
| | 95,888 | 32,295 | 63,593 |
| Mineral properties | | | |
| Don Mario - UMZ | 4,105 | - | 4,105 |
| Copperwood | 9,249 | - | 9,249 |
| EL Valle-Boinas/Carles | 74,805 | - | 74,805 |
| | 88,159 | - | 88,159 |
| Total | $ 184,047 | $ 32,295 | $ 151,752 |

(In thousands of United States Dollars unless otherwise noted)

**5. Property, plant and equipment (continued)**

| September 30, 2010 | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Land | $ 1,910 | $ - | $ 1,910 |
| Plant and equipment | 80,368 | 30,580 | 49,788 |
| Furniture and equipment | 564 | 122 | 442 |
| Equipment under capital lease | 4,574 | - | 4,574 |
| | 87,416 | 30,702 | 56,714 |
| Mineral properties | | | |
| Don Mario - UMZ | 3,756 | - | 3,756 |
| Copperwood | 6,677 | - | 6,677 |
| EL Valle-Boinas/Carles | 56,041 | - | 56,041 |
| | 66,474 | - | 66,474 |
| Total | $ 153,890 | $ 30,702 | $ 123,188 |

**6. Long-term debt**

(a) On March 4, 2008, EMIPA entered into a term credit facility agreement of $5,000 with Banco Bisa S.A. ("BISA"). At March 31, 2011, the loan was repaid and no amount was outstanding under this facility. During the three and six months ended March 31, 2011, $462 and $915, respectively (comparative periods - $428 and $848, respectively) was repaid against this loan. The Company used the proceeds of this credit facility to purchase additional electrical generation equipment and a ball mill to increase ore treatment capacity.

(b) On September 29, 2009, EMIPA entered into a second BISA credit agreement of $2,500. This facility bears interest at 7.8% and is payable in equal quarterly instalments over a three-year period. At March 31, 2011, $1,250 (September 30, 2010 - $1,667) was outstanding under this facility. During the three and six months ended March 31, 2011, $208 and $417, respectively (comparative periods - $208 and $417, respectively) was repaid against this loan. The proceeds of this second credit facility were used to fund capital investments for the mineral flotation plant for the Upper Mineralized Zone project. The Company has the option of repaying this loan prior to the end of its term without penalties and there are no specific covenants related to this credit facility. This loan is secured by certain machinery and equipment of EMIPA.

(c) On October 8, 2010, the Company’s wholly-owned subsidiary, Kinbauri, entered into a $50 million five-year term corporate credit agreement with Credit Suisse AG (“Credit Suisse”). The funds are being used to complete construction of the Company’s EVBC gold-copper-silver project, in Spain. Under the terms of the credit agreement, up to $15 million may be used by Orvana for general corporate purposes.

(In thousands of United States Dollars unless otherwise noted)

**6. Long-term debt (continued)**

Interest on the outstanding principal is calculated at a rate per annum equal to LIBOR plus 3.85%. As permitted under the terms of the credit agreement, the Company has opted to defer interest amounts otherwise payable until April 8, 2011 such that the credit limit is increased by the amount of such deferred interest. Quarterly principal repayments are required commencing June 30, 2012. The total annual principal repayment required in each fiscal year ending September 30, expressed as a percentage of the full principal amount of the credit outstanding, are: 2012 – 16.7%; 2013 – 34.6%; 2014 – 23.7%; and 2015 – 25.0%.

The security for the credit facility includes a fixed and floating charge over the assets of Kinbauri and the shares of Kinbauri, 100% of which are held by Orvana. In addition, payment and performance of Kinbauri's obligations under the credit facility are guaranteed by Orvana.

The credit agreement required that Kinbauri enter into forward contracts (see Derivative Instruments, note 9) on the sale of a portion of its gold production in the period January 2012 to December 2015; the sale of a portion of its copper production in the period July 2011 to December 2015; and the purchase of a portion of its Euro requirements in the period March 2012 to December 2015.

The credit agreement contains covenants that restrict, among other things, the Company's ability to incur additional indebtedness, to make distributions in certain circumstances, to sell material assets, or to carry on business other than one related to the mining business. Kinbauri and Orvana are also required to maintain certain financial ratios as well as, on a consolidated basis at the Orvana level, a minimum tangible net worth. Amounts included in calculations required to determine adherence to financial covenants exclude unrealized gains and losses resulting from mark-to-market adjustments of the metals and foreign exchange forward contracts entered into as required under the credit agreement. Minimum long-term debt repayments are as follows:

| | Banco Bisa Credit Facility | Credit Suisse Credit Facility | Total Long-Term Debt |
|---|---|---|---|
| 2011 | $ 417 | $ - | $ 417 |
| 2012 | 833 | 7,957 | 8,790 |
| 2013 | - | 17,583 | 17,583 |
| 2014 | - | 12,075 | 12,075 |
| 2015 | - | 12,711 | 12,711 |
| | 1,250 | 50,326 | 51,576 |
| Less: current portion | (833) | - | (833) |
| Total - long term debt | 417 | 50,326 | 50,743 |
| Financing fees | - | (4,272) | (4,272) |
| | $ 417 | $ 46,054 | $ 46,471 |

**7. Obligations under capital leases**

During fiscal 2010 and the second quarter of fiscal 2011, the Company entered into leases to purchase mining trucks, scoop trams and other mining equipment at a total cost of $5,819 including deposits of $1,868 paid at the time of purchase. The leases are repayable in quarterly instalments at annual interest rates of 5.5% to 6.2%. At March 31, 2011, the obligation outstanding was $3,022 (September 30, 2010 - $2,522). During the three and six months ended March 31, 2011, the Company made lease payments of $425 and $735, respectively. Each lease contract contains a bargain purchase option of €10 per contract.

(In thousands of United States Dollars unless otherwise noted)

**7. Obligations under capital leases (continued)**

The following is a schedule of future minimum lease payments under these capital leases which expire in December 2013.

| | | |
|---|---|---|
| fiscal 2011 | $ | 707 |
| 2012 | | 1,509 |
| 2013 | | 878 |
| 2014 | | 96 |
| | | 3,190 |
| Amount representing interest at 5.5% | | (168) |
| | | 3,022 |
| Less: current portion | | (1,344) |
| | $ | 1,678 |

The equipment under capital lease are being amortized over the estimated useful life of the assets. Amortization has begun in the second quarter as the assets have been put into use.

**8. Asset retirement obligations**

The following table summarizes the changes in asset retirement obligations during the periods presented:

| | | Six months ended March 31 2011 | | Year ended September 30 2010 |
|---|---|---|---|---|
| Balance, beginning of period | $ | 7,538 | $ | 2,792 |
| Incremental obligation - Don Mario Mine | | - | | 829 |
| Incremental obligation - El Valle-Boinas/Carles Mine | | - | | 3,726 |
| Accretion expense | | 296 | | 191 |
| Balance, end of period | $ | 7,834 | $ | 7,538 |

| | | As at March 31 2011 | | As at September 30 2010 |
|---|---|---|---|---|
| Balance consists of: | | | | |
| Don Mario Mine - Bolivia | $ | 3,428 | $ | 3,296 |
| EL Valle-Boinas/Carles Mine - Spain | | 4,406 | | 4,242 |
| | $ | 7,834 | $ | 7,538 |

(In thousands of United States Dollars unless otherwise noted)

## 9. Derivative Instruments

Pursuant to the terms of the Credit Suisse credit agreement, the Company entered into a number of gold, copper, and Euro/US dollar forward contracts relating to a portion of the expected gold and copper production from the EVBC Mine.

Changes in the fair value of derivatives 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.

Mark-to-market losses of $4,800 and $31,406 and the related future income tax recovery of $1,440 and $9,422 for the three and six months ended March 31, 2011 respectively were recorded through earnings on these forward contracts. The spot metal prices and spot foreign exchange rates at March 31, 2011 were:

- Gold spot price was $1,433 per ounce.
- Copper spot price was $9,399 per tonne ($4.26 per pound).
- Euro / US dollar spot exchange rate was 1.42.

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

| | | As at March 31 2011 | | As at September 30 2010 |
|---|---|---|---|---|
| **Gold forwards:** | | | | |
| Ounces | | 37,500 | | - |
| Price ($/ounce) | $ | 1,333.70 | $ | - |
| **Copper forwards:** | | | | |
| Tonnes | | 13,671 | | - |
| Price ($/tonne) | $ | 7,260 | $ | - |
| Price ($/lb) | $ | 3.29 | $ | - |
| **Euro / US dollars forwards:** | | | | |
| Amount in US dollars | $ | 80,000,000 | | - |
| Contracted Average Euro exchange rate | | 1.38 | | - |

(In thousands of United States Dollars unless otherwise noted)

**9. Derivative Instruments (continued)**

Derivative instruments included in the balance sheet comprise:

| | As at March 31 2011 | As at September 30 2010 |
|---|---|---|
| Fair value of derivatives, start of period | $ - | $ - |
| Contracts matured during period resulting in cash receipts (payments) | - | - |
| Mark-to-market fair value loss during the three months ended December 31, 2010 | 26,606 | - |
| Mark-to-market fair value loss during the three months ended March 31, 2011 | 4,800 | - |
| Fair value of derivatives, end of period | 31,406 | - |
| Less: current portion | (5,101) | - |
| Total non-current derivative instruments | $ 26,305 | $ - |

**10. Share capital**

(a) Authorized - unlimited number of common shares

(b) Common shares issued

| | Number of common shares | Stated value |
|---|---|---|
| Balance, September 30, 2010 | 116,318,172 | $ 76,227 |
| Exercise of stock options | 760,000 | 679 |
| Fair value assigned to exercise of stock options | - | 324 |
| Balance, March 31, 2011 | 117,078,172 | $ 77,230 |

(c) Stock options

A summary of the stock option transactions for the three-month period is as follows:

| | Stock options | Weighted average exercise price |
|---|---|---|
| Balance, September 30, 2010 | 2,680,000 | Cdn $0.91 |
| Granted | 930,000 | 3.65 |
| Exercised | (760,000) | 0.88 |
| Forfeited | (100,000) | 1.06 |
| Balance, March 31, 2011 | 2,750,000 | Cdn $1.84 |

(In thousands of United States Dollars unless otherwise noted)

**10. Share capital (continued)**

(c) Stock options (continued)

Stock options have been expensed as follows:

| | Cumulative expense to March 31, 2011 | Remainder to be expensed | Total stock option compensation |
|---|---|---|---|
| Stock option expense | $ 2,546 | $ 882 | $ 3,428 |

As at March 31, 2011, outstanding and exercisable stock options granted were as follows:

| Grant Date | Fair Value | Number of Non-Vested Options | Weighted Average Contractual Life (in years) | Number of Vested Options | Exercise Price | Expiry Date |
|---|---|---|---|---|---|---|
| May 12, 2006 | $ 58 | - | 0.12 | 125,000 | Cdn $1.05 | May 12, 2011 |
| June 23, 2006 | 59 | - | 0.23 | 150,000 | 0.89 | June 23, 2011 |
| December 14, 2006 | 71 | - | 0.71 | 250,000 | 0.60 | December 14, 2011 |
| August 9, 2007 | 9 | - | 1.36 | 25,000 | 0.69 | August 8, 2012 |
| December 3, 2007 | 81 | - | 1.68 | 175,000 | 0.81 | December 3, 2012 |
| March 3, 2008 | 22 | - | 1.93 | 50,000 | 0.75 | March 3, 2013 |
| March 5, 2009 | 40 | - | 1.93 | 150,000 | 0.64 | March 4, 2013 |
| October 23, 2009 | 64 | 50,000 | 3.56 | 100,000 | 0.88 | October 23, 2014 |
| February 26, 2010 | 61 | 41,666 | 3.91 | 83,334 | 1.01 | February 26, 2015 |
| March 1, 2010 | 255 | 150,000 | 3.92 | 350,000 | 1.01 | March 1, 2015 |
| May 17, 2010 | 12 | 20,000 | 4.13 | - | 1.31 | May 17, 2015 |
| August 13, 2010 | 84 | 66,666 | 4.37 | 33,334 | 1.57 | August 13, 2015 |
| December 10, 2010 | 1,595 | 619,995 | 4.69 | 310,005 | 3.65 | December 10, 2015 |
| | $2,411 | 948,327 | 3.20 | 1,801,673 | | |
| Total vested and non-vested stock options | | | | 2,750,000 | | |

The Company uses the fair value method of accounting for stock options and, during the three-month and six-month periods ended March 31, 2011 recognized stock-based compensation expense of $244 and $872, respectively (three and six months ended March 31, 2010 - $80 and $323, respectively).

(In thousands of United States Dollars unless otherwise noted)

**10. Share capital (continued)**

(c) Stock options (continued)

The fair value of the options granted during the six months ended March 31, 2011 was estimated using the Black-Scholes option-pricing model with the following assumptions:

| | |
|---|---|
| Grant date: | December 10, 2010 |
| Options granted | 930,000 |
| Risk-free interest rate: | 2.34% |
| Expected life in years: | 5.00 |
| Expected volatility: | 59.06% |
| Expected dividend yield: | nil |

The weighted-average grant date fair value of these options of $1,595 or Cdn $1.73 per option is expensed over the vesting periods of the option being 24 months from the grant dates.

As at March 31, 2011, the fair value associated with non-vested stock options is $1,248 (March, 31, 2010 - $320).

**11. Long-term compensation**

A summary of the deferred share unit ("DSUs") transactions during the period are as follows:

| | DSUs | | Fair value |
|---|---|---|---|
| Balance, September 30, 2010 | 192,178 | $ | 606 |
| Issued | 36,785 | | 99 |
| Redeemed | (12,377) | | (32) |
| Reversal of accrued awards from September 30, 2010 | - | | (102) |
| Mark to market adjustment | - | | 91 |
| Balance, March 31, 2011 | 216,586 | $ | 662 |

A summary of the restricted share units ("RSUs") transactions during the period are as follows:

| | RSUs | | Fair value |
|---|---|---|---|
| Balance, September 30, 2010 | 305,447 | $ | 1,254 |
| Issued | 170,925 | | 472 |
| Reversal of accrued awards from September 30, 2010 | - | | (453) |
| Mark to market adjustment | - | | 216 |
| Balance, March 31, 2011 | 476,372 | $ | 1,489 |
| Total-long term compensation balance, March 31, 2011 | | $ | 2,151 |

(In thousands of United States Dollars unless otherwise noted)

**12. Commitments and contingencies**

(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 asset retirement obligations 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) In fiscal 2010 and the second quarter of fiscal 2011, EVBC entered into capital lease contracts to purchase mining equipment with a total cost of $5,819 including deposits of $1,868 paid at the time of purchase. The leases are payable in quarterly instalments at an annual interest rates of 5.5% to 6.2%. At March 31, 2011, the obligation outstanding was $3,022 (September 30, 2010 - $2,522). For more information about these capital leases refer to note 7 – Obligations under capital leases.

In August of 2010, Orvana Resources entered into an agreement to purchase land adjacent to the Copperwood Project to facilitate road access to the site and to provide additional space for mining infrastructure. The purchase price was $1,900, which included $300 on signing and the balance payable in five instalments over the next two years, with annual interest of 6% on the unpaid balances. Orvana Resources has the right to put the property back to the Vendor on the same terms as the original purchase.

The following is a schedule of the future payments for the land purchase:

| | | |
|---|---|---|
| fiscal 2011 | $ | 339 |
| 2012 | | 1,045 |
| | $ | 1,384 |

(In thousands of United States Dollars unless otherwise noted)

### 13. Segmented information

The Company primarily operates in one reportable operating segment, being the exploration, development and commercial production of mineral properties in Bolivia, Spain and the United States. The Company has administrative offices in Toronto, Canada; Stockholm, Sweden; and Nicosia, Cyprus. Geographical information is as follows:

As at March 31, 2011 and the six months then ended

| | Gold Sales | Cash and cash equivalents | Property, plant and equipment | Reclamation bonds and restricted cash | Other assets | Total assets |
|---|---|---|---|---|---|---|
| Bolivia | $ 12,757 | $ 692 | $ 27,026 | $ 1,420 | $ 16,436 | $ 45,574 |
| Spain | | 13,360 | 114,237 | 4,219 | 13,620 | 145,436 |
| United States | | 202 | 9,921 | - | 5 | 10,128 |
| Canada | | 8,903 | 568 | - | 553 | 10,024 |
| Sweden | | 151 | - | - | - | 151 |
| Cyprus | | 238 | - | - | 15 | 253 |
| | $ 12,757 | $ 23,546 | $ 151,752 | $ 5,639 | $ 30,629 | $ 211,566 |

As at September 30, 2010 and the year then ended

| | Gold Sales | Cash and cash equivalents | Property, plant and equipment | Reclamation bonds and restricted cash | Other assets | Total assets |
|---|---|---|---|---|---|---|
| Bolivia | $ 32,344 | $ 2,234 | $ 22,891 | $ - | $ 15,040 | $ 40,165 |
| Spain | - | 3,910 | 93,010 | 4,040 | 1,705 | 102,665 |
| United States | - | 13 | 6,993 | - | 37 | 7,043 |
| Canada | - | 1,307 | 294 | - | 509 | 2,110 |
| Sweden | - | 3,239 | - | - | - | 3,239 |
| Cyprus | - | 1,244 | - | - | 6 | 1,250 |
| | $ 32,344 | $ 11,947 | $ 123,188 | $ 4,040 | $ 17,297 | $ 156,472 |

(In thousands of United States Dollars unless otherwise noted)

## 14. Earnings (loss) per share

| | Three months ended March 31 2011 | Three months ended March 31 2010 | Six months ended March 31 2011 | Six months ended March 31 2010 |
|---|---|---|---|---|
| **(Loss) earnings per share** | | | | |
| Basic and diluted | $ (0.03) | $ (0.01) | $ (0.21) | $ (0.00) |
| Weighted average number of shares outstanding - basic | 116,549,283 | 115,245,395 | 116,437,128 | 115,239,217 |
| Dilutive effect of stock options | 1,304,202 | 637,388 | 1,274,130 | 475,773 |
| Weighted average number of shares outstanding - diluted | 117,853,485 | 115,882,783 | 117,711,258 | 115,714,990 |

## 15. Comparative Information

Certain comparative figures have been reclassified to conform with current year financial statement presentation. Restricted cash has been reclassified from cash and cash equivalents on the balance sheet and cash flow statements to a separate classification under long term assets.

## 16. Changes in non-cash working capital items

| | Three months ended March 31 2011 | Three months ended March 31 2010 | Six months ended March 31 2011 | Six months ended March 31 2010 |
|---|---|---|---|---|
| Gold sales receivable | $ - | $ 1,440 | $ - | $ - |
| Value-added taxes receivable and prepaid expenses | (584) | (1,563) | (1,705) | (2,622) |
| Income tax receivable | 79 | - | 79 | - |
| Gold inventory | (541) | (609) | (569) | (205) |
| Supplies inventory | (2,461) | 408 | (1,559) | 476 |
| Accounts payable and accrued liabilities | 1,444 | 2,807 | (5,122) | 292 |
| Income taxes payable | (182) | (6,077) | 94 | (5,194) |
| | $ (2,245) | $ (3,594) | $ (8,782) | $ (7,253) |

**17. Subsequent event**

On May 16, 2011, the Company entered into an agreement with its majority shareholder, Fabulosa Mines Limited (“Fabulosa”), under which (i) Fabulosa has committed to provide Orvana with a $15,000 six-month, secured convertible bridge loan bearing interest at 8% per annum and (ii) certain of Fabulosa’s pre-emptive rights are amended. The agreement also effectively provides Orvana with increased financial flexibility as it relates to potential future equity financings. The outstanding amount of the loan may be repaid by Orvana at any time. Should Orvana complete an equity offering prior to repayment of the loan, subject to TSX approval, the outstanding amount of the loan will be converted into common shares at the same price shares are sold under such equity offering. In addition, the agreement provides that the loan conversion will not exceed the amount that results in Fabulosa receiving the same number of shares as are issued by Orvana under the equity offering. At maturity, Fabulosa has the option, subject to TSX approval, to convert the outstanding amount, including accrued and unpaid interest, into common shares based on a share price that is the volume-weighted average trading price for the five trading days preceding the maturity date, less the maximum discount permitted by the rules of the TSX. The bridge loan remains subject to the completion of customary loan documentation and approval of the TSX of certain features in connection with this agreement.

As consideration for the amendments and the provision of the bridge loan financing, Orvana will issue to Fabulosa 1,969,999 common shares (the “Consideration Shares”) and five-year warrants to purchase up to 2,725,000 common shares (the “Warrant Shares”). The warrants will be exercisable only upon the issuance of, and in equal numbers to, common shares issuable upon the exercise of any of Orvana’s currently outstanding stock options. These warrants will have an exercise price equal to the volume-weighted average price of the common shares for the five trading days preceding the date such warrants are issued, which will be issued no later than nine months after the effective date. In addition, Orvana has undertaken to commence a Normal Course Issuer Bid within nine months, which is intended to operate such that shares will be bought in amounts equal to the conversion to shares of stock options issued in the future. The issuance of the Consideration Shares and the Warrant Shares are subject to the approval of the TSX.