

**ORVANA MINERALS CORP.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2012**  
**(UNAUDITED)**  
**(EXPRESSED IN UNITED STATES DOLLARS)**

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

| <b>Unaudited</b>  | <b>As at<br/>March 31,<br/>2012</b> | <b>As at<br/>September<br/>30, 2011</b> | <b>As at<br/>October 1,<br/>2010</b> |
|---|-------------------------------------|---|--------------------------------------|
|   |                                     | (note 23)                               | (note 23)                            |
| <b>Assets</b>   |                                     |   |                                      |
| Current assets  |                                     |   |                                      |
| Cash and cash equivalents (note 4)                            | \$ 7,431                            | \$ 12,244                               | \$ 11,947                            |
| Restricted cash (note 5)                                      | 7,127                               | -                                       | -                                    |
| Concentrate and dore sales receivable                         | 5,860                               | 2,682                                   | -                                    |
| Value added taxes receivable and prepaid expenses             | 8,762                               | 12,078                                  | 10,992                               |
| Inventory (note 7)  | 20,383                              | 10,280                                  | 6,226                                |
| Income tax receivable   | -                                   | -                                       | 79                                   |
|   | 49,563                              | 37,284                                  | 29,244                               |
| Long term value-added taxes receivable                        | 5,462                               | 2,756                                   | -                                    |
| Long-term restricted cash (note 5)                            | 5,777                               | 2,275                                   | 753                                  |
| Reclamation bonds   | 9,964                               | 10,074                                  | 3,287                                |
| Property, plant and equipment (note 8)                        | 195,792                             | 187,568                                 | 123,569                              |
|   | \$ 266,558                          | \$ 239,957                              | \$ 156,853                           |
| <b>Liabilities</b>  |                                     |   |                                      |
| Current liabilities   |                                     |   |                                      |
| Bank debt (note 6)  | \$ 6,960                            | \$ 6,417                                | \$ 3,049                             |
| Accounts payable and accrued liabilities                      | 29,068                              | 21,778                                  | 15,346                               |
| Income taxes payable  | 14                                  | 35                                      | -                                    |
| Current portion of long-term debt (note 9)                    | 11,308                              | 9,346                                   | 1,749                                |
| Current portion of obligations under finance leases (note 10) | 1,969                               | 2,002                                   | 975                                  |
| Current portion of derivative instruments (note 12)           | 7,541                               | 1,717                                   | -                                    |
|   | 56,860                              | 41,295                                  | 21,119                               |
| Long-term debt (note 9)                                       | 55,665                              | 38,471                                  | 833                                  |
| Obligations under finance leases (note 10)                    | 1,196                               | 2,177                                   | 1,547                                |
| Decommissioning liabilities (note 11)                         | 8,058                               | 7,900                                   | 7,919                                |
| Derivative instruments (note 12)                              | 21,939                              | 10,619                                  | -                                    |
| Provision for statutory labour obligations                    | 1,593                               | 1,549                                   | 1,771                                |
| Deferred income tax liability                                 | 4,667                               | 8,634                                   | 12,770                               |
| Long-term compensation (note 15(b))                           | 287                                 | 1,050                                   | 1,860                                |
|   | 150,265                             | 111,695                                 | 47,819                               |
| <b>Shareholders' equity</b>                                   |                                     |   |                                      |
| Share capital (note 13 (b))                                   | 116,148                             | 115,930                                 | 76,227                               |
| Contributed surplus   | 2,743                               | 2,466                                   | 1,635                                |
| Retained earnings (deficit)                                   | (2,598)                             | 9,866                                   | 31,172                               |
|   | 116,293                             | 128,262                                 | 109,034                              |
|   | \$ 266,558                          | \$ 239,957                              | \$ 156,853                           |
| Commitments and contingencies (note 16)                       |                                     |   |                                      |

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)

| <b>(Unaudited)</b>                     | <b>Three months ended</b> |                  | <b>Six months ended</b> |                  |
|--|---------------------------|------------------|-------------------------|------------------|
|  | <b>March 31,</b>          | <b>March 31,</b> | <b>March 31,</b>        | <b>March 31,</b> |
|  | <b>2012</b>               | <b>2011</b>      | <b>2012</b>             | <b>2011</b>      |
|  |                           | (note 23)        |                         | (note 23)        |
| <b>Revenue</b>                         | \$ 31,245                 | \$ 6,330         | \$ 46,618               | \$ 12,757        |
| <b>Cost of sales</b>                   |                           |                  |                         |                  |
| Mining costs (note 17)                 | 18,397                    | 4,376            | 30,979                  | 9,224            |
| Depreciation and amortization          | 3,819                     | 602              | 6,256                   | 1,163            |
|  | 22,216                    | 4,978            | 37,235                  | 10,387           |
| <b>Gross margin</b>                    | 9,029                     | 1,352            | 9,383                   | 2,370            |
| <b>Expenses</b>                        |                           |                  |                         |                  |
| General and administrative (note 18)   | 1,930                     | 967              | 3,850                   | 3,666            |
| Exploration                            | 23                        | 12               | 146                     | 12               |
| Community relations                    | 81                        | 279              | 168                     | 350              |
| Other expense                          | 25                        | 147              | 110                     | 195              |
| Finance costs (note 19)                | 1,163                     | 161              | 2,202                   | 337              |
| Expenses before derivatives loss       | 3,222                     | 1,566            | 6,476                   | 4,560            |
| Derivatives loss (note 12)             | 17,267                    | 4,800            | 19,223                  | 31,406           |
| <b>Loss before income taxes</b>        | (11,460)                  | (5,014)          | (16,316)                | (33,596)         |
| <b>Provision for income taxes</b>      |                           |                  |                         |                  |
| Current income taxes (recovery)        | (48)                      | 24               | 153                     | 320              |
| Deferred income tax recovery           | (3,453)                   | (3,398)          | (4,005)                 | (10,877)         |
|  | (3,501)                   | (3,374)          | (3,852)                 | (10,557)         |
| <b>Net loss and comprehensive loss</b> | \$ (7,959)                | \$ (1,640)       | \$ (12,464)             | \$ (23,039)      |
| Loss per share (note 21)               |                           |                  |                         |                  |
| Basic and diluted                      | \$ (0.06)                 | \$ (0.01)        | (0.09)                  | \$ (0.20)        |

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**ORVANA MINERALS CORP.****Interim Consolidated Statements of Changes in Shareholders' Equity****(In thousands of United States dollars)**

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| <b>Unaudited</b>                          | <b>Share<br/>Capital</b> | <b>Contributed<br/>Surplus</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
|---|--------------------------|--------------------------------|------------------------------|--------------|
| <b>Balance, October 1, 2010</b> (note 23) | \$ 76,227                | \$ 1,635                       | \$ 31,172                    | \$ 109,034   |
| Exercise of stock options                 | 1,003                    | (324)                          | -                            | 679          |
| Stock-based compensation                  | -                        | 783                            | -                            | 783          |
| Net loss                                  | -                        | -                              | (23,039)                     | (23,039)     |
| <b>Balance March 31, 2011</b> (note 23)   | \$ 77,230                | \$ 2,094                       | \$ 8,133                     | \$ 87,457    |

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| <b>Unaudited</b>                   | <b>Share<br/>Capital</b> | <b>Contributed<br/>Surplus</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
|------------------------------------|--------------------------|--------------------------------|------------------------------|--------------|
| <b>Balance, September 30, 2011</b> | \$ 115,930               | \$ 2,466                       | \$ 9,866                     | \$ 128,262   |
| Exercise of stock options          | 218                      | (71)                           | -                            | 147          |
| Stock-based compensation           | -                        | 348                            | -                            | 348          |
| Net loss                           | -                        | -                              | (12,464)                     | (12,464)     |
| <b>Balance March 31, 2012</b>      | \$ 116,148               | \$ 2,743                       | \$ (2,598)                   | \$ 116,293   |

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**ORVANA MINERALS CORP.**  
**Interim Consolidated Statements of Cash Flows**  
(In thousands of United States dollars)

|  | Three months ended<br>March 31, |                  | Six months ended<br>March 31, |                  |
|--|---------------------------------|------------------|-------------------------------|------------------|
|  | 2012                            | 2011             | 2012                          | 2011             |
|  |                                 | (note 23)        |                               | (note 23)        |
| <b>Operating activities</b>  |                                 |                  |                               |                  |
| Net loss   | \$ (7,959)                      | \$ (1,640)       | \$ (12,464)                   | \$ (23,039)      |
| Depreciation and amortization  | 3,877                           | 617              | 6,345                         | 1,198            |
| Accretion  | 79                              | 84               | 159                           | 168              |
| Amortization of deferred financing fees                                  | 259                             | -                | 530                           | -                |
| Stock-based compensation   | 186                             | 218              | 348                           | 783              |
| Long-term compensation   | 40                              | (467)            | (200)                         | 640              |
| Deferred income taxes (recovery)   | (3,453)                         | (3,398)          | (4,005)                       | (10,877)         |
| Provision for statutory labour obligations                               | 12                              | 117              | 44                            | (77)             |
| Foreign exchange   | (498)                           | 512              | (7)                           | 362              |
| Derivatives loss (note 12)   | 15,357                          | 4,800            | 17,144                        | 31,406           |
| <b>Changes in non-cash working capital</b>                               | <b>7,900</b>                    | <b>843</b>       | <b>7,894</b>                  | <b>564</b>       |
| Concentrate and dore sales receivable                                    | (5,211)                         | -                | (3,178)                       | -                |
| Value added taxes receivable and prepaids                                | (2,021)                         | (584)            | 610                           | (1,705)          |
| Inventory  | (3,867)                         | (3,002)          | (10,103)                      | (2,128)          |
| Accounts payable and accrued liabilities                                 | (2,238)                         | 1,413            | 4,520                         | (5,122)          |
| Income taxes payable   | (131)                           | (103)            | (21)                          | 173              |
| <b>Cash used in operating activities</b>                                 | <b>(5,568)</b>                  | <b>(1,433)</b>   | <b>(278)</b>                  | <b>(8,218)</b>   |
| <b>Financing activities</b>  |                                 |                  |                               |                  |
| (Decrease) increase in bank debt   | (4,013)                         | 587              | 543                           | 587              |
| Proceeds from long-term debt (note 9)                                    | 19,500                          | -                | 19,500                        | 50,000           |
| Financing fees (note 9)  | (373)                           | (734)            | (373)                         | (4,272)          |
| Repayment of long-term debt (note 9)                                     | (227)                           | (671)            | (454)                         | (1,332)          |
| Exercise of stock options (note 13(b))                                   | -                               | 616              | 147                           | 679              |
| Settlement of long term compensation                                     | -                               | -                | -                             | (32)             |
|  | 14,887                          | (202)            | 19,363                        | 45,630           |
| <b>Investing activities</b>  |                                 |                  |                               |                  |
| Capital expenditures   | (5,169)                         | (15,602)         | (13,343)                      | (24,585)         |
| Restricted cash  | (10,635)                        | (2,154)          | (10,635)                      | (1,420)          |
|  | (15,804)                        | (17,756)         | (23,978)                      | (26,005)         |
| <b>Change in cash and cash equivalents</b>                               | <b>(6,485)</b>                  | <b>(19,391)</b>  | <b>(4,893)</b>                | <b>11,407</b>    |
| <b>Cash and cash equivalents, beginning of the period</b>                | <b>13,763</b>                   | <b>42,688</b>    | <b>12,244</b>                 | <b>11,947</b>    |
| <b>Effect of exchange rate change on cash held in foreign currencies</b> | <b>153</b>                      | <b>249</b>       | <b>80</b>                     | <b>192</b>       |
| <b>Cash and cash equivalents, end of period</b>                          | <b>\$ 7,431</b>                 | <b>\$ 23,546</b> | <b>\$ 7,431</b>               | <b>\$ 23,546</b> |
| Income taxes paid  | \$ 48                           | \$ 23            | \$ 83                         | \$ 180           |
| Interest paid  | \$ 211                          | \$ 93            | \$ 479                        | \$ 168           |

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

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

**ORVANA MINERALS CORP.**  
**Notes to Interim Consolidated Financial Statements**  
**March 31, 2012**  
**(Unaudited)**  
**(In thousands of United States Dollars unless otherwise noted)**

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**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 ("EVBC") in Spain, which is held indirectly through its wholly-owned subsidiary Kinbauri España S.L.U. ("Kinbauri") and the Don Mario Mine and property 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 shares. The Company's ultimate controlling party is the Oslo Trust, which controls Fabulosa. The Company is making this disclosure pursuant to the requirements of the International Financial Reporting Standards ("IFRS").

The Company's principal place of business is 181 University Avenue, Suite 1901, Toronto, Ontario, Canada. The Company's shares are listed on the Toronto Stock Exchange ("TSX").

These interim consolidated financial statements for the period ended March 31, 2012 were authorized for issuance by the Board of Directors of the Company on May 14, 2012.

**2. Summary of Significant Accounting Policies**

(a) Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), using accounting policies consistent with IFRS.

The Company's interim consolidated financial statements prepared in accordance with IAS 34 using accounting policies consistent with IFRS. The accounting policies have been selected to be consistent with IFRS as is expected to be effective on September 30, 2012, the Company's first annual IFRS reporting date. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented, except for the transition elections explained in note 23 – Transition to IFRS. They also have been applied in the preparation of an opening IFRS statement of financial position as at October 1, 2010, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in note 23.

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending September 30, 2012.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended September 30, 2011.

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(b) Basis of presentation

These condensed consolidated interim financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified as at fair value through profit or loss.

(c) Principles of consolidation

The interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions are eliminated upon consolidation.

Wholly-owned subsidiaries:

Operating companies:

Empresa Minera Paititi S.A. ("EMIPA")  
Kinbauri Espana S.L. ("Kinbauri")  
Orvana Resources US Corp. ("Orvana Resources")

Non-operating companies:

Orvana Minerals Asturias Corp. ("Orvana Asturias")  
Orvana Cyprus Limited  
Orvana Sweden International AB  
Orvana Pacific Minerals Corp.  
Minera El Alto S.A.  
Minera Orvana Peru S.A.  
Clarendon Mining Limited  
Minera Orvana Mexico S.A. de C.V.

(d) Financial Instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the company classifies its financial instruments in the following categories:

(i) Financial assets and liabilities at fair value through profit or loss:

Financial assets and liabilities are classified in this category if acquired principally for the purpose of trading in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income within "other gains and losses (net)" in the period in which they arise.

(ii) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The company's loans and receivables comprise cash and cash equivalents, restricted cash, concentrate and dore receivables and reclamation bonds, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be

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received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method.

(iii) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include accounts payable and accrued liabilities, bank debt, long-term debt and obligations under finance leases. Accounts payables are initially recognized at the amount required to be paid. Subsequently, accounts payables are measured at amortized cost using the effective interest method. Bank debt, long-term debt and obligations under finance leases are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument to the net carrying amount on initial recognition.

(e) Revenue recognition

Revenue arising from the sale of metals is recognized when the price and volume can be reliably measured, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is probable.

For the sale of gold-copper concentrate, the recognition criteria is typically met upon delivery of concentrate at certain destinations as specified in the contracts and payment of the provisional invoice by the buyer. Sales of gold-copper concentrate are based on specific sales agreements and are subject to adjustment upon final settlement of shipment weights, assays and metal prices, including provisions where final metal prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on spot prices or forward prices for the expected date of final settlement. Subsequent variations to weights, assays and metal prices are recognized in revenue each period end and in the period of final settlement. Refining and treatment charges are netted against revenues from concentrate sales.

Revenue from gold dore is recognized upon receipt of payment and notification of delivery to the customer. Sales of gold dore are based on specific sales agreements and are subject to adjustment upon final settlement of shipment weights, assays and metal prices.



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(f) Share-based compensation

Directors and senior executives of the Company participate in long-term compensation plans under which they are eligible to receive Company shares or the equivalent cash amount. The plans consist of a stock option plan, a restricted share unit plan and a deferred share unit plan.

Awards under the compensation plans are measured at fair value on the date of grant and recorded as compensation expense in the statements of operations over the vesting period. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. The Company re-assesses, at the end of each reporting period, its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of operations.

i) Stock Options

As stock option awards are settled in shares of the Company, the obligations under the stock option plan are included in contributed surplus within shareholders' equity. The fair value of stock options is determined using a Black-Scholes option pricing model.

ii) Restricted share units ("RSUs") and deferred share units ("DSUs")

RSUs and DSUs are settled in cash, and as such, the obligations under these plans are recorded as a liability. The liability for the cash-settled awards is adjusted to fair value each reporting date with the changes recorded as long-term compensation expense under general and administrative expense. The fair value of RSUs and DSUs is determined based on the quoted market price of Company's common shares at the reporting date.

(g) Income taxes

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting period, and any adjustments to tax payable related to prior years. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable. Deferred tax assets and liabilities are offset when they are from the same jurisdiction.

(h) Earnings per share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed using the "treasury stock method". The treasury stock method assumes that all "in the money" option proceeds are used to purchase common shares of the Company at the average market price during the period.

(i) Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term highly liquid investments with maturities at purchase date of three months or less.

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(j) Inventories

Gold inventory, which consists of gold bullion and gold in circuit, gold-copper concentrate inventory and ore stock pile inventory are stated at the lower of cost and net realizable value. Material and supplies inventory is stated at the lower of average cost and replacement cost.

(k) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Depreciation and amortization of property, plant and equipment are charged to income on a units-of-production basis over estimated ore tonnage available for processing.

(l) Exploration and development

Acquired mineral properties are recognized at cost, or if acquired as part of a business combination, at fair value at the date of acquisition. Exploration expenditures are capitalized once management has determined that there is a reasonable expectation of economic extraction of minerals from the property. Mineral properties under exploration are reclassified to mineral properties under development when technical feasibility and commercial viability of the property can be demonstrated. Expenditures directly attributable to the development of the property are capitalized.

(m) Mineral properties in development and production

Mineral properties in development and production are classified as property, plant and equipment. The Company assesses each mine development project to determine when a mine has advanced to the production stage. The criteria used to assess the start date are determined based on the nature of each mine development project, such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when a mine is substantially complete and ready for its intended use and has advanced to the production stage. The criteria considered include: (1) the completion of a reasonable period of testing of mine plant and equipment, (2) the ability to produce materials in saleable form (within specifications) and (3) the ability to sustain ongoing production of minerals. When a mine construction project has advanced into the production stage, the capitalization of certain mine construction costs cease and costs are either included in inventory or expensed, except for sustaining capital costs related to property, plant and equipment and underground mine development or reserve development.

(n) Impairment of non-financial assets

At each financial position reporting date the carrying amounts of the Company's assets, including mineral properties under exploration and mineral properties under development, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying

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amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of loss.

An impairment loss, excluding those recognized in goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership to the lessee.

Assets held under finance leases are recognized as assets of the Company at the lower of the fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are charged to the statement of operations, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Total payments under operating leases are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

(p) Decommissioning liabilities

The Company recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in finance costs. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The liabilities are reviewed on a regular basis for changes in cost estimates, discount rates and operating lives.

(q) Foreign currency translation

The Company's functional and presentation currency is the United States dollar. Functional currency is also determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The functional currency of all of the Company's subsidiaries has also been determined to be the United States dollar.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates of exchange. Foreign exchange gains and losses are recognized in the statement of operations.

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(r) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to prepare for its intended use or sale. All other borrowing costs are recognized as interest expense in the statement of loss in the period in which they are incurred.

(s) Future changes to accounting standards

*IFRS 9 Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (“IFRS 9”) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company’s financial statements

*IFRS 13 Fair Value Measurement*

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (“IFRS 13”). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Company’s financial statements.

Other

In June 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The Company does not believe the changes resulting from these new standards are relevant to its financial statements.

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 19 *Employee Benefits*. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

In December 2011, the IASB issued amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures* related to offsetting of financial assets and financial liabilities. The Company does not believe the changes resulting from these amendments will have a significant impact on its non-consolidated financial statements.

### **3. Critical accounting estimates and judgements**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

The preparation of these condensed consolidated financial statements requires the Company to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements.

In the preparation of these condensed consolidated financial statements the Company has also made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

It is reasonably possible that outcomes within the next financial year that are different from assumptions the Company has made could require a material adjustment to the carrying amount of the asset or liability affected.

#### *i) Impairment of non-financial assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the three and six months ended March 31, 2012 (three and six months ended March 31, 2011 – Nil).

#### *ii) Decommissioning liabilities*

Management is required to make significant estimates and assumptions in determining the Company's ultimate obligation for decommissioning liabilities. There are numerous factors that will affect the ultimate liability payable including the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Management is also required to apply judgment in determining whether any legal or constructive obligation exist to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties.

As at March 31, 2012, the Company had recognized \$8,058 of decommissioning liabilities (September 30, 2011 - \$7,900 and October 1, 2010 - \$7,919).

#### *iii) Depreciation and amortization*

In order to determine the amount of depreciation and amortization of property, plant and equipment to be charged to income, management must make estimates of the ore tonnage available for processing for the mineral properties in production. As at March 31, 2012, the Company had \$195,792 (September 30, 2011 - \$187,568) of property plant and equipment subject to depreciation and amortization over the estimated ore tonnage available for processing.

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*iv) Stock-based compensation*

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. The fair value of stock options is determined using a Black-Scholes option pricing model, incorporating assumptions regarding interest rates, expected life of the options and expected volatility of the market price of the Company's shares. These estimates affect the amount recognized as stock-based compensation in the statement of operations. The Company recognized approximately \$186 and \$348, respectively of stock-based compensation expense (three and six months ended March 31, 2010 - \$218 and \$783, respectively) for the three and six months ended March 31, 2012.

*v) Mineral properties*

Exploration expenditures are capitalized once management has determined that there is a reasonable expectation of economic extraction of minerals from the property. Management is required to apply judgment in determining the appropriate time to commence capitalization of exploration expenditures.

Management is also required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for the mineral properties. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from mineral properties under exploration to mineral properties under development.

*vi) Income taxes*

Judgment is required in determining whether deferred tax assets are recognized. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. As at March 31, 2012, the Company recognized \$4,667 of net deferred tax liabilities (September 30, 2011 - \$8,634 and October 1, 2010 - \$12,770).

*vii) Functional currency*

Management applies judgment in assessing the functional currency of its subsidiaries, particularly where labour and mining costs are paid in more than one currency.

**4. Cash and cash equivalents**

Cash and cash equivalents consist of cash in the bank and short-term deposits with original maturities of less than 90 days. Cash that is held in escrow, or otherwise restricted from use, is excluded from current assets and is reported separately from cash and cash equivalents.

Under the terms of the loan agreement with Credit Suisse AG ("Credit Suisse"), amounts owing by Kinbauri to the Company and other subsidiaries of the Company are subordinated to the credit facility. (refer to note 9 – Long-term debt).

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**5. Restricted cash**

Restricted cash includes \$7,127 (September 30, 2011 – nil) of restricted cash on deposit with Credit Suisse for Kinbauri for the future reclamation bond payment of approximately \$6,500 and a royalty reserve for future royalty payments of \$627.

Long term restricted cash includes approximately \$839 (September 30, 2011 - \$849) of cash on deposit with local banks in favour of the Spanish government pending audit by the government of compliance with the terms of certain capital investment subsidies received by the Kinbauri, approximately \$3,405 (September 30, 2011 – nil) of restricted cash on deposit with Credit Suisse for Kinbauri for a debt service reserve for future principal and interest loan payments and approximately \$1,533 (September 30, 2011 - \$1,426) of restricted cash on deposit with a local bank in favour of the Bolivian government pending the appeal of a VAT audit. The VAT audit relates to an audit by the Bolivia National Tax Service, for which EMIPA has filed a tax lawsuit in January 2011 before the Bolivian Supreme Court. As of the date of these statements, the matter remains unresolved.

**6. Bank debt**

EMIPA has short-term credit facilities with Banco de Credito de Bolivia S.A. and Banco Bisa S.A. for up to approximately \$7,000 payable in 60-180 days from the date of advance with annual interest rates ranging from 7% to 7.5%. Certain of EMIPA's assets are pledged as security against these loans. As at March 31, 2012, approximately \$6,960 (September 30, 2011 - \$6,417) was drawn on these facilities.

In addition, at March 31, 2012, EMIPA has bank guarantees with Banco Bisa S.A. amounting to approximately \$985 (September 30, 2011 - \$1,897), related to refunded amounts of value-added taxes ("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 guarantees for the purchase of natural gas from government suppliers that are for one year and are renewed annually and would only be executed by the government suppliers if EMIPA failed to pay the invoices related to these purchases.

**7. Inventory**

|                        | March 31,<br>2012 | September 30,<br>2011 | October 1,<br>2010 |
|------------------------|-------------------|-----------------------|--------------------|
| Ore in stockpiles      | \$ 351            | \$ 753                | \$ -               |
| In-process             | 13                | 191                   | -                  |
| Gold dore              | 625               | -                     | 753                |
| Concentrate            | 9,550             | 3,125                 | -                  |
| Materials and supplies | 9,844             | 6,211                 | 5,473              |
|                        | <b>\$ 20,383</b>  | <b>\$ 10,280</b>      | <b>\$ 6,226</b>    |

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**8. Property, plant and equipment**

|                                    | Land     | Plant and equipment | Furniture and equipment | Equipment under finance lease | Mineral properties in development and production | Mineral properties in exploration and evaluation | Total     |
|------------------------------------|----------|---------------------|-------------------------|-------------------------------|--|--|-----------|
| At October 1, 2010                 |          |                     |                         |                               |  |  |           |
| Cost                               | \$ 1,910 | \$80,749            | \$ 564                  | \$4,574                       | \$59,797   | \$6,677  | \$154,271 |
| Accumulated depreciation           |          | (30,580)            | (122)                   |                               |  |  | (30,702)  |
| Net book value, October 1, 2010    | 1,910    | 50,169              | 442                     | 4,574                         | 59,797   | 6,677  | 123,569   |
| Additions                          | 677      | 22,542              | 1,241                   | 3,941                         | 40,401   | 4,951  | 73,753    |
| Disposals                          |          |                     |                         |                               |  |  | -         |
| Reclassifications                  |          |                     |                         |                               |  |  | -         |
| Depreciation                       |          | (7,935)             | (73)                    | (642)                         | (1,104)  |  | (9,754)   |
| Exchange differences               |          |                     |                         |                               |  |  | -         |
| Net book value, September 30, 2011 | 2,587    | 64,776              | 1,610                   | 7,873                         | 99,094   | 11,628   | 187,568   |
| Additions                          | 530      | 4,900               | 45                      |                               | 7,644  | 2,087  | 15,206    |
| Disposals                          |          |                     |                         |                               |  |  | -         |
| Reclassifications                  |          |                     |                         |                               |  |  | -         |
| Depreciation                       |          | (3,059)             | (89)                    | (425)                         | (3,409)  |  | (6,982)   |
| Exchange differences               |          |                     |                         |                               |  |  | -         |
| Net book value, March 31, 2012     | \$3,117  | \$66,617            | \$1,566                 | \$7,448                       | \$103,329  | \$13,715   | \$195,792 |

**Mineral properties in development and production:**

Through its wholly-owned subsidiary, EMIPA, the Company owns and operates the Don Mario Mine in eastern Bolivia. Fiscal 2009 marked the last year of production from the Company's low-cost underground Lower Mineralized Zone ("LMZ") gold mine at Don Mario. Gold production was extended into fiscal 2010 and to the end of the second quarter of fiscal 2011 through the mining of the nearby Las Tojas deposit.

The Company is developing the Upper Mineralized Zone ("UMZ") as an open pit copper-gold-silver deposit that lies above the LMZ. The existing mine equipment used in the exploitation of the Las Tojas deposit is being used to process the UMZ ore, as well as the crushing and grinding equipment installed during the years of 2004 through 2005 used to process the LMZ gold ore. Commissioning of the LPF mill and a sulphuric acid plant began in April 2011 and commercial production commenced on January 1, 2012.

Orvana acquired the El Valle-Boinás/Carles Mine ("EVBC") in Spain in August 2009 through the acquisition of Kinbauri Gold Corp. The Company commenced production in the fourth quarter of fiscal 2011 and the corresponding asset was reclassified to mineral properties in production.



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Mineral properties in exploration and evaluation:

Exploration expenditures are capitalized once management has determined that there is a reasonable expectation of economic extraction of minerals from the property. Mineral properties under exploration are reclassified to mineral properties under development when technical feasibility and commercial viability of the property can be demonstrated. Expenditures directly attributable to the development of the property are capitalized. The Company is currently evaluating the Copperwood Project in Michigan and the costs associated with this evaluation are included in mineral properties under exploration and evaluation

a) Copperwood Project (Michigan, U.S.A.)

In 2008 and 2010, the Company's wholly-owned subsidiary, Orvana Resources, entered into mineral leases within the "Western Syncline" which is located in the Upper Peninsula of the State of Michigan.

Under the mineral leases, in consideration for annual lease payments, Orvana Resources will have mineral rights until the later of the 20th anniversary of the date of the lease or the date Orvana Resources ceases to be actively engaged in development, mining, or related operations on the property. Lease payments will be applied to any royalty payments due under related net smelter return royalty ("NSR") agreements that Orvana Resources has entered into with the lessor. The NSR royalty payments will be made quarterly and, will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. The mineral leases may be terminated by Orvana Resources on 60 days' notice.

Orvana Resources also entered into an agreement on August 23, 2010 to purchase land adjacent to the Copperwood Project to facilitate road access to the site and additional space for mining infrastructure. The purchase price of \$1,900 included \$300 paid on signing and the remainder to be paid in five instalments over the next two years. The payments include interest at an annual rate of 6%. Orvana Resources has the right to put the property back to the Vendor on the same terms as the original purchase up to August 2013, if no mining activity has taken place. At March 31, 2012, \$515 was outstanding under this agreement.

b) Don Mario Mine and property (Bolivia)

The Company has a 100% working interest in the Don Mario property comprising eleven mineral concessions located in eastern Bolivia. Annual payments aggregating approximately \$201 are made to maintain the mining rights and to keep these concessions in good standing.

The Don Mario Mine gold-bearing LMZ commenced commercial production on July 1, 2003. Production ceased during the year ended September 30, 2009. However, gold production was extended into fiscal 2010 and 2011 through mining of the nearby Las Tojas deposit. During fiscal 2011, the Company proceeded with development of the Don Mario Mine UMZ, a copper-gold-silver deposit. Certain of the mineral concessions are subject to a 3% NSR royalty payable to a third party.

c) EL Valle-Boinás/Carles ("EVBC") Mine (Spain)

Orvana acquired the EVBC project in August 2009 through the acquisition of Kinbauri Gold Corp. The EVBC gold-copper project is located in the Rio Narcea Gold Belt in northern Spain. The Company commenced production in the fourth quarter of fiscal 2011 and the corresponding asset was reclassified to mineral properties in production. The mineral production is subject to a NSR royalty of 3%, which decreases to 2.5% for any quarter in which the average gold price declines below \$1,100 per ounce.

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In addition to entering into various operational commitments in the normal course of business, the Company had commitments of approximately \$2,694 at March 31, 2012 related to the construction of the EVBC mine shaft and hoist.

**9. Long-term debt**

(a) On October 8, 2010, Kinbauri entered into a \$50,000 five-year term corporate credit agreement with Credit Suisse AG ("Credit Suisse"). The funds were used to complete construction of the Company's EVBC gold-copper-silver project in Spain. As permitted under the terms of the credit agreement, the Company opted to defer interest amounts otherwise payable until April 8, 2011 such that the credit limit was increased by such deferred interest amounts. On February 15, 2012, Kinbauri increased this facility by \$13,844 bringing the total to \$63,844 and extended the term by one year to September 30, 2016. The additional funds will be used by Kinbauri as follows: up to \$6,500 to fund an environmental bond required to be posted with the Government of the Principality of Asturias, Spain; \$3,000 to be used as a debt service reserve against one quarter-year's debt service charges; and the balance for Kinbauri's general corporate purposes, including transaction fees in connection with the loan increase and related Spanish stamp taxes.

Interest on the outstanding principal on the original loan was calculated at a rate per annum equal to LIBOR plus 3.85%. Interest on the outstanding balance of the increased facility of \$63,844 will be calculated at a rate per annum equal to LIBOR plus 4%.

Quarterly principal repayments are required commencing July 2, 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 – 5.3%; 2013 – 18.7%; 2014 – 23.3%; 2015 – 27.6%; and 2016 – 25.1%.

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 indirectly by Orvana. In addition, payment and performance of Kinbauri's obligations under the credit facility are guaranteed by Orvana. Under the terms of the credit agreement, amounts owing by Kinbauri to the Company and to other subsidiaries of the Company are subordinated until amounts owing under the credit facility are paid in full.

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 those 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.

The credit agreement required Kinbauri to enter into forward contracts (refer to note 12 - Derivative Instruments) 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.

(b) On September 29, 2009, EMIPA entered into a 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, 2012, \$417 (September 30, 2011 - \$833) was outstanding under this facility. During the three and six months ended March 31, 2012, \$208 and \$417 respectively (three and six months ended March 31, 2010 - \$208 and \$417, respectively) were repaid against this loan. The proceeds of this credit facility were used to fund the construction of the mineral flotation plant for the Upper

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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 1, 2010, EMIPA entered into an additional BISA credit agreement of approximately \$170. This facility bears interest at 4.42% and is payable in equal quarterly instalments over a five-year period. At March 31, 2012, \$132 (September 30, 2011 - \$151) was outstanding under this facility. During the three and six months ended March 31, 2012, \$10 and \$20 respectively (three and six months ended March 31, 2011 - \$ nil) were repaid against this loan. The proceeds of this third credit facility were used to fund the construction of the administrative office in Santa Cruz. 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 the office building.

(d) On January 3, 2012, the Company entered into a \$5,000 secured demand loan facility with its controlling shareholder, Fabulosa Mines Limited. On March 12, 2012, the terms of the loan agreement were amended to increase the principal amount of the loan to \$6,500 and convert the loan to a term loan with a maturity date of July 1, 2013. The funds advanced under the loan have been used for the repayment by EMIPA of a third party loan in the principal amount of \$3,000 and for working capital purposes. Interest on the outstanding principal is calculated at a rate per annum of 12% and is payable at maturity on July 1, 2013. The loan agreement contains covenants that, among other things, require repayment of the loan in the event of the sale of EMIPA or all or substantially all of its assets, repayment of a portion of the loan from excess cash flows and that funds borrowed by EMIPA from third parties are retained for use by EMIPA. In addition, in the event that, prior to March 1, 2013, Fabulosa requests that Orvana add an additional director nominated by Fabulosa to the Company's board of directors and Orvana does not do so within ten business days, the loan will convert back to a demand loan. The loan is secured by a pledge of all of the shares of Orvana Resources US Corp. and a general security assignment over present and future assets of Orvana excluding all accounts owing by Kinbauri and the present and future shares of Orvana Minerals Asturias Corp. and all proceeds therefrom. Concurrently, the Corporation entered into an agreement with Fabulosa pursuant to which, for so long as it owns at least 10% of the Company's outstanding common shares (calculated on a fully-diluted basis), Fabulosa shall have the right to designate, at any shareholders' meeting at which directors are to be elected, that number of management's nominees for election to the Company's board of directors that is the same proportion as its ownership interest is of the Company's outstanding common shares (calculated on a fully-diluted basis).

Minimum long-term debt repayments are as follows:

| Long-term debt repayments are as follows: | Fabulosa Credit Facility | Banco Bisa Credit Facilities | Credit Suisse Credit Facility | Total Long-term Debt |
|---|--------------------------|------------------------------|-------------------------------|----------------------|
| 2012                                      | \$ -                     | \$ 435                       | \$ 3,409                      | \$ 3,844             |
| 2013                                      | 6,613                    | 38                           | 11,913                        | 18,564               |
| 2014                                      | -                        | 38                           | 14,843                        | 14,881               |
| 2015                                      | -                        | 38                           | 17,637                        | 17,675               |
|   | -                        | -                            | 16,042                        | 16,042               |
|   | 6,613                    | 549                          | 63,844                        | 71,006               |
| Less: current portion                     | -                        | (455)                        | (10,853)                      | (11,308)             |
| Total – long term debt                    | 6,613                    | 94                           | 52,991                        | 59,698               |
| Financing fees                            | -                        | -                            | (4,033)                       | (4,033)              |
| Total                                     | 6,613                    | \$ 94                        | \$ 48,958                     | \$ 55,665            |

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**10. Obligations under finance leases**

During fiscal 2010 and fiscal 2011, the Company entered into leases with three-year terms to purchase mining trucks, scoop trams and other mining equipment at a total cost of approximately \$8,399 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 March 31, 2012, the obligation outstanding was \$3,165 (September 30, 2011 - \$4,179). During the three and six months ended March 31, 2012, the Company made lease payments of \$549 and \$1,080, respectively (three and six months ended March 31, 2011 - \$425 and \$735 respectively). 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:

|                                       |      |          |
|---------------------------------------|------|----------|
| Fiscal                                | 2011 | 1,098    |
|                                       | 2012 | 1,601    |
|                                       | 2013 | 612      |
|                                       |      | 3,311    |
| Amount representing interest at 5.95% |      | (146)    |
|                                       |      | 3,165    |
| Less: current portion                 |      | (1,969)  |
|                                       |      | \$ 1,196 |

The equipment under finance leases is being amortized over the estimated useful life of the assets. Amortization began in the second quarter of fiscal 2011 as the assets had been put into use.

**11. Decommissioning liabilities**

Under Canadian GAAP, the discount rate used for asset retirement obligations (decommissioning liabilities under IFRS) was the entity's credit-adjusted risk-free rate. In addition, changes in the discount rate were not reflected in the measurement of the provision. The unwinding of the discount was presented as an operating expense. At the end of fiscal 2010, the average credit-adjusted risk-free interest rate was 8% for the Company's Don Mario and EVBC mines.

Under IFRS (IAS 37, Provisions, Contingent Liabilities and Contingent Assets), the discount rate used reflects the risks specific to the obligation. Changes to the discount rate require re-measurement of the provision. The unwinding of the discount is presented as a financing cost. The impact is mainly related to these changes in the discount rate. Total projected undiscounted cash outflow for the decommissioning liabilities for the Don Mario and EVBC Mines has not changed except to remove the inflation factored into the liability under Canadian GAAP. At the end of fiscal 2010, the average discount rate was 4% for the Company's mines. As at December 31, 2010 the discount rate increased to 5% for the EVBC Mine and has remained at this rate to March 31, 2012.

Under Canadian GAAP, the obligation was measured based on fair value using third-party market assumptions. Under IFRS, the decommissioning liability (Asset retirement obligations) is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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

|  | Three months ended |       | Year ended         |       |
|--|--------------------|-------|--------------------|-------|
|  | March 31, 2012     |       | September 30, 2011 |       |
| Balance, beginning of period (note 23)               | \$                 | 7,900 | \$                 | 7,919 |
| Incremental obligation – Don Mario Mine              |                    | -     |                    | -     |
| Incremental obligation – El Valle-Boinás/Carlés Mine |                    | -     |                    | -     |
|  |                    | 7,900 |                    | 7,919 |
| Closure costs – Don Mario Mine – Las Tojas           |                    | -     |                    | (43)  |
| Accretion expense                                    |                    | 158   |                    | 24    |
|  | \$                 | 8,058 | \$                 | 7,900 |

| Balance consists of:                | As at March 31, 2012 |       | As at September 30, 2011 |       | As at October 1, 2010 |       |
|-------------------------------------|----------------------|-------|--------------------------|-------|-----------------------|-------|
| Don Mario Mine – Bolivia            | \$                   | 3,220 | \$                       | 3,166 | \$                    | 3,085 |
| El Valle-Boinás/Carlés Mine – Spain |                      | 4,838 |                          | 4,734 |                       | 4,834 |
|                                     | \$                   | 8,058 | \$                       | 7,900 | \$                    | 7,919 |

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 Orvana relating to the Company's new tailings facility, with an additional €5,000,000 required to be deposited by the Company by the end of June 2012. These funds are held in a Spanish financial institution as reclamation bonds and amount to approximately \$9,964 at March 31, 2012 (September 30, 2011 - \$10,074 and October 1, 2010 - \$3,287) and they are expected to be released after all reclamation work has been completed.

## 12. Derivative Instruments

Pursuant to the terms of the Credit Suisse agreement, 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.

The Company decided to execute an additional gold hedge with Credit Suisse of 1,400 ounces 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.

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

Changes in the fair value of derivatives are recognized through earnings.

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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.

The mark-to-market losses of \$17,267 (March 31, 2011 – \$4,800) and related deferred income tax recovery of \$5,180 (March 31, 2011 - \$1,440) for the three months ended March 31, 2012, and \$19,223 (March 31, 2011 – \$31,406) and related deferred income tax recovery of \$5,767 (March 31, 2011 - \$9,422) for the six months ended March 31, 2012 were recorded through earnings on the forward contracts.

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

|   | As at<br>March 31,<br>2012 | As at<br>September 30,<br>2011 | As at<br>October 1,<br>2010 |
|---|----------------------------|--------------------------------|-----------------------------|
| <b>Gold forwards:</b>                           |                            |                                |                             |
| Ounces  | 35,156                     | 37,500                         | -                           |
| Price /ounce                                    | \$ 1,333.70                | \$ 1,333.70                    | \$ -                        |
| <b>Copper forwards:</b>                         |                            |                                |                             |
| Tonnes  | 11,407                     | 12,935                         | -                           |
| Price/tonne                                     | \$ 7,260.00                | \$ 7,260.00                    | \$ -                        |
| Price/lb  | \$ 3.29                    | \$ 3.29                        | \$ -                        |
| <b>US dollar/Euro forwards:</b>                 |                            |                                |                             |
| Amount in US (\$ 000's)                         | \$ 75,000                  | \$ 80,000                      | \$ -                        |
| Contracted Average Euro/US dollar exchange rate | \$ 1.38                    | \$ 1.38                        | \$ -                        |

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

|   | As at<br>March 31,<br>2012 | As at<br>September 30,<br>2011 | As at<br>October 1,<br>2010 |
|---|----------------------------|--------------------------------|-----------------------------|
| <b>Gold puts (April 2012 to December 2015):</b>     |                            |                                |                             |
| Ounces  | 66,600                     | -                              | -                           |
| Price /ounce  | \$ 1,550.00                | \$ -                           | \$ -                        |
| <b>Gold calls (April 2012 to December 2015):</b>    |                            |                                |                             |
| Ounces  | 66,600                     | -                              | -                           |
| Price /ounce  | \$ 1,855.00                | \$ -                           | \$ -                        |
| <b>Gold puts (October 2015 to September 2016):</b>  |                            |                                |                             |
| Ounces  | 19,200                     | -                              | -                           |
| Price /ounce  | \$ 1,250.00                | \$ -                           | \$ -                        |
| <b>Gold calls (October 2015 to September 2016):</b> |                            |                                |                             |
| Ounces  | 19,200                     | -                              | -                           |
| Price /ounce  | \$ 2,270                   | \$ -                           | \$ -                        |

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Derivative instruments included in the balance sheet are comprised of:

|   | As at<br>March 31,<br>2012 | As at<br>September 30,<br>2011 |
|---|----------------------------|--------------------------------|
| Fair value of derivatives, end of period        | \$ 29,480                  | \$ 12,336                      |
| Less: current portion                           | (7,541)                    | (1,717)                        |
| <b>Total non-current derivative instruments</b> | <b>\$ 21,939</b>           | <b>\$ 10,619</b>               |

**13. Share capital**

- (a) Authorized - unlimited number of common shares
- (b) Common shares issued

|   | Number of<br>Common shares | Stated<br>Value   |
|---|----------------------------|-------------------|
| Balance, October 1, 2010                                  | 116,318,172                | \$ 76,227         |
| Exercise of stock options                                 | 1,035,000                  | 952               |
| Fair value assigned to exercise of stock options          | -                          | 441               |
| Shares issued to Fabulosa Mines Limited (note 22)         | 1,969,999                  | 5,214             |
| Public offering   | 8,500,000                  | 15,485            |
| Bridge loan conversion – Fabulosa Mines Limited (note 22) | 7,319,969                  | 15,225            |
| Shares issued to Fabulosa Mines Limited (note 22)         | 1,180,031                  | 2,386             |
| 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                |
| <b>Balance, March 31, 2012</b>                            | <b>136,573,171</b>         | <b>\$ 116,148</b> |

- (i) Under an agreement entered into on September 12, 2001 in connection with the initial investment in Orvana by a then affiliate of Fabulosa, Fabulosa had a pre-emptive right to acquire additional common shares on a one-for-one basis in connection with the issuance of common shares to parties other than Fabulosa. Orvana and Fabulosa agreed to terminate the prior agreement by entering into an agreement under which Fabulosa's existing pre-emptive rights to acquire common shares were amended. As consideration, Orvana issued to Fabulosa 1,969,999 common shares (refer to note 22 - Related party) and agreed to issue to Fabulosa five-year warrants to purchase up to 2,725,000 common shares.
- (ii) On July 27, 2011 the Company entered into an underwriting agreement to sell 8,500,000 common shares of the Company at a price of C\$2.00 per common share for aggregate gross proceeds of C\$17,000. This transaction closed on August 11, 2011. Net proceeds after deduction of issuance costs were \$15,485.
- (iii) Concurrent with the closing of the public offering, the Company repaid in full the outstanding amount of a related party bridge loan of \$15,225, including accrued interest, by issuing 7,319,969 common shares to Fabulosa at the same price and on the same terms as those issued under the public offering. Fabulosa also acquired 1,180,031 common shares, on a private placement basis at a price of C\$2.00 per common share. As a result, Fabulosa acquired a total of 8,500,000 common shares when combined with the shares issued to it on repayment of the bridge loan (refer to note 22 - Related party).

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(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 (refer to note 22 - Related party). At March 31, 2012 there were 400,000 warrants that were exercisable.

**14. Compensation of key management**

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

| Three months ended                        | March 31,<br>2012 | March 31,<br>2011 |
|---|-------------------|-------------------|
| Salaries and short term employee benefits | \$ 323            | \$ 342            |
| Share-based payments <sup>(1)</sup>       | 226               | (1,022)           |
| Total compensation of key management      | \$ 549            | \$ (680)          |

| Six months ended                          | March 31,<br>2012 | March 31,<br>2011 |
|---|-------------------|-------------------|
| Salaries and short term employee benefits | \$ 969            | \$ 761            |
| Share-based payments <sup>(1)</sup>       | 148               | 713               |
| Termination benefits <sup>(2)</sup>       | 320               | -                 |
| Total compensation of key management      | \$ 1,437          | \$ 1,474          |

(1) Share-based payments include the mark-to-market adjustments on RSU and DSU units.

(2) Termination benefits include contractual severance payments for the Company's former CEO who resigned on December 5, 2011.

**15. Share-based payments**

**(a) Stock options**

A summary of the stock option transactions is as follows:

|                             | Stock options | Weighted Average<br>Exercise<br>Price C\$ |
|-----------------------------|---------------|---|
| Balance, October 1, 2010    | 2,680,000     | \$0.91                                    |
| Granted                     | 1,030,000     | 3.59                                      |
| Exercised                   | (1,035,000)   | 0.90                                      |
| Forfeited                   | (100,000)     | 1.06                                      |
| Balance, September 30, 2011 | 2,575,000     | \$1.97                                    |
| Granted                     | 1,166,667     | 0.96                                      |
| Exercised                   | (250,000)     | 0.60                                      |
| Forfeited                   | (123,332)     | 3.65                                      |
| Balance, March 31, 2012     | 3,368,335     | \$1.66                                    |



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Stock options have been expensed as follows:

|                                  | Cumulative<br>expense to<br>March 31,<br>2012 | Remainder<br>to be<br>expensed | Total<br>Stock-based<br>compensation |
|----------------------------------|---|--------------------------------|--------------------------------------|
| Stock-based compensation expense | \$ 3,437                                      | \$ 423                         | \$ 3,860                             |

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

| Grant<br>Date                                   | Fair<br>value<br>US\$ | Number<br>of un-<br>vested<br>options | Weighted<br>average<br>contractual<br>life<br>(in years) | Number of<br>vested<br>options | Exercise<br>price<br>C\$ | Expiry date       |
|---|-----------------------|---------------------------------------|--|--------------------------------|--------------------------|-------------------|
| August 9, 2007                                  | 9                     | -                                     | 0.36   | 25,000                         | 0.69                     | August 8, 2012    |
| December 3, 2007                                | 81                    | -                                     | 0.68   | 175,000                        | 0.81                     | December 3, 2012  |
| March 3, 2008                                   | 22                    | -                                     | 0.93   | 50,000                         | 0.75                     | March 3, 2013     |
| March 5, 2009                                   | 40                    | -                                     | 0.93   | 150,000                        | 0.64                     | March 4, 2014     |
| October 23, 2009                                | 65                    | -                                     | 2.56   | 150,000                        | 0.88                     | October 23, 2014  |
| February 26, 2010                               | 61                    | -                                     | 2.91   | 125,000                        | 1.01                     | February 26, 2015 |
| March 1, 2010                                   | 255                   | -                                     | 2.92   | 500,000                        | 1.01                     | March 1, 2015     |
| May 17, 2010                                    | 12                    | 10,000                                | 3.13   | 10,000                         | 1.31                     | May 17, 2015      |
| August 13, 2010                                 | 84                    | 33,333                                | 3.37   | 66,667                         | 1.57                     | August 13, 2015   |
| December 10, 2010                               | 1,383                 | 236,660                               | 3.69   | 570,008                        | 3.65                     | December 10, 2015 |
| April 1, 2011                                   | 163                   | 66,666                                | 4.00   | 33,334                         | 3.01                     | April 1, 2016     |
| December 20, 2011                               | 328                   | 395,832                               | 4.72   | 229,168                        | 1.03                     | December 20, 2016 |
| March 28, 2012                                  | 240                   | 333,335                               | 4.99   | 208,332                        | 0.88                     | March 28, 2017    |
|   | \$ 2,743              | 1,075,826                             | 3.55   | 2,292,509                      |                          |                   |
| <b>Total vested and un-vested stock options</b> |                       |                                       |  | <b>3,368,335</b>               |                          |                   |

The Company uses the fair value method of accounting for stock options and, during the three and six month periods ended March 31, 2012 recognized stock-based compensation expense of \$186 and \$348 respectively (three and six months ended March 31, 2011 - \$218 and \$783 respectively).

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

| Grant date:                            | March 28, 2012 | December 20, 2011 |
|--|----------------|-------------------|
| Options granted:                       | 541,667        | 625,000           |
| Risk-free interest rate:               | 1.47%          | 1.14%             |
| Expected life in years:                | 5.00           | 5.00              |
| Expected volatility:                   | 60.6%          | 60.6%             |
| Expected dividend yield:               | Nil            | Nil               |
| Expected forfeiture rate               | 10%            | 10%               |
| Weighted average grant date fair value | \$240          | \$328             |

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The compensation expense associated with the stock options for the three and six months ended March 31, 2012 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (2011 - 10%).

The weighted - average grant date fair value of the options granted on March 28, 2012 of \$240 or C\$0.442 per option and the options granted on December 20, 2011 of \$328 or C\$0.539 per option are expensed over the vesting periods of the option being 24 months from the grant dates.

As at March 31, 2012, the fair value associated with non-vested stock options is \$904 (March 31, 2011 - \$1,261).

**(b) Long-term compensation**

**(i) Deferred share unit ("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 income. The fair value of the DSUs are marked to the quoted market price of the Company's 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 deferred share unit ("DSU's") transactions during the period are as follows:

|  | DSU's     | Fair Value |
|--|-----------|------------|
| Balance, October 1, 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                          | -         | (254)      |
| Balance, September 30, 2011                        | 216,586   | \$ 317     |
| Issued   | 66,710    | 103        |
| Redeemed   | -         | -          |
| Mark-to-market adjustment                          | -         | (171)      |
| Less current portion                               | (187,704) | (165)      |
| Balance, March 31, 2012                            | 95,592    | \$ 84      |

**(ii) Restricted share unit ("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 stock at the grant date. The fair value of the RSUs is marked to the quoted market price of the Company's shares at each reporting date and changes in their fair value are recorded in long-term compensation expense under general and administrative expenses.

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A summary of the restricted share unit ("RSU's") transactions during the period are as follows:

|   | RSU's     | Fair Value |
|---|-----------|------------|
| Balance, October 1, 2010  | 305,447   | \$ 1,254   |
| Issued  | 170,925   | 472        |
| Reversal of accrued awards from September 30, 2010                          |           | (453)      |
| Mark-to-market adjustment   |           | (540)      |
| Balance, September 30, 2011   | 476,372   | \$ 733     |
| Issued  | 229,403   | 226        |
| Redeemed  | (323,684) | (374)      |
| Forfeited   | (15,318)  | (29)       |
| Mark-to-market adjustment   | -         | (232)      |
| Less current portion  | (137,730) | (121)      |
| Balance, March 31, 2012   | 229,043   | \$ 203     |
| <hr/>   |           |            |
| Balance, March 31, 2012 – Long-term compensation ((i) DSU's and (ii) RSU's) |           | \$ 287     |

**16. 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 the operating of an environmental permit on that date by the Government of the Principality of Asturias, the Company committed to post an additional reclamation bond in the amount of €10 million (approximately \$13.0 million). The first instalment of €5 million (approximately \$6,500) was deposited in September 2011 and the second instalment of €5 million (approximately \$6,500) is required to be made by June 27, 2012.

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**17. Mining costs**

Mining costs include mine production costs, transport costs, royalty expenses, site administration costs, applicable stripping costs and other related costs:

| Three months ended:         | March 31,<br>2012 | March 31,<br>2011 |
|-----------------------------|-------------------|-------------------|
| Direct mining costs         | \$ 16,688         | \$ 3,702          |
| Royalties and mining rights | 934               | 229               |
| Mining royalty taxes        | 775               | 445               |
| Total mining costs          | \$ 18,397         | \$ 4,376          |

| Six months ended:           | March 31,<br>2012 | March 31,<br>2011 |
|-----------------------------|-------------------|-------------------|
| Direct mining costs         | \$ 28,731         | \$ 7,872          |
| Royalties and mining rights | 1,473             | 457               |
| Mining royalty taxes        | 775               | 895               |
| Total mining costs          | \$ 30,979         | \$ 9,224          |

**18. General and administrative expenses**

| Three months ended:  | March 31,<br>2012 | March 31,<br>2011 |
|--|-------------------|-------------------|
| Salaries, directors fees and office administration and other | \$ 1,610          | \$ 1,248          |
| Depreciation   | 58                | 15                |
| Stock-based compensation expense                             | 186               | 218               |
| Long-term compensation                                       | 40                | (467)             |
| Foreign exchange   | 36                | (47)              |
| Total general and administrative expenses                    | \$ 1,930          | \$ 967            |

| Six months ended:  | March 31,<br>2012 | March 31,<br>2011 |
|--|-------------------|-------------------|
| Salaries, directors fees and office administration and other | \$ 3,370          | \$ 2,289          |
| Depreciation   | 89                | 35                |
| Stock-based compensation expense                             | 348               | 783               |
| Long-term compensation                                       | (200)             | 640               |
| Foreign exchange   | 243               | (81)              |
| Total general and administrative expenses                    | \$ 3,850          | \$ 3,666          |

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**19. Finance costs**

| Three months ended:           | March 31,<br>2012 |       | March 31,<br>2011 |     |
|-------------------------------|-------------------|-------|-------------------|-----|
| Interest on credit facilities | \$                | 1,084 | \$                | 77  |
| Accretion                     |                   | 79    |                   | 84  |
| Total finance costs           | \$                | 1,163 | \$                | 161 |

| Six months ended:             | March 31,<br>2012 |       | March 31,<br>2011 |     |
|-------------------------------|-------------------|-------|-------------------|-----|
| Interest on credit facilities | \$                | 2,043 | \$                | 169 |
| Accretion                     |                   | 159   |                   | 168 |
| Total finance costs           | \$                | 2,202 | \$                | 337 |

**20. Segmented information**

The Company primarily operates in the gold and copper mining industry and its major products are gold dore and gold and copper concentrate. Its activities include gold and copper concentrate production, 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 also has administrative offices in Toronto, Canada; Stockholm, Sweden; and Nicosia, Cyprus. The following tables set forth the information by segment:

As at March 31, 2012

|                  | Cash and<br>cash<br>equivalents | Property,<br>plant and<br>equipment | Reclamation<br>bonds and<br>restricted<br>cash | Other<br>assets | Total<br>assets |
|------------------|---------------------------------|-------------------------------------|--|-----------------|-----------------|
| EMIPA            | \$ 575                          | \$ 35,993                           | \$ 1,533                                       | \$ 27,452       | \$ 65,553       |
| Kinbauri         | 5,648                           | 143,859                             | 21,335   | 12,748          | 183,590         |
| Copperwood       | 77                              | 15,295                              | -  | -               | 15,372          |
| Canada and other | 1,131                           | 645                                 | -  | 267             | 2,043           |
|                  | \$ 7,431                        | \$ 195,792                          | \$ 22,868                                      | \$ 40,467       | \$ 266,558      |

As at September 30, 2011

|                  | Cash and<br>cash<br>equivalents | Property,<br>plant and<br>equipment | Reclamation<br>bonds and<br>restricted<br>cash | Other<br>assets | Total<br>assets |
|------------------|---------------------------------|-------------------------------------|--|-----------------|-----------------|
| EMIPA            | \$ 2,050                        | \$ 39,570                           | \$ 1,426                                       | \$ 14,368       | \$ 57,414       |
| Kinbauri         | 4,711                           | 134,596                             | 10,923   | 13,145          | 163,375         |
| Copperwood       | 33                              | 12,679                              | -  | -               | 12,712          |
| Canada and other | 5,450                           | 723                                 | -  | 283             | 6,456           |
|                  | \$ 12,244                       | \$ 187,568                          | \$ 12,349                                      | \$ 27,796       | \$ 239,957      |

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For the three months ended March 31, 2012:

|                                 | Revenue   | Mining costs | Depreciation amortization | Derivative losses | Other costs | Loss before taxes |
|---------------------------------|-----------|--------------|---------------------------|-------------------|-------------|-------------------|
| EMIPA                           | \$ 10,942 | \$ 10,108    | \$ 1,203                  | \$ -              | \$ 490      | \$ (859)          |
| Kinbauri                        | 20,303    | 8,289        | 2,616                     | 17,267            | 1,055       | (8,924)           |
| Copperwood                      |           |              |                           |                   | 120         | (120)             |
| Canada and other <sup>(1)</sup> |           |              | 58                        |                   | 1,499       | (1,557)           |
|                                 | \$ 31,245 | \$ 18,397    | \$ 3,877                  | \$ 17,267         | \$ 3,164    | \$ (11,460)       |

For the six months ended March 31, 2012:

|                                 | Revenue   | Mining costs | Depreciation amortization | Derivative losses | Other costs | Loss before taxes |
|---------------------------------|-----------|--------------|---------------------------|-------------------|-------------|-------------------|
| EMIPA                           | \$ 10,942 | \$ 10,183    | \$ 1,203                  | \$ -              | \$ 927      | \$ (1,371)        |
| Kinbauri                        | 35,676    | 20,796       | 5,053                     | 19,223            | 2,248       | (11,644)          |
| Copperwood                      |           |              |                           |                   | 287         | (287)             |
| Canada and other <sup>(1)</sup> |           |              | 89                        |                   | 2,925       | (3,014)           |
|                                 | \$ 46,618 | \$ 30,979    | \$ 6,345                  | \$ 19,223         | \$ 6,387    | \$ (16,316)       |

(1) Depreciation is included under General and Administrative expenses for non operating companies

For the three months ended March 31, 2011:

|                                 | Revenue  | Mining costs | Depreciation amortization | Derivative losses | Other costs | Loss before taxes |
|---------------------------------|----------|--------------|---------------------------|-------------------|-------------|-------------------|
| EMIPA                           | \$ 6,330 | \$ 4,376     | \$ 602                    | \$ -              | \$ 827      | \$ 525            |
| Kinbauri                        |          |              |                           | 4,800             | (874)       | (3,926)           |
| Copperwood                      |          |              |                           |                   | 251         | (251)             |
| Canada and other <sup>(1)</sup> |          |              | 15                        |                   | 1,347       | (1,362)           |
|                                 | \$ 6,330 | \$ 4,376     | \$ 617                    | \$ 4,800          | \$ 1,551    | \$ (5,014)        |

For the six months ended March 31, 2011:

|                                 | Revenue   | Mining costs | Depreciation amortization | Derivative losses | Other costs | Loss before taxes |
|---------------------------------|-----------|--------------|---------------------------|-------------------|-------------|-------------------|
| EMIPA                           | \$ 12,757 | \$ 9,224     | \$ 1,163                  | \$ -              | \$ 1,260    | \$ 1,110          |
| Kinbauri                        |           |              |                           | 31,406            | (639)       | (30,767)          |
| Copperwood                      |           |              |                           |                   | 317         | (317)             |
| Canada and other <sup>(1)</sup> |           |              | 35                        |                   | 3,587       | (3,622)           |
|                                 | \$ 12,757 | \$ 9,224     | \$ 1,198                  | \$ 31,406         | \$ 4,525    | \$ (33,596)       |

(1) Depreciation is included under General and Administrative expenses for non operating companies

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**21. Loss per share**

| Three months ended March 31,                            | 2012        | 2011        |
|---|-------------|-------------|
| Loss per share  |             |             |
| Basic and diluted                                       | \$ (0.06)   | \$ (0.01)   |
| Weighted average number of shares outstanding – basic   | 136,573,171 | 116,549,283 |
| Dilutive effect of stock options                        | 134,277     | 1,304,202   |
| Dilutive effect of warrants                             | 25,242      | -           |
| Weighted average number of shares outstanding - diluted | 136,732,690 | 117,853,485 |

| Six months ended March 31,                              | 2012        | 2011        |
|---|-------------|-------------|
| Loss per share  |             |             |
| Basic and diluted                                       | \$ (0.09)   | \$ (0.20)   |
| Weighted average number of shares outstanding – basic   | 136,470,712 | 116,437,128 |
| Dilutive effect of stock options                        | 290,096     | 1,274,130   |
| Dilutive effect of warrants                             | 34,308      | -           |
| Weighted average number of shares outstanding - diluted | 136,795,116 | 117,711,258 |

As a result of the net loss attributable to shareholders for the three and six months ended March 31, 2012, the impact of antidilutive equity instruments were excluded from diluted loss per share calculation.

**22. Related party**

**(a) Fabulosa Mines Limited**

Under an agreement entered into on September 12, 2001 in connection with the initial investment in Orvana by a then affiliate of Fabulosa (which investment and such agreement were subsequently transferred to Fabulosa), Fabulosa had a pre-emptive right to acquire additional common shares on a one-for-one basis in connection with the issuance of common shares to parties other than Fabulosa. Fabulosa's pre-emptive right under such agreement required that Orvana provide Fabulosa with notice of the terms of any proposed issuance of common shares at least 30 days in advance of the completion of any such issuance. This notice requirement effectively precluded Orvana from undertaking certain types of equity financings, including bought deals and overnight marketed public offerings. In addition, the application of Fabulosa's pre-emptive right to the issuance of common shares upon the exercise of options had been a matter of dispute between the parties.

With a view to Orvana obtaining greater flexibility to complete equity financings and resolution of the disagreement regarding the application of Fabulosa's pre-emptive rights to shares issued upon the exercise of options, on May 16, 2011, Orvana and Fabulosa agreed to terminate their prior agreement by entering into an agreement under which Fabulosa's existing pre-emptive rights to acquire common shares were amended and Fabulosa also committed to provide Orvana with a six-month, secured convertible \$15,000 bridge loan bearing interest at a rate of 8% per annum. As consideration for the past services, amendments and the provision of bridge loan financing, Orvana issued to Fabulosa 1,969,999 common shares (refer to note 13 – Share capital) (the "Consideration Shares") and agreed to

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issue to Fabulosa five-year warrants to purchase up to 2,725,000 common shares. As a result of the issuance of the Consideration Shares, Fabulosa increased its ownership interest from 51.6% to 52.4% of the issued and outstanding common 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 outstanding stock options as of May 16, 2011. On September 6, 2011 the Company issued 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. All of the warrants have an exercise price equal to the volume-weighted average price of the common shares on the TSX for the five trading days preceding the date such warrants are issued.

In addition, Orvana agreed to approve the implementation of a normal course issuer bid ("NCIB") prior to June 4, 2012, subject to TSX approval. The purpose of the NCIB will primarily be to acquire common shares to mitigate the dilutive effect of common shares issued upon the exercise of stock options granted under Orvana's Stock Option Plan after May 16, 2011.

On June 3, 2011, the Company entered into an agreement with Fabulosa for a bridge loan amounting to \$15,000. The bridge loan was secured against all personal property of Orvana (excluding the shares of Orvana Minerals Asturias Corp. and all proceeds there from). The full amount of the bridge loan of \$15,000 was drawn down. The bridge loan had a term of six months and the outstanding amount of the loan could have been repaid by Orvana at any time without penalty. Pursuant to the terms of the bridge loan, if Orvana completed an equity financing prior to repayment of the loan, the outstanding amount of the loan could, at Orvana's sole discretion, be converted into common shares at the price at which common shares were sold under the equity financing.

On July 27, 2011 the Company entered into an underwriting agreement to sell 8,500,000 common shares of Orvana at a price of C\$2.00 per common share for aggregate gross proceeds of C\$17,000,000 (the "Offering"). This transaction closed on August 11, 2011.

Concurrent with the closing of the Offering, the Company repaid in full the outstanding amount of the \$15,225 bridge loan, including accrued interest, by issuing 7,319,969 common shares to Fabulosa at the same price and on the same terms as those issued under the Offering. Fabulosa also acquired 1,180,031 common shares, on a private placement basis at a price of C\$2.00 per common share. As a result, Fabulosa has acquired 8,500,000 common shares in total when combined with the shares issued to it on repayment of the bridge loan. Following the completion of the Offering, Fabulosa's holdings in Orvana declined from 52.3% to 52.0%.

On January 3, 2012, the Company entered into a \$5,000 secured demand loan facility with its controlling shareholder, Fabulosa Mines Limited. On March 12, 2012, the terms of the loan agreement were amended to increase the principal amount of the loan to \$6,500 and convert the loan to a term loan with a maturity date of July 1, 2013. The funds advanced under the loan have been used for the repayment by EMIPA of a third party loan in the principal amount of \$3,000 and for working capital purposes. Interest on the outstanding principal is calculated at a rate per annum of 12% and is payable at maturity on July 1, 2013. The loan agreement contains covenants that, among other things, require repayment of the loan in the event of the sale of EMIPA or all or substantially all of its assets, repayment of a portion of the loan from excess cash flows and that funds borrowed by EMIPA from third parties are retained for use by EMIPA. In addition, in the event that, prior to March 1, 2013, Fabulosa requests that Orvana add an additional director nominated by Fabulosa to the Company's board of directors and Orvana does not do so within ten business days, the loan will convert back to a demand loan. The loan is secured by a pledge of all of the shares of Orvana Resources US Corp. and a general security assignment over present and future assets of Orvana excluding all accounts owing by Kinbauri and the present and future shares of Orvana Minerals Asturias Corp. and all proceeds therefrom. Concurrently, the Corporation entered into an agreement with Fabulosa pursuant to which, for so long as it owns at least 10% of the Company's outstanding common shares (calculated on a fully-diluted basis), Fabulosa shall have the



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right to designate, at any shareholders' meeting at which directors are to be elected, that number of management's nominees for election to the Company's board of directors that is the same proportion as its ownership interest is of the Company's outstanding common shares (calculated on a fully-diluted basis).

(b) Directors

During the six months ended March 31, 2012 the Company paid \$45 in consulting fees to directors.

**23. Transition to IFRS**

(a) First-time adoption of IFRS

The Company's transition to IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of the standards effective at the end of an entity's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following IFRS 1 optional exemptions in its preparation of its opening IFRS consolidated statement of financial position as at October 1, 2010, the Company's Transition Date.

- To apply IFRS 2 *Share-based Payments* only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 *Business Combinations* prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- To apply IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* prospectively from the Transition Date. IFRIC 1 provides guidance regarding the treatment of changes in decommissioning, restoration and similar liabilities, such as the Company's decommissioning liabilities.
- To apply IAS 23 *Borrowing Costs* prospectively from the Transition Date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.
- To not reassess whether arrangements contain a lease under IFRS where the same determination that would be made under IFRIC 4, *Determining whether an Arrangement Contains a Lease*, was made previously in accordance with Canadian GAAP.
- To apply the transitional provisions of IFRIC 4 to leases for which the same determination as IFRIC 4 was not made previously in accordance with Canadian GAAP. Therefore, the determination of whether these arrangements contain a lease is based on the circumstances existing at the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the Company's opening IFRS balance sheet and other comparative information restated to comply with IFRS, are consistent with those made previously under current Canadian GAAP.

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(b) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS:

|   | Note  | March 31,<br>2011<br>Canadian<br>GAAP | Adjustments | March 31,<br>2011<br>IFRS |
|---|-------|---------------------------------------|-------------|---------------------------|
| <b>Assets</b>                                       |       |                                       |             |                           |
| Current assets                                      |       |                                       |             |                           |
| Cash and cash equivalents                           |       | \$ 23,546                             | \$ -        | \$ 23,546                 |
| Value added taxes receivable and prepaid expense    |       | 9,623                                 | -           | 9,623                     |
| Inventory   | (iv)  | -                                     | 8,510       | 8,510                     |
| Gold inventory                                      | (iv)  | 1,478                                 | (1,478)     | -                         |
| Supplies inventory                                  | (iv)  | 7,032                                 | (7,032)     | -                         |
|   |       | 41,679                                | -           | 41,679                    |
| Long term value-added taxes receivable              |       | 3,074                                 | -           | 3,074                     |
| Restricted cash                                     |       | 2,206                                 | -           | 2,206                     |
| Reclamation bonds                                   |       | 3,433                                 | -           | 3,433                     |
| Property, plant and equipment                       | (i)   | 151,752                               | 55          | 151,807                   |
| Deferred income tax asset                           | (iv)  | 9,422                                 | (9,422)     | -                         |
|   |       | \$ 211,566                            | \$ (9,367)  | \$ 202,199                |
| <b>Liabilities</b>                                  |       |                                       |             |                           |
| Current liabilities                                 |       |                                       |             |                           |
| Bank debt   |       | \$ 3,636                              | \$ -        | \$ 3,636                  |
| Accounts payable and accrued liabilities            |       | 15,225                                | -           | 15,225                    |
| Income taxes payable                                |       | 94                                    | -           | 94                        |
| Current portion of long-term debt                   |       | 833                                   | -           | 833                       |
| Current portion of obligations under finance leases |       | 1,344                                 | -           | 1,344                     |
| Current portion of derivative instruments           |       | 5,101                                 | -           | 5,101                     |
|   |       | 26,233                                | -           | 26,233                    |
| Long-term debt                                      |       | 46,471                                | -           | 46,471                    |
| Obligations under finance leases                    |       | 1,678                                 | -           | 1,678                     |
| Decommissioning liabilities                         | (i)   | 7,834                                 | (73)        | 7,761                     |
| Derivative instruments                              |       | 26,305                                | -           | 26,305                    |
| Provision for statutory labour obligations          |       | 1,694                                 | -           | 1,694                     |
| Deferred income tax liability                       | (ii)  | 12,958                                | (10,509)    | 2,449                     |
| Long-term compensation                              |       | 2,151                                 | -           | 2,151                     |
|   |       | 125,324                               | (10,582)    | 114,742                   |
| <b>Shareholders' equity</b>                         |       |                                       |             |                           |
| Share capital                                       |       | 77,230                                | -           | 77,230                    |
| Contributed surplus                                 | (iii) | 2,222                                 | (128)       | 2,094                     |
| (Deficit) retained earnings                         |       | 6,790                                 | 1,343       | 8,133                     |
|   |       | \$ 86,242                             | \$ 1215     | \$ 87,457                 |
|   |       | \$ 211,566                            | \$ (9,367)  | \$ 202,199                |

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- (c) The following provides is a summary of the transition adjustments to the Company's accumulated comprehensive loss from Canadian GAAP to IFRS for the respective periods. The adoption of IFRS did not have a material impact on the condensed interim consolidated statements of cash flows.

|  | Note  | Three months<br>ended<br>March 31, 2012 | Three months<br>ended<br>March 31, 2011 |
|--|-------|---|---|
| Comprehensive loss under Canadian GAAP   |       | \$ (9,191)                              | \$ (3,687)                              |
| Accretion on decommissioning liabilities                                       | (i)   | 72                                      | 64                                      |
| Deferred taxes on non-monetary assets and liabilities<br>in foreign operations | (ii)  | 1,139                                   | 1,958                                   |
| Forfeiture estimate for share-based payments                                   | (iii) | 21                                      | 25                                      |
| Comprehensive loss under IFRS  |       | \$ (7,959)                              | \$ (1,640)                              |

|  | Note  | Six months<br>ended<br>March 31, 2012 | Six months<br>ended<br>March 31, 2011 |
|--|-------|---------------------------------------|---------------------------------------|
| Comprehensive loss under Canadian GAAP   |       | \$ (12,072)                           | \$ (24,711)                           |
| Accretion on decommissioning liabilities                                       | (i)   | 143                                   | 128                                   |
| Deferred taxes on non-monetary assets and liabilities<br>in foreign operations | (ii)  | (574)                                 | 1,455                                 |
| Forfeiture estimate for share-based payments                                   | (iii) | 39                                    | 89                                    |
| Comprehensive loss under IFRS  |       | \$ (12,464)                           | \$ (23,039)                           |

- (d) The following provides a summary of the transition adjustments to the Company's shareholders equity from Canadian GAAP to IFRS for the respective periods.

|  | Note | September 30,<br>2011 | March 31,<br>2011 | October 1,<br>2010 |
|--|------|-----------------------|-------------------|--------------------|
| Shareholders' equity under Canadian GAAP                                       |      | \$ 129,426            | \$ 86,242         | \$ 109,402         |
| Accretion on decommissioning liabilities                                       | (i)  | 254                   | 128               |                    |
| Deferred taxes on non-monetary assets<br>and liabilities in foreign operations | (ii) | (1,418)               | 1,087             | (368)              |
| Shareholders' equity under IFRS  |      | \$ 128,262            | \$ 87,457         | \$ 109,034         |

- (e) Explanatory notes

These explanatory notes also refer to the reconciliation of the consolidated balance sheets from Canadian GAAP to IFRS included above.

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- (i) The effect of the change in accounting policy to measure decommissioning liabilities using a discount rate based on current interest rates, adjusted to reflect the risks specific to the liability.
- (ii) The effect of the change in accounting policy to recognize deferred taxes on the temporary differences in the accounting and tax basis of non-monetary assets and liabilities of foreign operations arising from exchange rate fluctuations.
- (iii) The effect of the change in accounting policy to incorporate an estimate of forfeitures when determining the expense related to share-based payments.
- (iv) Certain balances were re-classed to conform to the current presentation. These amounts were gold and supplies inventory combined into the line for inventory and the deferred tax asset as at March 31, 2010 was combined with the deferred income tax liability balance as they both related to the same tax jurisdiction.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP which has resulted in changes to the recognition and measurement of transactions and balances within these financial statements. Accounting policies have been changed to be consistent with IFRS as is expected to be in effect on September 30, 2012.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS, and the effect on the Company's financial statements.

*Mineral Properties under Exploration*

Subject to certain restrictions, IFRS currently allows an entity to determine an accounting policy that specifies the treatment of costs related to the exploration for and evaluation of mineral properties. On adoption of IFRS, the Company has retained its policy of capitalizing exploration expenditures once management has determined that there is a reasonable expectation of economic extraction of minerals from the property.

*Mineral Properties under Development*

There was no distinction under Canadian GAAP between mineral properties under exploration and mineral properties under development. Under IFRS, once technical feasibility and commercial viability of a property can be demonstrated, the carrying value is reclassified. On adoption of IFRS, the Company has changed its accounting policy to reclassify the carrying value of a property to mineral properties under development once technical feasibility and commercial viability of a property can be demonstrated.

*Decommissioning Liability (Asset Retirement Obligations)*

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect this difference; however the change had no significant impact on the Company's financial statements.

The discount rate used to measure decommissioning liabilities under IFRS is based on current interest rates, adjusted to reflect the risks specific to the liability. Under Canadian GAAP, the discount rate used is the credit adjusted risk-free rate.

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On adoption of IFRS the Company has changed the discount rates used to measure decommissioning liabilities. The effect of applying this change in accounting policy was an increase in decommissioning \$381 and a corresponding increase in mineral properties under development at October 1, 2010.

Under IFRS, the accretion in the decommissioning liabilities due to the unwinding of the discount rate is classified as a finance cost. Under Canadian GAAP, the accretion was recorded within operating expenses.

This change in accounting policy resulted in a reclassification of the accretion associated with decommissioning liabilities from operating expenses to finance costs in the comparative periods.

*Impairment of Non-Financial Assets*

IFRS requires a write down of assets if the recoverable amount is less than its carrying value. The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. Value in use is determined using discounted estimated future cash flows. Under Canadian GAAP, a write down to estimated fair value was required only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

IFRS also requires the reversal of any previous impairment losses, with the exception of goodwill, where circumstances have changed such that the level of impairment in the value of the assets has been reduced. Canadian GAAP prohibits the reversal of impairment losses.

The Company has changed its accounting policies related to impairment of assets to be consistent with the requirements under IFRS. The changes in accounting policies related to impairment did not have a significant impact on the opening IFRS consolidated balance sheet.

*Share-based Payments*

In certain circumstances, IFRS requires a different measurement of share-based compensation than Canadian GAAP. In particular, IFRS requires forfeitures of the Company's stock options, restricted share units and deferred share units to be estimated when the instruments are granted. Under current GAAP, it is not required to account for forfeitures at the time of grant and the Company records forfeitures when they occur.

On adoption of IFRS the Company has changed its accounting policies to estimate forfeitures of share-based payments. The effect of applying this change in accounting policy was a decrease in contributed surplus of \$39 and a corresponding increase in retained earnings at October 1, 2010.

*Income taxes*

IFRS requires the recognition of deferred taxes on the temporary differences in the accounting and tax basis of non-monetary assets and liabilities of foreign operations arising from exchange rate fluctuations. Deferred taxes were not recognized on these types of temporary differences under current Canadian GAAP.

The Company's accounting policies were changed to reflect this difference. The effect of applying this change in accounting policy was an increase in deferred income tax liabilities of \$368 and a corresponding decrease in retained earnings at October 1, 2010.