

# ORVANA

MINERALS CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – For the third quarter ended June 30, 2011

This management's discussion and analysis ("MD&A") of results of operations and financial condition of Orvana Minerals Corp. ("Orvana" or the "Company") was prepared on August 12, 2011 (the "Report Date") and describes the operating and financial results of the Company for the third quarter ended June 30, 2011. The MD&A should be read in conjunction with Orvana's unaudited consolidated financial statements and related notes for the period ended June 30, 2011 and the audited consolidated financial statements and related notes for the fiscal year ended September 30, 2010. The Company prepares its financial statements and MD&A in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, all dollar amounts (except per unit amounts) are in thousands of United States dollars unless otherwise stated and gold production, in fine troy ounces, is referred to as "ounces".

Throughout this MD&A, the Company has also used certain non-GAAP measures, including direct mine operating costs, cash operating costs, total cash costs and total production costs, and related unit cost information, because it understands that certain investors use this information to determine the Company's ability to generate earnings as cash flow for use in investing and other activities. The Company believes that conventional measures of performance prepared in accordance with Canadian GAAP do not fully illustrate the ability of its operating mines to generate cash flow. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, should not be construed as an alternative to Canadian GAAP reporting of operating expenses, and may not be comparable to similar measures presented by other companies. The measures are not necessarily indicative of cost of sales as determined under Canadian GAAP. Cash costs are determined in accordance with the former Gold Institute's Production Cost Standard.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, potential future events or performance (often, but not always, using words or phrases such as "believes", "expects" "plans", "estimates" or "intends" or stating that certain actions, events or results "may", "could", "would", "might", "will" or "are projected to" be taken or achieved) are not statements of historical fact, but are forward-looking statements.

Forward-looking statements relate to, among other things, all aspects of the development of the Upper Mineralized Zone ("UMZ") at the Don Mario Mine in Bolivia, the El Valle-Boinás/Carlés ("EVBC") Mine in Spain and the Copperwood Project in Michigan and their potential operations and production; the outcome and timing of decisions with respect to whether and how to

proceed with such development and production; the timing and outcome of any such development and production; estimates of future capital expenditures; mineral resource estimates; estimates of permitting time lines; statements and information regarding future feasibility studies and their results; production forecasts; future transactions; future gold, copper and silver prices; the ability to achieve additional growth and geographic diversification; future production costs; future financial performance, including the ability to increase cash flow and profits; future financing requirements; and mine development plans.

Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company as of the date of such statements, are inherently subject to significant business, economic and competitive uncertainties and contingencies. The estimates and assumptions of the Company contained or incorporated by reference in this MD&A, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth herein or as otherwise expressly incorporated herein by reference as well as: there being no significant disruptions affecting operations, whether due to labour disruptions, supply disruptions, power disruptions, damage to equipment or otherwise; permitting, development, operations, expansion and acquisitions at the UMZ, and the EVBC Mine and Copperwood Project being consistent with the Company's current expectations; political developments in any jurisdiction in which the Company operates being consistent with its current expectations; certain price assumptions for gold, copper and silver; prices for key supplies being approximately consistent with current levels; production and cost of sales forecasts meeting expectations; the accuracy of the Company's current mineral reserve and mineral resource estimates; and labour and materials costs increasing on a basis consistent with Orvana's current expectations.

A variety of inherent risks, uncertainties and factors, many of which are beyond the Company's control, affect the operations, performance and results of the Company and its business, and could cause actual events or results to differ materially from estimated or anticipated events or results expressed or implied by forward looking statements. Some of these risks, uncertainties and factors include fluctuations in the price of gold, silver and copper; the need to recalculate estimates of resources based on actual production experience; the failure to achieve production estimates; variations in the grade of ore mined; variations in the cost of operations; the availability of qualified personnel; the Company's ability to obtain and maintain all necessary regulatory approvals and licenses; risks generally associated with mineral exploration and development, including the Company's ability to develop the UMZ, the Copperwood Project or EVBC Mine; the Company's ability to acquire and develop mineral properties and to successfully integrate such acquisitions; the Company's ability to obtain financing when required on terms that are acceptable to the Company; challenges to the Company's interests in its property and mineral rights; current, pending and proposed legislative or regulatory developments or changes in political, social or economic conditions in the jurisdictions in which the Company operates; general economic conditions worldwide; and the risks identified in this MD&A under the heading "Risks and Uncertainties". This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements and reference should also be made to the Company's Annual Information Form for a description of additional risk factors.

Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions and, except as required by law, the Company does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change. Readers are cautioned not to put undue reliance on forward-looking statements.

Management accepts responsibility for the reliability and timeliness of the information disclosed and confirms the existence and effectiveness of the systems of internal control that are in place to provide this assurance. The Board of Directors assesses the integrity of Orvana's public financial disclosures through the oversight of the Audit Committee.

## **BUSINESS OVERVIEW AND STRATEGY**

### **The Company**

Orvana is transforming from a single mine gold producer into a multi-mine gold and copper producer. Orvana's primary asset is the EVBC gold-copper-silver mine in northern Spain, which initiated start-up and commissioning in May 2011 and processed 38,000 tonnes during the month of June. Orvana also owns and operates the Don Mario UMZ mine in Bolivia. Commissioning of the UMZ copper-gold-silver mine began in April 2011. In addition, Orvana is advancing its Copperwood copper project in Michigan, USA. Additional information is available at Orvana's website ([www.orvana.com](http://www.orvana.com)).

The forward-looking statements made below with respect to the anticipated development and exploration of the Company's mineral projects are intended to provide an overview of management's expectations with respect to certain future activities of the Company and may not be appropriate for other purposes.

### **Business Strategy**

Orvana's goal is to grow and diversify its precious and selected base metal assets. With a growing pipeline of promising mineral assets and an experienced management team, Orvana is becoming a multi-mine gold and copper producer.

Orvana developed its cash resources as a result of the efficient development and profitable operation of the Don Mario Mine. Under its acquisition strategy, Orvana has acquired two cornerstone mineral deposits: the EVBC gold-copper-silver deposit and the Copperwood copper deposit. The Company continues to consider other possible acquisition opportunities that fit with its mine development and operating expertise as well as its asset portfolio objectives.

## The El Valle-Boinás/Carlés Mine

Through its wholly-owned subsidiary, Kinbauri España S.L.U. (“Kinbauri”), the Company owns and is developing the El Valle-Boinás/Carlés (“EVBC”) Mine, which is located in northern Spain’s Rio Narcea Gold Belt and consists of 14 exploitation concessions comprising 4,298 hectares and two investigation permits comprising 754 hectares.

On March 5, 2010, the Company announced the completion of an updated resource estimate that showed an increase in resources at the EVBC Mine. Ore Reserves Engineering of Denver, Colorado, under the supervision of Alan Noble, P.E., an independent qualified person for the purposes of the National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”), prepared the resource estimate, which was included in the NI 43-101-compliant Technical Report on the Boinás and Carlés Gold Mines.

On July 14, 2010, the Company announced the completion of the “Technical Report on the Boinás and Carlés Gold Mines” which included a NI 43-101-compliant reserve statement and cash-flow model for the EVBC Mine. Using metals prices of \$800 per ounce of gold, \$12.50 per ounce of silver, and \$2.00 per pound of copper, the seven-year mine production schedule generates approximately 100,000 ounces of gold per year and yields an IRR of 48%, a net present value of \$91.1 million at a 5% discount rate, and a payback of 2.2 years, with an average cash cost per ounce of \$461, net of by-products. The “Technical Report on the Boinás and Carlés Gold Mines” with an effective date of April 30, 2010, was prepared by mining engineers Adam Wheeler, Robert Dowdell, and Alan Noble, all independent qualified persons for purposes of NI 43-101. The reserves and resources estimates are as follows:

### Boinás and Carlés Mines – Mineral Reserves and Resources

	Million tonnes	Au g/t	Au Ounces	Cu %	Cu Tonnes
Proven Reserves (1)	1.3	4.1	172,000	0.90	11,800
Probable Reserves	3.4	5.7	612,000	0.68	22,700
<b>Total Reserves</b>	<b>4.7</b>	<b>5.2</b>	<b>784,000</b>	<b>0.74</b>	<b>34,500</b>
Measured Resources (2) (3)	2.1	4.1	271,000	0.80	16,500
Indicated Resources	5.3	5.5	930,000	0.60	32,000
<b>Total Measured &amp; Indicated</b>	<b>7.3</b>	<b>5.1</b>	<b>1,201,000</b>	<b>0.65</b>	<b>48,500</b>
<b>Inferred Resources</b>	<b>9.5</b>	<b>4.9</b>	<b>1,478,000</b>	<b>0.40</b>	<b>36,500</b>

(1) NI 43-101-compliant Technical Report on the Boinás and Carlés Gold Mine (A. Wheeler, B. Dowdell, A. Noble) dated April 30, 2010

(2) NI 43-101-compliant Technical Report on EVBC (A. Noble, P.E.) dated April 19, 2010.

(3) Resources include reserves. Mineral resources that are not mineral reserves do not have a demonstrated economic viability.

These technical reports are available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the Company's website at [www.orvana.com](http://www.orvana.com).

During the third quarter of 2011, Orvana began commissioning the EVBC Mine, with the start of the processing plant in May 2011 after an initial testing period. The mine development process has improved in both the Carlés Mine as well as the El Valle-Boinás Mine over the last few months as workers became more familiar with ground conditions and more efficient working procedures were implemented. Working faces in the El Valle-Boinás Mine have been established at the A107, San Martín, Black Skarn and Boinás Este ore bodies as well as the Charnela sub-vertical structure. Stope production has been initiated in both the Boinás and Carlés mines. Further development and stope preparation continues as well at the Carlés satellite deposit.

In March 2011, the Company entered into a contract with MRI Trading AG of Zug, Switzerland, for the sale of the gold/copper concentrates to be produced from the EVBC Mine. Under the contract, pricing is determined at the buyer's option, the average monthly cash settlement price of the month following the month of shipment or the fourth month following the month of shipment.

In July 2011, the Company entered into a dore refining contract with Metalor Technologies S.A. of Marin, Switzerland and a dore sales contract with Auramet Trading LLC.

Approximately 70,000 tonnes of ore from both the Carlés and Boinás mines was stockpiled near the processing plant when the production was initiated. The new shaft construction is progressing well. The raise boring of the first and upper part of the new hoist shaft is nearing completion. The construction of shaft surface facilities (a winch house and new head frame) is expected to be initiated in August, 2011. The operation of the processing plant during the start-up and commissioning phase was as anticipated. The production is expected to be at a rate of around 70% of the rated 2,000 tonnes per day capacity, increasing towards 100% once the shaft is completed during the third quarter of fiscal 2012.

Since the start of the commissioning in May 2011, over 1,000 tonnes of concentrate grading 22.3% copper, 32 g/t gold and 332 g/t silver has been trucked to port and cash payment has been received. Orvana recognizes revenues for each 1,000 tonnes of concentrate at port. EVBC poured its first gold bars during the week of July 17, 2011 and payment for this doré has been received. During June 2011, over 38,000 tonnes were processed through the mill grading 1.40 g/t gold, 0.45% copper and 9.56 g/t silver. This head grade for gold is low as much of the initial material is development ore mined to access the stopes, and is primarily lower-grade skarn ore. Recoveries have been close to target for initial production, with 83.3% gold recovery and 64.5% copper recovery. During July, an additional 28,800 tonnes were processed through the mill grading 1.92 g/t gold and 0.58% copper. Recoveries were 87.1% for gold and 72.8% for copper.

The Spanish Central Institute of Explosives has certified Kinbauri as a “high user” of explosives, allowing construction of explosives magazines. During the second quarter of fiscal 2011, the Company commenced using a new larger explosives magazine in the Boinás Mine. A larger explosive magazine was also finalized in the underground Carlés Mine and is scheduled to be put into use after the final inspection by the authorities.

On June 27, 2011 the Company received the final authorization from the Ministry of Environment to run and operate the new tailings dam and processing plant. This authorization required the posting of a €5 million (approximately \$7.2 million) cash bond within a reasonable time period (expected to be deposited in August 2011) and an additional €5 million (approximately \$7.2 million) bond in one year.

Currently, the Company has all the permits required to operate the mine and plant as planned.

Since September 2010, the Company has been drilling from underground locations with three drill rigs. This drilling has been for stope definition and dewatering purposes as well as to upgrade and delineate resources defined by previous drilling. Results to date have upgraded indicated and inferred resources as well as encountered mineralization where resources had not been defined. In addition, the Company is drilling at the Godan prospect, which is located two kilometres northwest of the Carlés mine. The current drilling is stepping out from historical drilling, where gold and molybdenum mineralization was encountered.

### **The Don Mario Mine – Upper Mineralized Zone**

Through its wholly-owned subsidiary, Empresa Minera Paititi S.A. (“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 zone 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 Las Tojas mineralization was of a lower grade and was an open pit rather than an underground mine and had mineralogical characteristics that are similar to those of the LMZ ore. Mine production from the Las Tojas deposit was depleted by the end of the second quarter after producing more than 38,000 ounces of gold.

The Company completed a NI 43-101-compliant technical report on the UMZ that describes the updated processing circuit and related mine plan. It was released in August 2010, and was prepared by Gino Zandonai and Roshan Bhappu, P.E., both independent qualified persons for the purposes of NI 43-101, and W. C. Williams, Ph.D., who is a qualified person for the purposes of NI 43-101, but who is not independent of the Company. The reserves and resources estimates are as follows:

## Don Mario Mine UMZ – Mineral Reserves and Resources

	Million tonnes	Cu %	Au g/t	Ag g/t
Proven Reserves (1)	2.5	1.48	1.5	49
Probable Reserves	3.2	1.47	1.4	43
<b>Total Reserves</b>	<b>5.7</b>	<b>1.47</b>	<b>1.4</b>	<b>45</b>
Measured Resources (1) (2)	2.7	1.37	1.3	45
Indicated Resources	3.7	1.32	1.3	39
<b>Total Measured &amp; Indicated</b>	<b>6.4</b>	<b>1.34</b>	<b>1.3</b>	<b>41</b>
<b>Inferred Resources</b>	<b>0.3</b>	<b>1.49</b>	<b>1.2</b>	<b>38</b>

(1) NI 43-101 Technical Report (G. Zandonai, R. Bhappu, B. Williams) dated August 20, 2010

(2) Resources include reserves. Mineral resources that are not mineral reserves do not have a demonstrated economic viability.

This technical report is available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the Company's website at [www.orvana.com](http://www.orvana.com).

The UMZ life-of-mine ("LOM") metal production was estimated to be 152 million pounds of copper, 151,000 ounces of gold and 4.9 million ounces of silver. LOM average annual production is estimated at 14.5 million pounds of copper, 14,400 ounces of gold, and 460,000 ounces of silver. The production from the UMZ is expected to extend the life of the Don Mario Mine to beyond 2019.

After extensive metallurgical test work and economical considerations, the Company decided to develop the UMZ as an open pit copper-gold-silver deposit that lies above the LMZ. The oxide and transition ore zones are being treated by a Leaching-Precipitation-Flotation ("LPF") process and the sulfides with conventional flotation. The existing mine equipment used in the exploitation of the Las Tojas deposit is being used to process as much as 2,000 tonnes per day at the UMZ. Crushing and grinding is being undertaken with pre-existing equipment. All environmental and other permits for the operation of the UMZ project have been received.

Operation of the LPF mill and a sulphuric acid plant started up in April 2011 and continues to proceed through its commissioning stage. Currently over 500,000 tonnes of ore, grading 1.91% copper, 2.16 g/t gold and 25.95 g/t silver, has been broken and stockpiled. During June 2011, approximately 27,000 tonnes of ore was processed with a head grade of 1.92% copper, 1.87 g/t gold and 68.19 g/t silver. Total concentrate production to date exceeds 1,000 tonnes grading approximately 42% copper, 28 g/t gold and 700 g/t silver. Production of concentrate in June was 355 tonnes grading approximately 42% copper, 31 g/t gold and 750 g/t silver. Once 1,000 tonnes of concentrate has been accumulated at port, expected in August 2011, Orvana expects to account for the first revenues from this operation.

The commissioning stage has been slower than planned, due in part to initial issues with the sulphuric acid plant. These initial issues have been resolved, and the plant is now running at 100% of its design capacity. Metallurgical recoveries have also been significantly lower than planned, primarily due to a higher content of dolomite and talc in the mill feed, which has affected the leaching circuit and has resulted in periodic instability of the flotation process. These issues are being addressed by improving agitation as well as more precisely blending mill feedstock and fine tuning reagents. Copper recoveries, are currently up to 60%, and we continue to make progress toward the target of 80%. Until these recoveries improve, doré production will continue to be negatively impacted, with first doré production expected in September 2011.

In December 2010, the Company entered into a contract with Ocean Partners U.K. Limited of Maidenhead, U.K., for the sale of the copper-gold-silver concentrates to be produced from its Don Mario Mine. Under the contract, pricing is determined at the buyer's option, either the average cash price for the quotational month (second calendar month following the month of shipment) or the three-month average price ending in the quotational month.

A dore refining contract was entered into with Johnson Matthey Inc. on May 3, 2011 and a dore sales contract with Auramet Trading LLC, on May 30, 2011, respectively.

Production from the Don Mario Mine is subject to a 3% NSR that is held by Royal Gold. This royalty is payable quarterly and amounted to approximately \$902 for the 2010 fiscal year. The Bolivian government collects a mining royalty tax on the revenues generated from the copper, gold and silver sales at rates of 5%, 7%, and 6%, respectively.

The Company controls mineral rights on 70,100 contiguous hectares around the Don Mario Mine. During fiscal 2009, the Company acquired induced polarization data along the length of the Eastern Schist Belt, along which the Las Tojas mineralization is located. Drilling is planned during fiscal 2012 to test anomalies that may be indicative of gold mineralization in the shear zones (LMZ-type) as well as of copper-gold-silver mineralization hosted by metasedimentary rocks (UMZ-type).

### **The Copperwood Project**

Through its wholly-owned subsidiary, Orvana Resources US Corp., the Company entered into long-term mineral lease agreements covering 936 hectares within the "Western Syncline", which is located in the Upper Peninsula of the State of Michigan, USA. These leased areas are referred to as the Copperwood Project. The Company completed option agreements on three other mineralized areas, which are referred to collectively as the Copperwood Satellites. In addition, the Company purchased the surface rights on about 700 hectares that secured access and additional space for infrastructure.

On March 22, 2010, the Company announced a NI 43-101-compliant mineral resource estimate for the Copperwood stratiform copper deposit located on the leased areas. Measured resources are 14.2 million tonnes of 1.93% copper and indicated resources are 5.3 million tonnes of 1.69% copper for a total of 798 million pounds of copper. Inferred resources are 3.3 million tonnes of 1.49% copper for 107 million pounds of copper. The resource estimate is contained in the “Copperwood Project, Michigan USA NI 43-101 Technical Report”, with an effective date of April 30, 2010, and prepared by AMEC E & C Services, Inc., of Phoenix, Arizona, under the supervision of Greg Kulla and Dr. Harry Parker, who are independent qualified persons for the purposes of NI 43-101.

The data from this report were used to evaluate trade-off studies and refine the conceptual mine plan, which was incorporated into a preliminary economic assessment (“PEA”) that was released in September 2010. The PEA was prepared by KD Engineering, of Tucson, Arizona, under the supervision of Joseph Keane, P.E., with Lynn Partington, P.E. and Luquman Shaheen, P.E., who are all independent qualified persons for the purposes of NI 43-101.

Further to this report, the Company announced on December 14, 2010, resource estimates from deposits proximal to Copperwood. These deposits are referred to as Copperwood S6, which is east of and adjacent to Copperwood and Copperwood Satellites. These estimates were prepared by AMEC E & C Services of Phoenix, AZ., under the supervision of Greg Kulla, P. Geo. and David Thomas, P. Geo., who are independent qualified persons, for the purposes of NI 43-101. These resource estimates are contained in the “Copperwood S6 and Satellite Project NI 43-101 Technical Report” with an effective date of January 24, 2011. The resource estimates are summarized below:

#### Copperwood, S6 and Satellites – Mineral Resource Estimates

	Million tonnes	Cu %	Cu Million lbs
Measured Resources(Copperwood) (1)(3)	14.2	1.93	600
Indicated Resources (Copperwood) (1)(3)	5.3	1.69	198
Indicated Resources (Copperwood S6) (2)(3)	8.4	1.42	264
Indicated Resources (Copperwood Satellites) (2)(3)	25.0	1.40	771
<b>Total Measured &amp; Indicated</b>	<b>52.9</b>	<b>1.59</b>	<b>1,833</b>
Inferred Resources (Copperwood) (1)(3)	3.3	1.49	107
Inferred Resources (Copperwood S6) (2)(3)	0.5	1.29	13
Inferred Resources (Copperwood Satellites) (2)(3)	36.1	1.30	1,033
<b>Inferred Resources</b>	<b>39.9</b>	<b>1.32</b>	<b>1,153</b>

(1) NI 43-101-compliant Technical Report AMEC E&C Services Inc., Phoenix, AZ (G. Kulla and H. Parker) dated April 30, 2010.

(2) NI 43-101-compliant Technical Report AMEC E&C Services Inc., Phoenix, AZ., (G. Kulla and D Thomas) dated January 24, 2011.

(3) Mineral resources that are not mineral reserves do not have a demonstrated economic viability.

On February 24 2011, the Company announced an updated NI 43-101-compliant mineral resource estimate from Copperwood, which included the S6 mineralization, after completing a drill program in January 2011. Measured resources are 23.2 million tonnes of 1.71% copper (876 million pounds) and 4.7 grams per tonne silver, and indicated resources are 6.8 million tonnes of 1.53% copper (230 million pounds), and 3.1 grams per tonne silver. Inferred resources are 2.8 million tonnes of 0.85% copper (51 million pounds), and 1.8 grams per tonne of silver. The resource estimate is contained in the “Resources Estimate and NI 43-101 Technical Report Copperwood Project, Ironwood, Michigan”, with an effective date of March 7, 2011, and prepared by Marston & Marston Inc., of Denver, Colorado, under the supervision of Michael B., Ward, who is an independent qualified person for the purposes of NI 43-101 and these resources estimates are summarized in the following table:

Copperwood – Updated Mineral Resource Estimates\*

	Million Short Tons	Million Tonnes	Cu %	Cu Million lbs.	Ag g/t
Measured Resources	25.6	23.2	1.71	876	4.7
Indicated Resources	7.6	6.8	1.53	230	3.1
<b>Total Measured &amp; Indicated</b>	<b>33.2</b>	<b>30.0</b>	<b>1.67</b>	<b>1,106</b>	<b>7.8</b>
<b>Inferred Resources</b>	<b>3.0</b>	<b>2.8</b>	<b>0.85</b>	<b>51</b>	<b>1.8</b>

\* Includes S6

Mineral resources that are not mineral reserves do not have a demonstrated economic viability.

On June 24, 2011, the Company announced fully-diluted proven reserves of 24.9 million short tons of 1.37% copper and 4.2 parts per million (“ppm”) silver and fully-diluted probable reserves of 5.1 million short tons of 1.11% copper and 2.8 ppm silver, for a total of 30.0 million short tons of 1.33% copper (798 million pounds) and 3.9 ppm silver (3.46 million ounces) based on a prefeasibility study, which contemplated a room-and-pillar underground mine using drill-and-blast methods as the base case. This reserve was estimated under the supervision of Lynn Partington, P.E., an independent qualified person for the purposes of NI 43-101. The results are summarized in the table below:

	Million Short tons	Cu %	Cu Million lbs.	Ag g/t	Ag Million oz.
Proven	24.9	1.37	683	4.2	2.98
Probable	5.1	1.11	115	2.8	0.46
<b>Total Proven &amp; Probable</b>	<b>30.0</b>	<b>1.33</b>	<b>798</b>	<b>3.9</b>	<b>3.46</b>

Note: 1 short ton is equal to 0.907 metric tonnes

In addition, the prefeasibility study provided results assuming mechanized mining methods, specifically a continuous miner, which, if determined to be feasible, will lower operating costs and thus increase LOM cash flows and net present value. Orvana will continue to evaluate this innovative method for copper mining in order to reduce the associated risks and to maximize the economics of this project.

Both mine plans call for the development of a ramp and box cut to access the ore bed. All development will be focused on the ore bed and virtually no waste rock will be handled. Average production for the drill-and-blast case over the assumed 14-year mine life will be approximately 24,000 short tons of copper per year and peak production reaches 38,000 short tons of copper during the fourth year when throughput is at the 7,500 short tons of ore per day capacity. The mine plan calls for 50% of pillar recovery on retreat. Copper will be extracted by conventional flotation. LOM direct cash costs are \$1.16 per pound net of the silver credit.

The tables below summarize the economic parameters for the Drill-and-Blast Case and the Continuous Miner Case:

<b>Summary of Key Financial Parameters (Drill-and-Blast Case)</b>					
Copper prices per pound	\$ 2.25	\$ 2.50	\$ 3.00	\$ 3.50	\$ 4.00
Silver prices per ounce	\$ 22.50	\$ 25.00	\$ 30.00	\$ 35.00	\$ 40.00
Net present value @ 8%, (US \$000's)	-1,015	59,302	176,993	287,558	391,538
IRR (After Corporate Taxes)	-23.1%	15.7%	27.2%	36.1%	43.6%
Payback in years	6.1	5.1	4.1	3.5	3.1

Note: Property tax liabilities are not included since no assessment has been completed

<b>Summary of Key Financial Parameters (Continuous Miner Case)</b>					
Copper prices per pound	\$ 2.25	\$ 2.50	\$ 3.00	\$ 3.50	\$ 4.00
Silver prices per ounce	\$ 22.50	\$ 25.00	\$ 30.00	\$ 35.00	\$ 40.00
Net present value @ 8%, (US \$000's)	22,537	80,601	194,489	298,755	400,027
IRR (After Corporate Taxes)	10.8%	16.9%	26.4%	33.9%	40.4%
Payback in years	6.4	5.5	4.5	3.8	3.4

Note: Property tax liabilities are not included since no assessment has been completed

Base-case operational parameters assumed for the drill-and-blast case are as follows:

Minable Reserve:	30,038,000	short tons
Copper grade:	1.33%	
Silver grade:	3.95	Ppm
Throughput (reached after 4 years):	2,620,000	short tons per year
Average annual copper production (LOM):	23,900	short tons per year
Average annual silver production (LOM):	111,200	ounces per year
Copper recovery:	87%	
Copper concentrate grade:	23%	
Silver grade in concentrate:	40	ppm (average)

Key financial input parameters are:

Pre-production capital:	\$198,505	
Working and sustaining capital (LOM):	\$212,504	
Mine operating cost (LOM):	\$13.50	per short ton of ore
Processing cost (at 7,500 short tons per day)	\$12.21	per short ton of ore
General and administrative:	\$1.11	per short ton of ore

A net smelter return royalty, which will be determined quarterly, ranges from 2% to 4% on a sliding scale based on inflation-adjusted copper prices.

The information cited herein is included in the "Prefeasibility Study of the Copperwood Project, Upper Peninsula, Michigan, USA" dated July 29, 2011 and was completed by or under the supervision of Joseph M. Keane, P.E., Lynn Partington, P.E., and Thomas Kerr, P.E., who are independent qualified persons for the purposes of NI 43-101. In addition to the mineral reserves and economic analysis summarized above, the pre-feasibility study includes additional information with respect to the Copperwood project, including mineral resource estimates and various assumptions.

The prefeasibility study and technical reports are available on SEDAR ([www.sedar.com](http://www.sedar.com)) and the Company's website at [www.orvana.com](http://www.orvana.com).

## **Other Exploration Properties**

Apart from the exploration potential in the concessions adjacent and proximal to the EVBC and UMZ mines, the Company was recently informed that it was the highest bidder for an investigation permit on the Lidia prospect; the area encompasses 2,560 hectares in the Navelgas Gold Belt of northern Spain, 30 kilometres from EVBC. The Lidia prospect, formerly known as the Linares prospect, even though Rio Narcea Gold drilled four holes in the past, is considered prospective for not only skarn-hosted mineralization, but intrusive-related gold mineralization as well.

## **Social and Environmental Practices**

Orvana is committed to developing and operating its projects, including reclamation efforts, in full compliance with recognized international and local environmental standards. In furtherance of this commitment, Orvana regularly implements programs to protect and enhance natural habitats and sensitive species, including reclamation efforts, reforestation efforts and the establishment of water sources for wildlife.

In addition, Orvana is committed to the social development and well-being of the communities in which it operates. To this end, Orvana continues to support, financially and otherwise, local community endeavours associated with that objective.

The Company has also supported the surrounding communities of the EVBC mine by donating funds to the local municipality of Belmonte to re-open the historic exhibition of gold mining in the area and supported other cultural and sporting activities in the communities of Belmonte and Salas. In addition, the Company has funded re-stocking of fish species into the local rivers surrounding the mines.

At the Don Mario Mine the Company is actively involved in the areas of education, sanitation, purchasing of local goods and services and generally working with communities to contribute to and to improve their standard of living. EMIPA has renewed its support of \$1,785 to the local communities for the next five years. Projects supported by Orvana include supervision of and financial support for community development projects such as utilities and parks; education and information technology; cultural events; community business development initiatives; and maintenance of community roads.

In support of the social and economic well-being of the surrounding communities of the Copperwood Project in Michigan, Orvana annually awards four scholarships to high school students to further their education at the university level. In addition, Orvana has made contributions to the local fire departments for the purchase of equipment and the Company also sponsored the SISU Cross Country Ski Marathon in Ironwood during this past winter.

## **Health and Safety**

The Company maintains health and workplace safety programs at each of the mine sites. In order to ensure that safety goals and optimal safety standards are achieved, comprehensive training programs for mine and mill operations take place on an ongoing basis.

Regular mine inspections are performed by representatives from the mine operations, planning and safety departments. These inspections review current conditions and implement corrective action on potential safety issues that arise as mine development progresses. Worker training on mining, mechanical and electrical equipment is also part of the programs. The Company has also hired service providers to support the Company's safety department in risk assessment, training, and work environment monitoring. The Company maintains health and safety metrics to track performance over time including Lost Time Injury Frequency Rates and Lost Time Injury Severity Rates.

Additionally, Orvana's Board of Directors established a Technical, Safety, Health and Environmental Committee. The purpose of this Committee is to: review safety, health and environmental policies and programs; to oversee Orvana's safety, health and environmental performance; to monitor current and future regulatory issues and, where appropriate, to make recommendations to the Board on significant safety, health and environmental matters.

## **OVERALL PERFORMANCE**

### **Key Performance Factors**

The key factors affecting Orvana's financial performance include gold, silver and copper prices, tax rates, ore reserves, ore grades and recoveries, energy prices, cost management, efficient mine development and capital spending programs.

## Revenues and Net Income

The Company's results for the three and nine months ended June 30, 2011 and 2010 are summarized in the table below:

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Revenues	\$1,752	\$7,758	\$14,509	\$ 25,612
Net (loss) before derivatives mark-to-market adjustment, net-of-tax <sup>(1)</sup>	(7,472)	(1,106)	(10,199)	(1,564)
Derivatives mark-to-market adjustment, net-of-tax <sup>(1)</sup>	459	-	(21,525)	-
Net (loss)	(7,013)	(1,106)	(31,724)	(1,564)
(Loss) earnings per share – basic and diluted	(\$0.06)	(\$0.01)	(\$0.27)	\$(0.01)
(Loss) earnings per share before derivatives mark-to-market adjustments, net-of-tax – basic and diluted <sup>(1)</sup>	(\$0.06)	(\$0.01)	(\$0.09)	\$(0.01)

(1) These amounts are non-GAAP measures and are derived from the following amounts in the income statement: Net derivatives gain for the three months ended June of \$656 less the related future tax expense of \$197 and net derivatives losses of \$30,750 less future income tax recoveries of \$9,225 for the nine months ended June 30, 2011.

Revenue for the third quarter of \$1,752 resulted from the final shipment in April 2011 of the gold production from the Las Tojas deposit at the Don Mario Mine in Bolivia. During the third quarter, Orvana continued to work towards the commissioning of the Don Mario UMZ and EVBC mines.

The net loss for the three months ended June 30, 2011 was \$7,013 (2010 – net loss of \$1,106). The net loss of \$7,013 included \$5,214 related to stock-based consideration expense for shares issued to Fabulosa Mines Limited (“Fabulosa”). Refer to the explanation of stock-based consideration in this section of the MD&A below.

Gold production ceased at the Don Mario Mine with the depletion of the Las Tojas deposit at the end of the second quarter of fiscal 2011. In the third quarter of the same period a year ago, a total of 154,270 tonnes were treated to produce 6,545 ounces of gold dore.

Revenue for the third quarter of fiscal 2011 decreased by 77% to \$1,752 on the final 1,297 ounces of gold sold compared to \$7,758 on 6,535 ounces sold during the same period of the prior year, with the current year decline resulting from the depletion of the Las Tojas gold deposit at the end of the second quarter.

Direct mine operating costs of \$30 were recorded for the third quarter of fiscal 2011 and were related to the smelting, refining and transportation costs of the final shipment of gold dore from the Las Tojas deposit in April 2011. Direct mine operating costs per treated tonne and per ounce produced for the nine months ended June 30, 2011 and 2010 are noted in the table below:

	Nine months ended June 30,	
	2011	2010
Direct mine operating costs	\$8,544	\$14,032
Direct mine operating cost per treated tonne	\$30.56	\$30.84
Direct mine operating cost per ounce produced	\$863.57	\$619.87

A reconciliation of direct mine operating costs to cost of sales is included in the section entitled "Don Mario Mine – Las Tojas – Production Cost Analysis".

General and administrative expenses for the three and nine months ended June 30, 2011 were \$1,454 (2010 - \$1,692) and \$3,747 (2010 - \$4,435) respectively.

The costs of acquiring mineral properties are capitalized. Property option costs and exploration and development expenditures are capitalized once management has determined that there is a reasonable expectation of economic extraction of minerals from the property. The Company periodically assesses its capitalized exploration and development expenditures for impairment and where there are circumstances indicating that such impairment exists, the carrying value of the impaired asset is written down to fair value. During the third quarter of fiscal 2011 exploration expenditures were \$44 compared to \$12 for the same period of the prior year.

Stock-based compensation expense for the three months ended June 30, 2011 was \$301 compared to \$62 for the same period of the prior year, with the increase due to the amortization of additional stock options granted to employees and management during the first quarter of fiscal 2011.

Stock-based consideration expense was \$5,214 for the quarter ended June 30, 2011. On May 16, 2011, the Company entered into an agreement with its majority shareholder, Fabulosa, under which (i) Fabulosa committed to provide Orvana with a \$15 million six-month, secured convertible bridge loan bearing interest at 8% per annum and (ii) certain of Fabulosa's pre-emptive rights were amended. As consideration for the amendments, Orvana issued to Fabulosa 1,969,999 common shares and five-year warrants to purchase up to 2,725,000 common shares. The 1,969,999 shares were valued at C\$2.59 per share and the amount of \$5,214 was recorded as stock-based consideration expense during the quarter.

Long-term compensation expense was a recovery of \$316 for the quarter ended June 30, 2011, compared to an expense of \$54 for the same period of the prior year. The reduction to long-term compensation expense resulted from the mark-to-market adjustment in the Company's share price to C\$2.39 per share at June 30, 2011 from a share price of C\$3.03 per share at March 31, 2011 on the restricted share units and deferred share units previously issued.

The unrealized after-tax gain of \$459 (net of future tax expense of \$197) on the Company's forward contracts (derivatives instruments) reduced the Company's net loss for the third quarter of fiscal 2011. This gain resulted from the mark-to-market revaluation of these contracts. There were no forward contracts in the third quarter of the prior year.

The net loss for the third quarter ended June 30, 2011 was \$7,013 (\$0.06 per share) compared to a net loss of \$1,106 (\$0.01 per share) for the third quarter of fiscal 2010, and was due to significantly lower revenues after the depletion of the Las Tojas open pit deposit at the end of the second quarter of fiscal 2011 and stock-based consideration expense recorded in the current quarter as detailed above.

## Financial Instruments

Pursuant to the terms of the Credit Suisse US\$ 50 million credit facility, the Company entered into forward contracts during the first quarter of fiscal 2011.

These contracts are summarized in the table below.

	As at June 30, 2011	As at September 30, 2010
<b>Gold forwards:</b>		
Ounces	37,500	-
Price per ounce	\$ 1,333.70	-
<b>Copper forwards:</b>		
Tonnes	13,671	-
Price per tonne	\$ 7,260	-
Price per pound	\$3.29	-
<b>US dollar/Euro forwards:</b>		
Amount in US (\$ 000's)	\$80,000	-
Contracted Average US dollar/Euro exchange rate	\$1.38	-

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

A mark-to-market gain of \$656 on the forward contracts was recorded in the third quarter of fiscal 2011 for a cumulative mark-to-market loss of \$30,750. The spot prices and foreign exchange rates at June 30, 2011 were:

- Gold spot price was \$1,508 per ounce;
- Copper spot price was \$9,300 per tonne (\$4.22 per pound);
- US dollar/Euro spot exchange rate was 1.45.

Forward contracts included in the balance sheet comprise:

	As at June 30, 2011	As at September 30, 2010
<b>Fair value of derivatives – start of period</b>	<b>\$ -</b>	<b>\$ -</b>
Contracts matured during the period resulting in cash receipts (payments)	-	-
Mark-to-market fair value loss for the three months ended December 31, 2010	26,606	-
Mark-to-market fair value loss for the three months ended March 31, 2011	4,800	-
Mark-to-market fair value loss for the three months ended June 30, 2011	(656)	-
<b>Fair value of derivatives – end of period</b>	<b>30,750</b>	<b>-</b>
Less: current portion	( 6,980)	-
<b>Total non-current derivative instruments</b>	<b>\$23,770</b>	<b>\$ -</b>

Changes in the fair value of the outstanding forward contracts during the most recently completed fiscal quarter are recognized as non-cash derivative gains and losses. At maturity of each contract, a cash settlement takes place and there is a corresponding reduction in the carry value of the forwards book. If a forward contract is in-the-money at maturity, the Company will receive a cash payment.

At June 30, 2011, the cumulative weighted-average forward market rate was \$9,064 per tonne compared to the copper contract price of the copper forward book of \$7,260 per tonne, resulting in the copper forward book being out-of-the-money with a mark-to-market liability or potential opportunity cost of \$24,665.

At June 30, 2011, the cumulative average forward market rate was \$1,556.00 per ounce of gold compared to the contract price of the gold forward book of \$1,333.70 per ounce, resulting in the gold forward book being out-of-the-money with a mark-to-market liability or potential opportunity cost of \$8,331.

At June 30, 2011, the average forward market rate was \$1.42 US dollars to Euros compared to the average foreign exchange rate contract price of the forward book of \$1.38 US dollars to Euros, resulting in the foreign exchange forward book being in-the-money with a mark-to-market receivable of \$2,246.

## **Sensitivities**

At June 30, 2011, the Company had outstanding copper forward contracts totaling 13,671 tonnes for the period 2011 through 2015. The copper forward tonnes equate to approximately 85% of EVBC's expected copper production (approximately 25% of Orvana's overall expected copper production) from 2011 to 2015. The Company also had outstanding gold forward contracts totaling 37,500 ounces for the period 2012 through 2015. The gold forward ounces equate to approximately 9% of EVBC's expected gold production (approximately 8% of Orvana's overall expected gold production) from 2012 to 2015.

### *Gold / Copper Forwards - Sensitivity*

At June 30, 2011, if the forward market prices of gold had been 10% higher or lower than those used in the derivative loss calculation while all other variables remained constant, the after-tax loss for the year to date would have increased or decreased by \$4.1 million as a result of changes in the fair value of the derivative instruments.

At June 30, 2011, if the forward market prices of copper had been 10% higher or lower than those used in the derivative loss calculation while all other variables remained constant, the after-tax loss for the year to date would have increased or decreased by \$8.7 million as a result of changes in the fair value of the copper forward contracts.

### *US Dollar/Euro Forwards - Sensitivity*

At June 30, 2011, if the forward rates of US dollar against the Euro strengthened or weakened by 10%, than those used in the derivative gain calculation while all other variables remained constant, the Company's after-tax gain for the year to date would have been \$5.8 million lower or higher as a result of changes in the fair value of the US dollar/Euro forward contracts.

## Cash Flows

The following table summarizes the principal sources and uses of cash for the three and nine months ended June 30, 2011 and 2010:

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
Cash (used in) provided by operating activities	(\$4,496)	\$932	(\$12,714)	(\$3,971)
Capital expenditures*	(20,286)	(\$13,129)	(44,871)	(25,019)
Bank debt, bridge loan and long-term debt, net of repayments and financing fees	\$17,854	(\$644)	\$62,837	(\$909)

\*Including net assets under capital leases and adjusted for unpaid expenditures

### Cash Provided by Operating Activities

Cash used in operating activities was \$4,496 for the third quarter ended June 30, 2011 compared to cash provided by operating activities of \$932 in the third quarter ended June 30, 2010. The lower operating cash for the three months ended June 30, 2011 when compared to the same period a year ago, resulted primarily from lower revenues in the current quarter.

### Capital Expenditures

Capital expenditures for the third quarter of fiscal 2011 were \$20,286 (third quarter of fiscal 2010 - \$13,129), consisting of: \$8,950 for the Don Mario UMZ development, \$9,851 for development of the EVBC Mine in Spain, \$1,335 for development of the Copperwood Project in Michigan; and \$150 for other capital expenditures.

### Financial Condition – June 30, 2011 compared to September 30, 2010

The following table provides a comparison of key elements of the Company's balance sheet at June 30, 2011 and September 30, 2010:

	June 30, 2011	September 30, 2010
Cash and cash equivalents	\$16,896	\$11,947
Non-cash working capital (deficit)**	(\$3,530)	1,951
Total assets	233,054	156,472
Long-term debt, net of financing fees	47,728	2,582
Obligations under capital leases	3,210	2,522
Shareholders' equity	85,017	109,402

(\*\*) Non-cash working capital (deficit) excludes the bank debt, bridge loan, current portions of long-term debt, obligations under capital leases and derivative instruments.

Cash and cash equivalents increased by \$4,949 to \$16,896 for the nine months ended June 30, 2011. Non-cash working capital was a deficit of \$3,530 at June 30, 2011 compared to non-cash working capital of 1,951 at the end of September 30, 2010, mainly resulting from the sale of gold inventory and an increase in accounts payable.

### Bank and Long-term Debt

On October 8, 2010, the Company, through its indirect subsidiary, Kinbauri, entered into a \$50 million five-year term corporate credit facility with Credit Suisse AG ("Credit Suisse"). The funds were used to complete construction of the EVBC Mine, in Spain and for general corporate purposes. Cost of the facility, including fees, is expected to average approximately 5% to 6 % per annum, based on current interest rates. The facility includes a hedging program on the EVBC Mine, and is approximately 9% of EVBC's expected gold production (approximately 8% of Orvana's overall expected gold production) for 2012 to 2015 and about 85% of EVBC's expected copper production (approximately 25% of Orvana's overall expected copper production) from 2011 to 2015.

The credit agreement contains covenants that restrict, among other things, the Company's ability to incur additional indebtedness in certain circumstances, to make distributions in certain circumstances, to sell material assets, or to carry on business other than one related to the mining business. Kinbauri and Orvana are also required to maintain certain financial ratios. The financial covenant calculations exclude the unrealized gains and losses resulting from mark-to-market adjustments on the metals and foreign exchange forward contracts required under the terms of the credit agreement.

As a condition of this credit facility, during the first quarter of fiscal 2011, Kinbauri entered into the following forward contracts with Credit Suisse: to sell 37,500 gold ounces at a forward rate of \$1,333.70 per oz., with equal maturities covering the period January 2012 to December 2015; to sell 13,671 metric tonnes of copper at a forward rate of \$7,260 per metric tonne (\$3.29 per lb.), with maturities covering the period July 2011 to December 2015; and foreign exchange

contracts converting US\$80 million to Euro dollars at an average forward rate of \$1.38, with maturities covering the period March 2012 to December 2015.

Interest on the outstanding principal is calculated at a rate per annum equal to LIBOR plus 3.85%. As permitted under the terms of the credit agreement, the Company opted to defer payment of interest amounts otherwise payable until April 8, 2011 such that the credit limit and outstanding loan were increased by \$844 for the deferred interest amount.

Quarterly principal repayments are required commencing June 30, 2012. The total annual principal repayment required in each fiscal year ending September 30, expressed as a percentage of the full principal amount of the credit outstanding, are: 2012 – 16.7%; 2013 – 34.6%; 2014 – 23.7%; and 2015 – 25.0%.

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

During the 2010 fiscal year, EMIPA entered into short-term, 150-day credit facilities in Bolivianos with Banco de Credito de Bolivia and Banco Bisa at annual interest rates ranging from 4% to 6%. At June 30, 2011 there was approximately \$6,583 drawn against these credit facilities. The credit facilities are secured by certain machinery and equipment of EMIPA. The proceeds were used to finance EMIPA's working capital needs.

EMIPA also has a term credit facility agreement with Banco Bisa S.A. The facility bears interest at 7.8% and is payable in equal quarterly installments over a three-year term maturing in September 2012. There are no specific covenants related to this credit facility. This loan is secured by certain machinery and equipment of EMIPA. The proceeds were used to finance equipment purchases for the UMZ.

In addition, at June 30, 2011, EMIPA has bank guarantees with Banco Bisa S.A. amounting to approximately \$750 (September 30, 2010 - \$716), related to refunded value-added taxes and chemical and natural gas purchases.

On May 16, 2011, the Company entered into an agreement (the "Pre-Emptive Rights Agreement") with its majority shareholder, Fabulosa, under which (i) Fabulosa provided Orvana with a \$15 million six-month, secured convertible bridge loan bearing interest at 8% per annum and (ii) certain of Fabulosa's pre-emptive rights were amended. The Pre-Emptive Rights Agreement provided Orvana with increased financial flexibility as it related to future equity financings. The outstanding amount of the loan could have been repaid by Orvana at any time.

Orvana completed a public offering of common shares on August 11, 2011 prior to repayment of this loan, and the outstanding amount of the loan was converted into 7,319,969 common shares in accordance with the terms of the loan at the price shares were sold under the public offering (C\$2.00 per share). Fabulosa also acquired, on a private placement basis, 1,180,031

common shares at a price of C\$2.00 per common share. Following completion of the Offering, Fabulosa's holding in Orvana has declined from 52.3% to 52.0%.

As consideration for the amendments and the provision of the bridge loan financing, Orvana issued to Fabulosa 1,969,999 common shares and has agreed to issue five-year warrants to purchase up to 2,725,000 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 stock options that were outstanding as of May 16, 2011. 1,300,000 warrants will be issued on September 6, 2011, and 1,425,000 warrants will be issued on March 5, 2012. These warrants will have an exercise price equal to the volume-weighted average price of the common shares for the five trading days preceding the date such warrants are issued. In addition, subject to TSX approval Orvana has undertaken to commence a normal course issuer bid prior to March 3, 2012. The purpose of the normal course issuer bid 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.

### **Shareholders' Equity**

Shareholders' equity decreased by \$24,385 to \$85,017 at June 30, 2011, due to the net loss of \$31,724, partially offset by increases in share capital and contributed surplus of \$7,339.

### **Outlook**

The forward looking statements made in this section are intended to provide an overview of management's expectations with respect to certain future operating activities of the Company and may not be appropriate for other purposes.

As stated in the Business Strategy section, Orvana's focus is to utilize future cash flow and mining capability to build long-term value for its shareholders initially through organic growth and in the future through strategic acquisitions, primarily focused on advanced-stage gold and/or copper properties.

In the short term, Orvana is focused on commissioning the EVBC gold-copper-silver mine in northern Spain and its Don Mario Mine copper-gold-silver operation in eastern Bolivia, and advancing its Copperwood copper project in Michigan.

In Spain, the Company commenced production start-up and commissioning at the EVBC Mine in May 2011. The first shipment of gold dore was made on July 27, 2011 and gold/copper concentrate was shipped to the port throughout July 2011 for further transport to the smelter, with the cash received for these shipments during the first week of August 2011. The EVBC LOM average annual gold production in the July 14, 2010 NI 43-101 report is estimated to be 105,000 ounces of gold and 8.6 million pounds of copper.

In Bolivia, at the Don Mario Mine, commissioning and start up of LPF mill and acid plant continued during the third quarter of fiscal 2011, with 1,000 tonnes of concentrate produced by the end of July 2011. The Las Tojas deposit extended gold production to the end of the second quarter of fiscal 2011, with the final shipment of gold dore from this deposit occurring at the beginning of April 2011. The UMZ LOM metal production in the August 2010 NI 43-101 report is estimated to be 152 million pounds of copper, 151,000 ounces of gold and 4.9 million ounces of silver. LOM average annual production is estimated at 14.5 million pounds of copper, 14,400 ounces of gold, and 460,000 ounces of silver. The production from the UMZ is expected to extend the life of the Don Mario Mine to beyond 2019. The transport of 1,000 tonnes of copper concentrate to the port in Chile has commenced with payment expected in August 2011.

In Michigan, USA, at Copperwood, a NI 43-101-compliant resource estimate and a preliminary economic assessment of a nine-year mine life were completed in the fourth quarter of fiscal 2010. A pre-feasibility study based on increased resources was completed in August 2011 and the submission of a mine plan permit to the state of Michigan is expected to take place in the fourth quarter of fiscal 2011.

With the commissioning at the Don Mario UMZ and the EVBC Mines, Orvana expects annual gold production to increase from about 28,000 ounces produced in fiscal 2010 to approximately 75,000 ounces by mid fiscal 2012. Additionally, annual copper production is expected to increase substantially to over 9,000 tonnes and annual silver production to over 550,000 ounces. Orvana's long term forecasts of 100,000 ounces of annual gold production and 10,000 tonnes of annual copper production remain unchanged.

## **LIQUIDITY AND COMMITMENTS**

In the past, the Company's primary source of liquidity has been from operating cash flow. Over the fiscal years 2010 and 2011, Orvana has spent and expects to spend approximately \$72 million on pre-production capital on the EVBC Mine, \$20 million on the development of the Don Mario UMZ and \$7.3 million largely on engineering studies related to the Copperwood Project.

For the nine months ended June 30, 2011, the capital expenditures were \$14,404 on the UMZ, \$25,745 on the EVBC Mine and \$4,263 on the Copperwood Project.

During the nine months ended June 30, 2011, the net increase in cash and cash equivalents was \$4,949, resulting in total cash and cash equivalents of \$16,896 at June 30, 2011.

Spending on the Company's capital projects and operating requirements has been and is expected to be incurred according to management's plans. However, while commissioning has begun at the EVBC Mine, cash flows will be at a reduced rate during the initial production ramp-up period. As well, delays in production start-up at the Don Mario Mine UMZ reduced the Company's cash reserves to less than desirable levels until cash flow from full production commences at the UMZ and EVBC mines.

Consequently, the Company entered into the Pre-Emptive Rights Agreement with Fabulosa under which (i) Fabulosa provided Orvana with a \$15 million, six-month, secured, convertible bridge loan bearing interest at 8% per annum and (ii) certain of Fabulosa's pre-emptive rights were amended. The outstanding amount of the loan could have been repaid by Orvana at any time. Orvana completed a public offering of common shares on August 11, 2011 prior to repayment of this loan, and the outstanding amount of the loan was converted into 7,319,969 common shares in accordance with the terms of the loan at the price shares were sold under the public offering (C\$2.00 per share). Fabulosa also acquired, on a private placement basis, 1,180,031 common shares at a price of C\$2.00 per common share. Following completion of the Offering, Fabulosa's holding in Orvana has declined from 52.3% to 52.0%.

As consideration for the amendments and the provision of the bridge loan financing, Orvana issued to Fabulosa 1,969,999 common shares and has agreed to issue five-year warrants to purchase up to 2,725,000 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 stock options that were outstanding as of May 16, 2011. 1,300,000 warrants will be issued on September 6, 2011, and 1,425,000 warrants will be issued on March 5, 2012. These warrants will have an exercise price equal to the volume-weighted average price of the common shares for the five trading days preceding the date such warrants are issued. In addition, subject to TSX approval Orvana has undertaken to commence a normal course issuer bid prior to March 3, 2012. The purpose of the normal course issuer bid 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.

The Company entered into the Pre-Emptive Rights Agreement to ensure that it had longer term financing flexibility in accessing the capital markets to raise equity and to obtain significant short-term financial flexibility through the bridge loan. Management is satisfied that short-term liquidity needs will be met as production commences at the Don Mario Mine UMZ and the EVBC Mine.

### **Other Commitments**

At June 30, 2011, the Company's other contractual obligations included: bank debt; bank guarantees; the bridge loan, pursuant to the Pre-Emptive Rights Agreement; an EMIPA term credit facility; obligations under capital leases; operating leases; asset retirement obligations; purchase obligations related to construction at the UMZ and EVBC Mines; provision for statutory labour obligations; and long-term compensation. Contractual obligations are summarized in the following table below:

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Bank debt	\$6,583	\$6,583			
Bank guarantees	800	800			
Bridge loan	15,087	15,087			
Long-term debt	51,885	5,070	34,104	12,711	
Obligations under capital leases	3,210	1,552	1,658		
Operating leases	975	229	459	287	
Asset retirement obligations*	15,189				15,189
Purchase obligations	16,556	9,896	3,855	2,805	
Provision for statutory labour obligations	1,930			1,930	
Long term compensation	1,718	757	423		538
Total contractual obligations	113,933	39,974	40,499	17,733	15,727

\*Asset retirement obligations are at undiscounted amounts in the table.

Bank and long-term debt amounts shown in the above table are described above under the heading "Bank and Long-term Debt".

During fiscal 2010 and the second and third quarter of fiscal 2011, Kinbauri entered into capital leases for the purchase of underground mining equipment in Spain. Under each capital lease agreement, 15% to 40% of the purchase price of the equipment is paid in cash at the time of delivery with the balance financed over a three-year lease term. Capital lease payments are payable quarterly with interest at rates of 5.5% to 6.2% per annum. Obligations under capital leases amounted to \$3,210 at June 30, 2011.

At June 30, 2011, asset retirement obligations on a discounted basis amounted to \$7,934 for the Company's Don Mario Mine in eastern Bolivia and the EVBC Mine in northern Spain. These asset retirement obligations relate to the dismantling of the mine facilities and environmental reclamation of the areas affected by mining operations. Mine facilities include structures and the tailings dam. Environmental reclamation requirements include mine water treatment, reforestation and dealing with soil contamination.

Management estimates that the total undiscounted amount of the cash flows required to settle the Company's asset retirement obligations with respect to the operation of the Don Mario Mine is \$7,723. The credit-adjusted interest rate used to discount estimated cash flows for these liabilities is 8%. Accretion expense is recorded using the resulting weighted average credit-adjusted interest rate. The discounted amount of this obligation as at June 30, 2011 is estimated at \$3,452 and the related costs are expected to be incurred in 2021 through 2024.

Management estimates the total undiscounted amount of the cash flows required to settle the Company's asset retirement obligations with respect to the future operation of the EVBC Mine in Spain is \$7,466. The credit-adjusted interest rate used to discount estimated cash flows is 8%. Accretion expense is recorded using the credit-adjusted interest rate. The discounted amount of the estimated cash flows as at June 30, 2011 required to settle the Company's current obligations with respect to the EVBC sites is \$4,482. It is expected that these amounts will be incurred in 2018 and beyond.

Prior to the Company's acquisition of Kinbauri, the EVBC Mine had been shut down by its then owner and remediation measures required were completed and a reclamation bond of \$1,293 (€894,684) was deposited, as required by Spanish mining regulations. In fiscal 2010, an additional reclamation bond in the amount of approximately \$2,200 (€1,521,960) was deposited by Orvana relating to the Company's new tailings facility. These funds have been deposited with a Spanish financial institution as a reclamation bond and amount to \$3,493 at June 30, 2011 (September 30, 2010 - \$3,287).

On June 28, 2011, the Company announced that final approval has been received from the Spanish Ministry of the Environment for commercial production at the EVBC Mine. Such approval is subject to a final inspection and posting of a €5 million (approximately \$7,200) cash bond to be paid in August 2011, and an additional €5 million (approximately \$7,200) cash bond in one year.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, cost estimates or the estimated remaining ore reserves.

The Company is subject to a 3% net smelter return royalty (a "NSR") on its production from the Don Mario Mine. This royalty is payable quarterly and amounted to \$52 for the third quarter of fiscal 2011, compared to \$217 for the same period in fiscal 2010.

Prior to its acquisition by Orvana, Kinbauri granted a 2.5% NSR in return for an advance of C\$7.5 million. The royalty rate increases to 3% for any quarter year in which the average price of gold reaches or exceeds \$1,100 per ounce.

The leases relating to the Copperwood Project are also subject to a NSR on copper production. The royalty will be determined on a quarterly basis and will range from 2% to 4% based on prevailing copper prices adjusted for inflation and will become payable when production commences.

## CAPITAL RESOURCES

At June 30, 2011, the Company had capital resources of \$140,112 represented by long-term debt and obligations under capital leases of \$55,095 and shareholders' equity amounting to \$85,017.

Shareholders' equity decreased by \$24,385 to \$85,017 (\$0.71 per share) as at June 30, 2011, compared to \$109,402 (\$0.94 per share) at September 30, 2010.

## RESULTS OF OPERATIONS

The following table and analysis compare operating results for the three and nine months ended June 30, 2011 and 2010:

	Three months ended June 30,		Nine months ended June 30,	
	2011	2010	2011	2010
Revenues	\$1,752	\$7,758	\$14,509	\$25,612
Costs and expenses of mining operations	1,880	6,408	12,598	18,818
Expenses and other income	6,528	2,087	42,380	6,156
Net (loss) income before derivatives mark-to market adjustment, net-of-tax <sup>(1)</sup>	(7,472)	(1,106)	(10,199)	(1,564)
Derivative mark-to-market adjustment, net-of-tax <sup>(1)</sup>	459	-	(21,525)	-
Net (loss) income	(7,013)	(1,106)	(31,724)	(1,564)
Earnings (loss) per share – basic and diluted	(\$0.06)	(\$0.01)	(\$0.27)	(\$0.01)

(1) These amounts are non-GAAP measures and are derived from the following amounts in the income statement: Net derivatives gain for the three months ended June of \$656 less the related future tax expense of \$197 and net derivatives losses of \$30,750 less future income tax recoveries of \$9,225 for the nine months ended June 30, 2011.

## Revenues

Orvana's sales are determined according to spot gold prices. The Company's practice has been to not hedge its gold production from the Don Mario Mine. The following table summarizes gold revenues and average prices realized:

	Three months ended June 30		Nine months ended June 30,	
	2011	2010	2011	2010
Revenues	\$1,752	\$7,758	\$14,509	\$25,612
Ounces sold	1,297	6,535	10,659	22,820
Average gold prices realized per ounce	\$1,351	\$1,187	\$1,361	\$1,122

Revenue for the third quarter of fiscal 2011 decreased by 73% to \$1,752 on 1,297 ounces sold compared to \$ \$7,758 on 6,535 ounces sold during the same period of the prior year. The decline in revenue was due to the depletion of the Las Tojas deposit at the end of the second quarter of fiscal 2011 with the final shipment occurring at the beginning of the third quarter.

Further information on production operations and costs is presented below under "Don Mario Mine - Las Tojas – Production Cost Analysis".

### Don Mario Mine - Las Tojas

The Las Tojas deposit was depleted at the end of the second quarter. The following table shows the tonnages treated and the head grade in g/t gold for Las Tojas for the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010:

		Nine months ended June 30	
		2011	2010
Las Tojas	Tonnes	279,619	455,033
	g/t	1.37	1.83
Recovery rate		80.2%	84.4%
Gold produced – ounces		9,894	22,637

## Don Mario Mine - Las Tojas – Production Cost Analysis

Cost incurred in the current quarter were related to the sale at the beginning of April 2011 of the final production of gold dore from the Las Tojas deposit that was depleted at the end of the second quarter of this fiscal year. The table below presents the cash operating costs and total production costs from Las Tojas deposit for the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010.

	Nine months ended June 30,			
	2011		2010	
	Costs	Cost/oz.	Costs	Cost/oz.
Direct mine operating costs	\$8,544	\$863.57	\$14,032	\$619.87
Third-party smelting, refining and transportation costs	80	8.12	116	5.13
Cash operating costs	8,624	871.69	14,148	625.00
Royalties and mining rights	577	58.29	860	38.00
Mining royalty tax	1,025	103.59	1,790	79.06
Total cash costs	10,226	1,033.57	16,798	742.06
Depreciation, amortization and accretion	1,516	153.28	2,458	108.57
Total production costs	\$11,742	\$1,186.85	\$19,256	\$850.63
Gold production	9,894 ozs.		22,637 ozs.	

Cash operating costs were \$871.69 per ounce on 9,894 ounces produced for the nine months ended June 30, 2011 (representing only six months of actual production that ended March 31, 2011) compared to \$625.00 per ounce on 22,637 ounces produced for the nine months ended June 30, 2010. The increase in costs was largely due lower production volumes and processing of lower grade ore from the Las Tojas deposit.

The difference between direct mine operating costs of \$30 and cost of sales of \$1,308 reported in the consolidated financial statements for the third quarter of fiscal 2011 is due to final smelting, refining and transportation charges on the sale of the final gold inventory. A reconciliation of the non-GAAP measure of direct mine operating costs to cost of sales as shown in the Company's Canadian GAAP-based statement of income is presented in the table below:

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Cost of Sales	\$1,308	\$ \$4,911	\$9,180	\$13,644
Changes in gold inventories and gold in circuit	(1,278)	173	(636)	388
Direct mine operating costs (non-GAAP measure)	\$30	\$5,084	\$8,544	\$14,032

## SUMMARY OF QUARTERLY RESULTS

The following two tables include results for the eight quarters ended June 30, 2011:

	Quarters ended			
	June 30, 2011	Mar 31, 2011	Dec. 31, 2010	Sept 30, 2010
Revenues	\$1,752	\$6,330	\$6,427	\$6,732
Net (loss) income	(\$7,013)	(\$3,687)	(\$21,024)	(\$867)
Earnings (loss) per share – basic and diluted	(\$0.06)	(\$0.03)	(\$0.18)	(\$0.01)
Total assets	\$233,054	\$211,566	\$207,178	\$156,472
Total long-term financial liabilities *	\$55,095	\$54,598	\$50,820	\$5,104
Gold production - ozs.	-	4,974	4,920	5,114
Gold sales – ozs.	1,297	4,628	4,734	5,520
<i>Non-GAAP measures</i>				
Per ounce data -	-			
- Total cash costs	\$30	\$995	\$1,014	\$971
- Average gold price realized	\$1,351	\$1,368	\$1,358	\$1,219
Operating statistics -				
- Gold ore grade – g/t	-	1.42	1.33	1.41
- Gold recovery rate - %	-	83.0%	77.5%	73.5%

	Quarters ended			
	June 30, 2010	Mar. 31, 2010	Dec.31,2009	Sept. 30,2009
Revenues	\$7,758	\$5,978	\$11,876	\$13,660
Net income	(\$1,106)	(\$1,658)	\$1,200	\$1,574
Earnings per share – basic and diluted	(\$0.01)	(\$0.01)	\$0.01	\$0.01
Total assets	\$139,514	\$137,243	\$141,236	\$140,607
Total long-term financial liabilities *	\$3,235	\$3,879	\$4,515	\$4,144
Gold production - ozs.	6,545	6,565	9,527	13,768
Gold sales – ozs.	6,535	5,406	10,880	14,383
<i>Non-GAAP measures</i>				
Per ounce data -				
- Total cash costs	\$904	\$771	\$611	\$403
- Average gold price realized	\$1,187	\$1,106	\$1,092	\$950
Operating statistics -				
- Gold ore grade – g/t	1.66	1.70	2.13	3.51
- Gold recovery rate - %	79.5%	83.3%	89.0%	89.1%

\* Long-term financial liabilities include the long-term and current portions of obligations under capital leases and the current and long-term debt before financing fees

### Comments on the tables of quarterly results

Average gold prices realized during each of the eight quarters ended June 30, 2011 ranged from \$950 to \$1,368 per ounce. Higher average gold prices in the last four quarters did not translate into higher quarterly net income when compared to the previous four quarters mostly due to higher production costs associated with processing the lower head grade ore from the Las Tojas deposit and overall lower quantities of gold produced and with respect to the quarter ended June 30, 2011, the stock-based consideration expense related to the shares issued to Fabulosa.

### RISKS AND UNCERTAINTIES

The Company owns and operates the Don Mario Mine in Bolivia and is developing the EVBC Mine in Spain and the Copperwood Project in Michigan, USA. As a result, the Company is subject to the laws and governmental regulations in those countries as well as those in Canada. Changes to such laws or governmental regulations, including with respect to matters such as environmental protection, repatriation of profits, restrictions on production, export controls, expropriation or nationalization of property or limitations on foreign ownership, could have a material adverse effect on the Company's results of operations or financial condition.

Orvana's international assets and operations are subject to various political, economic and other uncertainties, including, among other things, risks of political instability and changing political conditions, labour and civil unrest, acts of terrorism, expropriation, nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts; adverse changes in mining, taxation or other laws and policies and foreign exchange and repatriation restrictions; restrictions on foreign investment in or ownership of resources; and trade barriers or restrictions. The Company also may be hindered or prevented from claiming against or enforcing its rights with respect to a government's action because of the doctrine of sovereign immunity. It is not possible for the Company to accurately predict political or social conditions or developments or changes in laws or policy or to what extent, if any, such conditions, developments or changes may have a material adverse effect on the Company's operations. Moreover, it is possible that deterioration in economic conditions or other factors could result in a change in government policies respecting the presently unrestricted repatriation of capital investments and earnings.

In Bolivia, in view of the Constitution enacted on February 7, 2009, recent and anticipated changes to mining laws and policies and mining taxes, and the composition of the Company's shareholder base, there could be changes in governmental regulation or governmental actions that adversely affect the Company. The Constitution could have adverse implications for the Company.

The Bolivian Constitution provides that the Government shall grant mining rights by means of mining contracts, in place of the previously established process of granting mining concessions. The Transitory Provisions of the Bolivian Constitution provide a process for the migration of mining concessions into mining contracts. According to the Constitution, previously acquired rights under mining concessions will be respected but are subject to this migration process. Although the Government has not yet adopted the new Mining Code nor specific regulations for the migration of mining concessions to mining contracts, the Company's Bolivian subsidiary, EMIPA, has filed an application to the Bolivian Mining Ministry requesting the migration of its mining concessions into mining contracts.

An official draft of a new Mining Code is expected to be circulated by the Government to the mining sector in the near future. However, legislation has yet to be passed into law and underlying regulations providing the framework for the draft Mining Code have yet to be developed. Thus, its potential effect on future mining activities and the Company's mineral concessions remains unclear.

Mineral reserve and resource figures provided by the Company are estimates and no assurances can be given that the indicated amount will be produced. Estimated reserves and resources may have to be recalculated based on actual production experience and the prevailing prices of the metals produced.

The economics of developing mineral deposits are affected by many factors, including variations in the grade of ore mined, the cost of operations and fluctuations in the sales price of products.

The value of the Company's mineral properties is heavily influenced by metal prices, particularly the price of copper, gold and silver. Metal prices can and do change significantly over short periods of time and are affected by numerous factors beyond the control of the Company, including changes in the level of supply and demand, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production arising from improved mining and production methods and new discoveries. There can be no assurance that the prices of mineral products will be sufficient to ensure that the Company's properties can be mined profitably. Depending on the price received for minerals produced, the Company may determine that it is impractical to commence or continue commercial production. The grade of any ore ultimately mined from a mineral deposit may differ from that predicted from drilling results or past production. Short-term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on the results of operations. Moreover, there can be no assurance that because minerals are recovered in small scale laboratory tests that similar recoveries will be achieved under production scale conditions. Although precautions to minimize risks will be taken, processing operations are subject to hazards such as equipment failure or failure of tailings impoundment facilities, which may result in environmental pollution and consequent liability.

Mineral exploration and mining involve considerable financial, technical, legal and permitting risks. Substantial expenditures are usually required to establish ore reserves and resources, to evaluate metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration programs conducted by the Company will result in profitable commercial mining operations, as, within the mining industry, few properties that are explored are ultimately developed into producing mines. Risks associated with the conduct of exploration programs and the operation of mines include: unusual or unexpected geological formations; unstable ground conditions that could result in cave-ins or landslides; floods; power outages; shortages, restrictions or interruptions in supply of natural gas, cyanide, sulphur, lime, water or fuel; labour disruptions; social unrest in adjacent areas; fires; explosions; and the inability to obtain suitable or adequate machinery, equipment or labour. Any of these risks could have a material adverse effect on the Company's results of operations or financial condition.

In the absence of new operations or reserves being added, the Company's revenue stream will depend on production from the Don Mario UMZ, the EVBC Mine and the Copperwood Project. These projects have no significant operating history upon which to base estimates of future cash flow. The capital expenditures and time required to develop new mines or other projects are considerable and changes in costs or construction schedules can affect project economics. It is not unusual in the mining industry for new mining operations to experience unexpected problems during the start-up phase, resulting in delays and requiring more capital than anticipated. Actual costs and economic returns may differ materially from the Company's estimates or the Company could fail to obtain the governmental approvals necessary for the

operation of a project, in which case, the project may not proceed, either on its original timing, or at all.

For any of its projects, the Company may experience difficulty in obtaining satisfactory financing terms or adequate project financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on Orvana's results of operations or financial condition.

A high percentage of the Company's revenues and assets are denominated in United States dollars, whereas a significant portion of the Company's costs and assets are denominated in Euros, Canadian and Bolivian currencies. As such, the Company is exposed to foreign currency fluctuations.

For additional information regarding risks relating the Company and its operations, including additional risk factors, please see the Company's Annual Information Form, which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.orvana.com](http://www.orvana.com)

## **OTHER INFORMATION**

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the period. Actual results could differ significantly from those estimates. Specific items requiring estimates are ore reserves, accounts receivable, property, plant and equipment, depreciation and amortization, asset retirement obligations, future income taxes, stock-based compensation and other accrued liabilities and contingent liabilities.

#### ***Net realizable amounts of property, plant and equipment***

At June 30, 2011, the net book value of the Don Mario Mine, plant, equipment and mineral properties amounted to \$37,293. Amortization of these costs is calculated on the units-of-production method over the expected economic life of the mine. The expected economic life is dependent upon the estimated remaining ore; gold, copper and silver prices; and cash operating costs. Based upon current estimates of reserves, with copper prices approximating \$4.00 per pound and gold prices in excess of \$1,400 per ounce, net realizable amounts are in excess of related net book value of property, plant and equipment. During the fiscal 2010 year, an evaluation was completed to assess the fair market value of the assets of the EVBC Mine acquired with Kinbauri Gold Corp; the results of this evaluation have been included in the net book value of the assets associated with the acquisition.

The Company periodically assesses its capitalized exploration and development expenditures for impairment and where there are circumstances indicating that such impairment exists, the carrying value of the impaired asset is written down to fair value. The capitalized costs for the

Copperwood Project amounted to \$11,256. The PEA for the 10-year underground mine at Copperwood showed a pre-tax cash flow internal rate of return of 26% using copper pricing of \$2.00 per pound, with current copper prices in excess of this price, net realizable amounts are in excess of these capitalized costs.

### ***Asset retirement obligations***

As at June 30, 2011, asset retirement obligations on a discounted basis amounted to \$7,934 for the Company's Don Mario Mine in eastern Bolivia and the EVBC Mine in northern Spain. These asset retirement obligations relate to the dismantling of the mine facilities and environmental reclamation of the areas affected by mining operations. Mine facilities include structures and the tailings dam. Environmental reclamation requirements include mine water treatment, reforestation and dealing with soil contamination.

Management estimates that the total undiscounted amount of the cash flows required to settle the Company's asset retirement obligations with respect to the operation of the Don Mario Mine is \$7,723. The credit-adjusted interest rate used to discount estimated cash flows for these liabilities is 8%. Accretion expense is recorded using the resulting weighted average credit-adjusted interest rate. The discounted amount of this obligation as at June 30, 2011 is estimated at \$3,452 and the related costs are expected to be incurred in 2021 through 2024.

Management estimates the total undiscounted amount of the cash flows required to settle the Company's asset retirement obligations with respect to the future operation of the EVBC Mine in Spain is \$7,466. The credit-adjusted interest rate used to discount estimated cash flows is 8%. Accretion expense is recorded using the credit-adjusted interest rate. The discounted amount of the estimated cash flows required to settle the Company's obligations with respect to the EVBC sites as at June 30, 2011 is \$4,482. It is expected that these amounts will be incurred in 2018 and beyond.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation, cost estimates or the estimated remaining ore reserves.

### ***Stock-based compensation***

The Company recorded stock-based compensation expense of \$301 for the third quarter ended June 30, 2011 compared to \$62 for the third quarter of the prior year. The stock-based compensation expense is based on an estimate of the fair value of the stock options issued and expensed over the vesting period. The accounting for stock options requires estimates of interest rates, life of options, stock price volatility and the application of the Black-Scholes option pricing model.

### ***Stock-based consideration***

The Company recorded stock-based consideration expense of \$5,214 for the third quarter ended June 30, 2011. The Company did not record any stock-based consideration for the third quarter of the prior year. On May 16, 2011, the Company entered into the Pre-Emptive Rights Agreement with Fabulosa, under which (i) Fabulosa provided Orvana with a \$15 million six-month, secured convertible bridge loan bearing interest at 8% per annum and (ii) certain of Fabulosa's pre-emptive rights were amended. As consideration for the amendments, Orvana issued to Fabulosa 1,969,999 common shares and agreed to issue five-year warrants to purchase up to 2,725,000 common shares. The 1,969,999 shares were valued at C\$2.59 per share and the amount of \$5,214 was recorded as stock-based consideration expense during the quarter.

### ***Long-term compensation***

The Company has established a Deferred Share Unit ("DSU") plan for its directors, with each DSU having the same value as an Orvana common share. Under the plan the directors receive a portion of their annual compensation in the form of DSUs. The DSUs vest immediately and are redeemable in cash when the individual ceases to be a director. The fair value of amounts granted each period together with changes in fair value are expensed in the period.

The Company has established a Restricted Share Unit ("RSU") plan for designated executives, with each RSU having the same value as an Orvana common share. Under the RSU plan certain executives may be awarded a portion of their bonus compensation in RSUs. The RSUs are redeemable in cash upon vesting. The fair value of amounts granted each period together with changes in fair value are expensed in the period.

### **Outstanding Share Data**

Orvana shares are traded on the Toronto Stock Exchange under the symbol ORV. As at June 30, 2011, there were 119,323,171 common shares outstanding with a stated value of \$82,834 and there were also 2,575,000 stock options outstanding at the same date with a weighted average exercise price of Canadian \$1.97. Stock options outstanding have expiry dates ranging from 2011 to 2016. As of the date of this report 136,323,171 shares were outstanding.

### **Internal Controls over Financial Reporting and Disclosure Controls and Procedures**

The management of Orvana, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of the Company's internal controls over financial reporting and disclosure controls and procedures as of June 30, 2011. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that they were effective at a reasonable assurance level.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls requiring corrective actions.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer does not expect that its disclosure controls and internal controls over financial reporting will prevent or detect all errors and fraud. A cost effective system of internal controls, no matter how well conceived or operated, can provide only reasonable not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

### **Changes in Accounting Policies and New Accounting Standards**

New accounting policies not yet adopted

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests:

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

### **International Financial Reporting Standards ("IFRS")**

The Canadian Accounting Standards Board has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011.

Accordingly, for its fiscal year ended September 30, 2012, the Company will report interim and annual financial statements in accordance with IFRS beginning with the quarter ended December 31, 2011. The Company's fiscal 2012 interim and annual financial statements will include comparative fiscal 2011 financial statements, adjusted to comply with IFRS.

#### ***IFRS Transition Plan***

The Company's IFRS implementation team has completed its detailed analysis of the relevant IFRS requirements and identified the areas where accounting policy changes are required, and those for which accounting policy alternatives are available. The team has also completed its assessment of the first-time adoption requirements and alternatives.

During the second quarter of fiscal 2011, the Company finalized its determination of expected changes to significant accounting policies resulting from the adoption of IFRS. The implementation team is in the process of finalizing the quantification of the expected impact on its consolidated balance sheet as at October 1 2010 in accordance with IFRS 1 *First-time Adoption of IFRS*.

The following table summarizes the Company's progress and expectations with respect to its IFRS transition plan:

Initial scoping and analysis of key areas for which accounting policies may be impacted by the transition to IFRS.	Complete
Detailed evaluation of potential changes required to accounting policies, information systems and business processes, including the application of IFRS 1 First-time Adoption of International Financial Reporting Standards.	Complete
Final determination of expected changes to accounting policies and choices to be made with respect to first-time adoption alternatives.	Complete
Resolution of the expected accounting policy change implications on information technology, internal controls, business processes and contractual arrangements.	In progress, to complete during Q4 fiscal 2011
Quantification of the expected Financial Statement impact of changes in accounting policies, and determination of the expected IFRS transition date balance sheet (as at October 1, 2010).	In progress, to complete during Q4 fiscal 2011
Preparation of pro forma Q1 fiscal 2012 financial statements consistent with IFRS presentation and disclosure requirements.	Q4 fiscal 2011 – Q1 fiscal 2012
Board, management and employee education and training.	Throughout the transition process

### ***Impact of Adopting IFRS on the Company***

As part of its analysis of potential changes to significant accounting policies, the implementation team has been assessing what changes may be required to its accounting systems, and business processes. To date, changes to systems and process that have been identified are minimal and Management believes the systems and processes can accommodate the necessary changes.

The Company is continuing its review of contractual arrangements that may be affected by potential changes to significant accounting policies. To date, the Company has not identified any arrangements for which the expected changes will have a significant impact.

The Company's staff and advisers involved in the preparation of financial statements have received training on the relevant aspects of IFRS and the anticipated changes to accounting policies. The Board of Directors and Audit Committee are being regularly updated on the

progress of the IFRS transition plan, and with information regarding the expected changes to significant accounting policies.

### ***Impact of Adopting IFRS on Internal Controls over Financial Reporting***

Any changes to accounting policies or business processes have the potential to affect the Company's internal controls over financial reporting ("ICFR"). The implementation team is assessing whether changes to ICFR are required. Based on the assessment to date, the Company does not currently expect the adoption to IFRS to have a significant impact on ICFR.

The Company has also reviewed certain existing controls and procedures to ensure they are appropriately included in the ongoing activities of the IFRS transition plan.

### ***First-time Adoption of IFRS***

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period (September 30, 2012). However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

To date, the Company has identified the following IFRS optional exemptions it expects to apply in the preparation of an opening IFRS balance sheet as at October 1, 2010, Orvana's "Transition Date":

- To apply IFRS 2 Share-based Payments only to equity-settled 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 asset retirement obligations.
- 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 (IFRIC 4) 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.

- 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.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS balance sheet as at the Transition Date will be consistent with those made under current Canadian GAAP.

### ***Impact of Adopting IFRS on the Company's Financial Statements***

The Company has finalized its determination of the expected changes to significant accounting policies resulting from the adoption of IFRS, and is in the process of finalizing the quantification of the expected impact on its consolidated balance sheet as at October 1, 2010.

Included below are highlights of the areas that were initially identified as having the most potential for a change to significant accounting policies. The list is not intended to be a complete list of areas where the adoption of IFRS will require a change in accounting policies, but to provide highlights of the Company's determination of expected changes to significant accounting policies resulting from the adoption of IFRS.

Accounting policies have been selected to be consistent with IFRS as it is expected to be effective for the Company for its fiscal 2012 annual consolidated financial statements. Changes to IFRS in effect at September 30, 2012 may require the Company to revise its determination of changes in accounting policies resulting from the adoption of IFRS.

#### *Exploration expenditures*

IFRS currently allows an entity to retain its existing accounting policies related to the exploration for and evaluation of mineral properties, subject to some restrictions.

The Company expects to retain its current policy of capitalizing exploration and evaluation expenditures once management has determined that there is a reasonable expectation of economic extraction of minerals from the property. The Company will continue to capitalize exploration costs and reclassify to deferred development costs when technical feasibility and commercial viability are demonstrable.

On adoption of IFRS, the Company expects to reclassify its capitalized costs associated with those properties where technical feasibility and commercial viability are not yet demonstrable from property, plant and equipment to a separate line on the balance sheet; mineral properties under exploration. Capitalized costs associated with those properties where technical feasibility and commercial viability are demonstrable will be reclassified to a separate line on the balance sheet; mineral properties under development.

### *Property, plant and equipment (measurement and valuation)*

IFRS requires the Company to choose, for each class of capital assets, between the cost model and the revaluation model. Under the revaluation model, an item of property, plant and equipment is carried at its re-valued amount, being its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. The Company expects it will choose the cost model in accounting for its capital assets, which is generally consistent with current Canadian GAAP.

Other aspects of IAS 16, while similar to current Canadian GAAP, include some differences that will require a change in accounting policies. These differences include the accounting for significant components of assets that are recorded and depreciated separately.

The Company does not expect changes to its accounting policies that will have a significant effect on the measurement of property, plant and equipment (with the exception of the reclassification of mineral properties as noted above).

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

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value. In addition, the grouping of assets for the purposes of impairment may be different under IFRS than currently used under Canadian GAAP. Depending on the circumstances, these differences have the potential to result in the recognition of impairment losses under IFRS that would not otherwise have been recognized under current Canadian GAAP.

The Company will change its accounting policies to reflect these differences; however does not expect the changes to have a significant effect on its opening IFRS balance sheet.

### *Provisions, including 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 will change its accounting policy to recognize decommissioning liabilities for constructive obligations, but does not expect this to have a significant impact on its opening IFRS balance sheet.

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. On adoption of IFRS, the Company

expects this change in accounting policy to result in an increase in liabilities of less than \$0.5 million.

#### *Foreign Currencies*

IFRS requires that the functional currency of the Company and its subsidiaries be determined separately, and the process of considering factors to determine functional currency are somewhat different than current Canadian GAAP.

The Company does not expect any change to its functional currency, or to the functional currency of its subsidiaries.

#### *Share-based payments*

In certain circumstances, IFRS requires a different measurement of share-based compensation than current 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.

The Company expects that the change in accounting policy to estimate forfeitures will result in a reduction of contributed surplus of less than \$0.1 million, and a corresponding increase in retained earnings.

#### *Accounting for income taxes*

While accounting for income taxes is similar under IFRS and Canadian GAAP, in certain circumstances there are differences in the measurement of future tax assets and future tax liabilities. The Company has assessed these differences and determined it expects to change its accounting policy to recognize deferred taxes arising from the exchange rate fluctuations on non-monetary assets and liabilities of foreign operations.

The Company expects this change in accounting policy will result in an increase in deferred tax liabilities of less than \$1.0 million, and a corresponding decrease in retained earnings.

#### ***Subsequent Disclosures***

Further disclosures of the IFRS transition process are expected as follows:

- The Company's Management Discussion and Analysis for the year ended September 30, 2011 will include updates on the progress of the transition plan, and, to the extent known, information regarding the impact of adopting IFRS on key line items in the annual financial statements.

- The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending December 31, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. The interim financial statements for the three months ending December 31, 2011 will also include fiscal 2011 financial statements for the comparative period, adjusted to comply with IFRS, and the Company's Transition Date IFRS balance sheet (as at October 1, 2010).

### **Other Information**

Other operating and financial information, including the Company's Annual Information Form, is available in public disclosure documents filed on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.orvana.com](http://www.orvana.com).