# ORVANA MINERALS CORP.

# CONSOLIDATED FINANCIAL STATEMENTS

# SEPTEMBER 30, 2007 and 2006

# (AUDITED)

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Orvana Minerals Corp. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 2 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)

Carlos Mirabal
President and Chief Executive Officer

(signed)

Malcolm King
Vice President and Chief Financial Officer

Toronto, Canada
November 28, 2007

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# Auditors' Report

To the shareholders of
Orvana Minerals Corp.

We have audited the consolidated balance sheets of Orvana Minerals Corp. as at September 30, 2007 and 2006 and the related statements of income and comprehensive income, changes in equity and cash flows for each of the years in the two-year period ended September 30, 2007. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all respects, the financial position of the Company as at September 30, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ending September 30, 2007 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
November 29, 2007

# ORVANA MINERALS CORP.
## Consolidated Balance Sheets
## As at September 30
## (In thousands of United States dollars)

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 55,667 | $ 26,850 |
| Gold sales receivable | 1,462 | - |
| Value-added taxes receivable and prepaid expenses | 3,585 | 3,279 |
| Gold inventory | 949 | 581 |
| Supplies inventory | 1,920 | 2,547 |
| | 63,583 | 33,257 |
| Property, plant and equipment (note 3) | 17,570 | 21,603 |
| Total assets | $ 81,153 | $ 54,860 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 2,912 | $ 2,986 |
| Income taxes payable | 4,351 | 4,156 |
| | 7,263 | 7,142 |
| Asset retirement obligations (note 4) | 1,988 | 1,828 |
| Provision for statutory labour obligations | 946 | 567 |
| Future income tax liability (note 7) | - | 234 |
| Total liabilities | 10,197 | 9,771 |
| **Shareholders' equity** | | |
| Share capital (note 5(b)) | 74,777 | 74,777 |
| Contributed surplus | 1,354 | 1,510 |
| Deficit | (5,175) | (31,198) |
| | 70,956 | 45,089 |
| Total liabilities and shareholders' equity | $ 81,153 | $ 54,860 |

Commitments and contingencies (note 10)

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

Approved by the Board of Directors:

(signed) Carlos Mirabal Director

(signed) Robert Mitchell Director

# ORVANA MINERALS CORP.
## Consolidated Statements of Income and Comprehensive Income
### Year ended September 30
### (In thousands of United States dollars except per share amounts)

| | 2007 | 2006 |
|---|---|---|
| **Revenues** | | |
| Gold sales | $ 55,920 | $ 44,875 |
| **Costs and expenses of mining operations** | | |
| Cost of sales | 11,285 | 9,525 |
| Royalties, mining rights and other | 1,809 | 1,535 |
| Depreciation and amortization | 6,539 | 5,602 |
| Accretion (note 4) | 160 | 147 |
| | 19,793 | 16,809 |
| | 36,127 | 28,066 |
| **Expenses (recoveries) and other income** | | |
| General and administration | 2,100 | 3,865 |
| Stock-based compensation (note 6) | (156) | 502 |
| Exploration | 1,474 | 1,001 |
| Business development | 108 | 510 |
| Community relations | 330 | 172 |
| Interest and other income | (1,676) | (471) |
| Foreign exchange | 123 | 158 |
| | 2,303 | 5,737 |
| **Income before provision for income taxes and provision (recovery) of future income taxes** | 33,824 | 22,329 |
| Provision for income taxes (note 7) | | |
| Current income taxes | 8,035 | 6,720 |
| Future income taxes (recovery) | (234) | (73) |
| | 7,801 | 6,647 |
| **Net income and comprehensive income** | $ 26,023 | $ 15,682 |
| **Earnings per share** (note 8) | | |
| Basic and diluted | $ 0.23 | $ 0.14 |
| **Weighted average number of shares outstanding - basic** | 115,233,173 | 114,918,214 |
| **Weighted average number of shares outstanding - diluted** | 115,273,899 | 115,228,782 |

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

# ORVANA MINERALS CORP.

## Consolidated Statements of Changes in Shareholders' Equity

**Year ended September 30**

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

| | 2007 | 2006 |
|---|---|---|
| **Share capital** | | |
| Balance, October 1 | $ 74,777 | $ 74,731 |
| Exercise of stock options | - | 46 |
| Balance, September 30 | $ 74,777 | $ 74,777 |
| **Contributed surplus** | | |
| Balance, October 1 | $ 1,510 | $ 1,008 |
| Grant of stock options | 107 | 164 |
| Vesting of previously grant of stock options | 112 | 338 |
| Forfeiture of previously issued stock options | (375) | - |
| Balance, September 30 | $ 1,354 | $ 1,510 |
| **Deficit** | | |
| Balance, October 1 | $ (31,198) | $ (46,880) |
| Net income | 26,023 | 15,682 |
| Balance, September 30 | $ (5,175) | $ (31,198) |
| | $ 70,956 | $ 45,089 |

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

# ORVANA MINERALS CORP.

**Consolidated Statements of Cash Flows**
**Year ended September 30**
**(In thousands of United States dollars)**

| | 2007 | 2006 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 26,023 | $ 15,682 |
| Depreciation and amortization | 6,539 | 5,602 |
| Accretion (note 4) | 160 | 147 |
| Stock-based compensation (note 6) | (156) | 502 |
| Future income taxes (recovery) (note 7) | (234) | (73) |
| Provision for statutory labour obligations | 379 | 194 |
| Foreign exchange | 123 | 158 |
| | 32,834 | 22,212 |
| Changes in non-cash working capital items | | |
| Gold sales receivable | (1,462) | - |
| Value-added taxes receivable and prepaid expenses | (306) | (433) |
| Gold inventory | (326) | 110 |
| Supplies inventory | 627 | (364) |
| Accounts payable and accrued liabilities | (74) | (288) |
| Income taxes payable | 195 | 3,487 |
| | 31,488 | 24,724 |
| **Financing activities** | | |
| Proceeds from issue of shares (note 5(b)) | - | 46 |
| **Investing activities** | | |
| Capital expenditures | (2,548) | (3,072) |
| **Change in cash and cash equivalents** | 28,940 | 21,698 |
| **Cash and cash equivalents, beginning of period** | 26,850 | 5,310 |
| **Effect of exchange rate changes on cash held in foreign currencies** | (123) | (158) |
| **Cash and cash equivalents, end of period** | $ 55,667 | $ 26,850 |
| **Other information** | | |
| Income taxes paid | $ 7,924 | $ 3,173 |

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

**1. Nature of operations**

Orvana Minerals Corp. (the "Company" or "Orvana") is a Canadian mining and exploration company based in Toronto, Ontario, involved in the evaluation, development and mining of precious and base metal deposits in the Americas. The Company owns and operates the Don Mario Gold Mine and property (note 3(a)) in eastern Bolivia which is held indirectly through its wholly-owned subsidiary, Empresa Minera Paititi S.A. The Company's shares are listed on the Toronto Stock Exchange.

**2. Summary of significant accounting policies**

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

(a) Basis of consolidation

The consolidated financial statements of Orvana and its subsidiaries, which are expressed in US dollars, are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). On October 1, 2006, the Company amalgamated four of it's Bolivian subsidiaries with Empresa Minera Paititi S.A. and wound-up certain other non-operating companies. The consolidated financial statements include the assets, liabilities, revenues and expenses of the following wholly-owned subsidiaries:

Operating companies:

Empresa Minera Paititi S.A. ("EMIPA")

Non-operating companies:

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

(b) Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ significantly from these estimates.

Accounts which require management to make material estimates in determining amounts recorded include 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.

**2. Summary of significant accounting policies (continued)**

(c) Revenue recognition

Revenue is recorded in the financial statements when title and risks have passed to the buyer, which occurs on the date of export.

(d) Exploration and development expenditures

Property acquisition costs are capitalized. Exploration and development expenditures are expensed until a feasibility study has been completed that indicates the property is economically feasible. The Company periodically assesses its capitalized exploration and development expenditures for impairment and where there are circumstances indicating that an impairment exists, the carrying value of the impaired assets are written down to fair value.

(e) Stock-based compensation

The fair value of any stock options granted to directors, officers, consultants and employees is recorded as an expense over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions as disclosed in Note 6. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(f) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. The effect on future tax assets and liabilities of a change in tax rate is included in income in the period in which the change is substantially enacted. Future tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

(g) Earnings per share

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

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and money market investments with original maturities of three months or less and which are readily convertible into cash.

(i) Inventories

Product inventory which consists of gold bullion and gold in circuit is stated at the lower of production cost and net realizable value. Cost represents average production cost. Supplies inventory is stated at the lower of average cost and replacement cost.

**2. Summary of significant accounting policies (continued)**

(j) Property, plant and equipment

Property, plant and equipment, including mine development expenditures, are carried at cost less accumulated depreciation and amortization and less any write-downs to recognize impairments. Depreciation and amortization are charged to income on a unit-of-production basis over estimated mineral reserves. Properties under development include initial acquisition costs and costs incurred subsequent to completion of an economic feasibility study.

When impairment conditions are identified, reviews of producing properties and properties under development are conducted. The carrying values of property, plant and equipment which are not assessed as economically viable are written down to fair value, which is determined using a discounted cash flow model.

(k) Asset retirement obligations

The accounting for asset retirement obligations encompasses the accounting for legal obligations associated with the retirement of a long-lived tangible asset that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some other manner.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the cost of the related long-lived asset. Changes in the liability for an asset retirement obligation resulting from the passage of time and/or revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized in the period of change and the related costs are recognized in the period of change or in the period of change and future periods, if the change affects more than one period. Over time, the liability is increased to reflect an interest element (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on a unit-of-production basis. Upon settlement of the liability, a gain or loss is recorded if the actual costs incurred are different from the liability recorded.

It is possible that the Company's estimates of its asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period in which these estimates are revised.

(l) Foreign currency translation

The functional currency of the Company is the US dollar. The Company's foreign operations are classified as integrated for foreign currency translation purposes. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate during the year with the exception of depreciation and amortization which is translated at the historical rate recorded for property, plant and equipment. Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of income for the current period.

**2. Summary of significant accounting policies (continued)**

(m) Change in accounting policies

On October 1, 2006, the Company adopted CICA Handbook Sections 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3865, "Hedges." Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated except for the requirement to restate currency translation adjustments as part of other comprehensive income. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company has evaluated the impact of these Handbook sections on its consolidated financial statements and determined that no significant adjustments were required on adoption.

(n) Accounting changes

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") Section 1506, Accounting Changes. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes.

(In thousands of United States Dollars unless otherwise noted)

**2. Summary of significant accounting policies (continued)**

(o) Future accounting changes

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on October 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments — Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

**3. Property, plant and equipment**

| Year ended September 30, 2007 | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Plant and equipment | $ 29,136 | $ 15,894 | $ 13,242 |
| Construction in process | 164 | - | 164 |
| Mineral properties and deferred development costs (note 3(a) and note 3(b)) | 8,174 | 4,813 | 3,361 |
| Asset retirement costs | 1,499 | 766 | 733 |
| Furniture and equipment | 111 | 41 | 70 |
| | $ 39,084 | $ 21,514 | $ 17,570 |

| Year ended September 30, 2006 | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Plant and equipment | $ 27,104 | $ 10,817 | $ 16,287 |
| Construction in process | 262 | - | 262 |
| Mineral properties and deferred development costs (note 3(a) and note 3(b)) | 7,601 | 3,640 | 3,961 |
| Asset retirement costs | 1,499 | 456 | 1,043 |
| Furniture and equipment | 70 | 20 | 50 |
| | $ 36,536 | $ 14,933 | $ 21,603 |

(In thousands of United States Dollars unless otherwise noted)

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

(a) Description of the Don Mario Gold Mine and property

The Company has a 100% working interest in the Don Mario property comprising eleven mineral concessions located in eastern Bolivia. Annual payments aggregating $123 are made to maintain the mining rights and to keep these concessions in good standing. According to the Bolivian Mining Code, mining rights in Bolivia are granted in perpetuity and can be lost only if the annual mining rights upon the concession are not being paid (note 10).

The Don Mario Mine commenced commercial production on July 1, 2003. Certain of the mineral concessions are subject to a 3% net smelter royalty payable to a third party.

(b) Pederson and other exploration properties in Bolivia

The Company holds certain joint venture interests in a number of mineral concessions, located in the Altiplano region of Bolivia which, until March 16, 2006, included a 40% joint venture interest in the Pederson property, which covers approximately 7,800 hectares. On that date, the Company entered into an agreement to sell its interest in the Pederson property to Castillian Resources Corp. ("Castillian") subject to certain future payments and certain exploration spending targets to be met by Castillian within five years. The Company recorded a gain of $160 for the year ended September 30, 2006 which was included in interest and other income in the income statement in respect of two payments made by Castillian. On September 20, 2006, Castillian declared force majeure claiming that local community groups which are opposed to any exploration and mining activities in the area including the Pederson property, have prevented Castillian from conducting exploration activities as part of its obligations under the agreement with the Company. The Company will record future receipts called for under the agreement if and when they are received.

The Pederson and other exploration properties are carried at a nominal amount in the Company's consolidated financial statements and related liabilities and expenses are not material.

**4. Asset retirement obligations**

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

| Year ended September 30 | 2007 | 2006 |
|---|---|---|
| Balance, October 1 | $ 1,828 | $ 1,681 |
| Accretion expense | 160 | 147 |
| Balance, September 30 | $ 1,988 | $ 1,828 |

Asset retirement obligations relate to the Company's Don Mario Mine in eastern Bolivia and the dismantling of the mine facilities and environmental reclamation of the areas affected by mining operations. Associated long-lived assets include structures and the tailings dam. Environmental reclamation requirements include mine water treatment, reforestation and dealing with soil contamination.

At September 30, 2007, management estimates that the total undiscounted amount of the estimated cash flows required to settle the Company's asset retirement obligations is $2,800. It is expected that this amount will be incurred in approximately equal amounts over the years 2010 to 2014. The credit-adjusted, risk-free interest rates used to discount estimated cash flows for liabilities incurred in 2005 and 2004 were 8% and 10%, respectively. Accretion expense is recorded using the resulting weighted average credit-adjusted, risk-free interest rate.

(In thousands of United States Dollars unless otherwise noted)

**5. Share capital**

(a) Authorized - unlimited number of common shares

(b) Common shares issued

| | Number of common shares | | Stated value |
|---|---|---|---|
| Balance, September 30, 2005 | 114,533,173 | $ | 74,731 |
| Exercise of stock options | 350,000 | | 46 |
| Private placement - Fabulosa Mines Limited (note 5(d)) | 350,000 | | - |
| Balance, September 30, 2006 and September 30, 2007 | 115,233,173 | $ | 74,777 |

(c) Stock options

The stated purpose of the Orvana Stock Option Plan (the "Plan") established in 2006, is to attract, retain and compensate qualified persons as directors, senior officers and employees of, and consultants to, the Company and its subsidiaries and affiliates. The Plan is administered by a committee appointed by the Board of Directors. Subject to the terms of the Plan the committee may determine, among other things, the number of stock options to be granted to any person, the exercise price (which may not be less than the market price, as defined in the Plan, of the Company's common shares) and the time or times when options will be exercisable (i.e. any vesting period). The term of stock options granted under the Plan may not exceed ten years from the date of grant but generally options are granted for five years and vest one-third immediately and one-third after each of the first and second anniversaries of the date of grant.

As at September 30, 2007, the Company has granted 3,376,666 stock options and was authorized to grant stock options under the Plan for the purchase of up to 5,074,999 additional common shares. Common shares in respect of which outstanding options expire unexercised are available for subsequent option grants under the Plan.

A summary of the stock option transactions for the years ended September 30, 2007 and 2006 is as follows:

| | Stock options | | Weighted average exercise price |
|---|---|---|---|
| Balance, September 30, 2005 | 4,762,998 | Cdn | $1.73 |
| Granted | 725,000 | | 0.92 |
| Exercised | (350,000) | | 0.15 |
| Expired | (88,000) | | 8.00 |
| Forfeited | (666,666) | | 0.91 |
| Balance, September 30, 2006 | 4,383,332 | | 1.72 |
| Granted | 500,000 | | 0.63 |
| Expired | (923,333) | | 4.21 |
| Forfeited | (583,333) | | 0.97 |
| Balance, September 30, 2007 | 3,376,666 | Cdn | $1.01 |

(In thousands of United States Dollars unless otherwise noted)

**5. Share capital (continued)**

(c) Stock options (continued)

As at September 30, 2007, outstanding and exercisable stock options granted were as follows:

| Grant Date | | Fair Value | Number of non-vested options | Number of vested options | Exercise price | Expiry date |
|---|---|---|---|---|---|---|
| April 2, 2005 | (a) | $253 | - | 566,666 | Cdn $1.00 | December 4, 2007 |
| March 31, 1998 | | | - | 294,999 | 1.75 | March 31, 2008 |
| May 12, 2006 | (b) | 19 | - | 41,667 | 1.05 | April 5, 2008 |
| July 5, 2006 | (c) | 24 | - | 58,334 | 0.91 | May 9, 2008 |
| December 8, 1998 | | | - | 65,000 | 1.00 | December 8, 2008 |
| April 1, 2005 | (d) | 471 | - | 1,025,000 | 1.03 | April 1, 2010 |
| June 30, 2005 | (e) | 210 | - | 470,000 | 1.00 | June 30, 2010 |
| September 26, 2005 | (f) | 16 | - | 30,000 | 1.20 | September 26, 2010 |
| June 23, 2006 | (g) | 129 | 91,666 | 233,334 | 0.89 | June 23, 2011 |
| December 14, 2006 | (h) | 99 | 233,333 | 116,667 | 0.60 | December 14, 2011 |
| August 9, 2007 | (i) | 55 | 100,000 | 50,000 | 0.69 | August 8, 2012 |
| | | $1,276 | 424,999 | 2,951,667 | | |
| Total vested and non-vested stock options | | | | 3,376,666 | | |

Stock options have been expensed as follows:

| | Cumulative expense to September 30, 2007 | Remainder to be expensed | Total stock option compensation |
|---|---|---|---|
| (a) | $ 253 | $ - | $ 253 |
| (b) | 19 | - | 19 |
| (c) | 24 | - | 24 |
| (d) | 471 | - | 471 |
| (e) | 210 | - | 210 |
| (f) | 16 | - | 16 |
| (g) | 120 | 9 | 129 |
| (h) | 82 | 17 | 99 |
| (i) | 25 | 30 | 55 |
| | $ 1,220 | $ 56 | $ 1,276 |
| Expired options | 134 | - | 134 |
| | $ 1,354 | $ 56 | $ 1,410 |

(In thousands of United States Dollars unless otherwise noted)

**5. Share capital (continued)**

(d) Controlling shareholder's rights

Under a share acquisition agreement dated January 11, 2002, Fabulosa Mines Limited, the Company's controlling shareholder, has the right to receive common shares of the Company at no additional cost, on a one-for-one basis, for each common share issued by the Company as a results of the exercise of stock options outstanding on the date of the agreement. At September 30, 2007, the number of options to which this right relates includes 294,999 options exercisable at Cdn. $1.75 expiring March 31, 2008 and 65,000 exercisable at Cdn. $1.00 expiring December 8, 2008.

**6. Stock-based compensation**

The Company's stock option plan is described in note 5(c). The Company uses the fair value method of accounting and during fiscal 2007, recognized stock-based compensation expense of $219 which was offset by a credit to income of $375 in respect of unvested stock options forfeited by departing officers and directors, resulting in a net credit of $156 (fiscal 2006 - a charge of $502).

The fair value of each option grant in fiscal 2007 and fiscal 2006 was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate: | 4.0 % - 4.5% |
| Expected life in years: | 4 to 5 |
| Expected volatility: | 60% - 70% |
| Expected dividend yield: | 0% |

**7. Income taxes**

(a) The components of the provision for income taxes are as follows:

| Year ended September 30 | 2007 | 2006 |
|---|---|---|
| Current income taxes: | | |
| Canada | $ 70 | $ - |
| Foreign | 7,965 | 6,720 |
| | 8,035 | 6,720 |
| Future income taxes: | | |
| Canada | - | - |
| Foreign | (234) | (73) |
| Provision for income taxes | $ 7,801 | $ 6,647 |

(In thousands of United States Dollars unless otherwise noted)

**7. Income taxes (continued)**

(b) The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective income tax rate is as follows:

| Year ended September 30 | 2007 | 2006 |
|---|---|---|
| Income before provision for income taxes | $ 33,824 | $ 22,329 |
| Income tax provision at the combined Canadian Federal and provincial statutory rates of 32.5% (33.0% in 2006) | 10,993 | 7,369 |
| Effect of differences in foreign tax rates | (2,370) | (2,039) |
| Stock-based compensation | (51) | 166 |
| Non-deductible items | 43 | 158 |
| Non-taxable income | - | (151) |
| Valuation allowance - current year tax losses | 372 | 1,474 |
| Special tax deduction on exploration expenditures | (512) | (330) |
| Foreign exchange loss available for tax in a foreign subsidiary | (373) | - |
| Prior years' expenses not previously deducted for tax | (301) | - |
| Provision for income taxes | $ 7,801 | $ 6,647 |
| Effective tax rate | 23.1% | 29.8% |

At September 30, 2007, the Company has available non-capital loss carry-forwards for Canadian tax purposes at current rates of exchange with expiry as follows:

| | |
|---|---|
| 2008 | $1,055 |
| 2009 | 464 |
| 2010 | 406 |
| 2014 | 536 |
| 2015 | 1,414 |
| 2016 | 3,857 |
| 2017 | 1,144 |
| | $8,876 |

(c) The Company's future income tax assets are as follows:

| Year ended September 30 | 2007 | 2006 |
|---|---|---|
| Non-capital losses carried forward - net future income tax asset | $ 2,885 | $ 2,786 |
| Valuation allowance | (2,885) | (2,786) |
| Net future income tax asset | $ - | $ - |

The Company has recorded a valuation allowance in respect of its Canadian losses in the amount of $2,885 at September 30, 2007 (2006 - $2,786) because management believes that the future income tax assets in respect of such losses are unlikely to be realized in the carry-forward period. At September 30, 2007, a net future tax liability of $nil (2006 - $234) is recorded in respect of other timing differences relating to Bolivian income taxes. For additional information concerning income taxes refer to subsequent event note 11.

(In thousands of United States Dollars unless otherwise noted)

**8. Earnings per share**

| Year ended September 30 | 2007 | 2006 |
|---|---|---|
| Earnings available to common stockholders and on assumed conversions | $ 26,023 | $ 15,682 |
| Weighted average shares outstanding - basic | 115,233,173 | 114,918,214 |
| Dilutive stock options | 40,726 | 177,584 |
| Controlling shareholder's rights on exercise of stock options (note 5(d)) | - | 132,984 |
| Weighted average shares outstanding - diluted | 115,273,899 | 115,228,782 |

Basic earnings per share is computed by dividing net income (the numerator) by the weighted average number of outstanding common shares for the year (the denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding stock options and other convertible instruments.

**9. Segmented information**

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

| As at September 30, 2007 | Gold Sales | Cash and cash equivalents | Property, plant and equipment | Other assets | Total assets |
|---|---|---|---|---|---|
| Bolivia | $ 55,920 | $ 3,307 | $ 17,470 | $ 7,493 | $ 28,270 |
| Canada | - | 14,868 | 100 | 412 | 15,380 |
| Sweden | - | 37,409 | - | 11 | 37,420 |
| Cyprus | - | 83 | - | - | 83 |
| | $ 55,920 | $ 55,667 | $ 17,570 | $ 7,916 | $ 81,153 |

| As at September 30, 2006 | Gold Sales | Cash and cash equivalents | Property, plant and equipment | Other assets | Total assets |
|---|---|---|---|---|---|
| Bolivia | $ 44,875 | $ 2,682 | $ 21,522 | $ 6,064 | $ 30,268 |
| Canada | - | 1,250 | 81 | 343 | 1,674 |
| Sweden | - | 22,918 | - | - | 22,918 |
| | $ 44,875 | $ 26,850 | $ 21,603 | $ 6,407 | $ 54,860 |

## 10. Commitments and contingencies

The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company records provisions for asset retirement obligations based on management's estimate of such costs. These estimates are, however, subject to changes in laws and regulations.

The mining concessions on which the Company is actively pursuing its exploration and development activities are all located in eastern Bolivia. As a result, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability in Bolivia, which may result in the impairment or loss of mineral concessions or other mineral rights. Any changes in laws or regulations, including possible changes to the Bolivian Mining Code, or shifts in political attitudes are beyond the control of the Company and may adversely affect its business.

## 11. Subsequent events

On November 23, 2007, the Bolivian Congress approved legislation amending the country’s mining and income tax laws. Under Bolivia’s constitution, the tax changes become effective on a prospective basis from the date of their enactment which is expected to be in the next 60 days. The tax increases take two forms:

(a) An income tax rate increase from 25% to 37.5%.

(b) A new tax, to be called Regalia Minera (“Mining Royalty”) – the Mining Royalty tax, calculated as a percentage of the gross invoice value of metals exported, will be payable in addition to income tax. The Mining Royalty tax rate will be a function of the particular metal and its market price. For gold, the rate will range from a minimum of 4%, at a gold price of $400, to a maximum of 7%, at a gold price of $700 or more. The Mining Royalty will be deductible in determining income taxes.

If the new tax laws had been in effect throughout the year ended September 30, 2007, net income for the year would have been reduced by $6,254 ($0.06 per share) to $19,769 ($0.17 per share).

On November 24, 2007, the Constituent Assembly of Bolivia approved the new constitutional draft in principle. The proposed new constitution, if implemented as currently drafted, could have adverse implications for the Company due to, among other things, increased powers that the Bolivian government would have under the constitution to control the commercialization of minerals.

## 12. Comparative Information

Certain comparative figures have been reclassified to conform with current year financial statement presentation.