# ORVANA MINERALS CORP.

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## DECEMBER 31, 2010

## (UNAUDITED)

## (EXPRESSED IN UNITED STATES DOLLARS)

**Notice to Reader**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# ORVANA MINERALS CORP.

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

| (Unaudited) | As at December 31 2010 | As at September 30 2010 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents (note 3) | $ 42,688 | $ 12,700 |
| Value-added taxes receivable and prepaid expenses | 8,035 | 10,992 |
| Gold inventory | 908 | 753 |
| Supplies inventory | 4,571 | 5,473 |
| Income tax receivable | - | 79 |
| | 56,202 | 29,997 |
| Long-term value-added taxes receivable | 4,157 | - |
| Reclamation bonds | 3,207 | 3,287 |
| Property, plant and equipment (notes 4, 5 and 6) | 135,630 | 123,188 |
| Future income tax asset (note 9) | 7,982 | - |
| | $ 207,178 | $ 156,472 |
| **Liabilities** | | |
| Current liabilities | | |
| Bank debt (note 4) | $ 3,621 | $ 3,049 |
| Accounts payable and accrued liabilities | 12,709 | 15,346 |
| Income taxes payable | 276 | - |
| Current portion of long-term debt (note 6) | 1,295 | 1,749 |
| Current portion of obligations under capital leases (note 7) | 922 | 975 |
| Current portion of derivative instruments (note 9) | 3,306 | - |
| | 22,129 | 21,119 |
| Long-term debt (note 6) | 47,340 | 833 |
| Obligations under capital leases (note 7) | 1,263 | 1,547 |
| Asset retirement obligations (note 8) | 7,686 | 7,538 |
| Derivative instruments (note 9) | 23,300 | - |
| Provision for statutory labour obligations | 1,577 | 1,771 |
| Future income tax liability | 12,097 | 12,402 |
| Long-term compensation (note 11) | 2,717 | 1,860 |
| | 118,109 | 47,070 |
| **Shareholders' equity** | | |
| Share capital (note 10(b)) | 76,323 | 76,227 |
| Contributed surplus | 2,269 | 1,674 |
| Retained earnings | 10,477 | 31,501 |
| | 89,069 | 109,402 |
| | $ 207,178 | $ 156,472 |

Commitments and contingencies (note 12)

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

# ORVANA MINERALS CORP.

## Interim Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income

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

| **(Unaudited)** | Three months ended December 31 **2010** | **2009** |
|---|---|---|
| **Revenues** | | |
| Gold sales | $ 6,427 | $ 11,876 |
| **Costs and expenses of mining operations** | | |
| Cost of sales | 4,170 | 4,836 |
| Royalties and mining rights | 228 | 381 |
| Mining royalty taxes | 450 | 829 |
| Depreciation and amortization | 581 | 1,130 |
| Accretion (note 8) | 148 | 36 |
| | 5,577 | 7,212 |
| | 850 | 4,664 |
| **Expenses (other income)** | | |
| General and administration | 1,042 | 1,121 |
| Exploration | - | 100 |
| Stock-based compensation | 628 | 152 |
| Long-term compensation | 1,107 | 177 |
| Community relations | 71 | 32 |
| Interest on long-term debt | 92 | 85 |
| Other expense | 48 | 8 |
| Foreign exchange | (34) | 68 |
| Derivatives loss (gain) (note 9) | 26,606 | - |
| | 29,560 | 1,743 |
| **(Loss) income before provision for income taxes and provision for future income taxes** | (28,710) | 2,921 |
| Provision for income taxes | | |
| Current income taxes | 296 | 1,537 |
| Future income tax expense (recovery) (note 9) | (7,982) | 184 |
| | (7,686) | 1,721 |
| **Net (loss) income and comprehensive (loss) income** | $ (21,024) | $ 1,200 |
| **(Loss) earnings per share** (note 14) | | |
| Basic and diluted | $ (0.18) | $ 0.01 |

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

# ORVANA MINERALS CORP.

## Interim Consolidated Statements of Shareholders' Equity

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

| (Unaudited) | | Share capital | | Contributed surplus | | Retained earnings | | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, September 30, 2009** | $ | 74,777 | $ | 1,658 | $ | 33,932 | $ | 110,367 |
| Stock-based compensation | | - | | 152 | | - | | 152 |
| Net income | | - | | - | | 1,200 | | 1,200 |
| **Balance, December 31, 2009** | $ | 74,777 | $ | 1,810 | $ | 35,132 | $ | 111,719 |

| (Unaudited) | | Share capital | | Contributed surplus | | Retained earnings | | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, September 30, 2010** | $ | 76,227 | $ | 1,674 | $ | 31,501 | $ | 109,402 |
| Exercise of stock options | | 96 | | (33) | | - | | 63 |
| Stock-based compensation | | - | | 628 | | - | | 628 |
| Net loss | | - | | - | | (21,024) | | (21,024) |
| **Balance, December 31, 2010** | $ | 76,323 | $ | 2,269 | $ | 10,477 | $ | 89,069 |

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

# ORVANA MINERALS CORP.

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

| (Unaudited) | Three months ended December 31 2010 | 2009 |
|---|---|---|
| **Operating activities** | | |
| Net (loss) income | $ (21,024) | $ 1,200 |
| Depreciation and amortization | 581 | 1,130 |
| Accretion (note 8) | 148 | 36 |
| Stock-based compensation | 628 | 152 |
| Long-term compensation | 1,107 | 177 |
| Future income taxes (recovery) | (7,982) | 184 |
| Provision for statutory labour obligations | (194) | 97 |
| Foreign exchange | (168) | 132 |
| Derivatives loss (gain) (note 9) | 26,606 | - |
| | (298) | 3,108 |
| Changes in non-cash working capital items | | |
| Gold sales receivable | - | (1,440) |
| Value-added taxes receivable and prepaid expenses | (1,121) | (1,059) |
| Gold inventory | (28) | 404 |
| Supplies inventory | 902 | 68 |
| Accounts payable and accrued liabilities | (6,598) | (2,515) |
| Income taxes payable | 276 | 883 |
| | (6,867) | (551) |
| **Financing activities** | | |
| Proceeds from long-term debt (note 6) | 50,000 | 1,000 |
| Financing fees | (3,538) | - |
| Repayment of long-term debt (note 6) | (661) | (629) |
| Exercise of stock options | 63 | - |
| Payment of DSU | 31 | - |
| | 45,895 | 371 |
| **Investing activities** | | |
| Capital expenditures | (8,983) | (5,037) |
| | (8,983) | (5,037) |
| **Change in cash and cash equivalents** | 30,045 | (5,217) |
| **Cash and cash equivalents, beginning of period** | 12,700 | 58,036 |
| **Effect of exchange rate changes on cash held in foreign currencies** | (57) | (68) |
| **Cash and cash equivalents, end of period** | $ 42,688 | $ 52,751 |

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

## 1. Nature of operations

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

## 2. Basis of presentation and new accounting policies

(a) Basis of presentation

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

(b) New accounting policies

**Derivatives**

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

Fair values for derivative instruments held for trading are determined using valuation techniques, incorporating assumptions based on market conditions existing at the balance sheet date. Realized gains and losses are recorded as a component of operating cash flow.

**Long-term debt**

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

(In thousands of United States Dollars unless otherwise noted)

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

(c) New accounting policies not yet adopted

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

## 3. Cash and cash equivalents

Cash and cash equivalents includes $734 of cash on deposit in favour of the Spanish government pending audit by the government of compliance with the terms of certain capital investment subsidies received by the Company.

In addition, at December 31, 2010, EMIPA has bank guarantees with Banco Bisa S.A. amounting to approximately $994 (September 30, 2010 - $716), related to refunded amounts of value-added taxes and natural gas purchases.

## 4. Credit facility

EMIPA has short term credit facilities with Banco de Credito de Bolivia S.A. and Banco Bisa S.A. for up to $5.0 million dollars payable in 90-150 days with annual interest rates ranging between 4% to 6% with certain of the Company’s assets pledged as security against these loans. As at December 31, 2010, $3,621 (September 30, 2010 - $3,049) was drawn on these facilities.

## 5. Property, plant and equipment

| December 31, 2010 | Cost | Accumulated amortization | Net carrying value |
|---|---|---|---|
| Land | $ 1,910 | $ - | $ 1,910 |
| Plant and equipment | 84,914 | 31,271 | 53,643 |
| Furniture and equipment | 750 | 139 | 611 |
| Equipment under capital lease | 4,574 | - | 4,574 |
| | 92,148 | 31,410 | 60,738 |
| Mineral properties | | | |
| Don Mario - UMZ | 3,893 | - | 3,893 |
| Copperwood | 7,933 | - | 7,933 |
| EL Valle-Boinas/Carles | 63,066 | - | 63,066 |
| | 74,892 | - | 74,892 |
| Total | $ 167,040 | $ 31,410 | $ 135,630 |

(In thousands of United States Dollars unless otherwise noted)

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

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

**6. Long-term debt**

(a) On March 4, 2008, EMIPA entered into a term credit facility agreement of $5,000 with Banco Bisa S.A. ("BISA"). This facility bears interest at 7.75% and is payable in equal quarterly instalments over a three-year period. At December 31, 2010, $462 (September 30, 2010 - $915) was outstanding under this facility. During the three months ended December 31, 2010, $453 (2009 comparative period - $420) was repaid against this loan. The Company used the proceeds of this credit facility to purchase additional electrical generation equipment and a ball mill to increase ore treatment capacity.

(b) On September 29, 2009, EMIPA entered into a second BISA credit agreement of $2,500. This facility bears interest at 7.8% and is payable in equal quarterly instalments over a three-year period. At December 31, 2010, $1,458 (September 30, 2010 - $1,667) was outstanding under this facility. During the three months ended December 31, 2010, $208 (2009 comparative periods- $209) was repaid against this loan. The proceeds of this second credit facility were used to fund capital investments for the mineral flotation system for the Upper Mineralized Zone project.

(c) The Company has the option of repaying both loans outlined in note 6(a) and (b) prior to the end of their terms without penalties and there are no specific covenants related to these credit facilities. Both loans are secured by certain machinery and equipment of EMIPA.

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

(In thousands of United States Dollars unless otherwise noted)

## 6. Long-term debt (continued)

Interest on the outstanding principal is calculated at a rate per annum equal to LIBOR plus 3.85%. As permitted under the terms of the credit agreement, the Company has opted to capitalize interest amounts otherwise payable until April 8, 2011 such that the credit limit is increased by the amount of such capitalized interest.

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

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

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

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

| | Banco Bisa Credit Facilities | Credit Suisse Credit Facility | Total Long-Term Debt |
|---|---|---|---|
| 2011 | $ 1,087 | $ - | $ 1,087 |
| 2012 | 833 | 7,945 | 8,778 |
| 2013 | - | 17,557 | 17,557 |
| 2014 | - | 12,058 | 12,058 |
| 2015 | - | 12,693 | 12,693 |
| | 1,920 | 50,253 | 52,173 |
| Less: current portion | 1,295 | - | 1,295 |
| Total - long term debt | 625 | 50,253 | 50,878 |
| Financing fees | - | 3,538 | 3,538 |
| | $ 625 | $ 46,715 | $ 47,340 |

## 7. Obligations under capital leases

During fiscal 2010, the Company entered into leases to purchase mining trucks, scoop trams and other mining equipment at a total cost of $4,574 including deposits of $1,681 paid at the time of purchase. The leases are repayable in quarterly instalments at an annual interest rate of 5.5%. At December 31, 2010, the obligation outstanding was $2,185 (September 30, 2010 - $2,522) and the Company made lease payments of $563 during the year. Each lease contract contains a bargain purchase option of €10 per contract.

(In thousands of United States Dollars unless otherwise noted)

## 7. Obligations under capital leases (continued)

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

| | | |
|---|---|---|
| fiscal 2011 | $ | 743 |
| 2012 | | 1,052 |
| 2013 | | 509 |
| | | 2,304 |
| Amount representing interest at 5.5% | | (119) |
| | | 2,185 |
| Less: current portion | | (922) |
| | $ | 1,263 |

The equipment under capital lease will be amortized over the estimated useful life of the assets, once the EVBC project begins production. No amortization has been recorded to date.

## 8. Asset retirement obligations

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

| | | Three months ended December 31 2010 | | Year ended September 30 2010 |
|---|---|---|---|---|
| Balance, beginning of period | $ | 7,538 | $ | 2,792 |
| Incremental obligation - Don Mario Mine | | - | | 829 |
| Incremental obligation - El Valle-Boinas/Carles Mine | | - | | 3,726 |
| Accretion expense | | 148 | | 191 |
| Balance, end of period | $ | 7,686 | $ | 7,538 |

| | | As at December 31 2010 | | As at September 30 2010 |
|---|---|---|---|---|
| Balance consists of: | | | | |
| Don Mario Mine - Bolivia | $ | 3,362 | $ | 3,296 |
| EL Valle-Boinas/Carles Mine - Spain | | 4,324 | | 4,242 |
| | $ | 7,686 | $ | 7,538 |

(In thousands of United States Dollars unless otherwise noted)

**9. Derivative Instruments**

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

Changes in the fair value of derivatives are recognized in the income statement.

The mark-to-market fair value of all contracts is based on independently provided market rates and determined using standard valuation techniques. These impacts include the impact of counterparty credit risk.

A mark-to-market loss of $26.6 million and the related future income tax recovery of $7,982 on the forward contracts has been recorded in the income statement in the current quarter. The spot prices and foreign exchange rates at December 31, 2010 used for mark-to-market valuations were:

- Gold spot price was $1,410 per ounce.
- Copper spot price was $9,650 per tonne ($4.38 per pound).
- Euro / US dollar spot exchange rate used was 1.34.

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

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

(In thousands of United States Dollars unless otherwise noted)

**9. Derivative Instruments (continued)**

Derivative instruments included in the balance sheet comprise:

| | As at December 31 2010 | As at September 30 2010 |
|---|---|---|
| Fair value of derivatives, start of period | $ - | $ - |
| Contracts matured during period resulting in cash receipts | - | - |
| Mark-to-market fair value (loss)/gain during the period | (26,606) | - |
| Fair value of derivatives, end of period | (26,606) | - |
| Less: current portion | 3,306 | - |
| Total non-current derivative instruments | $ (23,300) | $ - |

**Commodity Price Risk**

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. More specifically, the Company is exposed to commodity price risk arising from revenue derived from actual gold and copper sales.

The Company has hedged a portion of expected Kinbauri Espana gold and copper production with forward contracts as per the Credit Suisse credit facility requirements. At the reporting date the Company had outstanding copper forward contracts totaling 13,671 tonnes for the period 2011 through 2015.

At the reporting date the Company had outstanding gold forward contracts totaling 37,500 ounces for the period 2012 through 2015.

**Gold / Copper forwards - Sensitivity**

At December 31, 2010, if the spot price of gold had been 10% higher or lower while all other variables were held constant, the after tax loss for the year to date would have increased or decreased by $3.9 million as a result of changes in the fair value of the gold forward contracts.

At December 31, 2010, if the spot price of copper had been 10% higher or lower while all other variables were held constant, the after tax loss for the year to date would have increased or decreased by $8.2 million as a result of changes in the fair value of the copper forward contracts.

**Euro / USD Forwards - Sensitivity**

Based on the financial instruments held at December 31, 2010, if the US dollar weakened or strengthened by 10% against the Euro, with all other variables constant, the Company's after tax loss for the year to date would have been $5.4 million higher or lower as a result of changes in the fair value of the Euro/ US dollar forward contracts.

(In thousands of United States Dollars unless otherwise noted)

**9. Derivative Instruments (continued)**

**Cash flow fair value interest rate risk**

The Company's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk.

As at the reporting date, the Company had the following variable rate borrowings outstanding:

| | Weighted average interest rate (%) | | Carrying value |
|---|---|---|---|
| Long Term Debt - Credit Suisse credit facility | 4.11 | $ | 50,000 |

**Sensitivity**

At December 31, 2010, if interest rates had increased or decreased by 100 basis points from the year end rates with all other variables held constant, the after tax loss for the year to date would have been $0.3 million lower or higher as a result of lower or higher interest expense from long term debt and offset in the movements of cash and equivalents and restricted cash.

**10. Share capital**

(a) Authorized - unlimited number of common shares

(b) Common shares issued

| | Number of common shares | | Stated value |
|---|---|---|---|
| Balance, September 30, 2010 | 116,318,172 | $ | 76,227 |
| Exercise of stock options | 60,000 | | 63 |
| Fair value assigned to exercise of stock options | - | | 33 |
| Balance, December 31, 2010 | 116,378,172 | $ | 76,323 |

(c) Stock options

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

| | Stock options | Weighted average exercise price | |
|---|---|---|---|
| Balance, September 30, 2010 | 2,680,000 | Cdn | $0.91 |
| Granted | 930,000 | | 3.65 |
| Exercised | (60,000) | | 1.10 |
| Forfeited | (100,000) | | 1.06 |
| Balance, December 31, 2010 | 3,450,000 | Cdn | $1.64 |

(In thousands of United States Dollars unless otherwise noted)

**10. Share capital (continued)**

(c) Stock options (continued)

Stock options have been expensed as follows:

| | Cumulative expense to December 31, 2010 | Remainder to be expensed | Total stock option compensation |
|---|---|---|---|
| Stock option expense | $ 2,302 | $ 1,126 | $ 3,428 |

As at December 31, 2010, outstanding and exercisable stock options granted were as follows:

| Grant Date | Fair Value | Number of Non-Vested Options | Weighted Average Contractual Life (in years) | Number of Vested Options | Exercise Price | Expiry Date |
|---|---|---|---|---|---|---|
| May 12, 2006 | $ 58 | - | 0.37 | 125,000 | Cdn $1.05 | May 12, 2011 |
| June 23, 2006 | 168 | - | 0.48 | 425,000 | 0.89 | June 23, 2011 |
| July 5, 2006 | 71 | - | 0.51 | 175,000 | 0.91 | July 5, 2011 |
| December 14, 2006 | 71 | - | 0.96 | 250,000 | 0.60 | December 14, 2011 |
| August 9, 2007 | 9 | - | 1.61 | 25,000 | 0.69 | August 8, 2012 |
| December 3, 2007 | 150 | - | 1.93 | 325,000 | 0.81 | December 3, 2012 |
| March 3, 2008 | 65 | - | 2.18 | 150,000 | 0.75 | March 3, 2013 |
| March 5, 2009 | 40 | 50,000 | 2.18 | 100,000 | 0.64 | March 5, 2014 |
| October 23, 2009 | 64 | 50,000 | 3.81 | 100,000 | 0.88 | October 23, 2014 |
| February 26, 2010 | 61 | 83,333 | 4.16 | 41,667 | 1.01 | February 26, 2015 |
| March 1, 2010 | 255 | 300,000 | 4.17 | 200,000 | 1.01 | March 1, 2015 |
| May 17, 2010 | 12 | 20,000 | 4.38 | - | 1.31 | May 17, 2015 |
| August 13, 2010 | 84 | 66,666 | 4.62 | 33,334 | 1.57 | August 13, 2015 |
| December 10, 2010 | 1,595 | 619,995 | 4.94 | 310,005 | 3.65 | December 10, 2015 |
| | $2,703 | 1,189,994 | 2.96 | 2,260,006 | | |
| Total vested and non-vested stock options | | | | 3,450,000 | | |

The Company uses the fair value method of accounting for stock options and, during the three-month period ended December 31, 2010 recognized stock-based compensation expense of $628 (three months ended December 31, 2009 - $152).

(In thousands of United States Dollars unless otherwise noted)

**10. Share capital (continued)**

(c) Stock options (continued)

The fair value of the options granted during the three months ended December 31, 2010 was estimated using the Black-Scholes option-pricing model with the following assumptions:

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

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

As at December 31, 2010, the fair value associated with non-vested stock options is $1,359 (December, 31, 2009 - $110).

**11. Long-term compensation**

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

| | DSUs | | Fair value |
|---|---|---|---|
| Balance, September 30, 2010 | 192,178 | $ | 606 |
| Issued | 36,785 | | 99 |
| Redeemed | (12,377) | | (32) |
| Reversal of accrued awards from September 30, 2010 | - | | (102) |
| Mark to market adjustment | - | | 278 |
| Balance, December 31, 2010 | 216,586 | $ | 849 |

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

| | RSUs | | Fair value |
|---|---|---|---|
| Balance, September 30, 2010 | 305,447 | $ | 1,254 |
| Issued | 170,925 | | 460 |
| Reversal of accrued awards from September 30, 2010 | - | | (453) |
| Mark to market adjustment | - | | 607 |
| Balance, December 31, 2010 | 476,372 | $ | 1,868 |
| Total-long term compensation balance, December 31, 2010 | | $ | 2,717 |

(In thousands of United States Dollars unless otherwise noted)

**12. Commitments and contingencies**

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

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

(c) In fiscal 2010, EVBC entered into capital lease contracts to purchase mining equipment with a total cost of $4,574 including deposits of $1,681 paid at the time of purchase. The leases are payable in quarterly instalments at an annual interest rate of 5.5%. At December 31, 2010, the obligation outstanding was $2,185 (September 30, 2010 - $2,522). For more information about these capital leases refer to note 7 – Obligations under capital leases.

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

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

| | | |
|---|---|---|
| fiscal 2011 | $ | 687 |
| 2012 | | 1,045 |
| | $ | 1,732 |

(In thousands of United States Dollars unless otherwise noted)

**13. Segmented information**

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

As at December 31, 2010

| | Gold Sales | Cash and cash equivalents | Property, plant and equipment | Reclamation bonds | Other assets | Total assets |
|---|---|---|---|---|---|---|
| Bolivia | $ 6,427 | $ 3,538 | $ 26,152 | $ - | $ 14,063 | $ 43,753 |
| Spain | | 36,153 | 100,764 | 3,207 | 11,051 | 151,175 |
| United States | | - | 8,251 | - | 5 | 8,256 |
| Canada | | 2,717 | 463 | - | 534 | 3,714 |
| Sweden | | 151 | - | - | - | 151 |
| Cyprus | | 129 | - | - | - | 129 |
| | $ 6,427 | $ 42,688 | $ 135,630 | $ 3,207 | $ 25,653 | $ 207,178 |

As at September 30, 2010

| | Gold Sales | Cash and cash equivalents | Property, plant and equipment | Reclamation bonds | Other assets | Total assets |
|---|---|---|---|---|---|---|
| Bolivia | $ 32,344 | $ 2,234 | $ 22,891 | $ - | $ 15,040 | $ 40,165 |
| Spain | - | 4,663 | 93,010 | 3,287 | 1,705 | 102,665 |
| United States | - | 13 | 6,993 | - | 37 | 7,043 |
| Canada | - | 1,307 | 294 | - | 509 | 2,110 |
| Sweden | - | 3,239 | - | - | - | 3,239 |
| Cyprus | - | 1,244 | - | - | 6 | 1,250 |
| | $ 32,344 | $ 12,700 | $ 123,188 | $ 3,287 | $ 17,297 | $ 156,472 |

**14. Earnings (loss) per share**

| | Three months ended December 31 2010 | 2009 |
|---|---|---|
| **(Loss) earnings per share** | | |
| Basic and diluted | $ (0.18) | $ 0.01 |
| Weighted average number of shares outstanding - basic | 116,327,411 | 115,233,173 |
| Dilutive effect of stock options | 1,750,240 | 391,379 |
| Weighted average number of shares outstanding - diluted | 118,077,651 | 115,624,552 |

## 15. Comparative Information

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