MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

Introduction

This management's discussion and analysis ("MD&A") of results of operations and financial condition of Orvana Minerals Corp. and its consolidated subsidiaries ("Orvana" or the "Company") describes the operating and financial results of Orvana for the three months ended December 31, 2016.

This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements of Orvana for the three months ended December 31, 2016 and related notes thereto (the "Q1 Financials"). The Q1 Financials are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

In this MD&A, all currency amounts (except per unit amounts) unless otherwise stated, are in United States dollars ("US dollars"). Production and sales in respect of gold and silver are in fine troy ounces referred to as "ounces" or "oz" and in respect of copper are in pounds also referred to as "lbs". The information presented in this MD&A is as of February 7, 2017, unless otherwise stated.

A cautionary note regarding forward-looking statements follows this MD&A.

Company Overview

Orvana is a multi-mine gold and copper producer with organic growth opportunities. Orvana's operating properties consist of (i) El Valle Mine and Carlés Mine (collectively, "El Valle"), two underground gold-copper-silver mine with process facilities that produce a copper concentrate and gold doré, located in the northern part of Spain; and (ii) Don Mario Mine ("Don Mario"), an open-pit gold-copper-silver mine with process facilities that produce both copper and gold concentrates, located in the south-eastern part of Bolivia. Orvana's strategic focus is on opportunities to deliver long-term shareholder value. To achieve this, Orvana is currently working to optimize its operations, reduce its operating costs and realize growth in its future production base through exploration within and in proximity to its existing operations. Orvana is an Ontario company and its common shares ("Common Shares") are listed on the Toronto Stock Exchange under the symbol TSX:ORV.

First Quarter of Fiscal 2017 Consolidated Operating Highlights and Financial Results

The Company's strategic objectives to increase production at its operations include productivity enhancements to allow for delivery of greater throughput, increased gold recovery and unitary costs. The Company is pleased to report the following positive developments in the first quarter as follows:

- **El Valle – Productivity improvements:** Throughput increased during the first quarter and in December 2016 reached nameplate plant capacity of 2,000 tonnes per day. This achievement represents an important milestone for El Valle on the path to increases in gold production and realization of lower unitary costs. Development and backfill rates continued to improve during the first quarter, allowing for increased flexibility in the mine plan. Continued work is underway to improve grades and to de-risk the mine plan, moving near-term planned production away from challenging transition zones.
- **Don Mario – CIL re-commissioning:** The re-commissioning of the carbon-in-leach circuit (the "CIL Project") is nearing its completion, with successful production of initial gold-silver doré bars beginning in mid-January. Adjustments are being made to optimize reagent mix and residence time to achieve targeted average gold recovery of 80%, up from an average gold recovery of 55% from the current flotation process. Beginning at the end of fiscal 2016, Don Mario has stockpiled higher gold grade material from the Lower Mineralized Zone ("LMZ") for processing in the fully re-commissioned CIL circuit in order to capitalize on the targeted higher gold recovery. Total capital costs of the CIL Project are expected to be within the capital cost estimate of $6.4 million +/-15%. Repayment of the associated project financing with Banco BISA S.A. (the "BISA Loan") began in December 2016. Efforts are underway to finalize a doré sales agreement, targeting first commercial delivery later in February.

	Q1 2017	Q4 2016	Q1 2016	FY 2016
Operating Performance				
Gold				
Grade (g/t)	1.97	1.91	2.10	2.10
Recovery (%)	72.8	75.8	81.5	77.4
Production (oz)	15,699	14,842	17,789	65,785
Sales (oz)	14,060	14,705	15,955	61,816
Average realized price / oz	$1,260	$1,313	$1,105	$1,211
Copper				
Grade (%)	0.85	0.82	0.78	0.81
Recovery (%)	56.3	63.1	71.1	65.8
Production ('000 lbs)	3,588	3,630	3,951	14,735
Sales ('000 lbs)	3,598	3,296	3,814	13,367
Average realized price / lb	$2.32	$2.17	$2.22	$2.16
Silver				
Grade (g/t)	14.04	15.55	22.43	17.36
Recovery (%)	70.4	76.9	73.7	74.9
Production (oz)	108,280	122,589	171,664	525,934
Sales (oz)	128,217	96,520	160,565	469,847
Average realized price / oz	$17.25	$19.74	$14.83	$16.29
Financial Performance *(in 000's, except per share amounts)*				
Revenue	$23,458	$24,044	$22,497	$93,850
Mining costs	$24,356	$22,884	$20,806	$84,544
Gross margin	($6,853)	($3,599)	($3,869)	($7,883)
Net loss	($8,154)	($1,528)	($3,076)	($8,455)
Net loss per share (basic/diluted)	($0.06)	($0.01)	($0.02)	($0.06)
Operating cash flows before non-cash working capital changes (1)	($3,294)	$1,186	$871	$5,199
Operating cash flows	($299)	$221	$1,575	$3,437
Ending cash and cash equivalents	$9,521	$18,939	$17,535	$18,939
Capital expenditures (2)	$7,719	$5,394	$3,716	$14,977
Cash operating costs (by-product) ($/oz) gold (1)	$1,258	$1,206	$1,004	$1,082
All-in sustaining costs (by-product) ($/oz) gold (1)(2)	$1,732	$1,699	$1,316	$1,428

(1) Operating cash flows before non-cash working capital changes, cash operating costs ("COC") and all-in sustaining costs ("AISC") are non-IFRS performance measures. For further information and a detailed reconciliation, please see the "Other Information - Non-IFRS Measures" section of this MD&A.

(2) These amounts are presented in the consolidated cash flows in the Q1 Financials on a cash basis. Each reported period excludes capital expenditures incurred in the period which will be paid in subsequent periods and includes capital expenditures incurred in prior periods and paid for in the applicable reporting period. See the "Cash Flows, Commitments and Liquidity - Capital Expenditures" section of this MD&A. The calculation of AISC includes capex incurred (paid and unpaid) during the period.

Operational Highlights

- Production of 15,699 ounces of gold, 3.6 million pounds (1,627 tonnes) of copper and 108,280 ounces of silver during the first quarter of fiscal 2017, an increase in gold production of 6% and a decrease in copper and silver production of 1% and 12%, respectively, compared with the fourth quarter of fiscal 2016.
- Production of 24,341 gold equivalent ounces during the first quarter of fiscal 2017. (1)
- Sales of 14,060 ounces of gold, 3.6 million pounds (1,632 tonnes) of copper and 128,217 ounces of silver during the first quarter of fiscal 2017, an increase in copper and silver sales of 9% and 33%, respectively, and a decrease in gold sales of 4%, compared with the fourth quarter of fiscal 2016.
- Production of 15,699 ounces of gold, 3.6 million pounds (1,627 tonnes) of copper and 108,280 ounces of silver during the first quarter of fiscal 2017, a decrease in gold, copper and silver production of 12%, 9%, and 37%, respectively, compared with the first quarter of fiscal 2016.
- Sales of 14,060 ounces of gold, 3.6 million pounds (1,632 tonnes) of copper and 128,217 ounces of silver during the first quarter of fiscal 2017, a decrease in gold, copper and silver sales of 12%, 6%, and 20%, respectively, compared with the first quarter of fiscal 2016.

El Valle and Carlés Mines

- First quarter gold production increased by 16% to 10,723 ounces compared with the fourth quarter of fiscal 2016. Copper and silver production declined over the same period by 32% and 19%, respectively. Emphasis was placed on higher gold recoveries during the period and management of high fluorine levels in the copper concentrates was required, leading to lower recoveries of copper.
- Ore production at the El Valle Mine also increased by 16% compared to the fourth quarter of fiscal 2016. Including the additional tonnage produced by the Carlés Mine, overall mine production in December increased to reach the nameplate capacity of the plant of 2,000 tonnes per day.
- Supported by planned electrical and water infrastructure improvements and additional machinery, development and backfill rates continued to improve at El Valle, increasing by 7% and 27%, respectively, compared with the fourth quarter of fiscal 2016.

Don Mario Mine

- First quarter copper production at Don Mario increased by 15% to 2.7 million pounds compared with the fourth quarter of fiscal 2016. Gold and silver production decreased by 12% and 9%, respectively, compared to the fourth quarter of fiscal 2016. During the first quarter of fiscal 2017, Don Mario continued to stockpile higher gold grade LMZ material for use in the re-commissioned CIL circuit, in which gold recoveries are forecast to be substantially higher, and is expected to begin producing gold-silver doré with this material in the second quarter of fiscal 2017.

Financial Results

- Consolidated financial results for the first quarter of fiscal 2017 were impacted by the delay in contribution from Carlés to El Valle production, which has been rescheduled to the remaining three quarters of fiscal 2017. Refer to the "Outlook" section of this MD&A for further discussion.
- Cash and cash equivalents balance of $9.5 million at December 31, 2016.
- Net revenue of $23.5 million for the first quarter of fiscal 2017, or 2% lower, compared with $24.0 million for the fourth quarter of fiscal 2016, primarily due to lower gold sales volumes and realized gold prices, offset by higher copper sales volumes and realized copper prices.

- Mining costs of $24.4 million for the first quarter of fiscal 2017, or 7% higher, compared with $22.9 million for the fourth quarter of fiscal 2016 primarily due to higher sales volumes at Don Mario.
- Net loss for the first quarter of fiscal 2017 of $8.2 million compared with $1.5 million for the fourth quarter of fiscal 2016.
- Cash flows used in operating activities of $0.3 million in the first quarter of fiscal 2017 compared with cash flows provided by operating activities of $0.2 million in the fourth quarter of fiscal 2016 and cash flows used in operating activities before changes in non-cash working capital of $3.3 million in the first quarter of fiscal 2017 compared with cash flows provided by operating activities before changes in non-cash working capital of $1.2 million in the fourth quarter of fiscal 2016. (2)
- Capital expenditures of $7.7 million in the first quarter of fiscal 2017 compared with $5.4 million in the fourth quarter of fiscal 2016.
- COC and AISC on a by-product basis (net of copper and silver by-product revenue from El Valle and Don Mario) per ounce of gold sold in the first quarter of fiscal 2017 of $1,258 and $1,732, respectively, compared with COC and AISC (by-product) of $1,206 and $1,699, respectively, in the fourth quarter of fiscal 2016. Lower consolidated ounces of gold sold negatively impacted both COC and AISC. (2)
- Net revenue of $23.5 million for the first quarter of fiscal 2017, or 4% higher, compared with $22.5 million for the first quarter of fiscal 2016, primarily due to higher realized metal prices offset by lower sales volumes.
- Mining costs of $24.4 million for the first quarter of fiscal 2017, or 17% higher, compared with $20.8 million for the first quarter of fiscal 2016 due to lower metals volumes sold, along with increases in gross mining costs at El Valle primarily in respect of ramp-up costs at Carlés, labour increases at Boinás and increased materials costs for ground support and maintenance.
- Net loss for the first quarter of fiscal 2017 of $8.2 million compared with $3.1 million for the first quarter of fiscal 2016.
- Cash flows used in operating activities of $0.3 million in the first quarter of fiscal 2017 compared with cash flows provided by operating activities of $1.6 million in the first quarter of fiscal 2016 and cash flows used in operating activities before changes in non-cash working capital of $3.3 million in the first quarter of fiscal 2017 compared with cash flows provided by operating activities before changes in non-cash working capital of $0.9 million in the first quarter of fiscal 2016. (2)
- Capital expenditures of $7.7 million in the first quarter of fiscal 2017 compared with $3.7 million in the first quarter of fiscal 2016.
- COC and AISC on a by-product basis (net of copper and silver by-product revenue from El Valle and Don Mario) per ounce of gold sold in the first quarter of fiscal 2017 of $1,258 and $1,732, respectively, compared with COC and AISC (by-product) of $1,004 and $1,316, respectively, in the first quarter of fiscal 2016. The impact of higher mining costs at El Valle and lower volumes of gold sold on COC and AISC were offset by higher copper realized prices. AISC was also impacted by higher planned capital expenditures primarily at El Valle. (2)

Growth Initiatives Highlights

<u>El Valle and Carlés Mines</u>

- During the first quarter of fiscal 2017, El Valle moved forward with the restart of the Carlés Mine on a short-term basis, mining 21,243 tonnes of additional skarns material, which was lower than expected due to administrative delays in the explosives permitting process. Subsequent to quarter end, El Valle received the required amendment to the explosive permit and the Company expects that production from Carlés will increase significantly by the third quarter of fiscal 2017. As an opportunity to expand or increase the life of the Carlés Mine and extend the restart of Carlés beyond the short-term, the Company is conducting infill drilling on Carlés NW which expected to be completed during fiscal 2017.
- Exploration advances continue on the Company's greenfield Quintana and Lidia properties.

Don Mario Mine

- During the first quarter of fiscal 2017, Don Mario substantially completed construction on the CIL Project, pouring its first gold-silver doré bar in mid-January 2017. The Company is proceeding with finalizing a doré sales contract, with first delivery expected in February 2017. The move to a gold-silver doré product, in lieu of Don Mario's current gold concentrate, is expected to maximize the value of the LMZ material, increase gold production and positively impact unitary cash costs.
- The CIL Project may also provide the Company with economic opportunities for processing additional sources of material at Don Mario. In recent months, the Company has been re-evaluating the economic potential of its existing mineral stockpile and expects to receive the results of this testing by the end of the second quarter of fiscal 2017. The Company has also commenced an evaluation of re-processing tailings to determine the viability of recovering gold from material deposited since the commencement of production at Don Mario.
- As at September 30, 2016, the Company reported an upgrade of the LMZ mineral resource estimate to a mineral reserve estimate. A technical report prepared by DGCS SA was filed on January 27, 2017(3). A summary of the estimate is as follows:
  - LMZ – Probable Reserve: approximately 793,000 tonnes grading 2.62 g/t gold, 0.60% copper and 5.94 g/t silver, containing approximately 66,800 ounces of gold, 10.6 million pounds of copper and 151,400 ounces of silver.

(1) Gold equivalent ounces include copper pounds and silver ounces produced and converted to a gold equivalent based on a ratio of the average market price for the commodities for the period discussed.

(2) Adjusted net loss, cash flows provided by operating activities before changes in non-cash working capital, COC, AISC and all-in-costs ("AIC") are non-IFRS performance measures. The Company believes that, in addition to conventional measures prepared in accordance with IFRS, the Company and certain investors use this information to evaluate the Company's performance including the Company's ability to generate cash flows from its mining operations. Accordingly, it is intended to provide additional information and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. For further information and a detailed reconciliation, please see the "Other Information - Non-IFRS Measures" section of this MD&A.

(3) The mineral reserve estimate was prepared by DGCS SA under supervision of Gino A. Zandonai, who is an independent Qualified Person under NI 43-101. The effective date of these estimates is September 30, 2016. See "Don Mario – Exploration and Mine Life Extension" for further details.

Outlook

The Company continues to pursue its initiatives at El Valle and Don Mario on an accelerated basis in order to meet its objectives of optimizing production, lowering unitary cash costs, maximizing free cash flow, extending the life-of-mine of its operations and growing its operations to deliver shareholder value.

At El Valle, the Company met its initial goal of supplying the processing plant with sufficient ore feed to operate at its name plate capacity of 2,000 tonnes per day. These throughput rates were achieved by the end of the first quarter, supported by capital infrastructure and development investments that were funded by the proceeds from the Prepayment Facility (as hereinafter defined). Next steps at El Valle include ongoing development to access higher grade oxide zones in El Valle Mine and continuing improvement of targeted backfill and development rates. In addition, the team at El Valle is focused on further de-risking the mine plan, moving away from transition zones in which poor ground conditions were experienced through fiscal 2016. At the Carlés Mine, the Company extended its project timeframe to the end of fiscal 2017 due to a delay in receipt of an amended explosives permit, received subsequent to quarter end. Increasing access to ore fronts will allow El Valle Mine greater flexibility in its mining activities and therefore greater ability to deliver planned ore volumes to sustain its objective of 2,000 tonnes per day going forward. Together with the short-term boost of full production from Carlés Mine, El Valle is expected to improve its metal production and lower its unitary cash costs over the balance of fiscal 2017 with the objective of continuing to achieve its guidance as set out below.

At Don Mario, the Company substantially completed the CIL Project by the end of the first quarter of fiscal 2017, commenced re-commissioning activities in January 2017, and poured its first gold-silver doré bar in mid-January 2017. The Company expects to close a doré sales contract in February 2017 with first delivery also occurring in the same month. During the second half of calendar 2016, Don Mario began to stockpile mined higher gold grade LMZ ore for use in the CIL circuit. The CIL circuit is expected to be fully re-commissioned by February 2017 in order to capitalize on the higher forecast gold recovery through the CIL circuit. Average gold recoveries are expected to increase to 80% from current average recoveries of 55% from flotation. The CIL Project is expected to assist the operation in generating free cash flow later in fiscal 2017 and allow for repayment of the BISA Loan in full by the end of fiscal 2017. Unitary costs are expected to be positively impacted through the second half of fiscal 2017 as increased gold production is realized from CIL production. The Company also continues to assess known opportunities such as development of the resource at Cerro Felix and the processing of oxide stockpiles.

The following table sets out the results of Orvana's first quarter of fiscal 2017 as well as its fiscal 2017 production and cost guidance:

	Q1 2017 Actual	FY 2017 Guidance
El Valle Mine Production		
Gold (oz)	**10,723**	50,000 – 55,000
Copper (million lbs)	**0.8**	6.0 – 6.5
Silver (oz)	**29,321**	170,000 – 200,000
Don Mario Mine Production		
Gold (oz)	**4,976**	35,000 – 40,000
Copper (million lbs)	**2.7**	7.0 – 7.5
Silver (oz)	**78,959**	130,000 – 150,000
Total Production		
Gold (oz)	**15,699**	85,000 – 95,000
Copper (million lbs)	**3.6**	13.0 – 14.0
Silver (oz)	**108,280**	300,000 – 350,000
Total capital expenditures	**$7,719**	$27,000 – $30,000
Cash operating costs (by-product) ($/oz) gold (1)	**$1,258**	$1,050 – $1,150
All-in sustaining costs (by-product) ($/oz) gold (1)	**$1,732**	$1,300 – $1,400

(1) FY 2017 guidance assumptions for COC and AISC include by-product commodity prices of $2.00 per pound of copper and $18.00 per ounce of silver and an average Euro to US Dollar exchange of 1.12.

Overall Performance

The key factors affecting Orvana's operating and financial performance are tonnages mined and treated, metal grade and recoveries, quantities of metals produced and sold, realized metals prices, costs including labour, energy and other supplies and material, mine development and other capital expenditures, foreign exchange rates and tax rates.

First Quarter Ended December 31, 2016 Compared with Fourth Quarter Ended September 30, 2016

The Company recorded a net loss of $8.2 million for the first quarter of fiscal 2017 or $0.06 per share compared with $1.5 million for the fourth quarter of fiscal 2016 or $0.01 per share. The Company's net loss was impacted significantly by the following factors:

- Revenue for the first quarter of fiscal 2017 decreased by $0.6 million or 2% to $23.5 million on sales of 14,090 ounces of gold, 3.6 million pounds of copper and 128,217 ounces of silver from El Valle and Don Mario compared with revenue of $24.0 million on sales of 14,705 ounces of gold, 3.3 million pounds of copper and 96,520 ounces of silver in the fourth quarter of fiscal 2016. The decrease in revenue was due to lower gold sales volumes and realized prices, offset by higher copper sales volumes and realized prices.
- Mining costs were $24.4 million or $1.5 million higher for the first quarter of fiscal 2017 compared with $22.9 million for the fourth quarter of fiscal 2016, primarily due to higher sales volumes at Don Mario.
- Gross margin decreased by $3.3 million to negative $6.9 million for the first quarter of fiscal 2017 compared with gross margin of negative $3.6 million for the fourth quarter of fiscal 2016.

Total consolidated COC (by-product) of $1,258 per ounce of gold sold in the first quarter of fiscal 2017 were $52 or 4% higher than the fourth quarter of fiscal 2016. Total AISC (by-product) of $1,732 per ounce of gold sold in the first quarter of fiscal 2017 were $33 or 2% higher than in the fourth quarter of fiscal 2016. Lower consolidated ounces of gold sold negatively impacted COC and AISC.

First Quarter Ended December 31, 2016 Compared with First Quarter Ended December 31, 2015

The Company recorded a net loss of $8.2 million for the first quarter of fiscal 2017 or $0.06 per share compared with $3.1 million for the first quarter of fiscal 2016 or $0.02 per share. The Company's net loss was impacted significantly by the following factors:

- Revenue for the first quarter of fiscal 2017 increased by $1.0 million or 4% to $23.5 million on sales of 14,090 ounces of gold, 3.6 million pounds of copper and 128,217 ounces of silver from El Valle and Don Mario compared with revenue of $22.5 million on sales of 15,955 ounces of gold, 3.8 million pounds of copper and 160,565 ounces of silver in the first quarter of fiscal 2016. The increase in revenue was primarily due to higher realized metal prices, offset by lower metal volumes sold.
- Mining costs were $24.4 million or $3.6 million higher for the first quarter of fiscal 2017 compared with $20.8 million for the first quarter of fiscal 2016, primarily due to higher gross mining costs at El Valle related to the ramp-up on Carlés, workforce increases at El Valle Mine and increased maintenance and ground support material costs.
- Gross margin decreased by $3.0 million to negative $6.9 million for the first quarter of fiscal 2017 compared with gross margin of negative $3.9 million for the first quarter of fiscal 2016.

Total consolidated COC (by-product) of $1,258 per ounce of gold sold in the first quarter of fiscal 2017 were $254 or 25% higher than the first quarter of fiscal 2016. Total AISC (by-product) of $1,732 per ounce of gold sold in the first quarter of fiscal 2017 were $427 or 32% higher than in the first quarter of fiscal 2016. The impact of higher mining costs at El Valle and lower volumes of gold sold on COC and AISC were offset by higher copper realized prices. AISC was also impacted by higher planned capital expenditures primarily at El Valle.

El Valle and Carlés Mines

Through its wholly-owned subsidiary, OroValle Minerals S.L. ("OroValle"), the Company owns and operates the El Valle and Carlés mines located in the Rio Narcea Gold Belt in northern Spain, where skarns and oxides are being mined underground. El Valle and Carlés commenced commercial production in August 2011. At the end of February 2015, Carlés was placed on care and maintenance primarily due to market conditions. As a result of the beneficial gold price and foreign exchange environment experienced through fiscal 2016, the Company performed an economic review of Carlés and, based on the results of this review, restarted mining activities on a short-term basis beginning in September 2016.

The following table includes consolidated operating and financial performance data for El Valle for the periods set out below.

	Q1 2017	Q4 2016	Q1 2016	FY 2016
Operating Performance				
Ore mined (tonnes) (wmt)	170,024	125,487	127,608	479,077
Ore milled (tonnes) (dmt)	162,121	119,200	121,268	452,003
Daily average throughput (dmt)	1,855	1,296	1,318	1,235
Gold				
Grade (g/t)	2.23	2.53	3.81	3.27
Recovery (%)	92.4	94.9	93.6	94.0
Production (oz)	10,723	9,209	13,893	44,682
Sales (oz)	8,828	9,821	12,412	44,009
Copper				
Grade (%)	0.34	0.58	0.58	0.56
Recovery (%)	69.3	81.0	77.8	76.5
Production ('000 lbs)	847	1,244	1,210	4,257
Sales ('000 lbs)	791	1,263	1,269	4,292
Silver				
Grade (g/t)	7.64	11.72	14.25	12.47
Recovery (%)	73.6	80.7	78.2	79.7
Production (oz)	29,321	36,223	43,431	144,411
Sales (oz)	27,311	36,636	45,384	145,588
Financial Performance *(in 000's, except per share amounts)*				
Revenue	$11,978	$14,411	$15,701	$59,517
Mining costs	$15,817	$16,751	$13,527	$57,400
Income (loss) before tax	($7,876)	($4,494)	($2,153)	($9,837)
Capital expenditures (1)	$3,425	$5,288	$1,536	$9,510
Cash operating costs (by-product) ($/oz) gold (2)	$1,640	$1,508	$948	$1,172
All-in sustaining costs (by-product) ($/oz) gold (2)	$2,141	$1,974	$1,170	$1,468
All-in costs (by-product) ($/oz) gold (2)	$2,141	$1,974	$1,170	$1,468

(1) See "Cash Flows, Commitments and Liquidity - Capital Expenditures" section of this MD&A.

(2) For further information and a detailed reconciliation of COC, AISC and AIC, please see the "Other Information - Non-IFRS Measures" section of this MD&A.

El Valle Operating Performance

During the first quarter of fiscal 2017, El Valle produced 10,723 ounces of gold, 0.8 million pounds of copper and 29,321 ounces of silver compared with 9,209 ounces of gold, 1.3 million pounds of copper and 36,223 ounces of silver during the fourth quarter of fiscal 2016 and 13,893 ounces of gold, 1.2 million pounds of copper and 43,431 ounces of silver in the first quarter of fiscal 2016.

Gold production increased by 16% while copper and silver production decreased by 32% and 19% compared with the fourth quarter of fiscal 2016. Lower average head grades of gold, copper and silver of 12%, 41% and 35%, respectively, as well as lower gold, copper and silver recoveries of 3%, 14%, and 9%, respectively, were offset by increased ore tonnage processed of 36%.

Compared to the first quarter of fiscal 2016, gold, copper and silver production decreased by 23%, 30% and 32%, respectively, in the first quarter of fiscal 2017. Lower average head grades of gold, copper and silver of 41%, 41% and 46%, respectively, as well as lower gold, copper and silver recoveries of 1%, 11%, and 6%, respectively, were slightly offset by increased ore tonnage processed of 34%.

During the first quarter of fiscal 2017, El Valle continued to increase mine productivity in both oxide and skarn areas, supported by recent planned capital investments in infrastructure, equipment and development. Oxide production improved by 32% compared with the fourth quarter of fiscal 2016 while skarn production increased by 16%. Combined with the increased tonnage from Carlés, El Valle reached nameplate plant capacity in December 2016, processing 2,000 tonnes per day.

El Valle is now focused on improving mine grades while maintaining nameplate production. El Valle expects to increase mine production flexibility through continued improvements to development and backfill rates allowing for access to a greater number of stopes and planning options to improve mined grades – specifically in higher grade oxide zones beginning in the second half of fiscal 2017. In recent months, some planned higher grade transition stopes were eliminated from the plan due to the increased frequency of geotechnical issues impacting production in these areas. Replacing these transition areas in the near-term mine plan is expected to materially de-risk physical production and allow efforts to be better focused on improving grades delivered to the plant.

Water management and power infrastructure improvements also continued during the first quarter of fiscal 2017. Efforts are focused on upgrading underground water infrastructure to allow for more efficient water usage in operational equipment, as well as continued daily management of the drainage of the aquifer to reduce environmental and productivity risks. Interim power infrastructure upgrades were installed in fiscal 2016 while a permanent power line is being constructed by the local power company. The Company expects completion of this power line by the end of fiscal 2017.

<u>El Valle Financial Performance</u>

Revenue from El Valle for the first quarter of fiscal 2017 decreased by 24% to $12.0 million on sales of 8,828 ounces of gold, 0.8 million pounds of copper and 27,311 ounces of silver from $15.7 million in the first quarter of fiscal 2016 on sales of 12,412 ounces of gold, 1.3 million pounds of copper and 45,384 ounces of silver as a result of lower metal volumes sold offset partially by higher realized metal prices.

Mining costs increased by 17% from $13.5 million in the first quarter of fiscal 2016 to $15.8 million in the first quarter of fiscal 2017 primarily due to ramp-up costs at Carlés, additional labour at El Valle Mine and higher maintenance and ground support material costs.

Loss before tax for the first quarter of fiscal 2017 was $7.9 million compared with a loss of $2.2 million in the first quarter of fiscal 2016.

Total capital expenditures at El Valle during the first quarter of fiscal 2017 were $3.4 million compared with $1.5 million for the first quarter of fiscal 2016. Capital expenditures in the first quarter of fiscal 2017 consisted substantially of primary development and mining machinery. Refer to the “Financial Condition Review - Capital Expenditures” section of this MD&A.

Total COC (by-product) of $1,640 per ounce of gold sold in the first quarter of fiscal 2017 were $692 or 73% higher than in the first quarter of fiscal 2016. Total AISC (by-product) of $2,141 per ounce of gold sold in the first quarter of fiscal 2017 were $971 or 83% higher than in the first quarter of fiscal 2016. COC and AISC in the first quarter of fiscal 2017 were higher compared with the first quarter of fiscal 2016 due to increases in mining costs and a decline in metal volumes sold.

<u>El Valle Growth Exploration</u>

During the first quarter of fiscal 2017, El Valle moved forward with the restart of the Carlés Mine on a short-term basis, mining 21,243 tonnes of additional skarns material, which were lower than expected due to administrative delays in the explosives permitting process. Subsequent to quarter end, El Valle received the required amendment to the explosives permit and the Company expects that production from Carlés will increase significantly by the third quarter of fiscal 2017. Infill drilling undertaken during the first quarter of fiscal 2017 brought the total targeted tonnage at Carlés Mine to approximately 123,000 tonnes at an average gold grade of approximately 2.6 g/t. As an opportunity to expand or increase the life of the Carlés Mine and extend the restart of Carlés beyond the short-term, the Company is conducting infill drilling on Carlés NW which expected to be completed during fiscal 2017.

Greenfield exploration continues on the Company's Quintana and Lidia properties in the immediate vicinity of the El Valle Mine. Additionally, 5,089 meters of infill definition diamond drilling was also completed through the first quarter of fiscal 2017 at the El Valle Mine, primarily targeting the Black Skarns, Boinás South and Breccia East zones.

Don Mario Mine

Through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("EMIPA"), the Company owns and operates the Don Mario Mine located in south-eastern Bolivia. Fiscal 2009 marked the last year of six years of production from the Company's LMZ underground gold mine at Don Mario with some gold production from lower-grade open pit satellite deposits and lower grade stockpiles continuing into fiscal 2010 and 2011. Over 420,000 ounces of gold was produced from the LMZ with an average recovery of over 80% from the associated CIL plant. From 2012 to the end of 2016, EMIPA had mined the Upper Mineralized Zone ("UMZ") as an open-pit mine and in 2016 EMIPA commenced mining of new material at the upper extension of the LMZ as an open-pit mine. EMIPA is currently focused on processing the remaining ore from the UMZ and other stockpiles, and deferring production of the higher grade LMZ ore for use in the CIL circuit.

The following table includes operating and financial performance data for Don Mario for the periods set out below.

	Q1 2017	Q4 2016	Q1 2016	FY 2016
Operating Performance				
Ore mined (tonnes) (dmt)	211,379	173,010	168,713	679,512
Ore milled (tonnes) (dmt)	178,480	199,774	201,763	806,187
Daily average throughput (dmt)	2,302	2,369	2,520	2,436
Gold				
Grade (g/t)	1.73	1.54	1.07	1.44
Recovery (%)	50.19	57.0	55.9	56.3
Production (oz)	4,976	5,633	3,896	21,102
Sales (oz)	5,232	4,884	3,544	17,807
Copper				
Grade (%)	1.31	0.96	0.90	0.95
Recovery (%)	53.1	56.2	68.4	62.2
Production ('000 lbs)	2,741	2,386	2,741	10,478
Sales ('000 lbs)	2,807	2,033	2,544	9,075
Silver				
Grade (g/t)	19.85	17.84	27.34	20.10
Recovery (%)	69.3	75.4	72.3	73.4
Production (oz)	78,959	86,366	128,233	381,523
Sales (oz)	100,906	59,884	115,181	324,260
Financial Performance *(in 000's, except per share amounts)*				
Revenue	$11,480	$9,633	$6,796	$34,333
Mining costs	$8,539	$6,133	$7,279	$27,144
Income (loss) before tax	($888)	$1,851	($1,904)	$1,480
Capital expenditures	$4,756	$1,623	$1,992	$6,667
Cash operating costs (by-product) ($/oz) gold (1)	$599	$598	$1,197	$861
All-in sustaining costs (by-product) ($/oz) gold (1)	$1,048	$885	$1,913	$1,248
All-in costs (by-product) ($/oz) gold (1)	$1,647	$1,236	$1,950	$1,375

(1) For further information and a detailed reconciliation of COC, AISC and AIC, please see the "Other Information - Non-IFRS Measures" section of this MD&A.

Don Mario Mine Operating Performance

During the first quarter of 2017, 4,976 ounces of gold, 2.7 million pounds of copper and 78,959 ounces of silver were produced at Don Mario compared with 5,633 ounces of gold, 2.4 million pounds of copper and 86,366 ounces of silver in the fourth quarter of fiscal 2016 and 3,896 ounces of gold, 2.7 million pounds of copper and 128,233 ounces of silver in the first quarter of fiscal 2016.

The 12% decrease in gold production and 9% decrease in silver production compared with the fourth quarter of fiscal 2016 was due primarily to lower tonnes milled, as well as lower recoveries of 12% and 8%, respectively. Copper production improved by 15% compared with the fourth quarter of fiscal 2016 due to 36% higher average head grades.

Compared with the first quarter of fiscal 2016, gold production increased by 28% while copper remained flat and silver production decreased by 38% in the first quarter of fiscal 2017. Higher gold production was due primarily to higher average head grades of 62%, while silver was impacted by lower average head grades of 27%. Copper was impacted by an increase in average head grades of 46%, offset by lower recoveries of 22% and lower tonnes processed of 12%.

Don Mario Mine Financial Performance

During the first quarter of fiscal 2017, revenue from Don Mario increased by 69% from $6.8 million in the first quarter of fiscal 2016 to $11.5 million on sales of 5,232 ounces of gold, 2.8 million pounds of copper and 100,906 ounces of silver in the first quarter of fiscal 2017 compared with sales of 3,544 ounces of gold, 2.5 million pounds of copper and 115,181 ounces of silver.

Mining costs of $8.5 million for the first quarter of fiscal 2017 increased by $1.2 million or 16% compared with $7.3 million during the first quarter of 2016 due to the higher volume of sales.

Loss before tax for the first quarter of fiscal 2017 was $0.9 million compared with loss before tax of $1.9 million for the first quarter of fiscal 2016.

Total capital expenditures at Don Mario during the first quarter of fiscal 2017 were $4.8 million compared with $2.0 million in the first quarter of fiscal 2016. Capital expenditures in the first quarter of fiscal 2017 related primarily to the construction of the CIL Project.

For the first quarter of fiscal 2017, COC (by-product) were $599 per ounce of gold or 50% lower compared to the first quarter of fiscal 2016. Total AISC (by-product) were $1,048 per ounce of gold or 45% lower compared to the first quarter of fiscal 2016. The decrease in unitary costs was driven primarily by higher metal volumes sold.

Don Mario Exploration and Mine Life Extension

As described above, historical mining took place in the LMZ underground gold mine until 2009. During 2016, geotechnical and geological reviews concluded that a pushback of the existing pit allowed for the economic mining of the upper extension of the LMZ, and a resource estimate for the LMZ was published as at September 30, 2015. The Company began replacing tonnes previously mined at the UMZ with production from the upper extension of the LMZ in the second quarter of fiscal 2016.

Historically, gold and silver from the LMZ were leached with cyanide in a CIL circuit and a gold doré was produced from the higher gold grade ore associated with the LMZ as compared to the UMZ. Average historical gold recoveries achieved from the CIL were over 80%. The CIL circuit was placed under care and maintenance in April 2011 as Don Mario transitioned from mining the LMZ underground gold mine to the metallurgically more complex UMZ. Results of a metallurgical testing program undertaken by the Company during 2016 indicated potential gold recovery of higher than historical rates may be achieved by processing new LMZ material through a re-commissioned CIL circuit.

In re-commissioning the CIL circuit, the Company engaged EPCM Consultores SRL (“EPCMC”) and Lycopodium Minerals Canada to complete a capital cost estimate for the CIL Project. For the selected process option, the capital cost estimate was $6.4 million to accuracy estimate of +/- 15% including owner’s costs and 15% contingency. The Company expects final re-commissioning costs to be within the capital cost estimate.

Financing for the CIL Project was obtained during the third quarter of fiscal 2016, when the Company successfully closed the $7.9 million BISA Loan facility. The Company engaged EPCMC for the construction of the CIL Project and substantially completed construction by the end of December 2016. Re-commissioning activities began in January 2017, with successful production of gold-silver doré bars subsequent to quarter end. Upon full re-commissioning of the CIL circuit, Don Mario will shift to production of gold-silver doré in lieu of the current gold concentrate, and will continue to produce copper concentrate. The expected increase in gold production is expected to positively impact unitary cash costs and maximize the value of the LMZ, the effects of which are expected to be fully realized in the second half of fiscal 2017.

The Company is working to close a doré sales contract with first commercial delivery expected in February 2017.

In maximizing the value of the LMZ ore, Don Mario stockpiled mined LMZ material towards the end of the fourth quarter of fiscal 2016 and during the first quarter of fiscal 2017. To meet its delivery requirements under the Prepayment Facility (as hereinafter defined), the Company entered into a trade arrangement with a third party to supply alternative copper concentrates to Samsung C&T U.K. Ltd. ("Samsung C&T") for approximately two months of production (3,500 DMT). The resulting improvement in anticipated revenue through fiscal 2017 from the stockpiled LMZ material and the enhanced gold recovery from the CIL circuit is expected to provide the Company with positive economic benefit over the life of the LMZ reserve after incurring expected realized net loss on the aforementioned trade agreement of approximately $1.1 million based on provisional invoicing estimates.

As at September 30, 2016, DCGS SA upgraded the mineral resource estimate to a mineral reserve estimate for the LMZ area under the supervision of Gino A. Zandonai, who is an independent Qualified Person under NI 43-101. The effective date of the estimate is September 30, 2016. The following table summarizes the results of the mineral reserve estimate:

Total Proven and Probable

Zone	Tonnage (000 t)	Grade (g/t Au)	Grade (% Cu)	Grade (g/t Ag)	Contained Metal (000 oz Au)	Contained Metal (t Cu)	Contained Metal (000 oz Ag)
Proven	-	-	-	-	-	-	-
Probable	793	2.62	0.60	5.94	66.8	4794.6	151.4
Proven and Probable	**793**	**2.62**	**0.60**	**5.94**	**66.8**	**4794.6**	**151.4**

Notes:

1. CIM definitions were followed for Mineral Reserves and were prepared by G. Zandonai, a qualified person for the purposes of NI43-101, who is an employee of DGCS SA and is independent of the Company.
2. Mineral Reserves are estimated using a cut-off grade of 0.70 g/t Au for the LMZ. Cut-offs were calculated using recent operating results for recoveries, off-site concentrate costs, and on-site operating costs.
3. Mineral Reserves are estimated using average long-term prices of US$1,100 per ounce gold, US$2.75 per lb copper, and US$16.5 per ounce silver.
4. Numbers may not add due to rounding.
5. The mineral reserves at the LMZ have been based on processing by the CIL and flotation methods.

The re-commissioning of the CIL is also expected to position Don Mario to leverage other potential business opportunities. In recent months, the Company has been re-evaluating the economic potential of processing existing mineral stockpiles, including the oxides previously treated through the leach-precipitation-flotation process, and expects to have the results of this testing by the end of the second quarter of 2017. As at September 30, 2016, EMIPA had oxide stockpile mineral resources of approximately 2.2 million tonnes with an average gold grade of 1.84 g/t. The Company has also commenced an evaluation of reprocessing of tailings, to determine the viability of recovering gold from the material deposited since the commencement of production at Don Mario. The Company is additionally currently assessing mine plan scenarios in order to determine the economic viability of mining Cerro Felix, which is expected to benefit from the re-commissioning of the CIL circuit due to its higher estimated gold grades.

Market Review and Trends

Metal Prices

The market prices of gold and copper are one of the primary drivers of Orvana's earnings and ability to generate free cash flows. During the first quarter of fiscal 2017, the gold price remained volatile, with the price ranging from $1,130 to $1,318 per ounce and an average market price of $1,222 per ounce compared with $1,105 per ounce in the first quarter of fiscal 2016. Orvana's average gold realized price for the first quarter of fiscal 2017 was $1,260 per ounce, as compared to $1,105 per ounce in the first quarter of fiscal 2016. The Company derived approximately 59% of its revenue from sales of gold in the first quarter of fiscal 2017.

Copper prices during the first quarter of fiscal 2017 were quite volatile and traded in a range of $2.10 to $2.69 per pound with an average price of $2.39 per pound compared with $2.22 per pound in the first quarter of fiscal 2016. Orvana's average copper realized price for the first quarter of fiscal 2016 was $2.32 per pound. The Company derived approximately 34% of its revenue from sales of copper in the first quarter of fiscal 2016.

In the first quarter of fiscal 2017, silver prices traded in a range from $15.74 per ounce to $19.18 per ounce with an average price of $17.19 per ounce compared with $14.76 during the same period in fiscal 2016. Orvana's average silver realized price for the first quarter of fiscal 2016 was $17.25 per ounce. The Company derived approximately 7% of its revenue from sales of silver in the first quarter of fiscal 2016.

Currency Exchange Rates

The results of Orvana's operations are affected by US dollar exchange rates. Orvana's largest exposure is to the Euro/US Dollar exchange rate. The Company incurs operating and administration costs at El Valle in Euros, while revenue is denominated in US dollars. Orvana's cost of sales and expenses remained relatively flat year over year, with the Euro to US Dollar exchange rate moving from an average of 1.09 in the first quarter of fiscal 2016 to 1.08 in the first quarter of fiscal 2016. As a result of foreign exchange movements, mining costs at El Valle were lower by approximately $0.1 million in the first quarter of fiscal 2017 compared with the first quarter of fiscal 2016.

Orvana also has a minor exposure to the Canadian dollar and the Swedish krona through corporate administration costs. Orvana's exposure to the US Dollar to Bolivianos exchange rate is limited as this exchange rate has not fluctuated significantly during previous reporting periods.

FINANCIAL CONDITION REVIEW

Balance Sheet Review

The following table provides a comparison of key elements of Orvana's balance sheet at December 31, 2016 and September 30, 2016.

(in 000's)	**December 31, 2016**	**September 30, 2016**
Cash and cash equivalents	**$9,521**	$18,939
Restricted cash (short term)	**$4,938**	$2,092
Non-cash working capital (1)	**$394**	$4,558
Total assets	**$171,155**	$174,262
Total liabilities	**$75,158**	$70,151
Shareholders' equity	**$95,997**	$104,111

(1) Working capital represents current assets of $47.2 million less cash and cash equivalents and short-term restricted cash totaling $14.5 million and less $32.3 million in current liabilities composed of accounts payable and accrued liabilities and income taxes payable (not including bank debt).

Total assets decreased by $3.1 million or 2% from $174.3 million to $171.2 million primarily as a result of the decrease in (i) cash of $9.4 million and offset by increases in (ii) property, plant and equipment of $2.3 million primarily due to investments made at El Valle and Don Mario offset by depreciation; (iii) gold and concentrate receivables of $1.8 million and (iv) short-term restricted cash of $2.8 million primarily related to security on VAT credits in Bolivia, (v) inventory of $1.8 million associated with stockpiling LMZ ore at Don Mario and increases to materials and supplies for the re-commissioning of the CIL circuit.

Short-term restricted cash as at December 31, 2016 was $4.9 million (September 30, 2016 – $2.1 million), consisting of restricted cash placed on deposit with a Canadian bank as security for the BISA Loan, guarantees on VAT credit notes which expire after 120 days and are pending the final approval and audit of these credit notes by the Bolivian government and funds held by a hedging counterparty in respect of a margin deposit.

Total liabilities increased by $5.0 million or 7% to $75.2 million at December 31, 2016 from $70.2 million at September 30, 2016 primarily as a result of an increase of accounts payable and accrued liabilities of $5.0 million.

BISA Loan

In May 2016, EMIPA closed the $7.9 million BISA Loan, the proceeds of which are being used for the re-commissioning of the CIL Project. Under the terms of the BISA Loan, five disbursements of specified amounts will be made available to EMIPA as expenditures are incurred on the CIL Project. The BISA Loan matures in September 2017 and has an interest rate of 6% per annum, with ten monthly principal repayments beginning in December 2016. Security includes certain assets at Don Mario for the term of the BISA Loan and a stand-by letter of credit held by a Canadian bank of $2.0 million which will be replaced with the CIL asset once fully re-commissioned. As of December 31, 2016, four out of five planned disbursements were received totaling $6.4 million and principal repayments of $0.6 million were made against the BISA Loan.

Samsung C&T Prepayment Facility

In August 2016, the Company entered into a $12.5 million copper concentrates and gold doré Prepayment Facility with Samsung C&T ("Prepayment Facility"), the proceeds of which are being invested at El Valle for its ongoing development activities and infrastructure projects.

Under the terms of the Prepayment Facility, Orvana is selling gold doré from its El Valle Mine in Spain and copper concentrate from its Don Mario Mine in Bolivia to Samsung C&T, on an exclusive basis for a period of thirty months. In exchange, Orvana receives $12.5 million in prepayment financing from Samsung C&T in two instalments. The first instalment of $8.0 million was drawn on closing and will be repaid beginning in September 2017 in eighteen equal monthly payments. The second instalment of $4.5 million is expected to be drawn down in February 2017 and will be repaid beginning nine months after drawdown in nine equal monthly payments. The Prepayment Facility bears interest at USD 3M LIBOR plus 4.5%. Interest payments and principal repayments under the terms of the Prepayment Facility are made against Orvana's on-going shipments of copper concentrates and/or gold doré. Samsung C&T has agreed to pay for copper concentrates and gold doré at a price based on the prevailing metal prices for the gold, silver and copper content around time of shipment, less customary treatment, refining and shipping charges, and pursuant to the terms of the Prepayment Facility.

The Company's obligations to Samsung C&T under the Prepayment Facility are secured by the pledge to Samsung C&T of all of Orvana's shares of OroValle, which owns the El Valle and Carlés Mines in Spain.

Shareholders' Equity

Shareholders' equity at December 31, 2016 decreased by 8% to $96.0 million compared with $104.1 million at September 30, 2016. The table below sets out the number of each class of securities of the Company outstanding at December 31, 2016 and as at the date hereof.

	At December 31, 2016
Common Shares	136,623,171
Warrants [1]	1,050,000
Options [2]	2,536,111

(1) All of the outstanding warrants are held by Fabulosa. In 2012, warrants to purchase up to 1,425,000 Common Shares were issued on March 5, 2012 with an exercise price of C$0.97 until March 5, 2017. As a result of the forfeiture or expiration of certain options to acquire Common Shares, the exercise of which are tied to Fabulosa's ability to exercise the warrants issued in 2012, 975,000 of the 1,425,000 warrants may never be exercised as of the date of the MD&A. The remaining 450,000 warrants are exercisable as of the date of the MD&A. Additional warrants were issued in connection with amendments to the Fabulosa Loan in 2013 and 2014 as follows: i) warrants to purchase 500,000 Common Shares were issued on August 22, 2013 with an exercise price of C$0.49 until August 22, 2018, and ii) warrants to purchase 100,000 Common Shares were issued on July 11, 2014 at an exercise price of C$0.53 until July 11, 2019.

(2) The options have a weighted average exercise price of $0.57 and expiry dates ranging from 2017 to 2021.

Derivative Instruments

The Company had the following derivative instruments outstanding at December 31, 2016:

	Contract Prices	Cash Settlement	Contract Amounts
Copper			
Copper forwards (Jan 2017 – Sep 2017)	$4,519 to $4,850/t	Monthly	1,205 t
Gold			
Gold forwards (Jan 2017 – Feb 2017)	$1,300/oz	Monthly	4,200 oz
Gold capped calls (Jan 2017 – Feb 2017)	$1,420 to $1,445/oz	Monthly	4,200 oz

As at December 31, 2016, approximately 25% of the Company's forecasted gold from January 2017 to February 2017 and 20% of forecasted copper production from October 2016 to April 2017 was hedged under gold and copper derivative instruments. The Company received net cash of $565 in settlement of the derivative instruments that matured in the period.

As at December 31, 2016, the Company's outstanding derivative instruments were valued on the balance sheet as follows:

	Spot Price	Contract Price	Fair Value
Derivative instrument assets			
Gold forwards	$1,152/oz	$1,300/oz	$620
Gold capped calls	$1,152/oz	$1,420 to $1,445/oz	$2
Total fair value of derivative instruments assets at December 31, 2016			$622

	Spot Price	Contract Price	Avg. Forward Price	Fair Value
Derivative instrument liabilities				
Copper forwards	$5,534/t	$4,519 to $4,850/t	$5,516/t	$969
Total fair value of derivative instruments liabilities at December 31, 2016				$969
Total fair value of derivative instruments liabilities, net at December 31, 2016				$347

Changes in the fair value of the Company's outstanding derivative instruments are recognized through the Company's income statement as non-cash derivative instrument gains or losses. At maturity of each contract, a cash settlement takes place resulting in a corresponding reduction in the carrying value of the derivative instruments. The mark-to-market fair value of the Company's outstanding derivative instruments is based on independently provided market rates and determined using standard valuation techniques, including the impact of counterparty credit risk.

The Company recorded fair value adjustments on its outstanding derivative instruments as follows:

(in 000's)	Q1 2017	Q4 2016	Q1 2016	FY 2016
Change in unrealized fair value	**($287)**	**($144)**	$-	$60
Realized gain on cash settlements of derivative instruments closed	**565**	**260**	-	338
Recorded derivative instruments loss	**$278**	**$116**	$-	$398

Capital Resources

At December 31, 2016, the Company had cash and cash equivalents of $9.5 million and restricted cash of $6.9 million. The Company considers its capital employed to consist of shareholders' equity (including share capital, contributed surplus and retained earnings) and total debt net of cash and cash equivalents as follows:

(in 000's)	**December 31, 2016**	**September 30, 2016**
Shareholders' equity	**$95,997**	$104,111
Bank debt	**488**	517
Capital leases	**2,009**	1,783
BISA Loan	**5,806**	4,928
Prepayment Facility	**6,976**	6,825
	$111,276	$118,164
Less: Cash and cash equivalents	**(9,521)**	(18,939)
Capital employed	**$101,755**	$99,225

The Company's financial objective when managing capital is to ensure that it has the cash and debt capacity and financial flexibility to fund its ongoing business objectives including operating activities, investments and growth in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, in addition to using cash flows from operating activities for this purpose, the Company may issue new shares or obtain additional debt. Through fiscal 2016, the Company obtained the $7.9 million BISA Loan and the $12.5 million Prepayment Facility. The Company continues to discuss and evaluate further financing opportunities with a number of Spanish banks at what the Company believes will be a competitive cost of capital, with the objectives of expanding OroValle's in-country banking relationships and to secure access to greater liquidity.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the Company's operating and financial performance and current outlook of the business and industry in general. The Company's alternatives to fund future capital needs include cash flows from operating activities, debt or equity financing or adjustments to capital spending. The capital structure and these alternatives are reviewed by management and the board of directors of the Company on a regular basis to ensure the best mix of capital resources to meet the Company's needs.

The Company manages capital through its operating and financial budgeting and forecasting processes. The Company reviews its working capital and forecasts its future cash flows on a periodic basis, based on operating expenditures and other investing and financing activities. The forecast is regularly updated based on the results of El Valle and Don Mario. Information is regularly provided to the board of directors of the Company.

The Company's strategy during this period of commodity market uncertainty is to manage its existing capital and liquidity in a prudent fashion to sustain its ongoing capital projects at EMIPA and OroValle.

Cash Flows, Commitments, Liquidity and Contingencies

Cash Flows

Total cash and cash equivalents as at December 31, 2016 was $9.5 million primarily denominated in US dollars representing a decrease of $9.4 million from $18.9 million at September 30, 2016. Short-term restricted cash was $4.9 million at December 31, 2016 compared with $2.8 million at September 30, 2016 which included $2.3 million in guarantees on VAT credit notes which expire after 120 days and are pending the final approval and audit of these credit notes by the Bolivian government, $2.0 million on deposit with a Canadian bank as security on the BISA Loan, and $0.5 million placed on deposit with a hedging counterparty for a margin deposit. The Company's total debt was $13.3 million at December 31, 2016. This compares with total debt as at September 30, 2016 of $12.3 million.

The following table summarizes the principal sources and uses of cash for the periods specified below:

(in 000's)	**Q1 2017**	**Q4 2016**	**Q1 2016**	**FY 2016**
Cash provided by (used in) operating activities before changes in non-cash working capital	**($3,294)**	$1,186	$871	$5,199
Cash provided by (used in) operating activities	**($299)**	$221	$1,575	$3,437
Cash provided by financing activities	**$1,104**	$10,996	$493	$12,475
Cash used in investing activities (1)	**($10,566)**	($4,300)	($1,802)	($14,206)
Change in cash	**($9,761)**	$6,917	$266	$1,706

(1) These amounts are presented on a cash basis. Each reported period excludes unpaid capital expenditures incurred in the period which will be paid in subsequent periods and includes capital expenditures incurred in prior periods and paid for in the applicable reported period. See "Cash Flows, Commitments and Liquidity - Capital Expenditures".

Orvana's primary source of liquidity continues to be from operating cash flows. Cash flows used in operating activities before changes in non-cash working capital were $3.2 million for the first quarter of fiscal 2017 compared with cash provided by operating activities before changes in non-cash working capital of $0.9 million for the first quarter of fiscal 2016 and cash flows used in operating activities were $0.3 million for the first quarter of fiscal 2017 compared with cash provided by operating activities of $1.6 million for the first quarter of fiscal 2016.

Significant drivers of the change in operating cash flow are production and realized gold and copper prices on sales. Future changes in the market price of gold and copper, either favourable or unfavourable, will continue to have a material impact on the Company's cash flows and liquidity. The principal uses of operating cash flows have been the funding of the Company's capital expenditures.

Cash provided by financing activities was $1.1 million in the first quarter of fiscal 2017 compared with $0.5 million in the first quarter of fiscal 2016 primarily related to the drawdowns under the BISA Loan.

Cash used in investing activities was $10.6 million in the first quarter of fiscal 2017 compared with $1.8 million in the first quarter of fiscal 2016 primarily due to increased capital expenditures as well as the changes in restricted cash disclosed.

Capital Expenditures

The following table sets forth Orvana's capital expenditures for the periods specified below for El Valle and Don Mario:

Capital Expenditures *(in 000's)* **(1)**	**Q1 2017**	**Q4 2016**	**Q1 2016**	**FY 2016**
El Valle Mine	**$3,425**	$5,288	$1,536	$9,510
Don Mario Mine	**4,755**	1,623	1,992	6,667
Corporate	**-**	15	8	36
Sub-total capital expenditures	**$8,180**	$6,927	$3,536	$16,213
Accounts payable adjustments (1)	**(461)**	(1,533)	180	(1,236)
Total capital expenditures (1)	**$7,719**	$5,394	$3,716	$14,977

(1) These amounts are presented on a cash basis. Each reported period excludes unpaid capital expenditures incurred in the period which will be paid in subsequent periods and includes capital expenditures incurred in prior periods and paid for in the applicable reported period.

At El Valle, capital expenditures in fiscal 2017 consisted mainly of primary development and mining equipment purchases. Significant capital expenditures at Don Mario included the annual tailings dam lift as well as the ongoing re-commissioning costs of the CIL Project at Don Mario.

The Company expects sustaining capital expenditures for fiscal 2017 to be in the range of $27.0 to $30.0 million. Refer to the "Outlook" section of the MD&A.

Other Commitments

At December 31, 2016, the Company's contractual obligations included: the Prepayment Facility; the BISA Loan; term credit facilities; operating and finance leases; decommissioning liabilities; purchase obligations related to certain operating activities at El Valle and Don Mario; provision for statutory labour obligations; and long-term compensation.

Contractual obligations are summarized in the following table:

As at December 31, 2016		**Payment Due by Period**			
(in 000's)	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
BISA Loan	**$5,806**	$5,806	-	-	-
Prepayment Facility	**$8,000**	$1,778	$6,222	-	-
Operating leases	**$2,314**	$1,546	$751	$17	
Finance leases	**$2,009**	$1,004	$1,005	-	-
Decommissioning liabilities (1)	**$23,264**	$356	$897	$6,455	$15,556
Reclamation bond (2)	**$5,271**	$5,271	-	-	-
Purchase obligations	**$3,093**	$3,093	-	-	-
Provision for statutory labour obligations (3)	**$3,125**	-	$3,125	-	-
Long-term compensation	**$596**	$208	$188	-	$200
Total contractual obligations (4)	**$53,478**	**$19,062**	**$12,188**	**$6,472**	**$15,756**

(1) Decommissioning liabilities are undiscounted. Total cash deposited with a Spanish financial institution for Euro denominated reclamation bonds amounted to approximately $7.9 million at December 31, 2016 (September 30, 2016 - $8.4 million). Decommissioning liabilities are discussed below under "Other Information - Critical Accounting Estimates - Decommissioning Liabilities".

(2) Spanish regulatory authorities have requested that an additional reclamation bond of €5.0 million be deposited by the Company under Spanish mining regulations in respect of El Valle. The Supreme Court of Spain recently ordered a reconsideration of the evidence regarding the application and amount of this bond. The Company is working with Spanish regulatory authorities to come to an agreement regarding posting this bond, including the consideration of alternatives to posting this bond, while preserving the Company's rights in court.

(3) Under Bolivian law, EMIPA has an obligation to make payments to employees in the amount of one month's wages for each year of service. The employee can elect to receive payment after five years of service in the amount of five months of wages while continuing employment with EMIPA.

(4) Production from El Valle and Don Mario is subject to certain royalties for which amounts have not been included in total contractual obligations at December 31, 2016. For a description of such royalties and amounts payable, see "Royalties" below.

Royalties

Production from El Valle is subject to a 3% net smelter return royalty ("NSR"), referred to herein as the El Valle Royalty. The El Valle Royalty rate decreases to 2.5% for any quarter in which the average price of gold is below $1,100 per ounce. The El Valle Royalty expense totaled $0.3 million for the first quarter of fiscal 2017 compared with $0.5 million for the first quarter of fiscal 2016.

Production from Don Mario is subject to a 3% NSR. This expense totaled $0.4 million for the first quarter of fiscal 2017 compared with $0.3 million for the first quarter of fiscal 2016. The Bolivian government collects a mining royalty tax on the revenue generated from copper, gold and silver sales from Don Mario at rates of 5%, 7% and 6%, respectively. These amounts totaled $0.9 million for the first quarter of fiscal 2017 compared with $0.7 million for the first quarter of fiscal 2016.

Liquidity

Orvana's primary sources of liquidity in the first quarter of fiscal 2017 were operating cash flows as well as continued drawdowns from the BISA Loan. Expected sources of liquidity during the remainder of 2017 are from operating cash flows as the Company executes on its capital investment plans and lower its unitary costs and the second $4.5 million drawdown from the Prepayment Facility planned for February 2017.

As at December 31, 2016, the Company had cash of $9.5 million designated to cover the Company's commitments due in less than one year of $19.1 million.

In August 2016, the Company entered into the US $12.5 million Prepayment Facility with Samsung C&T, the proceeds of which are being invested into El Valle. The acceleration of previously delayed underground mine development and the execution of planned water and power infrastructure projects have allowed El Valle to improve its ore production to nameplate plant capacity. Further work is being performed at El Valle to improve mine flexibility and mined grades. These efforts are expected to lower unitary costs towards the end of fiscal 2017, with the full benefit realized in fiscal 2018. The proceeds of the Prepayment Facility are also supporting the restart of the Carlés Mine to increase production in the near-term while the Company executes on the above.

At Don Mario, the Company is nearing completion of the CIL Project, and expects to begin delivery under a doré sales contract beginning in February 2017. The fully re-commissioned CIL circuit is expected to result in the operation generating free cash flow in the second half of fiscal 2017 and allow for repayment of the BISA Loan in full by the end of fiscal 2017. Unitary costs are expected to be positively impacted through the second half of fiscal 2017 as anticipated increased gold recovery is realized from CIL production.

Security for the BISA Loan includes a cash-backed letter of credit of $2.0 million. This restricted cash is expected to be returned one month after the CIL Project re-commissioning is completed.

Through the completion of the recent debt financings and together with the current Euro to USD foreign exchange environment, the Company believes, based on its current cash flow forecasts, that it has sufficient financial resources to fully realize its current business plans. The Company's cash flow forecasts are developed using best available information at the time of their preparation and rely on certain material assumptions, such as gold and copper market prices and the ability to achieve planned production of gold and copper. There can be no assurances that the Company's cash flow forecasts will not change materially in the future and that the effect of changes to the Company's forecasts, if negative, could result in future financing requirements for the Company.

If (i) unanticipated events occur that may impact the operations of El Valle and Don Mario and/or (ii) if the Company does not have adequate access to financing on terms acceptable to the Company, the Company may need to take additional measures to increase its liquidity and capital resources, including obtaining additional debt or equity financing, pursuing joint-venture partnerships, equipment financings or other receivables financing arrangements. The Company may experience difficulty in obtaining satisfactory financing terms. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on Orvana's results of operations or financial condition.

Contingencies

The Company is currently working through one environmental matter involving selenium discharges into the Cauxa River in Asturias, Spain. The Cauxa River flows past El Valle Mine operated by the Company's Spanish subsidiary, OroValle, as well as other industrial properties owned by third parties. Selenium is a naturally occurring element that is found in rocks, land and water and thus is also naturally found in certain food supplies. Based on recent scientific studies conducted by the Company, the Company confirmed its belief that these levels of selenium are not a health or environmental risk.

Spanish regulatory authorities have taken the position that the levels of selenium in the river flowing past El Valle exceed the levels permitted by applicable regulations as a result of discharges attributed to the Company which may not be in compliance with certain of the Company's permits. In recent years, OroValle has received approximately €1.0 million (approximately $1.1 million) in fines relating to these matters and may face further additional fines or other sanctions, including the revocation or suspension of certain permits, in the future. OroValle is appealing the outstanding fines and the enforcement of certain fines has been suspended pending the related criminal matter. A judge of criminal court of Asturias is conducting an investigation into the potential commission by OroValle of a reckless crime under the Spanish penal code relating to these matters. The judge may decide to dismiss the matter, conduct a further investigation and/or charge OroValle and/or certain OroValle individuals. If OroValle is ultimately found responsible, monetary penalties, amongst other sanctions, may be applied. These sanctions could have a material impact on the Company. At this time, OroValle has not been charged. OroValle has cooperated and will continue to cooperate with investigations and is defending itself vigorously.

OroValle has been working to remediate this matter through various activities including the implementation of a reverse osmosis water treatment plant in September 2014 and the development of a long-term water management plan which is in progress. While it appears that these remediation efforts are addressing these matters, there can be no assurances that OroValle's continuing remediation activities will be successful to fully comply with local regulations. In addition, OroValle has been seeking amendments to certain of its permits or, alternatively to receive new permits, and extensions of deadlines to comply with local requirements. Orvana is committed to developing and operating its mines and projects in full compliance with local environmental regulations and recognized international environmental standards.

SUMMARY OF QUARTERLY RESULTS

The following two tables include results for the eight quarters ended December 31, 2016:

	Quarters ended			
(in 000's, except per share amounts)	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**
Revenue	**$23,458**	$24,044	$26,030	$21,279
Net loss	**($8,154)**	($1,528)	($1,181)	($2,670)
Loss per share (basic and diluted)	**($0.06)**	($0.01)	($0.01)	($0.02)
Total assets	**$171,155**	$174,262	$161,910	$162,394
Total financial liabilities (1)	**$15,626**	$14,580	$2,957	$1,971
	Quarters ended			
	Q1 2016	**Q4 2015**	**Q3 2015**	**Q2 2015**
Revenue	$22,497	$20,385	$32,162	$30,108
Net loss	($3,076)	($7,819)	($5,522)	($4,130)
Loss per share (basic and diluted)	($0.02)	($0.06)	($0.04)	($0.03)
Total assets	$163,730	$169,435	$183,334	$192,690
Total financial liabilities (1)	$1,971	$1,478	-	$3,943

(1) Financial liabilities include the BISA Loan, Prepayment Facility, bank debt, derivative liabilities, and current and long-term portions of obligations under finance leases.

FINANCIAL AND OTHER RISKS AND UNCERTAINTIES

Financial Risks

The Company's activities expose it to a variety of financial market risks (including commodity price risks, currency risk and interest rate risk), credit risks, liquidity risks, financing risks and other risks. Enterprise risk management is carried out by management of the Company under policies approved by the board of directors thereof. Management identifies and evaluates the financial risks in co-operation with the Company's operating units. The Board of Directors of the Company reviews management's risk management programs and provides oversight on specific areas. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial and operating performance.

Other Risks

The Company identified a variety of additional risks and uncertainties in the most recent Annual Information Form ("AIF") including, but not limited to, (i) mineral resources and reserves estimates and replacement of depleted reserves, (ii) production estimates, (iii) development, capital projects and operations of mines, (iv) competition, (v) acquisitions and divestitures, (vi) title matters, (vii) water supply, (viii) regulatory and other risk, (ix) permits, (x) environmental, health and safety regulations, (xi) political and related risks, (xii) insurance, (xiii) reliance on key personnel and labor relations, (xiv) community relations and license to operate, (xv) litigation, (xvi) conflicts of interest, (xvii) controlling shareholder, and (xviii) share trading volatility.

In respect of regulatory and other risks and environmental regulations risks, see "Contingencies" above.

For a more detailed discussion of such financial and other business risks, please see the "Risk Factors" in Orvana's most recent AIF at www.sedar.com.

OTHER INFORMATION

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS 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 mineral reserves, accounts receivable, property, plant and equipment, depreciation and amortization, forward metals prices, decommissioning liabilities, future income taxes, stock-based compensation and other accrued liabilities and contingent liabilities.

Net Realizable Amounts of Property, Plant and Equipment

At December 31, 2016, the net carrying value of the property, plant and equipment in respect of El Valle and Don Mario amounted to $92.0 million and $16.2 million, respectively. Effective from the point that they are ready for their intended use, property, plant and equipment are amortized on a straight line basis or using the units-of-production method over the shorter of the estimated economic life of the asset or mineral property. The method of depreciation is determined based on that which best represents the use of the assets.

The reserve and resource estimates for each operation are the prime determinants of the life of a mine. In general, a mineralized deposit where the mineralization is reasonably well defined is amortized over its proven and probable mineral reserves. Non-reserve material may be included in the depreciation calculations in limited circumstances where there is a high degree of confidence in economic extraction. The expected economic life of these mines is dependent upon, among other things, the estimated remaining ore; gold, copper and silver prices; cash operating costs and capital expenditures.

The Company assesses each mine development project to determine when a mine is substantially complete and ready for its intended use and has advanced to the production stage. In its assessment, the Company considers relevant criteria based on the nature of each project, including the completion of a reasonable period of testing of mine plant and equipment, the ability to produce materials in saleable form (within specifications) and the ability to sustain ongoing production of minerals. When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either capitalized to inventory or expensed, except for sustaining capital costs and underground mine or reserve development, which are capitalized to property, plant and equipment.

Decommissioning Liabilities

Decommissioning liabilities 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. It is possible that the Company's estimates of the ultimate amounts required to decommission its mines 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 following table sets out the estimates of the undiscounted and discounted cash flows required to settle such decommissioning liabilities in respect of El Valle and Don Mario at December 31, 2016. These estimates were prepared by management with the assistance of independent third party experts.

At December 31, 2016	Undiscounted Cash Flows Estimated to Settle Decommissioning Liabilities	Discount Rate	Discounted Cash Flows Required to Settle Decommissioning Liabilities
(in 000's)			
El Valle (1)	$15,546	0.99%	$13,949
Don Mario (1)	$7,718	3.20%	$6,849
Total	**$23,264**		**$20,798**

(1) Accretion expense is recorded using the discount interest rate set out above. It is estimated that these amounts will be incurred beginning in 2017 and 2019 at El Valle and Don Mario, respectively. The discount rate used to measure decommissioning liabilities under IFRS is based on current interest rates of government bonds of the applicable country and terms that matches the time period to the commencement of the decommissioning liability being incurred.

Stock-based compensation

The Company recorded stock-based compensation expense of $40.5 thousand in the first quarter of fiscal 2017, compared with $8.1 thousand in the first quarter of fiscal 2016 and $1.9 thousand in the fourth quarter of fiscal 2016. The stock-based compensation expense is based on an estimate of the fair value of 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.

Long-term Compensation

The Company established a Deferred Share Unit ("DSU") plan, effectively a phantom stock plan, for directors, effective October 1, 2008. For grants subsequent to December 1, 2015, the fair value of the units issued is expensed over the fiscal year in which they are issued, and is included in long-term compensation expense under general and administrative expenses in the statement of income. The fair value of the DSUs are marked to the quoted market price of Common Shares at each reporting date and changes in their fair value are also recorded under general and administrative expenses. Payouts are settled in cash within a specified period following a director's departure, based on the market price of the Common Shares at exercise.

The Company established a Restricted Share Unit ("RSU") plan, effectively a phantom stock plan, for designated executives, effective October 1, 2008. The initial fair value of units issued is expensed and is included in long-term compensation expense under general and administrative expenses in the statement of income. The fair value of the RSUs are marked to the quoted market price of the Common Shares at each reporting date and changes in their fair value are recorded under general and administrative expenses. Payouts are settled in cash after a specified period of vesting, based on the market price of the Common Shares at vesting.

The Company established a Share Appreciation Rights ("SAR") plan for designated executives, effective in respect of fiscal 2013. Unless otherwise determined by the directors of the Company, designated participants are granted SARs in such number equal to two times the number of RSUs granted to such participant in respect of compensation for a particular fiscal year. The Initial Fair Market Value as defined in the SAR plan is determined based on the closing price of the Common Shares on the date of grant. The fair value of the SARs are measured using an option pricing model at each period end, and to the extent that employees have rendered services over a three year vesting period, an expense is recorded under general and administrative expenses in the statement of net income over such vesting period. Vested SARs may be exercised provided there has been an appreciation in the market price of the Common Shares from the Initial Fair Market Value on the grant date and payouts are settled in cash as vested SARs are exercised.

Impairment

The Company assesses the carrying values of each cash-generating unit ("CGU") at each reporting period end date to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made which is considered to be the higher of the fair value less costs to sell ("FVLCS") or value-in-use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, the resale market for certain property, plant and equipment of the Company and operating performance. Fair value under FVLCS is determined as the amount that would be obtained from the sale, less costs, of the asset in an arm's length transaction between knowledgeable and willing parties. When observable market prices are not available for the asset, value-in-use for mineral properties is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that are specific to the Company's circumstances with respect to each CGU. Cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Management of the Company has assessed its CGUs to be each country in which it operates (El Valle and Don Mario) which is the lowest level for which cash inflows and outflows are expected to be largely independent of those of other assets. Management projected cash flows over the remaining life-of-mine in respect of El Valle and Don Mario using forecasted production and costs per the current life-of-mine plans and the long-term forecasted price of gold, copper and silver to project future revenues. The key assumptions used in making this assessment at December 31, 2016 included commodity prices, operating costs, capital expenditures, foreign exchange rates and discount rates.

Although the total public market capitalization of the Company was below the carrying amount of Orvana's net assets at December 31, 2016 of $95.5 million, following the completion of an impairment test in respect of each CGU in the first quarter of fiscal 2017, the Company estimated that the net recoverable amounts are greater than the carrying values of such assets based on the Company's current life-of-mine plans and the assumptions set out above at December 31, 2016. As such, there was no impairment of such carrying values as at December 31, 2016.

In light of a continued volatile metal price environment, and notwithstanding that the Company concluded that there was no impairment of carrying values at the end of the first quarter of fiscal 2017, there can be no assurances that an impairment adjustment may not be taken at either or both CGUs in future periods.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Management is responsible for the design and effectiveness of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company uses the *Internal Control – Integrated Framework* (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to design its ICFR. Based on a review of internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures are appropriately designed as at December 31, 2016.

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 material corrective actions.

Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, have been detected and that all of the objectives of the internal controls over financial reporting have been achieved or will be achieved in the future.

Non-IFRS Measures

<u>COC, AISC and AIC</u>

The Company, in conjunction with an initiative undertaken within the gold mining industry, began reporting COC, AISC and AIC non-IFRS performance measures as set out in the guidance note released by the World Gold Council in June 2013. The Company believes that these performance measures more fully define the total costs associated with producing gold, copper and silver, however, these performance measures have no standardized meaning. Accordingly, they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

COC include total production cash costs incurred at the Company's mining operations, which form the basis of the Company's cash costs. AISC includes COC plus sustaining capital expenditures, corporate administrative expense, exploration and evaluation costs and reclamation cost accretion. The Company believes that this measure represents the total costs of producing gold from current operations and provides the Company and other stakeholders of the Company with additional information relating to the Company's operational performance and ability to generate cash flows. As the measure seeks to reflect the full cost of gold production from current operations, new project capital is not included in AISC. AIC represents AISC plus non-sustaining capital expenditures and non-sustaining exploration. Certain other cash expenditures including tax payments, debt payments, dividends and financing costs are also not included in the calculation of AIC. The Company reports these measures on a gold ounces sold basis.

Orvana Consolidated	**Q1 2017**	**Q4 2016**	**Q1 2016**	**FY 2016**
Cash operating costs, all-in sustaining costs and all-in costs (by-product) [1] *(in 000's)*				
Total mining costs (sales based)	**$24,356**	**$22,884**	**$20,806**	**$84,544**
Deductions, refining, treatment, penalties, freight & other costs	4,442	4,185	5,596	19,283
Sub-total - other operating costs	**$4,442**	**$4,185**	**$5,596**	**$19,283**
Copper sales - gross revenue value	(9,343)	(7,252)	(8,130)	(28,936)

Orvana Consolidated	Q1 2017	Q4 2016	Q1 2016	FY 2016
Silver sales - gross revenue value	(1,899)	(2,059)	(2,241)	(7,910)
Other by-product gross revenue value	(22)	(27)	(19)	(77)
Sub-total by-product revenue	**($11,264)**	**($9,338)**	**($10,390)**	**($36,923)**
Cash operating costs	**$17,534**	**$17,731**	**$16,012**	**$66,904**
Corporate general & administrative costs	719	1,540	891	5,325
Community costs related to current operations	186	110	89	401
Reclamation, accretion & amortization	519	323	497	1,268
Exploration and study costs (sustaining)	65	90	98	347
Primary development (sustaining)	1,126	1,224	652	3,784
Other sustaining capital expenditures (2) (3)	3,993	3,972	2,751	10,257
All-in sustaining costs	**$24,142**	**$24,990**	**$20,991**	**$88,286**
Capital expenditures (non-sustaining) (3)	3,062	1,715	133	2,268
All-in costs	**$27,204**	**$26,705**	**$21,124**	**$90,554**
Au/oz sold	13,937	14,705	15,956	61,815
Cash operating costs ($/oz) gold	**$1,258**	**$1,206**	**$1,004**	**$1,082**
All-in sustaining costs ($/oz) gold	**$1,732**	**$1,699**	**$1,316**	**$1,428**
All-in costs ($/oz) gold	**$1,952**	**$1,816**	**$1,324**	**$1,465**

(1) Costs are reported per ounce of gold sold in the period.

(2) Sustaining capital expenditures are those expenditures which do not increase annual gold ounce production at a mine site and excludes all expenditures at the Company's projects and certain expenditures at the Company's operating sites which are deemed expansionary in nature.

(3) Capital expenditures include unpaid capital expenditures incurred in the period.

The following table provides a reconciliation of COC, AISC and AIC (by-product) per ounce of gold sold for El Valle for the periods set out below:

El Valle Mine	Q1 2017	Q4 2016	Q1 2016	FY 2016
Cash operating costs, all-in sustaining costs and all-in costs (by-product) (1) *(in 000's)*				
Total mining costs	**$15,817**	**$16,751**	**$13,527**	**$57,400**
Deductions, refining, treatment, penalties, freight & other costs	1,146	1,371	1,563	5,713
Sub-total - other operating costs	**$1,146**	**$1,371**	**$1,563**	**$5,713**
Copper sales - gross revenue value	(2,080)	(2,625)	(2,661)	(9,076)
Silver sales - gross revenue value	(408)	(684)	(658)	(2,466)
Sub-total by-product revenue	**($2,488)**	**($3,309)**	**($3,319)**	**($11,542)**
Cash operating costs	**$14,475**	**$14,813**	**$11,771**	**$51,571**
Corporate general & administrative costs	625	14	800	2,414
Reclamation, accretion & amortization	356	220	394	855
Exploration and study costs (sustaining)	20	18	17	103
Primary development (sustaining)	1,126	1,224	652	3,784
Other sustaining capital expenditures (2) (3)	2,299	3,093	884	5,858
All-in sustaining costs	**$18,901**	**$19,382**	**$14,518**	**$64,585**
All-in costs	**$18,901**	**$19,382**	**$14,518**	**$64,585**
Au/oz sold	8,828	9,821	12,412	44,009
Cash operating costs ($/oz) gold	**$1,640**	**$1,508**	**$948**	**$1,172**
All-in sustaining costs ($/oz) gold	**$2,141**	**$1,974**	**$1,170**	**$1,468**
All-in costs ($/oz) gold	**$2,141**	**$1,974**	**$1,170**	**$1,468**

(1) Costs are reported per ounce of gold sold in the period.

(2) Sustaining capital expenditures are those expenditures which do not increase annual gold ounce production at a mine site and excludes all expenditures at the Company's projects and certain expenditures at the Company's operating sites which are deemed expansionary in nature.

(3) Capital expenditures include unpaid capital expenditures incurred in the period.

Previously, the Company reported unitary costs from Don Mario on a co-product per pound of copper and per ounce of gold and silver as a result of revenue from the sale of copper and silver representing more than 60% of total gross revenue. As a result of the planned changes in product during fiscal 2017 and an expected increase in gold revenue relative to copper and silver revenue, the Company has presented its Q1 2017 unitary costs for Don Mario on a by-product basis and has restated its comparatives accordingly. The following table provides a reconciliation of AISC per ounce of gold sold for Don Mario for the periods set out below:

Don Mario Mine	Q1 2017	Q4 2016	Q1 2016	FY 2016
Cash operating costs, all-in sustaining costs and all-in costs (by-product) (1) *(in 000's)*				
Total mining costs	**$8,539**	**$6,134**	**$7,279**	**$27,144**
Deductions, refining, treatment, penalties, freight & other costs	3,296	2,814	4,033	13,570
Sub-total - other operating costs	**$3,296**	**$2,814**	**$4,033**	**$13,570**
Copper sales – gross revenue value	(7,263)	(4,627)	(5,469)	(19,860)
Silver sales – gross revenue value	(1,491)	(1,375)	(1,583)	(5,444)
Other by-product gross revenue value	(21)	(27)	(19)	(77)
Sub-total by-product revenue	**($8,776)**	**($6,029)**	**($7,071)**	**($25,381)**
Cash Operating Costs	**$3,059**	**$2,919**	**$4,241**	**$15,333**
Corporate general & administrative costs	208	238	405	1,432
Community costs related to current operations	186	110	89	401
Reclamation, accretion & amortization	163	103	103	413
Capital expenditures (sustaining) (2)(3)	1,694	879	1,859	4,399
Exploration and study costs (sustaining)	44	72	81	244
All-in sustaining costs	**$5,355**	**$4,321**	**$6,778**	**$22,222**
Capital expenditures (non-sustaining)	3,062	1,715	133	2,268
All-in costs	**$8,417**	**$6,036**	**$6,911**	**$24,490**
Au/oz sold	5,109	4,884	3,544	17,806
Cash operating costs ($/oz) gold	**$599**	**$598**	**$1,197**	**$861**
All-in sustaining costs ($/oz) gold	**$1,048**	**$885**	**$1,913**	**$1,248**
All-in costs ($/oz) gold	**$1,647**	**$1,236**	**$1,950**	**$1,375**

(1) Costs are reported per ounce of gold sold in the period.

(2) Sustaining capital expenditures are those expenditures which do not increase annual gold ounce production at a mine site and excludes all expenditures at the Company's projects and certain expenditures at the Company's operating sites which are deemed expansionary in nature.

(3) Capital expenditures includes unpaid capital expenditures incurred in the period.

Other Information

Other operating and financial information with respect to the Company, including the AIF, is available on SEDAR at www.sedar.com and on the Company's website at www.orvana.com.

Cautionary Statements – Forward-Looking Information

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, potentials, 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.

The forward-looking statements herein relate to, among other things, Orvana's ability to achieve improvement in free cash flow; the potential to extend the mine life of El Valle and Don Mario beyond their current life-of-mine estimates; Orvana's ability to optimize its assets to deliver shareholder value; the Company's ability to optimize productivity at Don Mario and El Valle; estimates of future production, operating costs and capital expenditures; mineral resource and reserve estimates; statements and information regarding future feasibility studies and their results; future transactions; future metal prices; the ability to achieve additional growth and geographic diversification; 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 El Valle and Don Mario 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; the Company's ability to use cyanide in its mining operations; risks generally associated with mineral exploration and development, including the Company's ability to continue to operate the El Valle and/or Don Mario and/or ability to resume long-term operations at the Carlés Mine; the Company's ability to acquire and develop mineral properties and to successfully integrate such acquisitions; the Company's ability to execute on its strategy; 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 countries in which the Company operates; general economic conditions worldwide; and the risks identified in the Company's AIF 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 AIF for a description of additional risk factors.

The forward-looking statements made in this MD&A 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.

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.

Cautionary Notes to Investors – Reserve and Resource Estimates

In accordance with applicable Canadian securities regulatory requirements, all mineral reserve and mineral resource estimates of the Company disclosed in this MD&A have been prepared as at September 30, 2016 in accordance with NI 43-101, classified in accordance with Canadian Institute of Mining Metallurgy and

Petroleum's "CIM Standards on Mineral Resources and Reserves Definitions and Guidelines" (the "CIM Guidelines").

Pursuant to the CIM Guidelines, mineral resources have a higher degree of uncertainty than mineral reserves as to their existence as well as their economic and legal feasibility. Inferred mineral resources, when compared with measured or indicated mineral resources, have the least certainty as to their existence, and it cannot be assumed that all or any part of an inferred mineral resource will be upgraded to an indicated or measured mineral resource as a result of continued exploration. Pursuant to NI 43-101, inferred mineral resources may not form the basis of any economic analysis, including any feasibility study. Accordingly, readers are cautioned not to assume that all or any part of a mineral resource exists, will ever be converted into a mineral reserve, or is or will ever be economically or legally mineable or recovered.