



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER OF FISCAL 2017
THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015
UNAUDITED
(EXPRESSED IN UNITED STATES DOLLARS)

ORVANA MINERALS CORP.**Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss**

Unaudited

(in thousands of United States dollars)

	Three months ended December 31,	
	2016	2015
Revenue	\$ 23,458	\$ 22,497
Cost of sales		
Mining costs (note 5)	24,356	20,806
Depreciation and amortization	5,955	5,560
	30,311	26,366
Gross margin	(6,853)	(3,869)
Expenses		
General and administrative (note 6)	719	891
Exploration	65	99
Community relations	186	89
Other expense (income) (note 7)	1,179	(120)
Finance costs (note 8)	337	66
Derivative instruments unrealized loss (note 9)	287	-
	2,773	1,025
Loss before income taxes	(9,626)	(4,894)
Provision for income taxes		
Current income taxes (recovery) (note 20)	74	(139)
Deferred tax recovery (note 20)	(1,546)	(1,679)
	(1,472)	(1,818)
Net loss and comprehensive loss	\$ (8,154)	\$ (3,076)
Net loss per share (note 10)		
Basic and diluted	\$ (0.06)	\$ (0.02)

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

ORVANA MINERALS CORP.
Condensed Interim Consolidated Statements of Cash Flows
Unaudited
(in thousands of United States dollars)

	Three months ended December 31,	
	2016	2015
Operating activities		
Net loss from continuing operations	\$ (8,154)	\$ (3,076)
Adjustments for:		
Depreciation and amortization	5,983	5,588
Loss on disposal of assets	32	-
Accretion	114	39
Amortization of deferred financing fees	51	-
Stock-based compensation	40	8
Warrants	(21)	(10)
Long-term compensation	(325)	(198)
Deferred tax recovery	(1,546)	(1,679)
Provision for statutory labour obligations	167	19
Foreign exchange loss	78	180
Derivative instruments unrealized loss	287	-
	(3,294)	871
Changes in non-cash working capital		
Concentrate and doré sales receivables	(1,762)	(477)
Value added taxes and other receivables and prepaid expenses	2,340	967
Inventory	(1,956)	695
Accounts payable and accrued liabilities	4,396	(276)
Income taxes payable	(23)	(205)
	2,995	704
Cash provided by (used in) operating activities	(299)	1,575
Financing activities		
Proceeds of BISA Loan (note 16)	1,478	-
Proceeds from (repayment of) bank debt (note 16)	(600)	493
Finance leases (note 18)	226	-
Cash provided by financing activities	1,104	493
Investing activities		
Capital expenditures	(7,719)	(3,716)
Restricted cash	(2,847)	1,914
Cash used in investing activities	(10,566)	(1,802)
Change in cash and cash equivalents	(9,761)	266
Cash and cash equivalents, beginning of the period	18,939	17,236
Effect of exchange rate changes on cash	343	33
Cash and cash equivalents, end of the period	\$ 9,521	\$ 17,535

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

ORVANA MINERALS CORP.
Condensed Interim Consolidated Balance Sheets
Unaudited
(in thousands of United States dollars)

	As at December 31, 2016	As at September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 9,521	\$ 18,939
Restricted cash (note 11)	4,938	2,092
Concentrate and doré sales receivables	4,130	2,368
Value added taxes and other receivables and prepaid expenses	7,408	9,721
Copperwood note (note 4)	1,159	1,108
Inventory (note 12)	19,728	17,947
Income tax receivable	302	280
	47,186	52,455
Non-current assets		
Value-added taxes and other receivables	4,036	4,039
Restricted cash (note 11)	1,964	1,963
Reclamation bonds (note 11)	7,941	8,408
Deferred income tax asset (note 20)	1,832	1,541
Property, plant and equipment (note 13)	108,196	105,856
	\$ 171,155	\$ 174,262
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 14)	\$ 31,886	\$ 26,935
Income taxes payable (note 20)	100	101
Bank debt (note 15)	488	517
BISA Loan (note 16)	5,806	4,928
Deferred revenue (note 17)	353	356
Current portion of Prepayment Facility (note 17)	1,778	444
Obligations under finance leases (note 18)	1,004	885
Derivative instruments (note 9)	347	60
	41,762	34,226
Non-current liabilities		
Decommissioning liabilities (note 19)	20,798	20,713
Prepayment Facility (note 17)	5,198	6,381
Deferred revenue (note 17)	313	400
Obligations under finance leases (note 18)	1,005	898
Provision for statutory labour obligations	3,125	2,958
Deferred income tax liability (note 20)	555	1,810
Other liabilities	1,987	1,987
Long-term compensation (note 22 (b))	388	729
Warrants (note 21)	27	49
	75,158	70,151
Shareholders' equity		
Share capital (note 21)	116,206	116,206
Contributed surplus	3,540	3,500
Retained earnings (deficit)	(23,749)	(15,595)
	95,997	104,111
	\$ 171,155	\$ 174,262

Commitments and contingent liabilities (note 24)

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

ORVANA MINERALS CORP.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**

Unaudited

(in thousands of United States dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance, October 1, 2016	\$ 116,206	\$ 3,500	\$ (15,595)	\$ 104,111
Stock-based compensation	-	40	-	40
Net loss	-	-	(8,154)	(8,154)
Balance, December 31, 2016	\$ 116,206	\$ 3,540	\$ (23,749)	\$ 95,997

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance, October 1, 2015	\$ 116,206	\$ 3,482	\$ (7,140)	\$ 112,548
Stock-based compensation	-	8	-	8
Net loss	-	-	(3,076)	(3,076)
Balance, December 31, 2015	\$ 116,206	\$ 3,490	\$ (10,216)	\$ 109,480

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

ORVANA MINERALS CORP.

Notes to the condensed interim consolidated financial statements

Unaudited

(in thousands of United States dollars unless otherwise noted)

Three months ended December 31, 2016 and 2015

1. Nature of operations and corporate information

Orvana Minerals Corp. (the "Company" or "Orvana") is a Canadian mining and exploration company involved in the evaluation, development and mining of precious and base metal deposits. The Company owns and operates the El Valle Mine ("El Valle Mine") and Carlés Mine in Spain (collectively "El Valle"), which is held indirectly through its wholly-owned subsidiary, OroValle Minerals S.L., ("OroValle"). The Carlés Mine was placed under care and maintenance during the second quarter of fiscal 2015 due to prevailing market conditions. The Company restarted mining activities at Carlés on a short-term project basis in the fourth quarter of fiscal 2016. The Company also owns and operates the Don Mario Mine ("Don Mario Mine") in eastern Bolivia which is held indirectly through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("EMIPA").

The Company is controlled by Fabulosa Mines Limited ("Fabulosa") which holds 51.9% of the Company's common shares. The Company's ultimate controlling party is the Oslo Trust, which controls Fabulosa.

The Company's head and registered office is 170 University Avenue, Suite 900, Toronto, Ontario, Canada. The Company is incorporated under the laws of Ontario, Canada and its common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol TSX:ORV.

2. Basis of preparation

The Company prepares its condensed interim consolidated financial statements in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") which do not include all of the information required for full annual consolidated financial statements. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed and these condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2016.

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2016, except as highlighted in note 3, Accounting policies and new accounting pronouncements, below.

The preparation of these condensed interim consolidated financial statements requires the use of certain significant accounting estimates and judgments by management in applying the Company's accounting policies. The areas involving significant judgments and estimates have been set out in note 4 of the Company's consolidated financial statements for the year ended September 30, 2016. Certain comparative amounts have been reclassified to conform to the current year's presentation.

These condensed interim consolidated financial statements were approved by the Board of Directors of the Company on February 7, 2017.

3. Accounting policies and new accounting pronouncements

The accounting policies adopted in the preparation of these condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's audited consolidated financial statements for the year ended September 30, 2016.

4. Divestiture of Copperwood

In June 2014, the Company sold the Copperwood Project to Highland Copper Company Inc. ("Highland") through its formerly wholly-owned subsidiary, Orvana Resources US Corp. The Company received a cash payment of \$13,000 and a secured promissory note in the amount of \$7,000 (the "Copperwood Note") which was subsequently

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paid in full in December 2014 together with \$533 in interest. Additional consideration of up to \$5,000 is due from Highland in cash or shares of Highland, at Orvana's option, upon occurrence of the events described below:

- \$1,250 upon the earliest of (i) commencement of commercial production of Copperwood and (ii) June 17, 2017; and an additional \$1,250 on the first anniversary of this payment; and
- \$1,250 if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than \$4.25/lb; and an additional \$1,250 if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than \$4.50/lb.

5. Mining costs

Mining costs include mine production costs, transport costs, royalty expenses, site administration costs, applicable stripping costs and other related costs, but not the primary mine development costs, incurred at El Valle, which are capitalized and depreciated over the specific useful life of reserves related to that development and are included in depreciation and amortization. The mining costs for the three months ended December 31, 2016 and 2015 relate to El Valle and Don Mario.

For the three months ended December 31,	2016	2015
Direct mining costs	\$ 22,707	\$ 19,380
Royalties and mining rights ⁽¹⁾	720	721
Mining royalty taxes ⁽²⁾	929	705
Total mining costs	\$ 24,356	\$ 20,806

(1) Royalties and mining rights refer to royalties payable to third parties in respect of El Valle and Don Mario.

(2) Mining royalty taxes refers to amounts payable to government authorities in respect of Don Mario Mine.

6. General and administrative expenses

For the three months ended December 31,	2016	2015
Salaries, directors' fees and office administration	\$ 811	\$ 904
Depreciation	28	28
Stock-based compensation expense	40	8
Warrants	(22)	(10)
Long-term compensation	(240)	(30)
Foreign exchange loss (gain)	102	(9)
Total general and administrative expenses	\$ 719	\$ 891

7. Other (income) expense

For the three months ended December 31,	2016	2015
Provision for uncollectible VAT – EMIPA ⁽¹⁾	\$ 78	\$ 117
Loss on third party purchase and sale of copper concentrate ⁽²⁾	1,126	-
Miscellaneous other income	(25)	(237)
Total other (income) expenses	\$ 1,179	\$ (120)

(1) Based on the results of completed audits conducted by the Bolivian National Tax Service with respect to VAT claims, the Company had a provision of \$2,503 as at December 31, 2016 for certain VAT amounts received or receivable that have not been audited by the Bolivian National Tax Service (September 30, 2016 - \$2,425).

(2) Represents the estimated loss on the purchase and sale of third party copper concentrates used to satisfy a portion of the delivery terms of the Prepayment Facility during the first quarter of fiscal 2017. This transaction is not in the normal course of the Company's business. Refer to note 17 – Prepayment Facility.

ORVANA MINERALS CORP.**Notes to the condensed interim consolidated financial statements****Unaudited****(in thousands of United States dollars unless otherwise noted)****Three months ended December 31, 2016 and 2015****8. Finance costs**

For the three months ended December 31,	2016	2015
Interest on credit facilities	\$ 13	\$ 15
Effective interest on Prepayment Facility	222	-
Other interest expense	37	12
Amortization of financing fees	51	-
Accretion expense on decommissioning obligations	89	85
Accretion gains on Copperwood deferred payments	(75)	(46)
Total finance costs	\$ 337	\$ 66

9. Derivative instruments

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

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

As at December 31, 2016, approximately 25% of the Company's forecasted gold production from January 2017 to February 2017 and approximately 20% of forecasted copper production from October 2016 to April 2017 was hedged under the gold and copper derivative instruments. For the three months ended December 31, 2016, the Company received net cash of \$565 (December 31, 2015 - \$nil) 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 Rate / Price	Contract Rate / 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 Rate / Price	Contract Rate / Price	Avg. Forward Rate/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 counterparty for all the derivative instruments is Auramet International LLC.

ORVANA MINERALS CORP.

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Three months ended December 31, 2016 and 2015

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

For the three months ended December 31,	2016	2015
Change in unrealized fair value	\$ (287)	\$ -
Realized gain on cash settlements of derivative instruments ⁽¹⁾	565	-
Derivative instruments gain	\$ 278	\$ -

(1) Realized gain on settlement of derivative instruments are recorded in revenue.

10. Net loss per share

For the three months ended December 31,	2016	2015
Net loss	\$ (8,154)	\$ (3,076)
Weighted average number of common shares outstanding – basic and diluted	136,623,171	136,623,171
Net loss per share – basic and diluted	\$ (0.06)	\$ (0.02)

11. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at December 31, 2016 was \$4,938 (September 30, 2016 – \$2,092), 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.

Long-term restricted cash as at December 31, 2016 was \$1,964 (September 30, 2016 – \$1,963), related to a deposit with a local bank in favour of the Bolivian government pending the appeal of a value-added taxes (“VAT”) audit. The VAT audit relates to an audit by the Bolivia National Tax Service, for which EMIPA filed a tax lawsuit in January 2011 before the Bolivian Supreme Court. The associated liability related to the VAT audit has been recorded as other liabilities on the statement of financial position. As of December 31, 2016, the matter remains unresolved.

Reclamation bonds

At December 31, 2016, cash backed reclamation bonds held in a Spanish financial institution were \$7,941 (September 30, 2016 – \$8,408) and are expected to be released after all reclamation work at El Valle Mine and Carlés Mine has been completed. Prior to its acquisition by OroValle, El Valle Mine and Carlés Mine had been shut down by the owner thereof and remediation measures required were completed. On OroValle’s acquisition of El Valle Mine and Carlés Mine a reclamation bond of €894,684 was deposited, as required by Spanish mining regulations. In fiscal 2010 and 2011, additional reclamation bonds in the amounts of €1,521,960 and €5,000,000, respectively were deposited by OroValle relating to its tailings facility.

Spanish regulatory authorities have requested an additional reclamation bond totaling €5,000,000 (approximately \$5,271) be deposited in their favour to satisfy additional reclamation bond commitments in respect of the tailings impoundment area, the assessment of which the Company has contested. In December 2016, the Supreme Court of Spain ordered a reconsideration of evidence regarding the application and amount of the additional 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 the bond, while preserving the Company’s rights in court.

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Three months ended December 31, 2016 and 2015

12. Inventory

	December 31, 2016	September 30, 2016
Ore in stockpiles	\$ 1,281	\$ 222
Ore in-process	1,374	1,311
Gold doré	1,036	357
Copper and gold concentrates	6,173	7,523
Materials and supplies	9,864	8,534
	\$ 19,728	\$ 17,947

The Company recognized \$27,184 of inventory in cost of sales for the three months ended December 31, 2016 (December 31, 2015 - \$22,474).

13. Property, plant and equipment

	Land	Plant and equipment	Furniture and equipment	Mineral properties in production	Total
Net book value, October 1, 2016	\$1,600	\$50,230	\$247	\$53,779	\$105,856
Additions	-	6,990	64	1,126	8,180
Disposals	-	(32)	-	-	(32)
Depreciation ⁽¹⁾	-	(2,836)	(54)	(2,918)	(5,808)
Net book value, December 31, 2016	1,600	54,352	257	51,987	108,196
Total cost	1,600	132,036	2,328	125,273	261,237
Total accumulated depreciation	-	(77,684)	(2,071)	(73,286)	(153,041)
Net book value, December 31, 2016	1,600	54,352	257	51,987	108,196

(1) Depreciation includes amounts recorded in inventory.

On the consolidated statement of cash flow for the three months ended December 31, 2016, capital expenditures exclude approximately \$3,157 of capital expenditures incurred but unpaid as at December 31, 2016 (December 31, 2015 - \$987), and include \$2,696 of capital expenditures incurred in fiscal 2016 but unpaid as at September 30, 2016 (September 30, 2015 - \$1,167).

14. Accounts payable and accrued liabilities

	December 31, 2016	September 30, 2016
Accounts payable	\$ 23,034	\$ 18,943
Accrued liabilities	8,852	7,992
Total accounts payable and accrued liabilities	\$ 31,886	\$ 26,935

15. Bank debt

In July 2016, OroValle entered into a short-term credit facility with Banco Santander for the ability to draw on €1,000,000 at an annual rate of Euribor plus 2.25%. The credit facility is secured by OroValle's VAT receivable from the Spanish government. As at December 31, 2016, the balance drawn on the credit facility was €463 (approximately \$488).

For the three months ended December 31, 2016, the Company paid \$13 in interest on the short-term credit facilities (December 31, 2015 - \$15).

ORVANA MINERALS CORP.

Notes to the condensed interim consolidated financial statements

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(in thousands of United States dollars unless otherwise noted)

Three months ended December 31, 2016 and 2015

16. BISA Loan

In May 2016, EMIPA entered into a \$7.9 million debt financing with Banco BISA S.A (“BISA”) in Bolivia (“BISA Loan”), the proceeds of which are being primarily used for the recommissioning of the carbon-in-leach circuit (“CIL Project”). Under the terms of the BISA Loan, five disbursements of specified amounts are to be made to EMIPA as expenditures are incurred on the CIL Project. The BISA Loan matures in September 2017 and bears an interest rate of 6% per annum, with ten monthly principal repayments that began 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 operational.

The BISA Loan contains covenants that, among other things, (i) restrict EMIPA’s ability to make cash distributions to Orvana in certain circumstances and (ii) restrict EMIPA’s ability to dispose or otherwise encumber material assets.

As at December 31, 2016, EMIPA had received four of the five planned disbursements in the amount of \$6,406 (September 30, 2016 - \$4,928) and principal repayments of \$600 were made against the BISA loan.

17. Prepayment Facility

In August 2016, the Company entered into a \$12.5 million copper concentrates and gold doré Prepayment Facility with Samsung C&T U.K. Limited (“Samsung C&T”), 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 and Carlés Mines 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 available 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% per annum. 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.

Based on estimates of the expected gold recoveries and future profitability, Don Mario began to stockpile the higher gold grade LMZ mined ore during the second half of calendar 2016. As a result of this stockpiling activity and the requirements of the Prepayment Facility, the Company entered into a concentrate purchase agreement in October 2016, purchasing third-party copper concentrates for delivery under the Prepayment Facility. During the three months ended December 31, 2016, the Company recorded an estimated loss of \$1.1 million based on the provisional pricing terms on these transactions, representing the difference between the purchase terms and the sales terms under the Prepayment Facility. Final settlement of these transactions is expected to be in February 2017.

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.

On initial recognition in its financial statements, the Company determined that the Prepayment Facility should be recognized as a hybrid financial instrument and value ascribed to a debt component and a deferred revenue or prepayment component. Each of these components were fair valued and, based on the results of these calculations, the initial \$8.0 million received was divided into a long-term debt of \$7.2 million and deferred revenues of \$0.8 million. Amortization of deferred revenue totalled \$90 for the three months ended December 31, 2016 (December 31, 2015 - \$nil) and was recorded as part of revenues. Inputs to determine the fair value of the debt component

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included interest rates from recent indicated or closed financing transactions, and inputs to determine the fair value of the deferred revenue component included the Company's expected production and commodity price estimates. Deferred financing fees of \$501 were recognized on the closure of the Prepayment Facility. Amortization of financing fees totalled \$51 for the three months ended December 31, 2016 (December 31, 2015 - \$nil).

During the first quarter of fiscal 2017, cash interest paid was \$122 (September 30, 2016 - \$nil).

18. Obligations under finance leases

El Valle Mine has entered into finance leases for various pieces of underground mobile equipment. The leases are payable in monthly installments at annual interest rates of 1.75% to 2.40%. At December 31, 2016, the obligation outstanding was \$2,009 (September 30, 2016 - \$1,783). During the three months ended December 31, 2016, the Company made lease payments of \$313 (December 31, 2015 - \$nil). Each contract has a purchase option. The following is a schedule of future minimum payments under the finance leases:

	December 31, 2016	September 30, 2016
Fiscal 2017	\$ 775	\$ 911
2018	941	773
2019	311	126
2020	26	10
	2,053	1,820
Amount representing interest at 1.87%	(44)	(37)
	2,009	1,783
Less: current portion of lease obligation	(1,004)	(885)
Total long-term obligations under finance leases	\$ 1,005	\$ 898

19. 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 summarizes the changes in decommissioning liabilities during the periods presented:

	December 31, 2016	September 30, 2016
Balance, beginning of period	\$ 20,713	\$ 19,904
Revision in estimated cash flows, timing of payments and discount rates		
– El Valle Mine	-	(517)
– Don Mario Mine	-	1,022
	20,713	20,409
Accretion expense	89	338
Reclamation payments	(4)	(34)
Total decommissioning liabilities	\$ 20,798	\$ 20,713

For El Valle Mine, the revision in estimated cash flows at September 30, 2016 includes the impact of the change in discount rate, the impact of the foreign exchange rate of the Euro versus the US dollar, an update of the footprint of its estimated tailings area and updated cost estimates for other reclamation activities.

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For Don Mario Mine, the revision in estimated cash flows at September 30, 2016 includes the impact of the change in discount rate and updated activity, area and cost estimates for reclamation activities.

The decommissioning liability balance consists of:

	December 31, 2016	September 30, 2016
El Valle Mine	\$ 13,949	\$ 13,914
Don Mario Mine	6,849	6,799
Total decommissioning liabilities	\$ 20,798	\$ 20,713

As at December 31, 2016, the undiscounted cash flows and discount rate used to calculate the decommissioning liabilities are as follows:

	Undiscounted Cash Flows Required to Settle Decommissioning Liabilities	Discount Rate	Discounted Cash Flows Required to Settle Decommissioning Liabilities
El Valle Mine ⁽¹⁾	\$ 15,546	0.99%	\$ 13,949
Don Mario Mine	7,718	3.20%	6,849
Total	\$ 23,264		\$ 20,798

(1) Accretion expense is recorded using the discount interest rates set out above. It is expected that these amounts will be incurred beginning in 2017 and 2019 in respect of Don Mario Mine and El Valle Mine, 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 of term that matches the time period to the commencement of the decommissioning liability being incurred.

Cash held in Spanish financial institutions backing reclamation bonds totaled approximately \$7,941 at December 31, 2016 (September 30, 2016 – \$8,408) and is expected to be released after all reclamation work has been completed in respect of El Valle Mine. Refer to note 11 – Restricted cash and reclamation bonds.

20. Income tax

Deferred tax balances are subject to remeasurement for changes in currency exchange rates for each period.

For the three months ended December 31,	2016	2015
Current income taxes:		
Current tax (recovery) on income for the year	\$ 74	\$ (139)
Total current income taxes (recoveries)	74	(139)
Deferred income tax:		
Tax rate reduction in Spain	-	65
Origination and reversal of temporary differences in OroValle	(1,255)	(657)
Origination and reversal of temporary differences in EMIPA	(291)	(1,087)
Total deferred tax recoveries	(1,546)	(1,679)
Total income tax recoveries	\$ (1,472)	\$ (1,818)

Cash taxes paid by EMIPA during the three months ended December 31, 2016 totaled \$88 (December 31, 2015 - \$97).

21. Share capital and warrants

Issued share capital as at December 31, 2016 was \$116,206 (September 30, 2016 – \$116,206). The Company's authorized share capital contains an unlimited number of common shares. As at December 31, 2016, the Company had 136,623,171 common shares (September 30, 2016 – 136,623,171) issued and outstanding.

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Warrants

A summary of the warrant transactions are as follows:

	Number of warrants	Stated Value
Balance, September 30, 2015	1,470,000	\$ 17
Non-exercisable warrants ⁽¹⁾	(420,000)	(13)
Fair value adjustment	-	45
Balance, September 30, 2016	1,050,000	\$ 49
Fair value adjustment	-	(22)
Balance, December 31, 2016	1,050,000	\$ 27

(1) As a result of the forfeiture or expiration of certain stock options to acquire common shares under the Company's equity incentive plan on May 16, 2011 (the exercise of which were tied to Fabulosa's ability to exercise certain warrants), these warrants are non-exercisable.

As at December 31, 2016, outstanding and exercisable warrants were as follows:

Grant date	Fair value US\$000's	Number of vested warrants	Exercise price C\$	Expiry date
March 5, 2012	-	450,000	0.97	March 5, 2017
August 22, 2013	22	500,000	0.49	August 22, 2018
July 11, 2014	5	100,000	0.54	July 11, 2019
	\$ 27	1,050,000		

22. Share based payments

(a) Stock options

A summary of the stock option transactions is as follows:

	Stock options	Weighted average exercise price C\$
Balance, October 1, 2015	2,253,334	\$1.29
Expired	(503,333)	3.04
Forfeited	(33,334)	0.41
Balance, September 30, 2016	1,716,667	\$0.79
Granted	944,444	0.23
Expired	(125,000)	1.03
Balance, December 31, 2016	2,536,111	0.57

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The fair value of the options granted during the three months ended December 31, 2016 were estimated using the Black-Scholes option-pricing model with the following assumptions:

Grant date:	December 22, 2016
Options granted:	944,444
Exercise price (C\$ per share)	\$0.23
Risk-free interest rate:	1.11%
Expected life in years:	5.00
Expected volatility:	72.54%
Expected dividend yield:	Nil
Expected forfeiture rate	10%
Fair value per option granted C\$	\$0.14
Weighted average grant date fair value US\$000's	\$97

As at December 31, 2016, outstanding and exercisable options were as follows:

Grant date	Fair value US\$000's	Number of unvested options	Weighted average contractual life (in years)	Number of vested options	Exercise price C\$	Expiry date
March 28, 2012	18	-	0.24	41,667	0.88	March 28, 2017
March 28, 2012	55	-	0.09	125,000	0.88	February 3, 2017
March 28, 2012	55	-	0.14	125,000	0.88	February 21, 2017
June 1, 2012	22	-	0.42	50,000	0.86	June 1, 2017
June 1, 2012	45	-	0.14	100,000	0.86	February 21, 2017
August 30, 2012	4	-	0.67	8,334	0.92	August 30, 2017
March 7, 2013	141	-	1.19	250,000	1.02	March 7, 2018
March 29, 2013	80	-	0.39	150,000	1.05	May 20, 2017
March 29, 2013	27	-	1.25	50,000	1.05	March 29, 2018
December 16, 2013	28	-	0.83	100,000	0.43	October 31, 2017
February 26, 2014	50	-	0.34	150,000	0.75	May 3, 2017
February 26, 2014	50	-	0.39	150,000	0.75	May 20, 2017
August 21, 2014	13	-	0.15	66,666	0.41	February 23, 2017
December 18, 2014	21	-	2.97	125,000	0.30	December 18, 2019
May 14, 2015	17	33,334	3.37	66,666	0.37	May 14, 2020
December 22, 2016	97	944,444	4.98	-	0.23	December 22, 2021
	\$ 723	977,778	2.41	1,558,333		
Total vested and unvested options				2,536,111		

The Company uses the fair value method of accounting for options and, during the three months ended December 31, 2016, recognized stock-based compensation expense of \$40 (December 31, 2015 – \$8).

The compensation expense associated with the options for the three months ended December 31, 2016 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (December 31, 2015 – 10%).

The weighted-average grant date fair value of the options are expensed over the vesting periods of the options being 24 months from the grant dates.

As at December 31, 2016, the fair value associated with unvested options is \$103 (September 30, 2016 – \$13).

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(b) Long-term compensation

(i) Deferred share unit ("DSU") plan

The Company established a DSU plan, effectively a phantom stock plan, for directors, effective October 1, 2008. The initial fair value of units issued is expensed and is included in long-term compensation expense under general and administrative expenses in the consolidated statements of net loss and comprehensive loss. The fair value of the DSUs are marked to the quoted market price of the Company's 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.

A summary of the DSUs transactions during the period are as follows:

	Number of DSUs	Fair value
Balance, October 1, 2015	365,446	\$ 49
Issued	2,206,331	249
Redeemed	(660,255)	(77)
Mark-to-market adjustment	-	196
Changes in current portion	(136,378)	(30)
Balance, September 30, 2016	1,775,144	\$ 387
Issued	471,700	74
Forfeited	(99,206)	(22)
Mark-to-market adjustment	-	(125)
Changes in current portion	(649,959)	(114)
Balance, December 31, 2016	1,497,679	\$ 200

(ii) Restricted share units ("RSU") plan

The Company established a 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 consolidated statements of net loss and comprehensive loss. The fair value of the RSUs are marked to the quoted market price of the Company's 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.

A summary of the RSUs transactions during the period are as follows:

	Number of RSUs	Fair Value
Balance October 1, 2015	862,508	\$ 116
Issued	3,059,923	281
Redeemed	(1,401,298)	(172)
Forfeited	(2,650,916)	(261)
Mark-to-market adjustment	-	102
Changes in current portion	1,095,647	147
Balance, September 30, 2016	965,864	\$ 213
Issued	796,296	128
Mark-to-market adjustment	-	11
Changes in current portion	(965,864)	(213)
Balance, December 31, 2016	796,296	139

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(iii) Stock appreciation rights ("SAR") plan

The Company established a SAR plan for designated executives, effective February 6, 2014. The SARs are granted based on a common shares market price calculation at the time 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 on the consolidated statements of net loss and comprehensive loss 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 grant date and payouts are settled in cash as vested SARs are exercised.

A summary of the SARs transactions during the period are as follows:

	Number of SARs	Fair value
October 1, 2015	1,558,630	\$ 33
Issued	4,972,666	-
Forfeited	(4,759,214)	-
Mark-to-market adjustment	-	96
Balance, September 30, 2016	1,772,082	\$ 129
Forfeited	(1,046,532)	(78)
Mark-to-market adjustment	-	(2)
Balance, December 31, 2016	725,550	49

23. Compensation of key management

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

For the three months ended December 31,	2016	2015
Salaries and short term employee benefits	\$ 380	\$ 329
Share-based payments ⁽¹⁾	(262)	258
Other	-	4
Total compensation of key management	\$ 118	\$ 591

(1) Share-based payments include the mark-to-market adjustments on RSUs, DSUs and SARs.

The Company announced the appointment of Jim Gilbert as Chairman and Chief Executive Officer of the Company effective August 4, 2016. Compensation for Mr. Gilbert is payable through Minera S.A., with which the Company has signed a management fee agreement for Mr. Gilbert's services. The management fee agreement is based on an annual salary of \$323 plus benefits and performance related compensation. As at December 31, 2016, the Company has accrued for \$172 of outstanding payables under this agreement.

24. Commitments and contingent liabilities

(a) The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. Spanish regulatory authorities have taken the position that the levels of selenium in the river flowing past El Valle Mine exceed the levels permitted by applicable regulations as a result of discharges attributed to OroValle which may not be in compliance with certain of OroValle's permits. The Company believes that the average levels of selenium in this river are, by international standards, not a health or environmental risk. In recent years, OroValle has received approximately €955,000 (approximately \$1,007) 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 the 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 dismiss the matter and/or charge OroValle and/or certain OroValle individuals. If OroValle is ultimately found

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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 and has cooperated and will continue to cooperate with investigations and is defending itself vigorously.

- (b) On June 27, 2011, as a condition of receiving an environmental permit on that date, the Government of the Principality of Asturias, required OroValle to commit to post an additional reclamation bond in the amount of €5,000,000 (approximately \$5,271) in respect of the tailings impoundment area. To satisfy this requirement, OroValle deposited €5,000,000 (approximately \$5,271) in September 2011 with a local bank in favour of the Spanish regulatory authorities. Spanish regulatory authorities have requested an additional reclamation bond totaling €5,000,000 (approximately \$5,271) be deposited in their favour to satisfy additional reclamation bond commitments in respect of the tailings impoundment area. In response to a legal challenge by the Company, the Supreme Court of Spain recently ordered a reconsideration of evidence regarding the application and amount of the additional 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 the bond, while preserving the Company's rights in court.
- (c) Production from El Valle Mines is subject to a 3% net smelter return royalty ("NSR"), referred to herein as El Valle Royalty, payable monthly. El Valle Royalty rate decreases to 2.5% for any quarter in which the average price of gold is below \$1,100 per ounce. Royalty expense under this NSR totaled \$335 for the three months ended December 31, 2016 (December 31, 2015 - \$457).
- (d) Production from Don Mario Mine is subject to a 3% NSR payable quarterly. Royalty expense under this NSR totaled \$384 for the three months ended December 31, 2016 (December 31, 2015 - \$265). The Bolivian government collects a mining royalty tax on the revenue generated from copper, gold and silver sales from Don Mario Mine at rates of 5%, 7% and 6%, respectively. These amounts totaled \$929 for the three months ended December 31, 2016 (December 31, 2015 - \$705).
- (e) The Company and certain of its employees may be involved in other legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions, in the opinion of management, is not expected to materially affect the Company's financial position, results of operations or cash flows. The Company does not believe that the outcome of any of the matters not recorded in the financial statements, individually or in aggregate, would have a material adverse effect.

25. Segmented information

The Company primarily operates in the gold and copper mining industry and its major products are gold doré and gold and copper concentrates. The Company's primary mining operations are OroValle, which operates El Valle Mine and Carlés Mine in Spain, and EMIPA, which operates Don Mario Mine in Bolivia. The reported segments are those operations whose operating results are reviewed by the Chief Executive Officer and that pass certain quantitative measures. Operations whose revenue, earnings or losses or assets exceed 10% of the total consolidated revenues, earnings or losses, or assets are reportable segments. The Company has administrative offices in Toronto, Canada; Stockholm, Sweden; and Nicosia, Cyprus. The following tables set forth the information by segment:

As at December 31, 2016:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
OroValle	\$ 3,728	\$ 92,006	\$ 7,972	\$ 14,687	\$ 118,393
EMIPA	3,674	16,159	4,371	19,378	43,582
Corporate	2,119	31	2,500	4,530	9,180
	\$ 9,521	\$ 108,196	\$ 14,843	\$ 38,595	\$ 171,155

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As at September 30, 2016:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
OroValle	\$ 7,645	\$ 92,632	\$ 8,442	\$ 12,838	\$ 121,557
EMIPA	3,965	13,164	2,021	21,280	40,430
Corporate	7,329	60	2,000	2,886	12,275
	\$ 18,939	\$ 105,856	\$ 12,463	\$ 37,004	\$ 174,262

For the three months ended December 31, 2016:

	Revenue	Mining costs ⁽¹⁾	Depreciation/Amortization ⁽²⁾	Other costs	Loss before taxes
OroValle	\$ 11,978	\$ 15,817	\$ 3,661	\$ 376	\$ (7,876)
EMIPA	11,480	8,539	2,294	1,535	(888)
Corporate	-	-	28	834	(862)
	\$ 23,458	\$ 24,356	\$ 5,983	\$ 2,745	\$ (9,626)

(1) Mining costs includes royalties, mining rights and mining taxes. Refer to note 5 – Mining costs.

(2) Depreciation is included under general and administrative expenses for non-operating companies.

For the three months ended December 31, 2015:

	Revenue	Mining costs ⁽¹⁾	Depreciation/Amortization ⁽²⁾	Other costs	Loss before taxes
OroValle	\$ 15,701	\$ 13,527	\$ 4,327	\$ -	\$ (2,153)
EMIPA	6,796	7,279	1,233	188	(1,904)
Corporate	-	-	28	809	(837)
	\$ 22,497	\$ 20,806	\$ 5,588	\$ 997	\$ (4,894)

(1) Mining costs includes royalties, mining rights and mining taxes. Refer to note 5 – Mining costs.

(2) Depreciation is included under general and administrative expenses for non-operating companies.

26. Financial instruments and fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

Fair value hierarchy

The following table classifies financial assets and liabilities that are recognized on the consolidated balance sheet at fair value in to the fair value hierarchy based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value options contracts.
- Level 3 - Inputs for the asset or liability that are based on unobservable market data (supported by little or no market data or other means).

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As at December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Aggregate Fair value
Financial liabilities:				
Long-term compensation	\$ 339	\$ 49	\$ -	\$ 388
Warrants	-	27	-	27
Derivative instruments	-	347	-	347
Total	\$ 339	\$ 423	\$ -	\$ 762

Valuation techniques for Level 2 financial instruments:

Long-term compensation: The Company's SARs are measured at fair value using the Black-Scholes model and are classified as Level 2.

Warrants: The Company's warrants are not actively traded and measured at fair value using the Black-Scholes model and are classified as Level 2.

Fair values of financial assets and liabilities not already measured and recognized at fair value

At December 31, 2016 and September 30, 2016, the carrying amounts of cash and cash equivalents; restricted cash; concentrate and doré receivables; value added taxes and other receivables; debt; accounts payable and accrued liabilities; and obligations under finance leases approximate their fair value due to their short-term maturities. Financial assets and liabilities above are classified as level 1 in the fair value hierarchy.