



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FIRST QUARTER OF FISCAL 2018
THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016
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,	
	2017	2016
Revenue	\$ 34,170	\$ 23,458
Cost of sales		
Mining costs (note 4)	28,060	24,356
Depreciation and amortization	5,652	5,955
	33,712	30,311
Gross margin	458	(6,853)
Expenses		
General and administrative (note 5)	1,161	719
Exploration	737	65
Community relations	457	186
Other expense (income) (note 6)	(717)	1,179
Finance costs (note 7)	394	337
Derivative instruments unrealized loss (note 8)	290	287
	2,322	2,773
Loss before income taxes	(1,864)	(9,626)
Provision for income taxes		
Current income taxes (note 17)	2,246	74
Deferred tax recovery (note 17)	(731)	(1,546)
	1,515	(1,472)
Net loss and comprehensive loss	\$ (3,379)	\$ (8,154)
Net loss per share (note 9)		
Basic and diluted	\$ (0.02)	\$ (0.06)

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,	
	2017	2016
Operating activities		
Net loss from continuing operations	\$ (3,379)	\$ (8,154)
Adjustments for:		
Depreciation and amortization	5,656	5,983
Loss on disposal of assets	-	32
Accretion	182	114
Amortization of deferred financing fees	54	51
Stock-based compensation	50	40
Warrants	(5)	(21)
Long-term compensation	40	(325)
Deferred tax recovery	(731)	(1,546)
Provision for statutory labour obligations	106	167
Foreign exchange (gain) loss	(177)	78
Derivative instruments unrealized loss (note 8)	290	287
	2,086	(3,294)
Changes in non-cash working capital		
Concentrate and doré sales receivables	598	(1,762)
Value added taxes and other receivables and prepaid expenses	(703)	2,340
Inventory	(1,253)	(1,956)
Accounts payable and accrued liabilities	(254)	4,396
Income taxes payable	1,673	(23)
	61	2,995
Cash provided by operating activities	2,147	(299)
Investing activities		
Capital expenditures	(6,207)	(7,719)
Restricted cash	(273)	(2,847)
Cash used in investing activities	(6,480)	(10,566)
Financing activities		
Proceeds from BISA TSF Loan (note 14)	3,153	-
Proceeds from BISA CIL Loan, net	-	878
Repayment of Prepayment Facility (note 14)	(1,833)	-
Finance leases (note 15)	147	539
Repayment of finance leases (note 15)	(296)	(313)
Cash provided by financing activities	1,171	1,104
Change in cash and cash equivalents	(3,162)	(9,761)
Cash and cash equivalents, beginning of the year	23,811	18,939
Effect of exchange rate changes on cash	(32)	343
Cash and cash equivalents, end of year	\$ 20,617	\$ 9,521

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, 2017	As at September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 20,617	\$ 23,811
Restricted cash (note 10)	2,674	1,027
Concentrate and doré sales receivables	1,911	2,509
Value added taxes and other receivables and prepaid expenses	5,337	5,593
Copperwood note (note 3)	1,204	1,179
Inventory (note 11)	20,757	18,915
	52,500	53,034
Non-current assets		
Value-added taxes and other receivables	7,000	6,041
Restricted cash (note 10)	597	1,971
Reclamation bonds (note 10)	9,100	8,893
Deferred income tax asset (note 17)	2,100	1,370
Property, plant and equipment (note 12)	99,738	100,054
	\$ 171,035	\$ 171,363
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	\$ 32,150	\$ 32,808
Income taxes payable (note 17)	5,871	4,198
Debt (note 14)	12,959	12,391
Deferred revenue (note 14)	269	288
Obligations under finance leases (note 15)	875	1,003
Derivative instruments (note 8)	1,212	922
	53,336	51,610
Non-current liabilities		
Decommissioning liabilities (note 16)	20,045	19,939
Debt (note 14)	5,370	4,463
Deferred revenue (note 14)	45	112
Obligations under finance leases (note 15)	335	356
Provision for statutory labour obligations	3,506	3,400
Other liabilities	2,550	2,338
Long-term compensation (note 19 (b))	562	525
Warrants (note 18)	5	10
	85,754	82,753
Shareholders' equity		
Share capital (note 18)	116,206	116,206
Contributed surplus	3,604	3,554
Accumulated deficit	(34,529)	(31,150)
	85,281	88,610
	\$ 171,035	\$ 171,363

Commitments and contingent liabilities (note 21)

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, 2017	\$ 116,206	\$ 3,554	\$ (31,150)	\$ 88,610
Stock-based compensation	-	50	-	50
Net loss	-	-	(3,379)	(3,379)
Balance, December 31, 2017	\$ 116,206	\$ 3,604	\$ (34,529)	\$ 85,281

	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

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, 2017 and 2016

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 underground gold, copper and silver El Valle Mine ("El Valle Mine") and Carlés Mine in the Rio Narcea Gold Belt in northern Spain (collectively "El Valle"), which is held indirectly through its wholly-owned subsidiary, OroValle Minerals S.L., ("OroValle"). The Company also owns and operates the open pit copper, gold and silver Don Mario Mine ("Don Mario Mine") in south 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 Andean Resources S.A., 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, 2017.

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, 2017.

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, 2017. Certain comparative amounts have been reclassified to conform to the current year's presentation.

These consolidated financial statements were approved by the Board of Directors of the Company on February 13, 2018.

3. 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 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 the occurrence of certain events. On June 17, 2017, the Company received a cash payment of \$1,250 of this additional consideration. A further \$1,250 is due on the anniversary of the first payment.

Of the remaining additional consideration, \$1,250 may be received 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. A final \$1,250 will be paid if the average copper price for any 60 calendar day

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, 2017 and 2016

period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than \$4.50/lb.

4. 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 or reserves related to that development and are included in depreciation and amortization. The mining costs for the three months ended December 31, 2017 and 2016 relate to El Valle and Don Mario.

For the three months ended December 31,	2017	2016
Direct mining costs	\$ 25,734	\$ 22,707
Royalties and mining rights ⁽¹⁾	974	720
Mining royalty taxes ⁽²⁾	1,352	929
Total mining costs	\$ 28,060	\$ 24,356

(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.

5. General and administrative expenses

For the three months ended December 31,	2017	2016
Salaries, directors fees and office administration	\$ 1,247	\$ 811
Depreciation	4	28
Stock-based compensation expense	50	40
Warrants	(5)	(22)
Long-term compensation	147	(240)
Foreign exchange (gain) loss	(282)	102
Total general and administrative expenses	\$ 1,161	\$ 719

6. Other (income) expense

For the three months ended December 31,	2017	2016
Provision for uncollectible VAT – EMIPA ⁽¹⁾	\$ 278	\$ 78
Loss on third party purchase and sale of copper concentrate ⁽²⁾	-	1,126
Insurance proceeds – EMIPA ⁽³⁾	(806)	-
Miscellaneous other income	(189)	(25)
Total other (income) expense	\$ (717)	\$ 1,179

(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 \$3,065 as at December 31, 2017 for certain VAT amounts received or receivable that have not been audited by the Bolivian National Tax Service (September 30, 2017 – \$2,787).

(2) Represents the 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.

(3) In 2018, the Company received insurance proceeds related to equipment losses at EMIPA in fiscal 2016.

7. Finance costs

For the three months ended December 31,	2017	2016
Interest on credit facilities	\$ 8	\$ 13
Effective interest on Prepayment Facility	259	222
Other interest (income) expense	(7)	37
Amortization of financing fees	53	51
Accretion expense on decommissioning obligations	106	89
Accretion gains on Copperwood deferred payments	(25)	(75)
Total finance costs	\$ 394	\$ 337

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, 2017 and 2016****8. Derivative instruments**

The Company had the following outstanding derivative instruments at December 31, 2017:

	Contract Prices	Cash Settlement	Contract Amounts
Copper			
Copper puts (Jan 2018 - Mar 2018)	\$5,515 / tonne	Monthly	1,125 tonnes
Copper calls (Jan 2018 - Mar 2018)	\$6,125 / tonne	Monthly	1,125 tonnes
Gold			
Gold forwards (Jan 2018 – Mar 2018)	\$1,250 / troy oz	Monthly	7,500 troy oz
Gold capped calls (Jan 2018 – Mar 2018)	\$1,320 / troy oz	Monthly	7,500 troy oz

For the three months ended December 31, 2017, the Company paid net cash of \$760 (three months ended December 31, 2016 – received net cash of \$565), in settlement of the derivative instruments that matured in the period.

As at December 31, 2017, 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 capped calls	\$1,297/oz	\$1,320 / troy oz	\$34
Total fair value of derivative instruments assets at December 31, 2017			\$34

	Spot Rate / Price	Contract Rate / Price	Avg. Forward Rate/Price	Fair Value
Derivative instrument liabilities				
Gold forwards	\$1,297/oz	\$1,250 / troy oz	\$1,310/oz	\$452
Copper collars	\$7,157/t	-	-	\$794
Total fair value of derivative instruments liabilities at December 31, 2017				\$1,246
Total fair value of derivative instruments liabilities, net at December 31, 2017				\$1,212

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 unrealized 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 derivative instruments is Auramet International LLC.

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

For the three months ended December 31,	2017	2016
Change in unrealized fair value	\$ (290)	\$ (287)
Realized gain (loss) on cash settlements of derivative instruments ⁽¹⁾	(760)	565
Derivative instruments gain (loss)	\$ (1,050)	\$ 278

(1) Realized gains and losses on settlement of derivative instruments are recorded in revenue.

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, 2017 and 2016

Subsequent to quarter end, the Company entered into the following contracts:

- Gold forwards for 2,800 troy ounces for settlement between January 2018 and March 2018 at a price of \$1,312 per ounce; and
- Gold forwards for 5,500 troy ounces for settlement between March 2018 and June 2018 at a price between €1,081.50 per ounce and €1083.00 per ounce.

9. Net loss per share

For the three months ended December 31,	2017	2016
Net loss	\$ (3,379)	\$ (8,154)
Weighted average number of common shares outstanding – basic and diluted	136,623,171	136,623,171
Net loss per share – basic and diluted	\$ (0.02)	\$ (0.06)

10. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at December 31, 2017 was \$2,674 (September 30, 2017 – \$1,027), consisting of a deposit in favour of the Bolivian government pending an appeal of a VAT audit by the Bolivia National Tax Service. In September 2017, a Bolivian Administrative Court ruled in EMIPA's favour to reduce a portion of the amount of the VAT challenged. During the first quarter of fiscal 2018, EMIPA settled the remaining amount of \$1,004, and is in the process of having the \$1,700 in related restricted funds released. The remaining restricted cash balance relate to guarantees on value-added tax ("VAT") credit notes which expire after 120 days and are pending the final approval and audit of these credit notes by the Bolivian government.

Long-term restricted cash as at December 31, 2017 was \$597 (September 30, 2017 – \$1,971), consisting primarily of a deposit of \$325 (September 30, 2017 - \$nil) made by OroValle to secure the lease of the underground mobile equipment, purchased during the first quarter of fiscal 2018 and a deposit made by EMIPA of \$235 (September 30, 2017 - \$235) for the purchase of natural gas from government suppliers.

Reclamation bonds

At December 31, 2017, cash backed reclamation bonds held in a Spanish financial institution were \$9,100 (September 30, 2017 – \$8,893) and are expected to be released after all reclamation work at El Valle has been completed. Prior to its acquisition by OroValle, El Valle had been shut down by the owner thereof and remediation measures required were completed. On OroValle's acquisition of El Valle 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 \$5,997) 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. The Company is challenging the requirement to fund the additional reclamation bond through an administrative appeal process with the Spanish regulator. 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.

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, 2017 and 2016****11. Inventory**

	December 31, 2017	September 30, 2017
Ore in stockpiles	\$ 490	\$ 314
Ore in-process	1,996	1,531
Gold doré	2,007	1,727
Copper concentrates	4,976	4,001
Materials and supplies	11,288	11,342
	\$ 20,757	\$ 18,915

The Company recognized \$30,875 of inventory in cost of sales for the three months ended December 31, 2017 (three months ended December 31, 2016 - \$27,184).

12. Property, plant and equipment

	Land	Plant and equipment	Furniture and equipment	Mineral properties in production	Total
Net book value, October 1, 2017	\$1,639	\$50,482	\$417	\$47,516	\$100,054
Additions	271	4,758	167	733	5,929
Depreciation ⁽¹⁾	-	(4,264)	(24)	(1,957)	(6,245)
Net book value, December 31, 2017	\$1,910	\$50,976	\$560	\$46,292	\$99,738
Total cost	\$1,910	\$144,077	\$2,746	\$122,175	\$270,908
Total accumulated depreciation	-	(93,101)	(2,186)	(75,883)	(171,170)
Net book value, December 31, 2017	\$1,910	\$50,976	\$560	\$46,292	\$99,738

(1) Depreciation includes amounts recorded in inventory.

On the consolidated statement of cash flow for the three months ended December 31, 2017, capital expenditures exclude approximately \$3,040 of capital expenditures incurred but unpaid as at December 31, 2017 (December 31, 2016 - \$3,157) and include \$3,318 of capital expenditures incurred in fiscal 2017 but unpaid as at September 30, 2016 (September 30, 2017 - \$2,696).

13. Accounts payable and accrued liabilities

	December 31, 2017	September 30, 2017
Accounts payable	\$ 26,362	\$ 25,981
Accrued liabilities	5,788	6,827
Total accounts payable and accrued liabilities	\$ 32,150	\$ 32,808

14. Debt

	December 31, 2017	September 30, 2017
Revolving facilities	\$ 2,000	\$ 2,000
BISA TSF Loan	6,505	3,352
Prepayment Facility	9,824	11,502
	18,329	16,854
Less: current portion	(12,959)	(12,391)
	\$ 5,370	\$ 4,463

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, 2017 and 2016

Revolving facilities

In June 2017, as part of the closing of the BISA TSF Loan (hereinafter defined), EMIPA entered into a revolving working capital facility with Banco BISA S.A. ("BISA") of up to Bs.20,580,000 (approximately \$2,956). The proceeds can be drawn down in the form of cash of up to Bs.13,720,000 (approximately \$1,971), bank guarantees of Bs.20,580,000 (approximately \$2,956) or a combination of the two up to the limit of Bs.20,580,000. The revolving working capital facility is renewable every six months until November 2020 and interest will be determined at the date of drawdown and is dependent on the form of the drawdown. As at December 31, 2017, no amounts were drawn down from this facility (September 30, 2017 - \$nil).

In August 2017, OroValle renewed a revolving credit facility with Bankinter S.A. ("Bankinter") for an increased amount of €1,000,000 for a three month renewable term and bearing no interest. An administration fee is charged for each renewal. Under the terms of the agreement, all or part of the financing received must be used for the remittance of payroll tax, VAT and corporate taxes to the Spanish tax agency with payment being processed through the Bankinter account. No security is required to be posted for this facility. As at December 31, 2017, the full amount of the facility was drawn (approximately \$1,199).

In July 2017, OroValle renewed a revolving credit facility with Banco Santander S.A. for an increased amount of €1,500,000 for a one year term bearing 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, 2017, the balance drawn on the credit facility was €667,135 (approximately \$800).

For the three months ended December 31, 2017, the Company paid \$8 in interest on the short-term credit facilities (December 31, 2016 – \$13).

BISA TSF Loan

In June 2017, EMIPA entered into a Bs.58,017,483 (approximately \$8,336) term facility with BISA in Bolivia, the proceeds of which are being used to fund a major tailings storage facility expansion project that will add sufficient capacity to support future operations ("BISA TSF Loan"). The BISA TSF Loan bears an interest rate of 5.3% per annum, with seven disbursements of specified amounts to be drawn down as expenditures are incurred on the tailings storage facility expansion. The BISA TSF Loan matures in January 2021 and will be repaid in twelve equal repayments beginning in April 2018. Security for the BISA TSF Loan and the revolving working capital facility described above, includes certain assets at Don Mario.

The BISA TSF Loan contains covenants that, among other things, restrict EMIPA's ability to make cash disbursements to Orvana in certain circumstances.

As at December 31, 2017, EMIPA had received five disbursements in the amount of \$6,505 (September 30, 2017 - \$3,352).

For the three months ended December 31, 2017, the Company has not paid any amount of interest on the BISA TSF Loan (three months ended December 31, 2016 – \$nil).

Prepayment Facility

In August 2016, the Company entered into a \$12,500 copper concentrates and gold doré Prepayment Facility with Samsung C&T U.K. Limited ("Samsung C&T"), the proceeds of which were used at El Valle for mine development activities and infrastructure upgrades.

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 received \$12,500 in prepayment financing from Samsung C&T. The first instalment of \$8,000 was drawn on closing and repayments began in September 2017. The second instalment of

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, 2017 and 2016

\$4,500 was drawn down in February 2017 and will be repaid beginning in December 2017 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 deducted from Orvana's on-going shipments of copper concentrates and/or gold doré. As at December 31 2017, principal repayments of \$2,277 were made, such that the principal outstanding was \$10,223 (September 30, 2017 - \$12,056). 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 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 consolidated financial statements, the Company determined that the Prepayment Facility should be recognized as a hybrid financial instrument with 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 \$8,000 received was divided into a long-term debt of \$7,226 and deferred revenues of \$774. Amortization of deferred revenue, for the three months ended December 31, 2017 totalled \$87 (three months ended December 31, 2016 - \$90) and was recorded as part of revenues. Inputs to determine the fair value of the debt component included interest rates from recent independent market 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. For the three months ended December 31, 2017, the Company amortized financing fees of \$53 (three months ended December 31, 2016 - \$51).

For the three months ended December 31, 2017, the Company paid \$158 in interest on the Prepayment Facility (three months ended December 31, 2016 - \$122).

15. Obligations under finance leases

In December 2017, El Valle entered into a lease agreement with a term of two years to purchase underground mobile equipment. During fiscal 2016, El Valle entered into three lease agreements with lease terms between two to three years to purchase underground mobile equipment. The leases are payable in monthly installments at annual interest rates of 1.75% to 2.50%. Each contract has a purchase option.

At December 31, 2017, the total lease obligation outstanding was \$1,210 (September 30, 2017 - \$1,359). During the three months ended December 31, 2017, the Company made lease payments of \$296 (three months ended December 31, 2016 - \$313). The following is a schedule of future minimum payments under the finance leases:

		December 31, 2017	September 30, 2017
Fiscal	2018	\$ 790	\$ 1,020
	2019	395	332
	2020	43	28
		1,228	1,380
	Amount representing interest at 2.50%	(18)	(21)
		1,210	1,359
	Less: current portion of lease obligation	(875)	(1,003)
	Total long-term obligations under finance leases	\$ 335	\$ 356

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, 2017 and 2016

16. 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, 2017	September 30, 2017
Balance, beginning of period	\$ 19,939	\$ 20,713
Revision in estimated cash flows, timing of payments and discount rates		
– El Valle Mine	-	(752)
– Don Mario Mine	-	(373)
	19,939	19,588
Accretion expense	106	356
Reclamation payments	-	(5)
Total decommissioning liabilities	\$ 20,045	\$ 19,939

For El Valle Mine, the revision in estimated cash flows at September 30, 2017 includes the impact of the change in discount rate and the impact of the foreign exchange rate of Euros versus the US dollar.

For Don Mario Mine, the revision in estimated cash flows at September 30, 2017 relates to the impact of a longer estimated mine life.

The decommissioning liability balance consists of:

	December 31, 2017	September 30, 2017
El Valle Mine	\$ 13,353	\$ 13,300
Don Mario Mine	6,692	6,639
Total decommissioning liabilities	\$ 20,045	\$ 19,939

As at December 31, 2017, 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	1.54%	\$ 13,353
Don Mario Mine	8,013	3.20%	6,692
Total	\$ 23,559		\$ 20,045

(1) Accretion expense is recorded using the discount interest rates set out above. It is expected that these amounts will be incurred beginning in 2018 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 \$9,100 at December 31, 2017 (September 30, 2017 – \$8,893) and is expected to be released after all reclamation work has been completed in respect of El Valle Mine. Refer to note 10 – Restricted cash and reclamation bonds.

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, 2017 and 2016

17. 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,	2017	2016
Current income taxes:		
Current tax on income for the year	\$ 2,246	\$ 74
Total current income taxes	2,246	74
Deferred income tax:		
Origination and reversal of temporary differences in OroValle	-	(1,255)
Origination and reversal of temporary differences in EMIPA	(731)	(291)
Total deferred tax recoveries	(731)	(1,546)
Total income taxes (recoveries)	\$ 1,515	\$ (1,472)

Cash taxes paid by EMIPA during the three months ended December 31, 2017 totaled \$1,178 (December 31, 2016 - \$88).

18. Share capital and warrants

Issued share capital as at December 31, 2017 was \$116,206 (September 30, 2017 – \$116,206). The Company's authorized share capital contains an unlimited number of common shares. As at December 31, 2017, the Company had 136,623,171 common shares (September 30, 2017 – 136,623,171) issued and outstanding.

Warrants

A summary of the warrant transactions are as follows:

	Number of warrants	Stated Value
Balance, September 30, 2016	1,050,000	\$ 49
Expiry	(450,000)	(4)
Fair value adjustment	-	(35)
Balance, September 30, 2017	600,000	\$ 10
Fair value adjustment	-	(5)
Balance, December 31, 2017	600,000	\$ 5

As at December 31, 2017, outstanding and exercisable warrants were as follows:

Grant date	Fair value US\$000's	Number of vested warrants	Exercise price C\$	Expiry date
August 22, 2013	3	500,000	0.49	August 22, 2018
July 11, 2014	2	100,000	0.54	July 11, 2019
	\$ 5	600,000		

19. Share based payments

(a) Stock options

A summary of the stock option transactions is as follows:

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, 2017 and 2016**

	Stock options	Weighted average exercise price C\$
Balance, September 30, 2016	1,716,667	\$0.79
Granted	944,444	0.23
Expired	(1,091,667)	0.85
Balance, September 30, 2017	1,569,444	\$0.41
Granted	3,108,237	0.21
Expired	(100,000)	0.43
Balance, December 31, 2017	4,577,681	\$0.27

The fair value of the options granted during the three months ended December 31, 2017 were estimated using the Black-Scholes option-pricing model with the following assumptions:

Grant date:	December 21, 2017
Options granted:	3,108,237
Exercise price (C\$ per share)	\$0.21
Risk-free interest rate:	1.80%
Expected life in years:	5.00
Expected volatility:	74.84%
Expected dividend yield:	Nil
Expected forfeiture rate	10%
Fair value per option granted C\$	\$0.13
Weighted average grant date fair value US\$000's	\$315

As at December 31, 2017, 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 7, 2013	141	-	0.19	250,000	1.02	March 7, 2018
March 29, 2013	27	-	0.25	50,000	1.05	March 29, 2018
December 18, 2014	21	-	1.97	125,000	0.30	December 18, 2019
May 14, 2015	17	-	2.37	100,000	0.37	May 14, 2020
December 22, 2016	97	629,629	3.98	314,815	0.23	December 22, 2021
December 21, 2017	315	3,108,237	4.98	-	0.21	December 21, 2022
	\$ 618	3,737,866	4.32	839,815		
Total vested and unvested options				4,577,681		

The Company uses the fair value method of accounting for options and, during the three months ended December 31, 2017, recognized stock-based compensation expense of \$50 (three months ended December 31, 2016 – \$40).

The compensation expense associated with the options for the three months ended December 31, 2017 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (three months ended December 31, 2016 – 10%).

The weighted-average grant date fair value of the options are expensed over the vesting periods of the options being 36 months from the grant dates.

As at December 31, 2017, the fair value associated with unvested options is \$379 (September 30, 2017 – \$97).

(b) Long-term compensation

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

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, 2017 and 2016

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, September 30, 2016	1,775,144	\$ 387
Issued	471,700	74
Redeemed	(649,959)	(144)
Forfeited	(99,206)	(22)
Mark-to-market adjustment	-	5
Balance, September 30, 2017	1,497,679	\$ 300
Issued	1,214,285	200
Mark-to-market adjustment	-	19
Balance, December 31, 2017	2,711,964	\$ 519

(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, September 30, 2016	965,864	\$ 213
Issued	796,296	128
Mark-to-market adjustment	-	32
Changes in current portion	(965,864)	(213)
Balance, September 30, 2017	796,296	\$ 160
Forfeited	(129,630)	(26)
Mark-to-market adjustment	-	-
Changes in current portion	(666,666)	(134)
Balance, December 31, 2017	-	\$ -

(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.

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, 2017 and 2016

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

	Number of SARs	Fair value
Balance, September 30, 2016	1,772,082	\$ 129
Forfeited	(1,046,532)	(78)
Mark-to-market adjustment	-	14
Changes in current position	(123,188)	-
Balance, September 30, 2017	602,362	\$ 65
Redeemed	(200,788)	(22)
Balance, December 31, 2017	401,574	\$ 43

20. 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,	2017	2016
Salaries and short term employee benefits	\$ 611	\$ 380
Share-based payments ⁽¹⁾	182	(262)
Total compensation of key management	\$ 793	\$ 118

(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 Fabulosa Mines Limited, 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, 2017, the Company has accrued for \$277 which is payable to Fabulosa Mines Limited.

Subsequent to quarter end, Mr. Gilbert resigned from his position as Chairman and Chief Executive Officer of the Company effective January 31, 2018. Under the terms of the management agreement, Mr. Gilbert's termination payment is payable to Fabulosa Mines Limited.

21. 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. In recent years, OroValle has received approximately €955,000 (approximately \$1,145) 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 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 \$5,997) in respect of the tailings impoundment area. To satisfy this requirement, OroValle deposited €5,000,000 (approximately \$5,997) in September 2011 with a local bank in favour of the

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, 2017 and 2016

Spanish regulatory authorities. Spanish regulatory authorities have requested an additional reclamation bond totaling €5,000,000 (approximately \$5,997) 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. The Company is challenging the requirement to fund the additional reclamation bond through an administrative appeal process with the Spanish regulator. 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.

- (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 \$354 for the three months ended December 31, 2017 (three months ended December 31, 2016 - \$335).
- (d) Production from Don Mario Mine is subject to a 3% NSR payable quarterly. Royalty expense under this NSR totaled \$620 for the three months ended December 31, 2017 (three months ended December 31, 2016 – \$384). 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 \$1,352 for the three months ended December 31, 2017 (three months ended December 31, 2016 – \$929).
- (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 consolidated financial statements, individually or in aggregate, would have a material adverse effect.

22. Segmented information

The Company primarily operates in the gold and copper mining industry and its major products are gold doré and gold/copper concentrates. The Company's primary mining operations are OroValle, which operates El Valle 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, 2017:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
OroValle	\$ 3,272	\$ 82,833	\$ 9,462	\$ 14,100	\$ 109,667
EMIPA	12,724	16,875	2,909	22,209	54,717
Corporate	4,621	30	-	2,000	6,651
	\$ 20,617	\$ 99,738	\$ 12,371	\$ 38,309	\$ 171,035

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, 2017 and 2016

As at September 30, 2017:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
OroValle	\$ 5,654	\$ 83,402	\$ 8,929	\$ 15,037	\$ 113,022
EMIPA	13,083	16,628	2,962	18,394	51,067
Corporate	5,074	24	-	2,176	7,274
	\$ 23,811	\$ 100,054	\$ 11,891	\$ 35,607	\$ 171,363

For the three months ended December 31, 2017:

	Revenue	Mining costs ⁽¹⁾	Depreciation/Amortization ⁽²⁾	Other costs	Income (loss) before taxes
OroValle	\$ 14,747	\$ 16,297	\$ 3,122	\$ 32	\$ (4,704)
EMIPA	19,423	11,763	2,530	586	4,544
Corporate	-	-	4	1,700	(1,704)
	\$ 34,170	\$ 28,060	\$ 5,656	\$ 2,318	\$ (1,864)

(1) Mining costs includes royalties, mining rights and mining taxes. Refer to note 4 – Mining costs.

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

For the three months ended December 31, 2016:

	Revenue	Mining costs ⁽¹⁾	Depreciation/Amortization ⁽²⁾	Other costs	Income (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 4 – Mining costs.

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

23. 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).

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, 2017 and 2016**

As at December 31, 2017	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	\$ 519	\$ 43	\$ -	\$ 562
Warrants	-	5	-	5
Derivative instruments	-	1,212	-	1,212
Total	\$ 519	\$ 1,260	\$ -	\$ 1,779

Valuation techniques for Level 2 financial instruments:

Derivative instruments: The Company's derivative instruments are measured at fair value using the forward price curves of each commodity and are classified as level 2.

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, 2017 and September 30, 2017, 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 either due to their short-term maturities or, for borrowings, interest payables are close to the current market rates. Measurements for the financial assets and liabilities above are classified as Level 1 in the fair value hierarchy, except for the Prepayment Facility which is classified as Level 3 due to the use of unobservable inputs, including own credit risk.