ORVANA
MINERALS CORP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FIRST QUARTER OF FISCAL 2020

THREE MONTHS ENDED DECEMBER 31, 2019 AND 2018

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,	
	2019	**2018**
Revenue (note 4)	$ 29,020	$ 36,318
Cost of sales		
Mining costs (note 5)	26,004	30,595
Depreciation and amortization	5,629	4,858
	31,633	35,453
Gross margin	(2,613)	865
Expenses		
General and administrative (note 6)	734	794
Exploration	439	652
Community relations	90	113
Other expense (income) (note 7)	(144)	(393)
Finance costs (note 8)	275	612
Derivative instruments unrealized loss (note 9)	382	108
	1,776	1,886
Loss before income taxes	(4,389)	(1,021)
Provision for income taxes		
Current income taxes (note 18.a)	-	220
Deferred tax recovery (note 18.a)	(1,644)	(181)
	(1,644)	39
Net loss and comprehensive loss	$ (2,745)	$ (1,060)
Net loss per share (note 10)		
Basic and diluted	$ (0.02)	$ (0.01)

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, 2019	2018
Operating activities		
Net loss from continuing operations	$ (2,745)	$ (1,060)
Adjustments for:		
Depreciation and amortization	5,630	4,863
Loss (gain) on disposal of assets	4	(83)
Accretion	106	276
Amortization of deferred financing fees	23	-
Stock-based compensation	8	22
Long-term compensation	53	534
Deferred tax recovery	(1,644)	(181)
Provision for statutory labour obligations	84	(59)
Foreign exchange loss (gain)	207	(251)
Derivative instruments unrealized loss (note 9)	382	108
	2,108	4,169
Changes in non-cash working capital		
Concentrate and doré sales receivables	(175)	(762)
Value added taxes and other receivables and prepaid expenses	693	(1,605)
Inventory	2,771	203
Accounts payable and accrued liabilities	(3,211)	974
Income taxes payable (receivable)	(10)	387
	68	(803)
Cash provided by operating activities	2,176	3,366
Investing activities		
Capital expenditures	(1,780)	(1,749)
Restricted cash	(2,284)	325
Cash used in investing activities	(4,064)	(1,424)
Financing activities		
Repayments - BISA TSF Loan (note 15)	(709)	(709)
Repayments - BISA Heavy equipment Loan (note 15)	(204)	(204)
Repayments - Prepayment Facility (note 15)	-	(3,318)
Repayments - Revolving facilities OroValle (note 15)	(874)	(836)
Repayments - Bankinter Loan (OroValle) (note 15)	(94)	-
Repayments of lease liabilities (note 16)	(338)	(202)
Cash used in financing activities	(2,219)	(5,269)
Change in cash and cash equivalents	(4,107)	(3,327)
Cash and cash equivalents, beginning of the period	12,351	11,634
Effect of exchange rate changes on cash	(109)	18
Cash and cash equivalents, end of the period	$ 8,135	$ 8,325

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

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

	As at December 31, 2019	As at September 30, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 8,135	$ 12,351
Restricted cash (note 11)	131	131
Concentrate and doré sales receivables	1,218	1,043
Value added taxes (note 18.b)	2,271	3,339
Other receivables and prepaid expenses	879	889
Inventory (note 12)	16,436	19,638
Income tax receivable	1,127	1,117
	30,197	38,508
Non-current assets		
Value-added taxes and other receivables (note 18.b)	16,470	16,085
Restricted cash (note 11)	3,462	1,178
Reclamation bonds (note 11)	8,527	8,265
Deferred income tax asset	4,358	2,714
Inventory (note 12)	1,993	1,993
Property, plant and equipment (note 13)	81,636	84,086
	$ 146,643	$ 152,829
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 14)	$ 32,125	$ 33,511
Debt (note 15)	10,651	11,253
Deferred revenue	103	180
Lease liabilities (note 16)	454	528
Derivative instruments (note 9)	382	-
	43,715	45,472
Non-current liabilities		
Decommissioning liabilities (note 17)	21,268	20,727
Debt (note 15)	6,245	7,256
Lease liabilities (note 16)	548	347
Provision for statutory labour obligations	2,847	4,216
Other liabilities (note 18.b)	1,333	1,440
Long-term compensation (note 20 (b))	891	838
	76,847	80,296
Shareholders' equity		
Share capital (note 19)	116,206	116,206
Contributed surplus	3,848	3,840
Accumulated deficit	(50,258)	(47,513)
	69,796	72,533
	$ 146,643	$ 152,829

Commitments and contingent liabilities (note 22)

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 Shareholder's Equity
Unaudited
(in thousands of United States dollars)

		Share Capital		Contributed Surplus		Retained Earnings		Total
Balance, October 1, 2019	$	116,206	$	3,840	$	(47,513)	$	72,533
Stock-based compensation		-		8		-		8
Net loss and comprehensive loss		-		-		(2,745)		(2,745)
Balance, December 31, 2019	$	116,206	$	3,848	$	(50,258)	$	69,796

		Share Capital		Contributed Surplus		Retained Earnings		Total
Balance, October 1, 2018	$	116,206	$	3,752	$	(42,247)	$	77,711
Stock-based compensation		-		22		-		22
Net loss and comprehensive loss		-		-		(1,060)		(1,060)
Balance, December 31, 2018	$	116,206	$	3,774	$	(43,307)	$	76,673

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

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"). During the first quarter of fiscal 2020 the Company suspended mining and milling operations at Don Mario.

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 70 York Street, Suite 1710, 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, 2019.

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, 2019, except as otherwise noted 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, 2019. 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 11, 2020.

<u>IFRS 16, Leases</u>

On January 13, 2016, the IASB issued a new standard, IFRS 16 Leases ("IFRS 16"). IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The Company adopted IFRS 16 following the modified retrospective approach from October 1, 2019 and has not restated comparatives for the 2019 reporting period.

For comparative periods prior to fiscal 2020, the Company applied leases policies in accordance with IAS 17, Leases (IAS 17) and IFRIC 4, Determining Whether an Arrangement Contains a Lease (IFRIC 4).

At the beginning of a contract, the Company assesses if that contract is, or contains, a lease. A contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company assesses whether the contract involves the use of an identified asset, whether the Company has the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if the Company has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. As a lessee, we recognize a right-of-use asset, and a lease liability at the commencement date of a lease.

The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

• fixed payments, including in-substance fixed payments, less any lease incentives receivable;

• variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

• amounts expected to be payable under a residual value guarantee;

• exercise prices of purchase options if we are reasonably certain to exercise that option; and

• payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to the consolidated statements of net loss and comprehensive loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value leases. The lease payments associated with these leases are charged directly to the consolidated statements of net loss and comprehensive loss on a straight-line basis over the lease contract duration.

For this purpose, no material operating leases or embedded leases in services contracts were noted and only leases previously classified as finance leases are now included as right-of-use assets and lease liabilities in accordance with IFRS 16. As such, the transition to IFRS 16 did not result in any material impact or adjustments on adoption as at October 1, 2019, and thus, no reconciliation is required.

3. Restructuring in EMIPA

During first quarter of fiscal 2020 the Company suspended mining and milling operations at EMIPA, as a result of a higher than expected ore-grade operational mining dilution in Las Tojas area, with more narrow, erratic and discontinued mineralized structures, which resulted in uneconomic unitary cost per ounce. As a consequence, the Company started a restructuring process which included a collective layoff and recorded a charge of $2,151 in the quarter. Refer to note 5 – Mining costs.

The Company has completed a preliminary analysis on the recoverability of the material existing inventory and property, plant and equipment associated with the suspended operations and concluded it will be able to repurpose them. As a result, an impairment loss of property, plant and equipment or write-down of inventories has not been recognised as of December 31, 2019.

(in thousands of United States dollars unless otherwise noted)

The Company will complete the restructuring process during the second quarter of fiscal 2020 and reassess whether an indication of impairment of property, plant and equipment or write-down of inventories exist. As at December 31, 2019, the Company has a provision for statutory labour obligations of $2,847 and related labour provisions included in acounts payables and accrued liabilities of $2,707.

4. Revenue

For the three months ended December 31,		2019	2018
Gold-copper concentrate	$	14,364	12,444
Doré		14,352	23,955
Subtotal	$	28,716	36,399
Provisional invoicing adjustments		304	(118)
Realized gain (loss) on cash settlements of derivative instruments (note 9)		-	37
Total revenue	$	29,020	36,318

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 or reserves related to that development and are included in depreciation and amortization. The mining costs for the three months ended December 31, 2019 and 2018 relate to El Valle and Don Mario.

For the three months ended December 31,		2019		2018
Direct mining costs(1)	$	24,769	$	28,429
Royalties and mining rights (2)		950		1,190
Mining royalty taxes (3)		285		976
Total mining costs	$	26,004	$	30,595

(1) Restructuring costs in EMIPA for the amount of $2,151 are included in direct mining costs (see note 3).
(2) Royalties and mining rights refer to royalties payable to third parties in respect of El Valle and Don Mario.
(3) 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,		2019		2018
Salaries, directors fees and office administration	$	685	$	873
Depreciation		2		4
Stock-based compensation expense		8		22
Long-term compensation		53		534
Foreign exchange (gain) loss		(14)		(639)
Total general and administrative expenses	$	734	$	794

7. Other (income) expense

For the three months ended December 31,		2019		2018
Provision for uncollectible VAT – EMIPA	$	(84)	$	(380)
Miscellaneous other income		(60)		(13)
Total other (income) expense	$	(144)	$	(393)

8. Finance costs

For the three months ended December 31,		2019		2018
Interest on credit facilities and debt	$	163	$	116
Effective interest on Prepayment Facility		-		405
Accretion lease liability		2		-
Accretion expense on decommissioning obligations		102		106
Other interest (income) expense		(12)		(36)
Finance fees		20		21
Total finance costs	$	275	$	612

(in thousands of United States dollars unless otherwise noted)

9. Derivative instruments

The Company had the following outstanding derivative instruments at December 31, 2019:

	Contract Prices	Cash Settlement	Contract Amounts
Gold			
Gold forwards (Jan-Sept 2020)	€1,347 - €1,339 - $1,510 / troy oz	Monthly	18,000 troy oz

The outstanding balance at December 31, 2019, for $382 corresponds to the unrealized portion of these contracts (September 30, 2019 - $nil).

For the three months ended December 31, 2019, the Company paid net cash of $nil (three months ended December 31, 2018 – paid net cash of $37), in settlement of the derivative instruments that matured in the period.

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

For the three months ended December 31,		2019		2018
Change in unrealized fair value	$	(382)	$	(108)
Realized gain (loss) on cash settlements of derivative instruments (1)		-		37
Derivative instruments gain (loss)	$	(382)	$	(71)

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

10. Net loss per share

For the three months ended December 31,		2019		2018
Net loss	$	(2,745)	$	(1,060)
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)	$	(0.01)

11. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at December 31, 2019 was $131 and consists on warranties required by the Spanish Government for appealing in labour courts (September 30, 2019 - $131).

Long-term restricted cash as at December 31, 2019 was $3,462 and corresponds integrally to OroValle and was related to a leasing contract and to the restricted cash required by the Spanish local banks Facility of $ 3,370 (September 30, 2019 - $1,178). During the period, the restricted cash requirement by the Spanish local banks increased from $1,089 to $3,370, due to the renegotiation of the covenants that restricted intercompany funding.

Reclamation bonds

At December 31, 2019, cash backed reclamation bonds held in a Spanish financial institution were $8,527 (September 30, 2019 – $8,265) 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.

(in thousands of United States dollars unless otherwise noted)

Spanish regulatory authorities have requested an additional reclamation bond totaling €5,000,000 (approximately $5,617) 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 filed an appeal with Spanish regulatory authorities. Through the administrative appeal process, the Company is working with Spanish regulatory authorities to seek alternatives, which includes, without limitation, relief from posting the additional reclamation bond.

12. Inventory

		December 31, 2019		September 30, 2019
Ore in stockpiles	$	1,654	$	764
Ore in-process		1,025		808
Gold doré		373		1,053
Copper concentrates		2,190		5,260
Materials and supplies		11,194		11,753
Current Assets - Inventory	$	16,436	$	19,638
Long-term ore in stockpiles	$	1,993	$	1,993
Total Inventory	$	18,429	$	21,631

The Company recognized $30,201 of inventory in cost of sales for the three months ended December 31, 2019 (three months ended December 31, 2018 - $33,021).

13. Property, plant and equipment

	Land	Plant and equipment	Furniture and equipment	Mineral properties in production	Total
Net book value, September 30, 2019	$2,657	$43,884	$553	$36,992	$84,086
Additions	4	1,477	35	1,237	2,753
Disposals			(9)		(9)
Change in decommissioning assets					
Transfers					
Depreciation (1)		(2,173)	(21)	(3,000)	(5,194)
Net book value, December 31, 2019	$2,661	$43,188	$558	$35,229	$81,636
Total cost	2,661	158,552	2,967	132,219	296,399
Total accumulated depreciation	-	(115,364)	(2,409)	(96,990)	(214,763)
Net book value, December 31, 2019	$2,661	$43,188	$558	$35,229	$81,636

(1) Depreciation includes amounts recorded in inventory.

The net book value of plant and equipment at September 30, 2019 includes $2,192 for right of use assets assessed in accordance with IFRS 16. These assets were previously reflected as finance leases. Further, additions of plant and equipment during the three-month period ended December 31, 2019 include $386 that correspond to the right of use of certain assets (light vehicles) assessed in accordance with IFRS 16. The net book value of right to use assets included in plant and equipment at December 31, 2019 are $2,432.

On the consolidated statement of cash flow for the three months ended December 31, 2019, capital expenditures exclude approximately $2,555 of capital expenditures incurred but unpaid as at December 31, 2019 (December 31, 2018 - $2,041) and include $2,769 of capital expenditures incurred in fiscal 2019 but unpaid as at September 30, 2019 (September 30, 2018 – $2,116).

(in thousands of United States dollars unless otherwise noted)

14. Accounts payable and accrued liabilities

		December 31, 2019		September 30, 2019
Accounts payable	$	26,191	$	28,809
Accrued liabilities		5,934		4,702
Total accounts payable and accrued liabilities	$	32,125	$	33,511

15. Debt

		December 31, 2019		September 30, 2019
Revolving facilities (OroValle)	$	1,887	$	2,761
Revolving facilities (EMIPA)		1,972		1,972
BISA TSF Loan (EMIPA)		3,541		4,250
BISA Heavy Equipment (EMIPA)		1,094		1,298
Banco de Crédito Loan (EMIPA)		493		493
Spanish banking facility		7,623		7,355
Bankinter Loan (OroValle)		286		380
		16,896		18,509
Less: current portion		(10,651)		(11,253)
	$	6,245	$	7,256

Revolving facilities OroValle

In July 2019, OroValle renewed a revolving credit facility with Banco Santander S.A. for an amount of €1,5 Million for a one-year term bearing an annual rate of Euribor plus 2.27%. The credit facility is secured by OroValle's VAT receivable from the Spanish government. As at December 31, 2019, the amount of €644 was outstanding (approximately $764), (September 30, 2019 $1,672).

In October 2018, OroValle renewed a revolving credit facility with Bankinter S.A. ("Bankinter") for an increased amount of €1 Million 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, 2019, the full amount of the facility was drawn down (approximately $1,123), (September 30, 2019 $1,089).

For the three months ended December 31, 2019, the Company paid $14 in interest on the revolving short-term credit facilities (for the year ended September 30, 2019 – $76).

Revolving facilities EMIPA

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, 2019, a total of $1,972 of proceeds have been received from this facility (September 30, 2019 - $1,972). The interest rate and the covenants for this facility are similar to TSF Loan mentioned below.

For the three months ended December 31, 2019, the Company paid no interest on the revolving short term facilities (for the year ended September 30, 2019 $ nil).

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 were used to fund a major tailings storage facility expansion project 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 that were received as expenditures were incurred on the tailings storage facility expansion. The BISA TSF Loan matures in January 2021 and is being 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, 2019, EMIPA had received the full amount for $8,336 (September 30, 2019 – $8,336) and principal repayments of $4,795 were made against the BISA TSF Loan, such that the principal outstanding at December 31, 2019 was $3,541 (September 30, 2019 - $4,250).

For the three months ended December 31, 2019, the Company paid $60 in interest on the BISA TSF Loan (for the year ended September 30, 2019 – $322).

BISA Heavy Equipment Loan

In May 2018, EMIPA entered into a Bs.16,514,688 (approximately $2,373) term facility with BISA in Bolivia, the proceeds of which were used to purchase heavy equipment ("BISA Heavy Equipment Loan"). The BISA Heavy Equipment Loan bears an interest rate of 5.5% per annum and matures in April 2021 with repayments beginning in June 2018. Security for the BISA Heavy Equipment Loan are tied to the equipment purchased.

The BISA Heavy Equipment Loan contains covenants that restrict EMIPA's ability to make cash disbursements to Orvana's subsidiaries in certain circumstances.

As at December 31, 2019, the full amount of the loan was drawn down and principal repayments of $1,279 were made against the BISA Heavy Equipment Loan, such that the principal outstanding was $1,094 (September 30, 2019 - $1,298).

For the three months ended December 31, 2019, the Company paid $17 in interest on the BISA Heavy Equipment Loan (for the year ended September 30, 2019 – $97).

Banco de Crédito Loan

In May 2019, EMIPA entered into a Bs.3,430,000 (approximately $493) term facility with Banco de Crédito in Bolivia. This loan bears an interest rate of 6% per annum and its initial maturity was August 2019. EMIPA renegotiated a renewal extending the repayment date to January 2020 for both principal and interests. As at December 31, 2019 EMIPA has $493 as outstanding principal (September 30, 2019 – $493). Subsequently to the end of the first quarter of fiscal 2020, on January 28, the full amount of this loan has been repaid.

For the three months ended December 31, 2019, the Company had made no interest payments on the Banco de Credito Loan (for the year ended September 30, 2019 – $nil).

Spanish banking facility

In January 2019 OroValle closed a syndicated credit facility for a total amount of €6 million (in USD, $ 6,741). These funds were used to repay the Samsung Prepayment Facility.

This Spanish banking facility is subject to a 2% bank commission fee, bears a fixed annual interest rate of 2.55%, semi-annual principal repayments and semi-annual interest payments over a term of four years.

Amongst the obligations, OroValle is required to comply with net finance debt to EBITDA proforma financial covenant calculated based on individual financial information. This resulting rate must be lower than 3.5 at each year-end period. At September 30, 2019, OroValle was in compliance with the Spanish banking facility covenants.

The Company's obligations to the lenders are secured by: (i) the pledge of all of Orvana's shares of OroValle; (ii) the pledge of OroValle's doré sale proceeds; and (iii) 12,5% restricted cash.

(in thousands of United States dollars unless otherwise noted)

In May 2019, OroValle increased the Spanish banking facility by €2 million, achieving a total aggregated amount of €8 million (approximately $ 9 million), with the same terms and conditions of the Spanish banking facility.

In July 2019, OroValle repaid €996 (approximately $1,119) of principal and €88 (approximately $99) of interests of the Spanish banking facility.

The finance costs during the three months ended December 31, 2019 were €21 (approximately $24), including finance fees for $20.

Bankinter Loan (OroValle)

On August 23, 2019, OroValle entered into a new short-term Loan with Bankinter. The principal amounted to $420 and it bears a fixed annual interest rate of 1.5%. This loan matures on September 2020.

For the three months ended December 31, 2019, the Company paid $94 in principal and $1 on interest, respectively on the Bankinter Loan (for the year ended September 30, 2019 – $40 and $nil, respectively).

16. Lease liabilities

As of October 1, 2019, the Company had five finance leases. These leases are payable in monthly installments at annual interest rates of 1.38% to 2.54% and each contract has a purchase option. Upon transition to IFRS 16, the finance leases are now defined as lease liabilities and there were no differences to their measurement. At December 31, 2019, the total lease liabilities amount to $1,002 (September 30, 2019 - $875). During the three months ended December 31, 2019, the Company made lease payments of $338 (three months ended December 31, 2018 - $202). In addition, two lease contracts were terminated and recognized new leases of $386. The Company considers the purchase option of this new leases to be not reasonably certain to exercise.

The following is a schedule of future payments of the lease liabilities:

		December 31, 2019	September 30, 2019
Fiscal	2020	464	543
	2021	366	254
	2022	188	99
		1,018	896
Amount representing interest (at 1.88% Q1 Fy20 / at 1.95% Fy19)		(16)	(21)
		1,002	875
Less: current portion of lease liability		(454)	(528)
Total long-term obligations lease liability		$ 548	$ 347

(in thousands of United States dollars unless otherwise noted)

17. 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:

		Three-months ended December 31, 2019		Year ended September 30, 2019
Balance, beginning of period	$	20,727	$	21,236
El Valle Mine				
- Foreign exchange		439		(869)
- Timing of payments and discount rates		-		(20)
Don Mario				
- Foreign exchange		-		-
- Timing of payments and discount rates		-		(14)
		21,166		20,333
Accretion expense in El Valle		47		209
Accretion expense in Don Mario		55		185
Total decommissioning liabilities	$	21,268	$	20,727

The decommissioning liability balance consists of:

		December 31. 2019		September 30, 2019
El Valle Mine	$	14,353	$	13,867
Don Mario Mine		6,915		6,860
Total decommissioning liabilities	$	21,268	$	20,727

As at December 31, 2019, 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)	$	15,926	1.31%	$	14,353
Don Mario Mine (1)		8,316	3.20%	$	6,915
Total	$	24,242		$	21,268

(1) 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 $8,527 at December 31, 2019 (September 30, 2019 – $8,265) 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.

(in thousands of United States dollars unless otherwise noted)

18. Taxes

(a) Income taxes

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

For the three months ended December 31,		2019		2018
Current income taxes:				
Current tax on income for the year	$	-	$	220
Total current income taxes		-		220
Deferred income tax:				
Origination and reversal of temporary differences in EMIPA		(1,644)		(181)
Total deferred tax recoveries		(1,644)		(181)
Total income taxes (recoveries)	$	(1,644)	$	39

Cash taxes paid by EMIPA during the three months ended December 31, 2019 totaled $301 (December 31, 2018 - $290).

(b) Value added taxes

The following table summarizes the changes in VAT assets:

		Three month ended December 31, 2019		Year ended September 30, 2019	Three month ended December 31, 2018
At October 1	$	19,424	$	14,009	14,009
Additions [(1)]		2,378		14,455	3,479
Recoveries [(2)]		(3,057)		(9,758)	(2,574)
Provision for uncollectible VAT [(3)]		(4)		718	23
At December 31	$	18,741	$	19,424	14,937
Current	$	2,271	$	3,339	2,566
Long term	$	16,470	$	16,085	12,371

(1) In the additions for the three-month ended December 31, 2019 $18 are from corporate ($ 40 for the three-month ended December 31, 2018), 389 from EMIPA ($1,103 for the three-month ended December 31, 2018) and 1,971 from OroValle ($2,336 for the three-month ended December 31, 2018).

(2) In the recoveries for the three-month ended December 31, 2019, $22 are from corporate ($41 for the three-month ended December 31, 2018), $nil from EMIPA ($nil for the three-month ended December 31, 2018) and $3,035 from OroValle ($2,533 for the three-month ended December 31, 2018).

(3) All the provision for uncollectible VAT is allocated in EMIPA in both quarters in both fiscal years.

The following table summarizes the changes in VAT provisions:

		Three month ended December 31, 2019		Year ended September 30, 2019	Three month ended December 31, 2018
At October 1	$	1,440	$	2,755	2,755
Additions		-		-	-
Recoveries		-		-	-
Provision for uncollectible VAT		(107)		(1,315)	(404)
At December 31 [(1)]	$	1,333	$	1,440	2,351
Current	$	-	$	-	-
Long term	$	1,333	$	1,440	2,351

(1) All the VAT liabilities are from EMIPA. The provision refers only to those tax filings that have a certification of tax reimbursement in progress (CEDEIMS in Bolivian regulation).

19. Share capital and warrants

Issued share capital as at December 31, 2019 was $116,206 (September 30, 2019 – $116,206). The Company's authorized share capital contains an unlimited number of common shares. As at December 31, 2019, the Company had 136,623,171 common shares (September 30, 2019 – 136,623,171) issued and outstanding.

Warrants

As at December 31, 2019, there are not any exercisable warrants.

20. Share based payments

(a) Stock options

A summary of the stock option transactions is as follows:

	Stock options	Weighted average exercise price C$
Balance, September 30, 2019	771,008	$0.22
Expired	(125,000)	$0.30
Balance, December 31, 2019	646,008	$0.21

As at December 31, 2019, 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
December 21, 2017		103	-	3.23	646,008	0.21	December 21, 2022
	$	103	-		646,008		
Total vested and unvested options					646,008		

The Company uses the fair value method of accounting for options and, during the three months ended December 31, 2019, recognized stock-based compensation expense of $8 (December 31, 2018 – expense of $23).

The compensation expense associated with the options for the three months ended December 31, 2019 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (December 31, 2018 – 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, 2019, the fair value associated with unvested options is $nil (December 31, 2018 – $nil).

(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.

(in thousands of United States dollars unless otherwise noted)

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

	Number of DSUs		Fair value
Balance, September 30, 2019	4,760,738	$	719
Issued	2,730,768		355
Mark-to-market adjustment	-		(318)
Balance, December 31, 2019	7,491,506	$	756

(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, as described in accounting policy per Note 2 (o). 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, 2019	2,877,858	$	119
Issued	6,173,511		610
Mark-to-market adjustment	-		(594)
Balance, December 31, 2019	9,051,369	$	135

(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.

As at December 31, 2019, there are not any exercisable SARs.

21. 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,		2019		2018
Salaries and short term employee benefits and separation payments	$	310	$	175
Share-based payments [1]		61		556
Directors fees		74		86
Total compensation of key management	$	445	$	817

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

22. 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 Water Authority has 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 $1,073) 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 (€628.715, $706,298) 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 and the prosecutor have excluded individuals of any charges. 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 $5,617) in respect of the tailings impoundment area. To satisfy this requirement, OroValle deposited €5,000,000 (approximately $5,617) 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 $5,617) 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"), payable monthly. The NSR 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 $724 for the three months ended December 31, 2019 (December 31, 2018 - $692).

(d) Production from Don Mario Mine is subject to a 3% NSR payable quarterly. Royalty expense under this NSR totaled $227 for the three months ended December 31, 2019 (December, 2018 – $498). 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 $285 for the three months ended December 31, 2019 (December 31, 2018 – $976).

(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.

(f) During the second quarter of fiscal 2019 EMIPA received from the Bolivian tax authorities a re-assessment of its past corporate income tax filings. This re-assessment charged an additional corporate income tax of approximately $669 on the basis of different tax criteria for depreciations and the deductibility of certain expenses. In February 2019, EMIPA appealed the re-assessment to the regional court. In May 2019, the regional court overturned the Tax Authority's re-assessment. The Tax Authority appealed the regional court's decision, and in July 2019 the National Administrative Court maintained the regional position. As of December 31, EMIPA has no current claims for these concepts.

(in thousands of United States dollars unless otherwise noted)

23. 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, 2019:

		Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
OroValle	$	6,057	63,058	11,989	18,394	99,498
EMIPA		165	18,569	131	26,089	44,954
Corporate		1,913	9	-	269	2,191
	$	8,135	81,636	12,120	44,752	146,643

As at September 30, 2019:

		Cash and cash equivalents		Property, plant and equipment		Reclamation bonds and restricted cash		Other assets		Total assets
OroValle	$	11,207	$	65,285	$	9,443	$	16,237	$	102,172
EMIPA		615		18,788		131		30,277		49,811
Corporate		529		13		-		304		846
	$	12,351	$	84,086	$	9,574	$	46,818	$	152,829

For the three months ended December 31, 2019:

		Revenue	Mining costs (1)	Depreciation/ Amortization(2)	Other costs	Income (loss) before taxes
OroValle	$	25,021	17,898	5,045	613	1,465
EMIPA		3,999	8,103	584	148	(4,836)
Corporate		-	3	1	1,014	(1,018)
	$	29,020	26,004	5,630	1,775	(4,389)

(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, 2019, 67% of revenue in OroValle corresponds to sales to one client of Gold-copper concentrate and 33% corresponds to one client of Doré. In EMIPA 100% corresponds to one client of Doré. (December 31, 2018, 55% and 45% in OroValle respectively, and 100% in EMIPA).

For the three months ended December 31, 2018:

		Revenue	Mining costs (1)	Depreciation/ Amortization(2)	Other costs	Income (loss) before taxes
OroValle	$	22,420	18,764	3,307	459	(110)
EMIPA		13,898	11,831	1,551	377	139
Corporate		-	-	5	1,046	(1,051)
	$	36,318	30,595	4,863	1,882	(1,022)

(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.

(in thousands of United States dollars unless otherwise noted)

24. 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).

As at December 31, 2019	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 assets:				
Concentrate and doré sales receivables	-	1,218	-	1,218
Total	$ -	$ 1,218	$ -	$ 1,218
Financial liabilities:				
Long-term compensation	$ -	$ 891	$ -	$ 891
Derivative instruments	$ -	$ 382	$ -	$ 382
Total	$ -	$ 1,273	$ -	$ 1,273

Valuation techniques for Level 2 financial instruments:

Concentrate and doré sales receivables: The Company's concentrate and doré sales are subject to provisional pricing with the selling prices adjusted at the end of the quotational period. The Company's trade receivables are marked-tomarket at each reporting period based on quoted forward prices for which there exists an active commodity market. This current assets are classified as level 2.
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, 2019 and September 30, 2019, the carrying amounts of cash and cash equivalents; restricted cash; 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.

Impairment Sensitivity

Management used a long-term price per ounce of gold of between $1,567 to $1,634 to perform its impairment assessments for OroValle and EMIPA as at December 31, 2019. A 5% decrease in the long-term price per ounce would have resulted in no impairment at OroValle or EMIPA. The 5% decrease in gold price was not modeled with a corresponding depreciation in EUR.

Management used long-term Euro/USD exchange rates between 1/1.13 to 1/1.24 to perform its impairment assessments for OroValle as at December 31, 2019. A 5% depreciation of the annual Euro/USD exchange rates would have resulted in no impairment at OroValle and no impairment at EMIPA. The 5% depreciation in Euro/USD exchange rates was not modeled with a corresponding increase in gold price.