ORVANA

MINERALS CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FIRST QUARTER OF FISCAL 2015

THREE MONTHS ENDED DECEMBER 31, 2014 AND 2013

UNAUDITED

(EXPRESSED IN UNITED STATES DOLLARS)

ORVANA MINERALS CORP.
Condensed Interim Consolidated Statements of Net Income and Comprehensive Income
Unaudited
(in thousands of United States dollars)

	Three months ended December 31,	
	2014	**2013**
Revenue	$ 38,770	$ 35,220
Cost of sales		
Mining costs (note 5)	27,970	23,776
Depreciation and amortization	8,352	6,936
	36,322	30,712
Gross margin	2,448	4,508
Expenses		
General and administrative (note 6)	1,255	1,629
Exploration	158	107
Community relations	82	247
Other expenses	243	161
Finance costs (note 7)	680	1,311
Expenses before derivative instruments gain	2,418	3,455
Derivative instruments (gain)	-	(8,484)
Income before income taxes	30	9,537
Provision for income taxes		
Current income taxes (note 18)	1,636	1,430
Deferred income (recovery) taxes (note 18)	(2,344)	2,083
	(708)	3,513
Income from continuing operations	738	6,024
Loss from discontinued operations	-	(16)
Net and comprehensive income	$ 738	$ 6,008
Net earnings per share (note 8)		
Earnings per share from continuing operations		
Basic and diluted	$ 0.01	$ 0.04
Loss per share from discontinued operations		
Basic and diluted	$ -	$ -
Net earnings per share		
Basic and diluted	$ 0.01	$ 0.04

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, 2014	2013
Operating activities		
Net income	$ 738	$ 6,024
Adjustments for:		
Depreciation and amortization	8,381	6,964
Gain on disposal of assets	-	(39)
Accretion	26	136
Interest on Copperwood note (note 4)	(259)	-
Amortization of deferred financing fees	714	200
Stock-based compensation	28	31
Warrants	13	41
Long-term compensation	(45)	304
Deferred income (recovery) taxes	(2,344)	2,083
Provision for statutory labour obligations	(35)	(408)
Foreign exchange loss	238	37
Derivative instruments unrealized gain	-	(6,855)
	7,455	8,518
Changes in non-cash working capital		
Concentrate and doré sales receivables	267	(323)
Value added taxes and other receivables and prepaid expenses	5,678	37
Inventory	(808)	(3,510)
Accounts payable and accrued liabilities	960	(1,048)
Income taxes payable	1,406	211
	7,503	(4,633)
Cash provided by operating activities from continuing operations	14,958	3,885
Cash used in operating activities from discontinued operations	-	(131)
Cash provided by operating activities	14,958	3,754
Financing activities		
Repayment of bank debt	(5,914)	-
Repayment of EVBC Loan (note 15)	(16,614)	(2,873)
Repayment of finance leases	-	(274)
Cash used in financing activities	(22,528)	(3,147)
Investing activities		
Capital expenditures	(2,461)	(2,993)
Restricted cash	6,270	(1,081)
Proceeds from sale of Copperwood	7,533	-
Cash used in (provided by) investing activities from continuing operations	11,342	(4,074)
Cash used in investing activities from discontinued operations	-	(127)
Cash used in (provided by) investing activities	11,342	(4,201)
Change in cash	3,772	(3,594)
Cash, beginning of the period	16,545	13,039
Effect of exchange rate change on cash held in foreign currencies	59	(77)
Cash, end of period	$ 20,376	$ 9,368

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, 2014		As at September 30, 2014
Assets				
Current assets				
Cash and cash equivalents	$	20,376	$	16,545
Restricted cash (note 9)		3,627		9,897
Concentrate and doré sales receivables		4,410		4,677
Value added taxes and other receivables and prepaid expenses		13,575		19,377
Copperwood note (note 4)		-		7,274
Inventory (note 10)		19,526		18,537
		61,514		76,307
Non-current assets				
Value-added taxes and other receivables		6,404		6,234
Restricted cash (note 9)		1,838		1,838
Reclamation bonds (note 9)		9,134		9,466
Property, plant and equipment (note 11)		122,001		127,273
	$	200,891	$	221,118
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 12)	$	31,134	$	29,495
Income taxes payable (note 18)		3,015		1,609
Bank debt (note 13)		3,450		9,364
EVBC Loan (note 15)		-		15,900
		37,599		56,368
Non-current liabilities				
Decommissioning liabilities (note 16)		19,388		19,316
Provision for statutory labour obligations (note 17)		2,259		2,294
Deferred income tax liability (note 18)		9,496		11,840
Other liabilities		1,389		1,239
Long-term compensation (note 20 (b))		707		784
Warrants (note 19)		87		77
		70,925		91,918
Shareholders' equity				
Share capital (note 19)		116,206		116,206
Contributed surplus		3,429		3,401
Retained earnings		10,331		9,593
		129,966		129,200
	$	200,891	$	221,118

Commitments and contingencies (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 Shareholders' Equity
Unaudited
(in thousands of United States dollars)

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance, October 1, 2014	$ 116,206	$ 3,401	$ 9,593	$ 129,200
Stock-based compensation	-	28	-	28
Net income	-	-	738	738
Balance, December 31, 2014	$ 116,206	$ 3,429	$ 10,331	$ 129,966

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance, October 1, 2013	$ 116,206	$ 3,226	$ 39,336	$ 158,768
Stock-based compensation	-	31	-	31
Net income	-	-	6,008	6,008
Balance, December 31, 2013	$ 116,206	$ 3,257	$ 45,344	$ 164,807

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 El Valle-Boinás Mine and the Carlés Mine (the “EVBC Mines") in Spain, which are held indirectly through its wholly-owned subsidiary Kinbauri España S.L.U. ("Kinbauri") and the Don Mario Upper Mineralized Zone Mine (the “Don Mario Mine”) in eastern Bolivia which is held indirectly through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("EMIPA").

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

The Company’s head and registered office is 181 University Avenue, Suite 1901, 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, 2014.

The accounting policies applied in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s consolidated financial statements for the year ended September 30, 2014, except as highlighted in note 3, Accounting policies, 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, 2014. Certain comparative amounts have been reclassified to conform to the current year’s presentation.

These condensed interim consolidated financial statements for the period ended December 31, 2014 were approved by the Board of Directors of the Company on February 4, 2015.

3. Accounting policies

(a) IAS 36 Impairment of Assets

In May 2013, the IASB issued amendments to IAS 36 Impairment of Assets (“IAS 36”). The amendments to IAS 36, which are to be applied retrospectively, are effective beginning with the Company’s interim financial statements for the quarter ended December 31, 2014. The amendments to IAS 36 relate to disclosure changes, specifically: (i) removing the requirement to disclose the recoverable value of a CGU when the CGU contains goodwill or long lived intangible assets not currently subject to impairment, (ii) adding a requirement to disclose the recoverable amount of an asset or CGU when an impairment loss is recognized or reversed, and (iii) adding a requirement to disclose how fair value less disposal costs are measured when an impairment loss is recognized or reversed. The Company has assessed the application of IAS 36 and concluded that the adoption of the amendments to IAS 36 does not have a significant impact on its financial statements.

(b) Other accounting pronouncements

In December 2011, the IASB issued amendments to IAS 32 Financial Instruments: Presentation ("IAS 32") and IFRS 7 Financial Instruments: Disclosures ("IFRS 7") related to offsetting of financial assets and financial liabilities. These amendments are effective for the Company's interim financial statements for the quarter ending December 31, 2014. The Company has assessed the impact of adopting IAS 32 and IFRS 7 and has concluded that the adoption of IAS 32 and IFRS 7 do not have a significant impact on its financial statements.

(c) New accounting pronouncements issued but not yet effective

i. IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments ("IFRS 9"). IFRS 9 replaces and updates the classification and measurement, impairment, and hedge accounting guidance included in IAS 39. IFRS 9, which is to be applied retrospectively, is effective beginning with the Company's interim financial statements for the quarter ended December 31, 2018, with earlier adoption permitted. The Company has not yet determined the potential impact the adoption of IFRS 9 will have on its financial statements.

ii. IFRS 15 Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 Revenue from contracts with customers ("IFRS 15"). IFRS 15 supersedes IAS 18 Revenue and IAS 11 Construction Contracts, and their related interpretations. This standard modifies the timing and measurement of revenue recognition under IFRS and adds extensive disclosure requirements for both revenue recognized in the period and revenue expected to be recognized in the future. IFRS 15 is effective for the Company's interim financial statements for the quarter ending December 31, 2017, with earlier adoption permitted. The Company has not yet determined the potential impact that the adoption of IFRS 15 will have on its financial statements.

4. Divestiture of Copperwood

Through its formerly wholly-owned subsidiary, Orvana Resources US Corp. ("Orvana US"), the Company held the Copperwood Project, which was comprised of certain long-term mineral leases, certain surface rights that secured access and provided space for future infrastructure, and options in respect of certain additional mineral leases. The Company had previously completed a feasibility study and obtained all major permits in respect of the development of the Copperwood Project.

On February 11, 2014, the Company announced that it had entered into a definitive agreement with Highland Copper Company Inc. ("Highland") to sell the Copperwood Project through the sale of all of the outstanding shares of Orvana US for total cash consideration of up to $25,000 in aggregate, of which $20,000 would be paid in cash on closing and $5,000 would be paid in cash or shares of Highland, at the Company's option, upon the occurrence of certain events following closing.

On June 17, 2014, the Company closed the sale of the Copperwood Project to Highland. On closing, the Company received a cash payment of $13,000 and a secured promissory note in the amount of $7,000 (the "Copperwood Note") in respect of the remainder of the base consideration. On December 15, 2014, the Copperwood Note was repaid and the Company received $7,000 as repayment of principal and $533 in interest.

(in thousands of United States dollars unless otherwise noted)

The additional consideration of up to $5,000 will be paid by Highland in cash or shares of Highland, at Orvana's option, upon occurrence of the events described below:

- $1,250 upon the earliest of (i) commencement of commercial production of Copperwood and (ii) the date that is 36 months after closing; and an additional $1,250 on the first anniversary of this payment; and
- $1,250 if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than $4.25/lb; and an additional $1,250 if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than $4.50/lb.

The results from operations of Orvana US in prior periods have been presented separately as *loss from discontinued operations* on the statement of income.

5. Mining costs

Mining costs include mine production costs, transportation costs, royalty expenses, site administration costs, applicable stripping costs and other related costs, but not the primary mine development costs, incurred at the EVBC Mines, which are capitalized and depreciated over the specific useful life or reserves related to that development. The mining costs for the three months ended December 31, 2014 and 2013 relate to the EVBC and Don Mario Mines.

For the three months ended December 31,		2014		2013
Direct mining costs	$	25,258	$	21,533
Royalties and mining rights (1)		1,133		1,045
Mining royalty taxes (1)		1,579		1,198
Total mining costs	$	27,970	$	23,776

(1) Royalties and mining rights refers to royalties payable to third parties in respect of the EVBC Mines and the Don Mario Mine. Mining royalty taxes refers to amounts payable to government authorities in respect of the Don Mario Mine.

6. General and administrative expenses

For the three months ended December 31,		2014		2013
Salaries, directors fees and office administration	$	1,160	$	1,136
Depreciation		29		28
Stock-based compensation expense		28		31
Warrants		10		36
Long-term compensation		71		291
Foreign exchange		(43)		107
Total general and administrative expenses	$	1,255	$	1,629

7. Finance costs

For the three months ended December 31,		2014		2013
Interest on credit facilities	$	203	$	739
Other interest (income) expense		(263)		236
Amortization of financing fees		714		200
Accretion expense on decommissioning obligations		72		136
Accretion gains on Copperwood deferred payments		(46)		-
Total finance costs	$	680	$	1,311

(in thousands of United States dollars unless otherwise noted)

8. Net earnings per share

For the three months ended December 31,		2014		2013
Income from continuing operations	$	738	$	6,024
Loss from discontinued operations		-		(16)
Net income	$	738	$	6,008
Weighted average number of common shares outstanding – basic		136,623,171		136,623,171
Dilutive effect of stock options		547		-
Dilutive effect of warrants		-		-
Weighted average number of common shares outstanding – diluted		136,623,718		136,623,171
Net earnings per share from continuing operations – basic and diluted	$	0.01	$	0.04
Net earnings per share from discontinued operations – basic and diluted		-		-
Net earnings per share – basic and diluted	$	0.01	$	0.04

9. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at December 31, 2014 was $3,627 (September 30, 2014 – $9,897), primarily consisting of $2,391 in restricted cash placed on deposit with a Bolivian bank in favour of the Bolivian labor court pending the result of an ongoing labour claim. Refer to note 22 – Commitments and contingent liabilities.

Long-term restricted cash includes approximately $1,838 (September 30, 2014 – $1,838) on deposit with a local bank in favour of the Bolivian government pending the appeal of a value added taxes ("VAT") audit. The VAT audit relates to an audit by the Bolivia National Tax Service, for which EMIPA filed a tax lawsuit in January 2011 before the Bolivian Supreme Court. As of December 31, 2014, the matter remains unresolved.

Reclamation bonds

At December 31, 2014, cash backing reclamation bonds held in a Spanish financial institution was $9,134 (September 30, 2014 – $9,466) and is expected to be released after all reclamation work at the EVBC Mines has been completed. Prior to its acquisition by Kinbauri, the EVBC Mines had been shut down by the owner thereof and remediation measures required were completed. On Kinbauri's acquisition of the EVBC Mines 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 Kinbauri relating to its tailings facility. Refer to note 22 – Commitments and contingent liabilities.

10. Inventory

		December 31, 2014		September 30, 2014
Ore in stockpiles	$	150	$	79
Ore in-process		1,310		831
Gold doré		36		717
Copper and gold concentrates		9,106		9,143
Materials and supplies		8,924		7,767
	$	19,526	$	18,537

(in thousands of United States dollars unless otherwise noted)

11. Property, plant and equipment

	Land	Plant and equipment	Furniture and equipment	Mineral properties in production	Total
Net book value, October 1, 2014	$1,600	$53,173	$440	$72,060	$127,273
Additions	-	2,696	9	585	3,290
Depreciation[(1)]	-	(3,684)	(49)	(4,829)	(8,562)
Net book value, December 31, 2014	$1,600	$52,185	$400	$67,816	$122,001
Total cost	$1,600	$109,019	$2,067	$117,816	$230,502
Total accumulated depreciation	-	(56,834)	(1,667)	(50,000)	(108,501)
Net book value, December 31, 2014	$1,600	$52,185	$400	$67,816	$122,001

(1) Depreciation includes amounts included in inventory.

On the statement of cash flow for the three months ended December 31, 2014, capital expenditures exclude approximately $2,336 of capital expenditures incurred but unpaid in fiscal 2015, and include $1,507 of capital expenditures incurred in fiscal 2014 but paid in fiscal 2015 (December 31, 2013 – $2,732 and $1,209 respectively).

Mineral properties in production

(a) Don Mario Mine (Bolivia)

Through EMIPA, the Company owns and operates the open pit copper-gold-silver Don Mario Mine. The Don Mario Mine is part of the Don Mario district comprising ten mineral concessions located in south eastern Bolivia. The Company mined the Don Mario Mine previously as an underground mine until 2009. Commercial production of the open pit commenced on January 1, 2012.

(b) EVBC Mines (Spain)

Orvana acquired the EVBC Mines in Spain in August 2009. The EVBC gold-copper-silver mines are located in the Rio Narcea Gold Belt in northern Spain. The Company commenced commercial production on August 1, 2011.

The EVBC mineral properties in production were reduced by $6,459 (€4,995,378) with respect to a government subsidy grant, recorded during the fourth quarter of fiscal 2012. This grant was awarded by the Economic Development Institute of the Principality of Asturias for business projects generating employment that promote alternative development of mining areas for the periods of 2007 through 2012. Kinbauri has completed the required investment. The first payment was received in January 2013 for €1,399,706 and during November 2013, the Company received a second payment of €1,098,983. The remainder of the grant receivable of €2,449,281 was received subsequent to the end of the quarter.

(in thousands of United States dollars unless otherwise noted)

12. Accounts payable and accrued liabilities

	December 31, 2014	September 30, 2014
Accounts payable	$ 26,220	$ 24,452
Accrued liabilities	4,914	5,043
Total accounts payable and accrued liabilities	$ 31,134	$ 29,495

13. Bank debt

EMIPA had short-term credit facilities with certain Bolivian banks payable in 90 to 180 days from the date of advance with an annual interest rate of 6.0%. Certain of EMIPA's assets are pledged as security against these loans. As at December 31, 2014, approximately $3,450 (September 30, 2014 – $9,364) was drawn under these facilities. Subsequent to the end of the quarter, an additional $3,942 was drawn down under these facilities for a total of $7,392 outstanding at February 4, 2015.

In addition, at December 31, 2014, EMIPA provided bank guarantees to a Bolivian bank amounting to approximately $3,141 (September 30, 2014 – $2,345), related to refunded amounts of VAT and natural gas and chemical purchases. The bank guarantees on the VAT credit notes expire after 120 days and are pending the final approval and audit of these credit notes by the Bolivian government. EMIPA also has provided guarantees for the purchase of natural gas from government suppliers that are for one year and are renewed annually and would only be executed by the government suppliers if EMIPA failed to pay the invoices related to these purchases.

14. Fabulosa Loan

The Company entered into a secured loan facility agreement ("the Fabulosa Loan") with Fabulosa in the amount of $11,500 in 2011. The Company used proceeds drawn under the Fabulosa Loan for working capital purposes. Interest on the outstanding principal was 12% per annum and the stand-by fee was 1.5% on undrawn amounts and both amounts were payable monthly. The Company paid withholding taxes imposed by applicable taxing authorities. During the third quarter of fiscal 2014, the outstanding balance of $6,515 was repaid with the proceeds from the sale of Copperwood.

The amendment of the EVBC Loan during the fourth quarter of 2014 was conditional on the establishment of a $6,500 line of credit. Accordingly, the Fabulosa Loan was amended effective July 11, 2014. The maturity period was extended from September 30, 2014 to December 31, 2014 and the amount which could be drawn under the Fabulosa Loan was amended to $6,500. In connection with such amendment, the Company issued warrants to Fabulosa to purchase 100,000 common shares of the Company exercisable at a price of $0.54 until July 11, 2019. The Company also paid a structuring fee of 2% for a total of $130. No amounts were drawn under the Fabulosa Loan prior to the end of its availability period. The Fabulosa Loan was not renewed and all such security was discharged.

Concurrent with the initial Fabulosa Loan, the Company entered into an agreement with Fabulosa pursuant to which, for so long as it owns at least 10% of the outstanding Common Shares, Fabulosa has the right to designate, at any shareholders' meeting at which directors are to be elected, that number of management's nominees for election as directors of the Company that is the same proportion as its ownership interest is of the Common Shares.

For the quarter ended December 31, 2014, the Company paid $24 in stand-by fees on the Fabulosa Loan (December 31, 2013 – interest and stand-by fees of $116).

15. EVBC Loan

In October 2010, Kinbauri entered into the EVBC Loan, a $50,000 five-year term corporate credit facility. The funds were primarily used to complete the construction of the EVBC Mines. In February 2012, the EVBC Loan was extended by one year to September 30, 2016 and increased by $13,844 including approximately $6,500 (€5,000,000) to fund an environmental bond. In July 2014, the EVBC Loan was amended, resulting in a new maturity date of November 30, 2014 (the “New Maturity Date”) and requiring (i) a number of principal repayments to be made from restricted cash, Copperwood Project proceeds and working capital, (ii) quarterly principal repayments, and (iii) the closure of outstanding derivative instruments in July 2014. As a condition to the amendments of the EVBC Loan, Orvana had to establish a line of credit in the minimum amount of $6,500 in the form of the Fabulosa Loan until the New Maturity Date.

(in thousands of United States dollars unless otherwise noted)

The EVBC Loan required gold, copper and US dollars/EUR derivative instruments that were previously put in place. The security for the EVBC Loan included a fixed and floating charge over the assets of Kinbauri and a pledge by Orvana of all of the shares of Kinbauri. Kinbauri’s obligations under the EVBC Loan were guaranteed by Orvana. Subsequent to the end of the third quarter of fiscal 2014, all outstanding derivative instruments were closed for net proceeds of $7,098 with the proceeds applied as a repayment of principal under the EVBC Loan.

Orvana completed repayment of the EVBC Loan on November 10, 2014, two years ahead of schedule. The associated guarantees have been released and the remaining security has been or is in the process of being discharged.

For the quarter ended December 31, 2014, the Company paid $62 in interest on the EVBC Loan. (December 31, 2013 – $530).

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, 2014		September 30, 2014
Balance, beginning of period	$	19,316	$	15,639
Revision in estimated cash flows, timing of payments and discount rates				
– EVBC Mines		-		2,911
– Don Mario Mine		-		221
		19,316		18,771
Accretion expense		72		545
Total decommissioning liabilities	$	19,388	$	19,316

For the EVBC Mines, the revision in estimated cash flows at September 30, 2014 includes the impact of a change in discount rate, the impact of the foreign exchange rate of Euros versus the US dollar, the change of an estimate related to monitoring activities, and the impact of the shorter estimated mine life.

For the Don Mario Mine, the revision in estimated cash flows at September 30, 2014 includes the impact of a change in discount rate.

(in thousands of United States dollars unless otherwise noted)

The decommissioning liability balance consists of:

		December 31, 2014		September 30, 2014
EVBC Mines	$	13,963	$	13,917
Don Mario Mine		5,425		5,399
Total decommissioning liabilities	$	19,388	$	19,316

As at December 31, 2014, 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
EVBC Mines[(1)]	$	16,021	1.4%	$	13,963
Don Mario Mine		5,556	2.0%		5,425
Total	$	21,577		$	19,388

(1) Accretion expense is recorded using the discount interest rates set out above. It is expected that these amounts will be incurred in 2016 through 2024 in respect of the Don Mario Mine and the EVBC Mines. 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 $9,134 at December 31, 2014 (September 30, 2014 – $9,466) and is expected to be released after all reclamation work has been completed. Refer to note 9 – Restricted cash and reclamation bonds.

17. Statutory labour obligations

Under Bolivian law, EMIPA has an obligation to make payments to employees in the amount of one month's wages for each year of service. The employee can elect to receive payment after five years of service in the amount of five months of wages while continuing employment with EMIPA. At December 31, 2014, the obligation outstanding for these payments was $2,259 (September 30, 2014 – $2,294).

18. Income tax

Taxation on income comprises current and deferred income tax. Current income tax is generally the expected tax payable on the taxable income for the year calculated using rates enacted or substantively enacted at the statements of financial position date in the countries where the Company's subsidiaries operate and generate taxable income.

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statements carrying amounts of assets and liabilities and their respective income tax bases.

The Company operates in a specialized industry and in several tax jurisdictions. As a result, its income is subject to various rates of taxation. The breadth of its operations and the global complexity of tax regulations require assessments of uncertainties and judgements in estimating the taxes the company will ultimately pay. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from federal, provincial, state and local tax audits. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Company's tax assets and liabilities.

The Company estimates deferred income taxes based upon temporary differences between the assets and liabilities that it reports in its consolidated financial statements and the tax bases of its assets and liabilities as determined under applicable tax laws. The amount of deferred tax assets recognized is generally limited to the extent that it is probable that taxable profit will be available against which the related deductible temporary differences can be utilized. Therefore, the amount of the deferred income tax asset recognized and considered unrealizable could be reduced if projected income is not achieved.

(in thousands of United States dollars unless otherwise noted)

For the three months ended December 31,		2014		2013
Current income taxes:				
Current tax on income for the year	$	1,636	$	1,430
Total current income taxes		1,636		1,430
Deferred income tax:				
Tax rate reduction in Spain (1)		(1,312)		
Origination and reversal of temporary differences in Kinbauri		(1,032)		2,083
Total deferred income taxes (recoveries)		(2,344)		2,083
Total income taxes	$	(708)	$	3,513

(1) During November 2014, a number of changes in Spanish tax legislation were enacted effective for fiscal periods beginning on or after January 1, 2015, including the gradual reduction of the corporate income tax rate from 30% to 25% in 2016. As a result, this change is effective in respect of the Company's 2016 fiscal year commencing on October 1, 2015. As the Company expects to settle its deferred tax liabilities in Spain in 2016 or later, the deferred tax liability at December 31, 2014 was re-measured at a 25% tax rate.

Cash income taxes paid for the three months ended December 31, 2014 totaled $nil (December 31, 2013 – $1,329).

19. Share capital and warrants

The Company's authorized capital contains an unlimited number of common shares.

A summary of our capital transactions is as follows:

	Number of common shares		Stated Value
Balance, October 1, 2013	136,623,171	$	116,206
Balance, September 30, 2014	136,623,171		116,206
Balance, December 31, 2014	136,623,171	$	116,206

Warrants

A summary of the warrant transactions are as follows:

	Number of common shares		Stated Value
Balance, October 1, 2013	2,205,000	$	159
Warrants issued (1)	100,000		26
Warrants expired (2)	(510,000)		(11)
Fair value adjustment	-		(97)
Balance, September 30, 2014	1,795,000		77
Warrants expired (2)	(150,000)		(2)
Fair value adjustment	-		12
Balance, December 31, 2014	1,645,000	$	87

(1) Warrants to purchase 100,000 common shares at a purchase price of C$0.54 until July 11, 2019 were issued to Fabulosa as part of the amendments to the Fabulosa Loan in July 2014. Refer to Note 14 – Fabulosa Loan.

(2) During 2011, the Company issued to Fabulosa five-year warrants to purchase up to 2,725,000 common shares. The warrants are exercisable only upon the issuance of, and in numbers equal to the number of common shares issued upon the exercise of any of Orvana's outstanding options as of May 16, 2011. On September 6, 2011 the Company issued the first tranche of 1,300,000 warrants with an exercise price of C$1.90 with the second tranche of 1,425,000 warrants issued on March 5, 2012 with an exercise price of C$0.97. As a result of the forfeiture or expiration of options issued before May 16, 2011, warrants to purchase up to 1,045,000 common shares were outstanding as of December 31, 2014 of which 450,000 were exercisable.

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, October 1, 2013	2,871,669	$1.68
Granted	600,000	0.60
Expired	(851,668)	2.06
Forfeited	(66,666)	0.89
Balance, September 30, 2014	2,553,335	$1.32
Granted	125,000	0.30
Expired	(216,667)	0.87
Balance, December 31, 2014	2,461,668	$1.31

As at December 31, 2014, outstanding and exercisable stock 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
February 26, 2010	$	61	-	0.16	125,000	1.01	February 26, 2015
May 17, 2010		12	-	0.38	20,000	1.31	May 17, 2015
December 10, 2010		600	-	0.94	350,000	3.65	December 10, 2015
April 1, 2011		163	-	1.25	100,000	3.01	April 1, 2016
December 20, 2011		66	-	1.97	125,000	1.03	December 20, 2016
March 28, 2012		129	-	2.24	291,667	0.88	March 28, 2017
June 1, 2012		90	-	2.42	200,000	0.86	June 1, 2017
August 30, 2012		4	-	2.67	8,334	0.92	August 30, 2017
October 2, 2012		31	-	2.76	66,667	0.93	October 2, 2017
March 7, 2013		141	83,332	3.19	166,668	1.02	March 7, 2018
March 29, 2013		107	66,668	3.25	133,332	1.05	March 29, 2018
December 16, 2013		28	33,333	3.96	66,667	0.43	December 16, 2018
February 26, 2014		100	200,000	4.16	100,000	0.75	February 26, 2019
July 11, 2014		26	66,667	4.53	33,333	0.53	July 11, 2019
August 21, 2014		19	66,667	4.64	33,333	0.41	August 21, 2019
December 16, 2014		21	83,334	4.96	41,666	0.41	August 21, 2019
	$	1,598	600,001	2.72	1,861,667		
Total vested and unvested options					2,461,668		

The Company uses the fair value method of accounting for stock options and, during the three months ended December 31, 2014, recognized stock-based compensation expense of $28 (December 31, 2013 - $31).

The compensation expense associated with the stock options for the three months ended December 31, 2014 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (December 31, 2013 – 10%).

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

As at December 31, 2014, the fair value associated with unvested options was $204 (September 30, 2014 – $200).

(in thousands of United States dollars unless otherwise noted)

(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 statement of income. 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.

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

	Number of DSUs		Fair value
October 1, 2013	112,640	$	49
Issued	124,107		52
Redeemed	(172,965)		(76)
Mark-to-market adjustment	-		(24)
Changes in current portion	116,342		50
Balance, September 30, 2014	180,124	$	51
Issued	193,346		60
Mark-to-market adjustment	-		(3)
Balance, December 31, 2014	373,470	$	108

(ii) Restricted Share Unit ("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 statement of income. The fair value of the RSUs are marked to the quoted market price of the Company's common shares at each reporting date and changes in their fair value are recorded under *general and administrative expenses*. Payouts are settled in cash after a specified period of vesting, based on the market price of the common shares at vesting.

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

	Number of RSUs		Fair Value
Balance October 1, 2013	195,686	$	86
Issued	618,696		268
Redeemed	(68,417)		(30)
Mark-to-market adjustment	-		(91)
Changes in current portion	(127,269)		(56)
Balance, September 30, 2014	618,696	$	177
Issued	1,401,937		438
Redeemed	(223,886)		(64)
Mark-to-market adjustment	-		(33)
Changes in current portion	(394,810)		(113)
Balance, December 31, 2014	1,401,937	$	405

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

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

(in thousands of United States dollars unless otherwise noted)

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

	Number of SARs		Fair value
October 1, 2013	-	$	-
Issued	1,068,826		-
Mark-to-market adjustment	-		29
Forfeited	(329,696)		-
Balance, September 30, 2014	739,130	$	29
Issued	1,833,143		-
Mark-to-market adjustment	-		24
Balance, December 31, 2014	2,883,864	$	53

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,		2014		2013
Salaries and short term employee benefits	$	495	$	471
Share-based payments(1)		337		371
Total compensation of key management	$	832	$	842

(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. These environmental regulations may change and are generally becoming more restrictive. The Company records provisions for decommissioning liabilities based on management's estimate of such costs. These estimates are, however, subject to changes in laws and regulations.

(b) On June 27, 2011, as a condition of receiving an environmental permit on that date, the Government of the Principality of Asturias, required the Company to commit to post an additional reclamation bond in the amount of €5,000,000 (approximately $6,829). To satisfy this requirement, the Company deposited €5,000,000 (approximately $6,829) in September 2011 with a local bank in favour of the Spanish regulatory authorities. A further €5,000,000 may have to be deposited in favour of the Spanish regulatory authorities at a future date to satisfy additional reclamation bond commitments. The Company is currently challenging this based on technical considerations.

(c) Production from the EVBC Mines is subject to a 3% net smelter return royalty (“NSR”), referred to herein as the EVBC Royalty, payable monthly. The EVBC 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 $611 for the three months ended December 31, 2014 (December 31, 2013 – $639).

(d) On November 22, 2011, the Company reported that an EVBC employee was fatally injured when he was caught between two pieces of equipment at the EVBC Mines. The Company has cooperated fully with the authorities in their investigation of the accident. Certain proceedings are ongoing to determine whether any standards have been breached that may give rise to criminal charges against an individual employee of the EVBC Mines. In addition, the Company has been notified by the applicable mining regulatory authorities that, following the completion of the current proceedings, there may be an administrative investigation pursuant to which the Company may be fined. At this time, the Company cannot predict the outcome of any of these proceedings. The Company has completed a settlement with the family of the employee and recorded the expense in fiscal 2014.

(in thousands of United States dollars unless otherwise noted)

(e) Production from the Don Mario Mine is subject to a 3% NSR royalty payable quarterly. Royalty expense under this NSR totaled $521 for the three months ended December 31, 2014 (December 31, 2013 – $349). The Bolivian government collects a mining royalty tax on the revenue generated from copper, gold and silver sales from the Don Mario Mine at rates of 5%, 7% and 6%, respectively. These amounts totaled $1,579 for the three months ended December 31, 2014 (December 31, 2013 – $1,198).

(f) EMIPA is subject to a labour claim filed in Bolivia by 31 former employees for the payment of certain employment related amounts, including vacation and overtime, for the period of 2007 to 2013. EMIPA is vigorously challenging the claim on the basis that such claimed amounts have already been paid and, accordingly, the claim has no legal grounds. EMIPA provided a 100% cash-backed guarantee in the amount of $2,391 as security for the claim. Refer to note 9 – Restricted cash and reclamation bonds.

(g) The Company and certain of its employees may be involved in other legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions, in the opinion of management, is not expected to materially affect the Company's financial position, results of operations or cash flows. The Company does not believe that the outcome of any of the matters not recorded in the financial statements, individually or in aggregate, would have a material adverse effect.

23. Segmented information

The Company primarily operates in the gold and copper mining industry and its major products are gold doré and gold and copper concentrates. The Company's primary mining operations are Kinbauri, which operates the EVBC Mines in Spain, and EMIPA, which operates the 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, 2014:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets[1]	Total assets
Kinbauri[1]	$ 4,320	$ 106,716	$ 9,612	$ 19,902	$ 140,550
EMIPA	3,014	15,080	4,987	21,970	45,051
Canada and other	13,042	205	-	2,043	15,290
	$ 20,376	$ 122,001	$ 14,599	$ 43,915	$ 200,891

(in thousands of United States dollars unless otherwise noted)

As at September 30, 2014:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other Assets	Total assets
Kinbauri	$ 2,126	$ 109,835	$ 19,180	$ 24,053	$ 155,194
EMIPA	5,851	17,203	2,021	22,734	47,809
Corporate	8,568	235	-	9,312	18,115
	$ 16,545	$ 127,273	$ 21,201	$ 56,099	$ 221,118

For the three months ended December 31, 2014:

	Revenue	Mining costs(1)	Depreciation Amortization(2)	Derivative instrument gain	Other costs	Income (loss) before taxes
Kinbauri	$ 20,150	$ 16,820	$ 5,269	$ -	$ (432)	$ (1,507)
EMIPA	18,620	11,150	3,036	-	689	3,745
Canada and other	-	-	29	-	2,179	(2,208)
	$ 38,770	$ 27,970	$ 8,334	$ -	$ 2,436	$ 30

(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, 2013:

	Revenue	Mining costs(1)	Depreciation Amortization(2)	Derivative instrument loss	Other costs	Income (loss) before taxes
Kinbauri	$ 21,844	$ 16,445	$ 5,035	$ (8,484)	$ 839	$ 8,009
EMIPA	13,376	7,331	1,902	-	837	3,306
Canada and other	-	-	28	-	1,750	(1,778)
	$ 35,220	$ 23,776	$ 6,965	$ (8,484)	$ 3,426	$ 9,537

(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.

24. Fair value measurements

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 balance sheet at fair value into 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).

(in thousands of United States dollars unless otherwise noted)

As at December 31, 2014		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	$	654	$	53	$	-	$	707
Warrants		-		87		-		87
Total	$	654	$	140	$	-	$	794

Valuation techniques for Level 2 financial instruments:

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, 2014 and September 30, 2014, the carrying amounts of cash and cash equivalents; restricted cash; concentrate and doré receivables; value added taxes, other receivables and prepaids; bank debt; and accounts payable and accrued liabilities approximate their fair value due to their short-term maturities.