ORVANA

MINERALS CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FIRST QUARTER OF FISCAL 2014

THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012

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,	
	2013	**2012**
Revenue	$ 35,220	$ 35,651
Cost of sales		
Mining costs (note 4)	23,776	20,246
Depreciation and amortization	6,936	4,019
	30,712	24,265
Gross margin	4,508	11,386
Expenses		
General and administrative (note 5)	1,736	3,131
Exploration	107	7
Community relations	247	119
Other expenses (income)	70	(166)
Finance costs (note 6)	1,311	1,213
Expenses before derivative instruments gain	3,471	4,304
Derivative instruments gain (note 17)	(8,484)	(11,748)
Income before income taxes	9,521	18,830
Provision for income taxes		
Current income taxes (note 19)	1,430	1,726
Deferred income taxes (note 19)	2,083	3,453
	3,513	5,179
Net income and comprehensive income	$ 6,008	$ 13,651
Net earnings per share (note 7)		
Basic	$ 0.04	$ 0.10
Diluted	$ 0.04	$ 0.10

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 Flow
Unaudited
(in thousands of United States dollars)

	Three months ended December 31, 2013	2012
Operating activities		
Net income	$ 6,008	$ 13,651
Adjustments for:		
Depreciation and amortization	6,964	4,077
(Gain) loss on disposal of assets	(39)	12
Accretion	137	85
Amortization of deferred financing fees	200	170
Amortization of government grant	-	(95)
Stock-based compensation	31	96
Warrants	41	(9)
Long-term compensation	304	270
Deferred income taxes	2,083	3,453
Provision for statutory labour obligations	(408)	(37)
Foreign exchange loss (gain)	34	(184)
Derivative instruments unrealized gain (note 17)	(6,853)	(13,300)
	8,502	8,189
Changes in non-cash working capital		
Concentrate and doré sales receivables	(323)	817
Value added taxes and other receivables and prepaid expenses	54	(2,166)
Inventory	(3,510)	(4,165)
Accounts payable and accrued liabilities	(1,180)	(4,323)
Income taxes payable	211	1,699
Cash provided by operating activities	3,754	51
Financing activities		
Increase in bank debt	-	2,275
Proceeds from short-term debt (note 14)	-	2,000
Repayment of short and long-term debt (note 14)	(2,873)	(3,266)
Repayment of finance leases	(274)	(518)
Cash (used in) provided by financing activities	(3,147)	491
Investing activities		
Capital expenditures	(3,120)	(4,229)
Restricted cash	(1,081)	2,445
Cash used in investing activities	(4,201)	(1,784)
Change in cash	(3,594)	(1,242)
Cash, beginning of the period	13,039	13,200
Effect of exchange rate change on cash held in foreign currencies	(77)	30
Cash, end of period	$ 9,368	$ 11,988

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, 2013		As at September 30, 2013
Assets				
Current assets				
Cash and cash equivalents (note 8)	$	9,368	$	13,039
Restricted cash (note 9)		17,319		16,095
Concentrate and doré sales receivables		5,493		5,170
Value added taxes and other receivables and prepaid expenses		13,891		11,427
Inventory (note 10)		21,152		17,672
Derivative instruments (note 17)		7,909		4,519
		75,132		67,922
Non-current assets				
Value-added taxes and other receivables		6,360		8,878
Restricted cash (note 9)		1,744		1,744
Reclamation bonds (note 9)		10,375		10,160
Inventory (note 10)		2,019		1,678
Property, plant and equipment (note 11)		188,179		190,823
Derivative instruments (note 17)		9,639		7,134
	$	293,448	$	288,339
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (note 12)	$	26,530	$	26,205
Income taxes payable (note 19)		2,861		2,650
Bank debt (note 13)		9,856		9,856
Short-term debt (note 14)		2,731		2,731
Long-term debt (note 14)		15,961		14,844
Obligations under finance leases (note 15)		353		627
Derivative instruments (note 17)		489		672
		58,781		57,585
Non-current liabilities				
Long-term debt (note 14)		27,423		31,211
Decommissioning liabilities (note 16)		15,776		15,639
Derivative instruments (note 17)		238		1,015
Provision for statutory labour obligations (note 18)		1,968		2,376
Deferred income tax liability (note 19)		22,977		20,620
Other liabilities		849		831
Long-term compensation (note 21 (b))		434		135
Warrants (note 20)		195		159
		128,641		129,571
Shareholders' equity				
Share capital (note 20)		116,206		116,206
Contributed surplus		3,257		3,226
Retained earnings		45,344		39,336
		164,807		158,768
	$	293,448	$	288,339

Commitments and contingencies (note 23)

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, 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

	Share Capital	Contributed Surplus	Retained Earnings	Total
Balance, October 1, 2012	$ 116,148	$ 2,953	$ 6,713	$ 125,814
Stock-based compensation	-	96	-	96
Net loss	-	-	13,651	13,651
Balance, December 31, 2012	$ 116,148	$ 3,049	$ 20,364	$ 139,561

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 “UMZ Mine”) in eastern Bolivia which is held indirectly through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("EMIPA"). In addition, the Company holds mineral leases in the state of Michigan, USA, referred to as the Copperwood Project which is held indirectly through its wholly-owned subsidiary, Orvana Resources US Corp. ("Orvana Resources").

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 principal place of business 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, 2013.

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, 2013, 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, 2013. 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, 2013 were approved by the Board of Directors of the Company on February 6, 2014.

3. Accounting policies

(a) IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (“IFRS 13”). IFRS 13, which is to be applied prospectively, is effective beginning with the Company’s interim financial statements for the quarter ended December 31, 2013. IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. The Company has evaluated the impact of IFRS 13 and applied the new disclosure requirements.

(b) IAS 19 Employee Benefits

In June 2011, the IASB issued amendments to IAS 19 Employee Benefits (“IAS 19”), effective beginning with the Company’s interim financial statements for the quarter ended December 31, 2013. The amendments to

IAS 19 eliminate the corridor rule and calculate finance costs on a net funding basis. The Company has assessed the application of IAS 19 and concluded that the adoption of IAS 19 does not have an impact on its financial statements.

(c) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20"). IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when the following two benefits accrue to the entity from the stripping activity: (i) useable ore that can be used to produce inventory, and (ii) improved access to further quantities of material that will be mined in future periods. IFRIC 20 must be applied starting with the Company's interim financial statements for the quarter ended December 31, 2013. The Company has assessed the impact of adopting IFRIC 20 on its consolidated financial statements and has concluded that the adoption of IFRIC 20 does not have a significant impact on its financial statements.

(d) Other accounting pronouncements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, and amended IAS 27 Separate Financial Statements and IAS 28 Associates and Joint Ventures. These standards were subsequently amended throughout 2011 and 2012, portions of which are effective for the Company's interim financial statements for the quarter ended December 31, 2013. The Company has assessed the impact of adopting the amendments to these standards and has concluded that the adoption of the amendments to these standards did not have a significant impact on its financial statements.

4. 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, 2013 and 2012 relate to the EVBC and UMZ Mines.

The Company reclassified certain transportation and treatment costs previously deducted from revenue in respect of fiscal 2013 into direct mining costs. For the three months ended December 31, 2012, a deduction of $1,623 was reclassified from revenue into direct mining costs.

For the three months ended December 31,		2013		2012
Direct mining costs	$	21,533	$	17,522
Royalties and mining rights (1)		1,045		1,083
Mining royalty taxes (1)		1,198		1,641
Total mining costs	$	23,776	$	20,246

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

5. General and administrative expenses

For the three months ended December 31,		2013		2012
Salaries, directors fees and office administration and other	$	1,243	$	2,685
Depreciation		28		58
Stock-based compensation expense		31		96
Warrants		36		(9)
Long-term compensation		291		270
Foreign exchange		107		31
Total general and administrative expenses	$	1,736	$	3,131

6. Finance costs

For the three months ended December 31,		2013		2012
Interest on credit facilities	$	739	$	934
Other interest expense		236		21
Amortization of financing fees		200		171
Accretion		136		87
Total finance costs	$	1,311	$	1,213

7. Net earnings (loss) per share

For the three months ended December 31,		2013		2012
Earnings (loss) per share				
Basic and diluted	$	0.04	$	0.10
Weighted average number of common shares outstanding – basic		136,623,171		136,573,171
Dilutive effect of stock options		-		44,337
Dilutive effect of warrants		-		-
Weighted average number of common shares outstanding – diluted		136,623,171		136,617,508

8. Cash and cash equivalents

Cash and cash equivalents at December 31, 2013 were $9,368 (September 30, 2013 - $13,039). The terms of a loan agreement (the "EVBC Loan") with a third-party lender (the "EVBC Lender") require the deposit of certain amounts of cash generated from operating activities of Kinbauri into restricted cash accounts and also restricts the distribution of cash outside of Kinbauri in certain circumstances. Refer to note 9 – Restricted Cash.

9. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at December 31, 2013 was $17,319 (September 30, 2013 - $16,095), and included restricted cash on deposit with (i) the EVBC Lender for approximately $9,306 (September 30, 2012 - $8,225) for a debt service reserve for future principal and interest loan payments; a potential future reclamation bond payment of €5,000,000 or approximately $6,899 (September 30, 2013 - $6,756); a reserve for future royalty payments of $32 (September 30, 2013 - $32); and €30,000 or approximately $41 on deposit with a local bank as a damage deposit on rental equipment at the EVBC Mines (September 30, 2013 - $41), and (ii) a local Bolivian bank for approximately $1,041 related to labour claims under appeal (September 30, 2013 - $1,041) which was released from restricted cash subsequent to the end of the quarter.

Long-term restricted cash includes approximately $1,744 (September 30, 2013 - $1,744) 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, 2013, the matter remains unresolved.

Reclamation bonds

At December 31, 2013, cash backing reclamation bonds held in a Spanish financial institution was $10,375 (September 30, 2013 - $10,160) and is expected to be released after all reclamation work 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, with an additional €5,000,000 which may have to be deposited by Kinbauri and which is available for this purpose under restricted cash. Refer to note 23 – Commitments and contingent liabilities.

10. Inventory

	December 31, 2013	September 30, 2013
Ore in stockpiles	$ 799	$ 759
Ore in-process	255	-
Gold doré	1,485	1,950
Copper concentrates	7,795	5,276
Materials and supplies	10,818	9,687
	$ 21,152	$ 17,672
Long-term ore in stockpiles (EMIPA oxides)	2,019	$ 1,678
	$ 23,171	$ 19,350

11. Property, plant and equipment

	Land	Plant and equipment	Furniture and equipment	Equipment under finance lease	Mineral properties in production	Mineral properties in exploration and evaluation	Total
Net book value, October 1, 2013	$3,629	$65,840	$704	$6,169	$94,840	$19,641	$190,823
Additions	-	1,884	11	-	2,621	127	4,643
Capitalized depreciation	-	-	-	-	-	4	4
Disposals	-	(14)	(2)	-	-	-	(16)
Depreciation[(1)]	-	(2,496)	(97)	(214)	(4,468)	-	(7,275)
Net book value, December 31, 2013	3,629	65,214	616	5,955	92,993	19,772	188,179
Total cost	3,629	113,175	2,077	8,515	124,323	19,772	271,491
Total accumulated depreciation	-	(47,961)	(1,461)	(2,560)	(31,330)	-	(83,312)
Net book value, December 31, 2013	3,629	65,214	616	5,955	92,993	19,772	188,179

(1) Depreciation includes amounts included in inventory.

Mineral properties in production

(a) UMZ Mine (Bolivia)

Through its wholly-owned subsidiary, EMIPA, the Company owns and operates the UMZ Mine. The UMZ Mine is part of the Don Mario District comprising ten mineral concessions located in south eastern Bolivia.

The Company developed the UMZ Mine as an open pit copper-gold-silver deposit. Certain previously installed mine equipment is being utilized for the UMZ Mine. Commercial production commenced on January 1, 2012.

(b) EVBC Mines (Spain)

Orvana acquired the EVBC Mines in Spain in August 2009 through the acquisition of Kinbauri Gold Corp. 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 and has submitted its application for the receipt of this grant. 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 is collectable by Kinbauri over a two year period from the Spanish government in respect of the completed development of the EVBC Mines.

Mineral properties in exploration and evaluation

Copperwood Project (Michigan, USA)

The Company is currently evaluating the Copperwood Project in Michigan and the costs associated with this evaluation are included in mineral properties under exploration and evaluation. Orvana Resources, entered into mineral leases within the "Western Syncline" which is located in the Upper Peninsula of the State of Michigan. Under the mineral leases, in consideration for annual lease payments, Orvana Resources will have mineral rights until the later of the 20th anniversary of the date of the lease or the date Orvana Resources ceases to be actively engaged in development, mining, or related operations on the property. The mineral leases may be terminated by Orvana Resources on 60 days' notice.

12. Accounts payable and accrued liabilities

		December 31, 2013		September 30, 2013
Accounts payable	$	22,509	$	21,525
Accrued liabilities		4,021		4,680
Total accounts payable and accrued liabilities	$	26,530	$	26,205

13. Bank debt

EMIPA has short-term credit facilities with certain Bolivian banks for up to approximately $10,000 payable in 120 to 180 days from the date of advance with annual interest rates ranging from 7.0% to 7.5%. Certain of EMIPA's assets are pledged as security against these loans. As at December 31, 2013, approximately $9,856 (September 30, 2013 - $9,856) was drawn under these facilities.

In addition, at December 31, 2013, EMIPA provided bank guarantees to a Bolivian bank amounting to approximately $604 (September 30, 2013 - $465), 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. Short-term and Long-term debt

Short-term debt

The Company has a secured loan facility (the "Fabulosa Loan") with Fabulosa in the amount of $11,500. The Company has used proceeds drawn under the Fabulosa Loan for working capital purposes. Interest on the outstanding principal is calculated at a rate per annum of 12% and is payable monthly and the Company pays withholding taxes imposed by applicable taxing authorities. As of December 31, 2013, the outstanding balance of the loan was $2,731 (September 30, 2013 - $2,731). The Fabulosa Loan also contains covenants that, among other things, require principal repayment in the event of the sale of certain assets. The Fabulosa Loan is secured by, among other things, a general security assignment over present and future assets of Orvana excluding Kinbauri.

The availability period and the maturity period of the Fabulosa Loan expires September 30, 2014. Principal amounts outstanding under the Fabulosa Loan are required to be repaid in the minimum amount of $500 per month commencing on April 1, 2014, and the entire principal and interest is required to be repaid by the maturity date. In connection with a loan extension and amendment in the third quarter of fiscal 2013, the Company issued warrants to purchase 500,000 common shares of the Company, exercisable for five years at an exercise price of C$0.49 in August 2013. Refer to note 20 – Share capital and warrants.

Concurrent with the 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 of the Company, 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 of the outstanding common shares of the Company.

Long-term debt

In October 2010, Kinbauri entered into the $50,000 five-year term EVBC Loan. 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 $6,500 (€5,000) currently held in restricted cash to fund an environmental bond which may be required to be posted with governmental authorities in Spain. To the extent that the environmental bond is less than $6,500, these funds may be used for general corporate purposes.

The EVBC Loan contains covenants that restrict, among other things, Orvana's ability to incur additional indebtedness and make distributions in certain circumstances, to sell material assets or to carry on business other than one related to the mining business. Orvana is required to maintain certain financial ratios. Prior to December 31, 2013, the Company obtained waivers with respect to compliance with certain financial covenants and compliance with certain environmental non-compliance matters. The Company is currently negotiating certain amendments to the EVBC Loan.

The EVBC Loan required gold, copper and Euro/US dollar derivative instruments which have already been put in place. Refer to note 17 – Derivative Instruments. The security for the EVBC Loan includes 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 are guaranteed by an unsecured guarantee from Orvana. The interest on the EVBC Loan is Libor plus 4% per annum and management expects the cost of the EVBC Loan, including fees but excluding the costs associated with the required derivative instruments, to average approximately 5% to 6% per annum, based on current interest rates.

The balance outstanding at December 31, 2013 was $45,562 (September 30, 2013 - $48,433). During the three months ended December 31, 2013, $3,403 was paid in principal and interest on the EVBC Loan and the Company had on deposit the next two quarters principal and interest payments of $9,306 as restricted cash. The total annual principal repayment required in each fiscal year ending September 30, expressed as a percentage of the total amount of the EVBC Loan are: 2014 - 23.3%; 2015 - 27.6%; and 2016 - 25.1%.

Minimum long-term debt repayments are as follows:

	December 31, 2013	September 30, 2013
2014	$ 15,961	$ 14,844
2015	18,195	17,637
2016	11,406	15,952
	45,562	48,433
Less: current portion	(15,961)	(14,844)
	29,601	33,589
Financing fees	(2,178)	(2,378)
Total long-term debt	$ 27,423	$ 31,211

Cash interest paid for the three months ended December 31, 2013 was $657 (three months ended December 31, 2012 - $681).

Subsequent to quarter end, on January 3, 2014, the Company repaid $4,497 in principal and interest against this loan from the amount included in restricted cash at December 31, 2013.

15. Obligations under finance leases

During fiscal 2010 and fiscal 2011, the Company entered into leases with three-year terms to purchase certain mining equipment at a total cost of approximately $8,515 including deposits of $2,255 paid at the time of purchase. The leases are repayable in quarterly instalments at annual interest rates of 5.5% to 6.6%. At December 31, 2013, the obligation outstanding was $353 (September 30, 2013 - $627). During the three months ended December 31, 2013, the Company made lease payments of approximately $274 (December 31, 2012 - $542). Each lease contract contains a bargain purchase option of €10 per contract.

The following is a schedule of future minimum lease payments under these finance leases which will be fully paid in June 2014:

	December 31, 2013	September 30, 2013
Fiscal 2014	$ 356	$ 635
	356	635
Amount representing interest at 5.95%	(3)	(8)
	353	627
Less: current portion	(353)	(627)
Total long-term obligations under finance leases	$ -	$ -

The equipment under finance leases is being amortized over the estimated useful life of the assets.

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, 2013	September 30, 2013
Balance, beginning of period	$ 15,639	$ 7,851
Revision in estimated cash flows, timing of payments and discount rates		
– EVBC Mines	-	6,649
– UMZ Mine	-	817
	15,639	15,317
Accretion expense	137	322
Total decommissioning liabilities	$ 15,776	$ 15,639

For the EVBC Mines, the revision in estimated cash flows at September 30, 2013 includes the impact of the change in discount rate, the additional expected remediation costs related to the tailings dam, the inclusion of certain costs for remediation activities in respect of which the EVBC Mines have provided a reclamation bond to Spanish authorities fully cash-backed (see note 9 – Restricted cash and reclamation bonds), and the impact of the foreign exchange rate of Euros versus the US dollar.

For the UMZ Mine, the revision in estimated cash flows at September 30, 2013 includes the impact of the change in discount rate as well as the impact of the shorter expected mine life.

The decommissioning liability balance consists of:

		December 31, 2013		September 30, 2013
EVBC Mines	$	10,673	$	10,562
UMZ Mine		5,103		5,077
Total decommissioning liabilities	$	15,776	$	15,639

As at December 31, 2013, 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)]	$	15,938	4.2%	$	10,673
UMZ Mine		5,556	2.0%		5,103
Total	$	21,494		$	15,776

(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 2026 in respect of the UMZ 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 $10,375 at December 31, 2013 (September 30, 2013 - $10,160) and is expected to be released after all reclamation work has been completed. Refer to note 9 – Restricted cash and reclamation bonds.

17. Derivative instruments

Pursuant to the terms of the EVBC Loan, the Company entered into a number of gold, copper, and Euro/US dollar forward contracts and gold collars (economic hedges) relating to a portion of the expected gold and copper production from the EVBC Mines and relating to operating costs of Kinbauri incurred in Euros, while revenue is earned in US dollars.

Changes in the fair value of derivative instruments are recognized through earnings. The mark-to-market fair value of all contracts is based on independently provided market rates and determined using standard valuation techniques, including the impact of counterparty risk.

The gain resulting from the mark-to-market fair valuation of these contracts for the three months ended December 31, 2013 was $6,853 (December 31, 2012 - $13,300). The related deferred income tax expense on the unrealized gains for the three months ended December 31, 2013 was $2,056 (December 31, 2012 - $3,990). The Company recorded a gain for the cash settlement of contracts that matured during the three months ended December 31, 2013 of $1,631 (a loss at December 31, 2012 – $1,552).

For the three months ended December 31,		2013		2012
Gain in unrealized fair value during the period	$	(6,853)	$	(13,300)
Realized (gain) loss on cash settlements of derivative instruments		(1,631)		1,552
Derivative instruments gain	$	(8,484)	$	(11,748)

As at December 31, 2013, derivative instruments included in the balance sheet are comprised of:

Derivative instrument assets	Spot Rate/Price	Contract Rate/Price	Average Forward Rate/Price		Fair Value
Gold forwards	$1,203/oz	$1,334/oz	$1,206/oz	$	2,396
Gold collars	$1,203/oz	-	-		15,152
Total fair value of derivative instruments assets				$	17,548
Less: current portion					7,909
Total non-current derivative instruments assets				$	9,639

Derivative instrument liabilities	Spot Rate/Price	Contract Rate/Price	Average Forward Rate/Price		Fair Value
Currency contracts (EUR/USD)	$1.37	$1.38	$1.38	$	478
Copper forwards	$7,395/tonne	$7,260/tonne	$7,305/tonne		249
Total fair value of derivative instruments liabilities				$	727
Less: current portion					489
Total non-current derivative instruments liabilities				$	238

The following table summarizes the gold, copper and foreign exchange forward contracts:

	December 31, 2013	September 30, 2013
Gold forwards:		
Ounces	18,750.00	21,093.75
Price per ounce	$1,333.70	$1,333.70
Copper forwards:		
Tonnes	5,418.00	6,322.25
Price per tonne	7,260.00	7,260.00
Price per pound	$3.29	$3.29
US dollar/Euro forwards:		
Amount in US ($ 000's)	40,000	45,000
Contracted average Euro/US dollar exchange rate	$1.38	$1.38

The following table summarizes the gold puts and call contracts outstanding:

	December 31, 2013	September 30, 2013
Gold puts (October 2012 to September 2015):		
Ounces	33,600	57,600
Price per ounce	$1,550.00	$1,550.00
Gold calls (October 2012 to September 2015):		
Ounces	33,600	57,600
Price per ounce	$1,855.00	$1,855.00
Gold puts (October 2015 to September 2016):		
Ounces	19,200	19,200
Price per ounce	$1,250.00	$1,250.00
Gold calls (October 2015 to September 2016):		
Ounces	19,200	19,200
Price per ounce	$2,270.00	$2,270.00

18. 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, 2013, the obligation outstanding for these payments was $1,968 (September 30, 2013 - $2,376). This obligation was actuarially valued

to determine the present value of the future payments on this obligation using the projected unit credit method, taking into consideration employee turnover; historical record of employees cashing out; projected salary increases of 2.98%; and a discount rate of 4.5%.

19. 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.

For the three months ended December 31,		2013		2012
Current income taxes:				
Current tax on income for the year	$	1,430	$	1,726
Total current income taxes		1,430		1,726
Deferred income tax:				
Origination and reversal of temporary differences in Kinbauri		2,083		3,453
Total deferred income taxes (recoveries)		2,083		3,453
Total income taxes	$	3,513	$	5,179

Cash taxes paid for the period ended December 31, 2013 totaled $1,329 (December 31, 2012 - nil).

20. 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, 2012	136,573,171	$	116,148
Exercise of stock options	50,000		36
Transfer of fair value from contributed surplus	-		22
Balance, September 30, 2013	136,623,171		116,206
Balance, December 31, 2013	136,623,171		116,206

Warrants

During 2011, the Company issued to Fabulosa five-year warrants to purchase up to 2,725,000 common shares. The warrants will be exercisable only upon the issuance of, and in numbers equal to the number of common shares issuable upon the exercise of any of Orvana's outstanding stock 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. At December 31, 2013, 450,000 stock options were exercised that were outstanding as of May 16, 2011 and accordingly 450,000 warrants were exercisable.

During August 2013, the Company, as part of its amendment of the Fabulosa Loan, issued to Fabulosa warrants to purchase an additional 500,000 common shares at a purchase price of C$0.49 until August 9, 2018. Refer to note 14 – Short-term and long-term debt.

Warrants outstanding were valued using the Black-Scholes model and $195 was accrued at December 31, 2013 (September 30, 2013 – $159).

21. 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, 2012	3,451,669	$1.66
Granted	550,000	1.01
Exercised	(50,000)	0.75
Expired	(880,002)	1.30
Forfeited	(199,998)	0.94
Balance, September 30, 2013	2,871,669	$1.68
Expired	(33,334)	0.86
Forfeited	(33,333)	0.86
Balance, December 31, 2013	2,805,002	$1.70

Stock options have been expensed as follows:

	Cumulative expense to December 31, 2013	Remainder to be expensed	Total stock-based compensation
Stock-based compensation expense	$ 3,763	$ 76	$ 3,808

As at December 31, 2013, 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
March 5, 2009	$	40	-	0.18	150,000	$	0.64	March 4, 2014
October 23, 2009		65	-	0.81	150,000		0.88	October 23, 2014
February 26, 2010		61	-	1.16	125,000		1.01	February 26, 2015
May 17, 2010		12	-	1.38	20,000		1.31	May 17, 2015
December 10, 2010		1,218	-	1.94	710,000		3.65	December 10, 2015
April 1, 2011		163	-	2.25	100,000		3.01	April 1, 2016
December 20, 2011		218	-	2.97	416,667		1.03	December 20, 2016
March 28, 2012		129	83,334	3.24	208,333		0.88	March 28, 2017
June 1, 2012		127	66,665	3.42	216,669		0.86	June 1, 2017
August 30, 2012		4	-	3.67	8,334		0.92	August 30, 2017
October 2, 2012		46	33,333	3.76	66,667		0.93	October 2, 2017
March 7, 2013		141	166,666	4.19	83,334		1.02	March 7, 2018
March 29, 2013		107	133,334	4.25	66,666		1.05	March 29, 2018
	$	2,331	483,332	2.63	2,321,670			
Total vested and unvested stock options					2,805,002			

The Company uses the fair value method of accounting for stock options and, during the three months ended December 31, 2013, recognized stock-based compensation expense of $31 (December 31, 2012 - $96).

The compensation expense associated with the stock options for the three months ended December 31, 2013 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (2012 - 10%).

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

As at December 31, 2013, the fair value associated with unvested options is $247 (September 30, 2013 - $300).

(b) Long-term compensation

(i) 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 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 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, 2012	95,592	$	87
Issued	59,480		54
Redeemed	(56,897)		(51)
Mark-to-market adjustment	-		(47)
Changes in current portion	14,465		6
Balance, September 30, 2013	112,640	$	49
Issued	124,107		52
Redeemed	(116,342)		(47)
Mark-to-market adjustment	-		19
Changes in current portion	116,342		47
Balance, December 31, 2013	236,747	$	120

(ii) RSU plan

The Company established a RSU plan, effectively a phantom stock plan, for designated executives, effective October 1, 2008, with awards made as determined by the Board of Directors of the Company. RSUs are settled in cash and are valued using the market value of the underlying common shares of the Company at the grant date. The fair value of the RSUs is marked to the quoted market price of the Company's common shares at each reporting date and changes in their fair value are recorded in long-term compensation expense under general and administrative expenses.

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

	Number of RSUs		Fair Value
Balance October 1, 2012	94,794	$	86
Issued	314,485		284
Redeemed	(53,481)		(48)
Forfeited	(147,433)		(132)
Mark-to-market adjustment	-		(98)
Less current portion	(12,679)		(6)
Balance, September 30, 2013	195,686	$	86
Issued	618,696		268
Redeemed	(49,462)		(19)
Mark-to-market adjustment	-		60
Changes in current portion	(146,224)		(81)
Balance, December 31, 2013	618,696	$	314
Balance, December 31, 2013 – Long-term compensation ((i) DSUs and (ii) RSUs)		$	434

22. 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,		2013		2012
Salaries and short term employee benefits	$	471	$	467
Share-based payments[1]		371		366
Total compensation of key management	$	842	$	833

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

23. 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) The Company is subject to certain risks, including currency fluctuations and possible political or economic instability, which may result in the impairment or loss of mineral concessions or other mineral rights. Any changes in laws or regulations in the jurisdictions in which the Company operates, or shifts in political attitudes are beyond the control of the Company and may adversely affect its business.

(c) On June 27, 2011, as a condition of operating 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 €10,000,000 (approximately $13,791). The Company deposited €5,000,000 (approximately $6,896) in September 2011 with a local bank in favour of the Spanish regulatory authorities and may have to deposit another instalment of €5,000,000 (approximately $6,896) which the Company is challenging based on technical considerations. The Company has such funds available as restricted cash in the event that it has to meet this potential obligation.

(d) Production from the EVBC Mines is subject to a 3% net smelter return royalty (“NSR”), referred to herein as the EVBC Royalty, payable quarterly. The EVBC Royalty rate decreases to 2.5% for any quarter in which the average price of gold is below $1,100 per ounce. In consideration for the EVBC Royalty, the royalty holder advanced C$7,500,000. The debenture was settled through payments calculated in the same manner as the EVBC Royalty as sales are made.

In addition, as the aggregate amount paid as at December 31, 2012 under the EVBC Royalty was less than C$7,500,000, the royalty holder exercised its right for a required pre-payment of future EVBC Royalty payments. The prepayment amount is based on the C$7,500,000 less the royalty payments made to December 31, 2012. This pre-payment right is being financed until July 1, 2014 at a rate of 12%, with all royalty payments made between January 1, 2013 and the repayment date serving to reduce such amount. Royalty expense under this NSR reducing the pre-payment amount was $639 for the three months ended December 31, 2013 (December 31, 2012 - $537).

(e) On November 22, 2011, the Company reported that an employee at the EVBC Mines 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. Currently, certain proceedings are ongoing to determine whether any standards have been breached that may give rise to criminal charges and civil liability. In addition, the Company has been notified by the applicable mining regulatory authorities that, following the completion of the current proceedings, there will 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.

(f) Production from the UMZ Mine is subject to a 3% NSR royalty payable to a third party quarterly. Royalty expense under this NSR totaled $349 for the three months ended December 31, 2013 (three months ended December 31, 2012 - $496). The Bolivian government collects a mining royalty tax on the revenue generated from copper, gold and silver sales from the UMZ Mine at rates of 5%, 7% and 6%, respectively. These amounts totaled $1,198 for the three months ended December 31, 2013 (December 31, 2012 - $1,641).

(g) Minerals leases entered into by Orvana Resources are subject to quarterly NSR royalty payments and will range from 2% to 4% on a sliding scale based on inflation-adjusted copper prices. The mineral leases may be terminated by Orvana Resources on 60 days’ notice.

(h) On June 16, 2013, an incident occurred at one of the EVBC Mines resulting in material damage to the hoist/shaft system. A fully loaded skip overran the safety interlocks in the head frame, the hoisting rope broke, and the skip dropped to the shaft bottom damaging the loading pocket. The Company is committed to approximately $4,100 for the reconstruction and upgrade of the hoist, with approximately $1,466 spent during the three months ended December 31, 2013 and $2,582 spent to date.

(i) The Company may be involved in legal proceedings from time to time, arising in the ordinary course of its business. The amount of ultimate liability with respect to these actions will not, in the opinion of management, 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.

24. 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. Its activities include gold and copper concentrate production and exploration and development of gold and copper properties. The Company's primary mining operations are EMIPA in Bolivia, the EVBC Mines in Spain and the Copperwood project in the United States. 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, 2013:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets[(1)]	Total assets
EMIPA	$ 4,429	$ 23,297	$ 2,786	$ 26,035	$ 56,547
Kinbauri[(1)]	3,821	142,725	26,652	40,293	213,491
Copperwood	49	21,840	-	-	21,889
Canada and other	1,069	317	-	135	1,521
	$ 9,368	$ 188,179	$ 29,438	$ 66,463	$ 293,448

(1) Kinbauri's other assets include $17,548 for the receivable on the unrealized value of the derivative instruments.

As at September 30, 2013:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets[(1)]	Total assets
EMIPA	$ 4,393	$ 24,929	$ 2,786	$ 23,959	$ 56,067
Kinbauri[(1)]	6,655	143,834	25,213	32,312	208,014
Copperwood	158	21,714	-	17	21,889
Canada and other	1,833	346	-	190	2,369
	$ 13,039	$ 190,823	$ 27,999	$ 56,478	$ 288,339

(1) Kinbauri's other assets include $11,653 for the receivable on the unrealized value of the derivative instruments.

For the three months ended December 31, 2013:

	Revenue	Mining costs[1]	Depreciation Amortization[2]	Derivative instrument gain	Other costs	Income (loss) before taxes
EMIPA	$ 13,376	$ 7,331	$ 1,902	$ -	$ 837	$ 3,306
Kinbauri	21,844	16,445	5,035	(8,484)	839	8,009
Copperwood	-	-	-	-	(91)	91
Canada and other	-	-	28	-	1,857	(1,885)
	$ 35,220	$ 23,776	$ 6,965	$ (8,484)	$ 3,442	$ 9,521

(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, 2012:

	Revenue	Mining costs[1]	Depreciation Amortization[2]	Derivative instrument loss	Other costs	Income (loss) before taxes
EMIPA	$ 18,191	$ 10,333	$ 1,536	$ -	$ 259	$ 6,063
Kinbauri	17,460	9,913	2,483	(11,748)	792	16,020
Copperwood	-	-	-	-	183	(183)
Canada and other	-	-	58	-	3,012	(3,070)
	$ 35,651	$ 20,246	$ 4,077	$ (11,748)	$ 4,246	$ 18,830

(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.

25. 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 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, 2013	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:				
Derivative instruments	$ -	$ 17,548	$ -	$ 17,548
Total	$ -	$ 17,548	$ -	$ 17,548
Financial liabilities:				
Derivative instruments	$ -	$ 727	$ -	$ 727
Long-term compensation	434	-	-	434
Warrants	-	195	-	195
Total	$ 434	$ 922	$ -	$ 1,356

Valuation techniques for Level 2 financial instruments:

Derivative instruments: The fair values for financial instruments are estimated using industry standard valuation models. Where applicable, these models use observable inputs including commodity forward prices, foreign exchange rates and forward prices determined using applicable yield curves at each measurement date for comparable contracts and represent the amounts the Company would have received from or paid to a counterparty to unwind the contract at the market rates in effect at the balance sheet date. Derivative instruments fall within 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, 2013 and September 30, 2013, the carrying amounts of cash and cash equivalents; restricted cash; concentrate and doré receivables; value added taxes, other receivables and prepaids; bank debt; accounts payable and accrued liabilities; short-term debt; and obligations under finance leases are approximate their fair value due to their short-term maturities.

The Company's long-term debt carries interest based on specified benchmark interest rates plus a spread. The fair values of the Company's debt obligations approximate their carrying amounts due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the Company's own credit risk. Refer to note 14 – Short-term and long-term debt.