



**AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(EXPRESSED IN UNITED STATES DOLLARS)**

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Orvana Minerals Corp. were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 3 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee comprised of members of the Board of Directors assists the Board of Directors in fulfilling this responsibility. The members of the Audit Committee are not officers of the Company. The Audit Committee meets with management to review the internal controls over the financial reporting process, the consolidated financial statements and the auditor's report. The Audit Committee also reviews other continuous disclosure documents of the Company containing financial information to ensure that the financial information reported therein is consistent with the information presented in the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders. The external auditor has full and unrestricted access to the Audit Committee to discuss the scope of its audits, the adequacy of the system of internal controls and review financial reporting issues.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

[signed]

Jim Gilbert

Chairman and Chief Executive Officer

Toronto, Canada

December 13, 2016

[signed]

Jeffrey Hillis

Chief Financial Officer



December 13, 2016

Independent auditor's report

To the Shareholders of Orvana Minerals Corp.

We have audited the accompanying consolidated financial statements of Orvana Minerals Corp. and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2016 and September 30, 2015, and the consolidated statements of net loss and comprehensive loss, the consolidated statements of cash flows, and the consolidated statements of changes in shareholders' equity, for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orvana Minerals Corp. and its subsidiaries as at September 30, 2016, and September 30, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) “PriceWaterhouse Coopers LLP”

Chartered Professional Accountants, Licensed Public Accountants

ORVANA MINERALS CORP.**Consolidated Statements of Net Loss and Comprehensive Loss****(in thousands of United States dollars)**

	Years ended September 30,			
	2016		2015	
Revenue	\$	93,850	\$	121,425
Cost of sales				
Mining costs (note 6)		84,544		105,384
Depreciation and amortization		17,189		29,895
		101,733		135,279
Gross margin		(7,883)		(13,854)
Expenses				
General and administrative (note 7)		5,538		5,129
Exploration		345		1,583
Community relations		401		490
Other expense (income) (note 8)		(1,455)		767
Finance costs (note 9)		441		872
Derivative instruments unrealized loss (note 10)		60		-
		5,330		8,841
Loss before income taxes		(13,213)		(22,695)
Provision for income taxes				
Current income taxes (note 21)		172		658
Deferred tax recovery (note 21)		(4,930)		(6,620)
		(4,758)		(5,962)
Net loss and comprehensive loss	\$	(8,455)	\$	(16,733)
Net loss per share (note 11)				
Basic and diluted	\$	(0.06)	\$	(0.12)

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

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

	Years ended September 30,	
	2016	2015
Operating activities		
Net loss from continuing operations	\$ (8,455)	\$ (16,733)
Adjustments for:		
Depreciation and amortization	17,298	30,006
Loss on disposal of assets	407	276
Accretion	221	121
Interest on Copperwood note (note 5)	-	(259)
Amortization of deferred financing fees	34	714
Stock-based compensation	18	81
Warrants	31	(48)
Long-term compensation	89	(29)
Deferred tax recovery	(4,930)	(6,620)
Provision for statutory labour obligations	391	273
Foreign exchange loss	35	689
Derivative instruments unrealized loss	60	-
	5,199	8,471
Changes in non-cash working capital		
Concentrate and doré sales receivables	(1,679)	3,988
Value added taxes and other receivables and prepaid expenses	347	10,761
Inventory	(1,664)	2,468
Accounts payable and accrued liabilities	1,513	(3,501)
Income taxes payable	(279)	(1,509)
	(1,762)	12,207
Cash provided by operating activities	3,437	20,678
Financing activities		
Proceeds of BISA Loan (note 17)	4,928	-
Proceeds of Prepayment Facility (note 18)	7,226	-
Repayment of bank debt (note 16)	(961)	(7,886)
Repayment of El Valle Loan	-	(16,614)
Deferred financing fees	(501)	-
Finance leases (note 19)	1,979	-
Repayment of finance leases (note 19)	(196)	-
Cash used in financing activities	12,475	(24,500)
Investing activities		
Capital expenditures	(14,977)	(10,118)
Restricted cash	771	6,909
Proceeds from sale of Copperwood (note 5)	-	7,533
Cash provided by investing activities	(14,206)	4,324
Change in cash and cash equivalents	1,706	502
Cash and cash equivalents, beginning of the year	17,236	16,545
Effect of exchange rate changes on cash	(3)	189
Cash and cash equivalents, end of year	\$ 18,939	\$ 17,236

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

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

	As at September 30, 2016	As at September 30, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 18,939	\$ 17,236
Restricted cash (note 12)	2,092	2,593
Concentrate and doré sales receivables	2,368	689
Value added taxes and other receivables and prepaid expenses	9,721	7,345
Copperwood note (note 5)	1,108	-
Inventory (note 13)	17,947	15,497
Income tax receivable	280	-
	52,455	43,360
Non-current assets		
Value-added taxes and other receivables	4,039	7,687
Restricted cash (note 12)	1,963	2,233
Reclamation bonds (note 12)	8,408	8,428
Deferred income tax asset (note 21)	1,541	100
Property, plant and equipment (note 14)	105,856	107,627
	\$ 174,262	\$ 169,435
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 15)	\$ 26,935	\$ 25,238
Income taxes payable (note 21)	101	100
Bank debt (note 16)	517	1,478
BISA Loan (note 17)	4,928	-
Deferred revenue (note 18)	356	-
Current portion of Prepayment Facility (note 18)	444	-
Obligations under finance leases (note 19)	885	-
Derivative instruments (note 10)	60	-
	34,226	26,816
Non-current liabilities		
Decommissioning liabilities (note 20)	20,713	19,904
Prepayment Facility (note 18)	6,381	-
Deferred revenue (note 18)	400	-
Obligations under finance leases (note 19)	898	-
Provision for statutory labour obligations	2,958	2,567
Deferred income tax liability (note 21)	1,810	5,299
Other liabilities (note 12)	1,987	1,655
Long-term compensation (note 23 (b))	729	629
Warrants (note 22)	49	17
	70,151	56,887
Shareholders' equity		
Share capital (note 22)	116,206	116,206
Contributed surplus	3,500	3,482
Retained earnings (deficit)	(15,595)	(7,140)
	104,111	112,548
	\$ 174,262	\$ 169,435

Commitments and contingencies (note 25)

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

Approved by the Board of Directors:

[signed] Ed Guimaraes, Director

[signed] Jim Gilbert, Director

ORVANA MINERALS CORP.**Consolidated Statements of Changes in Shareholders' Equity****(in thousands of United States dollars)**

		Share Capital		Contributed Surplus		Retained Earnings		Total
Balance, October 1, 2015	\$	116,206	\$	3,482	\$	(7,140)	\$	112,548
Stock-based compensation		-		18		-		18
Net loss		-		-		(8,455)		(8,455)
Balance, September 30, 2016	\$	116,206	\$	3,500	\$	(15,595)	\$	104,111

		Share Capital		Contributed Surplus		Retained Earnings		Total
Balance, October 1, 2014	\$	116,206	\$	3,401	\$	9,593	\$	129,200
Stock-based compensation		-		81		-		81
Net loss		-		-		(16,733)		(16,733)
Balance, September 30, 2015	\$	116,206	\$	3,482	\$	(7,140)	\$	112,548

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

ORVANA MINERALS CORP.

Notes to the consolidated financial statements

(in thousands of United States dollars unless otherwise noted)

For the years ended September 30, 2016 and 2015

1. Nature of operations and corporate information

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

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

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

2. Basis of preparation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and including interpretations by the International Financial Reporting Interpretations Committee ("IFRIC").

The preparation of these 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 – Critical accounting estimates and judgements. Certain comparative amounts have been reclassified to conform to the current year's presentation.

These consolidated financial statements for the year ended September 30, 2016 were approved by the Board of Directors of the Company on December 13, 2016.

3. Summary of significant accounting policies

(a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments including derivative instruments, warrants and stock options, which are measured at fair value.

(b) Principles of consolidation

The financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

Wholly-owned subsidiaries:

Operating companies:

Empresa Minera Paititi S.A.

OroValle Minerals S.L.

Non-operating companies:

Orvana Minerals Asturias Corp.

Orvana Cyprus Limited

Orvana Sweden International AB

Orvana Pacific Minerals Corp.

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(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Executive Officer of the Company.

(d) Foreign currency translation

i. Functional and presentation currency

The Company's functional and presentation currency is the United States dollar. Functional currency is also determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The functional currency of all of the Company's subsidiaries has also been determined to be the United States dollar.

ii. Transactions and balances

Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates of exchange. Significant transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction, other income and expense transactions in currencies other than the functional currency are translated into the functional currency using the average exchange rates from the previous month. Foreign exchange gains and losses are recognized in the consolidated statement of income.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and short-term highly liquid deposits with original maturities of 90 days or less. Cash that is held in escrow, or otherwise restricted from use, is excluded and is reported separately from cash and cash equivalents.

(f) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories:

i. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified in this category if acquired principally for the purpose of trading in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of income. Gains and losses arising from changes in fair value are presented in the consolidated statement of income within derivative instruments (gains) and losses in the period in which they arise.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and cash equivalents, restricted cash, concentrate and doré receivables and reclamation bonds and are included in assets. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a

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discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method.

iii. Financial liabilities at amortized cost

Financial liabilities at amortized cost include bank debt, accounts payable and accrued liabilities. Accounts payable are recognized at the amount required to be paid. Bank debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(g) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified as fair value through profit or loss) is impaired.

The criteria used to determine if there is objective evidence of an impairment loss include:

- i. Significant financial difficulty of the obligor;
- ii. Delinquencies in interest or principal payments; and
- iii. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets could be impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

i. Financial assets carried at amortized cost:

The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

ii. Available-for-sale financial assets:

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less impairment losses previously recognized in the consolidated statement of income. This amount represents the loss in accumulated other comprehensive income that is re-classified to net income.

Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

(h) Inventories

Gold inventory, which consists of gold bullion and gold in circuit, gold-copper concentrate inventory and ore stock pile inventory are stated at the lower of cost and net realizable value. Material and supplies inventory is stated at the lower of average cost and replacement cost.

(i) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of

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the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of income during the period in which they occur.

Effective from the point that they are ready for their intended use, plant and equipment; furniture and equipment; equipment under finance leases; corporate equipment and mineral properties are amortized on a straight line basis or using the units-of production method over the shorter of the estimated economic life of the asset or mineral property. The method of depreciation is determined based on that which best represents the use of the assets.

The reserve and resource estimates for each operation are the prime determinants of the life of a mine. In general, an ore body where a mineralization is reasonably well defined is amortized over its proven and probable mineral reserves. Non-reserve material may be included in the depreciation calculations in limited circumstances where there is a high degree of confidence in economic extraction. Changes in the estimate of mineral reserves and resources will result in changes to depreciation and will be accounted for on a prospective basis over the remaining life of the operation.

Estimated useful lives of major asset categories are as follows:

Plant and equipment	3 to 10 years
Furniture and equipment	3 to 5 years

(j) Exploration and development

Acquired mineral properties are recognized at cost, or if acquired as part of a business combination, at fair value at the date of acquisition. Exploration expenditures are capitalized once management has determined that there is a reasonable expectation of economic extraction of minerals from the property. Mineral properties under exploration are reclassified to mineral properties under development when technical feasibility and commercial viability of the property can be demonstrated. Expenditures directly attributable to the development of the property are capitalized.

(k) Mineral properties in development and production

Mineral properties in development and production are classified as property, plant and equipment. The Company assesses each mine development project to determine when a mine has advanced to the production stage. The criteria used to assess the start date are determined based on the nature of each mine development project, such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when a mine is substantially complete and ready for its intended use and has advanced to the production stage. The criteria considered include: (1) the completion of a reasonable period of testing of mine plant and equipment; (2) the ability to produce materials in saleable form (within specifications); and (3) the ability to sustain ongoing production of minerals. When a mine construction project has advanced into the production stage, the capitalization of certain mine construction costs cease and costs are either included in inventory or expensed, except for sustaining capital costs related to property, plant and equipment and underground mine development or reserve development.

(l) Impairment of non-financial assets

Property, plant and equipment, including intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units or "CGU"). The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of income.

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At each financial position reporting date the carrying amounts of the Company's assets, including mineral properties under exploration and mineral properties under development, are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

An impairment loss, excluding those recognized in goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Decommissioning liabilities

The Company recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in finance costs. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The liabilities are reviewed on a regular basis for changes in cost estimates, discount rates and operating lives.

(n) Revenue recognition

For the sale of gold-copper concentrate, the revenue recognition criteria are typically met upon notification of payment of the provisional invoice by the buyer. Provisionally priced contracts contain embedded derivatives meeting separate recognition criteria. Sales of gold-copper concentrate are based on specific sales agreements and are subject to adjustment upon final settlement of shipment weights, assays and metal prices, including provisions where final metal prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded provisionally based on spot prices or average market prices, depending on the sales contract. Subsequent variations to weights, assays and metal prices are recognized in revenue each period end and in the period of final settlement. Refining and treatment charges and freight in respect of certain contracts are netted against revenues from concentrate sales. The Company's revenue is dependent on three contracts with off-take customers, two of whom comprise more than 10% of revenue.

Revenue from gold doré is recognized upon notification of payment from the buyer based on spot prices. Sales of gold doré are based on specific sales agreements and are subject to adjustment upon final settlement of shipment weights, and assays.

(o) Deferred revenue

The Company recognizes deferred revenue on the statement of financial position when it has received cash in return for an obligation to deliver concentrate or doré product in a future reporting period. As product is delivered under such an agreement, the deferred revenue balance is reduced as revenue is recognized on the statement of income.

(p) Cost of sales

Cost of sales consists of mining costs, which include personnel costs; energy costs (principally diesel fuel and electricity); maintenance and repair costs; operating supplies; external services; costs associated with delivery of the concentrate and doré to the point of sale; an allocation of site general and administrative costs; costs related to royalty expenses for the period; and depreciation and amortization. All costs include any impairment to reduce inventory to net realizable value.

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(in thousands of United States dollars unless otherwise noted)

For the years ended September 30, 2016 and 2015

(q) Share-based payments

Directors and senior executives of the Company participate in long-term compensation plans under which they are eligible to purchase or receive Company common shares or the equivalent cash amount. The plans consist of a stock option plan, a restricted share unit plan, a deferred share unit plan and stock appreciation rights.

Awards under the compensation plans are measured at fair value on the date of grant and recorded as compensation expense in the statements of loss over the vesting period. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. The Company re-assesses, at the end of each reporting period, its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the consolidated statement of income.

i. Stock options

As stock option awards are settled in common shares of the Company, the obligations under the stock option plan are included in contributed surplus within shareholders' equity. The fair value of stock options is determined using a Black-Scholes option pricing model.

ii. Restricted share units ("RSUs") and deferred share units ("DSUs")

RSUs and DSUs are settled in cash and the obligations under these plans are recorded as liabilities. The liabilities are adjusted to fair value each reporting date with the changes recorded as long-term compensation expense under general and administrative expense. The fair value of RSUs and DSUs is determined based on the quoted market price of Company's common shares at the reporting date.

iii. Stock appreciation rights ("SARs")

As SARs are settled in cash, the obligations under these plans are recorded as liabilities. The liabilities are adjusted to fair value each reporting date with the changes recorded as long-term compensation expense under general and administrative expenses. The fair value of the SARs is 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.

(r) Earnings per share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed using the "treasury stock method". The treasury stock method assumes that all "in the money" option proceeds are used to purchase common shares of the Company at the average market price during the period.

(s) Leases

Leases are classified as either finance or operating leases. Finance leases are those that substantially transfer the benefits and risks of ownership to the lessee.

Assets held under finance leases are recognized as assets of the Company at the lower of the fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are charged to the consolidated statement of income, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Total payments under operating leases are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized straight-line over the lease term.

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(in thousands of United States dollars unless otherwise noted)

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(t) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to prepare for its intended use or sale. All other borrowing costs are recognized as interest expense in the consolidated statement of income in the period in which they are incurred.

(u) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Government grants related to additions or betterments to property, plant and equipment are recognized as credits against the carrying values of the related assets, and subsequently recognized in net earnings over the useful lives of the related assets as reductions to the resulting depreciation expense.

(v) New standards and interpretations not yet adopted

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 for annual periods beginning on or after 1 January 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 a new standard, IFRS 15 Revenue from contracts with customers ("IFRS 15"). IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company has not yet determined the potential impact the adoption of IFRS 15 will have on its financial statements.

iii. IFRS 16 Leases

In January 2016, the IASB issued a new standard, IFRS 16 Leases ("IFRS 16"). IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for the Company's interim financial statements for the quarter ended December 31, 2019, with earlier adoption permitted if IFRS 15 Revenue from contracts with customers, has also been applied. The Company has not yet determined the potential impact the adoption of IFRS 16 will have on its financial statements.

4. Critical accounting estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

ORVANA MINERALS CORP.

Notes to the consolidated financial statements

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For the years ended September 30, 2016 and 2015

(a) Impairment of non-financial assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value-in-use and fair value less costs to sell. Determining the value-in-use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the year ended September 30, 2016 or 2015.

(b) Decommissioning liabilities

Management is required to make significant estimates and assumptions in determining the Company's ultimate obligation for decommissioning liabilities. There are numerous factors that will affect the ultimate liability payable including the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Management is also required to apply judgment in determining whether any legal or constructive obligation exist to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties.

As at September 30, 2016, the Company had recognized \$20,713 of decommissioning liabilities (September 30, 2015 – \$19,904). Refer to note 20 – Decommissioning liabilities.

(c) Income taxes

Judgment is required in determining whether deferred tax assets are recognized. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. As at September 30, 2016, the Company had non-capital losses of \$20,245 (September 30, 2015 – \$21,144) in Canada that expire over the periods of 2027 to 2033 and other deductible temporary differences of \$4,264 (September 30, 2015 – \$3,696). EMIPA had deductible temporary differences of \$17,778 (September 30, 2015 – \$21,092). The Company has not recognized the benefit of these items in the financial statements. Refer to note 21 – Income taxes.

5. Divestiture of Copperwood

In June 2014, the Company sold the Copperwood Project to Highland Copper Company Inc. ("Highland") through its formerly wholly-owned subsidiary, Orvana Resources US Corp. The Company received a cash payment of \$13,000 and a secured promissory note in the amount of \$7,000 (the "Copperwood Note") which was subsequently paid in full in December 2014 together with \$533 in interest. Additional consideration of up to \$5,000 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) June 17, 2017; and an additional \$1,250 on the first anniversary of this payment; and
- \$1,250 if the average copper price for any 60 calendar day period following the first anniversary and preceding the second anniversary of commencement of commercial production is greater than \$4.25/lb; and an additional \$1,250 if the average copper price for any 60 calendar day period following the second anniversary and preceding the third anniversary of the commencement of commercial production is greater than \$4.50/lb.

6. Mining costs

Mining costs include mine production costs, transport costs, royalty expenses, site administration costs, applicable stripping costs and other related costs, but not the primary mine development costs, incurred at El Valle, which are capitalized and depreciated over the specific useful life or reserves related to that development and are included in depreciation and amortization. The mining costs for the year ended September 30, 2016 and 2015 relate to El Valle and Don Mario.

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For the years ended September 30,	2016	2015
Direct mining costs	\$ 78,693	\$ 96,571
Royalties and mining rights ⁽¹⁾	2,974	3,813
Mining royalty taxes ⁽²⁾	2,877	5,000
Total mining costs	\$ 84,544	\$ 105,384

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

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

7. General and administrative expenses

For the years ended September 30,	2016	2015
Salaries, directors fees and office administration	\$ 4,242	\$ 5,008
Depreciation	109	111
Stock-based compensation expense	18	81
Warrants	32	(60)
Long-term compensation	418	(84)
Foreign exchange loss	719	73
Total general and administrative expenses	\$ 5,538	\$ 5,129

8. Other (income) expense

For the years ended September 30,	2016	2015
Loss on disposal of fixed assets	\$ -	\$ 276
Provision for uncollectible VAT – EMIPA ⁽¹⁾	274	219
Hoist settlement – OroValle ⁽²⁾	(1,500)	-
Miscellaneous other (income) expense	(229)	272
Total other (income) expenses	\$ (1,455)	\$ 767

(1) Based on the results of completed audits conducted by the Bolivian National Tax Services with respect to VAT claims, the Company had a provision of \$2,425 as at September 30, 2016 for certain VAT amounts received or receivable that have not been audited by the Bolivian National Tax Services (September 30, 2015 – \$2,151).

(2) In 2016, the Company recovered a portion of its loss for the basic recovery costs of the hoist in 2013.

9. Finance costs

For the years ended September 30,	2016	2015
Interest on credit facilities	\$ 83	\$ 332
Effective interest on Prepayment Facility	124	-
Other interest (income) expense	45	(294)
Amortization of financing fees	34	714
Accretion expense on decommissioning obligations	338	303
Accretion gains on Copperwood deferred payments	(183)	(183)
Total finance costs	\$ 441	\$ 872

10. Derivative instruments

The Company had the following outstanding derivative instruments at September 30, 2016:

	Contract Prices	Cash Settlement	Contract Amounts
Copper			
Copper forwards (Oct 2016 - May 2017)	\$4,519 to \$4,850 / tonne	Monthly	907 tonnes
Gold			
Gold forwards (Oct 2016 – Feb 2017)	\$1,300/ troy oz	Monthly	12,500 troy oz
Gold capped calls (Oct 2016 – Feb 2017)	\$1,350 to \$1,445 / troy oz	Monthly	12,500 troy oz

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As at September 30, 2016, approximately 30% of the Company's forecasted gold from October 2016 to February 2017 and 20% of forecasted copper production from October 2016 to May 2017 was hedged under the gold and copper derivative instruments. The Company paid net cash of \$338 in settlement of the derivative instruments that matured in the period.

As at September 30, 2016, the Company's outstanding derivative instruments were valued on the balance sheet as follows:

	Spot Rate / Price	Contract Rate / Price	Fair Value
Derivative instrument assets			
Gold capped calls	\$1,319/oz	\$1,350 to \$1,445 / troy oz	\$321
Total fair value of derivative instruments assets at September 30, 2016			\$321

	Spot Rate / Price	Contract Rate / Price	Avg. Forward Rate/Price	Fair Value
Derivative instrument liabilities				
Gold forwards	\$1,319/oz	\$1,300/oz	\$1,317/oz	\$209
Copper forwards	\$4,872/t	\$4,519 to \$4,850 /t	\$4,855/t	\$172
Total fair value of derivative instruments liabilities at September 30, 2016				\$381
Total fair value of derivative instruments liabilities, net at September 30, 2016				\$60

Changes in the fair value of the Company's outstanding derivative instruments are recognized through the Company's income statement as non-cash derivative instrument gains or losses. At maturity of each contract, a cash settlement takes place resulting in a corresponding reduction in the carrying value of the derivative instruments. The mark-to-market fair value of the Company's outstanding derivative instruments is based on independently provided market rates and determined using standard valuation techniques, including the impact of counterparty credit risk. The counterparty for all the derivative instruments is Auramet International LLC.

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

For the years ended September 30,	2016	2015
Change in unrealized fair value	\$ 60	\$ -
Realized loss on cash settlements of derivative instruments ⁽¹⁾	338	-
Derivative instruments loss	\$ 398	\$ -

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

11. Net loss per share

For the years ended September 30,	2016	2015
Net loss	\$ (8,455)	\$ (16,733)
Weighted average number of common shares outstanding – basic and diluted	136,623,171	136,623,171
Net loss per share – basic and diluted	\$ (0.06)	\$ (0.12)

ORVANA MINERALS CORP.

Notes to the consolidated financial statements

(in thousands of United States dollars unless otherwise noted)

For the years ended September 30, 2016 and 2015

12. Restricted cash and reclamation bonds

Restricted cash

Restricted cash as at September 30, 2016 was \$2,092 (September 30, 2015 – \$2,593), consisting of restricted cash placed on deposit with a Canadian bank as security for the BISA Loan as well as guarantees on VAT credit notes which expire after 120 days and are pending the final approval and audit of these credit notes by the Bolivian government.

Long-term restricted cash as at September 30 2016 was \$1,963 (September 30, 2015 – \$2,233), related to a deposit with a local bank in favour of the Bolivian government pending the appeal of a value added taxes (“VAT”) audit. The VAT audit relates to an audit by the Bolivia National Tax Service, for which EMIPA filed a tax lawsuit in January 2011 before the Bolivian Supreme Court. The associated liability related to the VAT audit has been recorded as other liabilities on the statement of financial position. As of September 30, 2016, the matter remains unresolved.

Reclamation bonds

At September 30, 2016, cash backed reclamation bonds held in a Spanish financial institution were \$8,408 (September 30, 2015 – \$8,428) and are expected to be released after all reclamation work at El Valle Mine and Carlés Mine has been completed. Prior to its acquisition by OroValle, El Valle Mine and Carlés Mine had been shut down by the owner thereof and remediation measures required were completed. On OroValle's acquisition of El Valle Mine and Carlés Mine a reclamation bond of €894,684 was deposited, as required by Spanish mining regulations. In fiscal 2010 and 2011, additional reclamation bonds in the amounts of €1,521,960 and €5,000,000, respectively were deposited by OroValle relating to its tailings facility.

Spanish regulatory authorities have requested an additional reclamation bond totaling €5,000,000 (approximately \$5,581) be deposited in their favour to satisfy additional reclamation bond commitments in respect of the tailings impoundment area. The Supreme Court of Spain recently ordered a retrial regarding the amount of the bond. The Company is working with Spanish regulatory authorities to come to an agreement regarding posting this bond, while preserving the Company's rights in court. Funds to cover this commitment have been segregated outside the Company's operating accounts during this interim period.

13. Inventory

As at September 30,	2016	2015
Ore in stockpiles	\$ 222	\$ 386
Ore in-process	1,311	1,581
Gold doré	357	202
Copper concentrates	7,523	4,477
Materials and supplies	8,534	8,851
	\$ 17,947	\$ 15,497

The Company recognized \$90,501 of inventory in cost of sales for the year ended September 30, 2016 (September 30, 2015 - \$115,997).

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	Land	Plant and equipment	Furniture and equipment	Mineral properties in production	Total
Net book value, October 1, 2015	\$1,600	\$46,376	\$378	\$59,273	\$107,627
Additions	-	12,100	65	4,047	16,212
Disposals	-	(407)	-	-	(407)
Change in decommissioning assets (note 20)	-	505	-	-	505
Depreciation ⁽¹⁾	-	(8,344)	(196)	(9,541)	(18,081)
Net book value, September 30, 2016	1,600	50,230	247	53,779	105,856
Total cost	1,600	125,080	2,265	124,147	253,092
Total accumulated depreciation	-	(74,850)	(2,018)	(70,368)	(147,236)
Net book value, September 30, 2016	1,600	50,230	247	53,779	105,856

(1) Depreciation includes amounts recorded in inventory.

	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	-	7,050	144	2,869	10,063
Disposals	-	(276)	-	-	(276)
Depreciation ⁽¹⁾	-	(13,571)	(206)	(15,656)	(29,433)
Net book value, September 30, 2015	\$1,600	\$46,376	\$378	\$59,273	\$107,627
Total cost	\$1,600	\$112,882	\$2,200	\$120,100	\$236,782
Total accumulated depreciation	-	(66,506)	(1,822)	(60,827)	(129,155)
Net book value, September 30, 2015	\$1,600	\$46,376	\$378	\$59,273	\$107,627

(1) Depreciation includes amounts recorded in inventory.

On the consolidated statement of cash flow for the year ended September 30, 2016, capital expenditures exclude approximately \$2,696 of capital expenditures incurred but unpaid in fiscal 2016, and include \$1,461 of capital expenditures incurred in fiscal 2015 but paid in fiscal 2016 (September 30, 2015 – \$1,167 and \$1,507 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. Don Mario Mine is part of the Don Mario district, comprising ten mineral concessions located in south eastern Bolivia. The Company mined Don Mario Mine previously as an underground mine until 2009. Commercial production of the open pit commenced on January 1, 2012. In 2016, mining activities transitioned to an upper extension of the underground mine which was accessed through a pushback of the open pit walls.

(b) El Valle (Spain)

Orvana acquired El Valle Mine and Carlés Mine in August 2009. The gold-copper-silver El Valle Mine and Carlés Mine are located in the Rio Narcea Gold Belt in northern Spain. The Company commenced commercial production on August 1, 2011.

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As at September 30,		2016		2015
Accounts payable	\$	18,943	\$	19,942
Accrued liabilities		7,992		5,296
Total accounts payable and accrued liabilities	\$	26,935	\$	25,238

16. Bank debt

In July 2016, Orovalle entered into a short-term credit facility with Banco Santander for the ability to draw on €1,000,000 at an annual rate of Euribor plus 2.25%. The credit facility is secured by OroValle's VAT receivable from the Spanish government. As at September 30, 2016, the balance drawn on the credit facility was €463 (approximately \$517).

Previously, EMIPA had short-term credit facilities with 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 were pledged as security against these loans. During the third quarter of 2016, EMIPA fully repaid the facility and as part of the negotiations leading up to the closing of the BISA Loan, it was agreed that EMIPA's short-term credit facility would not be renewed (September 30, 2015 - \$1,478). Refer to Note 17 – BISA Loan.

For the year ended September 30, 2016, the Company paid \$83 in interest on the short-term credit facilities (September 30, 2015 – \$302).

17. BISA Loan

In May 2016, EMIPA entered into a \$7.9 million debt financing with Banco BISA S.A ("BISA") in Bolivia ("BISA Loan"), the proceeds of which are being primarily used for the recommissioning of the carbon-in-leach project ("CIL Project"). Under the terms of the BISA Loan, five disbursements of specified amounts are to be made to EMIPA as expenditures are incurred on the CIL Project. The BISA Loan matures in September 2017 and bears an interest rate of 6% per annum, with ten monthly principal repayments beginning near the end of December 2016. Security includes certain assets at Don Mario for the term of the BISA Loan and a stand-by letter of credit held by a Canadian bank of \$2.0 million which will be replaced with the CIL asset once operational.

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

As at September 30, 2016, EMIPA had received three of the five planned disbursements in the amount of \$4,928.

18. Prepayment Facility

In August 2016, the Company entered into a \$12.5 million copper concentrates and gold doré Prepayment Facility with Samsung C&T U.K. Limited ("Samsung C&T"), the proceeds of which are being invested at El Valle for its ongoing development activities and infrastructure projects.

Under the terms of the Prepayment Facility, Orvana is selling gold doré from its El Valle and Carlés Mines in Spain and copper concentrate from its Don Mario Mine in Bolivia to Samsung C&T, on an exclusive basis for a period of thirty months. In exchange, Orvana receives \$12.5 million in prepayment financing from Samsung C&T available in two instalments. The first instalment of \$8.0 million was drawn upon closing and will be repaid beginning in September 2017 in eighteen equal monthly payments. The second instalment of \$4.5 million is available for drawdown six to twelve months after closing and will be repaid beginning nine months after drawdown in nine equal monthly payments. The Prepayment Facility bears interest at USD 3M LIBOR plus 4.5% per annum. Interest payments and principal repayments are made against Orvana's shipments of copper concentrates and gold doré. Samsung C&T has agreed to pay for copper concentrates and gold doré at a price based on the prevailing metal

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prices for the gold, silver and copper content around time of shipment, less customary treatment, refining and shipping charges, and pursuant to the terms of the Prepayment Facility.

Based on estimates of the expected gold recoveries and future profitability, Don Mario began to stockpile the higher gold grade LMZ mined ore towards the end of fiscal 2016. As a result of this stockpiling activity and the requirements of the Prepayment Facility, the Company entered into a trading agreement subsequent to fiscal 2016 to satisfy its copper concentrate delivery commitments. The Company expects to incur a trading loss of approximately \$1.2 million based on the provisional pricing terms on these transactions, settling in February 2017.

The Company's obligations to Samsung C&T under the Prepayment Facility are secured by the pledge to Samsung C&T of all of Orvana's shares of OroValle which owns the El Valle and Carlés Mines in Spain.

On initial recognition on its financial statements, the Company determined that the Prepayment Facility should be recognized as a hybrid financial instrument and value ascribed to a debt component and a deferred revenue or prepayment component. Each of these components were fair valued and, based on the results of these calculations, the initial \$8.0 million received was divided into a long-term debt of \$7.2 million and deferred revenues of \$0.8 million. Inputs to determine the fair value of the debt component included interest rates from recent indicated or closed financing transactions, and inputs to determine the fair value of the deferred revenue component included the Company's expected production and commodity price estimates.

Deferred financing fees of \$501 were recognized on the closure of the Prepayment Facility.

19. Obligations under finance leases

In July 2016, the El Valle mine entered into leases to purchase a production rig and two loaders at a cost of \$1,979. The leases are payable in monthly installments at annual interest rates of 1.75% to 2.40%. At September 30, 2016, the obligation outstanding was \$1,783 and the Company made lease payments of \$196 during the year. Each contract has a purchase option. The following is a schedule of future minimum payments under the finance leases expiring in October 2019:

As at September 30,	2016	2015
Fiscal 2017	\$ 911	\$ -
2018	773	-
2019	126	-
2020	10	-
	1,820	-
Amount representing interest at 1.87%	(37)	-
	1,783	-
Less: current portion of lease obligation	(885)	-
Total long-term obligations under finance leases	\$ 898	\$ -

20. 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.

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The following table summarizes the changes in decommissioning liabilities during the periods presented:

As at September 30,		2016		2015
Balance, beginning of period	\$	19,904	\$	19,316
Revision in estimated cash flows, timing of payments and discount rates				
– El Valle Mine		(517)		90
– Don Mario Mine		1,022		195
		20,409		19,601
Accretion expense		338		303
Reclamation payments		(34)		-
Total decommissioning liabilities	\$	20,713	\$	19,904

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

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

The decommissioning liability balance consists of:

As at September 30,		2016		2015
El Valle Mine	\$	13,914	\$	14,202
Don Mario Mine		6,799		5,702
Total decommissioning liabilities	\$	20,713	\$	19,904

As at September 30, 2016, the undiscounted cash flows and discount rate used to calculate the decommissioning liabilities are as follows:

		Undiscounted Cash Flows Required to Settle Decommissioning Liabilities	Discount Rate		Discounted Cash Flows Required to Settle Decommissioning Liabilities
El Valle Mine ⁽¹⁾	\$	15,546	0.99%	\$	13,914
Don Mario Mine		7,722	3.20%		6,799
Total	\$	23,268		\$	20,713

(1) Accretion expense is recorded using the discount interest rates set out above. It is expected that these amounts will be incurred beginning in 2017 and 2019 in respect of Don Mario Mine and El Valle Mine, respectively. The discount rate used to measure decommissioning liabilities under IFRS is based on current interest rates of government bonds of the applicable country and of term that matches the time period to the commencement of the decommissioning liability being incurred.

Cash held in Spanish financial institutions backing reclamation bonds totaled approximately \$8,408 at September 30, 2016 (September 30, 2015 – \$8,428) and is expected to be released after all reclamation work has been completed in respect of El Valle Mine. Refer to note 12 – Restricted cash and reclamation bonds.

21. 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

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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.

Income tax rates in Bolivia and Spain remain unchanged from the prior year at 37.5% and 25%, respectively.

For the year ended September 30,	2016	2015
Current income taxes:		
Current tax on income for the year	\$ 172	\$ 658
Total current income taxes	172	658
Deferred income tax:		
Tax rate reduction in Spain	-	(1,986)
Origination and reversal of temporary differences in OroValle and EMIPA	(4,930)	(4,634)
Total deferred tax recoveries	(4,930)	(6,620)
Total income taxes (recoveries)	(4,758)	\$ (5,962)

The tax on the Company's income before tax differs from the amount that would arise using the Canadian statutory income tax rate applicable to income of the consolidated entities as follows:

For the year ended September 30,	2016	2015
Loss before income taxes	\$ (13,213)	\$ (22,695)
Statutory income tax rates	26.5%	26.5%
Income tax provision calculated using the combined Canadian federal and provincial statutory income tax rates	(3,501)	(6,014)
Tax effects of:		
Higher foreign tax rates	271	55
Non-deductible expenses	454	1,681
Tax deductions (recognized) not recognized	(1,982)	302
Change in foreign tax rates	-	(1,986)
Income tax expense	\$ (4,758)	\$ (5,962)

As at September 30, 2016, the Company recognized \$1,541 of deferred tax assets in EMIPA, as projections of various sources of income support the conclusion that the realization of these deferred tax assets is probable. (September 30, 2015 - \$100).

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The sources of deferred income tax assets and liabilities were as follows:

As at September 30,	2016	2015
Deferred tax assets:		
Tax loss carry forwards in EMIPA	\$ 310	\$ -
Other	1,231	100
Deferred tax assets	\$ 1,541	\$ 100
Deferred tax liabilities:		
Property, plant and equipment	\$ (10,305)	\$ (12,193)
Tax loss carry forwards in OroValle	8,471	6,894
Other	24	-
Deferred tax liabilities	(1,810)	(5,299)
Deferred tax liabilities (net)	\$ (269)	\$ (5,199)

As at September 30, 2016, the Company had non-capital losses of \$20,245 (September 30, 2015 – \$21,144) in Canada that expire over the periods of 2027 to 2033 and other deductible temporary differences of \$4,264 (September 30, 2015 – \$3,696). EMIPA had deductible temporary differences of \$17,778 (September 30, 2015 – \$21,092). The Company has not recognized the benefit of these items in the financial statements.

All deferred tax assets and liabilities are expected to settle after September 30, 2016.

The movement of the deferred income tax account is as follows:

For the year ended September 30,	2016	2015
At October 1	\$ 5,199	\$ 11,840
Charge to the statement of income	(4,930)	(6,620)
Exchange differences	-	(21)
At September 30	\$ 269	\$ 5,199

Cash taxes paid by EMIPA during the year ended September 30, 2016 totaled \$300 (September 30, 2015 – \$1,430).

22. Share capital and warrants

Issued share capital as at September 30, 2016 was \$116,206 (September 30, 2015 – \$116,206). The Company's authorized share capital contains an unlimited number of common shares. As at September 30, 2016, the Company had 136,623,171 common shares (September 30, 2015 – 136,623,171) issued and outstanding.

Warrants

A summary of the warrant transactions are as follows:

	Number of warrants	Stated Value
Balance, September 30, 2014	1,795,000	\$ 77
Non-exercisable warrants ⁽¹⁾	(325,000)	(10)
Fair value adjustment	-	(50)
Balance, September 30, 2015	1,470,000	\$ 17
Non-exercisable warrants ⁽¹⁾	(420,000)	(13)
Fair value adjustment	-	45
Balance, September 30, 2016	1,050,000	\$ 49

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

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Notes to the consolidated financial statements

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For the years ended September 30, 2016 and 2015

As at September 30, 2016, outstanding and exercisable warrants were as follows:

Grant date	Fair value US\$000's	Number of vested warrants	Exercise price C\$	Expiry date
March 5, 2012	4	450,000	0.97	March 5, 2017
August 22, 2013	37	500,000	0.49	August 22, 2018
July 11, 2014	8	100,000	0.54	July 11, 2019
	\$ 49	1,050,000		

23. 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, 2014	2,553,335	\$1.32
Granted	225,000	0.33
Expired	(458,334)	1.12
Forfeited	(66,667)	0.53
Balance, September 30, 2015	2,253,334	\$1.29
Expired	(503,333)	3.04
Forfeited	(33,334)	0.41
Balance, September 30, 2016	1,716,667	0.79

As at September 30, 2016, outstanding and exercisable options were as follows:

Grant date	Fair value US\$000's	Number of unvested options	Weighted average contractual life (in years)	Number of vested options	Exercise price C\$	Expiry date
December 20, 2011	66	-	0.22	125,000	1.03	December 20, 2016
March 28, 2012	18	-	0.49	41,667	0.88	March 28, 2017
March 28, 2012	55	-	0.34	125,000	0.88	February 3, 2017
March 28, 2012	55	-	0.39	125,000	0.88	February 21, 2017
June 1, 2012	22	-	0.67	50,000	0.86	June 1, 2017
June 1, 2012	45	-	0.39	100,000	0.86	February 21, 2017
August 30, 2012	4	-	0.92	8,334	0.92	August 30, 2017
March 7, 2013	141	-	1.44	250,000	1.02	March 7, 2018
March 29, 2013	80	-	0.50	150,000	1.05	May 20, 2017
March 29, 2013	27	-	1.50	50,000	1.05	March 29, 2018
December 16, 2013	28	-	2.21	100,000	0.43	December 16, 2018
February 26, 2014	50	-	0.59	150,000	0.75	May 3, 2017
February 26, 2014	50	-	0.64	150,000	0.75	May 20, 2017
August 21, 2014	13	-	0.40	66,666	0.41	February 23, 2017
December 18, 2014	21	41,668	3.22	83,332	0.30	December 18, 2019
May 14, 2015	17	33,334	3.62	66,666	0.37	May 14, 2020
	\$ 692	75,002	1.12	1,641,665		
Total vested and unvested options				1,716,667		

The Company uses the fair value method of accounting for options and, during the year ended September 30, 2016, recognized stock-based compensation expense of \$18 (September 30, 2015 – \$81).

The compensation expense associated with the options for the year ended September 30, 2016 includes an estimated forfeiture rate of 10% based on the average rate of forfeitures over the last three years (September 30, 2015 – 10%).

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

As at September 30, 2016, the fair value associated with unvested options is \$13 (September 30, 2015 – \$74).

(b) Long-term compensation**(i) Deferred share unit ("DSU") plan**

The Company established a DSU plan, effectively a phantom stock plan, for directors, effective October 1, 2008. The initial fair value of units issued is expensed and is included in long-term compensation expense under general and administrative expenses in the consolidated statements of net loss and comprehensive loss. The fair value of the DSUs are marked to the quoted market price of the Company's common shares at each reporting date and changes in their fair value are also recorded under general and administrative expenses. Payouts are settled in cash within a specified period following a director's departure, based on the market price of the common shares at exercise.

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

	Number of DSUs	Fair value
Balance, October 1, 2014	180,124	\$ 51
Issued	185,322	58
Mark-to-market adjustment	-	(60)
Balance, September 30, 2015	365,446	\$ 49
Issued	2,206,331	249
Redeemed	(660,255)	(77)
Mark-to-market adjustment	-	196
Changes in current portion	(136,378)	(30)
Balance, September 30, 2016	1,775,144	\$ 387

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

The Company established a RSU plan, effectively a phantom stock plan, for designated executives, effective October 1, 2008. The initial fair value of units issued is expensed and is included in long-term compensation expense under general and administrative expenses in the consolidated statements of net loss and comprehensive loss. The fair value of the RSUs are marked to the quoted market price of the Company's common shares at each reporting date and changes in their fair value are recorded under general and administrative expenses. Payouts are settled in cash after a specified period of vesting, based on the market price of the common shares at vesting.

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

	Number of RSUs	Fair Value
Balance October 1, 2014	618,696	\$ 177
Issued	1,401,937	438
Redeemed	(240,998)	(69)
Expired	(522,317)	(149)
Mark-to-market adjustment	-	(168)
Changes in current portion	(394,810)	(113)
Balance, September 30, 2015	862,508	\$ 116
Issued	3,059,923	281
Redeemed	(1,401,298)	(172)
Forfeited	(2,650,916)	(261)
Mark-to-market adjustment	-	102
Changes in current portion	1,095,647	147
Balance, September 30, 2016	965,864	213

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The Company established a SAR plan for designated executives, effective February 6, 2014. The SARs are granted based on a common shares market price calculation at the time of grant. The fair value of the SARs are measured using an option pricing model at each period end, and to the extent that employees have rendered services over a three year vesting period, an expense is recorded under general and administrative expenses on the consolidated statements of net loss and comprehensive loss over such vesting period. Vested SARs may be exercised provided there has been an appreciation in the market price of the common shares from the grant date and payouts are settled in cash as vested SARs are exercised.

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

	Number of SARs	Fair value
October 1, 2014	739,130	\$ 29
Issued	2,144,733	-
Forfeited	(1,325,233)	-
Mark-to-market adjustment	-	4
Balance, September 30, 2015	1,558,630	\$ 33
Issued	4,972,666	-
Forfeited	(4,759,214)	-
Mark-to-market adjustment	-	96
Balance, September 30, 2016	1,772,082	129

24. 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 years ended September 30,	2016	2015
Salaries and short term employee benefits	\$ 1,329	\$ 1,614
Share-based payments ⁽¹⁾	660	12
Termination benefits	490	464
Other	4	32
Total compensation of key management	\$ 2,483	\$ 2,122

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

The Company announced the appointment of Jim Gilbert as Chairman and Chief Executive Officer of the Company effective August 4, 2016. Compensation for Mr. Gilbert is payable through Fabulosa Mines Limited, with which the Company has signed a management fee agreement for Mr. Gilbert's services. The management fee agreement is based on an annual salary of \$323 plus benefits and performance related compensation. As at September 30, 2016, the Company has accrued for \$58 which is payable to Fabulosa Mines Limited.

25. Commitments and contingent liabilities

- (a) The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. Spanish regulatory authorities have taken the position that the levels of selenium in the river flowing past El Valle Mine exceed the levels permitted by applicable regulations as a result of discharges attributed to OroValle which may not be in compliance with certain of OroValle's permits. The Company believes that the average levels of selenium in this river are, by international standards, not a health or environmental risk. In recent years, OroValle has received approximately €955,000 (approximately \$1,087) in fines relating to these matters and may face further additional fines or other sanctions, including the revocation or suspension of certain permits, in the future. OroValle is appealing the outstanding fines and the enforcement of certain fines has been suspended pending the related criminal matter. A judge of the criminal court of Asturias is conducting an investigation into the potential commission by

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OroValle of a reckless crime under the Spanish penal code relating to these matters. The judge may dismiss the matter and/or charge OroValle and/or certain OroValle individuals. If OroValle is ultimately found responsible, monetary penalties, amongst other sanctions, may be applied. These sanctions could have a material impact on the Company. At this time, OroValle has not been charged and has cooperated and will continue to cooperate with investigations and is defending itself vigorously.

- (b) On June 27, 2011, as a condition of receiving an environmental permit on that date, the Government of the Principality of Asturias, required OroValle to commit to post an additional reclamation bond in the amount of €5,000,000 (approximately \$5,581) in respect of the tailings impoundment area. To satisfy this requirement, OroValle deposited €5,000,000 (approximately \$5,581) in September 2011 with a local bank in favour of the Spanish regulatory authorities. Spanish regulatory authorities have requested an additional reclamation bond totaling €5,000,000 (approximately \$5,581) be deposited in their favour to satisfy additional reclamation bond commitments in respect of the tailings impoundment area. The Supreme Court of Spain recently ordered a retrial regarding the amount of the bond. The Company is working with Spanish regulatory authorities to come to an agreement regarding posting this bond, while preserving the Company's rights in court. Funds to cover this commitment have been segregated outside the Company's operating accounts during this interim period.
- (c) Production from El Valle Mines is subject to a 3% net smelter return royalty ("NSR"), referred to herein as El Valle Royalty, payable monthly. El Valle Royalty rate decreases to 2.5% for any quarter in which the average price of gold is below \$1,100 per ounce. Royalty expense under this NSR totaled \$1,749 for the year ended September 30, 2016 (September 30, 2015 - \$2,130).
- (d) Production from Don Mario Mine is subject to a 3% NSR payable quarterly. Royalty expense under this NSR totaled \$1,225 for the year ended September 30, 2016 (September, 2015 – \$1,683). The Bolivian government collects a mining royalty tax on the revenue generated from copper, gold and silver sales from Don Mario Mine at rates of 5%, 7% and 6%, respectively. These amounts totaled \$2,877 for the year ended September 30, 2016 (September 30, 2015 – \$5,000).
- (e) In Bolivia, EMIPA was subject to a labour claim filed in the fourth quarter of fiscal 2014 by 31 former employees for the payment of certain employment related amounts, including vacation and overtime, for the period of 2007 to 2013. During the period of the labour claim, the Company provided a 100% cash-backed guarantee in the amount of \$2,400 as security for the claim, which was returned during the first quarter of fiscal 2016 when the Court made a favourable ruling in the amount of \$0.4 million. The claim was appealed and such appeal was settled during the fourth quarter of fiscal 2016 with no increase in the amount of the ruling and no further freezing of EMIPA's accounts.
- (f) 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.

26. Segmented information

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

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As at September 30, 2016:

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

As at September 30, 2015:

	Cash and cash equivalents	Property, plant and equipment	Reclamation bonds and restricted cash	Other assets	Total assets
OroValle	\$ 2,905	\$ 96,408	\$ 8,574	\$ 12,868	\$ 120,755
EMIPA	1,845	11,087	2,275	16,164	31,371
Corporate	12,486	132	2,405	2,286	17,309
	\$ 17,236	\$ 107,627	\$ 13,254	\$ 31,318	\$ 169,435

For the year ended September 30, 2016:

	Revenue	Mining costs ⁽¹⁾	Depreciation/Amortization ⁽²⁾	Other costs	Loss before taxes
OroValle	\$ 59,517	\$ 57,400	\$ 12,365	\$ (411)	\$ (9,837)
EMIPA	34,333	27,144	4,824	885	1,480
Corporate	-	-	109	4,747	(4,856)
	\$ 93,850	\$ 84,544	\$ 17,298	\$ 5,221	\$ (13,213)

(1) Mining costs includes royalties, mining rights and mining taxes. Refer to note 6 – Mining costs.

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

For the year ended September 30, 2015:

	Revenue	Mining costs ⁽¹⁾	Depreciation/Amortization ⁽²⁾	Other costs	Loss before taxes
OroValle	\$ 69,851	\$ 64,967	\$ 19,543	\$ 2,391	\$ (17,050)
EMIPA	51,574	40,417	10,352	1,740	(935)
Corporate	-	-	111	4,599	(4,710)
	\$ 121,425	\$ 105,384	\$ 30,006	\$ 8,730	\$ (22,695)

(1) Mining costs includes royalties, mining rights and mining taxes. Refer to note 6 – Mining costs.

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

27. Financial instruments and fair values

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

Fair value hierarchy

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). For example, interest rate and

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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 September 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Aggregate Fair value
Financial liabilities:				
Long-term compensation	\$ 600	\$ 129	\$ -	\$ 729
Warrants	-	49	-	49
Derivative instruments	-	60	-	60
Total	\$ 600	\$ 238	\$ -	\$ 838

As at September 30, 2015	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	\$ 596	\$ 33	\$ -	\$ 629
Warrants	-	17	-	17
Total	\$ 596	\$ 50	\$ -	\$ 646

Valuation techniques for Level 2 financial instruments:

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

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

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

At September 30, 2016 and September 30, 2015, the carrying amounts of cash and cash equivalents; restricted cash; concentrate and doré receivables; value added taxes and other receivables; bank debt; accounts payable and accrued liabilities; Fabulosa Loan; and obligations under finance leases approximate their fair value due to their short-term maturities. Financial assets and liabilities above are classified as level 1 in the fair value hierarchy.

Financial Risks Factors

The Company's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. Enterprise risk management is carried out by management under policies approved by the Board of Directors thereof. Management identifies and evaluates the financial risks in co-operation with the Company's operating units. The board reviews management's risk management programs and provides oversight on specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

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(a) Market risk

(i) Currency risk

Orvana's functional currency is the US dollar. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro.

Currency risk arises when future recognized assets or liabilities are denominated in a currency that is not the Company's functional currency and may impact the fair values thereof or future cash flows of the Company's financial instruments. Exchange rate fluctuations may also affect the costs that the Company incurs in its operations.

The net loss of \$8,455 for the 2016 fiscal year would be impacted by changes in average USD/EUR exchange rates in respect of mining costs incurred at OroValle. A 10% increase/decrease in average realized USD/EUR exchange rates in respect of mining costs incurred at OroValle would affect the net loss by a decrease/increase of \$5,740.

(ii) Price risks

The Company is primarily exposed to gold and copper commodity price risk. The Company is actively managing its commodity price risk through price fixing a limited amount of production revenue from October 2016 to May 2017. Refer to note 10 – Derivative instruments.

Gold prices

The net loss of \$8,455 for the 2016 fiscal year would be impacted by changes in average realized gold prices on gold ounces sold. A 10% increase/decrease in average realized gold prices would affect the net loss by an increase/decrease of approximately \$7,754.

Copper prices

The net loss of \$8,455 for the 2016 fiscal year would be impacted by changes in average realized copper prices. A 10% increase/decrease in average realized copper prices would affect net loss by an increase/decrease of approximately \$2,923.

(iii) Interest rate risk

The Company's cash flow interest rate risk arises from short and long-term borrowings. Currently, our interest rate exposure mainly relates to our Prepayment Facility which is based on a USD 3M LIBOR plus 4.5%.

(b) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to gold-copper concentrate, gold doré sales and value-added tax receivables. The Company has a concentration of credit risk with three customers to which gold-copper concentrate and gold doré are sold under agreements and who provide provisional payments to the Company upon each shipment to the customer. These institutions are international and are large with strong credit ratings. Value-added taxes receivables are collectable from the Bolivian and Spanish governments and received regularly. Management believes that the credit risks with respect to financial instruments attributable to concentrate and gold sales receivable and value-added taxes receivable is minimal.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Cash flow forecasting is performed in the operating entities of the Company and aggregated at the Orvana corporate level to monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet

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operational needs at all times. Such forecasting takes into consideration the Company's debt financing among other factors.

As at September 30, 2016, the Company had (i) cash and cash equivalents of \$18,939 and (ii) restricted cash of \$4,055 designated to cover a portion of the Company's commitments due in less than one year. The Company expects to meet the remainder of its contractual obligations due in less than one year from cash flow from operating activities. In fiscal 2016, the Company generated cash flow from operating activities of \$3,437 and cash flow from operating activities before changes in non-cash working capital of \$5,199.

If unanticipated events occur that may impact the operations of El Valle Mine and Don Mario Mine and/or if the Company does not have adequate access to financing on terms acceptable to the Company, the Company may not have adequate resources to maintain its operations or advance its projects as currently anticipated. In such circumstances, the Company may need to take additional measures to increase its liquidity and capital resources, including obtaining additional debt or equity financing, strategically disposing of assets or pursuing joint-venture partnerships, equipment financings or other receivables financing arrangements. The Company may experience difficulty in obtaining satisfactory financing terms or adequate project financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on Orvana's results of operations or financial condition.

Surplus cash held by the operating entities over and above balances required for working capital management are invested in interest bearing short-term deposits.

(d) Financing risk

Financing risk is the risk that if unanticipated events occur that may impact the operations of El Valle Mine and Don Mario Mine and/or if the Company does not have adequate access to financing on terms acceptable to the Company, the Company may not have adequate resources to maintain its operations or advance its projects as currently anticipated.

28. Capital management

At September 30, 2016, the Company had cash and cash equivalents of \$18,939 and restricted cash of \$4,055; and total debt of \$13,151. The Company considers its capital employed to consist of shareholders' equity (including share capital, contributed surplus and retained earnings), total debt and obligations under finance leases, net of cash and cash equivalents as follows:

As at September 30,	2016	2015
Shareholders' equity	\$ 104,111	\$ 112,548
Debt	12,270	1,478
Obligations under finance leases	1,783	-
	118,164	114,026
Less: Cash and cash equivalents	(18,939)	(17,236)
	\$ 99,225	\$ 96,790

The Company's financial objective when managing capital is to ensure that it has the cash and debt capacity and financial flexibility to fund its ongoing business objectives including operating activities, investments and growth in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, in addition to using cash flows from operating activities for this purpose, the Company may issue new shares or obtain additional debt. During fiscal 2016, the Company closed the \$12.5 million Prepayment Facility with Samsung C&T as well as the \$7.9 million BISA Loan.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the Company's operating and financial performance and current outlook of the business and industry in general. The Company's alternatives to fund future capital needs include cash flows from operating activities, debt or equity financing or adjustments to capital spending. The capital structure and these alternatives are reviewed by management and the board of directors of the Company on a regular basis to ensure the best mix of capital resources to meet the Company's needs.

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The Company manages capital through its operating and financial budgeting and forecasting processes. The Company reviews its working capital and forecasts its future cash flows on a periodic basis, based on operating expenditures and other investing and financing activities. The forecast is regularly updated based on the results of its El Valle and Don Mario Mines. Information is regularly provided to the board of directors of the Company.