# A Low Cost Gold Producer

ANNUAL REPORT 2004

ORVANA
MINERALS CORP.

CONTENTS

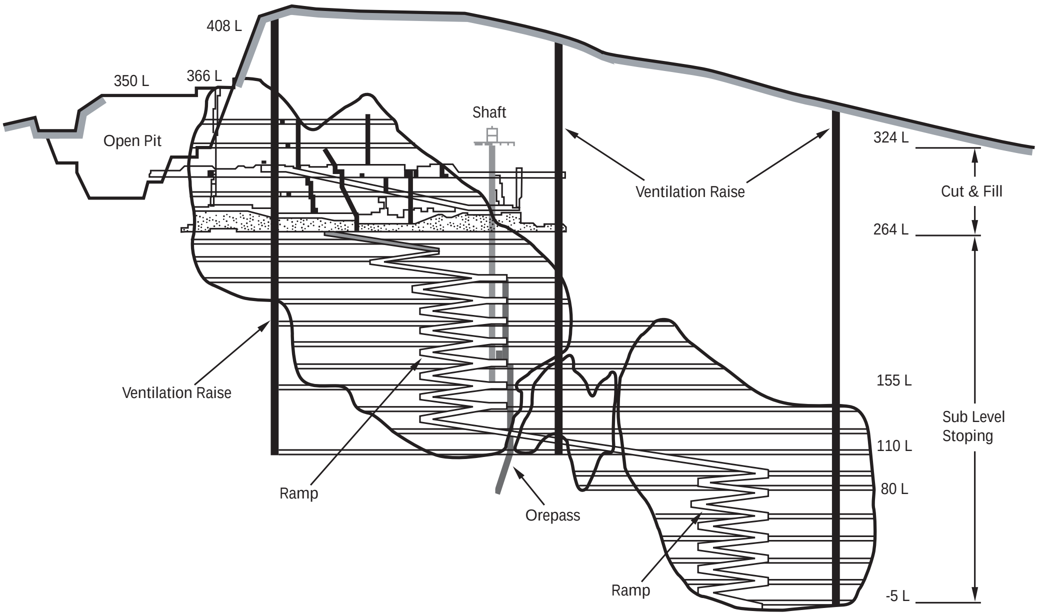
The Don Mario mine located in eastern Bolivia.

## HIGHLIGHTS OF FISCAL YEAR 2004

All dollar amounts shown herein are expressed in United States dollars unless stated otherwise.

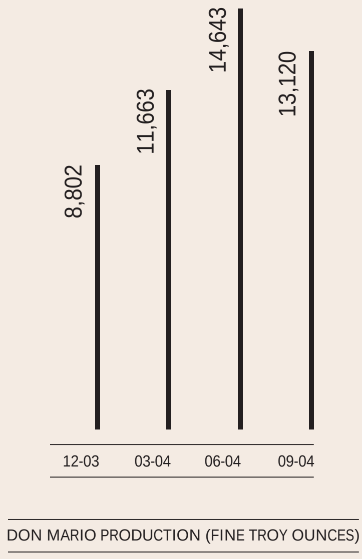
- »Produced 48,227 fine troy ounces of gold and milled 234,000 tonnes of ore in the Company's first full year of operations at the Don Mario mine.
- »Continued to progress on schedule with the development of the Lower Mineralized Zone including the commencement of hoisting ore and waste through the main shaft.
- »Commenced a $200,000 infill drilling program on the Upper Mineralized Zone.
- »Earned $7.8 million or 7 cents per share.
- »Generated Cash Flow from Operations of $10.4 million (before changes in non-cash working capital items).
- »Repaid $2.9 million of long term debt and invested $1.5 million in mining equipment.
- »Completed the year with $3.9 million in cash and cash equivalents at September 30, 2004.

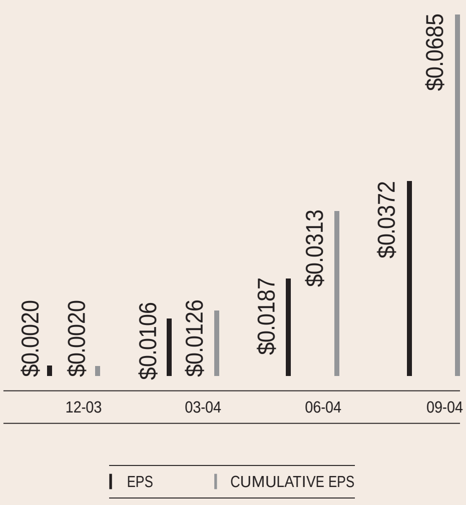
## MINE PLAN - CROSS SECTION




Work continued throughout fiscal 2004 on the development of the underground mine, with the primary focus being to open new adits and drifts. Mine development work will continue during fiscal 2005 to complete the main shaft and to drive the ramp below the primary ore zone.

## A YEAR IN REVIEW



# LETTER TO SHAREHOLDERS

All dollar amounts shown herein are expressed in United States dollars unless stated otherwise.

The Company made considerable progress during this past fiscal year ended September 30, 2004. Major achievements and activities included continuing development of the underground mine at Don Mario, the production of 48,227 fine troy ounces of gold and the expenditure of $200,000 for an infill drilling program on the Upper Mineralized Zone (UMZ) to increase our knowledge of this resource.

The Company's management and Board of Directors are pleased with the operating and financial results from our first full year of commercial production at the mine. A total of 229,000 tonnes of ore were extracted during fiscal 2004 from the Lower Mineralized Zone (LMZ). 121,179 tonnes of development and cut and fill ore were extracted from the underground mine; and 108,064 tonnes were mined from the mini-pit. Ore head grade improved in each quarter of fiscal 2004 as mine operations deepened and additional adits and ore faces were opened. Work continued during fiscal 2004 on the construction of ore passes, ventilation shafts, the main shaft and ramps. The main hoist was commissioned in October 2004 and is now hoisting waste and ore to the surface. Development work continues on the ramp and the plan is to drive the ramp structure below the primary LMZ to permit the placement of equipment to commence exploratory drilling beyond the primary ore zone.

Shown above is a photograph of the Upper Mineralized Zone. During fiscal 2004 the Company completed an infill drilling program which included 43 diamond drill holes and 2,819 metres of drill cores providing 1,844 samples for analysis. The purpose of the program is to move the ore resource from inferred to indicated status.

234,000 tonnes of ore were treated through the mill during fiscal 2004. During this past year, the Company had the opportunity to learn more about the ore quality and metallurgy of the Don Mario deposit. Mill recoveries increased each quarter during the first nine months of fiscal 2004. We experienced problems in the fourth quarter with a higher copper content in the ore extracted from a section of the mini-pit. High copper content in the ore affects the leaching process and reduces the recovery of gold. Additional mill circuits are being installed to remove excess copper and this change should address the problem. During October 2003, the daily mill throughput was increased from 600 to 700 tonnes per day and this daily throughput has resulted in optimum recoveries with current ore grades.

In June 2004, the Company committed to spend $200,000 for an infill drilling program on the UMZ, a source of open pit ore, at the Don Mario property. The purpose of the program is to move the ore resource from inferred to indicated status. The drilling campaign included 43 diamond drill holes and 2,819 metres of drill cores providing 1,844 samples for analysis. In addition, 10 trenches were opened at surface to a depth of one metre to provide an additional 130 samples. Assays are being performed by ALS Chemex at its laboratories in Bolivia and Canada. The consulting firm of Pincock Allen & Holt is working with the Company on this program.

Orvana's financial results for fiscal 2004 were encouraging. The Company sold 47,431 fine troy ounces of gold for total revenues of $19.1 million. Net income for fiscal 2004 was $7.8 million and cash flow from operations amounted to $10.4 million before changes in non-cash working capital items. The timing of our first full year of commercial operations has been opportune during a period of rising gold prices. None of our production is hedged and we have no immediate plans to hedge our gold sales. The Company has a competitive advantage with low cash costs and low total costs of production. Management believes that if gold prices remain strong during 2005, Orvana can expect another successful year in fiscal 2005.

MAJOR ACHIEVEMENTS AND ACTIVITIES INCLUDED CONTINUING DEVELOPMENT OF THE UNDERGROUND MINE AT DON MARIO, THE PRODUCTION OF 48,227 FINE TROY OUNCES OF GOLD AND THE EXPENDITURE OF $200,000 FOR AN INFILL DRILLING PROGRAM ON THE UPPER MINERALIZED ZONE (UMZ) TO INCREASE OUR KNOWLEDGE OF THIS RESOURCE.

We thank our employees for their hard work and dedication that has made possible our successful results in 2004. Also, we are grateful for the support of our fellow directors and all of our shareholders during the year.

Jaime Urjel
President and Chief Executive Officer
December 2004

George Hamilton
Chairman and Director
December 2004

# FORWARD-LOOKING STATEMENT

Certain statements in this report may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of Orvana Minerals Corp. (“Orvana” or “the Company”) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, such statements use such words as “may”, “will”, “expect”, “anticipate”, “project”, “believe”, “plan” and other similar terminology. The risks and uncertainties are detailed from time to time in reports filed by Orvana with the securities regulatory authorities in Canada to which readers are referred for additional information concerning the Company, its prospects and the risks and uncertainties relating to the Company and its prospects. New risk factors may arise from time to time and it is not possible for management to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance and achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The forward-looking information contained in this report is current only as of the date of this report. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") of results of operations and financial condition of Orvana Minerals Corp. ("Orvana" or the "Company") describes the operating and audited financial results of the Company for the fiscal year ended September 30, 2004 ("fiscal 2004"). The MD&A should be read in conjunction with Orvana's audited consolidated financial statements and related notes for fiscal 2004 and for the nine-month fiscal period ended September 30, 2003 ("2003 fiscal period"). In 2003, the Company changed its financial reporting year end from December 31 to September 30 to coincide with that of Orvana's controlling shareholder, Compania Minera del Sur S.A. ("Comsur"), in order to facilitate more cost-effective reporting.

The Company prepares and files its financial statements and MD&A in accordance with Canadian generally accepted accounting principles. All dollar amounts in this MD&A are in United States dollars unless otherwise stated.

This MD&A contains forward-looking statements that are based on the Company's expectations, estimates and projections regarding its business and the precious metals market and economic environment in which it operates. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements and readers should not place undue reliance on such statements. Statements speak only as of the date on which they are made, and the Company undertakes no obligation to update them publicly to reflect new information or the occurrence of future events or circumstances.

This MD&A was prepared on December 7, 2004.

## OVERALL PERFORMANCE

### Business overview and strategy

Orvana is involved in the evaluation, development and mining of precious metal deposits in Latin America. Through its wholly owned subsidiary, Empresa Minera Paititi S.A., the Company owns and operates the Don Mario gold mine in eastern Bolivia. At the commencement of construction, the Don Mario property had estimated proven and probable reserves of 1.5 million tonnes grading 8.74 grams per treated tonne, and contained an estimated 414,000 fine troy ounces of gold, according to an independent technical report on the Don Mario property prepared by the international consulting firm AMEC E&C Services Ltd., in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects. Commercial production commenced July 1, 2003 and the mill has treated 281,102 tonnes of ore and produced 56,634 fine troy ounces of gold during the 15 months ended September 30, 2004.

Orvana's near term business strategy is to complete the development of the lower mineralized zone of the Don Mario property and sustain gold production and sales from the Don Mario mine. The mine's competitive advantage is its relatively moderate infrastructure, labour and energy costs. Orvana does not currently intend to hedge its gold production, and expects to repay regularly over an extended period the debt incurred to finance construction of the mine. The Company intends to use a portion of free cash flow to fund further exploration of the Don Mario property, with a view to developing additional mineral reserves. During fiscal 2004, the Company committed $200,000 to carry out an infill drilling program on the upper mineralized zone in order to expand resources and future production. The Company's long-term goal is to be a multi-mine producer in Latin America.

### Don Mario mine production

During fiscal 2004, the Don Mario mine and mill operated according to plan for the twelve months. Ore and waste were extracted from both the underground mine and the mini-pit. 121,179 tonnes of development and cut and fill ore were extracted from the underground mine, and 108,064 tonnes of ore were extracted from the mini-pit. The mill treated 234,165 tonnes of ore and produced 48,227 fine troy ounces of gold during fiscal 2004. The Don Mario mine employs 204 salaried staff and 99 contractors.

### Don Mario mine development

Work on the development of the underground mine continued according to plan during fiscal 2004. The main vertical shaft has been completed to a depth of 200 metres and the hoist has been installed. The hoisting of waste and ore through the shaft commenced in October 2004. Work on the development of the main ramp continued through all of fiscal 2004. The plan is to reach the bottom of the primary ore zone in early calendar 2005. Horizontal and vertical development continued during the past twelve months to prepare new adits, ore shoots and ventilation shafts, etc. A copy of the mine plan for the underground mine is available at Orvana's website www.orvana.com.

### Upper Mineralized Zone infill drilling program

The Company commenced an infill drilling program in June 2004 on the upper mineralized zone of the Don Mario property. The purpose of the drilling program is to move the ore resource from inferred to indicated status in order to expand resources and future production. The trenching and drilling program was completed in October 2004. Samples have been prepared and sent to outside laboratories for assaying.

## SELECTED ANNUAL INFORMATION

### Financial results

The Don Mario mine was under construction during the first six months of 2003 and commercial production began July 1, 2003. Consequently, the results of operations for the twelve-month period ended September 30, 2004 do not provide meaningful comparisons to those of the same twelve-month period from October 1, 2002 to September 30, 2003. In addition, the twelve-month results of fiscal 2004 do not provide meaningful comparisons to the results of the nine-month fiscal period ended September 30, 2003.

The Company has adopted two significant changes in accounting policies, which affect both the fiscal 2004 and fiscal 2003 financial and operating results:

» Effective September 30, 2003, the Company early adopted the provisions of CICA 3110 in accounting for its asset retirement obligations. The new accounting policy is described in Note 8 to the audited consolidated financial statements. The following table shows the amortization expensed in each quarter.

| Fiscal Year | AMORTIZATION EXPENSE |
|---|---|
| 2003 Third Quarter | $11,363 |
| 2004 First Quarter | $11,363 |
| 2004 Second Quarter | $11,363 |
| 2004 Third Quarter | $11,362 |
| 2004 Fourth Quarter | $11,362 |

» In accordance with Canadian generally accepted accounting principles, the Company adopted the practice of capitalizing mine development expenditures and amortizing these expenditures over the life of the mine. Note 2 to the audited consolidated financial statements provides more information on this new policy. The table below shows the amounts of mine development expenditures subtracted from cash and operating costs for each quarter. No amortization was recorded in fiscal 2003, and commencing in the first quarter 2004, amortization has been calculated based on the remaining life of the mine.

| Fiscal Period | MINE DEVELOPMENT EXPENDITURES | AMORTIZATION |
|---|---:|---:|
| 2003 Third Quarter | $264,109 | nil |
| 2004 First Quarter | $189,373 | $35,390 |
| 2004 Second Quarter | $138,042 | $35,390 |
| 2004 Third Quarter | $195,552 | $35,390 |
| 2004 Fourth Quarter | $203,841 | $35,390 |

The following table compares financial results for fiscal 2004 to the nine-month fiscal period ended September 30, 2003, and to the fiscal year ended December 31, 2002.

| | 12 MONTHS ENDED SEPT. 30, 2004 | 9 MONTHS ENDED SEPT. 30, 2003 | 12 MONTHS ENDED DEC. 31, 2002 |
|---|---:|---:|---:|
| Revenues | $19,158,473 | $2,992,834 | $16,896 |
| Operating expenses | 12,455,463 | 3,042,141 | 287,960 |
| Operating income (loss) | 6,703,010 | (49,307) | (271,064) |
| Net income (loss) | 7,842,036 | (257,770) | 537,506 |
| Net income (loss) per share | 0.07 | (0.00) | 0.00 |
| Cash and cash equivalents, end of period | 3,920,752 | 228,472 | 1,505,939 |
| Assets | 35,300,472 | 30,643,067 | 24,522,465 |
| Shareholders' equity | 18,896,571 | 10,975,072 | 11,020,856 |

## RESULTS OF OPERATIONS

The Company experienced its first full year of operations at the Don Mario mine producing total revenues of $19.2 million, net income of $7.8 million and operating cash flow of $10.4 million. These operating results are in accordance with the plans and budget approved for fiscal 2004.

## SUMMARY OF QUARTERLY RESULTS

The following tables include operating results for each quarter of fiscal 2004. The first table summarizes the tonnes of ore treated, grams per tonne (g/t) and average mill recovery rates for each of the four quarters in fiscal 2004.

| | FY 2004 | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 |
|---|---|---|---|---|---|
| Underground mine ore treated | | | | | |
| tonnes | 126,197 | 36,568 | 30,760 | 26,075 | 32,794 |
| grams per tonne | - | 9.33 | 8.60 | 6.72 | 6.90 |
| Mini-pit ore treated | | | | | |
| tonnes | 107,969 | 19,645 | 28,866 | 32,827 | 26,631 |
| grams per tonne | | 7.30 | 8.46 | 7.09 | 4.13 |
| Total tonnes of ore treated | | | | | |
| tonnes | 234,165 | 56,213 | 59,625 | 58,902 | 59,425 |
| grams per tonne | - | 8.70 | 8.53 | 6.92 | 5.66 |
| Mill recovery rate | - | 83.5% | 89.5% | 88.9% | 81.3% |
| Gold produced (fine troy ounces) | 48,227 | 13,120 | 14,643 | 11,663 | 8,802 |
| Direct mining cost of production | $5,004,251 | $1,303,075 | $1,300,162 | $1,250,663 | $1,150,351 |
| Direct cost per treated tonne | $24.47 | $26.81 | $25.09 | $23.58 | $22.54 |
| Direct cost per ounce produced | $103.76 | $99.32 | $88.79 | $107.23 | $130.69 |

The following tables include results for the past eight quarters, which were in fiscal years 2004, 2003 and 2002. Revenue and income increased in each quarter of fiscal 2004 as operating efficiency and gold production generally improved at the Don Mario mine. Net income was higher than operating income in the fourth quarter due primarily to recognition of the value of income tax losses in Bolivia of $1.9 million.

| | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 |
|---|---|---|---|---|
| Revenue | $5,833,438 | $5,522,965 | $4,693,412 | $3,108,658 |
| Operating expenses | 3,272,637 | 3,141,432 | 3,287,055 | 2,754,339 |
| Operating income (loss) | 2,560,801 | 2,381,533 | 1,406,357 | 354,319 |
| Net income (loss) | 4,273,817 | 2,140,472 | 1,207,017 | 220,730 |
| Net income (loss) per share | 0.04 | 0.02 | 0.01 | 0.00 |
| Cash and cash equivalents, end of period | 3,920,752 | 3,397,876 | 2,045,529 | 1,051,011 |
| Assets | 35,300,472 | 31,452,690 | 29,960,483 | 29,384,955 |
| Shareholders' equity | 18,896,571 | 13,924,292 | 11,966,967 | 10,825,835 |

The following table includes a summary of financial results for the four three-month periods preceding September 30, 2003. Losses were incurred during these periods due to construction and initial start-up activities of the Don Mario mine.

| | 3 MONTHS ENDED SEPT. 2003 | 3 MONTHS ENDED JUNE 2003 | 3 MONTHS ENDED MAR. 2003 | 3 MONTHS ENDED DEC. 2003 |
|---|---|---|---|---|
| Revenue | $2,992,834 | $0 | $0 | $410 |
| Operating expenses | 2,839,707 | 173,688 | 28,746 | 58,835 |
| Operating income (loss) | 153,127 | (173,688) | (28,746) | (58,425) |
| Net income (loss) | 37,152 | (266,176) | (28,746) | 40,641 |
| Net income (loss) per share | (0.00) | (0.00) | (0.00) | (0.00) |
| Cash and cash equivalents, end of period | 228,472 | 125,438 | 1,334,488 | 1,505,939 |
| Assets | 30,643,067 | 29,474,139 | 26,759,577 | 24,522,465 |
| Shareholders' equity | 10,975,072 | 10,902,600 | 11,090,405 | 11,020,856 |

### Production cost analysis

The following table presents the cash and total costs of producing 13,120 fine troy ounces (FTO) in the fourth quarter 2004 and 48,227 FTO in fiscal 2004 at the Don Mario mine. The calculations of these costs are based on the industry-recognized Gold Institute Production Cost Standard. These calculations represent non-GAAP information, which should not be construed as an alternative to GAAP reporting of operating expenses, and may not be comparable to similar measures presented by other issuers.

| | 12 MONTHS ENDED SEPT. 30, 2004 | | 3 MONTHS ENDED SEPT. 30, 2004 | | 3 MONTHS ENDED SEPT. 30, 2003 | |
|---|---|---|---|---|---|---|
| | Costs | Cost/FTO | Costs | Cost/FTO | Costs | Cost/FTO |
| Direct operating costs | $5,004,251 | $103.76 | $1,303,075 | $99.32 | $1,174,147 | $139.65 |
| Third-party smelting, refining and transportation costs | 96,336 | 2.00 | 29,878 | 2.28 | 17,052 | 2.02 |
| Cash operating costs | 5,100,587 | 105.76 | 1,332,953 | 101.60 | 1,191,199 | 141.67 |
| Royalties and production taxes | 1,429,600 | 29.64 | 434,008 | 33.08 | 217,935 | 25.92 |
| Total cash costs | 6,530,187 | 135.40 | 1,766,961 | 134.68 | 1,409,134 | 167.59 |
| Depreciation, depletion and reclamation costs | 4,315,284 | 89.48 | 971,975 | 74.08 | 885,920 | 105.37 |
| Total production costs | $10,845,471 | $224.88 | $2,738,936 | $208.76 | $2,295,054 | $272.96 |

Total production costs amounted to $209 per fine troy ounce in the fourth quarter of fiscal 2004, compared to $273 per fine troy ounce in the same period in 2003, due primarily to increases in the average head grade. The difference between the fiscal year direct operating cost of $5.0 million and the cost of sales of $5.1 million reported in the audited consolidated financial statements is due to changes in gold and ore inventories.

## LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2004, Orvana generated $10.4 million in cash flow from operating activities before changes in non-cash working capital ($3.9 million in the fourth quarter). Cash and cash equivalents were $3.9 million as at September 30, 2004, compared to $228,472 at the end of fiscal 2003. This represents an increase in cash position of $3.7 million during fiscal 2004 after the Company made $2.9 million of payments on outstanding loans. Working capital was $4.6 million at fiscal 2004 year end, compared to a deficit of $654,943 as at September 30, 2003.

The Company's capital resources at year end consisted primarily of:

»Capital stock of 114.2 million shares with a stated value of $74.7 million,

»A $6.0 million loan from a Bolivian bank with an average interest rate of LIBOR plus 3.75%,

»A $7.1 million loan from Comsur with an average interest rate of LIBOR plus 4.5%.

As at fiscal year end 2004, Orvana had total long-term debt and notes payable of $13.3 million. Principal repayments by fiscal year are summarized in the following table.

| Fiscal Year | BANCO DE CREDITO DE BOLIVIA | COMSUR | NOTES PAYABLE | TOTAL REPAYMENTS |
|---|---|---|---|---|
| 2005 | $2,000,000 | $1,600,000 | $114,402 | $3,714,402 |
| 2006 | 2,000,000 | 1,600,000 | 114,402 | 3,714,402 |
| 2007 | 2,000,000 | 1,600,000 | 67,825 | 3,667,825 |
| 2008 | - | 1,600,000 | - | 1,600,000 |
| 2009 | - | 666,667 | - | 666,667 |
| Total | $6,000,000 | $7,066,667 | $296,629 | $13,363,296 |

The Company had 1,568,331 stock options outstanding on September 30, 2004, with a weighted average price of $3.16 and various expiry dates between August 17, 2005 and December 8, 2008.

Management is confident that the Company will generate sufficient cash flow and working capital to service its future operating requirements, capital expenditures, interest charges and debt repayments.

## OFF-BALANCE-SHEET ARRANGEMENTS

Orvana has not entered into any off-balance-sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

All transactions with related parties have occurred in the normal course of operations or pursuant to the agreement between Orvana, certain of its subsidiaries and Comsur pursuant to which Comsur acquired its controlling interest in Orvana, or a management services agreement between Empresa Minera Paititi S.A. ("Paititi"), a subsidiary of Orvana which owns the Don Mario mine, and Comsur dated October 1, 2003. Under the management services agreement, Comsur provides management services to Paititi in consideration for fees of $420,000 per year. Paititi also reimburses Comsur for certain out-of-pocket expenses which Comsur incurs in providing such services.

## FOURTH QUARTER

The following table lists the tonnages milled and the grams of gold per tonne treated in each month of the fourth quarter 2004. During August, the average mill head grade dropped, which affected gold production. Variations in head grade are not uncommon for a mine in the development phase. In September, the mill experienced a temporary reduction in recoveries due to higher copper content in the ore extracted from the mini-pit. The increased copper content affected the leaching process, but the problem has been addressed and mill recoveries improved in October.

| | SEPTEMBER 2004 | AUGUST 2004 | JULY 2004 |
|---|---|---|---|
| Underground mine | | | |
| tonnes | 11,941 | 11,858 | 12,769 |
| grams per tonne | 10.00 | 8.67 | 9.33 |
| Mini-pit | | | |
| tonnes | 6,239 | 6,964 | 6,442 |
| grams per tonne | 5.78 | 6.84 | 9.89 |
| Total | | | |
| tonnes | 18,180 | 18,822 | 19,211 |
| grams per tonne | 8.56 | 7.99 | 9.52 |
| Recovery rate | 72.0% | 88.1% | 89.5% |

The following analysis compares primarily the financial results of the fourth quarter 2004 to the third quarter 2004.

### Revenue

Orvana sold 14,302 fine troy ounces of gold during the three months ended September 30, 2004, generating revenues of $5.8 million. This compares to 14,037 ounces sold for revenues of $5.5 million in the three month period ended June 30, 2004.

### Expenses

Up to June 30, 2003, operating expenses relating to the development and construction of the Don Mario mine were capitalized. Following commencement of commercial production on July 1, 2003, operating costs were expensed. Expenses in the fourth quarter 2004 consisted primarily of cost of sales of $1.3 million, and approximately $1.0 million of depreciation, amortization and reclamation costs, compared to $1.6 million and $1.1 million, respectively, in the third quarter 2004.

### Net income

Orvana reported net income of $4.3 million in the fourth quarter 2004, compared to $2.1 million in the third quarter 2004. This increase was primarily due to the recognition of the value of income tax losses in Bolivia for the first time.

### VAT recoverable

The Company's assets include $3.4 million of accounts receivable and prepaid expenses as at September 30, 2004. These accounts included $2.4 million of value-added taxes recoverable from the Bolivian tax administration on the export of gold bullion. The Company received a refund payment of $775,000 in August 2004 and management expects to receive a similar payment during the second quarter of fiscal 2005 and the balance within twelve months.

## CRITICAL ACCOUNTING ESTIMATES

With the exception of estimates described in the financial statements and above under "Selected Annual Information", Orvana did not rely on any critical accounting estimates in fiscal 2004.

## CHANGES IN ACCOUNTING POLICIES

The Company implemented two changes to its accounting policies, which are described in the notes to the audited consolidated financial statements and above under "Selected Annual Information".

## FINANCIAL AND OTHER INSTRUMENTS

In fiscal 2004, the Company did not use any hedging or other financial instruments.

## DISCLOSURE OF OUTSTANDING SHARE DATA

Orvana shares are traded on the Toronto Stock Exchange under the symbol ORV. As at November 30, 2004, there were 114,172,507 common shares outstanding with a stated value of $74.7 million, and 1,568,331 stock options outstanding with a weighted average exercise price of $3.16, expiring from 2005 to 2008.

## RISKS AND UNCERTAINTIES

The Company's business is subject to economic, political, geological and operating risks and uncertainties which are beyond Orvana's control. These are described in the Company's Annual Information Form, which is filed on SEDAR. The Company's business, results of operations, financial condition, and the trading price of its common shares are subject to a number of risks, including risks related to: development of mineral deposits, production costs and metal prices exploration, development and operating risks, environmental and other regulatory requirements, international operations, water supply, new operation, production estimates, mineral reserves and resources, title matters, gold price volatility, competition, additional funding requirements, insurance, currency fluctuations, conflicts of interest, and share trading volatility.

## OUTLOOK

Management anticipates that the Company will maintain current levels of production and operating efficiencies at the Don Mario mine during the fiscal year ending September 30, 2005. Average mill throughput is approximately 700 treated tonnes per day, and management estimates that Orvana will process approximately 230,000 tonnes of ore during the 2005 fiscal year.

The Company expects to record positive net income and cash flow from operating activities in fiscal 2005. Orvana intends to re-invest part of its free cash flow into further exploration of both the lower and upper mineralized zones and to conduct surface exploration at the Don Mario property. In addition, the Company intends to set aside funds for the potential exploration and acquisition of other properties in Latin America.

## OTHER INFORMATION

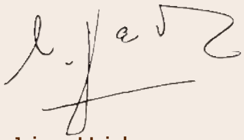
Other operating and financial information, including the Company's Annual Information Form, is available in public disclosure documents filed on SEDAR at www.sedar.com and on the Company's website at www.orvana.com.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

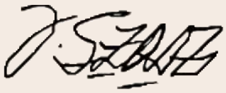
The accompanying consolidated financial statements and all of the data included in this report have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost effective basis, the reliability of its financial information, and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which meets to satisfy itself that management's responsibilities are properly discharged and with the external auditors to review the financial statements before they are presented to the Board of Directors for approval.

The consolidated financial statements for the year ended September 30, 2004 were audited by PricewaterhouseCoopers LLP Canada and the consolidated financial statements for the nine month period ended September 30, 2003 were audited by PricewaterhouseCoopers S.R.L. Bolivia. Their reports outline the scope of their examination and opinion on the consolidated financial statements.



Jaime Urjel
President and Chief Executive Officer



Jorge Szasz
Vice President, Finance and
Chief Financial Officer

# AUDITORS' REPORT

To the Shareholders of Orvana Minerals Corp.

We have audited the consolidated balance sheet of Orvana Minerals Corp. as at September 30, 2004 and the statement of operations and deficit and cash flows for the twelve-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2004 and the results of its operations and its cash flows for the twelve-month period then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2003 and for the period then ended prior to the adjustment for accounting changes described in Note 8, were audited by other auditors, who expressed an opinion on those statements in their report dated November 24, 2003. We have audited the adjustments to the 2003 financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Canada
November 19, 2004

# CONSOLIDATED BALANCE SHEETS

| (Expressed in United States Dollars) | SEPTEMBER 30, 2004 | SEPTEMBER 30, 2003 |
|---|---|---|
| | | (Restated-note 8) |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $3,920,752 | $228,472 |
| Receivables and prepaid expenses | 4,309,228 | 3,182,822 |
| Gold and ore inventories | 322,330 | 360,876 |
| Supplies | 1,922,922 | 1,182,759 |
| | 10,475,232 | 4,954,929 |
| Mineral properties and deferred development costs (note 3) | 6,146,849 | 7,351,435 |
| Mining operations (note 4) | 16,765,100 | 18,336,703 |
| Future income tax asset (note 12) | 1,913,291 | |
| | $35,300,472 | $30,643,067 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $2,184,431 | $2,650,219 |
| Current portion of loans payable | 3,600,000 | 2,800,000 |
| Current portion of notes payable | 114,402 | 159,653 |
| | 5,898,833 | 5,609,872 |
| Loan payable - Banco de Credito de Bolivia (note 5) | 4,000,000 | 6,000,000 |
| Loan payable - Compania Minera del Sur S.A. (note 6) | 5,466,667 | 7,200,000 |
| Notes payable (note 14) | 182,227 | 158,313 |
| Debenture - Compania Minera del Sur S.A. (note 7) | 92,488 | 92,488 |
| Provision for statutory workers' settlements | 219,328 | 107,911 |
| Asset retirement obligations (note 8) | 544,358 | 499,411 |
| | 16,403,901 | 19,667,995 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (note 9) | 74,696,915 | 74,617,452 |
| Deficit | (55,800,344) | (63,642,380) |
| | 18,896,571 | 10,975,072 |
| | $35,300,472 | $30,643,067 |

Approved by the Board of Directors:

George S. Hamilton
Director

Jeffrey R. Lloyd
Director

# CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

| (Expressed in United States Dollars) | YEAR ENDED SEPTEMBER 30, 2004 | 9 MONTHS ENDED SEPTEMBER 30, 2003 |
|---|---|---|
| | | (Restated-note 8) |
| REVENUE | | |
| Gold sales | $19,121,002 | $2,984,933 |
| Interest and other income | 37,471 | 7,901 |
| | 19,158,473 | 2,992,834 |
| OPERATING EXPENSES | | |
| Cost of sales | 5,084,217 | 1,359,416 |
| Depreciation and amortization | 4,319,956 | 896,083 |
| Corporate, general and administration | 1,067,460 | 360,137 |
| Production royalties | 655,335 | 101,960 |
| Exploration costs | 268,780 | - |
| Foreign exchange loss | 85,383 | 23,714 |
| Interest on long term debt | 929,385 | 259,595 |
| Accretion related to asset retirement obligation (note 8) | 44,947 | 41,236 |
| | 12,455,463 | 3,042,141 |
| Income (loss) before restructuring costs and provision for (recovery of) income taxes | 6,703,010 | (49,307) |
| Restructuring costs (note 7) | - | 92,488 |
| Income (loss) before provision for (recovery of) income taxes | 6,703,010 | (141,795) |
| Income tax provision (note 12) | (774,265) | (115,975) |
| Future income tax recovey (note 12) | 1,913,291 | - |
| Net income (loss) for the year | 7,842,036 | (257,770) |
| DEFICIT, beginning of year | (63,642,380) | (63,384,610) |
| DEFICIT, end of year | $(55,800,344) | $(63,642,380) |
| Earnings per share (note 13) | | |
| Basic | $0.07 | $0.00 |
| Diluted | $0.07 | $0.00 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Expressed in United States Dollars) | YEAR ENDED SEPTEMBER 30, 2004 | 9 MONTHS ENDED SEPTEMBER 30, 2003 |
|---|---|---|
| | | (Restated-note 8) |
| Cash provided by (used in) | | |
| OPERATING ACTIVITIES | | |
| Income (loss) for the period | $7,842,036 | $(257,770) |
| Depreciation and amortization | 4,319,956 | 896,083 |
| Accretion of asset retirement obligations (note 8) | 44,947 | 41,236 |
| Future income tax recovery (note 12) | (1,913,291) | - |
| Provision for statutory workers' settlements | 111,417 | 107,911 |
| | 10,405,065 | 787,460 |
| Changes in non-cash working capital items | | |
| Receivables and prepaid expenses | (1,126,407) | (1,774,623) |
| Gold and ore inventories | 38,546 | (360,876) |
| Accounts payable and accrued liabilities | (465,788) | 1,472,288 |
| Supplies | (740,163) | (39,677) |
| | 8,111,253 | 84,572 |
| FINANCING ACTIVITIES | | |
| Proceeds from share issues | 79,463 | 192,961 |
| Debenture payable to Compania Minera del Sur S.A. | - | 96,650 |
| Issue of and (repayment of) loan payable - Banco de Credito de Bolivia | (2,000,000) | 4,000,000 |
| Repayment of loan payable - Compania Minera del Sur S.A. | (933,333) | - |
| Notes payable | (21,337) | (9,874) |
| | (2,875,207) | 4,279,737 |
| INVESTING ACTIVITIES | | |
| Mineral properties | - | (40,274) |
| Purchase of equipment | (1,543,766) | (5,601,502) |
| | (1,543,766) | (5,641,776) |
| CHANGE IN CASH AND CASH EQUIVALENTS | 3,692,280 | (1,277,467) |
| CASH AND CASH EQUIVALENTS, beginning of period | 228,472 | 1,505,939 |
| CASH AND CASH EQUIVALENTS, end of period | $3,920,752 | $228,472 |
| OTHER INFORMATION | | |
| Income taxes paid | $774,265 | $115,975 |
| Interest paid | $1,103,778 | $324,161 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

## 1. The Company

Orvana Minerals Corp. (the “Company”) is a publicly held company, engaged in the mining, exploration and development of resource properties. The Company is incorporated under the Business Corporations Act (Ontario) and its common shares are listed on the Toronto Stock Exchange.

The Company’s principal asset is the Don Mario mine and property (Note 3(a)), which is held through its 100% owned subsidiary, Empresa Minera Paititi S.A.

According to the Bolivian Mining Code, mining rights in Bolivia are granted in perpetuity and can be lost only if the annual mining rights upon the concession are not being paid.

The recoverability of the carrying value of the Don Mario property is dependent upon the exploitation of economically recoverable reserves, the preservation of the Company’s interest in the underlying mineral claims, and the future profitable production therefrom, or, alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

## 2. Summary of significant accounting policies

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

### Basis of consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of Orvana Minerals Corp. and its wholly owned subsidiaries:

### Operating companies:

Empresa Minera Paititi S.A. (“Paititi”)

### Non operating companies:

Orvana International Corp.
Orvana Pacific Minerals Corp.
Orvana Resources Corp.
Compania Minera Las Palmas S.A.
Imperial Mining S.A.
Cupesi S.A.
Compania Minera Las Tojas S.A.

### Revenue recognition

Revenue is mainly derived from the sale of gold bullion. Revenue is recognized when significant risks and ownership title are transferred to the the purchaser of the gold bullion, which is upon shipment. Minor adjustments to the receivable for each shipment at the settlement date, primarily caused by final assay results, are adjusted through gold sales at each balance sheet date.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of six months or less.

### Inventory

Gold bullion and inventories of ore stockpiled at the surface are stated at the lower of cost and net realizable value using the first in, first out method. Cost represents average production cost. Materials and supplies inventories are stated at the lower of cost and replacement cost. At September 30, 2004, gold bullion inventory was $161,534 (2003 - $135,742) and stockpiled ore inventories were $160,796 (2003 - $225,134).

### Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ significantly from those

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

### Use of estimates (continued)

estimates. Specific items requiring estimates are the net realizable values and recoverable amount of deferred property costs, asset retirement obligations, income taxes and gold reserves.

### Transactions and balances not denominated in U.S. dollars

Assets and liabilities denominated in currency other than U.S. dollars are translated using the temporal method, whereby monetary items are translated using rates of exchange prevailing at the balance sheet date and non monetary items are translated at rates prevailing at the date of acquisition. Revenues and expenses are translated using average rates of exchange for the period. Foreign exchange gains or losses are included in the statement of operations and deficit.

### Mineral properties and exploration costs

Mineral properties are carried at cost less accumulated amortization.

Acquisition costs and mineral exploration costs directly related to mineral properties have historically been capitalized and deferred until such time as the properties are brought into commercial production, abandoned or sold. These costs are being amortized over the estimated productive life of the properties commencing with the start of commercial production or written off if the properties are abandoned or sold. Amortization of such cost is calculated on the units of production method over the expected economic life of the mine. Management reviews the carrying value of its property interests on a regular basis, and where necessary, these interests are written down to their estimated net recoverable amount. All other exploration costs are expensed in the year incurred.

### Mining operations

Amortization of mine buildings and mills, equipment and pre-production and development costs commences when a property is put into commercial production, and is calculated on the units of production method over the expected economic life of the mine. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

### Mine development

In order to conform with Canadian generally accepted accounting principles, the Company has changed its method of recording mine development costs. From July 1, 2003 to September 30, 2003, the Company followed the practice of including these expenditures as part of cost of sales and has adopted the practice of capitalizing these expenses and is amortizing these expenses over the life of the mine. In 2004 and 2003, this amounted to $726,808 and $264,109 respectively.

In 2003, the change resulted in an increase to mining operations of $264,109, a decrease in deficit of $264,109 and a reduction to cost of sales of $264,109. No amortization was taken in 2003. In 2004, the change resulted in an increase to mining operations of $726,808, a decrease in deficit of $726,808 and a reduction to cost of sales of $726,808.

### Asset retirement obligations

Effective September 30, 2003, the Company retroactively adopted the new Canadian accounting standard with respect to asset retirement obligations. Under the new standard, legal obligations associated with the retirement of tangible long lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which are included in the statement of operations and deficit.

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required and the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period these estimates are revised.

The asset retirement cost is amortized on a straight line basis over the expected payout schedule of the asset retirement obligations.

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

### Earnings per share

Basic earnings per share is calculated by dividing net income (loss) by the weighted number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method. The treasury stock method assumes that any "in the money" option proceeds would be used to purchase common shares of the Company at the average market price during the year.

### Stock based compensation

Effective October 1, 2003, the Company adopted CICA 3870 "Stock Based Compensation and other Stock Based Payments" which requires that the fair value of all stock options awarded to employees and directors be expensed on a prospective basis. The Company has not issued any stock options subsequent to the effective date of the standard and it has not had an impact on the financial statements to date.

### Fair value of financial instruments

The carrying values of financial instruments approximate their estimated fair values unless otherwise disclosed in these consolidated financial statements.

### Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

### Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2004.

## 3. Mineral properties and deferred development costs

| | SEPTEMBER 30, 2004 | SEPTEMBER 30, 2003 |
|---|---|---|
| Mineral properties and deferred development costs | $7,601,299 | $7,601,299 |
| Less: accumulated amortization | (1,454,450) | (249,864) |
| | $6,146,849 | $7,351,435 |

### a) Description of the Don Mario mine and property

The Company has a 100% working interest in eight mineral concessions totaling 53,900 hectares located in eastern Bolivia. Annual payments aggregating approximately $66,000 are made to maintain the mining rights and to keep these concessions in good standing. These concessions are available for further exploration and development.

In February 2002, the Company commenced construction of a mining and milling operation and the mine commenced commercial production on July 1, 2003. Based upon the current mine plan, the Company has sufficient reserves to sustain continuous operations for five to six years.

Certain of the mineral concessions are subject to a 3% net smelter royalty payable to a third party.

All of the mineral concessions are subject to a government tax, referred to as the Complementary Mining Tax (ICM). At a gold price less than $400 per ounce, the ICM rate is 4% of the gold price. At prices above $400 per ounce, the tax increases at an accelerating rate up to a limit of 7% when the price reaches $700 per ounce of gold. Amounts paid for ICM are a credit against income taxes otherwise payable if such income tax is payable during a certain year, otherwise the ICM tax is consolidated as a minimum tax payable.

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

### b) Pederson property, Bolivia

The Company has a 35% interest (with an option to acquire an additional 15%) in the Pederson property, which is located 300 km south of La Paz, Bolivia. The Company has no immediate plans for the development of this property.

## 4. Mining operations

Mining operations consist of the following categories:

| | SEPTEMBER 30, 2004 | SEPTEMBER 30, 2003 |
|---|---|---|
| Plant and equipment - Don Mario property | $20,526,688 | $18,982,922 |
| Less: accumulated amortization | (3,761,588) | (646,219) |
| | $16,765,100 | $18,336,703 |

Details of the mining operations cost allocation are as follows:

| | SEPTEMBER 30, 2004 | SEPTEMBER 30, 2003 |
|---|---|---|
| Buildings | $2,298,153 | 2,298,153 |
| Plant and equipment | 4,342,511 | 4,246,461 |
| Heavy equipment | 2,579,036 | 2,025,243 |
| Energy generating plant | 1,396,498 | 1,396,498 |
| Tools | 218,984 | 98,757 |
| Vehicles | 71,284 | 53,784 |
| Furniture | 98,054 | 88,503 |
| Camp equipment | 14,634 | 10,113 |
| Computer equipment | 235,939 | 224,188 |
| Plant installation | 5,420,708 | 5,420,708 |
| Tailings dam | 1,485,718 | 1,485,718 |
| Electrical equipment | 533,217 | 529,652 |
| Gas pipe | 382,860 | 382,860 |
| Mine development | 990,917 | 264,109 |
| Asset retirement cost (note 8) | 458,175 | 458,175 |
| | 20,526,688 | 18,982,922 |
| Less: accumulated amortization | (3,761,588) | (646,219) |
| | $16,765,100 | $18,336,703 |

## 5. Loan payable - Banco de Credito de Bolivia

Paititi, the Company's wholly owned subsidiary, has entered into a financing arrangement with the Banco de Credito de Bolivia for an $8,000,000 loan facility which was fully utilized as at September 30, 2003. As of September 30, 2004, the principal balance of the loan facility was $6,000,000 (2003 - $8,000,000). The interest rate of the loan payable is LIBOR plus 3.75%.

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

5. Loan payable - Banco de Credito de Bolivia (continued)

The facility is re-payable in six installments as follows:

| | |
|---|---|
| March 1, 2005 | $1,000,000 |
| August 29, 2005 | 1,000,000 |
| February 24, 2006 | 1,000,000 |
| August 23, 2006 | 1,000,000 |
| February 19, 2007 | 1,000,000 |
| August 20, 2007 | 1,000,000 |
| | $6,000,000 |
| Less: current portion | (2,000,000) |
| | $4,000,000 |

6. Loan payable to a related party - Compania Minera del Sur S.A ("Comsur")

In accordance with the Definitive Agreement dated January 11, 2002, Comsur sold mining rights, land, plant and equipment to Paititi for $8,000,000. In connection with the asset purchase, Comsur has provided financing through a loan facility of $8,000,000. The principal balance at September 30, 2004 is $7,066,667. The loan payable has the following terms:

(a) The interest rate is LIBOR plus 4.50%.

(b) Principal repayments over the next five years are as follows:

| | |
|---|---|
| 2005 | $1,600,000 |
| 2006 | 1,600,000 |
| 2007 | 1,600,000 |
| 2008 | 1,600,000 |
| 2009 | 666,667 |
| | $7,066,667 |
| Less: current portion | (1,600,000) |
| | $5,466,667 |

7. Debenture - Comsur

The Company has issued a debenture in the amount of $92,488 to Comsur. The debenture bears interest at 6% per annum, is payable quarterly in arrears and matures three years from the date of issuance, subject to prepayment in certain circumstances. The debenture is repayable at Comsur's option in cash or by the issuance of common shares of the Company at the then current market price.

8. Asset retirement obligations

Effective September 30, 2003, the Company adopted the provisions of CICA 3110 which require that the fair value of an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of the long lived asset. Previous accounting standards used the units of production method to match estimated future retirement costs with the revenues generated from the producing assets. In contrast, CICA 3110 requires amortization of the capitalized asset retirement cost and accretion of the asset retirement obligation over time. The amortization will generally be determined on a units of production basis over the life of the mine, while the accretion to be recognized will escalate over the life of the producing assets.

For the Company, asset retirement obligations primarily relate to the dismantling of the mine facilities and environmental reclamation.

At September 30, 2003, the change resulted in an increase to mining operations of $458,175, an increase in the asset retirement obligations of $458,175 and a reduction to deficit of $35,287. The amounts recognized upon adoption are based upon numerous estimates and assumptions, including future retirement costs, future recoverable quantities of gold and ore, future inflation rates and the credit adjusted risk-free interest rate of 10%.

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

## 8. Asset retirement obligations (continued)

Changes in asset retirement obligations were as follows:

| | SEPTEMBER 30, 2004 | SEPTEMBER 30, 2003 |
|---|---|---|
| Asset retirement obligation/reclamation, beginning of year | $499,411 | $35,287 |
| Change in accounting policy | - | (35,287) |
| Liabilities incurred | - | 458,175 |
| Accretion expense | 44,947 | 41,236 |
| Asset retirement obligation, end of year | $544,358 | $499,411 |

As of September 30, 2004, management estimates that undiscounted expected cash flows required to settle the Company's asset retirement obligations will be incurred as follows:

| | |
|---|---|
| 2009 | $251,668 |
| 2010 | 251,668 |
| 2011 | 201,665 |
| 2012 | 185,000 |
| 2013 | 122,500 |
| 2014 | 107,499 |
| | $1,120,000 |

## 9. Capital stock

(a) AUTHORIZED - Unlimited number of common shares

(b) COMMON SHARES ISSUED

| | NUMBER OF SHARES | STATED VALUE |
|---|---|---|
| Balance, December 31, 2002 | 110,327,170 | $74,405,466 |
| Issued in consideration of property acquired | 30,000 | 19,025 |
| Exercise of stock options | 1,320,500 | 192,961 |
| Private placement - Compania Minera del Sur S.A.(*) | 1,350,500 | nil |
| Balance, September 30, 2003 | 113,028,170 | $74,617,452 |
| Exercise of stock options | 572,000 | 79,463 |
| Private placement - Compania Minera del Sur S.A.(*) | 572,000 | nil |
| Common share adjustment | 337 | nil |
| Balance, September 30, 2004 | 114,172,507 | $74,696,915 |

(*)Comsur has the right to receive common shares of the Company at no additional cost, on a one for one basis for each common share issued by the Company as a result of the exercise of stock options, warrants or other convertible instruments outstanding on January 11, 2002.

## 10. Stock options

In 1996, the Company adopted a stock option plan (the "Orvana Stock Option Plan", or the "Plan") which was approved by the Company's shareholders under the policies of The Toronto Stock Exchange. The Plan replaced a previous stock option plan (the "Pre 1996 Plan") and all options under the Pre 1996 Plan either expired or were exercised prior to January 1, 2003.

The stated purpose of the Orvana Stock Option Plan is to attract, retain and compensate qualified persons as directors, senior officers and employees of, and consultants to, the Company and its subsidiaries and affiliates. The Plan is to be administered by a committee appointed by the Board of Directors. Subject to the terms of the Plan the committee may determine, among other things, the number of stock options to be granted to any person, the exercise price (which may not be less than the market price (as defined in the Plan) of the Company's common shares) and the time or times when

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

10.Stock options (continued)

options will be exercisable (ie. any vesting period). The term of stock options granted under the Plan may not exceed ten years from the date of grant.

In addition to the outstanding stock options described below, as at September 30, 2004 the Company was authorized to issue stock options under the Plan for the purchase of up to 2,000,859 additional common shares. Common shares in respect of which outstanding options expire unexercised are available for subsequent option grants under the Plan.

As at September 30, 2004, all stock options were fully vested. Stock options granted under the plan were outstanding and exercisable as follows:

| NUMBER OF OPTIONS | EXERCISE PRICE | EXPIRY DATE |
|---|---|---|
| 88,000 | Cdn$8.00 | July 2, 2006 |
| 539,999 | 6.25 | June 9, 2007 |
| 50,000 | 4.10 | August 14, 2007 |
| 294,999 | 1.75 | March 31, 2008 |
| 65,000 | 1.00 | December 8, 2008 |
| 130,333 | 0.25 | August 17, 2005 |
| 80,000 | 0.15 | December 5, 2005 |
| 320,000 | 0.15 | May 23, 2006 |
| 1,568,331 | | |

As at September 30, 2003, stock options granted under the plan were outstanding and exercisable as follows:

| NUMBER OF OPTIONS | EXERCISE PRICE | EXPIRY DATE |
|---|---|---|
| 88,000 | Cdn$8.00 | July 2, 2006 |
| 539,999 | 6.25 | June 9, 2007 |
| 50,000 | 4.10 | August 14, 2007 |
| 294,999 | 1.75 | March 31, 2008 |
| 65,000 | 1.00 | December 8, 2008 |
| 309,833 | 0.25 | August 17, 2005 |
| 80,000 | 0.15 | December 5, 2005 |
| 569,500 | 0.15 | May 23, 2006 |
| 30,000 | 0.15 | May 30, 2004 |
| 113,000 | 0.15 | September 5, 2006 |
| 2,140,331 | | |

The following summarizes the stock option activity for the year ended September 30, 2004 and the nine months ended September 30, 2003.

| | STOCK OPTIONS | WEIGHTED AVERAGE PRICE |
|---|---|---|
| Balance, December 31, 2002 | 3,460,831 | Cdn$1.54 |
| Exercised | (1,320,500) | 0.21 |
| Balance, September 30, 2003 | 2,140,331 | 2.32 |
| Exercised | (572,000) | 0.19 |
| Balance, September 30, 2004 | 1,568,331 | $3.16 |

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

## 11. Related party transactions

All transactions with related parties have occurred in the normal course of operations or have occurred pursuant to the Definitive Agreement and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company's wholly owned subsidiary Paititi has entered into an agreement with Comsur to provide managerial, technical and commercial support to the Company. The contract is renewable annually on September 30 and currently requires payments totalling $420,000 annually.

All transactions with the Company and a legal firm, who has a partner as a board member, have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 12. Income taxes

The Company's income tax provision (recovery) has been calculated as follows:

| | SEPTEMBER 30, 2004 |
|---|---|
| Net income (loss) for the year | $6,703,010 |
| Income tax recovery (provision) at Canadian federal and provincial statutory rates | 2,435,337 |
| Effect of differences in foreign tax rates | (713,265) |
| Effect of change in temporary differences not recognized | (21,362) |
| Current year losses not recognized | nil |
| Permanent differences | (791,349) |
| Utilization of prior year losses not previously recognized | (135,096) |
| Provision for (recovery of) income taxes | $774,265 |

The components of the provision for (recovery of) income taxes comprise:

| | |
|---|---|
| Current tax expense: | |
| Canada | $nil |
| Foreign | 774,265 |
| | |
| Future tax expense: | |
| Canada | nil |
| Foreign | nil |
| | $774,265 |

The Company's future income tax assets at September 30, 2004 are summarized as follows:

| | SEPTEMBER 30, 2004 |
|---|---|
| Property plant and equipment | $nil |
| Exploration and development | nil |
| Non-capital losses carried forward | 3,472,652 |
| Other | nil |
| Net future income tax asset | 3,472,652 |
| Valuation allowance | (1,559,361) |
| Net future income tax asset recorded | $1,913,291 |

The Company has recorded a valuation allowance in respect of its Canadian losses in the amount of $1,559,361 as at September 30, 2004 because management believes that the future income tax assets are in respect of such losses are unlikely to be realized in the carryforward period. The $1,913,291 represents the full value of the tax carryforward losses in Bolivia.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

### 12. Income taxes (continued)

As at September 30, 2004, the Company has available non capital loss carry forwards for Canadian federal and Ontario tax purposes that will expire as follows:

| | |
|---|---|
| 2004 | $629,813 |
| 2006 | $1,991,398 |
| 2007 | nil |
| 2008 | $929,742 |
| 2009 | $408,607 |
| 2010 | $357,607 |

### 13. Earnings per share

| | SEPTEMBER 30, 2004 | SEPTEMBER 30, 2003 |
|---|---|---|
| Earnings available to common stockholders | $7,842,036 | $(257,770) |
| Effect of dilutive securities on earnings | - | - |
| Earnings available to common stockholders and on assumed conversions | $7,842,036 | $(257,770) |
| Weighted average shares outstanding - basic | 113,669,885 | 111,677,670 |
| Effect of dilutive stock options | 1,190,666 | - |
| Effect of conversion of debenture - Compania Minera del Sur S.A. | 96,342 | - |
| Weighted average shares outstanding and on assumed conversions | 114,956,893 | 111,677,670 |

Basic earnings per share is computed by dividing net income or loss (the numerator) by the weighted average number of outstanding common shares for the year (the denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding stock options and other convertible instruments.

### 14. Notes payable

The Company entered into a series of agreements relating to the acquisition of mining equipment. The equipment has been capitalized. Interest rates on the notes to acquire the mining equipment vary from 5.61% to 8.00% per annum. Payments to complete the acquisition of the mining equipment are as follows:

| | |
|---|---|
| 2005 | $114,402 |
| 2006 | 114,402 |
| 2007 | 67,825 |
| Total principal payments | 296,629 |
| Less: current portion | (114,402) |
| Long-term portion | $182,227 |

(Expressed in United States Dollars Unless Otherwise Noted) September 30, 2004 and September 30, 2003

## 15. Segmented information

(a) Segmented assets

| | SEPTEMBER 30, 2004 | | |
|---|---|---|---|
| | CANADA | BOLIVIA | CONSOLIDATED |
| Current assets | $108,909 | $10,366,323 | $10,475,232 |
| Long-term assets | - | 24,825,240 | 24,825,240 |
| | $108,909 | $35,191,563 | $35,300,472 |

| | SEPTEMBER 30, 2003 | | |
|---|---|---|---|
| | CANADA | BOLIVIA | CONSOLIDATED |
| Current assets | $100,682 | $4,854,247 | $4,954,929 |
| Long-term assets | - | 25,688,138 | 25,688,138 |
| | $100,682 | $30,542,385 | $30,643,067 |

(b) Segmented profits

| | FOR THE YEAR ENDED SEPTEMBER 30, 2004 | | |
|---|---|---|---|
| | CANADA | BOLIVIA | CONSOLIDATED |
| Gold sales | $- | $19,121,002 | $19,121,002 |
| Interest and other income | - | 37,471 | 37,471 |
| | - | 19,158,473 | 19,158,473 |
| Interest on long-term debt | 5,799 | 923,586 | 929,385 |
| Deprecation and amortization | - | 4,319,956 | 4,319,956 |
| Accretion | - | 44,947 | 44,947 |
| Income taxes | - | (1,139,026) | (1,139,026) |
| Segmented profit (loss) | $(517,489) | $8,359,525 | $7,842,036 |

| | FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2003 | | |
|---|---|---|---|
| | CANADA | BOLIVIA | CONSOLIDATED |
| Gold sales | $- | $2,984,933 | $2,984,933 |
| Interest and other income | 1,676 | 6,225 | 7,901 |
| | 1,676 | 2,991,158 | 2,992,834 |
| Interest on long-term debt | - | 259,595 | 259,595 |
| Deprecation and amortization | - | 896,083 | 896,083 |
| Accretion | - | 41,236 | 41,236 |
| Income taxes | - | 115,975 | 115,975 |
| Segmented profit (loss) | $(198,136) | $(59,634) | $(257,770) |

(c) Major customer

Revenues from gold sales from the Bolivia segment are derived from one customer.

# SHAREHOLDER INFORMATION

## DIRECTORS AND OFFICERS

Donald French,
*Director*
Galveston, Texas

George Hamilton, CA,
*Director and Chairman*
Mississauga, Ontario

Jeffrey Lloyd,
*Director*
Toronto, Ontario

Carlos Mirabal,
*Vice President Operations and Chief Operating Officer*
La Paz, Bolivia

Christopher Mitchell,
*Director*
Vancouver, British Columbia

Robert Mitchell, CA,
*Director*
Oakville, Ontario

Jorge Szasz, CPA,
*Director, Vice President-Finance and Chief Financial Officer*
La Paz, Bolivia

Jaime Urjel,
*Director, President and Chief Executive Officer*
La Paz, Bolivia

## AUDITORS

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## STOCK EXCHANGE LISTING

Toronto Stock Exchange (TSX)
Stock symbol: ORV

## ANNUAL MEETING

Tuesday, February 15th 2005 at 4:00pm.
Offices of Blake, Cassels & Graydon LLP
23rd floor, Commerce Court West, 199 Bay Street
Toronto, Ontario
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Design: Story Communications · www.storycommunications.com

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