

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **SECOND QUARTER 2004**

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 financial results of the Company for the three months ("second quarter 2004") and six months ended March 31, 2004. This MD&A should be read in conjunction with Orvana's consolidated financial statements and related notes for the second quarter 2004, and with the MD&A and audited financial statements and related notes for the 2003 fiscal period ended September 30, 2003. 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.

#### **Forward-looking Statements**

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.

#### **Business Overview and Strategy**

Orvana is involved in the evaluation, development and mining of precious metal deposits in South America. Through its wholly owned subsidiary Empresa Minera Paititi S.A., the Company owns and operates the Don Mario gold mine in eastern Bolivia. The Don Mario property has estimated proven and probable reserves of 1.5 million tonnes grading 8.74 grams per treated tonne, to produce an estimated 414,000 ounces of contained gold during its mine life, 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.

Orvana's near-term business strategy is to complete the development of the lower mineralized zone and sustain gold production and revenue 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 Don Mario mine. The Company intends to use a portion of free cash flow to fund further exploration of the Don Mario property, in order to develop additional mineral reserves. The Company's long-term goal is to be a multi-mine producer in South America.

### Don Mario Mine Production

The Don Mario mine began commercial production on July 1, 2003 and the Company has increased gold production in each of the subsequent quarters. The head grade of ore mined continues to improve resulting in lower unit costs for each ounce of gold produced. The table below summarizes the results of operations for the second quarter and for the six months ended March 31, 2004.

	January to March 2004	October 2003 to March 2004
Ore treated (tonnes)	58,902	118,327
Head grade (grams/tonne)	6.92	6.29
Mill recovery rate	88.9%	85.5%
Gold produced (fine troy ounces)	11,663	20,464
Direct mining cost of production	\$1,388,705	\$2,728,429
Direct cost per treated tonne	\$23.58	\$23.05
Direct cost per ounce produced	\$119.08	\$133.33

During the second quarter, a total of 60,684 tonnes of ore were mined from both the underground mine and from the mini-pit. The head grade of the ore extracted from the mini-pit continues to improve at lower depths. In addition, the quality of ore from the underground mine development and the cut and fill stopes continues to improve with the opening of more ore faces.

During the second quarter 2004, the Don Mario mill treated 58,902 tonnes of ore with an average head grade of 6.92 grams per tonne treated. The mill recovery rate averaged 88.9% for the second quarter of 2004. The table below shows the tonnages milled and the grams of gold per tonne treated (g/t) for the past three months.

		January 2004	February 2004	March 2004	Second Quarter 2004
Underground Mine	Tonnes	8,608	7,513	9,954	26,075
	g/t	6.37	6.60	7.11	6.72
Mini- Pit	Tonnes	11,965	11,557	9,305	32,827
	g/t	5.54	7.87	8.11	7.09
Total	Tonnes	20,573	19,070	19,259	58,902
	g/t	5.89	7.37	7.59	6.92

### Don Mario Mine Development

During the second quarter 2004, the Company updated the mine plan for the lower mineralized zone. A copy of the mine plan can be found on our website at [www.orvana.com](http://www.orvana.com). Construction of the main vertical shaft has been advanced to a depth of 181 metres, with completion to a depth of 200 metres scheduled for September 2004. As at March 31 2004, 1,397 metres of horizontal drifts and crosscuts and 740 metres of vertical open cut and ventilation raises had been completed. Work proceeds on schedule to develop the ramp to the bottom of the main ore body, and 430 metres of the ramp had been completed as at March 31, 2004. This ramp provides access to the lower levels of the mine and it is scheduled to be finished in December 2004.

The Don Mario property employs 186 full-time employees and 125 contractors.

## Financial Results

The Don Mario mine was under construction during the first six months of 2003 and commercial production began July 1, 2003. The mine has been in production for the past nine months. Consequently, the results of operations for the three-month and six-month periods ended March 31, 2004 do not provide meaningful comparisons to those of the same periods a year ago.

### Three-month financial highlights

The following table compares results for the second quarter 2004 to those of the first quarter 2004 and to the three months ended March 31, 2003.

	3 months ended March 31, 2004	3 months ended December 31, 2003	3 months ended March 31, 2003
Revenue from gold sales	\$4,693,412	\$3,108,658	\$0
Costs and expenses	3,423,929	2,942,544	28,746
Operating income (loss)	1,269,483	166,114	(28,746)
Net income (loss)	1,081,380	43,762	(28,746)
Net income (loss) per share	0.01	0.00	(0.00)
Cash and cash equivalents, end of period	\$2,045,529	\$1,051,011	\$1,334,488
Assets	\$29,960,483	\$29,384,955	\$26,759,577
Shareholders' Equity	11,966,967	10,825,835	11,090,405

### Six-month financial highlights

The following table compares results for the first six months of fiscal 2004 to the six months ended March 31, 2003.

	6 months ended March 31, 2004	6 months ended March 31, 2003
Revenue from gold sales	\$7,802,070	\$0
Costs and expenses	6,366,473	316
Operating income (loss)	1,435,597	(316)
Net income (loss)	1,125,142	(316)
Net income (loss) per share	0.01	(0.00)
Cash and cash equivalents, end of period	\$2,045,529	\$1,334,488
Assets	\$29,960,483	\$26,759,577
Shareholders' Equity	11,966,967	11,090,405

The following analysis generally compares the results for the second quarter of 2004 to the first quarter of 2004.

### Revenue

Orvana sold 11,225 fine troy ounces of gold during the three months ended March 31, 2004, generating revenues of \$4.7 million. This compares favourably to 7,866 ounces sold for revenues of \$3.1 million in the three-month period ended December 31, 2003.

### Expenses

During the three months ended March 31, 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 second quarter of 2004 consisted primarily of cost of sales of \$1.5 million, and \$1.1 million of depreciation, amortization and reclamation costs, compared to \$1.2 million and \$1.1 million, respectively, in the first quarter 2004. The increase in cost of sales can be attributed to more ounces sold in the second quarter compared to the number of ounces sold in the first quarter.

## Production Cost Analysis

The following table presents the cash and total costs of producing 11,662 ounces in the second quarter 2004 and 20,464 ounces in the six month period ended March 31, 2004 at the Don Mario mine. The calculation of these cost numbers are based on the industry-recognized Gold Institute Production Cost Standard.

	January to March 2004		October 2003 to March 2004	
	Costs	Cost/ounce	Costs	Cost/ounce
Direct operating costs	\$1,388,705	\$119.08	\$2,728,429	\$133.33
Third-party smelting, refining and transportation costs	20,848	1.79	39,091	1.91
<b>Cash Operating Costs</b>	<b>1,409,553</b>	<b>120.87</b>	<b>2,767,520</b>	<b>135.24</b>
Royalties and production taxes	361,748	31.02	577,030	28.20
<b>Total Cash Costs</b>	<b>1,771,301</b>	<b>151.88</b>	<b>3,344,550</b>	<b>163.44</b>
Depreciation, depletion and reclamation costs	1,145,653	98.24	2,238,084	109.37
<b>Total Production Costs</b>	<b>\$2,916,954</b>	<b>\$250.12</b>	<b>\$5,582,634</b>	<b>\$272.81</b>

The total production costs amounted to \$250 per ounce in the second quarter 2004, compared to \$303 per ounce in the preceding three months ended December 31, 2003. This represents an improvement in costs per ounce of \$53, which was due primarily to increases in head grades.

The difference between the direct operating cost of \$1,388,705 and the cost of sales of \$1,478,135 as recorded in the Consolidated Interim Financial Statements is due to changes in gold and ore inventories.

## Net Income

Orvana reported net income of \$1.1 million in the second quarter 2004, compared to \$43,762 in the first quarter. The significant increase was primarily due to improvements in head grade, mill throughput and mill recoveries in the second quarter.

## VAT Recoverable

The \$3.2 million of accounts receivable and prepaid expenses as at March 31, 2004 included \$2,559,332 of value-added taxes recoverable from the Bolivian tax administration on the exports of gold bullion.

## Capital Resources and Liquidity

During the second quarter 2004, Orvana generated \$2.2 million in cash flow from operating activities (before changes in non-cash working capital). The cash flow generated in the first six months of 2004 amounted to \$3.4 million.

Cash and cash equivalents were \$2.0 million as at March 31, 2004, compared to \$1.1 million as at December 31, 2003. This represents an increase in cash position of almost \$1.0 million during the second quarter of 2004 after the Company repaid \$1.0 million of principal on its construction loans.

As at March 31, 2004, Orvana had total long-term debt and notes payable of \$15.4 million. Principal repayments by fiscal year are summarized in the table below.

<b>Fiscal Year</b>	<b>Banco de Credito de Bolivia</b>	<b>Comsur</b>	<b>Notes Payable</b>	<b>Total Payments</b>
<b>2004</b>	\$1,000,000	\$800,000	\$77,104	<b>\$1,877,104</b>
<b>2005</b>	2,000,000	1,600,000	114,102	<b>3,714,102</b>
<b>2006</b>	2,000,000	1,600,000	114,102	<b>3,714,102</b>
<b>2007</b>	2,000,000	1,600,000	67,825	<b>3,667,825</b>
<b>2008</b>		1,600,000		<b>1,600,000</b>
<b>2009</b>		800,000		<b>800,000</b>
<b>Total</b>	<b>\$7,000,000</b>	<b>\$8,000,000</b>	<b>\$ 373,733</b>	<b>\$15,373,733</b>

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

### **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 available on SEDAR at [www.sedar.com](http://www.sedar.com). Through its relationship with Comsur, Orvana has access to a management team which has experience in mining in Bolivia and is capable of helping to minimize risks, uncertainties and their impacts.

### **Outlook**

Management anticipates that it will maintain current levels of production and operating efficiencies at the Don Mario mine during the balance of the fiscal year ending September 30, 2004. Average mill throughput is in the range of 670 to 700 treated tonnes per day, and management estimates that Orvana will process 240,000 tonnes of ore during the 2004 fiscal year.

The Company expects to record positive net income and cash flow from operating activities in fiscal 2004. Orvana intends to re-invest part of its free cash flow into further exploration of the lower mineralized zone and 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 South America.