

# **ORVANA MINERALS CORP.**

## **NOTICE TO SHAREHOLDERS**

### Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements for Orvana Minerals Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the September 30, 2003 audited consolidated financial statements. Only changes in accounting information have been disclosed in these consolidated financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Corporation is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that these consolidated financial statements have been fairly presented.

The auditor of Orvana Minerals Corp. has not performed a review of the unaudited consolidated financial statements for the nine months ended June 30, 2004 and June 30, 2003.

# ORVANA MINERALS CORP.

## Consolidated Balance Sheets (Prepared by Management)

(Expressed in United States Dollars Unless Otherwise Noted)

	June 30, 2004 (Unaudited)	September 30, 2003 (Audited)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 3,397,876	\$ 228,472
Accounts receivable and prepaid expenses	3,510,962	3,182,822
Gold and ore inventories	352,001	360,876
Supplies	<u>1,721,720</u>	<u>1,182,759</u>
	8,982,559	4,954,929
Mineral properties and deferred development costs	6,413,285	7,351,435
Mining Equipment (Note 3)	<u>16,056,846</u>	<u>17,659,869</u>
	<u>\$ 31,452,690</u>	<u>\$ 29,966,233</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,124,370	\$ 2,650,219
Current portion of loans payable (Note 6)	3,733,333	2,800,000
Current portion of notes payable	<u>114,402</u>	<u>159,653</u>
	5,972,105	5,609,872
Loan payable - Banco de Credito de Bolivia	5,000,000	6,000,000
Loan payable - Compania Minera del Sur S.A. (Note 6)	5,866,667	7,200,000
Notes payable	225,597	158,313
Debenture - Compania Minera del Sur S.A.	92,488	92,488
Provision for statutory workers' settlements	197,173	107,911
Reclamation	<u>174,368</u>	<u>35,287</u>
	<u>17,528,398</u>	<u>19,203,871</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 2)	74,696,915	74,617,452
Deficit	<u>(60,772,623)</u>	<u>(63,855,090)</u>
	<u>13,924,292</u>	<u>10,762,362</u>
	<u>\$ 31,452,690</u>	<u>\$ 29,966,233</u>

Approved by the Board of Directors

"Jeffrey Lloyd" Director

"George S. Hamilton" Director

# ORVANA MINERALS CORP.

## Consolidated Statements of Operations and Deficit

(Prepared by Management - Unaudited)

(Expressed in United States Dollars Unless Otherwise Noted)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Revenue				
Gold sales	\$ <u>5,522,965</u>	\$ <u>-</u>	\$ <u>13,325,035</u>	\$ <u>-</u>
Cost and expenses				
Cost of sales	1,595,467	-	4,282,361	-
Depreciation, amortization and reclamation	1,105,224	-	3,343,308	-
Corporate, general and administration	119,702	99,388	761,190	203,285
Production royalties	188,738	-	455,313	-
Exploration costs	74,250	-	86,007	-
Foreign exchange loss (gain)	18,311	12,730	59,507	(90,851)
Interest on long term debt	<u>234,124</u>	<u>61,570</u>	<u>714,603</u>	<u>61,570</u>
	<u>3,335,816</u>	<u>173,688</u>	<u>9,702,289</u>	<u>174,004</u>
Income (loss) before the following:	2,187,149	(173,688)	3,622,746	(174,004)
Income taxes	229,824	-	540,279	-
Loss on restructuring costs	<u>-</u>	<u>92,488</u>	<u>-</u>	<u>92,488</u>
	<u>229,824</u>	<u>92,488</u>	<u>540,279</u>	<u>92,488</u>
Net income (loss) for the period	1,957,325	(266,176)	3,082,467	(266,492)
DEFICIT, beginning of period	<u>(62,729,948)</u>	<u>(63,413,356)</u>	<u>(63,855,090)</u>	<u>(63,413,040)</u>
DEFICIT, end of period	\$ <u>(60,772,623)</u>	\$ <u>(63,679,532)</u>	\$ <u>(60,772,623)</u>	\$ <u>(63,679,532)</u>
Basic and diluted income per share	\$ <u>0.02</u>	\$ <u>0.00</u>	\$ <u>0.03</u>	\$ <u>0.00</u>

# ORVANA MINERALS CORP.

## Consolidated Statements of Cash Flows

(Prepared by Management - Unaudited)

(Expressed in United States Dollars Unless Otherwise Noted)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Cash provided by (used in)				
OPERATING ACTIVITIES				
Net income (loss) for the period	\$ 1,957,325	\$ (266,176)	\$ 3,082,467	\$ (266,492)
Depreciation, amortization and reclamation	1,105,224	-	3,343,308	-
Loss on restructuring costs	-	92,488	-	92,488
	<u>3,062,549</u>	<u>(173,688)</u>	<u>6,425,775</u>	<u>(174,004)</u>
Changes in non-cash working capital items				
Accounts receivable and prepaid expenses	(359,092)	(488,231)	(328,140)	(1,101,830)
Gold and ore inventories	(7,041)	(743,172)	8,875	(743,172)
Accounts payable and accrued liabilities	(133,272)	1,267,848	(525,849)	1,397,114
Supplies	(546,083)	153,959	(538,961)	(366,674)
Due to Compania Minera del Sur S.A.	-	842,031	-	842,031
Provision for statutory workers' settlements	51,625	-	89,262	-
	<u>2,068,686</u>	<u>858,747</u>	<u>5,130,962</u>	<u>(146,535)</u>
FINANCING ACTIVITIES				
Proceeds from share issues	-	78,371	79,463	253,381
Due to Compania Minera del Sur S.A.	(400,000)	-	(400,000)	7,884,932
Loan payable, Banco de Credito de Bolivia	-	700,000	(1,000,000)	5,278,838
Loans payable	-	-	-	21,046
Notes payable	(33,734)	-	22,033	155,069
	<u>(433,734)</u>	<u>778,371</u>	<u>(1,298,504)</u>	<u>13,593,266</u>
INVESTING ACTIVITIES				
Acquisition of mining equipment	(282,605)	(2,846,168)	(663,054)	(15,154,365)
CHANGE IN CASH AND CASH EQUIVALENTS				
	1,352,347	(1,209,050)	3,169,404	(1,707,634)
CASH AND CASH EQUIVALENTS, beginning of period				
	<u>2,045,529</u>	<u>1,334,488</u>	<u>228,472</u>	<u>1,833,072</u>
CASH AND CASH EQUIVALENTS, end of period				
	<u>\$ 3,397,876</u>	<u>\$ 125,438</u>	<u>\$ 3,397,876</u>	<u>\$ 125,438</u>

# ORVANA MINERALS CORP.

Notes to Consolidated Financial Statements (Prepared by Management)

June 30, 2004

(Expressed in United States Dollars Unless Otherwise Noted)

(Unaudited)

---

## 1. ACCOUNTING POLICIES

The management of Orvana Minerals Corp. ("Orvana" or the "Company") have prepared these unaudited consolidated financial statements for the nine months ended June 30, 2004 using Canadian generally accepted accounting principles. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the nine month period ended September 30, 2003.

The disclosure in these interim consolidated financial statements does not conform in all respects to generally accepted accounting principles in Canada for annual financial reporting.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements.

The Company uses the same methods and policies as are used in the September 30, 2003 audited consolidated financial statements.

## 2. CAPITAL STOCK

(a) AUTHORIZED - Unlimited number of common shares

(b) COMMON SHARES ISSUED

	NUMBER OF SHARES	STATED VALUE
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	-
Common share adjustment	337	-
Balance, June 30, 2004	<u>114,172,507</u>	<u>\$ 74,696,915</u>

\* Compania Minera del Sur S.A. ("Comsur"), the Company's controlling shareholder, 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.

# ORVANA MINERALS CORP.

Notes to Consolidated Financial Statements (Prepared by Management)

June 30, 2004

(Expressed in United States Dollars Unless Otherwise Noted)

(Unaudited)

## 2. CAPITAL STOCK (Continued)

### (c) STOCK OPTIONS

The following summarizes the stock option activity for the nine months ended June 30, 2004:

	STOCK OPTIONS	WEIGHTED AVERAGE PRICE
Balance, September 30, 2003	2,140,331	Cdn \$ 2.32
Exercised	572,000	0.19
Balance, June 30, 2004	1,568,331	\$ 3.16

The following are the stock options outstanding as at June 30, 2004:

	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		

## 3. MINING EQUIPMENT

Balance, September 30, 2003	\$ 18,260,638
Additions during the period	663,054
	18,923,692
Accumulated depreciation	(2,866,846)
Balance, June 30, 2004	\$ 16,056,846

# ORVANA MINERALS CORP.

Notes to Consolidated Financial Statements (Prepared by Management)

June 30, 2004

(Expressed in United States Dollars Unless Otherwise Noted)

(Unaudited)

---

## 4. RELATED PARTY TRANSACTIONS

- (a) Corporate, general and administration expenses include \$105,000 for the three months ended June 30, 2004 and \$315,000 for the nine months ended June 30, 2004 for the cost of management services provided by Comsur to the Company.
- (b) Directors' fees of \$31,931 and \$71,612 were expensed in the three and nine month periods ended June 30, 2004, respectively.
- (c) A director of the Company was paid \$8,734 and \$27,048 for administrative services in the three and nine month periods ended June 30, 2004, respectively. This director was also reimbursed for out-of-pocket expenses relating to the business of the Company.

## 5. COMPARATIVE FIGURES

Certain prior period comparative figures have been reclassified to conform with the current period's financial statement presentation.

## 6. LOAN PAYABLE - COMPANIA MINERA DEL SUR S.A.

Pursuant to an agreement dated September 12, 2001, as amended, Comsur sold to Empresa Minera Paititi S. A. ("Paititi"), a wholly-owned subsidiary of the Company, mining rights, land, plant and equipment for \$8,000,000. Comsur provided financing through a loan facility of \$8,000,000 which is repayable in 60 equal monthly principal payments of \$133,333 each plus interest. The agreement requires that the first instalment be made upon completion of a grace period which began following commencement of commercial production. Comsur and Paititi have determined that payments would commence in March 2004. Payment for the month of March 2004 has not yet been made by Paititi, and consequently the current portion of loans payable includes 13 monthly payments payable to Comsur under the loan facility.

---

## SUPPLEMENT TO FINANCIAL STATEMENTS

June 30, 2004

---

As of August 2, 2004, there were 114,172,507 common shares outstanding.

There were also 1,568,331 stock options outstanding.