ORVANA
MINERALS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Second Quarter ended March 31, 2006

This management's discussion and analysis ("MD&A") of results of operations and financial condition of Orvana Minerals Corp. ("Orvana" or the "Company") was prepared on May 12, 2006 (the "report date") and describes the operating and financial results of the Company for the three and six months ended March 31, 2006 (the "second quarter 2006"). The MD&A should be read in conjunction with Orvana's unaudited consolidated financial statements and related notes for the second quarter 2006. The Company prepares and files its financial statements and MD&A in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, all dollar amounts are in thousands of United States dollars unless otherwise stated, and gold production, in fine troy ounces, is referred to as "ounces".

Throughout this MD&A, the Company has used Non-GAAP measures including direct mine operating costs, cash operating costs, total cash costs and total production costs, and related unit cost information, because it understands that certain investors use this information to determine the Company's ability to generate earnings as cash flow for use in investing and other activities. The Company believes that conventional measures of performance prepared in accordance with GAAP do not fully illustrate the ability of its operating mine to generate cash flow. Non-GAAP measures do not have any standardized meaning prescribed under Canadian GAAP, should not be construed as an alternative to GAAP reporting of operating expenses, and may not be comparable to similar measures presented by other companies. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under Canadian GAAP. Cash costs are determined in accordance with the former Gold Institute's Production Cost Standard.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, potentials, future events or performance (often, but not always, using words or phrases such as "believes", "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", or "intends" or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken or achieved) are not statements of historical fact, but are "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Orvana, or developments in Orvana's business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements include all disclosure regarding possible events, conditions or results of operations that are based on assumptions about future conditions, courses of action and consequences. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. Orvana cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. Forward-looking statements relate to, among other things, mineral resource and mineable reserve estimates, production forecasts, future transactions, the successful completion of reclamation projects, future gold prices, the ability to achieve additional growth and geographic diversification, future production costs, accounting estimates and assumptions, future tax benefits, the renewal or renegotiation of agreements, future financial performance, including the ability to increase cash flow and profits, future financing requirements, mine development plans, and possible changes in the regulatory, political, social and economic environment, particularly in Bolivia. A variety of inherent risks, uncertainties and factors, many of which are beyond the Company's control, affect the operations, performance and results of the Company and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. Some of these risks, uncertainties and factors include the impact or unanticipated impact of: the need to recalculate estimates of reserves and resources based on actual production experience; the failure to achieve production estimates; variations in the grade of ore mined; variations in the cost of operations; fluctuations in the price of gold; the availability of qualified personnel; risks generally associated with mineral exploration and development, including the Company's ability to acquire and develop mineral properties; the Company's ability to obtain additional financing when required on terms that are acceptable to the Company; challenges to the Company's interests in its property and mineral rights; current, pending and proposed legislative or regulatory developments or changes in political, social or economic conditions in the jurisdictions where the Company operates, particularly in Bolivia; general economic conditions worldwide and the risks identified below under the heading "Risks and Uncertainties". This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements and reference should also be made to the Company's Annual Information Form for a description of additional risk factors. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and the Company does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change. Readers are cautioned not to put undue reliance on forward-looking statements.

Management accepts responsibility for the reliability and timeliness of the information disclosed and confirms the existence and effectiveness of the systems of internal control that are in place to provide this assurance. The Board of Directors assesses the integrity of Orvana's public financial disclosures through the oversight of the Audit Committee.

BUSINESS OVERVIEW AND STRATEGY

The Company

Orvana is a Canadian gold mining and exploration company based in Toronto, Ontario, involved in the evaluation, development and mining of precious metals deposits in the Americas. The Company's shares are listed on the Toronto Stock Exchange.

The Don Mario Mine

Through its wholly-owned subsidiary, Empresa Minera Paititi S.A. ("Paititi"), the Company owns and operates the Don Mario gold mine in eastern Bolivia. Subsequent to the end of fiscal 2005, the Company completed the *"Technical Report on the Mineral Resource and Reserve Estimation for the Don Mario Gold Mine, Lower Mineralized Zone"* dated December 23, 2005 (the "Orvana Technical Report"), which may be found on the Orvana website www.orvana.com and on www.sedar.com. The Orvana Technical Report provides an updated mineral resource and mineable reserve estimate in respect of both the Lower Mineralized Zone ("LMZ"), which is currently being exploited, and the Upper Mineralized Zone ("UMZ"), which is currently the subject of a pre-feasibility study being conducted by NCL Ingenieria y Construccion S.A. ("NCL") of Santiago, Chile. The Orvana Technical Report was prepared by M.J. Hodgson, Vice President and Chief Operating Officer of Orvana, with the assistance of NCL.

The Orvana Technical Report updates the mineral resource and mineral reserve estimate undertaken by AMEC (Peru) S.A., a division of AMEC E&C Services Ltd. ("AMEC") in July 2003, set out in a report dated July 25, 2003 entitled *"Technical Report on the Don Mario Gold Property, Chiquitos Province, Bolivia"* (the "AMEC Technical Report"), also available on www.sedar.com.

The mine has now been extensively sampled underground to a depth of 200 metres from surface. A summary of the Don Mario Mineable Reserves for the LMZ as at November 1, 2005 ("the effective date" of the Orvana Technical Report), at a 3 g/t Cut off Grade and a $400/oz gold price is as follows:

	Tonnes	Au (g/t)	Au (Oz)
Proven	718,948	12.50	288,839
Probable	298,556	8.33	79,995
Total	1,017,504	11.27	368,834

Since the effective date of the Orvana Technical Report, the operation has processed 99,535 tonnes of ore and produced 31,937 ounces of gold to March 31, 2006. Since the commencement of commercial production July 1, 2003, the operation has processed 635,514 tonnes of ore and produced 164,479 ounces of gold to March 31, 2006.

Other Don Mario Concessions

The Don Mario property comprises eleven mineral concessions covering 53,900 hectares that provide opportunities for further exploration.

Other Mineral Properties in Bolivia

The Company holds certain joint venture interests in a number of mineral concessions, located in the Altiplano region of Bolivia which, until March 28, 2006, included a joint venture interest in the Pederson property, which covers approximately 7,800 hectares. On that date, the Company entered into an agreement to sell its interest in the Pederson property to Castillian Resources Corp. ("Castillian") subject to certain future payments and certain exploration spending targets to be met by Castillian. The Company has recorded a gain of $80 which is included in interest and other income in the income statement in respect of the first payments to be made by Castillian. The Company will record future receipts called for under the agreement as they are received.

Subsequent to March 31, 2006, the Company entered into an agreement with a third party regarding the respective interests of the Company and that third party in the Pederson property. The Company believed that it held a 50% interest in the Pederson joint venture, subject to this interest being reduced to 35% if the Company failed to meet certain conditions in the joint venture agreement. The third party was of the view that it held a 15% interest in the Pederson joint venture and that the Company held a 35% interest, rather than a 50% interest, together with an option to purchase from that third party an additional 15% interest in the Pederson joint venture under certain conditions. Under the recently-signed agreement with the third party, in connection with the transaction with Castillian the third party will receive consideration from Castillian reflecting a 10% ownership interest of the third party and Orvana will receive consideration from Castillian reflecting a 40% interest in the Pederson property.

Under the agreement with Castillian, Castillian will acquire 100% of Orvana's interest in the Pederson property provided that it makes certain payments and meets certain exploration spending targets within five years. To acquire Orvana's interest and after giving effect to the Company's agreement with the third party noted above, Castillian made a cash payment of $40 and will issue the equivalent of $40 worth of common shares of Castillian to Orvana and is required to make a cash payment of $40 and issue the equivalent of $40 of common shares of Castillian within 90 days of the date of the agreement, issue an additional 800,000 common shares and the equivalent of $800 of common shares within 12 months of the date of the agreement and make a final cash payment of $1,120 within five years of completion of a feasibility study on the Pederson property. Orvana will retain a 40% interest in a 1.5% net smelter royalty and in advance royalty payments on the 1.5% net smelter royalty of $200 per year commencing on the second anniversary of the agreement, with those payments counting towards an option of Castillian to buy out the net smelter royalty for $2,000.

The Pederson and other exploration properties are carried at a nominal amount in the Company's consolidated financial statements and related liabilities and expenses are not material.

The Company intends to divest its other non-core Bolivian exploration assets located in the Altiplano region.

Orvana also holds the mining rights to the Las Palmeras concession, which covers approximately 7,100 hectares located in the Canton of San Ramon, Santa Rosa de la Mina and San Javier, in the Province of Ñuflo de Chavez. The Puquio Norte open pit gold mine operated within this concession until late 2001, when the ore body was exhausted and the operation was closed. Very little exploration has been conducted on the Las Palmeras concession, except within the immediate vicinity of the former Puquio Norte operation and Orvana has no immediate plans to further explore the concession. Following closure of the mine in 2001, an environmental closure plan, as required by law, was presented to the mining and environmental ministries. Following the approval of that plan, reclamation work on the property was undertaken and concluded. A final report on the closure plan and the results of its implementation is being prepared by an independent consulting firm and its report has been presented to the Ministry of Mines and the Ministry of Environment. The Company is now waiting for approval of the work carried out and expects that the authorities will be satisfied with the reclamation work done as they have been inspecting periodically the work undertaken according to the closure plan.

Business Strategy
The Company's long-term goal is to be a low cost, long-life, multi-mine gold producer in the Americas.

Orvana is seeking additional growth and geographic diversification by pursuing producing mines with characteristics similar to those of the Don Mario Mine and advanced-stage properties that could potentially be brought into production over the next two to three years.

Orvana's near term business strategy is to complete the development of the LMZ of the Don Mario property and sustain gold production and sales from the Don Mario Mine. The Company has commenced a $500 surface drilling program in the LMZ with a view to adding additional tonnage to ore reserves.

Following a positive internal economic evaluation of the UMZ, the Company retained NCL to complete a pre-feasibility study on the UMZ. It is expected that the pre-feasibility study will be completed during the third quarter of fiscal 2006 with the expectation that, if results of the pre-feasibility study are favourable, a bankable feasibility study can be completed early in calendar 2007.

Orvana does not currently hedge nor does it intend to hedge its gold production.

Immediately prior to its September 30, 2005 year end, the Company prepaid ahead of schedule its remaining long-term debt. At March 31, 2006 and at the report date, the Company remained long-term debt-free.

OVERALL PERFORMANCE

Key Performance Factors
The key factors affecting Orvana's financial performance include gold prices, ore reserves, ore grades and recoveries, cost control management and efficient mine development and capital spending programs.

Revenues and Net Income
The Company's results for the second quarter 2006 with comparative figures for the quarter ended March 31, 2005 (the "second quarter 2005") are summarized in the table below:

	Three Months Ended March 31		Six Months Ended March 31	
	2006	2005	2006	2005
Revenues	$12,045	$6,775	$20,564	$13,022
Net income	3,801	2,215	6,500	4,115
Net income per share – basic and fully diluted	$0.03	$0.02	$0.06	$0.04

Tonnes treated in the second quarter 2006 were 57,297 compared to 58,951 in the same quarter a year ago. Although tonnes treated were down slightly, gold production for the second quarter 2006 increased 8% to 18,814 ounces compared to 17,345 ounces in the second quarter 2005 due to both higher grades and improved recoveries.

Revenue for second quarter 2006 increased 78% to $12,045 on 21,918 ounces sold compared to $6,775 on 15,712 ounces sold in the same quarter a year ago. Higher ounces sold accounted for approximately 60% of the revenue improvement while higher gold prices accounted for the remaining 40%. Gold dore remaining in inventory at March 31, 2006 decreased by 3,104 ounces from inventory levels at the beginning of the quarter thus explaining why the ounces sold (21,918) exceeded ounces produced (18,814) in the second quarter 2006. The quantity of gold sales in any period is affected by the timing of shipments, which is in turn subject to weather conditions, timing of smelting to produce gold dore and security considerations.

Direct mine operating costs were $2,191 to produce 18,814 ounces in the second quarter 2006 compared to $1,371 to produce 17,345 ounces in the second quarter 2005. Direct mine operating costs per ounce produced increased by 47% to $116.45 in the second quarter 2006 from $79.03 in same quarter a year ago. An 8% increase in gold production, primarily due to higher recoveries and grades, dampened the increase in direct mine operating costs on a per unit basis. Direct mine operating costs are higher since mining is now almost entirely underground as ore supply from the mini-pit, but for the stockpile, is exhausted. Also, increases have been experienced in numerous costs including labour and supplies. Finally, the timing of incurrence of some costs accounted for part of the increase in direct mining operating costs and unit costs.

Given the change in the type of mining at the Don Mario Mine from a combination of open-pit and underground to substantially underground mining, a more relevant comparison can be made between direct mine operating costs of $2,191 in the second quarter 2006 and of $2,050 in the first quarter 2006. Direct mine operating costs on a unit basis were $116.45 per ounce produced in the second quarter 2006 compared to $101.13 in the first quarter 2006. Production in the second quarter was 18,814 ounces compared to 20,270 ounces in the first quarter. Had production in the second quarter remained at the same level as the first quarter (20,270 ounces), the cost per ounce in the second quarter would have been $108.09, thus illustrating the sensitivity of unit costs to production levels, particularly over relatively short reporting periods such as a three-month period.

Direct costs per treated tonne and per ounce produced are noted in the table below:

	Three Months Ended March 31		Six Months Ended March 31	
	2006	2005	2006	2005
Direct mine operating costs	$2,191	$1,371	$4,241	$2,937
Direct mine operating cost per treated tonne	38.24	23.25	35.17	24.82
Direct mine operating cost per ounce produced	116.45	79.03	108.50	93.57

A reconciliation of direct mine operating costs to cost of sales is included in the section entitled "Don Mario Mine – Production Cost Analysis".

General and administration expenses increased $975 to $1,248 in the second quarter 2006 compared to $273 in the second quarter 2005. A provision for the cost of a termination agreement with the Company's Chief Executive Officer accounted for the largest portion of the increase in general administration expenses. Senior management salaries and travel accounted for a further $270 of the increase when compared to the cost of a management service contract in place in the prior year. All other increases were relatively small.

Stock-based compensation expense amounted to $127 in the second quarter 2006 compared to nil in the second quarter 2005. Stock-based compensation expense relates to the vesting of stock options granted in fiscal 2005.

Exploration and development expenditures were higher by $230 due to several factors including continuing exploration of the LMZ, commencement of exploration on another mining concession within the Don Mario property and a continuation of the pre-feasibility study on the UMZ. The Company does not capitalize exploration and pre-feasibility study expenditures until study results indicate that a property is economically feasible and the decision is taken to proceed with development and investment.

Long-term debt interest was nil in the second quarter 2006 compared to $177 in the second quarter 2005 since the Company prepaid all remaining long-term debt just prior to the end of fiscal 2005.

Interest and other income include a gain of $80 in respect of the sale of the Company's interest in certain mining concessions known as the Pederson property. A more complete description of this transaction is found in the section "Business Overview and Strategy".

Net income for the second quarter 2006 was $3,801 ($0.03 per share) compared to $2,215 ($0.02 per share) for the second quarter 2005.

Cash Flows

The following table summarizes the principal sources and uses of cash for the second quarter 2006 compared to the second quarter 2005:

	Three Months Ended March 31		Six Months Ended March 31	
	2006	2005	2006	2005
Cash provided by operating activities	$5,441	$5,697	$8,646	$9,264
Repayment of long-term debt	-	(1,267)	-	(1,667)
Capital expenditures	(1,050)	(910)	(1,690)	(1,389)

Cash provided by operating activities

For the second quarter 2006, cash provided by operating activities declined by 4% to $5,441 from $5,697 in the second quarter 2005. Cash flow from operations before working capital changes increased by $1,161 or 27% compared to the second quarter 2005, reflecting improved operating results, but this increase was more than offset by an increase in non-cash working capital uses of $1,417 with the increase attributable to higher value-added taxes receivable, prepaid expenses and supplies inventories.

Capital expenditures
For the second quarter 2006, capital expenditures amounted to $1,050 compared to $910 for the second quarter 2005.

Financial Condition – March 31, 2006 compared to September 30, 2005
The following table provides a comparison of key elements of the Company's balance sheet at March 31, 2006 and September 30, 2005:

	March 31, 2006	September 30, 2005
Cash and cash equivalents	$12,276	$5,310
Working capital	14,984	7,099
Total assets	42,648	35,163
Shareholders' equity	35,622	28,859

Cash increased by $6,966 on strong performance in the first half of fiscal 2006 despite the increase in non-cash working capital.

Working capital, including cash, increased by $7,885 to $14,984 at March 31, 2006 from $7,099 at September 30, 2005.

All long-term debt was repaid prior to the September 30, 2005 year end. At March 31, 2006and to the date of this report, the Company continued to be debt-free.

Shareholders' equity increased from September 30, 2005 by $6,763 to $35,622 at March 31,2006. No dividends were paid in the first half of fiscal 2006.

Outlook
Barring unforeseen events, management expects the Don Mario Mine will produce in excess of 75,000 ounces of gold in fiscal 2006.

CORPORATE RESOURCES

Management and Staffing
Orvana has substantially completed the development of its organization and management at its corporate office in Toronto and at its offices in Santa Cruz and the Don Mario Mine to support efforts to achieve its objective of having a portfolio of low cost, long-life gold mines in the Americas.

However, following a successful transition of certain of Orvana's senior management functions that in the past had been performed by Sinchi Wayra S.A. (formerly Compania Minera del Sur S.A.) under a management contract, on March 28, 2006 the Company announced that Sean Harvey, the Chief Executive Officer will leave the Company on May 31, 2006. On April 18, 2006, the Company announced that the Chairman, George Hamilton, advised the Company that he will resign as an officer and director of the Company also effective May 31, 2006. The Board of Directors has commenced the search process for Mr. Harvey's and Mr. Hamilton's successors.

On February 16, 2006 Gerardo Garrett submitted his resignation as a director of the Company.

At the Annual General and Special Meeting of Shareholders held on February 16, 2006, Peter Stein was elected as a director of the Company. Mr. Stein is an investment banker with international experience, particularly in Latin America. He has extensive experience in all aspects of the mining sector including production, marketing, risk management and financing.

The Company will shortly begin negotiations with the Don Mario Mine union toward the completion of a new one-year labour agreement. Although the previous contract expired February 28, 2006, negotiations between most Bolivian mining companies and their unions typically begin in May and are concluded about the end of June. In Bolivia, labour contracts are restricted by law to one-year agreements. Management expects that the negotiations will result in higher labour costs given preliminary indications of what union demands may be and, as noted in the section “Risks and Uncertainties”, given the current political climate and government actions in Bolivia.

Liquidity and Capital Resources

Liquidity and Commitments

On October 11, 2002, Paititi signed a seven-year natural gas supply contract at a fixed price for gas supply and transportation for the Don Mario Mine based on a maximum contracted volume which can be increased subject to negotiation. The Company has the right to extend this contract beyond its expiry date on October 11, 2009 on an annual basis. The Company incurred $403 in respect of natural gas purchased under this contract during the last complete fiscal year. At present, the Company is using about 20% more than the maximum contracted volume on which the price is fixed.

The Company has recorded an asset retirement obligation at a discounted amount of $1,755 at March 31, 2006 relating to the Don Mario Mine to dismantle its facilities and structures and to complete certain environmental reclamation of areas affected by mine operations including the tailings dam. The Company estimates that the total amount of undiscounted cash flows required to settle the Company’s asset retirement obligations is $2,800. It is expected that this amount will be incurred in approximately equal amounts annually over the years 2009 to 2014.

For the second quarter 2006, the net increase in cash, after capital expenditures, was $4,391. At March 31, 2006, cash and cash equivalents amounted to $12,276. Provided gold prices remain in the range of $500 per ounce and provided no unforeseen events arise, it is expected that the Company will continue to generate significant cash flow in the last half of fiscal 2006.

Capital Resources

At March 31, 2006, the Company had no long-term debt and capital resources at that date are represented by shareholders’ equity which amounted to $35,622.

The Company does not require additional financing at the present time and, thus, has not sought to arrange financing facilities.

Shareholders’ equity increased by 23% or $6,763 to $35,622 ($0.31 per share) at March 31, 2006 compared to $28,859 ($0.25 per share) at the end of fiscal 2005.

RESULTS

Results of Operations

Second quarter 2006 compared to second quarter 2005

The following table and analysis compare operating results for the second quarter 2006 to those of the second quarter 2005:

	Three Months Ended March 31		Six Months Ended March 31	
	2006	2005	2006	2005
Revenues	$12,045	$6,775	$20,564	$13,022
Costs and expenses of mining operations	4,558	2,763	8,062	5,859
Expenses (other income)	1,619	537	3,170	1,077
Net income	3,801	2,215	6,500	4,115
Net income per share – basic and fully diluted	$0.03	$0.02	$0.06	$0.04

Revenues
Orvana's sales are determined according to spot gold prices. The Company's policy is to not hedge its gold production. Bullion is shipped to a single customer for refining and sale. The following table summarizes gold revenues and prices realized:

	Three Months Ended March 31		Six Months Ended March 31	
	2006	2005	2006	2005
Revenues	$12,045	$6,775	$20,564	$13,022
Price per ounce	$550	$431	$516	$433
Ounces sold	21,918	15,712	39,857	30,072

Further information on production operations and costs is presented below.

Don Mario Mine - Development
Development work continued throughout the second quarter 2006, with further deepening of the main ramp and completion of the shaft. By the end of the second quarter 2006, the main ramp had reached the 96-metre level and development has been suspended temporarily, thus enabling the jumbo rock drill to be deployed on sub-level development. The ramp should be completed by the end of 2006. The shaft is now complete and is being equipped with services. A new ventilation connection has also been completed between the main shaft and ramp at the 125-metre level, substantially improving ventilation conditions at the bottom of the mine.

Don Mario Mine – Production, Grades and Recoveries
The following table shows the tonnages treated and the head grade in g/t at the Don Mario Mine for the second quarter 2006 and first half 2006 compared to the same periods in fiscal 2005:

		Three Months Ended March 31		Six Months Ended March 31	
		2006	2005	2006	2005
Underground mine	tonnes	42,168	38,146	89,087	79,476
	g/t	13.01	12.48	12.42	10.41
Mini-pit & stockpile	tonnes	15,129	20,805	31,491	38,861
	g/t	5.86	6.30	6.80	6.96
Total	tonnes	57,297	58,951	120,578	118,337
	g/t	11.12	10.30	10.95	9.28
Recovery rate		91.9%	88.8%	92.1%	88.9%
Gold produced - ounces		18,814	17,345	39,084	31,392

At March 31, 2006, the Don Mario Mine had 265 employees and approximately 120 contracted personnel who provide various support services.

Don Mario Mine – Production Cost Analysis

The following table presents the cash operating costs and total production costs at the Don Mario Mine in producing 18,814 ounces in the second quarter 2006 and 17,345 ounces in the second quarter 2005:

	Three Months Ended March 31			
	2006		2005	
	Costs	Cost/oz.	Costs	Cost/oz.
Direct mine operating costs	$2,191	$116.45	$1,371	$79.03
Third-party smelting, refining and transportation costs	57	3.06	33	1.93
Cash operating costs	2,248	119.51	1,404	80.96
Royalties and mining rights	454	24.08	301	17.36
Total cash costs	2,702	143.59	1,705	98.32
Depreciation and amortization	1,421	75.55	1,149	66.23
Total production costs	$4,123	$219.14	$2,854	$164.55

Total production costs of $219.14 per ounce in the second quarter 2006 increased $54.59 or 33% per ounce from $164.55 per ounce in the second quarter 2005.

However, as noted above in the section "Overall Performance", given the change in the type of mining at the Don Mario Mine from a combination of open-pit and underground to substantially underground mining, a more relevant comparison can be made between total production costs of $4,123 in the second quarter 2006 and of $3,825 in the first quarter 2006. Total production costs on a unit basis were $219.14 per ounce produced in the second quarter 2006 compared to $188.68 in the first quarter 2006. Production in the second quarter was 18,814 ounces compared to 20,270 ounces in the first quarter. Had production in the second quarter remained at the same level as the first quarter (20,270 ounces), the total production cost per ounce in the second quarter would have been $203.40, thus illustrating the sensitivity of unit costs to production levels, particularly over relatively short reporting periods such as a three-month period. In addition, increases were experienced in royalties as a result of the increase in the price of gold and in the rate charged by the Bolivian government for mining rights.

The table below presents the cash operating costs and total production costs at the Don Mario Mine in producing 39,084 ounces in the first six months of fiscal 2006 and 31,392 ounces in the first six months of fiscal 2005.

	Six Months Ended March 31			
	2006		2005	
	Costs	Cost/oz.	Costs	Cost/oz.
Direct mine operating costs	$4,240	$108.50	$2,937	$93.57
Third-party smelting, refining and transportation costs	100	2.55	81	2.57
Cash operating costs	4,340	111.05	3,018	96.14
Royalties and mining rights	793	20.26	516	16.43
Total cash costs	5,133	131.31	3,534	112.57
Depreciation and amortization	2,814	72.03	2,368	75.45
Total production costs	$7,947	$203.34	$5,902	$188.02

The difference between direct mine operating costs of $2,191 and cost of sales of $2,507, reported in the unaudited consolidated financial statements for the second quarter 2006, is due to changes in cash costs in gold and ore inventories. A reconciliation of these non-GAAP costs with the Company's GAAP-based statement of income for the quarters ended March 31, 2006and 2005 is presented in the table below:

	Three Months Ended March 31		Six Months Ended March 31	
	2006	2005	2006	2005
Cost of sales (GAAP)	$2,507	$1,301	$4,415	$2,949
Processing charges included in cost of sales	-	(29)	-	(38)
Changes in cash costs included in gold inventories and gold in circuit	(316)	99	(175)	26
Direct mine operating costs (non-GAAP measure)	$2,191	$1,371	$4,240	$2,937

Update on the Lower Mineralized Zone

A $500 surface drilling campaign of 12 holes commenced during the last quarter of fiscal 2005 and continued through the second quarter 2006. The program was revised to an eleven-hole programme during the first quarter of 2006. The program has been designed to test the northern and down dip extension of the LMZ. The drill spacing is between 100-200 metres spacing, dependent upon results. By the end of the second quarter 2006, approximately 3,700 metres had been completed out of the planned total of 5,000 metres. By the end of the second quarter 2006, six holes had been drilled with assays, one hole had been drilled and was awaiting assays and a further two holes were in the process of being drilled. Management intended to complete the drilling program by the end of the second quarter 2006, but due to the deployment of some of the drilling resources to an underground evaluation drilling program, the surface drilling is now expected to be completed during the third quarter. As reported in the last quarter's MD&A, the results have been disappointing to date. Four intersections have been identified. However, no grades above 2 g/t gold have been recorded. If the current drill program does show some success, a follow-up drill program is planned from underground from the main ramp once it has been completed to its lowest planned depth. The underground drill program is forecast to be completed by the end of the third quarter of fiscal 2007.

Update on the Upper Mineralized Zone

The Company has received a final Resource Estimate Review and National Instrument 43-101 Technical Report, dated March 11, 2005, on the UMZ prepared by Pincock Allen & Holt (PAH). The Don Mario UMZ, a potential source of open pit ore, has estimated total indicated mineral resources of 5,600,000 tonnes. A summary of mineral resource estimates with respect to the UMZ is set forth in the table below:

	Indicated Resources				
Zone	AuEq Cutoff	Au g/t	Cu %	Ag g/t	Tonnes
Porous	1.00	1.31	1.78	52	443,422
Oxides	1.00	1.57	1.99	49	1,790,670
Transition	1.27	1.41	1.37	57	1,775,430
Sulfides	1.32	1.46	1.42	44	1,568,150
Total		1.47	1.61	50	5,577,672

The PAH report is available on SEDAR (www.sedar.com) and on the Company's website (www.orvana.com).

Following a positive internal economic analysis, the Company retained NCL to complete a pre-feasibility study on the UMZ project. The study is now well advanced and is expected to be completed in the third quarter of fiscal 2006 with the expectation that, if results of the pre-feasibility study are favourable, a bankable feasibility study can be completed in calendar 2007.

Assuming a positive pre-feasibility study and bankable feasibility study, the Company expects that the UMZ could extend the Don Mario Mine life by up to seven years beyond the end of the current LMZ reserves. Preliminary results indicate that the pre-feasibility study will be positive. Further test work at CIMM, Santiago, Chile is on-going. Based upon preliminary study results obtained to date on capital, operating costs and metallurgical processing alternatives, management's current assessment is that the UMZ has the potential to produce between 80,000 and 100,000 ounces of gold equivalent production per annum assuming a gold price of $400 per ounce, a copper price of $1 per pound and a silver price of $6 per ounce.

Summary of Quarterly Results

The following two tables include results for the past eight quarters ended March 31, 2006:

	Quarters ended			
	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005
Revenues	$12,045	$8,519	$10,436	$5,892
Net income	3,801	2,699	4,484	321
Net income per share – basic and fully diluted	$0.03	$0.02	$0.04	$0.00
Total assets	$42,648	$37,521	$35,163	$36,659
Total long-term financial liabilities	-	-	-	7,959
Gold production - ozs.	18,814	20,270	19,963	17,404
Gold sales – ozs.	21,918	17,939	24,381	13,820
Non-GAAP measures				
Per ounce data -				
- Total cash costs	$143.59	$119.93	$116.36	$127.97
- Average gold price realized	549.54	474.89	428.04	426.34
Operating statistics -				
- Gold ore grade – g/t	11.12	10.80	11.58	10.46
- Gold recovery rate - %	91.9	92.3	93.5	89.1

	Quarters ended			
	Mar. 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
Revenues	$6,775	$6,247	$ 5,796	$ 5,523
Net income	2,215	1,900	4,274	2,140
Net income per share – basic and fully diluted	$0.02	$0.02	$0.04	$0.02
Total assets	$37,635	$36,850	$35,300	$32,512
Total long-term financial liabilities	11,492	12,759	13,456	15,032
Gold production - ozs.	17,345	14,047	13,120	14,643
Gold sales – ozs.	15,712	14,360	14,302	14,037
Non-GAAP measures				
Per ounce data -				
- Total cash costs	$98.32	$130.15	$120.59	$109.01
- Average gold price realized	431.14	434.96	405.26	393.46
Operating statistics -				
- Gold ore grade – g/t	10.30	8.26	8.70	8.54
- Gold recovery rate - %	88.8	89.0	83.5	89.5

Comments on the tables of quarterly results
The quantity of gold sales in any period is affected by the timing of shipments, which is in turn subject to weather conditions, timing of smelting to produce gold dore and security considerations. In the quarter ended December 31, 2005, gold production amounted to 20,270 ounces while gold sales were 17,939 ounces. Gold dore remaining in inventory at the end of the quarter increased by 2,331 ounces thus explaining the lower sales in the quarter compared to the ounces of gold produced during the quarter. This situation reversed in the quarter ended March 31, 2006, with gold dore inventory declining to 913 ounces at the end of the quarter and with sales of 21,918 ounces exceeding production in the quarter by 3,104 ounces.

Notwithstanding higher general and administration expenses in the quarter ended March 31, 2006, as noted in the section “Overall Performance”, net income of $3,801 for the quarter represents a record for operations and is attributable to higher ounces sold, as noted above, higher gold prices and continuing high grades and recoveries. Although net income in the quarter ended September 30, 2004 at $4,274 was higher than the quarter ended March 31, 2006, this was due to the fact that the quarter ended September 30, 2004 included an anticipated income tax recovery of $1,913 from prior years’ tax losses. Excluding this tax recovery, record levels were achieved in both revenues and net income for the quarter ended March 31, 2006.

Revenues for the quarter ended September 30, 2005 amounted to $10,436 on 24,381 ounces sold compared to $5,892 on 13,820 ounces sold for the quarter ended June 30,2005. On the last day of the June 2005 quarter, the Company shipped 5,631 ounces with an invoice value of $2,477, however, title did not pass until early July 2005 and this revenue was therefore not reported until the quarter ended September 30, 2005. Costs of $1,059 relating to this shipment that had been included in inventory at the end of the quarter ended June 30, 2005 were charged to cost of sales and depreciation and amortization in the September 2005 quarter.

Net income for the quarter ended September 30, 2005 amounted to $4,484 compared to $4,274 for the quarter ended September 30, 2004, but results for the September 2004 quarter included an anticipated income tax recovery of $1,913 from prior years’ tax losses.

Revenues and net income were both lower in the quarter ended June 30, 2005 than in the quarter ended September 30, 2005 due to several factors. As noted above, revenue of $2,477 on a gold shipment on the last day of the June 30, 2005 quarter was not recognized until the following quarter as title had not passed and related costs of production and sale of $1,059 relating to this shipment were inventoried at the end of June 2005. The result was that reported income before tax for the June 2005 quarter was $1,418 lower than it would have been had the sale been recorded in June. General and administration expenses were also higher in the quarter ended June 30, 2005 due primarily to a charge of $878 in the quarter for stock-based compensation expense and special bonus awards of $400 also accrued in the quarter.

Net income in the quarter ended December 31, 2004 was $2,374 lower than in the quarter ended September 30, 2004 due to the inclusion in the September 30, 2004 quarter of an expected recovery of Bolivian income taxes of $1,913 on income tax losses available for carry forward. In addition, adverse weather conditions in the month of December 2004 affected mining operations and caused gold production in that quarter, and therefore operating results, to fall significantly below levels that would otherwise have been achieved.

RISKS AND UNCERTAINTIES

The Company holds mining properties mainly in Bolivia and as such is exposed to the laws governing the mining industry in that country. The Bolivian government has historically been supportive of the mining industry, but particularly in view of the recent change in government in

Bolivia and the composition of the Company's shareholder base, there could be changes in governmental regulation or governmental action with respect to such matters as taxation, the repatriation of profits, restrictions on production, export controls, environmental compliance, and expropriation of property or limitations on foreign ownership, as well as shifts in the political stability of the country and labour unrest, any of which could adversely affect the Company and its exploration and production activities in the country.

On May 1, 2006, the Bolivian President announced a sweeping nationalization of the energy sector. Statements made subsequent to the announcement about nationalization of energy by the Bolivian government regarding the government's intentions with respect the mining sector and other natural resources appear to be contradictory. On one hand, the government has stated that it will proceed with nationalization of mining. On the other hand, it has indicated that it will not nationalize the mining industry but that it does intend to increase taxes on mining companies. It is not clear whether the Bolivian government will nationalize any portion or all of the mining industry, or whether and by how much, taxes may increase and which taxes may be affected. If the Company's Don Mario property were to be nationalized, the Company would cease to have any producing assets. Orvana's management is monitoring the situation closely.

The Bolivian government has also announced its intention to increase the minimum wage. While this in itself would not have a financial impact on the Company, this announcement and other measures and statements by members of the government may fuel labour unrest and increase the expectations of the Company's labour union and other mining unions in the rounds of negotiations that are about to start in the industry in Bolivia.

The Company's supply and transportation of natural gas are fixed up to a maximum contracted volume for a further 3.5 years based upon a contract entered into in October 2002. At present, consumption of gas is approximately 20% above the maximum volume on which the price is fixed. Although the Company has a fixed price contract in place on a substantial portion of its requirements, it is uncertain what if any impact the recently announced nationalization of the energy sector may have on the price charged to the Company. In addition, any political or civil instability and labour unrest arising from the government's move to nationalize energy could cause an interruption in the supply of gas to the Don Mario Mine.

The Company's current Chief Executive Officer and current Chairman will be resigning as directors and officers of the Company on May 31, 2006. The Company has commenced a search process to identify their successors, but there can be no assurance as to when this process will be completed.

The Company's business, results of operations, financial condition, and the trading price of its common shares could be materially adversely affected by any of the foregoing risks and by other risks, including risks related to development of mineral deposits, production costs and metal prices, the supply and price of energy and other consumables, exploration, development and operating risks, water supply, production estimates, mineral reserves and resources, title matters, reclamation costs, gold price volatility, competition, additional funding requirements, insurance, currency fluctuations, conflicts of interest, and share trading volatility. Any of these risks could have a material adverse effect on the business, operations or financial condition of the Company.

A high percentage of the Company's revenues, costs and assets are denominated in U.S. dollars, and the remainder are primarily denominated in Bolivian and Canadian currencies. The Company is exposed to foreign currency fluctuations, however, management does not expect these fluctuations to have a significant impact on the Company's financial position or results.

OTHER INFORMATION

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP 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 estimates. Specific items requiring estimates are gold ore reserves, accounts receivable, property, plant and equipment, depreciation and amortization, asset retirement obligations, future income taxes, stock-based compensation and other accrued liabilities and contingent liabilities.

Mineral reserves

The proven and probable reserves of the LMZ have been estimated by the Company to be 1,017,500 tonnes on November 1, 2005 at an average grade of 11.3 g/t gold, containing 368,000 troy ounces of gold, using a 3 g/t cut-off grade and $400/oz gold price. Based on current planned levels of production (approximately 75,000 ounces per annum) and assuming no further exploration success, the LMZ is expected to be in productionthrough 2009.

Net realizable values of property, plant and equipment

At March 31, 2006, the net book value of property, plant and equipment amounted to $23,064. Amortization of these costs is calculated on the units-of-production method over the expected economic life of the mine. The expected economic life is dependent upon the estimated remaining proven and probable reserves, gold prices and cash operating costs. Based upon current estimates of reserves, gold prices in excess of $400 per ounce and total cash costs of approximately $130 per ounce, net realizable values are in excess of net book value of property, plant and equipment.

Asset retirement obligations

The Company has estimated the present value of estimated future costs to decommission the Don Mario Mine, asset retirement costs, to be $1,755 at March 31, 2006. It is estimated that the amount of future expenditures to dismantle mine installations and to complete reclamation will be $2,800 on an undiscounted basis and that these costs will be incurred in approximately equal amounts annually over the years 2009 to 2014. Estimates of these closure costs and the expected timing of their incurrence are reviewed periodically.

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, the means of reclamation, cost estimates or the estimated remaining ore reserves.

Stock-based compensation

The Company recorded stock-based compensation expense of $127 in the second quarter 2006 based on an estimate of the fair value of the options on the grant date. This accounting required estimates of interest rates, life of options, stock price volatility and the application of the Black-Scholes option pricing model.

Financial and Other Instruments

The Company has not used any hedging or other financial instruments in the current fiscal year to date or in the prior three fiscal years.

Off-Balance-Sheet Arrangements

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

Outstanding Share Data

Orvana shares are traded on the Toronto Stock Exchange under the symbol ORV. As at the report date, there were 115,233,173 common shares outstanding with a stated value of $74,782. There were also 4,016,332 stock options outstanding with a weighted average exercise price of Cdn. $1.90. These stock options have expiry dates ranging from 2006 to 2010.

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.