ORVANA
MINERALS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS – Third Quarter ended June 30, 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 August 11, 2006 (the "Report Date") and describes the operating and financial results of the Company for the three and nine months ended June 30, 2006 (the "third quarter 2006"). The MD&A should be read in conjunction with Orvana's unaudited consolidated financial statements and related notes for the third 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 (except per unit 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 cost of sales 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 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 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 the Lower Mineralized Zone ("LMZ"), which is currently being exploited, and a mineral resource estimate in respect of 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 Don Mario Mine has now been extensively sampled underground to a depth of 200 metres from surface. A summary of the Don Mario Mine 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 164,904 tonnes of ore and produced 51,270 ounces of gold to June 30, 2006. Since the commencement of commercial production on July 1, 2003, the operation has processed 700,883 tonnes of ore and produced 183,812 ounces of gold to June 30, 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 16, 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 recorded a gain of $120 which is included in interest and other income in the income statement in respect of initial payments made by Castillian. In order to complete the purchase of Orvana's interest in the Pederson property, must issue an additional 800,000 common shares and the equivalent of $800 of common shares by March 16, 2007 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 Company will record future receipts called for under the agreement if and when they are received.

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 continues to wait 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's business plan is to use its cash resources to achieve 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. This program is now 85% completed, and results to date have been disappointing. The Company is also undertaking exploration activities consisting of ground geophysics, trenching and drilling on other targets located in three of the eleven contiguous concessions collectively referred to as the Don Mario property. These concessions are Las Tojas, La Aventura and Don Mario Sur and all exploration targets have been identified by previous geophysical surveys and trenching.

Following a positive internal economic evaluation of the UMZ, the Company retained NCL to complete a pre-feasibility study on the UMZ. It is now expected that the pre-feasibility study will be completed in September 2006 and that, if results of the pre-feasibility study are favourable and the Company determines to proceed with development of the UMZ, a bankable feasibility study can be commenced 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 its remaining long-term debt. At June 30, 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, tax rates, 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 third quarter 2006 with comparative figures for the quarter ended June 30, 2005 (the "third quarter 2005") are summarized in the table below:

	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Revenues	$11,092	$5,891	$31,656	$18,913
Net income	3,914	322	10,414	4,437
Net income per share – basic and fully diluted	$0.03	$0.00	$0.09	$0.04

Tonnes treated in the third quarter 2006 were 65,369 compared to 58,117 in the same quarter a year ago. Gold production for the third quarter 2006 increased 11% to 19,333 ounces compared to

17,404 ounces in the third quarter 2005 due to higher recoveries and tonnes processed which more than offset slightly lower grades.

Revenue for the third quarter 2006 increased 88% to $11,092 on 18,177 ounces sold compared to $5,891 on 13,820 ounces sold in the same quarter a year ago. Higher average gold prices in the third quarter 2006 accounted for approximately 64% of the revenue improvement while higher ounces sold accounted for the remaining 36%. Ounces sold were lower in the third quarter 2005 due to a shipment of 5,631 ounces of gold on June 30, 2005 for which title did not pass and, therefore revenue was not recognized, until the fourth quarter 2005. 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 $2,525 to produce 19,333 ounces in the third quarter 2006 compared to $1,892 to produce 17,404 ounces in the third quarter 2005. Direct mine operating costs per ounce produced increased by 20% to $130.61 in the third quarter 2006 from $108.72 in same quarter a year ago. Direct mine operating costs are higher since mining is now almost entirely underground as ore supply from the mini-pit has been exhausted except for a small stockpile of lower grade mini-pit ore. Also, increases have been experienced in numerous costs including labour and supplies.

Given the change in the type of mining at the Don Mario Mine from a combination of open-pit and underground to substantially only underground mining, a more relevant comparison can be made between direct mine operating costs of $2,525 in the third quarter 2006 and of $2,191 in the second quarter 2006 when mining was also almost entirely underground. Direct mine operating costs on a unit basis were $130.61 per ounce produced in the third quarter 2006 compared to $116.45 in the second quarter 2006. The third quarter 2006 includes increased labour costs for the first four months of a new labour contract signed recently. The new contract is discussed further below in the section “Management and Staffing”.

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

	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Direct mine operating costs	$2,525	$1,892	$6,766	$4,829
Direct mine operating cost per treated tonne	38.63	32.56	36.39	27.37
Direct mine operating cost per ounce produced	130.61	108.72	115.82	98.97

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 were lower by $186 at $787 in the third quarter 2006 compared to $973 in the third quarter 2005. The third quarter 2005 included approximately $500 in certain one-time expenses in connection with the transition of management functions provided by Sinchi Wayra S.A., (formerly Compania Minera del Sur S.A.) under a management services agreement that was terminated September 30, 2005. This $500 reduction was offset by non-recurring professional fees of $119 incurred in connection with the restructuring of certain subsidiaries of Orvana. All other general and administrative expense changes were minor.

Stock-based compensation expense amounted to $163 in the third quarter 2006 compared to $878 in the third quarter 2005. Stock-based compensation expense relates to the vesting of stock options granted in the third quarters of fiscal 2006 and fiscal 2005.

Exploration and development expenditures were higher by $251 in the third quarter 2006 compared to the third quarter 2005 due to several factors including continuing exploration of the LMZ, exploration on other mining concessions 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 third quarter 2006 compared to $286 in the third 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 $120 in respect of the sale to Castillian Resources 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 third quarter 2006 was $3,914 ($0.03 per share) compared to $322 ($0.00 per share) for the third quarter 2005.

Cash Flows

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

	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Cash provided by operating activities	$6,922	$2,176	$15,568	$11,440
Repayment of long-term debt	-	3,533	-	5,200
Capital expenditures	660	1,402	2,350	2,791

Cash provided by operating activities

For the third quarter 2006, cash provided by operating activities more than tripled to $6,922 from $2,176 in the third quarter 2005. Cash flow from operations before working capital changes increased by $2,671 or 96% compared to the third quarter 2005, reflecting improved operating results. However, cash flow from operations for the third quarter 2005 was unusually low due to a shipment of 5,631 ounces of gold on June 30, 2005 for which title did not pass and, therefore, revenue was not recognized until the fourth quarter 2005.

Capital expenditures

For the third quarter 2006, capital expenditures amounted to $660 compared to $1,402 for the third quarter 2005. The third quarter 2005 included continuing spending on an expansion of the tailings dam to a size that will accommodate tailings disposal requirements for the remaining life of the LMZ.

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

	June 30, 2006	September 30, 2005
Cash and cash equivalents	$18,574	$5,310
Non-cash working capital	1,273	1,789
Total assets	48,106	35,163
Shareholders' equity	39,735	28,859

Cash increased by $13,264 on strong performance in the nine months ended June 30, 2006.

Non-cash working capital decreased by $516 to $1,273 at June 30, 2006 from $1,789 at September 30, 2005.

All long-term debt was repaid prior to the September 30, 2005 year end. At June 30, 2006 and at the Report Date, the Company was long-term debt-free.

Shareholders' equity increased from September 30, 2005 by $10,876 to $39,735 at June 30, 2006. No dividends were paid in the nine months ended June 30, 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
Following a successful transition of certain of Orvana's senior operating and financial management functions performed in the past by Sinchi Wayra S.A. under a management contract, the Company's Chairman, George Hamilton, and its Chief Executive Officer, Sean Harvey, resigned effective May 30, 2006. Effective June 30, 2006, Robert Mitchell resigned as a director of the Company.

Dr. Peter Bradshaw was appointed a director of the Company on May 30, 2006. Dr. Bradshaw is a director and President and Chief Executive Officer of First Point Minerals based in Vancouver. He was a vice president of Orvana Minerals Corp. from August 1986 to August 1995. On July 5, 2006, Susan McArthur was appointed as Chairman of the Company. Ms. McArthur is Managing Director of ZSA-X, a financial services recruiting firm, and has 20 years of international and domestic investment banking experience. While an active search continues for the replacement, the Board appointed Malcolm King, the Company's Chief Financial Officer, to the role of President and Chief Executive Officer on an interim basis. Mr. King has also joined the Board of Directors.

In July 2006, Paititi concluded a new one-year labour agreement with the union that represents the employees at the Don Mario Mine. In Bolivia, labour contracts are restricted by law to one-year agreements. 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. The new contract compares favourably to other contracts signed recently by other Bolivian mining companies with their unions. Labour costs will increase 21% including the impact of both labour rates and other benefits provided in the new contract. This translates into a cost of approximately $4.93 per ounce. The labour cost increase for the first four months of the new contract to June 30, 2006 have been provided for in the Company's financial statements for the third quarter 2006.

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. Paititi has the right to extend this contract beyond its expiry date on October 11, 2009 on an annual basis. Paititi incurred $403 in respect of natural gas purchased under this contract during the last complete fiscal year. At present, Paititi 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 $1,791 at June 30, 2006 to dismantle the facilities and structures of the Don Mario Mine and to complete 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 third quarter 2006, the net increase in cash, after capital expenditures, was $6,298. At June 30, 2006, cash and cash equivalents amounted to $18,574. 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 fourth quarter 2006.

Capital Resources

At June 30, 2006, the Company had no long-term debt and capital resources at that date are represented by shareholders' equity, which amounted to $39,735.

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

Shareholders' equity increased by 38% or $10,876 to $39,735 ($0.34 per share) at June 30, 2006 compared to $28,859 ($0.25 per share) at the end of fiscal 2005.

RESULTS

Results of Operations

Third quarter 2006 compared to third quarter 2005

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

	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Revenues	$11,092	$5,891	$31,656	$18,913
Costs and expenses of mining operations	4,235	2,438	12,297	8,297
Expenses (other income)	1,176	2,172	4,346	3,249
Net income	3,914	322	10,414	4,437
Net income per share – basic and fully diluted	$0.03	$0.00	$0.09	$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 June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Revenues	$11,092	$5,891	$31,656	$18,913
Price per ounce	$610	$426	$545	$431
Ounces sold	18,177	13,820	58,034	43,892

Further information on production operations and costs is presented below.

Don Mario Mine - Development
Development work continued throughout the third quarter 2006, with further deepening of the main ramp and completion of the shaft. By the end of the third quarter 2006, the main ramp had reached the 80-metre level. Ramp development was suspended temporarily from February to April, while definition drilling was carried out in order to better establish the limits of the mineralized zone. This delay was not critical for production, because the main ramp is advanced well beyond current production requirements and it should be completed by the second quarter of fiscal 2007. The shaft is now complete and is being equipped with services.

Don Mario Mine – Production, Gold Grades and Recoveries
The following table shows the tonnages treated and the head grade in g/t at the Don Mario Mine for the third quarter 2006 and the nine months ended June 30, 2006 compared to the same periods in fiscal 2005:

		Three Months Ended June 30		Nine Months Ended June 30	
		2006	2005	2006	2005
Underground mine	tonnes	54,604	36,437	143,691	115,913
	g/t	10.51	12.23	11.69	10.98
Mini-pit & stockpile	tonnes	10,765	21,680	42,256	60,541
	g/t	6.49	7.47	6.72	7.14
Total	tonnes	65,369	58,117	185,947	176,454
	g/t	9.85	10.46	10.56	9.67
Recovery rate		93.4%	89.1%	92.5%	89.0%
Gold produced - ounces		19,333	17,404	58,417	48,796

The Don Mario Mine and Santa Cruz administrative office had a total of 260 employees at June 30, 2006, and, on average over the third quarter 2006, 132 contracted personnel who provide various support services. Levels of contracted personnel fluctuate from month to month depending on the Don Mario Mine's requirements.

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 19,333 ounces in the third quarter 2006 and 17,404 ounces in the third quarter 2005:

	Three Months Ended June 30			
	2006		2005	
	Costs	Cost/oz.	Costs	Cost/oz.
Direct mine operating costs	$2,525	$130.61	$1,892	$108.72
Third-party smelting, refining and transportation costs	54	2.78	31	1.79
Cash operating costs	2,579	133.39	1,923	110.51
Royalties and mining rights	400	20.72	304	17.46
Total cash costs	2,979	154.11	2,227	127.97
Depreciation and amortization	1,432	74.08	1,194	68.59
Total production costs	$4,411	$228.19	$3,421	$196.56

Total production costs of $228.19 per ounce in the third quarter 2006 increased $31.63 or 16% from $196.56 per ounce in the third quarter 2005. As mentioned above, increased labour costs under a recently-signed labour agreement and increased costs of consumable supplies account for a significant portion of the difference. Higher royalties due to the increase in gold prices and higher amortization accounted for the remainder of the increase in unit costs.

The table below presents the cash operating costs and total production costs at the Don Mario Mine in producing 58,417 ounces in the nine months ended June 30, 2006 and 48,796 ounces in the comparable period of fiscal 2005.

	Nine Months Ended June 30			
	2006		2005	
	Costs	Cost/oz.	Costs	Cost/oz.
Direct mine operating costs	$6,766	$115.82	$4,829	$98.97
Third-party smelting, refining and transportation costs	153	2.63	112	2.29
Cash operating costs	6,919	118.45	4,941	101.26
Royalties and mining rights	1,193	20.41	820	16.80
Total cash costs	8,112	138.86	5,761	118.06
Depreciation and amortization	4,247	72.70	3,562	73.01
Total production costs	$12,359	$211.56	$9,323	$191.07

The difference between direct mine operating costs of $2,525 and cost of sales of $2,364 reported in the unaudited consolidated financial statements for the third 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 June 30, 2006 and 2005 is presented in the table below:

	Three Months Ended June 30		Nine Months Ended June 30	
	2006	2005	2006	2005
Cost of sales (GAAP)	$2,364	$1,370	$6,779	$4,319
Processing charges included in cost of sales	-	(13)	-	(52)
Changes in cash costs included in gold inventories and gold in circuit	161	536	(13)	562
Direct mine operating costs (non-GAAP measure)	$2,525	$1,892	$6,766	$4,829

Update on exploration of the Lower Mineralized Zone ("LMZ")

A $500 surface drilling campaign of 12 holes commenced during the last quarter of fiscal 2005 and continued through the third 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, dependent upon results. By the end of the third quarter 2006, approximately 4,536 metres, representing 85%, had been completed out of the planned total of 5,353 metres. By the end of the third quarter 2006, eight holes had been drilled with assays and two holes had been drilled and were awaiting assays. Management had 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 fourth 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 evaluation of the Upper Mineralized Zone ("UMZ")

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 by the end of fiscal 2006 with the expectation that 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 metallurgical 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.

Update on Other Exploration Activities

The Company is also actively exploring other targets within the contiguous concessions referred to collectively as the Don Mario property with the objective of identifying additional LMZ type ore that could feed the current gold plant. Progress of the exploration program on each target is as follows:

- **Las Tojas**
    - A ground geophysical survey was extended based on favourable initial results which enhanced earlier geochemical and airborne magnetic surveys. Follow-up trenching is in progress and drilling of selected targets is expected to commence in the fourth week of August. At this stage, drilling will consist of ten drillholes with a total of approximately 2,300 metres. The drilling program will take approximately 15 weeks.

- **Don Mario Sur:**
    - There is evidence of a strong geo-chemical anomaly confirmed by trench sampling.
    - Drilling took place during June and results were disappointing. Only some narrow mineralized intersections were found with low gold grades (below 2 g/t of gold).

- **La Aventura**
    - A geochemical sampling program consisting of 1,300 samples is currently taking place.
    - 174 samples have been assayed, showing one anomalous value. The rest of the assay results will be available during August and September.
    - The next stage of exploration work in the area will include trenching and magnetometry.

Summary of Quarterly Results

The following two tables include results for the past eight quarters ended June 30, 2006:

	Quarters ended			
	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005	Sept. 30, 2005
Revenues	$11,092	$12,045	$8,519	$10,436
Net income	3,914	3,801	2,699	4,484
Net income per share – basic and fully diluted	$0.03	$0.03	$0.02	$0.04
Total assets	$48,106	$42,648	$37,521	$35,163
Total long-term financial liabilities	-	-	-	-
Gold production - ozs.	19,333	18,814	20,270	19,963
Gold sales – ozs.	18,177	21,918	17,939	24,381
Non-GAAP measures				
Per ounce data -				
- Total cash costs	$154.11	$143.59	$119.93	$116.36
- Average gold price realized	$610.22	549.54	474.89	428.04
Operating statistics -				
- Gold ore grade – g/t	9.85	11.12	10.80	11.58
- Gold recovery rate - %	93.4	91.9	92.3	93.5

	Quarters ended			
	June 30, 2005	Mar. 31, 2005	Dec. 31, 2004	Sept. 30, 2004
Revenues	$5,892	$6,775	$6,247	$ 5,796
Net income	321	2,215	1,900	4,274
Net income per share – basic and fully diluted	$0.00	$0.02	$0.02	$0.04
Total assets	$36,659	$37,635	$36,850	$35,300
Total long-term financial liabilities	7,959	11,492	12,759	13,456
Gold production - ozs.	17,404	17,345	14,047	13,120
Gold sales – ozs.	13,820	15,712	14,360	14,302
Non-GAAP measures				
Per ounce data -				
- Total cash costs	$127.97	$98.32	$130.15	$120.59
- Average gold price realized	426.34	431.14	434.96	405.26
Operating statistics -				
- Gold ore grade – g/t	10.46	10.30	8.26	8.70
- Gold recovery rate - %	89.1	88.8	89.0	83.5

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.

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 subsequently 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. It is expected that taxes will increase but buy how much is not yet known. 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.

The Company's supply and transportation of natural gas are fixed up to a maximum contracted volume for a further 3.25 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 President and Chief Executive Officer and its Chairman both resigned as directors and officers of the Company on May 30, 2006. The Company recently announced the appointment of Susan McArthur as Non-executive Chairman and a search process is continuing for the President and Chief Executive Officer. While an active search is continuing for the Chief Executive Officer, the Board of Directors has appointed Malcolm King, the Company's Chief Financial Officer, to the role of President and Chief Executive Officer on an interim basis. There can be no assurance as to when the search for a Chief Executive Officer will be completed.

The Company's business, results of operations and 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 production through 2009.

Net realizable values of property, plant and equipment
At June 30, 2006, the net book value of property, plant and equipment amounted to $22,325. 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 $154 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 $1,791 at June 30, 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 $163 in the third quarter 2006 based on an estimate of the fair value on the grant date of stock options issued. 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 $74,777. There were also 4,383,332 stock options outstanding at the Report Date with a weighted average exercise price of Cdn. $1.72, including 175,000 stock options granted subsequent to June 30, 2006 and after deducting 88,000 options that expired July 2, 2006. Stock options outstanding have expiry dates ranging from 2007 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.