

# ORVANA

MINERALS CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – Year ended September 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 December 14, 2006 (the "Report Date") and describes the operating and financial results of the Company for the fiscal year ended September 30, 2006 ("fiscal 2006" or "2006"). The MD&A should be read in conjunction with Orvana's audited consolidated financial statements and related notes for fiscal 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 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 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 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, all aspects of the possible development of the UMZ deposit and of its potential operation and production, mineral resource and mineral reserve estimates, the realization of mineral reserve estimates, estimates of future capital expenditures and timing of development and production and estimates of the outcome and timing of decisions with respect to whether and how to proceed with such development and production, permitting time lines, statements and information regarding future feasibility studies and their results, 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 fluctuations in the price of gold; 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; the availability of qualified personnel; risks generally associated with mineral exploration and development, including the Company's ability to develop the UMZ deposit if it determines to do so and 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 Company's principal asset is the Don Mario Mine in eastern Bolivia.

### **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. In the first quarter of fiscal 2006, the Company completed and issued 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](http://www.orvana.com) and on [www.sedar.com](http://www.sedar.com). The Orvana Technical Report, prepared by M.J. Hodgson, with the assistance of NCL Ingenieria y Construccion S.A. ("NCL") of Santiago, Chile, provides an updated mineral resource and mineable reserve estimate in respect of the Lower Mineralized Zone ("LMZ"), which is currently being exploited. The Orvana Technical Report is compliant with the Canadian Securities Administrators' National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101").

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. in July 2003, set out in a report dated July 25, 2003 entitled *"Technical Report on the Don Mario Gold Property, Chiquitos Province, Bolivia"*, also available on [www.sedar.com](http://www.sedar.com).

The Don Mario Mine has now been extensively sampled underground to a depth of 350 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 grams/tonne (“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 232,887 tonnes of ore and produced 72,881 ounces of gold to September 30, 2006. Since the commencement of commercial production on July 1, 2003, the operation has processed 768,866 tonnes of ore and produced 205,423 ounces of gold to September 30, 2006.

### The Don Mario Mine Upper Mineralized Zone

On October 20, 2006, the Company announced the completion of a Pre-Feasibility Study on the Upper Mineralized Zone (“UMZ”) conducted by NCL and issued a Pre-Feasibility Study 43-101 compliant technical report (the “PFS Technical Report”) which estimates mineral reserves as follows:

Ore Type	Proven Reserves					Probable Reserves					Total Reserves				
	Tonnes [kt]	Au [g/t]	Cu <sub>T</sub> [%]	Ag [g/t]	Cu <sub>S</sub> [%]	Tonnes [kt]	Au [g/t]	Cu <sub>T</sub> [%]	Ag [g/t]	Cu <sub>S</sub> [%]	Tonnes [kt]	Au [g/t]	Cu <sub>T</sub> [%]	Ag [g/t]	Cu <sub>S</sub> [%]
Oxides	664	1.43	1.75	56.5	1.19	1,513	1.51	1.77	45.6	1.22	2,177	1.49	1.77	48.9	1.21
Transition	273	1.49	1.45	57.7	0.64	1,616	1.45	1.35	50.3	0.70	1,889	1.46	1.37	51.3	0.69
Sulphides	134	1.25	1.28	38.2	0.16	1,247	1.25	1.27	36.2	0.17	1,382	1.25	1.27	36.4	0.17
Total	1,071	1.42	1.62	54.5	0.92	4,377	1.42	1.47	44.6	0.73	5,448	1.42	1.50	46.6	0.77

Cu<sub>T</sub> is the total copper assay for the ore type, while Cu<sub>S</sub> is the acid soluble copper assay for the ore type

### 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 40% 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 within five years. The Company recorded a gain of \$160 which is included in interest and other income in the income statement in respect of two payments made by Castillian. On September 20, 2006, Castillian declared force majeure claiming that local community groups which are opposed to any exploration and mining activities in the area including the Pederson property, have prevented Castillian from conducting exploration activities as part of its obligations under the agreement with the Company. 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 effectiveness of the mine closure activities was prepared by an independent consulting firm for the Ministry of Mines and the Ministry of Environment and the report was accepted by both ministries on October 31, 2006.

### **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 and mining capability to achieve additional growth and geographic diversification by acquisition of 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 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 had been identified by previous geophysical surveys and trenching.

In October 2006, the Company announced the completion of a pre-feasibility study on the UMZ conducted by NCL. The UMZ mineral reserves would support a 7-year open pit mine life beyond the life of the existing LMZ. The Company is now considering steps to advance the UMZ deposit towards a production decision and has authorized management to proceed with a full feasibility study. The Company plans to assess its options with respect to developing the project in the most efficient and risk-effective way possible.

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. Since that date 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 year ended September 30, 2006 with comparative figures for 2005 are summarized in the table below:

	Year ended September 30	
	2006	2005
Revenues	\$44,875	\$29,350
Net income	15,682	8,920
Net income per share – basic and diluted	\$0.14	\$0.08

Tonnes treated in fiscal 2006 were 253,930 compared to 233,837 in 2005. Gold production for fiscal 2006 increased 16% to 80,028 ounces compared to 68,759 ounces in fiscal 2005 due to higher recoveries (3%), higher tonnes processed (9%) and higher grades (4%).

Revenue for 2006 increased 53% to \$44,875 on 79,621 ounces sold compared to \$29,350 on 68,273 ounces sold in 2005. Higher average gold prices in 2006 accounted for approximately 68% of the revenue improvement while higher ounces sold accounted for the remaining 32%. 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 \$9,415 to produce 80,028 ounces in 2006 compared to \$6,800 to produce 68,759 ounces in 2005. Direct mine operating costs per ounce produced increased by 19% to \$117.65 in fiscal 2006 from \$98.90 in 2005. 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, consumables and supplies.

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

	Year ended September 30	
	2006	2005
Direct mine operating costs	\$9,415	\$6,800
Direct mine operating cost per treated tonne	37.08	29.08
Direct mine operating cost per ounce produced	117.65	98.90

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

In 2006, general and administration expenses were \$1,720 higher than 2005 and included a number of unusual and non-recurring expenses:

- Approximately 50% of this amount is a one-time provision to cover the estimated costs of rationalization of the Company's corporate management functions including payments made under a termination agreement with the previous chief executive officer.
- Legal and tax consulting fees amounting to an additional \$230 were incurred in 2006 on two projects to restructure the corporate entities in the Orvana group, however, one-time and ongoing corporate income tax savings and improvements in operational efficiencies are expected to be well in excess of the costs incurred.

- Travel expenses of corporate staff in connection with the PFS Technical Report accounted for an additional \$220 of the increase.
- General and administration expenses also included one-time legal and other costs of approximately \$30 in connection with the sale of the Pederson property to Castillian.

Stock-based compensation expense amounted to \$502 in fiscal 2006 compared to \$1,008 in fiscal 2005. The number of stock options granted in fiscal 2006 declined by 79% from 2005 with the related expense reduction offset by the expense recorded in 2006 of the vesting in 2006 of options granted in 2005.

Exploration expenditures were \$1,001 in 2006 compared to \$230 in 2005. Exploration activities in 2006 included continuing exploration of the LMZ, exploration on other mining concessions within the Don Mario property and completion of all work leading to the PFS Technical Report. The Company does not capitalize exploration and pre-feasibility study expenditures until the results of such work indicate that a property is economically feasible and the decision is taken to proceed with development and investment.

During 2006, management was actively investigating potential investment opportunities and incurred professional fees and other costs amounting to \$510. These costs are described as business development expenses in the income statement. Most of these costs related to due diligence activities and most were incurred in the first quarter.

Orvana is committed to the social development and well-being of the communities in which it operates. Community relations expenses amounting to \$172 in fiscal 2006 include financial contributions and contributions of know-how by the Company in support of infrastructure and other program initiatives in seven local communities in the vicinity of the Don Mario Mine. Projects supported by Orvana include supervision of and financial support for community infrastructure development projects such as utilities and parks; education and information technology; cultural events; and maintenance of community roads.

Long-term debt interest was nil in fiscal 2006 compared to \$925 in 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 \$160 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 year ended September 30, 2006 was \$15,682 (\$0.14 per share) compared to \$8,920 (\$0.08 per share) for 2005.

### Cash Flows

The following table summarizes the principal sources and uses of cash for the year ended September 30, 2006 compared to 2005:

	Year ended September 30	
	2006	2005
Cash provided by operating activities	\$24,566	\$18,810
Repayment of long-term debt	-	13,159
Capital expenditures	3,072	4,296

#### *Cash provided by operating activities*

Cash provided by operating activities increased 31% in 2006 from 2005 with all key gold production/sales factors explaining virtually all of the increase: higher average gold prices and increased recoveries and grades. Cash flow from working capital was approximately \$2,500 in both years.

#### *Capital expenditures*

For 2006, capital expenditures amounted to \$3,072 or \$1,224 less than 2005. Fiscal 2005 included capital spending of \$1,876 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 – September 30, 2006 compared to September 30, 2005**

The following table provides a comparison of key elements of the Company's balance sheet at September 30, 2006 and September 30, 2005:

	September 30, 2006	September 30, 2005
Cash and cash equivalents	\$26,850	\$5,310
Non-cash working capital (deficit)	(735)	1,789
Total assets	54,860	35,163
Shareholders' equity	45,089	28,859

Cash increased by \$21,540 on strong operating performance in the year ended September 30, 2006. All long-term debt had been repaid prior to fiscal 2006. Fiscal 2005 included long-term debt repayments of \$13,159.

Non-cash working capital decreased by \$2,524 to a deficit of \$735 at September 30, 2006 from \$1,789 at September 30, 2005. Income taxes payable in the Company's Bolivian subsidiary increased by \$3,487 at September 30, 2006 reflecting higher taxable income in fiscal 2006 and the fact that a tax loss carry forward reduced income taxes otherwise payable at the end of fiscal 2005.

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

Shareholders' equity increased by \$16,230 to \$45,089 at September 30, 2006. No dividends were paid in the year ended September 30, 2006.

#### **Outlook**

During fiscal 2006, the mill treated 253,930 tonnes of ore in the production of 80,028 ounces of gold. Barring unforeseen events, management expects the Don Mario Mine will produce between 75,000 and 80,000 ounces in fiscal 2007.

## SELECTED ANNUAL INFORMATION

The table below shows selected financial data for the Company's three most recently completed fiscal years:

	September 30		
	2006	2005	2004
Revenue	\$44,875	\$29,350	\$19,121
Net income (loss)	15,682	8,920	7,842
Net income per share – basic and diluted	\$0.14	\$0.08	\$0.07
Total assets	\$54,860	\$35,163	\$35,300
Total long-term financial liabilities	-	-	13,159
Gold production - ounces	80,028	68,759	48,228
Gold sales - ounces	79,621	68,273	47,431
<i>Non-GAAP measures</i>			
Per ounce data -			
- Total cash costs	\$139.43	\$117.57	\$122.59
- Average gold price realized	563.61	429.89	403.13
Operating statistics -			
- Gold ore grade – g/t	10.57	10.13	7.44
- Gold recovery rate - %	92.8	90.2	86.1

### *Fiscal 2006 compared to Fiscal 2005*

The Company's operating results and financial position continued to strengthen to the end of fiscal 2006 with all of the three main factors contributing to this: gold prices realized were 31% higher on average over the year compared to fiscal 2005 and both ore grades and recoveries improved in fiscal 2006 over 2005.

Other factors explaining changes in financial position and results of operations in fiscal 2006 as compared to fiscal 2005 are described above in the section, "Overall Performance".

### *Fiscal 2005 compared to Fiscal 2004*

Construction of the Don Mario Mine commenced in March 2002. Commercial production began July 1, 2003. Fiscal 2004 was the first full year of commercial production of 48,228 ounces. Gold production for fiscal 2005 was higher due to both higher ore grades and improved recoveries. Gold prices realized also increased by almost 7% in 2005 over 2004.

## CORPORATE RESOURCES

### **Management and Staffing**

Following a transition of certain of Orvana's senior operating and financial management functions performed in the past by Sinchi Wayra S.A. ("Sinchi Wayra") under a management contract, the



Company's Chairman, George Hamilton, and its Chief Executive Officer, Sean Harvey, resigned effective May 30, 2006.

On July 5, 2006, Susan McArthur was appointed Chairman of Orvana. Ms. McArthur is Managing Director of ZSA-X, a financial services recruiting firm with 20 years of international and domestic investment banking experience.

On October 3, 2006, Carlos Mirabal was appointed President and Chief Executive Officer and a director of the Company. Mr. Mirabal holds a Bachelor in Mining Engineering from Universidad Tomas Frias in Potosi, Bolivia and a Masters in Metallurgical Engineering from the Colorado School of Mines in Golden, Colorado. He has over 35 years' experience in the mining industry. Prior to joining Orvana, Mr. Mirabal was most recently Vice President of Operations of Sinchi Wayra, (formerly Compania Minera del Sur S.A. ("Comsur")). Comsur provided various management, technical and commercial services to a subsidiary of Orvana from January 2002 to September 2005. As Vice President of Operations of Comsur during that period, Mr. Mirabal was Chief Operating Officer of Orvana and a key member of the management team responsible for the construction and operation of Orvana's Don Mario Mine in Bolivia.

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 by other Bolivian mining companies with their unions for the same contract term. Labour costs have increased 21% with the new contract as a result of increases in both labour rates and other benefits. This translates into a cost of approximately \$4.93 per ounce.

## **Liquidity and Capital Resources**

### *Liquidity and Commitments*

On October 11, 2002, Paititi signed a seven-year natural gas supply contract for the Don Mario Mine at a fixed price for gas supply and transportation 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 \$477 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 (see also the section "Risks and Uncertainties" below).

The Company has recorded an asset retirement obligation at a discounted amount of \$1,828 at September 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.

During fiscal 2006, the net increase in cash and cash equivalents, after capital expenditures, was \$21,540. At September 30, 2006, cash and cash equivalents amounted to \$26,850. Provided gold prices remain in the range of \$500-600 per ounce and provided no unforeseen events arise, it is expected that the Company will continue to generate significant cash flow in fiscal 2007.

### *Capital Resources*

At September 30, 2006, the Company had no long-term debt and capital resources at that date are represented by shareholders' equity, which amounted to \$45,089.

The Company does not require additional financing in the immediate term and, thus, has not sought to arrange financing facilities.

Shareholders' equity increased by 56% or \$16,230 to \$45,089 (\$0.39 per share) at September 30, 2006 compared to \$28,859 (\$0.25 per share) at the end of fiscal 2005.

## RESULTS

### Results of Operations

*Fiscal 2006 compared to fiscal 2005*

The following table and analysis compare operating results for the year ended September 30, 2006 to those of 2005:

	Year ended September 30	
	2006	2005
Revenues	\$44,875	\$29,350
Costs and expenses of mining operations	16,809	11,953
Expenses and other income	5,737	4,323
Net income	15,682	8,920
Net income per share – basic and diluted	\$0.14	\$0.08

### 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:

	Year ended September 30	
	2006	2005
Revenues	\$44,875	\$29,350
Average gold price realized	\$563.61	\$429.89
Gold sales - ounces	79,621	68,273

Revenue for 2006 increased 53% to \$44,875 on 79,621 ounces sold compared to \$29,350 on 68,273 ounces sold in 2005. Higher average gold prices in 2006 accounted for approximately 68% of the revenue improvement while higher ounces sold accounted for the remaining 32%. 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.

Further information on production operations and costs is presented below.

### *Don Mario Mine - Development*

Development work continued in 2006, with further deepening of the main ramp and completion of the shaft. By the end of fiscal 2006, the main ramp had reached the 50-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 during fiscal 2007. Construction of the mine shaft is now complete.

*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 year ended September 30, 2006 compared to 2005:

		Year ended September 30	
		2006	2005
Underground mine	tonnes	203,107	163,656
	g/t	11.73	11.43
Mini-pit & stockpile	tonnes	50,823	70,181
	g/t	5.93	7.10
Total	tonnes	253,930	233,837
	g/t	10.57	10.13
Recovery rate		92.8%	90.2%
Gold produced - ounces		80,028	68,759

The Don Mario Mine and Santa Cruz administrative office had a total of 269 employees at September 30, 2006 and, on average over the year, 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 80,028 ounces in fiscal 2006 and 68,759 ounces in fiscal 2005:

	Year ended September 30			
	2006		2005	
	Costs	Cost/oz.	Costs	Cost/oz.
Direct mine operating costs	\$9,415	117.65	\$6,800	\$98.90
Third-party smelting, refining and transportation costs	208	2.60	141	2.04
Cash operating costs	9,623	120.25	6,941	100.94
Royalties and mining rights	1,535	19.18	1,143	16.63
Total cash costs	11,158	139.43	8,084	117.57
Depreciation and amortization	5,723	71.51	3,897	56.58
Total production costs	\$16,881	\$210.94	\$11,981	\$174.15

\* A reconciliation of direct mine operating costs to cost of sales is shown below

Total production costs of \$210.94 per ounce for fiscal 2006 increased \$36.79 or 21% from \$174.15 per ounce during 2005. Increased labour costs under a recently-signed labour agreement and increased costs of consumables and other supplies account for a significant portion of the difference. A higher proportion of total tonnes treated coming from underground mining also contributed to the increase in unit costs. Higher royalties due to higher gold prices and increased amortization expense accounted for the remainder of the increase in unit costs.

The difference between direct mine operating costs of \$9,415 and cost of sales of \$9,525 reported in the audited consolidated financial statements for 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 years ended September 30, 2006 and 2005 is presented in the table below:

	Year ended September 30	
	2006	2005
Cost of sales (GAAP)	\$9,525	\$6,700
Processing charges included in cost of sales	-	(50)
Changes in cash costs included in gold inventories and gold in circuit	(110)	150
Direct mine operating costs (non-GAAP measure)	\$9,415	\$6,800

### 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 was completed in the last quarter of 2006. The program had been designed to test the northern and down dip extension of the LMZ. 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, it continued through the last quarter. As reported previously, by the end of the third quarter 2006, ten holes had been completed with assays from the last two received in the fourth quarter, unfortunately also with disappointing results. During the last quarter of 2006, two additional drill holes were completed testing the southern area of the dip extension. The drill holes intersected a narrow structure with an average grade of 1 g/t. In summary, by the end of fiscal 2006, 5,048 meters were drilled out of a planned total of 5,353 metres with a total actual expenditure of \$459. The intersections have been well identified and the grades and widths recorded are disappointing. 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. To continue the Don Mario exploration strategy, management decided to commence exploration of other Don Mario property concessions, including Las Tojas, Don Mario Sur and La Aventura.

### Update on evaluation of the Upper Mineralized Zone ("UMZ")

On October 20, 2006, the Company announced the completion of a pre-feasibility study on the UMZ conducted by NCL of Santiago, Chile. The PFS Technical Report estimates mineral reserves as follows:

Ore Type	Proven Reserves					Probable Reserves					Total Reserves				
	Tonnes [kt]	Au [g/t]	Cu <sub>T</sub> [%]	Ag [g/t]	Cu <sub>S</sub> [%]	Tonnes [kt]	Au [g/t]	Cu <sub>T</sub> [%]	Ag [g/t]	Cu <sub>S</sub> [%]	Tonnes [kt]	Au [g/t]	Cu <sub>T</sub> [%]	Ag [g/t]	Cu <sub>S</sub> [%]
Oxides	664	1.43	1.75	56.5	1.19	1,513	1.51	1.77	45.6	1.22	2,177	1.49	1.77	48.9	1.21
Transition Sulphides	273	1.49	1.45	57.7	0.64	1,616	1.45	1.35	50.3	0.70	1,889	1.46	1.37	51.3	0.69
Total	1,071	1.42	1.62	54.5	0.92	4,377	1.42	1.47	44.6	0.73	5,448	1.42	1.50	46.6	0.77

Cu<sub>T</sub> is the total copper assay for the ore type, while Cu<sub>S</sub> is the acid soluble copper assay for the ore type

Highlights of the study are as follows:

- Completion of a mineral reserve estimate for the UMZ deposit, reporting NI 43-101 compliant proven and probable reserves totaling 5.45 million tonnes at average grades of 1.50% copper, 1.42 g/t gold and 46.6 g/t silver.
- The mineral reserves would support a mine life of seven years at a maximum production rate of 875,000 tonnes per annum (tpa).
- Payable metal production over the life-of-mine for the UMZ deposit would be approximately 72,500 tonnes (160 million pounds) of copper (with approximately 49% of the copper in the form of copper cathodes, the balance being in the form of copper concentrates), 236,600 ounces of gold and 7,058,800 ounces of silver. Annual payable metal production would average 33,800 ounces of gold, 1,000,000 ounces of silver and 10,300 tonnes (22.7 million pounds) of copper.
- The pre-production capital costs to modify and expand the existing process plant and infrastructure and to develop the new open pit mine are estimated to be approximately \$65.0 million, including engineering design and related activities and a contingency.
- Average mine site direct operating costs are estimated to be approximately \$19.10 per tonne of ore. Unit cash costs (mine site direct operating costs plus general and administrative costs, and transportation, smelting and refining charges) are estimated to average approximately \$25.80 per tonne of ore. Expressed in terms of equivalent metal content, unit cash costs would average approximately \$184.00 per ounce of gold equivalent, or \$0.49 per pound of copper equivalent. The equivalent metal contents were calculated by multiplying the life-of-mine payable quantities of gold, silver and copper by their respective prices (\$1.20 per pound for copper, \$450.00 per ounce for gold and \$7.00 per ounce for silver), summing the results and then dividing the total by the price of gold or the price of copper, as the case may be.
- Project economics, using the metal prices set forth above, are summarized as follows:
  - A 7-year operating life with an estimated after-tax net present value of \$43.1 million at a 10% discount rate.
  - An estimated payback and after-tax internal rate of return of 2.4 years and 30% respectively.

### **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 confirmed a mineralized structure and, based on those results, a 10-drill hole program of selected targets with a total of 2,300 metres has been planned. The drilling program started in September 2006 and is expected to be completed by the end of the first quarter of fiscal 2007. By the end of the last quarter 2006, 130 metres of the first drill hole had been completed.
  - To the end of November 2006, five drill holes with a total of 1,465 metres were completed. Three drill holes intersected a mineralized ore body with true widths ranging between 2.5 and 10 metres. Grades were between 1.3 and 5.8 g/t. The widest intersection (10 metres) was also the one reporting the highest grade (5.8 g/t). A drill hole is now being started with the objective of exploring the mineralized structure in depth.

- **Don Mario Sur:**
  - Based on the evidence of a strong geo-chemical anomaly confirmed by trench sampling, two selected drill holes were planned.
  - Drilling took place during June 2006 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 1,352 samples was completed.
  - All samples have been assayed, showing three anomalous values.
  - The next stage of exploration work in the area will include trenching and magnetometry and these are planned to be undertaken during the first half of fiscal 2007.

### Summary of Quarterly Results

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

	Quarters ended			
	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005
Revenues	\$13,219	\$11,092	\$12,045	\$8,519
Net income	5,268	3,914	3,801	2,699
Net income per share – basic and fully diluted	\$0.05	\$0.03	\$0.03	\$0.02
Total assets	\$54,860	\$48,106	\$42,648	\$37,521
Total long-term financial liabilities	-	-	-	-
Gold production - ozs.	21,611	19,333	18,814	20,270
Gold sales – ozs.	21,587	18,177	21,918	17,939
<i>Non-GAAP measures</i>				
Per ounce data -				
- Total cash costs	\$140.96	\$154.11	\$143.59	\$119.93
- Average gold price realized	\$612.34	\$610.22	549.54	474.89
Operating statistics -				
- Gold ore grade – g/t	10.57	9.85	11.12	10.80
- Gold recovery rate - %	93.5	93.4	91.9	92.3

	Quarters ended			
	Sept. 30, 2005	June 30, 2005	Mar. 31, 2005	Dec. 31, 2004
Revenues	\$10,436	\$5,892	\$6,775	\$6,247
Net income	4,484	321	2,215	1,900
Net income per share – basic and fully diluted	\$0.04	\$0.00	\$0.02	\$0.02
Total assets	\$35,163	\$36,659	\$37,635	\$36,850
Total long-term financial liabilities	-	7,959	11,492	12,759
Gold production - ozs.	19,963	17,404	17,345	14,047
Gold sales – ozs.	24,381	13,820	15,712	14,360
<i>Non-GAAP measures</i>				
Per ounce data -				
- Total cash costs	\$116.36	\$127.97	\$98.32	\$130.15
- Average gold price realized	428.04	426.34	431.14	434.96
Operating statistics -				
- Gold ore grade – g/t	11.58	10.46	10.30	8.26
- Gold recovery rate - %	93.5	89.1	88.8	89.0

*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.

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.

## **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 to 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 by 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 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 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 were estimated by the Company on November 1, 2005 to be 1,017,500 tonnes 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 September 30, 2006, the net book value of property, plant and equipment amounted to \$21,603. 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 \$139 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 \$1,828 at September 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 \$502 in 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. Stock options outstanding have expiry dates ranging from 2007 to 2011.

**Other Information**

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2006. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date the Chief Executive Officer completed his evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls requiring corrective actions.

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](http://www.sedar.com) and on the Company's website at [www.orvana.com](http://www.orvana.com).