Ivernia West Inc.

# ANNUAL INFORMATION FORM

## May 17, 2002

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## PRELIMINARY NOTES

Certain terms used in this Annual Information Form ("AIF") are defined in the Technical Glossary set out on page 25 of this AIF. Except as otherwise noted or unless the context otherwise requires, (i) the "Company" refers to Ivernia West Inc., (ii) "Ivernia West" refers to the Company together with its subsidiaries, (iii) the financial information contained in this AIF is presented as if the Reorganization referred to under “Corporate Structure – Incorporation” had been effective on January 1, 1999, (iv) "$","US dollars" or "dollars" refers to United States dollars and (v) "Common Shares" refers to Common Shares in the capital of the Company. References in this AIF to “1999”, "2000" or "2001" mean the 12 months ended December 31, 1999, 2000 and 2001, respectively.

## EXCHANGE RATE DATA

Unless otherwise specified, the financial information relating to the Company contained in this AIF is expressed in US dollars. Certain financial information relating to the Company contained in this AIF originated in Irish pounds ("IR£") or Australian dollars (“A$”) and has been translated into US dollars based on prevailing exchange rates.

The following table sets out the rates of exchange for Irish pounds per US dollar in effect at the end of the periods indicated and the average rates of exchange during such periods:

| | **12 months ended December 31,** | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Rate at end of period (IR£) .......................... | 0.8854 | 0.8384 | 0.7839 |
| Average rate for period (IR£)....................... | 0.8795 | 0.8551 | 0.7390 |

The following table sets out the rates of exchange for Canadian dollars ("C$") per US dollar in effect at the end of the periods indicated and the average rates of exchange during such periods based on the noon spot rate quoted by the Bank of Canada:

| | **12 months ended December 31,** | | |
|---|---|---|---|
| | **2001** | **2000** | **1999** |
| Rate at end of period (C$)............................. | 1.5926 | 1.5002 | 1.4433 |
| Average rate for period (C$)......................... | 1.5489 | 1.4850 | 1.4857 |

## MEASUREMENT EQUIVALENTS

The rates for converting imperial measurements to metric equivalents and *vice versa* are as follows:

| Imperial Measurement | | Metric Equivalent | Metric Measurement | | Imperial Equivalent |
|---|---|---|---|---|---|
| 2.4709 acres | = | 1 hectare | 0.4047 hectares | = | 1 acre |
| 3.2808 feet | = | 1 metre | 0.3048 metres | = | 1 foot |
| 0.6214 miles | = | 1 kilometre | 1.6093 kilometres | = | 1 mile |
| 1.1025 tons (US) | = | 1 tonne | 0.9072 tonnes | = | 1 ton (US) |

## FORWARD-LOOKING STATEMENTS

This AIF includes certain "forward-looking statements". All statements included in this AIF (other than statements of historical facts) which address activities, events or developments that management anticipates will or may occur in the future are forward-looking statements, including statements as to the following: future capital expenditures; business strategies and measures to implement such strategies; competitive strengths; goals, expansion and growth of the business and operations; plans and references to Ivernia West's future successes; and other such matters. These statements are based upon certain assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. However, whether actual results and developments will conform with management's expectations is subject to a number of risks and uncertainties, including the special considerations discussed in this AIF, general economic, market or business conditions, the opportunities (or lack thereof) that may be presented to and pursued by management, competitive actions by other companies, changes in laws or regulations and other factors, many of which are beyond the Company's control. Consequently, all of the forward-looking statements made in this AIF are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by management will be realized or, even if substantially realized, that they will have the expected result on Ivernia West.

## CORPORATE STRUCTURE

### Overview of Ivernia West

Ivernia West is an international base metals mining and exploration group. Its principal assets comprise (i) a 50% interest in a joint venture (the "Lisheen Joint Venture") which owns and operates the Lisheen zinc/lead mine (the "Lisheen Mine") in the Republic of Ireland ("Ireland"), (ii) a 95.8% direct and indirect equity interest (and the right to increase such interest to 100% upon payment of A$2 million during 2003) in Magellan Metals Pty. Limited ("Magellan Metals"), which has a 100% interest in the Magellan lead project (the "Magellan Project") in Western Australia, and (iii) interests in a number of exploration properties in Ireland, Australia and the USA.

Ivernia West's joint venture partner in the Lisheen Mine is Anglo American plc ("Anglo American"), one of the largest natural resource companies in the world, together with certain of its subsidiaries (collectively, "Anglo"). The management committee of the Lisheen Joint Venture (the "Management Committee") has appointed a subsidiary of Anglo American to manage the day-to-day operations of the Lisheen Mine.

The Lisheen Mine commenced ore production in September 1999, and commenced commercial production for reporting purposes on January 1, 2001. The Lisheen Mine is one of the largest zinc mines in the world based on annual design production of contained zinc in concentrate. The mine is expected to produce an average of approximately 150,000 tonnes per annum of contained zinc in concentrate and an average of approximately 20,000 tonnes per annum of contained lead in concentrate during an estimated 12 year remaining mine life. At December 31, 2001, 283 people were employed at the Lisheen Mine.

The final feasibility study ("FFS") of the Magellan Project was completed in March 2001. Once in production, it is expected that approximately one million tonnes per annum of oxidized lead ore will be extracted via an open pit. Current reserves are sufficient for a 9 year mine life. Construction of all mining, plant and related infrastructure is expected to require an approximate 12 month period prior to commencing production. In March 2002, as a result of further drilling on the adjacent Cano Prospect, the Company announced its discovery of additional mineral resources on the Cano Prospect.

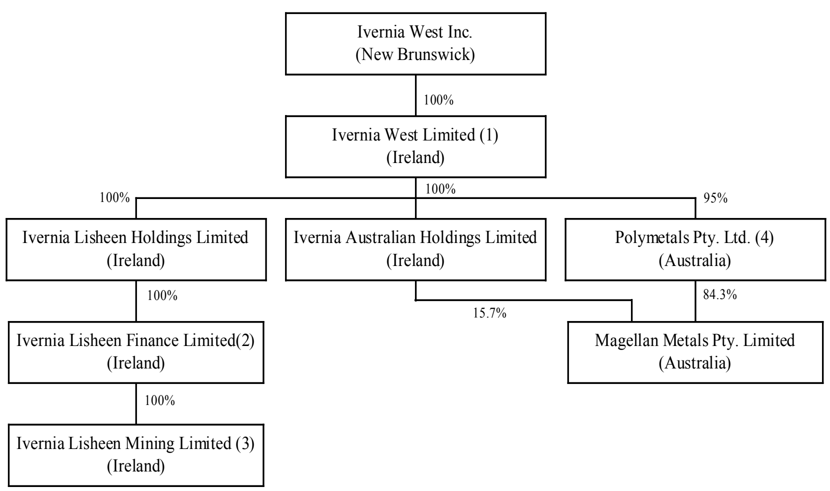
**Incorporation**

Ivernia West Inc. was incorporated on June 16, 2000 under the *Business Corporations Act* (New Brunswick). The registered office of the Company is at Brunswick House, 44 Chipman Hill, Saint John, New Brunswick, Canada E2L 4S6. The principal place of business of the Company in Canada is at Scotia Plaza, Suite 3510, 40 King Street West, Toronto, Ontario, M5H 3Y2, and in Ireland at Ivernia Hall, 97 Henry Street, Limerick, Ireland.

The Company was established for the purpose of becoming the Canadian holding company of Ivernia West plc ("Ivernia Ireland"), an Irish company, pursuant to a court-approved scheme of arrangement under Irish law (the "Reorganization") which became effective on December 15, 2000. Prior to the Reorganization, the ordinary shares of Ivernia Ireland had been listed on the Exploration Securities Market (the "ESM") of the Irish Stock Exchange (the "ISE") and traded on the London Stock Exchange since 1988. Upon the Reorganization becoming effective, (i) Ivernia Ireland became a wholly-owned subsidiary of the Company, (ii) the ordinary shares of Ivernia Ireland were delisted from the ESM of the ISE and (iii) the shareholders of Ivernia Ireland received one Common Share in the Company in exchange for each ordinary share in Ivernia Ireland held immediately before the Reorganization. The information in this AIF is presented as if the Reorganization had been effective on January 1, 1999.

**Principal Subsidiaries**

The diagram below illustrates the intercorporate relationships between the Company and its principal subsidiaries:




(1) Ivernia Ireland was re-registered as a private limited company, Ivernia West Limited, under the laws of Ireland on December 19, 2001.

(2) Ivernia Lisheen Finance Limited ("Ivernia Finance") holds a 50% equity interest in Lisheen Milling Limited ("Lisheen Milling"). See "Narrative Description of the Business – Lisheen Mine – Lisheen Joint Venture".

(3) Ivernia Lisheen Mining Limited ("Ivernia Mining") holds a 50% partnership interest in the Lisheen Mining Partnership (the "Lisheen Partnership"). See "Narrative Description of the Business – Lisheen Mine – Lisheen Joint Venture".

(4) Ivernia Ireland has given notice of exercise of a secondary call option whereby it intends to acquire the remaining 5% equity interest in Polymetals Pty. Ltd. ("Polymetals") not held by it. See "Narrative Description of the Business – Magellan Project – Overview".

## GENERAL DEVELOPMENT OF THE BUSINESS

The following is a summary of certain major developments in the business of Ivernia during its last three completed financial years:

In March 1999, Anglo American acquired Minorco SA ("Minorco"), which was at the time Ivernia West's joint venture partner in respect of the Lisheen Mine. As a result of this acquisition, Anglo American and certain of its subsidiaries were substituted for Minorco and its subsidiaries under the Lisheen Joint Venture Agreements.

In May 1999, Ivernia West entered into an agreement to acquire 15.7% of the outstanding shares of Magellan Metals in several related transactions.

Ore production commenced at the Lisheen Mine in September 1999 and concentrate production commenced in October 1999. From the commencement of ore production until April 2000, ore was mined by the Lisheen Joint Venture and, under contract, by Kvaerner Cementation (Ireland) Limited ("Kvaerner"), the prime contractor during the development of the Lisheen Mine. Throughout this period, the mining was carried out primarily in the Main zone of the Lisheen ore body. In April 2000, mining operations at the Lisheen Mine were assumed by the Lisheen Partnership and carried on in the Main and Derryville zones of the ore body.

In May 2000, Ivernia Ireland issued a total of 10,380,780 shares in a private placement to a number of institutional investors for net proceeds of approximately $7.41 million.

In September 2000, pursuant to a share sale agreement with the shareholders of Polymetals (the "Polymetals Shareholders") and certain other parties, Ivernia Ireland acquired 90% of the issued and outstanding shares of Polymetals for A$4 million ($2.27 million). In January 2002, Ivernia Ireland exercised a primary call option to acquire a further 5% of Polymetals, and gave notice of exercise of a secondary call option whereby it intends to acquire the remaining 5% of Polymetals in 2003. Polymetals holds the 84.3% of the shares of Magellan Metals not owned directly by Ivernia West. As a result of these transactions, the Company increased its direct and indirect equity interest in Magellan Metals to 95.8% by January 2002, and intends to increase such interest to 100% in 2003.

On December 15, 2000, the Reorganization became effective. Pursuant to the Reorganization, the Company became the new public holding company for Ivernia West, and Ivernia Ireland became a wholly-owned subsidiary of the Company. The ordinary shares of Ivernia Ireland were delisted from the ESM of the ISE, and the Common Shares were listed and began trading on the TSE and the ESM of the ISE.

In January 2001, the Lisheen Mine commenced commercial production for reporting purposes and reached design production levels in November 2001.

In March 2001, the Company announced the completion of the FFS by Magellan Metals which envisions the production of one million tonnes of ore per annum. The acquisition by Magellan Metals of a 100% interest in the Magellan Project was conditional on Magellan Metals committing to develop a mine and plant with a capacity of not less than 300,000 tonnes of ore per annum, and such commitment was made in September, 2001. In March 2002, the Company announced the discovery of significant mineral resources at the Cano Prospect adjacent to the Magellan Project. Ivernia West is currently considering its options in connection with the development and financing of such a facility.

In January 2002, the listing of the Common Shares on the ESM of the ISE was cancelled at the Company's request. The Common Shares continue to be listed on the TSE.

From January to April 2002, the Company issued an aggregate of 27,402,053 Common Shares and 9,134,017 common share purchase warrants pursuant to private placements to a number of purchasers for aggregate cash and share consideration of C$3.84 million.

## NARRATIVE DESCRIPTION OF THE BUSINESS

### Lisheen Mine

*Overview*

The Lisheen Mine is situated in County Tipperary in the Irish midlands, approximately 12 kilometres north-east of Thurles, Ireland. The mine is situated at an elevation of 130 metres on a broad plain with occasional low hills rising to 200 metres. The area, which is primarily grassland with local areas of peat bog, is drained by both the Suir and Drish river systems. Access to the mine is by the N8 national road between Dublin and Cork and paved local/country roads for approximately nine kilometres.

The mine operates pursuant to a state mining lease (the "Lisheen Mining Lease") granted to Ivernia West and Anglo on October 7, 1997 by the Minister for the Marine and Natural Resources of Ireland. The Lisheen Mining Lease covers an area of approximately 950 hectares which fully encompasses the Lisheen ore body and any possible extensions thereof. The Lisheen Mining Lease is for a term of 30 years commencing from October 1997. The Lisheen Joint Venture owns surface rights over a total of approximately 463 hectares within which surface facilities, including the mill and tailings management facility, are situated. The Lisheen Joint Venture also holds prospecting licences over a total of approximately 50,000 hectares including licence areas located adjacent to or in close proximity to the area covered by the Lisheen Mining Lease.

In November 1989, Ivernia West entered into a joint venture with Chevron Mineral Corporation of Ireland ("CMCI") pursuant to which it acquired a 47.5% interest in CMCI's prospecting licences in Ireland (the "Chevron Properties") by incurring exploration expenditures of $2.5 million in respect of such licences over a three year period. In April 1990, during Ivernia West's initial drilling program on the Chevron Properties, the Lisheen ore body was discovered. In November 1994, Ivernia West acquired Chevron's 52.5% interest in the joint venture for $77.2 million following the exercise of its pre-emptive rights, and simultaneously sold a 50% interest in the prospecting licences relating to the Lisheen ore body to Minorco Lisheen Mining Limited, a subsidiary of Minorco. Certain Chevron Properties not relating to the Lisheen ore body were retained by Ivernia West. See "– Exploration – Ireland".

In 1995, Minorco completed a feasibility study for the Lisheen Mine (the "Lisheen Feasibility Study") and Ivernia West and Minorco decided in early 1996 to proceed with development. In November 1997, Ivernia West and Minorco and certain of their respective subsidiaries entered into agreements (the "Lisheen Joint Venture Agreements") governing the ownership, management and financing of the Lisheen Mine. In March 1999, following the acquisition of Minorco by Anglo American, Anglo American and certain of its subsidiaries were substituted for Minorco and its subsidiaries under the Lisheen Joint Venture Agreements.

*Lisheen Joint Venture*

The Lisheen Mine is owned and operated by the Lisheen Joint Venture pursuant to the Lisheen Joint Venture Agreements. The Lisheen Joint Venture was established pursuant to the terms of a master agreement (the "Master Agreement") dated November 6, 1997 between Ivernia Ireland, Anglo American and certain of their respective subsidiaries. The Master Agreement (i) establishes the Management Committee which is responsible for setting policy relating to the management of the Lisheen Mine, (ii) regulates the ownership interests of Ivernia West and Anglo in, and the financing of, the Lisheen Mine and (iii) regulates the ownership and management of certain prospecting licences in respect of properties located in the Rathdowney Trend.

The Lisheen Joint Venture Agreements collectively also provide for mining and milling operations at the Lisheen Mine to be conducted by separate, jointly-owned entities as follows:

- a partnership agreement dated November 6, 1997 between Ivernia Mining and Anglo American Lisheen Mining Limited (a wholly-owned subsidiary of Anglo American) provides for the formation of the Lisheen Partnership which is responsible for the development of underground mining operations, the employment of mining personnel and other related services; and

- a shareholders' agreement dated November 6, 1997 between Ivernia Finance and Anglo American Lisheen Finance Limited ("Anglo Finance") (a wholly-owned subsidiary of Anglo American) provides for the establishment of Lisheen Milling, which is responsible for (i) milling operations including the construction and development of the mill, milling, concentrate storage, transportation and tailings management, (ii) the marketing and sale of zinc and lead concentrates and (iii) the employment of related personnel.

Pursuant to technical services agreements (the "Technical Services Agreements") each dated November 6, 1997 (i) Anglo Base Metals (Ireland) Limited ("Anglo Ireland"), a wholly owned subsidiary of Anglo American, has been appointed as agent of the Lisheen Joint Venture, the Lisheen Partnership and Lisheen Milling, for so long as Anglo's participating interest in the Lisheen Joint Venture exceeds 33%, to procure, when requested to do so, the provision of services in relation to the construction, development and operation of the Lisheen Mine and the marketing and sale of zinc and lead concentrates and (ii) such entities have agreed to reimburse Anglo for all costs incurred in procuring the provision of such services as well as to pay management fees to Anglo which, prior to completion of construction, were equal to 2.2% of certain construction costs incurred and during the operational phase are fixed at $600,000 annually subject to annual adjustments based on the consumer price index of Ireland.

Each of Ivernia West and Anglo is entitled to appoint one representative to the Management Committee for every 10% of participating interest held in the Lisheen Joint Venture, subject to a maximum of four representatives each. Currently, each of Ivernia West and Anglo holds a 50% participating interest and Anglo has appointed four representatives and Ivernia West has appointed three representatives to the Management Committee. For so long as each of Ivernia West and Anglo holds a 40% or greater participating interest in the Lisheen Joint Venture, all Management Committee decisions will, subject to the provisions of the Lisheen Joint Venture Agreements, require the approval of both Ivernia West and Anglo. If, and for so long as, either Ivernia West or Anglo holds less than a 40% participating interest in the Lisheen Joint Venture, decisions taken by the Management Committee will require approval by a simple majority vote. Failure by either Ivernia West or Anglo to fund its pro rata share of Lisheen Mine expenditures may under certain circumstances result in a loss of such party's voting entitlement at the Management Committee. See "Risk Factors – Lisheen Joint Venture". The position of chairman of the Management Committee rotates annually, and in 2002 is held by an Anglo representative.

The Lisheen Joint Venture Agreements provide that the partnership interests and equity interests of Ivernia West and Anglo in the Lisheen Partnership and Lisheen Milling, respectively, will be identical to their respective participating interests in the Lisheen Joint Venture, and that the partnership committee and board of directors of such entities will be constituted on the same basis as the Management Committee.

*Geology, Ore Reserves and Mineral Resources*

The Lisheen ore body is located within the Rathdowney Trend, a structurally controlled mineral belt stretching approximately 40 kilometres from north-east to south-west between Abbeyleix and Thurles, Ireland. This trend also hosts the Galmoy zinc mine, which is approximately seven kilometres north-east of the Lisheen Mine. The Lisheen ore body is hosted within flat-lying Carboniferous marine carbonates, conformably overlying Upper Devonian to Lower Carboniferous continental red beds which in turn rest unconformably on complex folded and faulted Lower Paleozoic and Precambrian marine sediments, volcanics and volcaniclastic sediments. The Lisheen ore body occurs as massive to semi-massive sulphide mineralization at the base of regionally dolomotized Waulsortian limestones and, to a lesser extent, in a stratigraphically lower oolite unit, adjacent to major structures. Mineralization occurs at depths of between 80 metres and 270 metres below surface (with most occurring at a depth of approximately 190 metres), and varies from relatively flat lying to undulating, with a vertical thickness ranging from less than 0.5 metres to over 30 metres. Regionally, the strata dips five degrees to eight degrees to the south-east, however, within the deposit area local strike and dip variations occur and parts of the deposit dip shallowly towards the north-east and west-north-west. Most of the larger variations in elevation of the ore body result from gentle folding. Minor faulting accounts for local changes in dip and elevation of the ore body. The ore body occurs within a limestone unit that contains water bearing joints, faults and cavities.

The ore body is divided into two zones: the Main zone, located on the western portion of the mining lease area; and the Derryville zone, located 0.5 kilometres to the east of the Main zone. In addition, the Lisduff Oolite zone and the Bog zone have been identified as areas of possible extensions of the ore body. Most mineralization occurs within the Main and Derryville zones, which comprise a number of individual sulphide bodies which have coalesced to form a continuous sulphide layer, in which the ore body thickens and metal grades increase toward a series of major east-west orientated faults. These faults are thought to have acted as conduits for mineralizing fluids, and the thickest ore generally occurs in the hanging wall of these structures. The Main and Derryville zone limits are generally defined by the economic cut-off grade for mineralization rather than by clear geological limits, however, two major faults define the southern boundaries of these zones.

The following tables set forth the Company's estimates of the mineral resources (which include ore reserves) and ore reserves of the Lisheen Mine as at May 31, 2001. These estimates are based upon a study conducted by the Lisheen Joint Venture commencing in the second quarter 2001 to update the mineral resource model at the Lisheen Mine (the "Lisheen 2001 Update"), which was prepared under the supervision of the qualified persons named below.

**Mineral Resources** (1)(2)

| | Tonnage (millions) | Zinc (%) | Lead (%) |
|---|---|---|---|
| Measured | 5.50 | 15.26 | 2.81 |
| Indicated | 8.95 | 12.70 | 1.76 |
| Total Measured and Indicated | 14.45 | 13.68 | 2.16 |
| Inferred Resources: | | | |
| Massive sulphide | 4.43 | 12.69 | 1.65 |
| Disseminated sulphide | 22.01 | 2.12 | 0.71 |
| Oolite | 1.09 | 10.84 | 2.99 |
| Total Inferred | 27.53 | 4.08 | 1.58 |

**Ore Reserves** (1)(2)

| | Tonnage (millions) | Zinc (%) | Lead (%) |
|---|---|---|---|
| Proven | 5.23 | 12.44 | 2.10 |
| Probable | 8.99 | 11.04 | 1.66 |
| Total Proven & Probable | 14.22 | 11.55 | 1.82 |

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(1) The mineral resources and ore reserves for the Lisheen Mine set out above are based upon the Lisheen 2001 Update, which was conducted by the Lisheen Joint Venture commencing in the second quarter 2001 and based on information collected to May 31, 2001. Qualified persons responsible for the calculation and verification of the resources and the underlying sampling and analytical data were Mr. Leonardo Fusciardi (P. Geo) and Mr. Duncan Campbell (MIMM). Qualified persons responsible for calculating and verifying the reserves and the underlying sampling and analytical data were Mr. Wade Stephenson (MAusIMM) and Mr. Frank Weldon (MSAIMM). Each of these individuals are Anglo or Lisheen Mine employees**.** In preparing the Lisheen 2001 Update, the Lisheen Joint Venture reviewed the results of exploration drilling on the Lisheen property, which comprised over 1,323 diamond drill holes in the mineralised area totalling in excess of 175 kilometres of drilling. This included 120 additional surface and underground holes drilled during 2000/2001 as part of an in-fill drilling programme to close in the distance between drill holes to 30 metres and enhance the accuracy of the mineral resource. The Lisheen Joint Venture conducted all such drilling over the period from 1993 to 2001. The ore zone was generally marked out in sample lengths of 0.5 to 1.0 metres with some variations to account for breaks due to geological contacts, faults and visual changes in grade. The assay work was performed at either the Lisheen Mine's analytical laboratory or by OMAC Laboratories Ltd. in Galway, Ireland (a member of the Alex Stewart Laboratory group) using atomic absorption ("AA") for samples grading up to 3% zinc and up to 2% lead, and precision AA employing Canadian zinc and lead standards together with a blank for samples of higher grading. Samples from the Lisheen Mine undergo a regular data verification procedure consisting of frequent, random, duplicate sample analysis performed by ACME Laboratories in Vancouver, Canada. Mineral resources and ore reserves in the Lisheen 2001 Update have been prepared and estimated on the basis of a cut-off grade of 6.0% zinc equivalent, which was derived using a zinc price of $0.52 per pound and a lead price of $0.25 per pound. Ore reserves have been estimated based on the current life-of-mine plan for the Lisheen Mine which schedules the extraction of substantially all of the mineral resource over a 14 year life using a combination of room-and-pillar, drift-and-fill and long hole stoping mining methods.

(2) The Lisheen Joint Venture's mineral resources and ore reserves are reported in accordance with the 1999 update of the JORC Code.

*Mining Operations*

The Lisheen Mine commenced ore production in September 1999 and commenced commercial production for reporting purposes on January 1, 2001. The mine reached design production levels in November 2001 and is currently expected to produce approximately 1.5 million tonnes of ore annually. The mine is expected to produce an average of approximately 150,000 tonnes per annum of contained zinc in concentrate and an average of approximately 20,000 tonnes per annum of contained lead in concentrate during the estimated 12 year remaining mine life. Underground mining is conducted utilizing two 10-hour shifts per day, six days per week.

The Lisheen Mine was developed by the Lisheen Partnership, with Kvaerner acting as the prime contractor. For the period from September 1999 to April 2000, approximately 464,000 tonnes of ore was mined by Kvaerner under contract and by the Lisheen Joint Venture, primarily from the Main zone. Since May 2000, mining operations have been carried out by the Lisheen Partnership in the Main and Derryville zones, and approximately 430,000 additional tonnes of ore were mined from May through December 31, 2000. During 2001, approximately 1,234,000 tonnes of ore were mined.

Due to the flat lying nature and high grade of the Lisheen ore body, the current mine plan contemplates that a conventional drift-and-fill mining method will be employed in most areas in order to maximize pillar recovery. In certain sections of the Main and Derryville zones where the ore body is more than 14 metres thick and grades are relatively high, a blasthole stoping method will be used. This method will account for approximately 20% of the ore mined.

Primary access to the Lisheen ore body is by a 1.7 kilometre decline which is six metres by five metres in profile, extends to a depth of 182 metres and is equipped with an ore haulage conveyor. A vertical fresh air shaft extends to a depth of 220 metres. The Lisheen Mine's central underground facilities include a pumping station, workshops, warehouses and a main crusher station. Primary truck haul routes have been established within each of the Main and Derryville zones to minimise haul distances to and from the crusher. Mined ore undergoes primary crushing at the underground crusher station, and is transported by conveyor to a covered surface stockpile.

The Lisheen ore body is located within water bearing structures. The operation incorporates extensive pumping facilities and a dewatering program to control the head and quantity of water in these structures. The pumping facilities and dewatering program were expanded in 2000 in response to higher than predicted inflows. However, the implementation of a water management programme to allow better predictability of the behavior of water sources, and the installation of additional pumping capacity, have resulted in reduced water inflow rates and pressures. The dewatering program is under constant review with appropriate actions being taken in response to ongoing developments.

*Milling Operations*

The Lisheen mill has a capacity of 1.5 million tonnes of ore per annum. The Company estimates that the mill will produce an average of approximately 270,000 tonnes of zinc concentrate and approximately 30,000 tonnes of lead concentrate per annum over the estimated 12 year remaining life of the mine. The mill is designed to recover an estimated 92% of contained zinc and 78% of contained lead from the ore, and is expected to produce zinc concentrate and lead concentrate grading an average of 58% zinc and 64% lead, respectively. During 2002 moderately lower recoveries are planned.

During the 12 months to December 31, 2001, the mill processed approximately 1,146,000 tonnes of ore and produced approximately 195,000 dry tonnes of zinc concentrate and approximately 27,000 dry tonnes of lead concentrate. During 2001, zinc recovery was approximately 83% and zinc concentrates contained an average of approximately 54% zinc, and lead recovery was approximately 71% and lead concentrates contained an average of approximately 63% lead.

Crushed ore is stored on the surface in a covered stockpile and fed continuously into a grinding circuit consisting of a semi-autogenous grinding (SAG) mill, ball mill, and closed circuit cyclones. Finely ground ore is fed into a lead circuit, and then into a zinc circuit. Both circuits use conventional flotation and column flotation technology, thickeners and pressure filters. The zinc circuit also utilizes a regrind step to assist in the production of high-grade concentrates and to maximize metal recovery. An acid leach circuit has been installed with the capacity to treat all zinc concentrate produced in order to ensure low levels of magnesium oxide in the concentrate. Process water is provided from recycled water from the mill and water reclaimed from the tailings management facility ("TMF"). Power for the mill and the mine is supplied by the Irish national utility company (ESB) via a dedicated line from the Thurles substation located 11 kilometres from the Lisheen facility.

Zinc and lead concentrates are trucked to the port of Cork, Ireland, located 135 kilometres from the mine site, and then shipped overseas for smelting and refining into metal. See "– Marketing and Sales".

Tailings from the mill are deposited into the TMF, which is situated adjacent to the mill site. The TMF covers an area of approximately 78 hectares and has been constructed using an impermeable synthetic liner, which is underlain by peat and marl layers of low permeability. To avoid the formation of acid, the tailings are permanently covered with water. Based on the current life-of-mine plan and requirements for backfilling in mining operations, the Company estimates that 7 million tonnes of tailings will be deposited in the TMF. Following a planned increase in capacity to be completed by 2004 at an estimated cost to the Lisheen Joint Venture of approximately $8 million, the TMF will have a capacity of 10 million tonnes which will be adequate to allow for any foreseeable increases in mineral resources or changes to the mine plan.

*Other Facilities*

Other surface facilities include an administration building, employees' changeroom, surface workshops, warehouse, mine rescue building, explosives magazine, electrical substation, laboratory and environmental centre.

*Capital Expenditures*

In 2001, capital expenditures for the Lisheen Mine were approximately $24.0 million. This amount was funded as to 50% by Anglo on behalf of Ivernia West. See "Risk Factors – Lisheen Joint Venture". As a result of additional capital expenditures associated with the delayed commissioning of the Lisheen Mine during 2000 and revisions to its life-of-mine plan, as at December 31, 2000, the Company reduced the carrying value of its interest in the Lisheen Mine by $25.0 million in accordance with Canadian GAAP.

**Magellan Project**

*Overview*

The Magellan Project is situated in the East Murchison Mineral Field in Western Australia, approximately 30 kilometres west of the Wiluna township and 900 kilometres north-east of Perth. The site is accessed from the Wiluna-Meekatharra road. Apart from the presence of pastoralists, the Magellan Project area is uninhabited.

The Magellan Project area can be divided into four main land types consisting of thickly wooded drainages, extensive strike ridges, small isolated mesas and sparsely vegetated flats. The Magellan and Cano area outcrops as a mesa of approximately 5 kilometres by 2.5 kilometres, which is raised above the surrounding alluvial plain by approximately 25 to 50 metres. The climate is semi-arid, with dry periods of up to nine months expected in most years. Droughts have lasted for up to five years. Temperatures vary from very hot in summer to cool during winter. The region can be affected by high intensity summer storms, usually accompanied by widespread heavy rain. Average annual rainfall in the region is 249mm.

The Magellan Project comprises four mining leases (the "Renison Leases") held by Renison Limited ("Renison") expiring in 2020 (the "Renison Properties") as well as two exploration licences (the "Polymetals Properties") held by Polymetals for the benefit of Magellan Metals, expiring in 2002. The Renison Properties and the Polymetals Properties are referred to in this AIF as the "Magellan Properties", and cover an aggregate area of approximately 8,000 hectares. Legal title to the area of the Magellan Project is held by the Crown and leased to a pastoralist. Magellan Metals has been granted all approvals required to date for access to, and the development of, the Magellan Project.

The Magellan deposit was discovered in 1994 by Renison. Pursuant to a farm-in agreement dated January 23, 1997 between Renison and Magellan Metals, Magellan Metals had the right to acquire a 100% interest in the Renison Properties, subject to payment to Renison of certain royalties including a lead ore process royalty for all lead ore extracted by Magellan Metals from the Renison Properties. This royalty varies from A$1.00 per tonne of ore processed at LME lead prices of US$800/tonne or less, to A$1.75 or more at LME lead prices in excess of US$900/tonne. It was agreed that the acquisition by Magellan Metals of a 100% interest was conditional upon Magellan Metals completing a bankable feasibility study for the Magellan Project by January 2002 and committing to develop a mine and plant with a design capacity of not less than 300,000 tonnes of ore per annum. The FFS, which envisions the production of one million tonnes of ore per annum, was completed by Magellan Metals in March 2001. See "— Geology, Ore Reserves and Mineral Resources". In September, 2001 Magellan Metals committed to develop a mine and plant with a capacity of not less than 300,000 tonnes of ore per annum, and thereby secured its rights to a 100% interest in the Magellan Project. Consequently, the Renison Properties will be transferred to Magellan Metals during 2002. Ivernia West is currently considering its options in connection with the financing of such a facility.

Ivernia West, through its wholly-owned subsidiary Ivernia Australian Holdings Limited ("Ivernia AUS"), currently holds 15.7% of the issued and outstanding ordinary shares of Magellan Metals. The remaining 84.3% of the issued and outstanding ordinary shares of Magellan Metals are held by Polymetals. Pursuant to a share sale agreement dated August 25, 2000 (the "Polymetals Agreement"), Ivernia Ireland acquired 90% of the issued and outstanding shares of Polymetals from the Polymetals Shareholders for a purchase price of A$4 million. At the time of this purchase, Ivernia Ireland and the Polymetals Shareholders entered into several put and call option arrangements pursuant to which Ivernia Ireland was entitled to purchase, and could be required to purchase, the remaining 10% of the shares of Polymetals owned by the Polymetals Shareholders. In January 2002, Ivernia Ireland exercised a primary call option to acquire a further 5% of Polymetals for consideration of A$2 million, and gave notice of exercise of a secondary call option whereby it intends to acquire the remaining 5% of Polymetals in 2003 for further consideration of A$2 million. As a result, the Company currently holds a 95.8% direct and indirect equity interest in Magellan Metals, and intends to increase such interest to 100% in 2003.

*Geology, Ore Reserves and Mineral Resources*

The Magellan Project is situated in the south-eastern corner of the Lower Proterozoic Yerrida Basin at the northern end of the Archaean Yilgarn Craton. The basin comprises shelf, margin and basinal sediments of the Juderina Group and overlies granite and greenstone basement including the buried extensions of the Joyner's Find and Wiluna greenstone belts. The Juderina Group is divided into three units: the lowermost Finlayson Member, unconformably overlain by the Maraloou Formation and the uppermost Yelma Formation.

The Magellan Project comprises a high-grade lead deposit hosted in the Yelma Formation. The Yelma Formation is locally preserved in the Magellan Project area as two small outlier mesas at the Magellan and Cortez prospects. The Yelma Formation (approximately 60 metres thick) comprises a basal fining-upwards clastic sequence of quartz sandstone and siltstone (approximately 30 metres thick) that is overlain by a coarsening-upwards, poorly lithified and variably silcretized, solution collapse breccia (approximately 30 metres thick) thought to be of carbonate and evaporite origin. The deposit covers an area of approximately 112 hectares, is relatively flat-lying and is found on or near the surface extending to a maximum depth of approximately 50 metres. Most mineralization is contained within a quartz-clay breccia, which is up to 35 metres thick and contains fragments of silicified carbonate, siltstone, and euhedral and colloform-banded quartz in a white clay-rich matrix. The mineralization consists primarily of lead oxide minerals, mainly cerussite (lead carbonate), with minor occurrences of anglesite (lead sulphate) and pyromorphite (lead chlorophosphate). Minor amounts of pyrite, galena and trace sphalerite occur lower in the stratigraphic sequence.

In March 2002, the Company announced the results of its exploration of the Cano Prospect, which is situated adjacent to the Magellan Project on land forming part of the Magellan Properties. The Cano Prospect occurs within an outlier of middle Proterozoic Yelma Formation sediments (of the Earaheedy Group) that uncomformably overlies siltstone and shale of the Maraloou Formation (part of the Yerrida Group). The Yelma formation in the Magellan and Cano area outcrops as a mesa of approximately 5 kilometres by 2.5 kilometres, which is raised above the surrounding alluvial plain by approximately 25 to 50 metres. The surface of the mesa is strewn with quartz and chert colluvium and scree from the underlying quartz clay breccia. Erosion along the flanks of the mesa has removed the upper units and exposed the shallow dipping clastic sequence.

In early 2000, Magellan Metals commissioned the FFS of the Magellan Project, the results of which were announced in March 2001. The following tables set forth the Company's estimates of the mineral resources (which include ore reserves) and ore reserves of the Magellan Project, including the Cano Prospect, as at December 31, 2001, based upon the FFS and additional studies of the Cano Prospect. The FFS was prepared under the supervision of Trevor Watters, a Magellan Metals employee with 35 years experience in the metal mining industry and a professional metallurgist in Australia.

**Mineral Resources** (1)(2)(3)

| | Tonnage (millions) | Lead (%) |
|---|---|---|
| Measured | 7.64 | 7.67 |
| Indicated | 5.11 | 5.49 |
| Total Measured and Indicated | 12.75 | 6.80 |

**Ore Reserves** (1)(3)

| | Tonnage (millions) | Lead (%) |
|---|---|---|
| Proven | 5.08 | 8.09 |
| Probable | 3.45 | 5.69 |
| Total Proven and Probable | 8.53 | 7.12 |

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(1) The mineral resources and ore reserves for the Magellan Project set out above are based upon a study conducted for Magellan Metals by Snowden Mining Industry Consultants ("Snowden"). Mineral resources and ore reserves and the underlying sampling and analytical data were verified by Mark Noppe (MSc. Resource Geology, MAusIMM) of Snowden. In preparing this study, Snowden reviewed the results of drilling conducted on the property by Renison prior to 1997 and by Magellan Metals since 1997, for a total of over 500 holes and over 12.5 kilometres drilled using percussion, air-core and diamond drilling as the principal drilling methods, which resulted in drill-hole spacing of a nominal 71 metres (offset grid of 100 metres x 50 metres). The majority of these holes were sampled on one-metre intervals. A number of quality assurance measures were employed to enhance the reliability and quality of samples, including sample weight study, collection and storage of field duplicate samples and twin-hole drilling. A total of 8,793 primary drill samples were submitted for lead analysis, the majority of which were analysed by Genalysis Laboratory Services Pty Ltd. ("Genalysis") with the remainder being analysed by Australian Laboratory Services Pty Ltd. ("ALS"), both based in Australia. All samples were initially analysed by Genalysis or ALS using a low-level method of lead analysis, and samples showing higher levels of lead were re-analysed using a stronger multi-acid digest for more precise grade determination. The analytical quality assurance measures employed by Magellan Metals during the FFS included the analysis of field duplicate, field blank, laboratory duplicate and standard samples, check assays on certain samples from Renison's prior drilling programmes and the use of further analytical techniques to check for bias in laboratory results. Mineral resources and ore reserves for the Magellan Project have been estimated based on the FFS, details of which included a varying cut-off grade (3.0% - 4.5% lead), a lead price of $525 per tonne and an operating cost including mining, processing, refining, transport (ex the port of Geraldton), royalties and overhead charges of $329 per tonne of marketable lead product. Ore reserves have been estimated based on the life-of-mine plan as determined in the FFS for the Magellan Project which contemplates the mining of substantially all of the ore reserve over a 9 year mine life using the open pit mining method.

(2) The mineral resources for the Cano Prospect included in the above table are based upon a study by Micromine Pty Ltd. Mineral resources and the underlying sampling and analytical data were verified by Dean O'Keeffe (BSc. Geology MAusIMM). A total of 57 drill holes for 1,711 metres were drilled at the Cano Prospect during 2000 and 2001 at a spacing of approximately 80 metres. The majority of these holes were sampled on one-metre intervals. The samples were analysed by Genalysis using flame atomic absorption spectrometry.

(3) The Magellan Project's mineral resources and ore reserves are reported in accordance with the 1999 update of the JORC Code.

*Mining and Milling Potential*

The Magellan Project has access to existing infrastructure by virtue of numerous precious and base metal mines and mineral prospects located nearby. Accommodation, meals and fuel are available in Wiluna, as are medical, police and school services. The Goldfields Gas Pipeline passes some 40km east of Wiluna and a spur to service the Magellan Project is planned. Mining personnel are expect to be sourced from the surrounding communities, however given the relatively small number of inhabitants within daily commuting distance to the operation, mine personnel will be sourced from as far away as Perth working on an in-out rotation basis with accommodations provided at the project's camp facilities. An extensive water exploration programme has defined sufficient water resources for the life of the operation. Two water production bore holes have been established and it is planned to establish another five bore holes.

The mine plan developed in connection with the FFS contemplates that approximately one million tonnes per annum of oxidized lead ore will be extracted via an open pit during an approximate nine-year mine life. Ore is expected to be processed on-site through a process of conventional milling and flotation concentration. The FFS currently estimates that lead recoveries will vary from 77% to 88% to produce a concentrate grading from 67% to 75% lead. The Company expects that lead concentrate will undergo on-site batch refining to produce approximately 55,000 tonnes per annum of marketable soft lead metal.

Locations for waste rock, tailings, the mill and refinery are all located within an approximate two kilometre radius of the proposed open pit. The camp facilities are located approximately three kilometres from the industrial site. These facilities are all located to minimize their exposure to any potential dust arising from the open pit.

*Capital/Development Expenditures*

In 2001, development expenditures incurred by the Company in connection with the Magellan Project were approximately $788,000.

The FFS estimates that the capital cost required to develop the Magellan Project to the commissioning stage will be approximately $26 million. These capital costs are lower than they might otherwise have been as a result of the current availability of redundant processing and infrastructure equipment available in Western Australia and overseas.

The Company is currently reviewing the FFS to take account of the increased mineral resources from the Cano Prospect and the potential for an increased annual production rate and extended mine life.

**Exploration**

*Overview*

The Company believes that significant exploration potential exists in (i) areas covered by prospecting licences held by the Lisheen Joint Venture along the Rathdowney Trend in Ireland on which the Lisheen Mine is located, (ii) exploration properties in Ireland held by Ivernia West both in joint venture with Rio Algom Exploration Inc., a subsidiary of Rio Algom Limited ("Rio Algom"), and on its own account, (iii) the Magellan Project in Australia, and (iv) its exploration properties in Australia and the USA.

Ivernia West's exploration strategy is to focus on establishing additional ore reserves and mineral resources on the Lisheen property, as well as identifying zinc, lead and associated base metal deposits in Europe, Australia and USA. In 2001, exploration expenditures by Ivernia West were $323,000.

*Ireland*

The Lisheen Joint Venture is engaged in exploration for additional base metal deposits in the Lisheen Mining Lease area and the areas covered by its prospecting licences in the Rathdowney Trend, which hosts the Lisheen and Galmoy deposits. To date, exploration within the Lisheen Mining Lease area has focused on the potential to extend the Main zone to the north and east and the Derryville zone to the north-west.

The Lisheen Joint Venture currently holds 16 prospecting licences on the Rathdowney Trend, each of which covers an area of approximately 2,500 hectares. The licences are divided into two blocks: Rathdowney Trend South ("RTS"), which includes six licences covering the Lisheen ore body and three licences covering an area known as the "Littleton block"; and Rathdowney Trend North ("RTN"), which includes seven licences. The Littleton block is held in a joint venture between the Lisheen Joint Venture and Central Mining Finance Limited. Under the terms of the Lisheen Joint Venture Agreements, exploration in RTS is managed by Anglo Exploration Ireland Limited, a subsidiary of Anglo American, and exploration in RTN is managed by Ivernia West.

In July 1995, Ivernia West entered into a joint venture agreement with Rio Algom pursuant to which Rio Algom has the right to earn up to a 70% joint venture interest in 33 prospecting licences in the Irish midlands (the "Ivernia/Rio Algom Joint Venture") by spending $5.5 million on exploration work over a seven year period. By September 1998, Rio Algom had secured a 50% interest in the licences by spending $3.0 million on exploration work. At that time, Ivernia West decided not to participate in the next phase of exploration expenditures, and Rio Algom elected to increase its interest in the licences to 70% by spending a further $2.5 million over a four year period. In April 2002, Ivernia West agreed to accelerate the vesting of Rio Algom's 70% interest upon Rio Algom paying $125,000 to Ivernia West in lieu of making the remaining required exploration expenditures to earn such interest, which were approximately $470,000.

Exploration activities in Ireland were curtailed during 2001 initially as a result of restrictions imposed on travel and field related activities due to precautionary measures related to foot-and-mouth disease in livestock, and subsequently as a result of the fall in zinc prices leading to a decision to reduce exploration expenditures to minimum levels. Ivernia West's exploration expenditures in Ireland in 2001 were approximately $102,000.

*Australia*

Ivernia West curtailed its exploration activity in Australia during 2001 other than in respect of the Magellan Project and surrounding area. Ivernia West also terminated its negotiations with Polymetals Australia Pty Ltd. in respect of Ivernia West's proposed acquisition of an interest in the Woodcutters Project in the Northern Territory of Australia.

*United States*

Kuttawa Mineral Company, a wholly-owned subsidiary of the Company, holds leases on approximately 9,000 acres in the western part of the State of Kentucky, USA in an area that the Company considers to have potential for the discovery of zinc deposits. Ivernia West's exploration expenditures in 2001 relating to these leases were approximately $221,000.

**Employees**

As at December 31, 2001, 283 persons were directly employed by the Lisheen Joint Venture at the Lisheen Mine. The Company currently has 2 employees working full time at the Magellan Project. In addition, Ivernia West employs a total of 6 persons in its Limerick and Toronto corporate offices.

The Lisheen Partnership and Lisheen Milling, on behalf of the Lisheen Mine, have entered into a collective agreement dated June 30, 1999 with the Services Industrial Professional & Technical Union and a collective agreement dated June 16, 1999 with the Technical, Engineering & Electrical Union, in respect of certain employees of the Lisheen Mine. Both agreements will remain in force until new agreements are reached. Wage levels were agreed for the period up to September 30, 2000 at which time such wages were subject to agreed review procedures. New wage levels were agreed during October 2000 for the period up to September 30, 2001, and subsequent increases have been paid in line with the Irish National Programme for Prosperity and Fairness Agreement ("PPF Agreement") an Irish Government and Union industry agreement. The current phase of the PPF Agreement runs until October 2002 and the final phase will run until October 2003.

**Marketing and Sales**

Pursuant to the Lisheen Joint Venture Agreements, each of Ivernia Finance and Anglo Finance has the right to order and direct the marketing of its share (currently 50%) of zinc concentrate and lead concentrate produced by Lisheen Milling. The Lisheen Joint Venture participants, however, have agreed a joint strategy for the marketing and sale by Lisheen Milling of all concentrates. Killoran Concentrates Limited, a company incorporated in Ireland and in which Ivernia Finance and Anglo Finance each has a 50% interest, has been established to market and sell concentrates produced by Lisheen Milling.

Lisheen Milling is currently party to concentrate sales agreements which provide for the sale of an aggregate amount of zinc and lead concentrates representing over 90% of the estimated annual production by the Lisheen Mine through to December 31, 2003. The prices payable under the existing concentrate sales agreements are generally based on the daily London Metal Exchange ("LME") settlement quotation for special high grade zinc and for lead, less refining charges and any applicable penalties.

Lisheen Milling's net revenues from sales of concentrates to arm's length purchasers were US$45.9 million in 2001.

**Regulatory Matters**

*Ireland*

*Mining Regulation*

Ownership of, prospecting for and mining of minerals in Ireland is regulated by a range of statutory and constitutional provisions including the *Irish Constitution*, the *Land Acts* and the *Minerals Development Acts 1940 to 1995* (the "Minerals Development Acts"). Generally, minerals in Ireland are owned by the State but in some instances are in private ownership.

Prospecting licences are granted by the Minister for the Marine and Natural Resources pursuant to the Minerals Development Acts with such conditions attached as are deemed appropriate. The initial term of a prospecting licence tends to be two years, however, the term of a prospecting licence may be extended by the Minister. Prospecting licences can be assigned or transferred only with the consent of the Minister. A prospecting licence must be obtained prior to commencement of exploration for minerals, although an owner of land may prospect for minerals on his own land. A prospecting licence does not entitle the licensee to enter on land and, accordingly, rights of access must be negotiated by the licensee with the individual land owner.

A mining lease or a mining licence is necessary in order to extract minerals. It is usual for a prospecting licensee to obtain an undertaking from the State that if prospecting is successful and the terms of the prospecting licence have been observed that a mining lease or a mining licence will be granted in due course. There is no statutory entitlement to such an undertaking. A mining lease is granted where the relevant minerals are State-owned and a mining licence is granted where the minerals are, or may be, privately owned. The terms of a mining lease or mining licence normally include substantial obligations on the lessee/licensee, including obligations to pay "dead rent" and a mining royalty, to provide information to the State, and obligations concerning the operating and working of the minerals and the re-instatement of lands. Mining royalties tend to be payable at progressive rates.

Under the Lisheen Mining Lease, the Lisheen Joint Venture is currently required to pay to the Minister for the Marine and Natural Resources "dead rent" of IR£300,000 ($383,000) annually until the minerals are worked out, and thereafter IR£20,000 ($24,000) per annum to the end of the lease. The mining royalties payable under the Lisheen Mining Lease are 1.75% of revenues per annum (net of smelter, refining and transportation costs and excise duties) for the first three years of production, 3% per annum for the fourth and fifth years of production and 4.50% per annum for the sixth year of production and every subsequent year thereafter until the minerals are worked out. The dead rent paid is offset against the mining royalties payable in the same period.

The grant of a mining lease or licence does not confer on the lessee or licensee a right to enter on any lands for the purpose of the work nor does it relieve the holder from compliance with planning and environmental laws.

*Environmental and Planning*

The *Local Government (Planning and Development) Acts 1963 to 1992* govern all aspects of development, both over and under land in Ireland. Applications for approval of a proposed development are required to be made to the Planning Authority for the area in which development is to take place. The Planning Authority may grant a planning permission with such conditions as it deems appropriate, or refuse the application. Interested third parties are entitled to object to any planning application. There is an appeals procedure in respect of any decisions of the Planning Authority, which is available to the applicant as well as to any interested third parties. Planning permission was granted in respect of the Lisheen Mine in 1997 (the "Lisheen Planning Permission") and in respect of the port facilities in Cork in 1998.

The *Environmental Agency Act 1992* obliges companies or persons engaged in mining activities to obtain an integrated pollution control licence ("IPCL"), except in certain exceptional circumstances. An IPCL generally provides for the nature and level of emissions permissible and the periods during which they may be made and usually also contains financial conditions. An IPCL is reviewed every three years or sooner if there has been any material change in the nature or extent of the emissions. Control is exercised by local authorities, which maintain a register of applicable licences and conditions, that is available for public inspection.

An IPCL has been issued in connection with the Lisheen Mine (the "Lisheen IPCL") by the Environmental Protection Agency. As part of the process of obtaining the Lisheen IPCL, an environmental impact study was prepared for the Lisheen Mine (the "Lisheen EIS"). Both the Lisheen EIS and the Lisheen IPCL include a closure plan which extends beyond the anticipated life of the Lisheen Mine to ensure that the mine and associated facilities will be appropriately rehabilitated. Under the closure plan, the mill, related facilities and the TMF will also be rehabilitated. Each of Ivernia West and Anglo has provided a bond to cover costs associated with the implementation of the closure plan, as required by the local planning authorities and the Minister for the Marine and Natural Resources as a condition for the granting of planning permission and/or the Lisheen Mining Lease. In addition, compensation bonds have been provided by such parties under the Lisheen Mining Lease and under the Lisheen IPCL to cover environmental monitoring requirements subsequent to mine closure and, as required, under the terms of agreements providing for electricity supply and mine dewatering.

Monitoring and control of air, noise, vibration, soil/vegetation and water are conducted by a dedicated environmental health and safety department situated on the Lisheen Mine site to ensure compliance with the terms and conditions of the Lisheen IPCL and the Lisheen Planning Permission. In 2001, the cost to Ivernia West of conducting such monitoring and control programs did not significantly impact its earnings. The Company does not expect the cost of such programs to increase appreciably over the life of the mine.

The Lisheen Mine facilities have been constructed on a greenfield site with no existing environmental liabilities. The Company believes that the Lisheen Mine is in material compliance with its environmental obligations, including obligations under the Lisheen IPCL and the Lisheen Planning Permission.

*Health and Safety*

Operators of mines in Ireland are required to comply with obligations imposed by all safety and health regulations and, in particular, with obligations imposed by the *Safety Health and Welfare at Work (Extractive Industries) Regulations 1997*. These regulations specify different requirements in respect of underground and surface extractive industries. The Company believes that the Lisheen Mine is in material compliance with statutory health and safety obligations.

*Mining Taxation*

The Company’s subsidiaries incorporated in Ireland are subject to taxation under Irish law. Historically, Irish tax legislation has contained provisions dealing specifically with the mining industry and, although normal tax principles have applied, mining activities have been entitled to enhanced tax allowances for capital expenditure.

Companies involved in the mining industry sector are entitled to the usual corporation tax deductions and allowances and, in addition, are entitled to the following:

- 100% allowances for capital expenditure on exploration and mine development, including exploration expenditure incurred before the commencement of trade;
- an investment allowance of 20% on exploration expenditure and expenditure on plant and machinery;
- a tax deduction for the cost of acquisition of a deposit or mineral asset over the life of the mine (up to 20 years); and
- allowances for the cost of, or profits set aside for the purposes of, the rehabilitation of a mine.

Profits from the exploitation of minerals are subject to tax at a 30% corporation tax rate.

*Australia*

*Mining Regulation*

Mining in Australia is regulated by the *Mining Act 1978* (the "Mining Act"). There are various mining tenements available under the Mining Act, including exploration licences, mining leases and miscellaneous licences. All mining tenements issued under the Mining Act are subject to conditions and/or endorsements. The Mining Act and regulations made thereunder automatically apply certain other covenants and conditions to mining tenements, depending on the type of tenement held. Breach of any of the terms and conditions in respect of a particular tenement renders the tenement liable to forfeiture, either at the instigation of the applicable government department or as a result of an application for forfeiture by a third party.

Exploration licences and mining leases are subject to a prescribed minimum annual expenditure commitment. This requirement applies to granted tenements only and the labour cost of the tenement holders' own work on the tenement may be treated as expenditure. If a licensee/lessee cannot fulfil the expenditure obligations, it may apply for exemption from all or part of the commitment. The term of an exploration licence is five years, which may be extended by the Minister of Mines in certain circumstances. At the end of both the third and fourth year of its term, the licensee is required to surrender 50% of lands covered by the licence.

Magellan Metals must pay to the Western Australian Government rental and prescribed royalties in respect of the Magellan Properties and adjacent properties. The annual rent is approximately A$31,000, while the current prescribed rate of royalty for lead metal is 2.5% of realized value.

*Environmental and Safety Regulations*

Operators of mines are obliged to comply with Australian mining safety laws. In addition, Australian national standards and codes of practice control the use of inorganic lead. A consultative environmental review and the Application for Work Approval prepared in connection with the Magellan Project have incorporated such safety laws, national standards and codes of practice as part of the proposed standards for carrying out work on the project.

*Native Title*

*The Native Title Act 1993* (the "Native Title Act"*)* gives native title claimants a right to negotiate with applicants before the granting of a tenement and provides for the entering into of agreements between native title claimants, the tenement holder and applicable governmental bodies.

A land use agreement was signed between Magellan Metals, Renison and certain native title claimants on December 16, 1998 which covers the Renison Leases (the "Land Use Agreement") and a heritage agreement was signed between Magellan Metals, Renison and certain other native title claimants on September 25, 1998 which also covers the Renison Leases (the "Heritage Agreement"). Following the entering into of these agreements, the Renison Leases were granted on May 5, 1999.

Under the Land Use Agreement, Magellan Metals must pay compensation to native title claimants. The compensation payable under the Land Use Agreement equals 10% of the annual rental payable to the Western Australian Government under the Renison Leases and any other tenement granted under the Mining Act which is at least partly within the claimed area. The compensation payable under the Land Use Agreement changes upon commencement of mining operations to A$0.08 ($0.05) per tonne of ore removed for treatment and processing to extract minerals. The Heritage Agreement provides for similar rates of compensation payable to the applicable native title claimants under such agreement.

The Native Title Act imposes an obligation to pay compensation to persons found to be native title holders in the future, notwithstanding the entering into of land use agreements or heritage agreements. However, any such future claims will not affect the validity of tenements granted in accordance with the procedures established under the Native Title Act.

Certain of the Magellan Properties are affected by a further registered native title claim under the Native Title Act. Accordingly, it is possible that additional native title compensation could be payable pursuant to the Mining Act.

**Zinc and Lead Markets**

*Overview*

Zinc and lead metal concentrates are internationally traded commodities. Historically, the prices of zinc and lead metals and their concentrates have been volatile, affected by international economic and political conditions, levels of supply and demand, availability and cost of metal substitutes, LME, producer and other inventory levels, inventory carrying costs and international exchange rates.

*Zinc Production and Consumption*

The major use of zinc is in galvanizing steel to prevent corrosion. Galvanized steel is used extensively in the automobile and construction industries. Other applications of zinc include its use in brass and the production of diecasting alloys used in the precision manufacturing industry.

In 2001, world zinc production increased by approximately 3% over 2000. These supply increases, coupled with a marginal decrease of approximately 1% in Western World consumption, resulted in a net increase in world zinc metal inventories in 2001. These factors led to zinc prices falling to unprecedented levels in real US dollar terms during the second half of 2001.

As of early 2002, uncertainty exists surrounding near-term global economic growth and industrial production. Until signs of an increase in global economic growth and industrial production are evident, it is not expected that global consumption of zinc will increase substantially. In the meantime, net zinc production is expected to continue to increase with the start-up during 2001 of the large Antamina mine in Peru outweighing reductions in production from mine closures. These factors are expected to result in a further increase in zinc metal inventories during 2002.

Based on published industry statistics, the Company believes that, now that it has reached design production levels, the Lisheen Mine will be a competitive producer of zinc concentrates.

*Lead Production and Consumption*

Lead is used primarily in the manufacturing of automotive batteries as well as in a number of industrial and chemical products. Unlike zinc, secondary recoveries are an important source of lead.

During 2001, world lead metal production decreased by approximately 1.5% over that of 2000 However, a decline in world consumption of approximately 2% resulted in a market that was essentially in balance. These factors resulted in an average lead price in 2001 that was at similar levels to 2000 and 1999.

Until signs of an increase in global economic growth and industrial production are evident, it is not expected that the consumption of lead will increase substantially. However, the supply of lead has also remained essentially flat. These factors are expected to result in a slightly larger deficit in the lead market during 2002.

*Historical Prices for Zinc and Lead Metals*

The following table sets forth the average zinc and lead prices for the periods indicated:

| | Zinc (1) (¢ /lb) | Lead (2) (¢ /lb) |
|---|---|---|
| 1997 | 60 | 28 |
| 1998 | 46 | 24 |
| 1999 | 49 | 23 |
| 2000 | 51 | 21 |
| 2001 | 40 | 22 |

(1) Average daily LME settlement price for special high-grade zinc for the period indicated.
(2) Average daily LME settlement price for lead for the period indicated.

**Risk Factors**

The business of Ivernia West is subject to a variety of risks including those described below. Ivernia West is also subject to the risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report for the year ended December 31, 2001 (the "2001 Annual Report").

*Mining Risks*

The mining operations of Ivernia West are subject to risks normally encountered in the mining business. Such risks include environmental hazards, industrial accidents, labour disputes, unusual or unexpected geological formations or pressures, rock bursts, cave-ins, flooding and periodic interruptions due to inclement or hazardous weather conditions. Such risks could result in damage to or destruction of mineral properties or production facilities, personal injury, environmental damage, delays in mining, monetary losses and possible legal liability.

*Insurance*

Although Ivernia West maintains insurance within ranges of coverage consistent with industry practice, no assurance can be given that such insurance will continue to be available at economically feasible premiums. To the extent that Ivernia West is subject to certain environmental or other liabilities for which it is not insured, the payment of such liabilities would reduce the funds available to Ivernia West. If Ivernia West is unable to fund fully the cost of remedying an environmental problem, Ivernia West might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy.

*Nature of Mineral Exploration and Development*

The exploration for and development of mineral properties includes significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore deposit may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. It is impossible to ensure that the current exploration and development programs of Ivernia West will result in profitable commercial mining operations.

Whether a mineral deposit will be commercially viable depends on a number of factors, including the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices which are highly cyclical and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but a combination of these factors may result in Ivernia West not receiving an adequate return on invested capital.

*Metal Price Volatility*

All of Ivernia West's future operating revenues will be derived from the sale of zinc and lead concentrates and lead metal, and accordingly, the Company's earnings will be directly related to the prices of these metals. Zinc and lead prices have fluctuated, and are affected by numerous factors beyond Ivernia West's control. The effects of these factors are impossible for Ivernia West to predict. If the market prices for zinc and lead fall below Ivernia West's total cash costs and remain at such levels for a sustained period, Ivernia West may, if it is not appropriately hedged, incur losses and may determine to discontinue mining operations.

*Joint Venture Arrangements*

Substantially all of Ivernia West's interests in mining, development and exploration projects are held through joint ventures with other mining companies. Any failure on the part of such other companies to meet their obligations to Ivernia West or to third parties could have a material adverse effect on such projects. In addition, Ivernia West may be unable to exert influence over certain strategic decisions and/or fundamental changes made in respect of certain projects.

*Lisheen Joint Venture*

Pursuant to the Lisheen Joint Venture Agreements, each of Ivernia West and Anglo is responsible for funding its pro rata share of all capital expenditure and operating budgets approved by the Management Committee. Failure to provide such funding may result in dilution on a non-punitive basis if at such time the Management Committee has determined that the Lisheen Mine is in "Commercial Production", as defined in the Lisheen Joint Venture Agreements, and may also result in other penalties (including, during the default period and following service of notice, loss of voting entitlement at the Management Committee and loss of the right to order and direct the marketing of its share of zinc and lead concentrates produced). Of such funding failures, a failure to fund specified cost overruns in capital expenditures required for the Lisheen Mine shall not result in dilution. In the event that any such dilution were to result in the participating interest of Ivernia West falling below 40%, Ivernia West would lose the ability to significantly influence the management of the Lisheen Mine.

Ivernia West currently expects that its 50% share of any funding requirements in relation to the Lisheen Mine in 2002 which are not funded by project cash flow will be funded by Anglo under the terms of a funding agreement entered into with Anglo in November 2000 and amended effective March 2001 (the "Funding Agreement"). Pursuant to the terms of the Funding Agreement, Anglo has agreed that it will make such contributions until further notice. In the event that Anglo delivers such notice and Ivernia West does not make such contributions itself, Ivernia West may be subject to applicable penalty provisions under the Lisheen Joint Venture Agreements as described above. Anglo has served no such notice nor has it indicated any specific intention to do so.

A breach by Ivernia West, Anglo or any of their affiliates of the terms of the Lisheen Joint Venture Agreements and, in some instances, the terms of the Project Loan Agreement and related agreements may give rise to a mandatory sale of such defaulting party's participating interest to the remaining participants, or dilution of the defaulting party's participating interest.

*Competition for Properties*

Ivernia West is continually seeking to replace and expand its ore reserves. Ivernia West encounters strong competition from other mining companies in connection with the acquisition of properties producing or capable of producing zinc, lead or other minerals. As a result of this competition, Ivernia West may be unable to acquire attractive mining properties on terms it considers acceptable. In addition, there are a number of uncertainties inherent in any program relating to the location of ore reserves, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and mineral processing facilities. Accordingly, there can be no assurance that Ivernia West's programs will yield new ore reserves to replace and expand current reserves.

*Mineral Resources and Ore Reserves*

The mineral resources and ore reserves presented in this AIF represent estimates made by the Company. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of zinc and lead recovery will be realized. Metal price fluctuations, as well as increased production costs or reduced recovery rates, may render ore reserves containing relatively lower grades uneconomic and may ultimately result in a restatement of such ore reserves. Moreover, short-term operating factors relating to ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore types or grades, may cause a mining operation to be unprofitable in any particular accounting period. No assurance can be given that the current production schedules or estimated costs of production for the Lisheen Mine will be realized.

*Financing*

Ivernia West has not obtained any specific facilities to finance capital expenditures which may be required to develop the Magellan Project. In the event that Ivernia West is unable to obtain debt or equity financing from third parties on acceptable terms to finance these capital expenditures, then the implementation of the Magellan Project may be delayed until such financing is secured. In addition, the Project Loan Agreement and the Standby Facility impose certain restrictions on the ability of Ivernia West to obtain additional debt financing.

*Exchange Rates*

Substantially all of the revenues and debt of the Lisheen Joint Venture and Ivernia West are denominated in US dollars, whereas a significant portion of the operating costs relating to operations in Ireland are denominated in Euros. Fluctuations in the Euro/dollar exchange rate significantly impact the earnings and cash flows of the Lisheen Joint Venture and Ivernia West.

*Government Regulation*

Ivernia West's activities are subject to extensive laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment and upon interests of native and/or indigenous peoples. Permits from a variety of regulatory authorities are required for many aspects of mine operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of Ivernia West's properties, the extent of which cannot be predicted. In the context of environmental permitting, including the approval of reclamation plans, Ivernia West must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. While it is possible that the costs and delays associated with compliance with such laws, regulations and permits could become such that Ivernia West will not proceed with the development or operation of a mine, Ivernia West is not aware of any material environmental constraint affecting its existing mining or development properties that would preclude the economic development or operation of any specific mine or property.

*Certain Environmental Risks*

All phases of Ivernia West's operations, particularly its mining and processing operations, are subject to extensive government regulations relating to the protection of the environment, including those relating to air and water quality, solid and hazardous waste handling and disposal and mine reclamation and closure. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments on proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect Ivernia West's operations.

*Forward-Looking Statements*

The forward-looking statements made in this AIF are based on assumptions and judgements of management regarding future events and results. These assumptions and judgements may prove to be inaccurate as a result of a number of factors, many of which are beyond the control of Ivernia West, and Ivernia West's actual results may differ materially from the results contemplated in such forward-looking statements. The principal factors that may negatively impact the accuracy of these statements are discussed above.

**Determination of Mineral Resources and Ore Reserves**

The estimates of measured, indicated and inferred mineral resources and proved and probable ore reserves in relation to the Lisheen Mine and the Magellan Project set out in this AIF have been prepared internally by the Lisheen Joint Venture and externally by Snowden, respectively, with assistance from numerous external sources. All such estimates are based upon technical reports or other information prepared by or under the supervision of one or more "qualified persons", as such term is defined in National Instrument 43-101 published by the Canadian Securities Administrators ("NI 43-101").

Ivernia West's mineral resources and ore reserves are reported in accordance with the 1999 update of the JORC Code. The qualified persons named above in respect of the Lisheen Mine and the Magellan Project are of the view that the definitions of measured, indicated and inferred mineral resources and proved and probable ore reserves set out in the JORC Code correspond, and are substantially similar to, the definitions of measured, indicated and inferred mineral resources and proven and probable mineral reserves in NI 43-101, respectively.

Although the Company believes that the estimates of mineral resources and ore reserves set out in this AIF have been carefully prepared and that the methods of estimating these are reliable, no assurance can be given that the stated mineral resources and ore reserves are present in the quantities stated, or that metals will be produced in the quantities expected. Only ore reserves have demonstrated technical and economic viability. Mineral resources, ore reserves and metal production will be affected by a number of factors including the following:

- unforeseen geological variations which may render portions of the estimated ore reserves unmineable;
- metal price fluctuations may render ore reserves containing relatively lower grades uneconomic;
- changes to the relevant life-of-mine plan, including the mining method;
- short-term operating factors such as the need to develop ore bodies in an orderly manner or the processing of different grades;
- changes in laws and regulations relating to mining activities, including environmental laws and regulations, may render certain ore reserves uneconomic; and
- political and other factors.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

**Annual Information**

The following table sets out selected consolidated financial information for the Company for its three most recently completed fiscal years. The following selected financial information should be read in conjunction with the Company's audited consolidated financial statements, including the notes thereto and the auditors' report thereon, contained in the Company's 2001 Annual Report.

| | 12 months ended December 31, 2001 | 2000 | 1999 |
|---|---|---|---|
| | (thousands of US dollars, except per share data) | | |
| Total net revenues | $12,981 | - | - |
| Net income (loss) | ($15,454) | ($30,682) | ($1,296) |
| Cash and cash equivalents | $630 | $10,096 | $14,927 |
| Total assets | $110,373 | $157,762 | $155,678 |
| Working capital | ($13,640) | ($9,418) | $9,283 |
| Long term debt | $68,884 | $89,117 | $82,782 |
| Shareholders' equity | $26,802 | $42,256 | $63,100 |
| **Per Share Data: (1)** | | | |
| Net income (loss): | | | |
| Basic | ($0.13) | ($0.28) | ($0.01) |
| Fully diluted | ($0.13) | ($0.27) | ($0.01) |

(1) Per share data was calculated on the basis of the weighted average shares outstanding (basic and fully diluted) for the relevant fiscal year.

## Quarterly/Semi-Annual Information

The following table sets out selected unaudited consolidated financial information for the Company for the three month periods ended March 31, June 30, September 30 and December 31, 2001, September 30 and December 31, 2000 and the six month period ended June 30, 2000. Prior to the Reorganization, Ivernia Ireland reported its results on a semi-annual basis.

| | 3 months ended | | | | | | 6 months ended |
|---|---|---|---|---|---|---|---|
| | Dec. 31, 2001 | Sept. 30, 2001 | June 30, 2001 | Mar. 31, 2001 | Dec. 31, 2000 | Sept. 30, 2000 | June 30, 2000 |
| | (thousands of US dollars, except per share data) | | | | | | |
| Total revenues | - | - | $6,725 | $6,256 | - | - | - |
| Net income (loss) | $3,779 | ($7,683) | ($5,910) | ($5,640) | ($26,752) | ($659) | ($3,271) |
| **Per Share Data: (1)** | | | | | | | |
| Net income (loss): | | | | | | | |
| Basic | $0.03 | ($0.07) | ($0.05) | ($0.05) | ($0.23) | ($0.01) | ($0.03) |
| Fully diluted | $0.03 | ($0.07) | ($0.05) | ($0.05) | ($0.22) | ($0.01) | ($0.03) |

(1) Per share data was calculated on the basis of the weighted average shares outstanding (basic and fully diluted) for the relevant period.

## Dividend Policy

The Company did not pay dividends on the Common Shares during its last three completed financial years, and does not intend to pay dividends on the Common Shares during fiscal 2002. Any decision to pay dividends on the Common Shares after December 31, 2002 will be made by the board of directors of the Company on the basis of cash flow, earnings, financial position and financing requirements of the Company and other relevant factors. Under the Standby Facility, Ivernia Ireland is restricted from paying dividends to the Company under certain circumstances, including where certain financial requirements have not been satisfied.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2001 Annual Report is incorporated herein by reference. See also "Selected Consolidated Financial Information – Quarterly/Semi-Annual Information".

## AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company's audited consolidated financial statements for the year ended December 31, 2001, as reproduced from the Company's 2001 Annual Report, are set out in Schedule "A" contained in this AIF.

## MARKETS FOR SECURITIES

The Company's common shares are listed and posted for trading on The Toronto Stock Exchange under the symbol "IVW". The listing of the Common Shares on the Exploration Securities Market of the Irish Stock Exchange was cancelled in January 2002 at the Company's request.

## DIRECTORS AND OFFICERS

Set out below are the names, places of residence, offices within the Company and principal occupations of the directors and executive officers of the Company, together with their periods of service as directors, if applicable. Each director holds office until the next annual meeting of shareholders of the Company or until his successor is appointed.

| Name and Municipality of Residence | Office | Principal Occupation | Director Since |
|---|---|---|---|
| J. Trevor Eyton<br>Toronto, Ontario | Chairman and Director (2)(3) | Member of the Senate of Canada and Company Director | 2000(4) |
| David Hough<br>County Clare, Ireland | Director and President and Chief Executive Officer | Officer of the Company | 1988(4) |
| David Armstrong<br>Toronto, Ontario | Director (1)(3) | Partner, McCarthy Tétrault LLP (Law firm) | 2000 |
| Walter Murray<br>Toronto, Ontario | Director (1)(2) | Vice-Chairman,<br>RBC Capital Markets Inc.<br>(Investment banking firm) | 2000 |
| Kenneth Sangster<br>Bristol, England | Vice-President and Chief Operating Officer | Officer of the Company | - |
| Alan De'ath<br>Oakville, Ontario | Vice-President, Chief Financial Officer and Secretary | Officer of the Company | - |
| Brendan McMorrow<br>County Limerick, Ireland | Treasurer | Officer of the Company | - |

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Corporate Governance Committee.
(4) Includes time served as a director of Ivernia Ireland prior to the Reorganization.

During the past five years each of the foregoing directors and executive officers has been engaged in the principal occupation shown opposite his name or in another position with the same or an affiliated company, except as follows: Kenneth Sangster was the Senior Vice-President of TVX Gold Inc., a Canadian mining company, prior to March 1999. He was appointed technical director of Ivernia Ireland in May 1999; Alan De'ath held a number of senior financial and commercial positions with the Rio Tinto mining group in Europe and southern Africa prior to August 1997. In September 1997, he was appointed Chief Financial Officer of TVX Gold Inc., a position he held until August 1999. He acted as a consultant to Ivernia Ireland from October 1999 to January 2000, when he was appointed an executive director of Ivernia Ireland; Walter Murray served as Senior Vice-President of the Royal Bank of Canada, a Canadian chartered bank, prior to February 2000, when he assumed his current position with RBC Capital Markets Inc.

To the best knowledge of the Company, an aggregate of 1,097,601 Common Shares are beneficially owned, directly or indirectly, by the directors and executive officers of the Company as a group, representing approximately 0.8% of the total issued and outstanding Common Shares.

## ADDITIONAL INFORMATION

The Company's Management Information Circular dated April 26, 2002 contains additional information concerning the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and options to purchase securities. Additional financial information is provided in the Company's audited consolidated financial statements for the year ended December 31, 2001 contained in the Company's 2001 Annual Report.

Upon request made to the Secretary of the Company at Scotia Plaza, 40 King Street West, Suite 3510, P.O. Box 508, Toronto, Ontario, M5H 3Y2, Canada, the Company will provide any person with a copy of:

(a) this AIF, together with the pertinent pages of any document incorporated by reference herein;

(b) the Company's audited consolidated financial statements for the year ended December 31, 2001, and any unaudited interim consolidated financial statements filed by the Company subsequent to December 31, 2001;

(c) the Company's Management Information Circular dated April 26, 2002; and

(d) if the Company becomes qualified to file a short form prospectus for the distribution of any of its securities, any other documents that are incorporated by reference into a preliminary short form prospectus or a short form prospectus filed in respect of a distribution of securities of the Company.

A copy of any of these documents may be obtained without charge at any time when any securities of the Company are in the course of a distribution pursuant to a preliminary short form prospectus or a short form prospectus. At any other time, any document referred to in (a), (b) or (c) above may be obtained by security holders of the Company without charge and by any other person upon payment of a reasonable charge.

## TECHNICAL GLOSSARY

**assay:** the result of chemical testing of rock samples to determine the mineral or metal content.

**backfilling:** the use of tailings and/or waste rock material to fill the void underground created by mining an ore body, to provide structural support.

**ball mill:** a steel cylinder partly filled with steel balls into which crushed ore is fed; the steel cylinder is rotated, causing the balls to cascade and grind the ore.

**blasthole stoping:** a method of underground mining involving drilling long blastholes and then blasting the rock in slices which fall to an open space. The broken rock is extracted and the chamber may be supported with backfill material.

**breccia:** a rock type made up of angular fragments of rock usually held together by mineral cement such as calcium carbonate or silica.

**capacity:** the design number of units which can be produced in a given time period based on operations with a normal number of shifts and maintenance interruptions.

**colloform:** mineral texture that is finely-banded and kidney-like in shape.

**concentrate:** a metal-rich product resulting from a mineral separation process such as flotation, from which most of the waste material in the ore has been separated.

**cut-off grade:** the lowest grade of mineralization, based on economic factors, which is planned to be mined and processed.

**decline:** an inclined underground tunnel which provides access from the surface and/or a connection between levels of a mine.

**dilution:** the waste which is unavoidably included with ore in the mining process.

**drift:** a horizontal or slightly inclined excavation in rock of various size to allow the passage of personnel, machinery, equipment and ventilation.

**drift-and-fill mining:** a method of mining involving driving a drift in ore, removing the ore and filling the cavities formed with fill material before recovering further ore.

**euhedral:** describing mineral grains that exhibit well-developed crystal faces.

**exploration:** the activity of searching for potentially economic mineralization.

**flotation:** a process by which some mineral particles are induced to become attached to air bubbles so that the valuable minerals are separated from the worthless waste.

**galena:** lead, sulphide, the most common ore mineral of lead.

**g/t:** grams per tonne, used to express the precious metal content of rock or other material.

**grade:** the amount of valuable metal in ore, expressed as a percentage by weight for zinc, lead and other base metals, and g/t for precious metals.

**JORC Code:** the Australasian Code for Reporting of Mineral Resources and Ore Reserves published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists and the Minerals Council of Australia.

**milling:** the process of crushing and grinding rock preparatory to extracting the economically valuable components using a method such as flotation; also used to describe the whole process of crushing, grinding and extraction.

**mineralization:** rock containing an undetermined amount of minerals or metals.

**mineral resource[(1)]:** a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted based on specific geological information gathered from detailed and reliable exploration, sampling and testing of outcrops, trenches, pits, workings and drill holes. Mineral resources are sub-divided, in order of decreasing geological confidence, into the following categories:

> **measured resource:** that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. The locations of information points are spaced closely enough to confirm geological and/or grade continuity.
>
> **indicated resource:** that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. The locations of information points are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
>
> **inferred resource:** that part of a mineral resource for which tonnage, grade, and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed, but not verified, geological and/or grade continuity.

**mtonne:** a million tonnes.

**ore:** a natural occurrence of one or more minerals which, at a specified time and place, may be mined and sold at a profit, or from which some part may be profitably separated.

**ore body:** an aggregate of ore sufficiently large to be mined economically.

**ore reserve[(1)]:** the economically mineable portion of a measured or indicated mineral resource. It includes allowances for losses and dilution of materials which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore reserves are sub-divided in order of decreasing confidence into the following categories:

> **proved reserve:** the economically mineable part of a measured mineral resource.
>
> **probable reserve :** the economical mineable part of an indicated, and in some circumstances measured, mineral resource.

**payable:** that portion of metal in concentrate for which the producer is paid, usually by a smelter.

**reclamation or rehabilitation:** the process of restoring an impacted area such as a mine site or tailings facility to an acceptable end use.

**room-and-pillar mining:** a method of underground mining where the ore is extracted by excavating chambers and tunnels on a regular grid layout which create pillars of ore which provide structural support.

**semi-autogenous grinding (SAG):** the process of grinding rock to the required size, in which the grinding medium is comprised of coarsely crushed ore and steel balls.

**shaft:** a vertical excavation in rock for the purpose of (i) providing access to an underground ore body (in which case it is usually equipped with a conveyance for transportation of personnel, equipment and materials) and/or (ii) ventilating the underground workings.

**smelting:** a pyro-metallurgical operation in which metal in concentrate is separated from impurities by a thermal process.

**sphalerite:** zinc-iron sulphide, the most common ore mineral of zinc.

**tailings:** the waste material that remains after the mineral separation process.

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(1) The Lisheen Joint Venture's mineral resources and ore reserves are reported in accordance with the 1999 update of the JORC Code.

## SCHEDULE "A"

## AUDITED CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED FINANCIAL STATEMENTS

## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Ivernia West Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgements and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in note 3 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

PricewaterhouseCoopers LLP, the Company's independent auditors, conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. As well, they make an assessment of the accounting principles used and significant estimates made by management and they evaluate the overall financial statement presentation.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. The Board of Directors is assisted in these responsibilities by its Audit Committee, whose members are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure the financial information reported therein is consistent with the information presented in the financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

David Hough
President and Chief Executive Officer

Alan De'ath
Vice President and Chief Financial Officer

March 18, 2002

## Auditors' Report to the Shareholders of Ivernia West Inc.

We have audited the consolidated balance sheets of Ivernia West Inc. as at December 31, 2001 and 2000 and the consolidated statements of income and deficit and cash flows for the years ended December 31, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario
March 18, 2002

## CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

For the years ended December 31, 2001 and 2000
(in thousands of United States dollars, except per share amounts)

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Gross revenue | 27,461 | - |
| Smelter costs | 14,480 | - |
| **Net Revenue** | 12,981 | - |
| **Mine operating costs** | | |
| Cost of sales | 14,340 | - |
| Depreciation and amortisation | 4,549 | - |
| | 18,889 | - |
| **Loss from mining operations** | (5,908) | - |
| **Other expenses (income)** | | |
| General and administrative | 2,016 | 1,736 |
| Reorganization costs | - | 1,991 |
| Foreign exchange loss | 173 | 1,260 |
| Exploration | 323 | 1,078 |
| Interest expense | 7,255 | - |
| Interest income | (269) | (383) |
| Writedown of investments | 48 | - |
| Property, plant and equipment writedown | - | 25,000 |
| | 9,546 | 30,682 |
| **Loss for the year** | (15,454) | (30,682) |
| **Deficit - Beginning of year** | (42,571) | (11,889) |
| **Deficit - End of year** | (58,025) | (42,571) |
| **Basic loss per share** (note 12(d)) | (0.13) | (0.28) |

The accompanying notes are an integral part of these consolidated financial statements.

Ivernia West Inc.

# CONSOLIDATED BALANCE SHEETS

As at December 31, 2001 and 2000
(in thousands of United States dollars)

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents (note 11) | 630 | 10,096 |
| Accounts receivable | 185 | 2,824 |
| Inventories (note 6) | - | 2,839 |
| Other current assets | 129 | 441 |
| | 944 | 16,200 |
| **Investments** (note 4) | 100,814 | 64 |
| **Property, plant and equipment-net** (notes 4,7 and 8) | 6,779 | 138,341 |
| **Restricted cash and cash equivalents** (note 11) | 1,798 | 1,676 |
| **Deferred charges** (note 10(c)) | 38 | 1,481 |
| | 110,373 | 157,762 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Working capital facility (note 9) | - | 3,750 |
| Current portion of long-term debt (note 10) | 13,308 | 7,847 |
| Accounts payable and accrued liabilities | 1,276 | 14,021 |
| | 14,584 | 25,618 |
| **Long-term debt** (note 10) | 68,884 | 89,117 |
| **Reclamation and mine closure costs** (note 16(a)) | - | 274 |
| **Minority interest** (note 7) | 103 | 497 |
| | 83,571 | 115,506 |
| **Shareholders' Equity** | | |
| **Share capital** (note 12(b)) | 78,019 | 78,019 |
| **Deficit** | (58,025) | (42,571) |
| **Cumulative translation adjustments** | 6,808 | 6,808 |
| | 26,802 | 42,256 |
| | 110,373 | 157,762 |

**Going concern** (note 1)
**Commitments and contingencies** (notes 4,5,7,11,15 and 16)

The accompanying notes are an integral part of these consolidated financial statements.

**Approved by the Board of Directors**

J. TREVOR EYTON
Director

DAVID HOUGH
Director

Ivernia West Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001 and 2000
(in thousands of United States dollars)

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss for the year | (15,454) | (30,682) |
| Non-cash items | | |
| Depreciation and amortization | 4,549 | - |
| Property, plant and equipment writedown (note 8) | - | 25,000 |
| Writedown of investments | 48 | - |
| Other | 197 | 55 |
| Changes in non-cash working capital | | |
| Accounts receivable, inventories and other current assets | (156) | (1,997) |
| Accounts payable and accrued liabilities | (2,071) | 4,165 |
| Increase in restricted cash and cash equivalents | (122) | (430) |
| | (13,009) | (3,889) |
| **Investing activities** | | |
| Additions to property, plant and equipment | (7,368) | (27,373) |
| Decrease in equity investments (note 4) | 15,032 | - |
| | 7,664 | (27,373) |
| **Financing activities** | | |
| Net cash proceeds on issue of shares | - | 7,409 |
| Working capital facility (repaid) raised | (3,750) | 3,750 |
| Increase in Anglo funding (note 5) | 12,708 | 4,500 |
| (Decrease) increase in long-term debt raised, net | (10,043) | 9,660 |
| Increase in deferred charges | - | (155) |
| Proceeds on the sale of capital stock held by subsidiaries (note 12(b)(ii)) | - | 232 |
| | (1,085) | 25,396 |
| **Cash deconsolidated** (note 18) | (2,808) | - |
| **Effect of exchange rate changes on cash and cash equivalents** | (228) | 1,035 |
| **Net decrease in cash and cash equivalents** | (9,466) | (4,831) |
| **Cash and cash equivalents - Beginning of year** | 10,096 | 14,927 |
| **Cash and cash equivalents - End of year** | 630 | 10,096 |

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

## 1. Going concern

The accompanying financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern. For the year ended December 31, 2001 and as at the same date, the Company had a loss of $15.45 million and a working capital deficiency of $13.64 million.

As at December 31, 2001, the current portion of long term debt and accrued loan interest in respect of the Lisheen Project Loan represents a liability of $13.78 million in the working capital deficiency. Funding arrangements are in place for the Lisheen Joint Venture (note 4(a)) to make shareholder and partner loan repayments to the Company to meet these Project Loan repayments and interest payments under the terms of the Anglo Funding Agreement (note 5) and from Lisheen mine cash flow.

During January and February 2002, the Company completed a private placement (note 17(a)) for an aggregate purchase price of C$3.79 million ($ 2.37 million). As part of that private placement the Company has issued warrants, which if all are exercised prior to their expiry date of December 31, 2002, would raise a further C$1.83 million ($1.15 million). The Company is also engaged in discussions concerning financing for the Magellan project.

Although there is no assurance that the warrants will be exercised or that the Company will be successful in its Magellan project financing discussions, management is reasonably confident that it will be able to secure the required funding to enable it to continue as a going concern. Accordingly, these consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

## 2. Nature of operations

Ivernia West Inc. ("Ivernia Inc.") was incorporated on June 16, 2000 under the Business Corporations Act (New Brunswick) for the purpose of acquiring all of the issued and outstanding shares of Ivernia West plc ("Ivernia plc"), an Irish company which was listed on the Exploration Securities Market of the Irish Stock Exchange, pursuant to a scheme of arrangement under Irish law. Ivernia West plc was re-registered as a private limited company ("Ivernia West Limited") on December 19, 2001.

Ivernia West Inc. and its subsidiaries (the "Company") is active in one operating segment, namely the acquisition, exploration, development and mining of mineral properties. Its principal asset is a 50% participating interest in the Lisheen Mine in Ireland (the "Lisheen Mine"), which is owned and operated in a joint venture (the "Lisheen Joint Venture") with Anglo American plc and certain of its subsidiaries ("Anglo") (note 4(a)). The Company considers that with effect from July 1, 2001, it no longer exercises joint control but does exercise significant influence over the Lisheen Joint Venture. The Lisheen Mine commenced commercial production for reporting purposes on January 1, 2001. As at December 31, 2001, the Company also had a 91.6% direct and indirect equity interest in Magellan Metals Pty. Limited (formerly Magellan Mining Pty. Limited) ("Magellan Metals") in Australia (notes 7 and 17(b)). In addition, the Company has exploration interests in Ireland, Australia and the United States. As at December 31, 2001, substantially all of the Company's assets are located in Ireland.

On December 15, 2000, pursuant to a court approved scheme of arrangement, the shareholders of Ivernia plc received one common share of Ivernia Inc. for each ordinary share of Ivernia plc held immediately prior to the scheme becoming effective. Consequently, the economic interest of the shareholders of Ivernia plc has not changed. Accordingly, these consolidated financial statements present the continuity of interest and reflect the operations of the Company as if the scheme of arrangement had been effective on January 1, 2000.

## 3. Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Summarized below are the significant accounting policies used in these consolidated financial statements.

### Basis of consolidation

The consolidated financial statements include the accounts of the Company. Interests in joint ventures where the Company has joint control are accounted for by the proportionate consolidation method. Under this method, the Company includes in its accounts its proportionate share of the assets, liabilities, revenues, expenses and cash flows. Interests in investments, including joint ventures, where the company exercises significant influence are accounted for by the equity method.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results may differ from those estimates.

**Reporting currency**

Management has determined that the United States dollar ("US$" or "US dollar") is the principal currency of the Company's business. Accordingly, the Company uses the US dollar as its reporting currency.

**Foreign currency translation**

The Company employs the temporal method of translation for its integrated operations. Under this method, monetary assets and liabilities are translated at the year-end exchange rate and all other assets and liabilities are translated at applicable historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income. Realized exchange gains and losses and currency translation adjustments are included in income except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis over the remaining term.

The Company employs the current rate method of translation for its self-sustaining operations. Under this method, all assets and liabilities are translated at the year-end exchange rate and all revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income. Exchange gains and losses arising on translation of foreign operations are included in the cumulative translation adjustments component of shareholders' equity.

**Revenue recognition**

Revenues from sales of zinc and lead concentrates are recorded net of smelter treatment charges and deductions. Sales are recognized when shipments to customers take place.

**Exploration and development costs**

Expenditures during the initial exploration stage of projects are expensed as incurred. Property acquisition costs relating to exploration properties and expenditures incurred on properties identified as having development potential are deferred as mine development costs on a project basis. Upon reaching commercial production, these deferred costs are transferred from exploration and development properties to producing properties on the consolidated balance sheets and are amortised into operations using the unit-of-production method over the estimated useful life of the estimated related ore reserves.

The carrying values of development projects represent costs incurred to date and do not necessarily reflect present or future values.

In the event that the long-term expectation is that the net carrying amount of these deferred exploration and development costs will not be recovered, such as would be indicated where in relation to:

Exploration properties:
- Exploration activities have ceased;
- Exploration results are not promising such that exploration will not be planned for the foreseeable future;
- Lease ownership rights expire; or
- Insufficient funding is available to complete the exploration program;

Development properties:
- The carrying amounts of the capitalised and deferred costs exceed the related undiscounted net cash flows of ore reserves;

then the carrying amount is written down accordingly and the write-down amount is charged to income.

**Property, plant and equipment - producing properties**

Property, plant and equipment are recorded at cost including costs associated with acquisition and further development of mining properties. Land is recorded at cost and is not depreciated. Depletable assets are amortized over the economic life of the mine on a unit-of-production basis. Depreciable assets are also amortized over the economic life of the mine on a unit-of-production basis, except where the useful life of a depreciable asset is less than the economic life of the mine, in which case depreciation is recorded on a straight-line basis over its useful life. The maximum estimated useful lives of such assets are seven years.

The Company periodically reviews the recoverability of its property, plant and equipment. When the net carrying value exceeds the related net undiscounted cash flows, the excess is charged to income.

**Capitalization of interest**

Interest on borrowings related to the financing of major capital projects under construction is capitalized during the construction phase as part of the cost of the project.

**Reclamation and mine closure costs**

Expenditures relating to ongoing environmental and reclamation programs are charged against income as incurred or capitalized and amortized depending on their future economic benefit. Estimated future reclamation and mine closure costs, including site restoration, where reasonably determinable, are charged against income over the estimated useful life of the mine on a unit-of-production basis.

**Inventories**

Inventories of ore stockpiles and concentrates are valued at the lower of cost and net realizable value. The cost of ore stockpiles and concentrates is determined principally by the weighted average cost method using related production costs. Materials and supplies are stated at the lower of weighted average cost and net realizable value.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of highly liquid investments with a maturity of three months or less at the date of the original issue.

**Short-term investments**

Short-term investments are comprised of highly liquid investments with a maturity of greater than three months but less than 12 months at the date of the original issue and are accounted for at the lower of cost and market value.

**Investments**

Investments, including joint ventures, in which the Company exercises significant influence are accounted for by the equity method. Investments in which the Company does not exercise significant influence, which are comprised of listed securities, are accounted for using the cost method.

**Income taxes**

The Company accounts for income taxes under the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying values and tax bases of assets and liabilities. Future tax assets and liabilities are measured using substantially enacted tax rates expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

**Hedging transactions**

In order to hedge its exposure to foreign exchange and interest rate risks, the Company enters into forward and swap contracts. Gains and losses on these contracts are recognized as a component of the related transactions. Gains and losses arising from the early termination of hedging arrangements are deferred and recognized into income when the original transactions to which they relate have been recorded.

Net income or expense associated with interest rate swap agreements is recognized on the accrual basis over the life of the swap agreements as a component of interest.

**Stock options**

The Company has a stock option plan which is described in note 12(c). No compensation expense is recognized for this plan when stock or stock options are issued to directors, officers and employees. Any consideration paid on the exercise of stock options is credited to capital stock.

**Loss per share**

Basic loss per share is computed by dividing the loss for the year by the weighted monthly average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average shares outstanding are increased to include potential common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants and on the as if converted method for convertible securities.

During the year ended December 31, 2001, the company changed its method of accounting for earnings per share to comply with the revised standard issued by the Canadian Institute of Chartered Accountants Handbook, section 3500, "Earnings per share". There was no difference between the loss per share calculated under the new standard and the amount that would have been calculated using the previous standard.

**Reclassification of comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

## 4. Investments

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Lisheen Joint Venture: | | |
| Balance at July 1, 2001 (note 18) | | |
| - shareholder and partner loans | 115,830 | - |
| - equity investment | - | - |
| | 115,830 | - |
| Shareholder and partner loans repaid | (15,032) | - |
| Balance at December 31, 2001 | 100,798 | - |
| Other investments | 16 | 64 |
| | 100,814 | 64 |

The shareholder and partner loans are non-interest bearing.

**(a) Lisheen joint venture**

The Lisheen Mine commenced commercial production for reporting purposes on January 1, 2001.

Since October 2000, Anglo has funded the Company's 50% share of contributions for the Lisheen Mine under the terms of the Anglo Funding Agreement (note 5).

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

Pursuant to the Lisheen Joint Venture agreements, the Company and Anglo are responsible for funding their pro rata share of all capital expenditures and operating budgets approved by the Lisheen Joint Venture Management Committee ("Management Committee"). Failure to provide such funding may result in dilution on a non-punitive basis if at such time the Management Committee has determined that the Lisheen Mine is in "Commercial Production", as defined in the Lisheen Joint Venture agreements, and may also result in other penalties (including, during the default period, loss of voting entitlement at the Management Committee and loss of the right to order and direct the marketing of its share of zinc and lead concentrates produced). Of such funding failures, a failure to fund specified cost overruns in capital expenditures required for the Lisheen Mine shall not result in dilution. In the event that any sale or dilution was to result in the participating interest of the Company falling below 40%, the Company would lose the ability to significantly influence the management of the Lisheen Mine.

Under the Lisheen Joint Venture agreements, any proposed transfer of all or part of a participant's participating interest in the Lisheen Joint Venture to a third party is subject to rights of first offer and first refusal in favour of the other participant(s) and is subject to certain additional restrictions and limitations, including the right of the remaining participant(s) and the Project Lenders under the Project Loan Agreement (each as defined in note 10 (a)) to obtain assurances as to the transferee's financial resources.

A breach by the Company, Anglo or any of their affiliates of the terms of the Lisheen Joint Venture agreements and, in some instances, the terms of the Project Loan Agreement and related agreements may give rise to a mandatory sale of such defaulting party's participating interest to the remaining participants, or dilution of the defaulting party's participating interest.

The Company considers that with effect from July 1, 2001, it no longer exercises joint control but does exercise significant influence over the Lisheen Joint Venture. Consequently, with effect from July 1, 2001, the Company accounts for its interest in the Lisheen Joint Venture as an investment by the equity method.

The Company's 50% share of the funding of the operating loss from its Lisheen equity investment for the six months ended December 31, 2001 is summarized as follows:

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Net revenue | 9,962 | - |
| Cost of sales | (13,126) | - |
| Operating loss | (3,164) | - |
| Funded by Anglo under the Anglo Funding Agreement (note 5) | 3,164 | - |
| Ivernia funding of operating losses from Lisheen equity investment | - | - |

**(b) Other investments**

During the year ended December 31, 2001, the Company recorded a writedown of $48,000 (2000 - $nil), relating to a decline in the market value of its investments. The Company determined that the value of its holding in these investments had suffered a loss in value that was other than temporary.

## 5. Anglo funding agreement for Lisheen Joint Venture

In November 2000, the Company finalized arrangements with Anglo to provide for the funding of certain overrun cost contributions for the Lisheen Mine (the "Anglo Funding Agreement") as permitted under the terms of the Lisheen Joint Venture agreements. Pursuant to the Anglo Funding Agreement, Anglo has agreed to fund the Company's 50% share of certain overrun cost contributions payable after November 1, 2000. Any amounts funded by Anglo under the terms of the Anglo Funding Agreement are to be repaid, together with interest calculated to derive a 10% annual real rate of return, from the first available Lisheen Mine cash flow. The Company may resume the funding of its share of such overrun cost contributions at any time by providing notice to Anglo and repaying in full the amount funded by Anglo under the terms of the Anglo Funding Agreement to such date, together with interest in an amount equal to a 10% annual real rate of return.

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

In June 2001, the Company completed an amendment to the terms of the Anglo Funding Agreement providing for the funding by Anglo until further notice of the Company's 50% share of certain overrun contributions and other contributions for the Lisheen Mine including Project Loan interest and principal repayments. Under the amending agreement, the date by which the Company had to elect to resume funding of certain overrun contributions and other contributions or be potentially subject to applicable penalty provisions under the Lisheen Joint Venture agreements (such penalty provisions include the loss of the Company's voting entitlement at meetings of the Lisheen Mine Management Committee and the suspension of the Company's right to order and direct the marketing and sale of its share of concentrates) was extended to September 30, 2001. The amending agreement also provides that all contributions made by Anglo shall not result in any dilution of the Company's 50% participating interest and shall be repaid together with interest calculated to derive a 10% annual real rate of return from the first available Lisheen Mine cashflow. The Company did not elect to resume funding of certain overrun contributions and other contributions as at September 30, 2001. With effect from September 30, 2001, Anglo has the right to invoke the above stated penalty provisions by 14 days written notice. Anglo has served no such notice nor has it indicated its intention to do so. In November 2001, Anglo reaffirmed its commitment to continue this funding arrangement until further notice. The Company's consolidated balance sheet as of December 31, 2001 includes a $13.31 million current portion of the Project Loan and $466,000 of accrued Project Loan interest, the funding for both of which falls within this Anglo funding arrangement. The funding by Anglo under the terms of the Anglo Funding Agreement shall be repaid by the Lisheen Mine from the first available cash flow from the Lisheen Mine after meeting the Project Loan facility agreement obligations.

As at December 31, 2001, $40.25 million (December 31, 2000 - $4.50 million) had been funded by Anglo under the Anglo Funding Agreement. Accrued interest as at December 31, 2001 was $2.13 million (December 31, 2000 - $50,000).

## 6. Inventories

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Ore stockpiles | - | 63 |
| Concentrates | - | 1,100 |
| Materials and supplies | - | 1,676 |
| | - | 2,839 |

## 7. Magellan project

Pursuant to a share sale agreement dated August 25, 2000, (the "Polymetals Agreement"), the Company acquired 90% of the issued and outstanding shares of Polymetals Pty Ltd. ("Polymetals") an Australian mining company which holds the remaining 84.3% interest in Magellan Metals (note 17(b)). The purchase price of A$4 million was satisfied on closing by the issuance in September 2000 of 3,277,551 ordinary shares of Ivernia plc.

The Company and the shareholders of Polymetals have entered into several put and call option agreements pursuant to which the Company may purchase, or be required to purchase, the remaining 10% of the shares of Polymetals (the "Retained Shares") under certain circumstances. Under these agreements:

i) At any time up to January 31, 2002, the Company may exercise a primary call option to purchase one-half of the Retained Shares for a purchase price of A$2 million. At any time between January 1 and January 31, 2002, the shareholders of Polymetals may under certain circumstances exercise a corresponding primary put option to require the Company to purchase such Retained Shares for the same purchase price (note 17(b)).

ii) If either option in (i) is exercised, the Company may at any time up to January 31, 2002 exercise a secondary call option to purchase, or the shareholders of Polymetals may at any time exercise a corresponding secondary put option to require the Company to purchase, the other one-half of the Retained Shares. In either case, the purchase shall be completed upon a further payment of A$2 million on the earlier of 36 months from the execution of the Polymetals Agreement or 60 days after the first commercial product shipment from the Magellan project (note 17(b)).

iii) If none of the call options or put options described above have been exercised by January 31, 2002, then at any time up to March 31, 2002, the Company may exercise a tertiary call option to purchase, or the shareholders of Polymetals may exercise a corresponding tertiary put option to require the Company to purchase, all of the Retained Shares for a purchase price consisting of (i) A$4,000; and (ii) the transfer by Polymetals to a specified company, as nominee for the shareholders of Polymetals, of 40% of the issued shares of Magellan Metals (note 17(b)). In the event that either such tertiary option is exercised, the Company, Magellan Metals, the nominee company and the shareholders of Polymetals have entered into a shareholders agreement which will govern their relationship in respect of Magellan Metals.

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

The acquisition has been accounted for as a purchase and the results of operations have been consolidated since September 2000. As a result of this transaction, the Company held a 91.6% direct and indirect equity interest in Magellan Metals.

During the year ended December 31, 2001, the Company decided that it would exercise prior to January 31, 2002 (note 17(b)) the primary and secondary call options detailed in (i) and (ii) above and that consequently the condition described in (iii) above for the exercise of the tertiary options would no longer apply. As at December 31, 2001 the Company has consolidated its interest in Magellan Metals on a 91.6% basis (December 31, 2000 - 60%) with the remaining 8.4% (December 31, 2000 - 40%) being attributed to minority interest. As at December 31, 2001 the minority interest was $103,000 (December 31, 2000 - $497,000).

## 8. Property, plant and equipment

The Lisheen Mine, in which the Company has a 50% participating interest, commenced commercial production for reporting purposes on January 1, 2001. With effect from July 1, 2001, the Company accounts for the Lisheen Joint Venture as an investment by the equity method (note 4). The Company also has a 91.6% direct and indirect equity interest in the Magellan project (notes 7 and 17(b)). The Magellan project is at the feasibility stage.

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Lisheen Mine | | |
| - cost | - | 137,571 |
| - accumulated depreciation | - | (5,413) |
| | - | 132,158 |
| Magellan project (notes 7 and 17(b)) | 6,577 | 6,183 |
| Other deferred exploration costs | 175 | - |
| Corporate | 27 | - |
| Total net book value | 6,779 | 138,341 |

During 2001 interest capitalized in connection with the Lisheen Mine amounted to $ nil (2000 - $6.64 million).

During 2000 the Company reviewed the recoverability of the carrying value of the Lisheen Mine in accordance with the policy described in note 3. As a result of this review, a writedown of $ 25 million was made and charged to income.

Deferred expenditure on the Magellan Project to date is summarised as follows :

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Acquisition costs | 3,670 | 3,670 |
| Capitalised costs | 2,907 | 2,513 |
| | 6,577 | 6,183 |

## 9. Working capital facility

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Working capital facility for Lisheen Mine | - | 3,750 |

In July 2000, the Company arranged for a $3.75 million loan facility (the "Working Capital Facility") from an Irish financial institution for the purpose of ensuring working capital for the Lisheen Mine. All amounts due under the Working Capital Facility were secured by a guarantee by the Company. This facility was repaid by the Company in September 2001 from funds received by way of a partner loan repayment from the Lisheen Joint Venture.

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

## 10. Long-term debt

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| Project Loan (note 10(a)) | 79,846 | 86,500 |
| Standby Facility (note 10(b)) | 2,346 | 5,964 |
| Anglo Funding Agreement (note 5) | - | 4,500 |
| | 82,192 | 96,964 |
| Less current portion: | | |
| Project Loan | 13,308 | 6,654 |
| Standby Facility | - | 1,193 |
| | 68,884 | 89,117 |

### (a) Project loan

The Company entered into a project loan facility agreement dated December 22, 1997 (the "Project Loan Agreement") with a syndicate of financial institutions (the "Project Lenders") pursuant to which the Project Lenders agreed to lend $86.5 million (the "Project Loan") to the Company to fund the construction of the Lisheen Mine. The Project Loan bears interest at the rate of US dollar LIBOR plus 1% per annum, increasing to 1.2% per annum after January 2004 and must be repaid by December 31, 2007. As at December 31, 2001, interest on $47 million (December 31, 2000 - $47 million) of the Project Loan is swapped for a fixed rate of 5.82% (excluding 1% margin) (December 31, 2000 - 6.13%). The Project Loan is secured by charges over all the Company's interest in the business, assets and undertaking of the Lisheen Mine.

Except with the consent of the Project Lenders, no more than IR£5 million of additional amounts required to complete the development of the Lisheen Mine, as defined in the Project Loan Agreement, may be funded by secured indebtedness incurred by Ivernia plc and its subsidiaries. On financial completion of the Lisheen Mine the aforementioned borrowing restrictions will cease.

All amounts owing under the Project Loan are due on December 31, 2007. The Company was required to commence repayment of the Project Loan on December 31, 2001 in semi-annual instalments equal to one thirteenth of the amount of the loan. The Company may prepay the whole or part of the Project Loan at any time during the term of the loan subject to a minimum partial payment of $5.0 million and provided that Anglo prepays an equal portion of its loan under its corresponding credit facility.

As at December 31, 2001, long-term debt maturities for each of the five twelve-month periods ending on December 31 in each year through 2006 are: 2002 - $13.31 million; 2003 - $13.31 million; 2004 - $13.31 million; 2005 - $13.31 million; 2006 - $13.31 million.

Pursuant to the Project Loan Agreement an Irish financial institution has agreed, subject to certain conditions, to issue certain planning and other project bonds (the "Project Bonds") to a maximum aggregate amount of IR£5.9 million ($6.7 million) in connection with the permitting, construction, operation and closure of the Lisheen Mine. As at December 31, 2001, IR£5.9 million (December 31, 2000 - IR£5.9 million) of Project Bonds had been placed in favour of third party beneficiaries and no demands had been made by the respective third party beneficiaries under the Project Bonds. Commissions are payable at prescribed rates by the Company in respect of the Project Bonds.

### (b) Standby facility

In April 2000, the Company finalized security arrangements to enable drawdowns to be made under an IR£5 million ($5.6 million) loan facility from an Irish financial institution (the "Standby Facility"). The Standby Facility was fully drawn down in July 2000, and was repayable in three instalments of IR£1.0 million, IR£2.0 million and IR£2.0 million on December 31, 2001, June 30, 2002 and June 30, 2003 respectively. Interest on the Standby Facility is payable at the rate of 2% per annum over the cost of funds to the lender on the relevant interbank market. The Standby Facility is secured pursuant to a security deed by a charge over all the Company's cash flow from the Lisheen Joint Venture and the shares of its subsidiary, Ivernia Lisheen Holdings Limited, the shareholder of Ivernia Lisheen Finance Limited.

The purpose of the Standby Facility was to meet the Company's share of cost overrun funding requirements for the Lisheen Mine. In August 2000 the Company utilized IR £1.69 million ($1.99 million) of the Standby Facility draw down to meet a funding call from the Lisheen Mine. In November 2000 the Company finalised arrangements with Anglo for the ongoing funding of the Company's 50% share of certain overrun contributions for the Lisheen Mine under the terms of the Anglo Funding Agreement and subsequently did not utilize the Standby Facility to meet any further Lisheen funding calls. In June 2001 the Anglo Funding Agreement was extended to cover the ongoing funding of the Company's 50% share of other contributions for the Lisheen Mine. The Anglo Funding Agreement replaced the need to use the balance of the Standby Facility for Lisheen funding calls and accordingly in July 2001 the Company reached agreement with the Irish financial institution to repay on July 23, 2001 IR £2.92 million ($3.39 million) of the IR £5 million draw down. The IR £2.08 million ($2.35 million) balance on the Standby Facility is repayable on June 30, 2003.

**(c) Deferred charges**

As at December 31, 2001, costs of $155,000 (December 31, 2000 - $2.01 million) incurred in connection with obtaining the Project Loan and other loans have been deferred and are amortized over the term of the loan. As at December 31, 2001, the total amount amortized is $117,000 (December 31, 2000 - $532,000).

## 11. Cash and cash equivalents

As at December 31, 2001, cash and cash equivalents include $ nil (December 31, 2000 - $5.00 million) which are restricted for the payment, performance and discharge of the Company's secured obligations in relation to the Lisheen Mine. As at December 31, 2001 a cash collateral deposit of $ 1.80 million (December 31, 2000 - $1.68 million) has been placed with the Project Bonds issuing financial institution in accordance with the terms and conditions of the Project Bonds (note 10 (a)).

## 12. Share capital (notes 2 and 17(a))

**(a) Authorized share capital**

Authorized share capital of the Company is comprised of an unlimited number of common shares and an unlimited number of preference shares issuable in one or more series.

**(b) Issued and outstanding shares**

Details of issued and outstanding shares are as follows:

| | Number of common shares (000) | Amount $ |
|---|---|---|
| Outstanding as at December 31, 1999 | 103,808 | 68,146 |
| Issued in connection with private placement (i) | 10,381 | 7,409 |
| Gain on sale of capital stock held by subsidiaries (ii) | - | 194 |
| Issued in connection with acquisition (iii) | 3,277 | 2,270 |
| Outstanding as at December 31, 2000 and December 31, 2001 | 117,466 | 78,019 |

(i) In May 2000, Ivernia plc completed a private placement of 10,380,780 ordinary shares at $0.78 (Sterling (Stg) £0.49) per share for net proceeds of $7.41 million (Stg£4.66 million).

(ii) As at December 31, 1999, subsidiaries of the Company held 394,026 shares of Ivernia plc. In May 2000, 126,594 ordinary shares of Ivernia plc held by subsidiaries were sold for net proceeds of Stg£62,000 ($97,000). In December 2000, 267,425 ordinary shares of Ivernia plc held by subsidiaries were sold for net proceeds of Euro 155,000 ($135,000).

(iii) In September 2000, Ivernia plc issued 3,277,551 ordinary shares for a total consideration of A$4 million in connection with the acquisition of Polymetals (note 7).

**(c) Employee stock options**

On November 3, 2000, the Company adopted the 2000 Stock Option Plan (the "Plan") and upon the scheme of arrangement (note 2) becoming effective, all options outstanding under the 1990 Stock Option Plan were replaced by options with similar terms issued under the Plan.

Under the Plan certain directors, officers, employees and consultants may be granted options to purchase up to 11,700,000 common shares of which, as at December 31, 2001, options to purchase 4,000,000 (December 31, 2000 - 9,165,000) common shares remain available for grant. The exercise price of each option may not be less than the market price of the common shares at the time the option is granted. An option may be for a term up to ten years and may not be assigned. Unless the directors of the Company determine otherwise, one quarter of the options granted become exercisable from the date of granting such options, one quarter at any time after the first anniversary date, one quarter at any time after the second anniversary date and the balance at any time after the third anniversary date.

A summary of the status of the Company's stock option plan as at December 31, 2001 and December 31, 2000 and changes during the periods ending on those dates is presented below:

| | 2001 | | 2000 | |
|---|---|---|---|---|
| | Shares (000) | Weighted average exercise price C$ | Shares (000) | Weighted average exercise price C$ |
| Outstanding - Beginning of period | 2,535 | 1.16 | 2,435 | 1.16 |
| Granted | 5,400 | 0.49 | 100 | 1.07 |
| Exercised | - | - | - | - |
| Expired | (235) | (1.04) | - | - |
| Outstanding - End of period | 7,700 | 0.69 | 2,535 | 1.16 |
| Exercisable - End of period | 3,650 | 0.92 | 2,435 | 1.16 |

The following table summarizes information about stock options outstanding as at December 31, 2001:

| Options outstanding | | | | Options exercisable | | |
|---|---|---|---|---|---|---|
| Range of exercise prices C$ | Number outstanding at December 31, 2001 (000) | Weighted average remaining contractual life | Weighted average exercise price C$ | Number exercisable at December 31, 2001 (000) | Weighted average remaining contractual life | Weighted average exercise price C$ |
| 0.30-0.58 | 5,400 | 4.10 | 0.49 | 1,350 | 4.10 | 0.49 |
| 0.59-0.89 | 900 | 3.15 | 0.73 | 900 | 3.15 | 0.73 |
| 0.90-1.35 | 500 | 6.48 | 1.03 | 500 | 6.48 | 1.03 |
| 1.36-2.04 | 900 | 5.35 | 1.68 | 900 | 5.35 | 1.68 |
| 0.30-2.04 | 7,700 | 4.29 | 0.69 | 3,650 | 4.50 | 0.92 |

**(d) Loss per share**

Loss per share has been calculated using the weighted average number of shares outstanding during the year of 117,466,126 shares (2000 - 111,441,191 shares).

## 13. Employee future benefits

The Company has a defined contribution pension plan which covers an employee of the Company. For the year ended December 31, 2001, the Company made contributions of $123,000 (2000- $101,000). This plan was accounted for as a defined benefit obligation in 2000 due to a contractual obligation of the Company to provide certain benefits on the retirement of the employee. During 2001, the employee's contract was renegotiated to exclude any future benefit obligation.

The Company is also a sponsor of a defined contribution plan covering substantially all the employees of the Lisheen Mine. For the year ended December 31, 2001, the Lisheen Mine made contributions of $376,000 (2000 - $108,000).

## 14. Income taxes

As at December 31, 2001, the Company has estimated tax losses and allowances of approximately $123 million (2000 - $104 million) which may be available to reduce future Irish taxable income. These losses and allowances have not yet been agreed with the Irish Revenue Commissioners. These losses and allowances have no expiry date. No significant differences exist between the accounting and tax basis of the Company's net assets.

The potential income tax benefits of these carryforward losses and deductible temporary differences have not been recognized in the consolidated financial statements and the realization thereof is not considered more likely than not.

## 15. Risk management and financial and commodity instruments

**(a) Risk management**

In the normal course of its operations, the Company is exposed to credit, currency, interest and commodity price risks. In order to manage these risks, the Company may enter into transactions which make use of off-balance sheet financial instruments. The Company does not acquire, hold or issue these instruments for trading purposes.

**i) Concentration of credit risk**

The Company selects creditworthy counterparties with which to conduct its hedging transactions. The Company regularly monitors the credit exposure to any one counterparty to ensure that it remains within reasonable limits. Credit risk associated with the Company's foreign exchange contracts and interest rate swaps is limited to the amount of unrealized gains at any point in time.

**ii) Foreign currency risk**

The Company and the Lisheen Joint Venture enter into forward currency contracts to reduce the exposure on the Lisheen Mine investment.

**iii) Interest rate risk**

The Company has outstanding long-term debt with floating rates. The Company currently hedges a portion of its exposure to variations in interest rates by the use of interest rate swaps.

**iv) Commodity price risk**

The Company currently does not hedge its exposure to fluctuating metal prices.

**(b) Fair value**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities in the consolidated balance sheets approximate fair values due to the short-term maturities of these instruments.

The carrying amount of investments approximates fair value as at December 31, 2001.

The carrying amount of long-term debt approximates fair value as the interest charged is based on market-based floating rates (note 15(c)).

The carrying amount for restricted cash and cash equivalents approximates fair value as the interest earned is based on market-based floating rates.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

**(c) Hedge program**

The Company's equity share of the Lisheen Mine Partnership's currency hedge program consists of forward contracts to sell $20.0 million as at December 31, 2001 (December 31, 2000 - $28.23 million) during 2002 - 2003 (December 31, 2000 -during 2001-2003) at an average rate of Euro1.00 to $0.96 (December 31, 2000 - $1.06). The unrealized loss on the currency hedge program was $1.74 million as at December 31, 2001 (December 31, 2000 - unrealized loss of $3.20 million).

The Company has also entered into interest rate swap contracts with various financial institutions to manage its interest rate risk exposure arising from changes in the market interest rates on its floating rate long-term debt. Under the terms of the interest rate swap contracts, the Company pays fixed rate interest payments in exchange for floating rate interest payments. The term to maturity of the contracts outstanding ranges from three years to five years and the contracts are due to mature on dates between August 2002 and August 2005. The total notional amount outstanding as at December 31, 2001 is $47.0 million (December 31, 2000 - $47.0 million). As at December 31, 2001, the unrealized loss on the interest rate swaps was $2.26 million based on prevailing interest rates (December 31, 2000 - unrealised loss of $219,000).

## 16. Commitments and contingent liabilities

**(a) Environmental**

The Company's mining and exploration activities are subject to various governmental laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**(b) Prospecting licences**

In July 1995, the Company entered into a joint venture agreement with Rio Algom Exploration Inc. ("Rio Algom") pursuant to which Rio Algom has the right to earn up to a 70% joint venture interest in 33 prospecting licences in Ireland by spending $5.5 million on exploration work over a seven-year period. By September 1998, Rio Algom had secured a 50% interest in these prospecting licenses by spending $3.0 million on exploration work. At that time, the Company decided not to participate in the next phase of exploration expenditures on a 50:50 basis with Rio Algom and Rio Algom elected to increase its interest in the prospecting licences to 70% by spending a further $2.5 million over a four-year period, of which $2.05 million has been spent to December 31, 2001.

**(c) Marketing and sales**

Lisheen Milling Limited, a company jointly owned by the Company and Anglo, its Lisheen Joint Venture partner, has put in place concentrate sales agreements which provide for the sale of an aggregate amount of zinc and lead concentrates which represents over 90% of the estimated annual production by Lisheen Milling Limited to December 31, 2003. The prices payable under existing concentrate sales agreements are generally based on the daily London Metal Exchange settlement quotation for special high grade zinc and for lead, less refining charges and any applicable penalties.

**(d) Royalties and rent**

Under the Lisheen Mining Lease, the Lisheen Joint Venture is required to pay to the Irish Minister for the Marine and Natural Resources land "dead rent" of IR£300,000 (approximately $339,000) per year until the minerals are worked out and thereafter IR£20,000 (approximately $23,000) per year to the end of the lease. The "dead rent" is indexed to movements in the Irish Consumer Price Index from a 1997 base. The mining royalties payable under the Lisheen Mine are 1.75% of revenues per annum (net of smelter, refining and transportation costs and excise duties) for the first three years of production, 3% per annum for the fourth and fifth years of production and 4.50% per annum for the sixth year of production and every subsequent year thereafter until the minerals are worked out. The dead rent paid is offset against the mining royalties payable in the same period.

**(e) Technical services agreements**

Pursuant to a technical services agreement, a subsidiary of Anglo has been appointed as agent of the Lisheen Joint Venture, the Lisheen Mining Partnership and Lisheen Milling Limited, for as long as Anglo's participating interest in the Lisheen Joint Venture exceeds 33%, to procure, when requested to do so, the provision of services in relation to the construction, development and operation of the Lisheen Mine and the marketing and sale of zinc and lead concentrates. In addition, the Lisheen Joint Venture, the Lisheen Mining Partnership and Lisheen Milling Limited have agreed to reimburse Anglo for all costs incurred in procuring the provision of services to these three parties as well as to pay management fees which, prior to completion of construction, were equal to 2.2% of certain construction costs incurred and during the operational phase, are fixed at $600,000 annually, subject to annual adjustments based on the consumer price index of Ireland.

The Company's pro rata share of such services amounted to $300,000 during the year ended December 31, 2001, (2000 - $1.47 million).

**(f) Value added tax repayment claim**

An Inspector of Taxes in Ireland has sought a High Court ruling in respect of the Appeal Commissioner's decision in 1996 to pay IR£94,000 ($106,000) to Ivernia plc, in respect of Value Added Tax ("V.A.T.") repayment claims for V.A.T. paid on legal fees and costs in respect of a High Court action in 1994. While the Appeal Commissioners in 1996 held in favour of Ivernia plc the Inspector of Taxes was dissatisfied and asked that a case be stated on a point of law for the opinion of the High Court. The case has not yet been listed.

## 17. Subsequent events

**(a) Private placement**

During January and February 2002 the Company completed a private placement of 27,044,910 units, each consisting of one common share and one-third of a common share purchase warrant, for an aggregate purchase price of C$3.79 million ($2.37 million). The Company issued 11 million of the units to Resources Investment Trust plc., a London Stock Exchange listed special purpose investment company, which satisfied the purchase price for these units by issuing 685,632 of its ordinary shares to a subsidiary of Ivernia West Inc. The Company issued 1.4 million of the units as part of the payment made on the exercise of a primary call option to increase its direct and indirect equity interest in the Magellan Project (note 17(b)). The remaining units were issued for aggregate cash proceeds of C$2.05 million ($1.29 million).

Each full warrant will be exercisable into one common share of the Company at an exercise price of C$0.20 per share until December 31, 2002. The issue of common shares upon the exercise of warrants will be subject to the prior approval of shareholders, excluding votes attached to the common shares issued as part of this private placement, with the request for approval to take place at the Company's annual general meeting in May 2002. Anglo American plc, the Company's largest shareholder, has given notice that it intends to vote in favour of the issue of common shares on the exercise of these warrants.

(tabular amounts in thousands of United States dollars, except number of shares and per share amount)

**(b) Increase of equity interest in the Magellan Project**

In January 2002 the Company exercised a primary call option (note 7) to increase its direct and indirect equity interest in the Magellan Project from 91.6% to 95.8%. Payment for the exercise of this option was made during February 2002 and included A$1.76 million ($894,000) and the issue of 1.4 million shares in the Company as part of a private placement (note 17(a)). The company has given notice of exercise of a secondary call option (note 7) whereby it intends to increase its direct and indirect equity interest in the Magellan Project to 100% following the payment of a further A$2.0 million in 2003. Following the exercise of the primary and secondary call options, the tertiary options (note 7) have lapsed.

## 18. Supplemental cashflow information

(i) As a result of the change in the accounting treatment described in note 4(a), the Company deconsolidated the following assets and liabilities on July 1, 2001, and recorded its investment in the Lisheen Joint Venture on an equity basis:

| | $ |
|---|---|
| Cash | 2,808 |
| Other current assets | 5,912 |
| Non-current assets | 135,390 |
| Current liabilities | (10,672) |
| Non-current liabilities | 17,608 |
| Investment in Lisheen Joint Venture (note 4) | 115,830 |

(ii) Interest paid

| | 2001 | 2000 |
|---|---|---|
| | $ | $ |
| | 8,451 | 5,854 |