

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

Set out below is a year-over-year review of the activities, results of operations and financial condition of Ivernia West Inc. (the "Company") and its subsidiaries for its 2002 and 2001 financial years, together with certain trends and factors that are expected to impact its 2003 financial year. The discussion below should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2002 and 2001 and the notes thereto.

Capitalized terms used and not defined below have the meanings given to them in the consolidated financial statements and the notes thereto. References below to "\$", "dollars" or "US dollars" refer to United States dollars. Certain financial information relating to Ivernia set out below originated in Canadian dollars ("C\$"), Euros or Australian dollars ("A\$") and has been translated into US dollars based on prevailing exchange rates and in accordance with note 3 to the consolidated financial statements.

Overview

The Company, together with its subsidiaries (collectively, "Ivernia"), is an international base metals mining and exploration group. As at June 27, 2003, Ivernia's principal ongoing project is its 57.47% equity interest (December 31, 2002 – 95.80%) in the Magellan lead project (the "Magellan Project") in Western Australia. Construction of a mine at the Magellan Project is currently scheduled to commence in early 2004 at an anticipated cost in excess of \$30 million, with mining operations projected to commence in 2005 if the required project financing is obtained on schedule. Ivernia also has a 50% participating interest in the Lisheen zinc/lead 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 (collectively, "Anglo"). The Company has accepted in principle the concept of a purchase by Anglo of the Company's subsidiary Ivernia West Limited and its other subsidiaries holding the Company's 50% participating interest in the Lisheen Mine.

Magellan Project

The Magellan Project is 100% owned by Magellan Metals Pty Ltd ("Magellan Metals"). As at January 1, 2001 and January 1, 2002, the Company held a 91.6% interest in Magellan Metals. Of this interest, 15.7% was held through Ivernia's wholly-owned subsidiary Ivernia Australian Holdings Limited ("IAHL"), and a further 75.9% was held through Polymetals Pty. Ltd. ("Polymetals"), in which Ivernia held a 90% interest. In January 2002, Ivernia exercised a primary call option to acquire a further 5% of Polymetals for consideration of A\$2 million, which was settled in February 2002 for a cash payment by Ivernia of A\$1.76 million (\$894,000) and the issue of 1.4 million common shares (\$122,000) of the Company. At the time it exercised the primary call option, Ivernia also gave notice of exercise of a secondary call option to acquire the remaining 5% of Polymetals on or before August 25, 2003 for further consideration of A\$2 million. See note 5 to the consolidated financial statements. Consequently, as at December 31, 2002, Ivernia held a 95.8% interest in Magellan Metals.

During early 2001, Ivernia completed a feasibility study on the Magellan Project. During 2001 and 2002, Ivernia continued work on the project with the objective of increasing the size of the resource and improving the bankability of the project, and also sought a suitable partner to participate in financing its development. In 2002, expenditure incurred on the Magellan Project was \$566,000, which decreased from \$788,000 in 2001.

On June 19, 2003, Ivernia signed definitive agreements with The Sentient Global Resources Fund (together with its affiliates, "Sentient") for a joint venture to develop the Magellan Project (the "Magellan Transaction"). Pursuant to the Magellan Transaction, Sentient agreed to provide \$4.6 million in financing to Magellan Metals. This amount was advanced by way of a \$1.7 million subscription for 40% of the shares of Magellan Metals (the "Magellan Subscription"), \$2.4 million in secured loans (the "Magellan Loans") and \$0.5 million in notes (the "Magellan Notes") which are convertible into shares of Magellan Metals. The total amount provided by Sentient under these arrangements was used to refinance certain secured loans granted by Sentient to IAHL since February 2003. See note 13(b) to the consolidated financial statements. As a result of the Magellan Subscription, Ivernia's interest in Magellan Metals has decreased to 57.47%. IAHL has the right, upon payment of the A\$2 million exercise price of the secondary call option on or before August 25, 2003, to acquire the remaining 5% of Polymetals it does not

already own. This remaining 5% of Polymetals translates into a further 2.53% direct interest in Magellan Metals which will therefore increase Ivernia's interest in Magellan Metals to 60%.

Lisheen Mine

The Lisheen Mine commenced commercial production for reporting purposes on January 1, 2001. Ivernia considers that with effect from July 1, 2001, it no longer exercised joint control over the Lisheen Joint Venture. Consequently, with effect from July 1, 2001, Ivernia accounts for its interest in the Lisheen Joint Venture as an investment by the equity method. See note 4(b) to the consolidated financial statements.

In September 2002, completion at the Lisheen Mine occurred for purposes of a completion agreement with the mine's syndicate of project lenders. As of such time, all of Ivernia's obligations pursuant to the completion agreement were terminated, including a guarantee by the Company's subsidiary Ivernia West Limited ("IWL") of the portion of the project loans incurred by its subsidiaries. Such loans are now secured only on the assets of the Lisheen Mine and repayment of these loans is wholly dependent on cash flows deriving from the Lisheen Mine.

Also in September 2002, the Company reviewed the recoverability of the carrying value of its net investment in the Lisheen Mine. As a result of this review, a writedown of \$16.99 million was made and recognizing its loss of significant influence over the operations the Company adopted cost as its basis of accounting for its interest in the Lisheen Joint Venture. See note 4(b) to the consolidated financial statements.

During May 2003, the Company accepted in principle the concept of a purchase by Anglo, for an aggregate price of \$1.8 million, of IWL and its other subsidiaries holding the Company's 50% participating interest in the Lisheen Mine, and the assumption by Anglo of all Ivernia's related debt obligations including outstanding project loans to Ivernia Lisheen Finance Limited in the amount of \$73.19 million (the "Lisheen Sale"). Any such sale would be subject, among other things, to the execution of definitive agreements and the obtaining of all required regulatory and shareholder approvals. See note 13(c) to the consolidated financial statements. In order to provide Ivernia with necessary short term funding, pursuant to an agreement dated May 14, 2003, as amended, Anglo has provided to the Company through IWL a short term interest free loan (the "Anglo Loan") in the amount of \$500,000. This amount represents an advance by Anglo against the aggregate purchase price for IWL, but will be repayable on demand if, among other things, definitive agreements for the Lisheen Sale are not signed on or before July 14, 2003.

Reorganization

Prior to the Magellan Transaction, on June 19, 2003, the Company completed a reorganization of its subsidiaries with the result that the Company's interests in the Magellan Project is held through IAHL and its interest in the Lisheen Mine is held through IWL.

Results of Operations

After taking a writedown of \$16.99 million on the investment in the Lisheen Joint Venture, Ivernia incurred a loss of \$22.75 million or \$0.16 per share in 2002, compared to a loss of \$15.45 million or \$0.13 per share in 2001.

The Lisheen Mine commenced commercial production for reporting purposes on January 1, 2001. The Company's loss from mining operations during 2002 was nil compared to \$5.91 million in 2001. The loss from mining operations in 2001 was incurred during the first half of 2001 and represents Ivernia's proportionately consolidated share of the Lisheen Mine loss for that period. The loss from mining operations decreased to nil during the second half of 2001 and in 2002 following the change in the Company's accounting treatment of its interest in the Lisheen Mine from the proportional consolidation method to the equity method with effect from July 1, 2001. During 2001 and 2002 the Company's share of the operating loss of the Lisheen Joint Venture was funded by Anglo under the Anglo Funding Agreement.

In 2002, interest expense of \$4.40 million decreased from \$7.26 million in 2001. The interest expense during 2002 represented interest incurred on the Project Loan and the Standby Facility only. The interest expense during 2001 represented interest incurred on the Project Loan, the Standby Facility, a \$3.75 million working capital facility (repaid by Ivernia in September 2001) and the Anglo Funding Agreement, all of which related to Ivernia's share of the financing of the Lisheen Mine.

In 2002, interest income of \$103,000 decreased from \$269,000 in 2001 as average cash balances declined during the year while Ivernia continued to expend funds on general and administrative costs, the Magellan Project, interest payments and exploration.

General and administrative costs in 2002 decreased to \$1.25 million from \$2.02 million in 2001 due to reduced corporate activity and personnel costs.

Exploration costs in 2002 were \$47,000 compared to \$323,000 in 2001. The decrease was due to a significant reduction in exploration activity in Ireland, Australia and the United States.

During 2002 following a review of an updated life of mine plan prepared by Lisheen management, Ivernia reviewed the recoverability of the carrying value of its net investment in the Lisheen Joint Venture. This resulted in a writedown of the investment and a charge of \$16.99 million to the operations statement. See note 4(b) to the consolidated financial statements.

During 2002, other deferred exploration costs in respect of the Ballinalack property in Ireland of \$175,000 were written down to nil by a charge to the statement of operations following a decision to withdraw from a joint venture that was to undertake the next stage of exploration on the project. See note 6 to the consolidated financial statements.

Liquidity and Cash Flow

Investing Activities

During 2002, cash generated from investing activities was \$9.95 million, compared to \$7.66 million in 2001. Additions to property, plant and equipment in 2002 of \$1.47 million were all incurred on the Magellan Project. Additions to property, plant and equipment in 2001 of \$7.37 million were principally incurred on Lisheen Mine development, plant, equipment and infrastructure (\$6.56 million), and on the Magellan Project (\$0.79 million). These additions to property, plant and equipment include capitalised interest costs of nil in both years. The decrease in equity investments in 2002 of \$10.61 million related to shareholder and partner loans repaid to Ivernia by the Lisheen Joint Venture under the terms of the Anglo Funding Agreement to enable Ivernia to fund the Project Loan repayment, interest payments and to place funds with the Project Bond issuing financial institution. The decrease in equity investments in 2001 of \$15.03 million related to shareholder and partner loans repaid to Ivernia by the Lisheen Joint Venture during the second half of 2001 under the terms of the Anglo Funding Agreement to enable Ivernia to fund Project Loan repayments, interest payments and repayment of the Working Capital Facility. Proceeds on short term investments in 2002 of \$797,000 (2001 - nil) related to the sale of shares of Resources Investment Trust plc held by Ivernia. See note 14(a) to the consolidated financial statements.

Financing Activities

In 2002, Ivernia utilised a net \$5.00 million in financing activities of which the main components were \$6.65 million of Project Loan repayments, less \$0.40 million of advance proceeds against the issue of convertible notes and warrants of the Company, less \$1.26 million representing the net proceeds from the issue of common shares of the Company. In 2001, Ivernia utilised \$1.09 million in financing activities of which the main components were \$10.04 million of Project Loan and Standby Facility repayments and \$3.75 million repayment of the Working Capital Facility, less \$12.71 million of Anglo funding contributions, inclusive of interest, for the Lisheen Mine made by Anglo, during the first half of 2001, on behalf of Ivernia under the Anglo Funding Agreement.

Lisheen Project Loan and Related Facilities

A subsidiary of IWL, Ivernia Lisheen Finance Limited ("Ivernia Finance"), has entered into a project loan facility agreement (the "Project Loan Agreement") dated December 22, 1997 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 Ivernia Finance to fund the construction of the Lisheen Mine. Anglo entered into a corresponding project loan facility with the same syndicate. Under the Project Loan Agreement, Ivernia West plc (now Ivernia West Limited) guaranteed to fund Ivernia Finance's share of any construction costs in excess of \$266.4 million incurred prior to "financial completion" (as defined in the Project Loan Agreement), and to guarantee the payment of its senior debt obligations due and payable prior to financial completion. Financial completion occurred in September 2002 and as of that date the guarantee by IWL of the portion of the Project Loan incurred by its subsidiaries was terminated. See

notes 4(b), 4(c) and 13(c) to the consolidated financial statements. 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. At December 31, 2002 the balance outstanding on the non-recourse Project Loan was \$73.19 million (December 31, 2001 - \$79.85 million) including \$6.65 million that was due on December 31, 2002 but not paid. See notes 4(c) and 13(c) to the consolidated financial statements.

In February 2003, Anglo effectively become the lender under the Project Loan and the holder of the related security since, at such time, the Project Lenders transferred all of the outstanding debt under both the Ivernia and Anglo project loan facilities to a single financial institution, and a subsidiary of Anglo entered into a sub-participation agreement with such financial institution.

Pursuant to the Project Loan Agreement, a 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 Euro 7.50 million (\$7.9 million) in connection with the permitting, construction, operation and closure of the Lisheen Mine. As at December 31, 2002, Euro 7.50 million (\$7.9 million) of Project Bonds had been placed in favour of third party beneficiaries, and no demands had been made by the respective third party bond beneficiaries under the Project Bonds. The Project Bonds are required to be funded by cash collateral deposits to be built-up over the course of the mine life. In February 2003, in connection with the transfer of the Project Loans to a single financial institution and the sub-participation by Anglo referred to above, Anglo advised the Company that it had provided a guarantee to the financial institution issuing the Project Bonds. Commissions are payable at the prescribed rates by the Company in respect of the Project Bonds.

Working Capital, Capital Resources and Funding Arrangements

Ivernia's working capital position as at December 31, 2002 was a \$24.74 million deficiency compared to a \$13.64 million deficiency as at December 31, 2001. As at December 31, 2002, Ivernia had cash and cash equivalents in the amount of \$191,000 compared to \$630,000 at December 31, 2001. At December 31, 2002 restricted cash and cash equivalents of \$3.47 million represented a cash collateral deposit in respect of the Project Bonds compared to \$1.80 million at December 31, 2001.

Ivernia West Inc.

From January through April 2002, the Company completed a private placement of 27,402,053 units, each consisting of one common share and one-third of a common share purchase warrant, for an aggregate purchase price of C\$3.84 million (\$2.34 million net of issue costs). The Company issued 15,655,000 of the units to Resources Investment Trust plc ("RIT"), which satisfied the purchase price for 11 million of these units by issuing 685,632 of its ordinary shares to a subsidiary of the Company, and the balance for cash proceeds of C\$652,000 (\$410,000). See note 14(a) to the consolidated financial statements. Ivernia issued 1.4 million of the units as part of the payment made on the exercise of a primary call option to increase its ownership of Polymetals to 95%. See notes 5 and 8(b)(i) to the consolidated financial statements. The remaining units were issued for aggregate cash proceeds of C\$1.45 million (\$907,000). Each full warrant is exercisable into one common share of the Company at an exercise price of \$0.065 per share until December 31, 2003. Full exercise of all the warrants would raise \$0.59 million for the Company.

In August 2002, Ivernia entered into an agreement with RIT whereby RIT committed to underwrite the issue of 10% convertible notes to raise up to \$1.95 million. During November and December 2002, Ivernia received advance subscription proceeds from RIT of \$400,000, and an additional \$650,000 in advance proceeds were received from RIT and a related company from January through April 2003. The balance of the \$900,000 principal amount of notes was subscribed for by Sentient in connection with the signing of the Magellan Transaction agreements. None of the notes has been issued as at June 27, 2003. Upon issuance, the notes will be convertible into an aggregate of 30 million common shares of the Company at \$0.065 per share at any time on or before maturity, which will be 36 months after closing. Accompanying the notes will be 30 million common share purchase warrants exercisable at \$0.065 per share until 24 months after closing. Full exercise of these warrants would raise up to a further \$1.95 million for the Company. See notes 7(b) and 13(a) to the consolidated financial statements.

Magellan Project

On an ongoing basis, 40% of the funding for the Magellan Project will be provided by Sentient, with 60% to be funded by or on behalf of Ivernia. If Sentient acquires additional Magellan Metals shares upon the conversion of Magellan Notes as described below, Sentient's share of the funding requirement will be increased, with retroactive

effect from June 19, 2003, to the extent of its percentage share ownership following such exercise. In the event that the Company is unable to fund its share of contributions to the Magellan Project, Sentient will contribute on the Company's behalf under an interim funding arrangement (the "Cash Flow Note"). Such contributions will be repaid by Magellan Metals to Sentient out of project cash flow with interest at a rate that provides Sentient with a 30% internal rate of return.

Of the \$0.5 million principal amount of the Magellan Notes, \$0.4 million is convertible at Sentient's option into an additional 9% of the shares of Magellan Metals increasing Sentient's shareholding to 49% of Magellan Metals. If certain default events occur, then the final \$0.1 million of Magellan Notes will become convertible into a further 2% of the shares of Magellan Metals. These default events include the inability of the Company to arrange, by January 31, 2004, project financing for Magellan Metals from a financial institution. The Company is in negotiations with a financial institution regarding the terms on which it would be prepared to provide this project financing.

Lisheen Mine

In April 2000, Ivernia finalised security arrangements to enable drawdowns to be made under a Euro 6.35 million (approximately \$6.6 million) loan facility (the "Standby Facility") provided by an Irish financial institution. The purpose of the Standby Facility was to enable Ivernia to meet its share of cost overrun funding requirements for the Lisheen Mine. The Standby Facility was fully drawn down in July 2000, and was repayable in three instalments of Euro 1.27 million, Euro 2.54 million and Euro 2.54 million on December 31, 2001, June 30, 2002 and June 30, 2003, respectively. Interest on the Standby Facility was payable at the rate of 2.0% per annum over the cost of funds to the lender on the relevant interbank market. In July 2001, Ivernia prepaid Euro 3.71 million (\$3.39 million) of the Euro 6.35 million drawdown. At December 31, 2002, the Euro 2.64 million (\$2.76 million) balance on the Standby Facility was to be due for repayment on June 30, 2003. However, in February 2003, Ivernia entered into a settlement agreement for the early repayment of the Standby Facility using funds obtained from a secured loan granted by Sentient to IAHL. See note 13(d) to the consolidated financial statements.

Ivernia has entered into arrangements with Anglo to provide for the funding of certain cost overrun contributions for the Lisheen Mine (as amended, 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 Ivernia's 50% share of certain overrun contributions and other contributions for the Lisheen Mine, including Project Loan interest and principal repayments. Any amounts funded by Anglo under the terms of the Anglo Funding Agreement are to be repaid by the Lisheen Mine, together with interest calculated to derive a 10% annual real rate of return, from the first available Lisheen Mine cash flow, and shall not result in any dilution of Ivernia's 50% participating interest. Anglo currently has the right to invoke certain penalty provisions (including the loss of Ivernia's voting entitlement at meetings of the Lisheen Mine Management Committee and the suspension of Ivernia's right to order and direct the marketing and sale of its share of concentrates) under the Lisheen Joint Venture agreements by 14 days written notice. Anglo has not served any such notice nor has it indicated its intention to do so. As at December 31, 2002, \$57.30 million (December 31, 2001 - \$40.25 million) had been funded by Anglo under the Anglo Funding Agreement. Accrued interest on the Anglo funding as at December 31, 2002 was \$8.48 million (December 31, 2001 - \$2.13 million). The result of the accumulated contributions by Anglo on Ivernia's behalf under the Anglo Funding Agreement is that Ivernia is unlikely ever to realize any cash flow from the Lisheen Mine.

Outlook

Construction has not yet commenced at the Magellan Project and no lead production or revenue is expected prior to 2005. No future operating cash flow is expected to be realized by the Company from the Lisheen Mine. The Company accordingly has no internal sources of cash flow and is wholly dependent on its existing cash resources and cash generated from outside sources, including funding arrangements.

Upon completion of the Lisheen Sale, it is anticipated that the Company's ongoing cash requirements at the parent company level will be limited to corporate general and administration costs. The Company's expected sources of cash to fund these costs consist of (i) its current cash resources, (ii) proceeds from the issuance of \$0.9 million in convertible notes to Sentient, and (iii) upon completion of the Lisheen Sale, the remaining \$1.3 million of the purchase price not already advanced under the Anglo Loan. The proceeds from the Anglo Loan are almost entirely committed to pay existing obligations to the Company's creditors. There can be no assurance that the Company will be able to raise additional cash in a financing on economically attractive terms. Accordingly, the Company expects to implement a cost management program to conserve its limited cash resources at the parent company level until

the Magellan Project begins to generate revenue. Notwithstanding this, the liquidity position of the Company could be adversely affected if unforeseen events result in the utilization of significant cash resources of the Company.

If Ivernia is unable to fund its share of contributions to the Magellan Project, Sentient is obligated under the Cash Flow Note to make such contributions on its behalf. However, Ivernia's continuing interest in the Magellan Project is dependent upon successfully concluding negotiations for project financing from a financial institution by not later than January 31, 2004, failing which Ivernia could lose its controlling interest in the Magellan Project and Sentient would be entitled to exercise its security.

Ivernia currently anticipates that its share of funding contributions for the Lisheen Mine will be funded by Anglo on behalf of Ivernia under the terms of the Anglo Funding Agreement until the closing of the Lisheen Sale. Pending such sale, pursuant to the terms of the Lisheen Joint Venture Agreements and the Anglo Funding Agreement, Anglo continues to have the right to invoke certain penalty provisions upon 14 days written notice at any time if Ivernia does not elect to resume its funding contributions backdated to November 2001. Ivernia has to date not elected to resume its funding contributions and Anglo has served no such notice nor has it indicated its intention to do so. In the event that any additional funding is required from Anglo under the terms of the Lisheen Joint Venture agreements that is not covered by the Anglo Funding Agreement, then such additional funding may, on notice by Anglo, result in dilution of the Company's interest in the Lisheen Mine on a non-punitive basis. The Company's liquidity could be adversely affected if definitive agreements with Anglo for the Lisheen Sale are not signed by July 14, 2003 and Anglo demands repayment of the Anglo Loan, or if the Lisheen Sale is not completed or takes longer to complete than currently envisaged.

Risks and Uncertainties

Ivernia is subject to the normal operating and geological risks associated with mining activities; its ability to maintain its interest in the Magellan project and attain and sustain positive operating cash flow once commercial production at the Magellan Project is achieved; and certain other risks set out in this and other documents filed by the Company with securities regulators. In addition to these risks, Ivernia's profitability will largely be dependent on lead metal prices, foreign exchange rates and interest rates.

Lead Metal Prices

Upon the commencement of production at the Magellan Project, cash flows to Ivernia from the project will depend upon lead metal sales prices for the Magellan Project production. Such sales prices will be determined by prevailing market conditions. No lead metal price hedges have been put in place.

Foreign Exchange Rates

Substantially all operating costs to be incurred by Magellan Metals in connection with the Magellan Project will be denominated in Australian dollars while its revenues will be earned in US dollars. Accordingly, changes in exchange rates between the Australian dollar and the US dollar will affect Ivernia's operating income. In order to reduce its exposure to currency fluctuations, Magellan Metals may hedge a portion of its Australian dollar exposure against currency fluctuations. No currency hedges have been put in place.

Interest Rates

The Lisheen Joint Venture's long term non-recourse project debt bears interest at US dollar LIBOR plus 1% per annum. The Lisheen Joint Venture currently hedges a portion of its exposure to variations in interest rates by the use of interest rate swaps. The Lisheen Joint Venture is responsible for these obligations.

Other Risks

Ivernia continually monitors and assesses the risks it faces. It reduces both the likelihood and potential severity of these risks through its high operational standards, various programs and employee training. Ivernia also maintains adequate insurance at all times to cover normal operating activities. Ivernia operates in an international environment and, therefore, is subject to government regulations and is exposed to adverse changes in these regulations within each jurisdiction in which it operates.

Quarterly Information

The following table sets out selected unaudited consolidated financial information for the Company for the eight fiscal quarters ending December 31, 2002.

	3 months ended							
	Dec. 31, 2002	Sept. 30, 2002	June 30, 2002	Mar. 31, 2002	Dec. 31, 2001	Sept. 30, 2001	June 30, 2001	Mar. 31, 2001
	(thousands of US dollars, except per share data)							
		(restated)						
Total revenues	-	-	-	-	-	-	\$6,725	\$6,256
Net income (loss)	(\$1,492)	(\$18,659)	(\$1,188)	(\$1,408)	(\$1,812)	(\$2,092)	(\$5,910)	(\$5,640)

Per Share Data: (1)

Net income (loss):								
Basic	(\$0.01)	(\$0.13)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.05)	(\$0.05)
Fully diluted	(\$0.01)	(\$0.13)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.05)	(\$0.05)

(1) Per share data was calculated on the basis of the weighted average shares outstanding (basic and fully diluted) for the relevant period. The quarterly per share data disclosed above differs from the audited loss per share for 2001 because of rounding differences.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", and "intend" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements reflect the current internal projections, expectations or beliefs of the Company based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties, including those detailed from time to time in filings made by the Company with securities regulatory authorities, that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. The Company expressly disclaims any obligation to update or revise any such forward-looking statements.

June 27, 2003

**IVERNIA WEST INC.
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 that 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.

(Signed) David Hough
President and Chief Executive Officer

(Signed) Alan De'ath
Vice President and Chief Financial Officer

June 27, 2003

Auditors' Report to the Shareholders of Ivernia West Inc.

We have audited the consolidated balance sheets of Ivernia West Inc. as at December 31, 2002 and December 31, 2001 and the consolidated statements of operations and cash flows for the years then ended. 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 to 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, 2002 and December 31, 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario
May 6, 2003 (except for notes 1 and 13 which are as at June 27, 2003)

IVERNIA WEST INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2002 and 2001

(in thousands of United States dollars, except per share amounts)

	<u>2002</u>	<u>2001</u>
	\$	\$
Gross revenue	-	27,461
Smelter costs	-	14,480
Net revenue	<u>-</u>	<u>12,981</u>
Mine operating costs		
Cost of sales	-	14,340
Depreciation and amortisation	-	4,549
	<u>-</u>	<u>18,889</u>
Loss from mining operations	<u>-</u>	<u>(5,908)</u>
Other expenses (income)		
General and administrative	1,250	2,016
Stock option costs (note 8(c))	97	-
Foreign exchange (gain) loss	(165)	173
Exploration	47	323
Interest expense	4,402	7,255
Interest income	(103)	(269)
Writedown of investments (note 4(b))	16,992	48
Property, plant and equipment writedown (note 6)	175	-
Other expenses, net (note 14(a))	52	-
	<u>22,747</u>	<u>9,546</u>
Loss for the year	(22,747)	(15,454)
Deficit - beginning of year	<u>(58,025)</u>	<u>(42,571)</u>
Deficit - end of year	<u>(80,772)</u>	<u>(58,025)</u>
Basic loss per share (note 8(e))	<u>(0.16)</u>	<u>(0.13)</u>

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

IVERNIA WEST INC.
CONSOLIDATED BALANCE SHEETS
as at December 31, 2002 and 2001

(in thousands of United States dollars)

	2002	2001
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	191	630
Accounts receivable	65	185
Other current assets	-	129
	256	944
Investment in Lisheen joint venture (Note 4)	73,192	100,798
Other investments	16	16
Property, plant and equipment, net (notes 5 and 6)	8,184	6,779
Restricted cash and cash equivalents (note 4(c))	3,474	1,798
Deferred charges (note 7(c))	51	38
	85,173	110,373
Liabilities		
Current liabilities		
Current portion of long-term debt (note 7)	22,723	13,308
Accounts payable and accrued liabilities	2,275	1,276
	24,998	14,584
Long-term debt/convertible notes (note 7 and 13(a))	53,631	68,884
Minority interest (note 5)	52	103
	78,681	83,571
Shareholders' Equity		
Share capital (note 8(b))	80,359	78,019
Contributed surplus (note 8(d))	97	-
Deficit	(80,772)	(58,025)
Cumulative translation adjustments	6,808	6,808
	6,492	26,802
	85,173	110,373
Going concern (note 1)		
Commitments and contingencies (notes 4,5,10, 11 and 12)		

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

Approved by the Board of Directors

(Signed) J. TREVOR EYTON
 Director

(Signed) DAVID HOUGH
 Director

IVERNIA WEST INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2002 and 2001

(in thousands of United States dollars)

	<u>2002</u>	<u>2001</u>
	\$	\$
Cash provided by (used in)		
Operating activities		
Loss for the year	(22,747)	(15,454)
Non-cash items		
Depreciation and amortization	-	4,549
Stock option costs (note 8(c))	97	-
Writedown of investments	16,992	48
Property, plant and equipment writedown	175	-
Other	490	197
Changes in non-cash working capital		
Accounts receivable, inventories and other current assets	263	(156)
Accounts payable and accrued liabilities	1,030	(2,071)
Increase in restricted cash and cash equivalents	<u>(1,125)</u>	<u>(122)</u>
	<u>(4,825)</u>	<u>(13,009)</u>
Investing activities		
Additions to property, plant and equipment	(1,465)	(7,368)
Proceeds on short term investment (note 14(a))	797	-
Decrease in equity investments (note 4(b))	10,614	15,032
	<u>9,946</u>	<u>7,664</u>
Financing activities		
Net cash proceeds on issue of shares	1,257	-
Working capital facility repaid	-	(3,750)
Increase in Anglo funding	-	12,708
Advance proceeds against Convertible Notes	400	-
Decrease in long-term debt	(6,654)	(10,043)
	<u>(4,997)</u>	<u>(1,085)</u>
Cash deconsolidated (note 4(b))	<u>-</u>	<u>(2,808)</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<u>(563)</u>	<u>(228)</u>
Net decrease in cash and cash equivalents	(439)	(9,466)
Cash and cash equivalents - Beginning of year	<u>630</u>	<u>10,096</u>
Cash and cash equivalents - End of year	<u>191</u>	<u>630</u>
Supplementary information:		
Interest paid	3,063	8,451

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

IVERNIA WEST INC.
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, 2002 and as at the same date, Ivernia West Inc. ("Ivernia Inc.") and its subsidiaries (collectively, the "Company") had a loss of \$22.75 million and a working capital deficiency of \$24.74 million.

Management is reasonably confident that on the anticipated final closing of the Lisheen Sale transaction referred to below, the Company will have secured 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. Further information on the matters disclosed below is given in note 13 to the Financial Statements.

Private placement of convertible notes and warrants

As at June 27, 2003, the Company has received advance subscription proceeds in the aggregate amount of \$1.95 million in respect of a private placement of convertible notes and warrants, of which \$400,000 had been received by December 31, 2002. These advance proceeds represent the purchase price for the maximum amount issuable under the private placement, which was approved by Ivernia Inc.'s shareholders in October 2002. None of the convertible notes or warrants has been issued as at June 27, 2003 (notes 7(b) and 13(a)).

Sentient loans and Magellan transaction

On June 19, 2003, the Company signed definitive agreements with The Sentient Global Resources Fund (together with its related entities, "Sentient") for a joint venture (the "Magellan Transaction") to develop the Company's Magellan lead project in Western Australia (the "Magellan Project"), and the purchase by Sentient of \$0.9 million aggregate principal amount of convertible notes and warrants of the Company (notes 13(a) and 13(b)). Pursuant to the Magellan Transaction, Sentient agreed to provide \$4.6 million in financing to the Company's subsidiary Magellan Metals Pty. Limited ("Magellan Metals"). This amount was advanced by way of a \$1.7 million subscription for 40% of the shares of Magellan Metals, \$2.4 million in secured loans (the "Magellan Loans") and \$0.5 million in notes (the "Magellan Notes") which are convertible into shares of Magellan Metals. The total amount of \$4.6 million provided by Sentient under these arrangements was used to extinguish certain existing secured loans advanced since December 31, 2002 (note 13(b)) by Sentient to Ivernia Australian Holdings Limited ("IAHL"), another subsidiary of the Company.

On an ongoing basis, 40% of the funding for the Magellan Project will be provided by Sentient, with 60% to be funded by or on behalf of Ivernia. If Sentient acquires additional Magellan Metals shares upon the conversion of Magellan Notes, Sentient's share of the funding requirement will be increased, with retroactive effect from June 19, 2003, to the extent of its percentage share ownership following such conversion. In the event that the Company is unable to fund its share of contributions to the Magellan Project, Sentient will make contributions on the Company's behalf under an interim funding arrangement. Such contributions will be repaid by Magellan Metals to Sentient out of project cash flow with interest at a rate that provides Sentient with a 30% internal rate of return.

Lisheen mine

The Company has been engaged in discussions with Anglo American plc ("Anglo"), the Company's joint venture partner in the Lisheen Mine, concerning the terms on which the Company would be prepared to exit the Lisheen joint venture. The Company has accepted in principle the concept of a purchase by Anglo, for an aggregate price of \$1.8 million, of the Company's subsidiary Ivernia West Limited ("IWL") and its other subsidiaries holding the Company's 50% participating interest in the Lisheen Mine, and the assumption by Anglo of all Ivernia's related debt obligations including outstanding project loans to Ivernia Lisheen Finance Limited in the amount of \$73.19 million (the "Lisheen Sale"). As at June 27, 2003, no definitive binding agreements have been entered into with respect to the Lisheen Sale, and any such sale would be subject, among other things, to obtaining all required regulatory and shareholder approvals.

In order to provide Ivernia with necessary short term funding, pursuant to an agreement dated May 14, 2003, as amended, Anglo has provided to the Company through IWL a short term interest free loan (the "Anglo Loan") in the amount of \$500,000. This amount represents an advance by Anglo against the aggregate purchase price for IWL, but

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

will be repayable on demand if, among other things, definitive agreements for the Lisheen Sale are not signed on or before July 14, 2003. A further advance of \$250,000 may be drawn by Ivernia upon the satisfaction of certain conditions relating to the Lisheen Sale and the granting by the Company to Anglo of security over all of the shares of IWL.

Reorganization

Prior to the signing of the Magellan Transaction, on June 19, 2003, the Company completed a reorganization of its subsidiaries with the result that the Company's interests in the Magellan Project and the Lisheen Mine are held through separate wholly-owned subsidiaries. None of Magellan Metals, Polymetals Pty. Ltd. ("Polymetals") or IAHL will be included in the Lisheen Sale.

Settlement of standby facility

During February 2003, the Company entered into a settlement agreement with an Irish financial institution for the early repayment of a Euro 2.64 million (\$2.85 million; December 31, 2002 - \$2.76 million) standby facility which would have matured on June 30, 2003 (note 7(a)). The standby facility was settled on payment of Euro 1.92 million (\$2.08 million) in March 2003. The settlement was funded by a \$2.10 million interest free secured loan received from Sentient (note 13(d)).

2. Nature of operations

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 Inc. is active in one operating segment, namely the acquisition, exploration, development and mining of mineral properties. Its principal ongoing project is a 95.8% direct and indirect equity interest in Magellan Metals Pty. Limited (formerly Magellan Mining Pty. Limited) ("Magellan Metals") in Australia (note 5 and 13(b)). As at December 31, 2002, the Company also has 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 and 13(c)).

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. Investments in which the Company does not exercise significant influence are accounted for using the cost method under which investments are accounted for at the lower of cost and estimated net realisable value.

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.

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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:

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 are allowed to lapse; or
- Insufficient funding is available to complete the exploration program;

Development properties:

- The carrying amounts of the capitalised and deferred costs exceed the forecast 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

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Capitalization of interest

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

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.

Investments

Joint ventures over which the Company exercises joint control are proportionately consolidated. 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 includes certain listed securities, are accounted for using the cost method. Investments are accounted for at the lower of cost and estimated net realisable value.

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. Valuation allowances are recorded against future tax assets to the extent that the Company determines that the asset is not more likely than not to be realised.

Hedging transactions

In order to hedge its exposure to foreign exchange and interest rate risks, the Company may enter 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 that is described in note 8(c). In 2002 the Company adopted prospectively the requirements of the CICA handbook section 3470, "Stock-Based Compensation and Other Stock Based Payments." As encouraged by section 3470, the Company has adopted the fair value based method to account for stock-based transactions with directors, and eligible employees for options granted in 2002. The value is recognized over the applicable vesting period as an increase in compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus will be credited to Share Capital. For options granted prior to January 1, 2002 the Company continues to follow the accounting policy under which no expense is recognized for these stock options. When those options are exercised, the proceeds received by the Company will be recorded as Share Capital.

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 convertible securities, 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.

4. Investment in Lisheen joint venture

(a) Lisheen joint venture agreements

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, 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 ("the Penalty Provisions").

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 4(c)) 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.

Pursuant to arrangements with Anglo providing for the funding by Anglo until further notice of the Company's 50% share of contributions for the Lisheen Mine (the "Anglo Funding Agreement"), Anglo have funded all such contributions on behalf of the Company since October 2000. The Company may resume the funding of its 50% share of contributions at any time by providing notice to Anglo and repaying in full the amount funded by Anglo under the terms of the agreement to such date, together with interest in an amount equal to a 10% annual real rate of return. Until the company resumes such funding, Anglo has the right to invoke the above stated Penalty Provisions by 14 days written notice. The funding by Anglo of contributions on behalf of the Company under the terms of the Anglo Funding Agreement shall be repaid by the Lisheen Mine from the Company's share of the first available cash flow from the Lisheen Mine after meeting the Project Loan facility agreement obligations. As at December 31, 2002 there has been no such available Lisheen Mine cash flow to date to make such repayments to Anglo.

As at December 31, 2002, \$57.30 million (December 31, 2001 - \$40.25 million) had been funded on behalf of Ivernia by Anglo under the terms of the Anglo Funding Agreement. Accrued interest as at December 31, 2002 was \$8.48 million (December 31, 2001 - \$2.13 million).

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Accounting for the Lisheen joint venture

The Company considers that with effect from July 1, 2001, it no longer exercised joint control over the Lisheen Joint Venture. Consequently, with effect from July 1, 2001, the Company accounted for its interest in the Lisheen Joint Venture as an investment by the equity method.

During September 2002, the Company reviewed the recoverability of the carrying value of the net investment in the Lisheen Joint Venture. As a result of this review, a writedown of \$16.99 million was made and recognising its loss of significant influence over the operations the Company adopted cost as its basis of accounting for its interest in the Lisheen Joint Venture.

As of September 30, 2002 management of the Lisheen Mine had delivered to the mine's syndicate of project lenders all of the certificates necessary to establish that completion at the mine has occurred. As of completion, all of the Company's obligations pursuant to a completion agreement with the project lenders were terminated, including among other things the Company's indirect guarantee of the portion of the project debt incurred by its subsidiary Ivernia Lisheen Finance Limited. The Company also reconfirmed its decision to refrain from injecting any more capital into the Lisheen Joint Venture.

Following release of the guarantee the loans to the banks are now secured only on the assets of the Lisheen Mine and the legal entities directly related to the mine. Repayments of loans to the banking syndicate are now wholly dependent on cash flows deriving from the Lisheen mine.

Following termination of the completion agreement, management of the Lisheen Mine were at December 31, 2002 in discussions with the mine's syndicate of project lenders on the restructuring of the Lisheen Mine debt (note 13(c)).

As a result of the change in the accounting treatment during 2001, 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	<u>(17,608)</u>
Investment in Lisheen Joint Venture	<u>115,830</u>

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The investment in the Lisheen joint venture is summarised as follows:

	2002		2001	
	\$	\$	\$	\$
- shareholder and partner loans	100,798		115,830	
- equity investments	-		-	
Balance at July 1, 2001			115,830	
Balance at January 1, 2002	100,798			
	100,798		115,830	
Shareholder and partner loans repaid	(10,614)		(15,032)	
Writedown of investment	(16,992)		-	
Balance at December 31	73,192		100,798	

The shareholder and partner loans are non-interest bearing.

(c) Non-recourse project loan within Lisheen joint venture

Ivernia Lisheen Finance Limited 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 fund part of the construction cost 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, 2002, interest on \$27 million (December 31, 2001 - \$47 million) of the Project Loan is swapped for a fixed rate of 5.94% (excluding 1% margin) (December 31, 2001 - 5.82%). The Project Loan is secured by charges over all the Company's interest in the business, assets and undertaking of the Lisheen Mine.

All amounts owing under the Project Loan are due on December 31, 2007. Ivernia Lisheen Finance Limited 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. Ivernia Lisheen Finance Limited 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 Lisheen Finance Limited prepays an equal portion of its loan under its corresponding credit facility (the "Anglo Project Loan").

As of September 30, 2002 management of the Lisheen Mine had delivered to the Project Lenders all of the certificates necessary to establish that completion at the mine had occurred. As of completion all of the Company's obligations pursuant to a completion agreement with the Project Lenders were terminated (note 4(b)), including among other things the Company's indirect guarantee of the portion of the project debt incurred by its subsidiary Ivernia Lisheen Finance Limited.

On November 15, 2002 management of the Lisheen Mine advised the Project Lenders that in the light of an updated life-of-mine plan Anglo had indicated that it was prepared to make a one-off capital contribution to the Lisheen joint venture of \$73.2 million, subject to the Lisheen joint venture obtaining the unanimous agreement of the Project Lenders to use the amount to discharge fully the \$146.4 million debt outstanding under both the Anglo Project Loan and the Project Loan, to release each of the borrower's and each of their subsidiaries from all current and future obligations and liabilities in relation to the two project loans and to discharge all security over the project and its assets. The Anglo offer was subject to the condition that agreement was reached with the Project Lenders and payments made against the final discharge of the debt outstanding by January 15, 2003. Anglo stated that if agreement could not be reached with the Project Lenders, then Anglo could not justify providing further financial or management support for the Lisheen joint venture, and in those circumstances, the Lisheen joint venture companies would not be capable of meeting their obligations as they fall due and they would be forced to evaluate all options available, including examinership. Consequently, the Project Loan payment (\$6.65 million)

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

and interest (\$1.32 million) due on December 31, 2002 was not paid and negotiations with the Project Lenders continued as at December 31, 2002 (see note 13(c)).

As at December 31, 2002, long-term debt maturities for each of the five twelve-month periods ending on December 31 in each year through 2007 are: 2003 - \$13.31 million; 2004 - \$13.31 million; 2005 - \$13.31 million; 2006 - \$13.31million; 2007 - \$13.30 million. In addition the above mentioned \$6.65 million was due on December 31, 2002 but not paid (see note 13(c)).

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 Euro 7.5 million (\$6.7 million) in connection with the permitting, construction, operation and closure of the Lisheen Mine. As at December 31, 2002, Euro 7.5 million (December 31, 2001 – Euro 7.5 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. As at December 31, 2002 a cash collateral deposit of \$3.47 million (December 31, 2001 - \$1.80 million) has been placed with the Project Bonds issuing financial institution in accordance with the terms and conditions of the Project Bonds.

5. Magellan project

The Company holds a 15.7% (December 31, 2001 – 15.7%) direct interest and a 80.1% (December 31, 2001 – 75.9%) indirect interest in Magellan Metals. As a result the Company's total direct and indirect interest in Magellan Metals is 95.8% (December 31, 2001 – 91.6%).

The indirect interest is through the Company's holding of 95% (December 31, 2001 – 90%) of the issued and outstanding shares of Polymetals Pty Ltd. ("Polymetals"), an Australian mining company which holds an 84.3% interest in Magellan Metals.

In January 2002 the Company exercised an option to purchase 5% of the issued and outstanding shares of Polymetals to increase its holding from 90% to 95%. Payment for the exercise of this option was made during February 2002 and included A\$1.76 million (\$894,000) in cash and the issue of 1.4 million shares (\$122,000) in the Company as part of a Private Placement (note 8(b)(i)).

In January 2002 the Company also gave notice of exercise of a further option whereby it will purchase the remaining 5% of Polymetals it does not hold on or before August 25, 2003 for A\$2 million. Following payment of that A\$2 million the Company will hold 100% of the issued and outstanding shares of Polymetals and thereby hold a 100% direct and indirect interest in Magellan Metals (note 13(b)).

As at December 31, 2002 the Company has consolidated its interest in Magellan Metals on a 95.8% basis (December 31, 2001 – 91.6%) with the remaining 4.2% (December 31, 2001 – 8.4%) being attributed to minority interest. As at December 31, 2002 the minority interest was \$52,000 (December 31, 2001 - \$103,000). The minority interest has no share of the result in 2002 (2001 – nil) as Magellan Metals is a development property and the costs are capitalised (note 6).

IVERNIA WEST INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

6. Property, plant and equipment

	2002	2001
	\$	\$
Magellan project (Note 5):		
Acquisition costs	4,691	3,670
Capitalised costs	3,473	2,907
	8,164	6,577
Other deferred exploration costs	-	175
Corporate	20	27
	8,184	6,779

During 2002 interest capitalized in connection with the Magellan project amounted to \$ nil (2001 - \$ nil). During 2002 other deferred exploration costs in respect of the Ballinalack property in Ireland of \$175,000 were written down to nil by a charge to the statement of operations following a decision to withdraw from a joint venture that was to undertake the next stage of exploration on the project.

7. Long-term debt

	2002	2001
	\$	\$
Project Loan (note 4(c))	73,192	79,846
Standby Facility (note 7(a))	2,762	2,346
Advance proceeds against Convertible Notes (note 7(b))	400	-
	76,354	82,192
Less current portion:		
Project Loan	19,961	13,308
Standby Facility	2,762	-
	53,631	68,884

(a) Standby facility

The Company has a loan facility from an Irish financial institution (the "Standby Facility") of \$2.76 million which is repayable on or before June 30, 2003 (note 13(d)). 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.

(b) Private placement of convertible notes

In August 2002, the Company entered into an agreement with one of its major shareholders Resources Investment Trust plc ("RIT"), a London Stock Exchange listed special purpose investment company, whereby RIT committed to underwrite the issue of convertible notes to raise up to \$1.95 million. The proceeds of the funding will be used for general corporate purposes and the convertible notes will mature 36 months after closing. The notes are convertible into common shares of Ivernia Inc at a conversion price of \$0.065 per share at the discretion of the

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noteholder at any time on or before maturity. Each \$0.065 principal amount of the convertible notes also carries one warrant for one common share exercisable at \$0.065 at any time on or prior to the date which is 24 months after the date of closing. Exercise of the warrants would raise up to a further \$1.95 million. Up to 30 million shares would be issued on conversion of all the notes and up to 30 million shares would be issued on exercise of all the warrants. The convertible notes are interest bearing at the rate of 10% per annum payable semi-annually through an interest payment fund to be established on closing by the Company out of proceeds of the funding. RIT shall be entitled to receive on closing a fee equal to 5% of the gross proceeds of the convertible notes, such fee to be payable in newly issued common shares of Ivernia Inc valued at \$0.065 per share. The private placement was approved by shareholders at a special meeting held on October 10, 2002.

As of December 31, 2002 none of the convertible notes or warrants had been issued. During November and December, 2002 the Company received advance subscription proceeds from RIT of \$400,000. The convertible notes and warrants will be issued on the closing of the transaction during 2003 (note 13(a)).

(c) Deferred charges

As at December 31, 2002, costs of \$192,000 (December 31, 2001 - \$155,000) incurred in connection with obtaining the Standby Facility and Convertible Notes have been deferred and are amortized over the term of the debt. As at December 31, 2002, the total amount amortized is \$141,000 (December 31, 2001 - \$117,000).

8. Share capital

(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, 2000 and December 31, 2001	117,466	78,019
Issued in connection with private placement (i)	27,402	2,340
Outstanding as at December 31, 2002	144,868	80,359

(i) During January, February and April 2002 the Company completed a private placement of 27,402,053 units, each consisting of one common share and one-third of a common share purchase warrant, for an aggregate purchase price of C\$3.84 million (\$2.34 million net of issue costs). The Company issued 15,655,000 of the units to RIT, who satisfied the purchase price for 11 million of these units by issuing 685,632 of its ordinary shares at Sterling £1 per share to a subsidiary of Ivernia Inc., and the balance for cash proceeds of C\$652,000 (\$410,000). The Company issued 1.4 million of the units at C\$0.14 per share 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 5). The remaining units were issued for aggregate cash proceeds of C\$1.45 million (\$907,000). Legal and listing fees were C\$96,000 (\$60,000). Each full warrant is exercisable into one common share of the Company at an exercise price of \$0.065 per share until December 31, 2003. The issue of common shares upon the exercise of these warrants was approved by shareholders at an annual and special meeting held on May 30, 2002, and a subsequent repricing and extension of the latest date for exercise was approved by shareholders at a special meeting held on October 10, 2002.

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(ii) Share warrants

As at December 31, 2002, the Company has outstanding 9,134,017 share purchase warrants (December 31, 2001 – nil), which can be converted into 9,134,017 common shares of the Company as described in note 8(b)(i) above.

(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. An amendment to the plan to increase the maximum from 11,700,000 to 14,400,000 was approved by shareholders at an annual and special meeting held on May 30, 2002.

Under the Plan certain directors, officers, employees and consultants may be granted options to purchase up to 14,400,000 common shares of which, as at December 31, 2002, options to purchase 5,050,000 (December 31, 2001 – 4,000,000) 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, 2002 and December 31, 2001 and changes during the periods ending on those dates is presented below:

	<u>2002</u>		<u>2001</u>	
	Shares (000)	Weighted average exercise price C\$	Shares (000)	Weighted average exercise price C\$
Outstanding – Beginning of period	7,700	0.69	2,535	1.16
Granted	4,000	0.10	5,400	0.49
Exercised	-	-	-	-
Expired	(2,350)	(0.68)	(235)	(1.04)
Outstanding – End of period	9,350	0.44	7,700	0.69
Exercisable – End of period	7,263	0.43	3,650	0.92

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The following table summarizes information about stock options outstanding as at December 31, 2002:

Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding at December 31, 2002	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at December 31, 2002	Weighted average remaining contractual life	Weighted average exercise price
C\$	(000)		C\$	(000)		C\$
0.10-0.29	4,000	4.22	0.10	3,813	4.21	0.10
0.30-0.50	3,900	3.00	0.49	2,000	2.93	0.44
0.51-1.00	550	3.80	0.82	550	3.80	0.82
1.01-1.68	900	5.24	1.46	900	5.24	1.46
0.10-1.68	9,350	3.78	0.44	7,263	3.95	0.43

In 2002, the Company adopted prospectively CICA handbook section 3870, "Stock-based Compensation and Other Stock-Based Payments". The compensation expense associated with this stock option series has been calculated using the Black-Scholes option-pricing model and \$97,000 has been expensed in 2002. The pricing model assumes a 10-year term, expected Common Stock price volatility of 65% and a weighted average life of 5 years and a weighted average risk-free interest rate of 4% and an assumption that dividends are reinvested in the company. The options granted during the year have a five-year term, with vesting periods ranging from immediate to three years of the grant date.

(d) Contributed surplus

Additions to contributed surplus in 2002 were \$97,000 (2001 – nil) amortized on stock options issued in 2002 which are described above.

(e) Loss per share

Loss per share has been calculated using the weighted average number of shares outstanding during the year of 142,548,085 shares (2001 – 117,466,126 shares). There were no diluted earnings per share as the Company made a loss during the year.

9. Employee future benefits

The Company has a defined contribution pension plan which covers an employee of the Company. For the year ended December 31, 2002, the Company made contributions of \$79,000 (2001- \$123,000). This plan was accounted for as a defined benefit obligation prior to 2001 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.

Ivernia subsidiaries within the Lisheen Joint Venture are also sponsors of a defined contribution plan covering substantially all the employees of the Lisheen Mine joint venture. Liability for the cost and obligations of this plan is the responsibility of the Lisheen Joint Venture (note 4).

10. Income taxes

As at December 31, 2002, the Company has estimated tax losses and allowances of approximately A\$8 million (2001- A\$5 million) which may be available to reduce future Australian taxable income. These losses and allowances have not yet been agreed with the Australian Taxation Office. These losses and allowances have no expiry date.

A full valuation allowance has been recorded against the potential income tax benefits of these carry forward losses and deductible temporary differences, as the realization thereof cannot at this time be considered more likely than not.

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11. Risk management and financial and commodity instruments

(a) Risk management

In the normal course of its operations, the Company and the Lisheen Joint Venture (note 4) are 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 and the Lisheen Joint Venture do not acquire, hold or issue these instruments for trading purposes.

i) Concentration of credit risk

The Company and the Lisheen Joint Venture select creditworthy counterparties with which to conduct their hedging transactions. They regularly monitor the credit exposure to any one counterparty to ensure that it remains within reasonable limits. Credit risk associated with 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 Lisheen Joint Venture enters into forward currency contracts to reduce the exposure on the Lisheen Mine investment. The Lisheen Joint Venture is responsible for these obligations (note 4).

iii) Interest rate risk

The Lisheen Joint Venture has outstanding long-term debt with floating rates. The Lisheen Joint Venture currently hedges a portion of its exposure to variations in interest rates by the use of interest rate swaps. The Lisheen Joint Venture is responsible for these obligations (note 4).

iv) Commodity price risk

The Company and the Lisheen Joint Venture currently do not hedge their 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, 2002.

The carrying amount of long-term debt approximates fair value as the interest charged is based on market-based 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.

12. Commitments and contingent liabilities

(a) Environmental

The Company's and the Lisheen Joint Venture'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

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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

The Company holds a number of prospecting licences in Ireland. The Company has been surrendering its interest in these licences as they become due for renewal and expects to continue to do so. The Company does not consider that it has any material outstanding commitments in respect of these licences.

13. Subsequent events

(a) Private placement of convertible notes and warrants

From January 2003 to June 2003, the Company received further advance subscription proceeds from RIT and an associated company of RIT of \$650,000 in accordance with the agreement described in note 7(b). In connection with the Magellan Transaction, on June 19, 2003, Sentient signed subscription agreements and paid advance proceeds in full for the purchase of an additional \$0.90 million aggregate principal amount of convertible notes and warrants. The total \$1.95 million amount of advance proceeds received by the Company at June 27, 2003 represents the maximum amount issuable under the private placement, which was approved by Ivernia Inc.'s shareholders in October 2002. Ivernia Inc. has delayed issuing any of the notes and warrants until the full amount of the \$1.95 million offering has been subscribed and proceeds received, with the result that none of the convertible notes or warrants has been issued as at June 27, 2003.

(b) Sentient Loans and Magellan Transaction

In February 2003, the Company's subsidiary IAHL entered into a loan agreement with Sentient for a \$2.10 million twelve month interest free secured loan to IAHL (the "First Sentient Loan"). Of this amount, \$2.08 million was applied in March 2003 to settle in full Ivernia's obligations in the amount of \$2.85 million under the Company's Standby Facility with an Irish financial institution (note 7(a) and 13(d)). Pursuant to a March 2003 amendment to the loan agreement, Sentient advanced by way of secured loan an additional \$2.50 million (the "Second Sentient Loan") to IAHL from March through June 2003. Proceeds from the Second Sentient Loan were used to fund feasibility study and detailed engineering work on the Magellan Project, and were also applied in May 2003 by Magellan Metals to terminate an existing royalty on the project held by an Australian mining company.

On June 19, 2003, the Company signed definitive agreements with Sentient for a joint venture to develop the Magellan Project (the "Magellan Transaction") and the purchase by Sentient of \$0.90 million aggregate principal amount of convertible notes and warrants of the Company. Pursuant to the Magellan Transaction, Sentient agreed to provide \$4.60 million in financing to Magellan Metals. This amount was advanced by way of a \$1.70 million subscription for 40% of the shares of Magellan Metals, \$2.40 million in secured loans (the "Magellan Loans") and \$0.50 million in notes (the "Magellan Notes") which are convertible into shares of Magellan Metals. The total amount provided by Sentient under these arrangements was used to extinguish the First Sentient Loan and the Second Sentient Loan.

On an ongoing basis, 40% of the funding for the Magellan Project will be provided by Sentient, with 60% to be funded by or on behalf of Ivernia. If Sentient acquires additional Magellan Metals shares upon the conversion of Magellan Notes as described below, Sentient's share of the funding requirement will be increased, with retroactive effect from June 19, 2003, to the extent of its percentage share ownership following such conversion. In the event that the Company is unable to fund its share of contributions to the Magellan Project, Sentient will make contributions on the Company's behalf under an interim funding arrangement (the "Cash Flow Note"). Such contributions will be repaid by Magellan Metals to Sentient out of project cash flow with interest at a rate that provides Sentient with a 30% internal rate of return.

Of the \$0.50 million principal amount of the Magellan Notes, \$0.40 million is convertible at Sentient's option into an additional 9% of the shares of Magellan Metals. If certain default events occur, then the final \$0.10 million of

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Magellan Notes will become convertible into a further 2% of the shares of Magellan Metals. These default events include the inability of the Company to arrange, by January 31, 2004, project financing for Magellan Metals from a financial institution.

The obligations of Magellan Metals under the Magellan Loans, the Magellan Notes and the Cash Flow Note are secured by a charge over the assets of Magellan Metals. In addition, IAHL and Polymetals have guaranteed Magellan Metals' obligations under these facilities. The guarantees are secured by equitable mortgages over the Company's shares of IAHL, Magellan Metals and Polymetals. The events of default which would entitle Sentient to increase its ownership of Magellan Metals to 51% would also entitle Sentient to exercise its security.

Prior to the signing of the Magellan Transaction, on June 19, 2003, the Company completed a reorganization of its subsidiaries with the result that Ivernia Inc.'s interests in the Magellan Project and the Lisheen Mine are held through separate wholly-owned subsidiaries.

(c) Lisheen Mine

In February 2003, the company was advised that (i) the Project Lenders had transferred all of the outstanding Project Loan, together with the Anglo Project Loan, to a single financial institution which was one of the Project Lenders, and (ii) a subsidiary of Anglo had entered into a sub-participation agreement with such financial institution with the result that Anglo had effectively become the lender under the Project Loan and the holder of the related security.

The Company has been engaged in discussions with Anglo concerning the terms on which the Company would be prepared to exit the Lisheen joint venture. The Company has accepted in principle the concept of a purchase by Anglo, for an aggregate price of \$1.8 million, of the Company's subsidiary IWL and its other subsidiaries holding the Company's 50% participating interest in the Lisheen Mine, and the assumption by Anglo of all Ivernia's related debt obligations including outstanding project loans to Ivernia Lisheen Finance Limited in the amount of \$73.19 million (the "Lisheen Sale"). As at June 27, 2003, no definitive binding agreements have been entered into with respect to the Lisheen Sale, and any such sale would be subject, among other things, to obtaining all required regulatory and shareholder approvals.

In order to provide Ivernia with necessary short term funding, pursuant to an agreement dated May 14, 2003, as amended, Anglo has provided to the Company through IWL a short term interest free loan (the "Anglo Loan") in the amount of \$500,000. This amount represents an advance by Anglo against the aggregate purchase price for IWL, but will be repayable on demand if, among other things, definitive agreements for the Lisheen Sale are not signed on or before July 14, 2003. A further advance of \$250,000 may be drawn by Ivernia upon the satisfaction of certain conditions relating to the Lisheen Sale and the granting by the Company to Anglo of security over all of the shares of IWL.

Should the Company complete the Lisheen Sale transaction it will recognise a gain to the extent that the aggregate price of \$1.8 million exceeds transaction costs, Limerick office closure costs, and employee severance costs. As well a gain will be recognised comprising the cumulative translation adjustments in respect of Lisheen of approximately \$6.8 million less the release of net working capital.

(d) Settlement of Standby Facility

In February 2003 the Company entered into a settlement agreement with an Irish financial institution for the early repayment of a Euro 2.64 million (\$2.85 million; December 31, 2002 - \$2.76 million) Standby Facility which would have matured on June 30, 2003 (note 7(a)). The Standby Facility was settled on payment of Euro 1.92 million (\$2.08 million) in March 2003. The settlement was funded out of the proceeds of the First Sentient Loan (note 13(b)).

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(e) Buyout of Magellan Metals third party royalty

In May 2003 the Company entered into a termination agreement with an Australian mining company to make a payment of A\$2.10 million to terminate the 1997 farm-in agreement under the terms of which such mining company was entitled to a royalty of between A\$1 and A\$1.75 per tonne of ore processed by Magellan Metals dependent on lead price. The payment by Magellan Metals was funded out of the proceeds of the Second Sentient Loan (note 13(b)).

(f) Compensation to Financial Advisor

Ivernia may in the short term be required to pay compensation of C\$300,000 to a financial adviser for services provided in connection with the Sentient and Anglo negotiations, and an additional C\$100,000 would be payable upon the conclusion of the Lisheen Sale. The payments to Ivernia's financial adviser may be made, at the Company's option, in cash or, subject to regulatory approval, in common shares of Ivernia valued at the greater of C\$0.10 per share and the prevailing market price.

14. Related party transactions

(a) Resources Investment Trust plc

In January 2002 a subsidiary of Ivernia Inc. acquired 685,632 ordinary shares in Resources Investment Trust plc ("RIT") under the terms of a Private Placement (note 8(b)(i)) valued at C\$1.54 million (\$961,000). Subsequent to that transaction RIT is considered to be a related party by virtue of the size of its shareholding in the Company. In May 2002, a total of 400,000 of these shares were sold for proceeds of \$533,000 resulting in a loss of \$38,000. In August 2002, the remaining 285,632 of these shares were sold for proceeds of \$264,000 resulting in a loss of \$145,000. The total loss of \$183,000 (2001 - \$ nil) was recorded against other expenses. Convertible Notes were also purchased and underwritten by RIT in November and December 2002 (note 7(b) and 13(a)).

(b) Anglo American plc and its subsidiaries ("Anglo")

Anglo is considered to be a related party by virtue of the size of its shareholding in the Company. 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 (note 4). Also refer to note 13(c).