



Second Quarter 2006 Conference Call Script  
August 14, 2006

**Sharon:**

Thank you operator and welcome everyone to Ivernia's second quarter 2006 conference call and webcast. My name is Sharon Loung and I am Ivernia's Director of Investor Relations.

In a few minutes, Alan De'ath, President and CEO will review the operating results and progress on Magellan's ramp up and optimization projects and the outlook for 2006. Mario Stifano, Chief Financial Officer will follow with a review of the financial results. Also joining us on the line is Pat Scott, Chief Operating Officer. After the reviews, we will open the line for questions.

Before I hand the call over to Alan I would like to remind you that some information we are sharing with you today may include forward-looking statements. These statements are based on assumptions that are subject to significant risk and uncertainties. Although Ivernia believes that the expectations reflected in them are reasonable, we cannot give assurance that expectations of any forward-looking statements will prove to be correct. For a detailed

discussion on the risks and uncertainties pertinent to Ivernia, please refer to our most recent Annual Information Form, which is available at our web site [www.ivernia.com](http://www.ivernia.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

I will now turn the call over to Alan De'ath, President and CEO.

**Alan:**

Thank you Sharon and good morning everyone.

As our release of earlier today detailed, operations during the second quarter were affected by a number of factors. Some of which we could have done a better job of managing but some key ones were external and outside of our control.

Our production of 13,000 tonnes of lead metal in concentrate was below both the first quarter and our forecast as a result of lower head grades and recoveries and unplanned maintenance shutdowns.

Head grades averaged 7.7%, which is lower than the 8.8% of the first quarter and our estimate for the year of between 8% and 8.5%.

Recoveries were also lower at 74.2% being impacted by a higher clay content in the material fed to the plant which had an adverse impact on flotation performance. This experience has prompted us to further refine our ore blending strategy ahead of plant feed.

Our plant utilization rate was roughly 84% for the quarter compared to a target of over 90% as we had a number of

unplanned maintenance-related stoppages. We are committed to doing a better job of coordinating and monitoring this type of activity to minimize the impact on production in the future. To this end, we are implementing an improved maintenance monitoring program to better manage future stoppages with a particular focus on preventative maintenance to maximize plant utilization.

Lower than expected volume of material shipped was also a factor in the quarter. This is a result of two factors. First, there is a severe shortage of road and rail transport capacity in Western Australia due to the high level of activity in its resource sector. Second, as you may recall, the region experienced an active cyclone season earlier in the year and while there was no physical damage to Magellan, roads in the area were flooded which restricted transport of concentrate to the port in both the first and second quarters.

Significantly, the unusually cool and wet weather also increased the time it took to dry concentrate on the solar drying pad which reduced our output of transportable material.

Frankly, we have been unexpectedly challenged by the impact of wetter and cooler conditions on operations and the pressures on available inland transportation and vessels to move product. It has

had a material impact on our second quarter and is currently expected to take until Q4 to get concentrate stocks down to normal working levels.

Disappointingly, these external challenges have been added to by the internal challenges presented by the repercussions of decisions made by the design and process engineers during the design, construction and commissioning stages. Their decisions overestimated the capacity and capabilities of the installed belt filters.

Until we have the new Metso pressure filter installed and operating in the second quarter of 2007, we forecast production to remain steady at about 15,000 tonnes of lead metal in concentrate per quarter.

The decision to invest in a new pressure filter was taken following our thorough evaluation of long-term options to replace the temporary solar drying pad. The Metso filter was selected because we felt it would be better suited to our particular requirements and would immediately expand our concentrate drying capacity above our current targeted needs to comfortably support any peaks in filtering requirements and looking further out to a potential

expansion to the operation. It would also eliminate our use of the solar drying pad, lower our operating costs and working capital requirements and enable us to consistently produce concentrate within transportable moisture limits without having to worry about weather conditions to achieve that objective.

We have already begun pre-installation design work in anticipation of receiving the Metso filter equipment in the first quarter of 2007.

This long lead time is indicative of the tight conditions for everything that mining companies are facing globally including Western Australia - from equipment to skilled labour.

I can assure you that we have actively looked at opportunities to install temporary filtering capacity to bridge the period until the new pressure filter is installed --- we have used our contacts around the globe to find available filters for sale and have seriously evaluated belt and pressure filters for sale in the USA and eastern Australia -- but the end analysis was that they were either not suitable or it was not economic to refurbish, ship and install them on site in a timely enough manner to yield any real financial benefit in the period prior to the installation of the pressure filter. We have spent a considerable amount of time and

effort evaluating wet storage of concentrates to meet our original production targets and constructing wet storage facilities to hold these unfiltered concentrates --- but again in the final analysis the cost and working capital implications as well as uncertainty on the rate at which we could ultimately filter these wet concentrates led us to the conclusion in recent days that the correct route to take until the pressure filter is installed, was to match production with the current belt filtering capacity

We had planned to start commissioning the secondary ball mill in June, however, due mainly to the acute shortage of available contractors, we were only able to begin this phase earlier this month. This puts the project and importantly, the benefits that it will add to the operation, about two months behind schedule.

We did make a lot of good progress however, on several other projects and initiatives. The necessary licenses and agreements have been finalized for installation of the gas pipeline and we expect to have the full benefit in the first quarter of 2007. As we have said before, the pipeline will have a substantial positive impact on our cost structure and reduce our exposure to diesel price and supply risks.

Also, through changes to roster patterns and salary structures, we are pleased with the significant progress we are making in recruiting a good caliber of site management and workforce in this challenging labour environment. As you know, having the right people is a huge component in good operations and achieving objectives.

So operationally, we continue to make good constructive adjustments and progress towards achieving our target production levels. Combined with the optimization projects underway, I believe that we are positioning Ivernia favourably to take advantage of the demand driven strong fundamentals for lead that we envisage over the next few years.

Indications of the type of growth in demand that we expect are now beginning to be more evident. Inventories have been steadily drawn down over the past six weeks. LME stocks now stand at roughly four days of normal demand making lead one of the tightest markets among the base metals.

I am aware that our announcement today of a cut in production forecast will have a number of industry analysts reviewing their forecast for lead market balances. They may now anticipate the

lead markets being in deficit in 2006 with its resultant impact on an already tight lead stocks position ---- but on balance I think I would sooner be reporting today that it is not Ivernia that is creating that situation – although we obviously will benefit from the potential impact on price.

We have also been keeping a close eye on where the demand is coming from. And from all indications, China continues to surprise on the upside. According to industry analysts, for the first six months of 2006, demand from China grew over 20% from the level in the same period in 2005. This builds on the consistent growth experienced since 2001 of between 10% to 22% each year. This record has outpaced the other base metals for demand growth from both China and the rest of the world.

When you make the comparisons, you quickly see that what sets lead apart from the other base metals is the consistency and magnitude of this growth. This is most likely because there is also no economic and practical substitution for lead in its major end-product, lead-acid batteries.

We see all the pieces starting to fall into place to create the type of lead market environment we believe will exist for the next few years.

Now I'll turn the call over to Mario for a review of our financials.

**Mario:**

Thanks Alan and good morning everyone.

Some of my comments and comparisons today will be between the second and the first quarters of 2006 because in most cases, year over year comparisons are not informative as commercial operations were started in the fourth quarter of 2005.

Revenue of \$13 million was recorded from the sale of 13,500 tonnes of lead metal in concentrate. The amount of sales recorded was lower compared to the first quarter on account of the weather and transport related shipping delays.

But in terms of the value of the sales, I would like to bring to your attention an important fact. Approximately 85% of our sales were unpriced at quarter end and as such had to be marked to market at the June 30 LME price of 45 cents. Lead prices for June were the lowest for the year and have since steadily increased reflecting the tight market conditions. Subsequent pricing and marked to market of that 85% of our sales at current prices would have increased revenues by approximately \$1.9 million to \$15 million. And our average lead sale price would have also increased to 53 cents per

pound from 46 cents. With inventories as tight as they are, we think it is more likely that the final settlements would be at this higher price level than the June 30 amount.

Included in our operating results is a write-down of the low-grade ore stockpiles of \$1.2 million. The decision was made because of the uncertainty of the timing of when this material would be processed and assigning a price to it.

Our cash operating cost was 40 cents per pound of lead in the quarter for a six-month position of 38 cents per pound. We believe that this cost position does not truly reflect the nature of the operation as we are not yet at optimal or steady state operations. When the optimization projects, including the gas pipeline, secondary ball mill and pressure filter are in full operation, we are confident that we could substantially improve on it.

General and administrative expenses were \$1.6 million for the quarter which included a number of period-related costs such as annual reporting and meeting requirements and insurance renewals.

Net interest expense increased just over 400 thousand dollars year-over-year and reflects mainly the interest on the Sentient Note which was acquired during the second quarter of 2005. Interest expense incurred therefore during the 2005 second quarter was for a partial and not a full quarter. Also, the interest rate has increased to 9.25% from 8% last year.

Income tax recovery was calculated 26%. We expect this accounting rate will remain relatively unchanged for the remainder of the year. We do not expect to be cash taxable in 2006 due to US\$33 million of tax loss carryforwards.

The net loss was \$3.8 million or 3 cents per common share for the quarter.

Turning to the balance sheet. Cash and equivalents increased over \$200 thousand from the end of 2005.

Concentrate inventories were relatively unchanged from the end of the first quarter at approximately 12,000 tonnes as a result of the shipping delays that Alan mentioned in his remarks. With the onset of warmer weather there as their spring and summer seasons move

in, we expect to be able to move more material and reduce this to more normal levels.

Included in accrued liabilities is the inventory facility with our sales agent Ocean Partners. At June 30, approximately \$7.3 million of the \$15 million facility was drawn down. We have since replaced this facility with a \$15 million inventory facility with BNP Paribas and secured an additional \$10 million credit facility. The new arrangement provides the Company with additional available liquidity at its discretion.

In May of this year, we repaid Cdn\$400 thousand on the Sentient Note plus Cdn\$1.6 million of accrued interest. The Note is flexible, cost-competitive financing that has very minimal encumbrances on the Company.

On the cash flows statement, we used about \$1.6 million to fund operations in the quarter. But as I mentioned earlier, had the 85% of our shipments been recorded at a price that is most likely to be receive, we would have been cash positive.

A lot of good progress was made in the quarter on our optimization projects and this is reflected in the \$6.5 million of investment activity. The main investments were made to advance the

installation of the secondary ball mill, pre-construction work on the gas pipeline in anticipation of obtaining the necessary license and development to the pits for future mining activity.

In terms of our major capital requirements – the secondary ball mill is being commissioned and we are allocating \$7 million for the gas pipeline and \$5 million for the pressure filter.

This is the end of my formal remarks and I will now turn the call back to Alan.

**Alan:**

Thanks Mario. It has been an interesting quarter for Ivernia. We faced a number of challenges – reduced lead prices, the unusual weather and acute labour and transportation shortage being the most significant. We were also disappointed with having to extend our ramp up phase into 2007.

But I am pleased with the way our management and employees have responded. Solutions were sought and implemented and I do think we are probably in the best position we can expect for the time being given the challenging external pressures and current filtered product constraint.

Thanks for your attention and I'll now ask the operator to open the lines for questions.

**Question Period**

