Ivernia

2006 Annual Report

Ivernia Inc. is an international base metals exploration, development and operating company. Headquartered in Toronto, Canada and trading on the Toronto Stock Exchange under the symbol IVW, Ivernia owns and operates

Magellan, the World's Largest Pure Lead Mine, in Western Australia.

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NOTE: ALL AMOUNTS IN THIS REPORT ARE IN US DOLLARS UNLESS OTHERWISE STATED

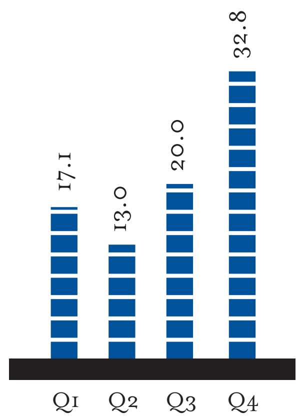
2006 AT A GLANCE

FINANCIAL SUMMARY

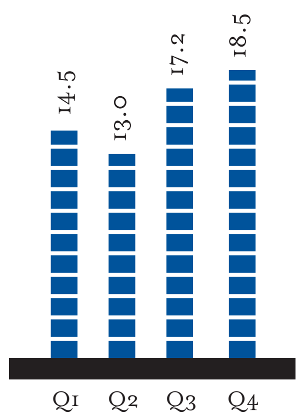
- recorded revenues of $83 million in the first full year of commercial operations
- produced operating and net income of $16.9 million and $4.8 million, respectively
- generated $19.7 million of cash from operating activities
- ended the year with cash and equivalents of $17.1 million
- realized an average sales price of $0.63 per pound of lead metal in concentrate

OPERATIONAL HIGHLIGHTS

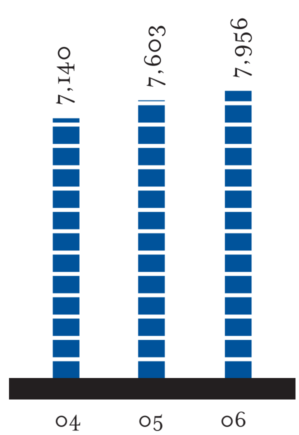
- completed key optimization projects creating step change in operating capacity
- produced 63,200 tonnes of lead metal in concentrate
- advanced a 35-kilometre gas pipeline project towards completion in early 2007 to reduce unit cash operating cost and exposure to the volatile oil markets
- advanced a new pressure filter project towards completion in early 2007 to increase filter and overall production capacity and reduce operating costs and working capital requirements



2006 Quarterly Revenues
($ millions)



2006 Quarterly Production
(000's tonnes)



Global Refined Lead Consumption
(000's tonnes)

*Data from Brook Hunt and ILZSG

CORPORATE DEVELOPMENTS

- assembled a new senior operations management team under the guidance of Patrick Scott, Executive Vice President and Chief Operating Officer
- adopted a Shareholder Rights Plan to encourage the fair treatment of all shareholders in the event of a takeover offer

BOARD OF DIRECTORS CHANGES (2007)

- appointment:
  David N. Murray, O.B.E. and Corporate Director
- nominated for appointment:
  Patrick N. Scott, Executive Vice President and Chief Operating Officer of Ivernia Inc.
  Jay C. Kellerman, Partner, Stikeman Elliott LLP
- resignations:
  David M. Armstrong
  Kenneth J. Sangster

LEAD MARKET DEVELOPMENT

- LME inventories reduced to lowest levels since 2005
- established new record high market prices
- demand grew by an estimated 5% over 2005
- new applications for lead-acid batteries gaining popularity

The following discussion is a review of the activities, results of operations and financial condition of Ivernia Inc. ("Ivernia" or the "Company") and its subsidiaries for years ended December 31, 2006 and 2005, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of April 2, 2007. The discussion should be read in conjunction with the audited consolidated financial statements of the Company and the notes to those statements. Ivernia's consolidated financial statements and financial data have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

In addition, this discussion contains certain forward-looking statements regarding Ivernia's businesses and operations. Actual results may differ materially from these statements as a result of a number of factors, many of which are beyond the control of Ivernia.

For more detail on these factors, refer to the section titled "Risks and Uncertainties" in this document.

All dollar amounts are expressed in United States dollars, except as otherwise indicated.

Additional information relating to the Company, including the Company's most recent Annual Information Form, is available on SEDAR at www.sedar.com.

EVENTS SUBSEQUENT TO DECEMBER 31, 2006

On March 12, 2007 the Company was notified by the Esperance Port Authority that shipments of its lead concentrate had been temporarily suspended pending the outcome of government investigations into recent bird fatalities. The Company retained the services of environmental consultants, ENESAR of Australia, and along with members of the Company's own technical management team are working closely with the government agencies and the Esperance Port Authority to resolve the situation. On March 15, 2007 the DEC notified the Esperance Port Authority via prevention notice that future imports and exports of lead carbonate were to be suspended until completion of the department's investigation.

On March 23, 2007 the board of the Esperance Port Authority announced the port would no longer be accepting or shipping lead in loose concentrate form.

On March 26, 2007 DEC, in a media release, noted that marine sediment samples collected from the seabed directly under the Esperance Port Authority's discharge pipe had returned high lead and nickel levels and that the DEC had directed the Esperance Port Authority to carry out a comprehensive and scientifically structured sediment sampling program to determine the full extent of contamination, as a matter of urgency. The media release also noted that interim results taken from hand held meter readings of soil samples indicate some samples in the port and immediately outside the port gate exceeded health investigation levels for lead. Further, the DEC noted that sites tested elsewhere around the town, including primary schools, were all below health investigation levels and that tests on water bodies taken around Esperance showed lead and nickel levels were below the drinking water guidelines, except for a disused reservoir on the hill behind the Esperance port, where levels were above the drinking water guidelines.

On March 27, 2007 the Company announced that, due to the uncertainty on the timing of resumption of operations through the Port of Esperance, Magellan Metals was pursuing alternate shipping arrangements through the established regulatory processes. The proposed arrangements involve moving the material in ISO-approved enclosed and doublesealed containers and/or bulka bags, which will be transported from the mine site, through a port, then on to customers in Asia.

The BNP facilities matured on March 30, 2007. The Company has reached agreement with BNP Paribas, subject to certain conditions, for a 30 day moratorium on the exercise of certain enforcement rights until April 30, 2007, to allow the Company to obtain alternate financing. The Company has accepted a commitment from Sentient to provide convertible debt facilities for (i) a 12 month extension of amounts currently outstanding in accordance with the Sentient Note at an interest rate of 11.25% and (ii) a US$22 million non-revolving loan facility at an interest rate of 9.25%, (the "Senior Facility") to be used to retire a portion of the currently outstanding BNP Facilities and to assist with the Company's overall funding requirements. Sentient is a significant shareholder of, and a "related party" (as such term is defined in Rule 61-501 of the Ontario Securities Commission) to the Company. A director of the Company is also a principal of Sentient. The conversion rights, which the Company will put before independent shareholders for approval at the 2007 annual meeting, will allow the holder to convert outstanding principal amounts (and certain capitalized amounts) into common shares of the Company at a conversion price equal to the Company's volume weighted average price for a 40 trading day period from April 3, 2007. Participants in this transaction are precluded from trading shares of Ivernia during the 40 trading day period. The conversion rights begin expiring nine months from the date of the facilities and must be exercised within 12 months from the date of the facilities. Syndication will allow Ivernia to increase the availability under the Senior Facility to US$35 million. If shareholder approval is not obtained, the facilities will bear an interest rate of 35% and will not be repayable for a two-year period.

The Company is diligently pursuing the necessary approvals, and has a reasonable expectation, based upon conversations with government officials and the normal course timelines for such applications, that such approvals will likely require three to four months to obtain. There can be no assurance that the necessary amended licence to resume shipments will be granted within a reasonable time. The Company announced on April 2, 2007 that it will be placing the Magellan Mine operation under temporary care and maintenance until such time as it is given the approval to ship its concentrate out of a port in Western Australia.

COMPANY OVERVIEW

Ivernia is an international base metals operating, exploration and development company. It is the sole owner and operator of the Magellan lead mine in Western Australia and, through its wholly-owned subsidiary, Magellan Metals Pty Ltd. ("Magellan"), controls a number of exploration properties in the vicinity of the Magellan mine.

2006 marked the first full year of commercial operations at the Magellan mine. The mine was commissioned on October 1, 2005, and prior to the subsequent event noted above was ramping up towards its target production level then scheduled for the second half of 2007. Upon recommencement of production Magellan will be the world's largest pure lead mine accounting for approximately 3% of total world lead mine production.

Mining at the Magellan mine has been conducted by open pit methods. There are three principal deposits at the Magellan mine: Magellan, Cano and Pinzon.

In 2006, all of Ivernia's revenues were derived from the sale of lead metal in concentrate. The Company's sales agent, Ocean Partners (USA), Inc. ("Ocean Partners"), had negotiated lead concentrate sales contracts with a number of Asian smelters. Under these contracts, Ivernia delivered various tonnages of lead concentrate to those smelters for settlement at the prevailing market prices. The durations of these contracts range between one to three years. As a result of the suspension of shipping of lead concentrate, Ivernia has invoked *force majeure* provisions on these contracts.

Upon resumption of operations the key drivers of revenue in Ivernia's business will be the Company's sales volumes and the market price for lead.

In 2006, Ivernia sold 63,000 tonnes of lead metal in concentrate and realized an average sales price of $0.63 per pound ($1,385 per tonne). The Company's unit cash cost of production, including treatment charges, freight, mining and processing costs, was $0.38 per pound ($838 per tonne).

LEAD INDUSTRY AND KEY TRENDS

Demand

Over the last ten years, lead metal consumption has shown a dramatic departure from its previous historical patterns. After decades of negligible growth, global consumption increased at an average annual rate of 3.2% from 2000 to 2005. In 2006, consumption rose 5.3% over that in 2005.

In terms of absolute tonnage, the increase from year 2000 to 2005 equates to just over 1 million tonnes or 209,000 tonnes per year. For the 2006 through 2010 period, metal forecasters are expecting growth of 1.7 million tonnes or 340,000 tonnes per year – a five fold increase from the historical pattern in the late twentieth century.

The increased demand is being driven by the industrialization of Asia, especially China. Of the total global increase in consumption forecast for the 2006 to 2010 period of 1.7 million tonnes, Asia is expected to account for 1.4 million tonnes or over 80%.

These forecasted growth rates for lead metal consumption are consistent with the overall economic outlook for the region in which the Chinese economy is expected to grow between 8% and 12% per year over the next five to ten years.

Lead consumption in China and the rest of Asia is driven by five major lead consuming sectors. These are:

- Automotive starter batteries for both the original equipment and replacement market
- Motorbike and electric cycle batteries
- Telecommunication and network power batteries for both cellular and landline data transmission
- TV glass for small black and white televisions
- Small industrial batteries for the export market

Automotive vehicle production in China is growing at double-digit rates and is expected to grow at approximately 12% per year over the next ten years. In 2006, China surged past Japan to become the world's second largest automotive market after the United States as car purchases by newly affluent drivers jumped 37%.

Despite this dramatic growth, car ownership in China is thought to be at the level that the United States was at in 1915 with an estimated eight passenger cars per 1,000 people. This compares to a worldwide average of 104 cars per 1,000 people.

Currently, Chinese light vehicle lead-acid battery production is approximately 25 million units and is expected to double by 2010. There is, on average, 24 pounds of lead in a conventional car lead-acid battery and accounts for approximately 275,000 tonnes of Asian lead consumption.

In 2005, 75 million lead-acid batteries for motorbikes and electric cycles were produced in Asia. These modes of transportation are frequently the first motorized vehicles for many people in Asia and often considered an economical substitute to crowded public transportation systems. Lead-acid batteries for these applications contain about 15 pounds of lead and account for over 500,000 tonnes of Asian lead consumption.

The telecommunications sector in China has recorded impressive growth with over 300 million mobile phone subscribers and 300 million fixed line telephones. For each cellular transmission tower and telecommunication switching station that is required to support telecommunications, there are several stationary lead-acid batteries for emergency backup.

The rapid industrialization of China with its 1.3 billion people is unprecedented and has resulted in a significant increase in raw material consumption, sending lead prices to record levels. Additionally India, with 1.1 billion people, is also starting to industrialize at annual growth rates approaching China's. These two occurrences, along with growth from other Asian countries, are expected to result in continued strong demand for raw materials, including lead, for the foreseeable future.

Supply

2006 marked the fourth consecutive year of global market deficit for lead. As the industry has few significant producers, modest supply disruptions, due to mechanical failures or labor disruptions, usually have an immediate effect on the market balance. For the next five years, most of the metal market forecasters are forecasting balanced lead markets or deficits.

Typically, high prices for commodities bring out additional supply. Lead however, may be immune from this for the next several years on account of the following factors:

- Most lead is mined as a by-product of silver and zinc mines
- Low lead prices from 1997 to 2004 have limited lead exploration, and as a result, very little new lead production is coming on stream
- Structural issues at existing mines prevent significant expansion, resulting in an actual decline in world lead mine production in the second half of 2006
- Only two significant lead-bearing mines are planned to come on-stream over the next five years; these mines are in politically unstable regions of the world

Most lead is mined as a by-product of zinc and silver mining. Only 15% of the world's lead mine production is from mines where lead is the major revenue source. While about one million tonnes of western world new zinc mine production is set to come on-stream over the next five years, less than 200,000 tonnes of western world new lead mine production is expected. Included in this projection is the production from the only two potentially significant lead producers in which lead will also be a by-product. Both of these mines are in politically unstable regions of the world.

In 2005, new mines were brought on stream increasing production by 134,000 tonnes. These mines ramped up quickly and were operated at or near capacity to take advantage of high lead prices. This increase was not sustained in 2006 as virtually all the main producers cut back production for a variety of reasons, including unstable mine conditions and lower ore grades. The net impact has been a decrease in mined lead production of approximately 100,000 tonnes.

Chinese mine production has also grown. Between 1995 and 2005, Chinese lead mine production grew about 7% per year. Typically these mines are small, with only four Chinese mines capable of producing over 20,000 tonnes of lead per year. In contrast, the world's then largest lead mine produced 303,000 tonnes of lead in 2005.

Most Chinese lead mine production occurs in operations where ore is near the surface and easily mined. In many areas, this easily accessible ore has been mined and future activity will require major capital and infrastructure investments to access deeper ore deposits safely and economically.

It is questionable whether China can increase its current level of lead mine production due to the capital and infrastructure requirements. China's lead mine production will likely be further constrained due to more stringent regulations by the Chinese government directed towards producers, as the government attempts to close unsafe and environmentally unfriendly mines.

Low lead metal inventories

Global lead metal inventories have reduced substantially with availability representing only a few days of consumption. The combination of the rapid increase in lead consumption and slow response of new supply coming on-stream has led to the depletion of excess lead metal inventory.

Lead consumption is expected to continue to increase at historically unprecedented levels driven by the rapid industrialization of Asia, particularly China. Any disruption in the supply chain or delay in bringing on new mine production will likely have an immediate effect on the market.

GROWTH STRATEGY

Ivernia's long-term goal is to become a successful mid-tier international base metals company. On the recommencement of operations the development of Magellan into the fifth-largest mined lead producer is expected to provide the Company with the financial resources, capital market and operational expertise to leverage and pursue this objective.

Our strategy to attain our long-term goal centers on three main initiatives:

- optimize Magellan operations
- increase reserve and resources base
- diversify geographically and among the base metals

Optimize Magellan operations

The Magellan operation will be the foundation asset for Ivernia going forward. Looking forward, we believe an expansion of Magellan would generate a good return on investment and optimize the net present value of the project. Our initial assessment suggests that an expansion could be achieved in a timely and cost effective manner to capture the positive lead market and provide the economies of scale to achieve further reductions in our unit cost structure.

A more in-depth study, initiated in early 2007, will determine the economics of such an expansion utilizing the current crushing, grinding and new filtering capacities. The study's results are expected in the second half of 2007 and will provide the basis for a definitive decision.

Increase reserve and resources base

Our objective to increase our resource base will be partly pursued through exploration programs. Going forward we will build on the results of the 2006 exploration program which enabled us to rationalize our licences and identify new areas for exploration.

The near-mine exploration activities will follow up on the results from the 2006 drill program and focus on further defining resources and areas of mineralization adjacent to the Magellan mine and existing tenements.

In tandem with the near-mine exploration, we plan to expand our program to regions beyond the Magellan surroundings. This addition would establish Ivernia's presence in other parts of Australia as well as Asia.

Diversify geographically and among the base metals

Complementing the exploration strategy is a corporate development program. This program focuses on identifying growth opportunities in base metals where we can add value with our technical experience and existing corporate infrastructure.

Ivernia is a unique investment vehicle – upon recommencement of operations it will provide investors with exposure to the strong lead market and it has a politically-stable operating base by virtue of having its main asset in Australia.

To protect this advantageous position and ensure that an opportunity meets our investment criteria and growth objectives, we put all potential investment opportunities through a rigorous evaluation.

RESULTS OF OPERATIONS

Ivernia achieved commercial production at the Magellan mine on October 1, 2005 and began production accounting at the same time to reflect its new status as an operating company. Prior to October 1, 2005, the Company was engaged in the construction and commissioning of the mine. Therefore, comparisons of the financial results between the fourth quarters and the years of 2006 and 2005 may not be meaningful or informative.

Selected Annual Information

Years ended December 31	2006	2005(1)	2004(1),(2)
($ thousands, unless otherwise indicated and per share amounts)	$	$	$
Financial Highlights			
Revenue	**82,909**	14,672	—
Treatment charges and freight	**(14,376)**	(4,367)	—
Mining and processing costs	**(37,976)**	(6,696)	—
Write-down of low-grade ore stockpiles	**(1,164)**	—	—
Royalties	**(3,509)**	(635)	—
Amortization	**(9,005)**	(2,231)	—
Operating income	**16,879**	743	—
General and administrative	**(5,844)**	(3,220)	(1,262)
Net interest (expense)/income	**(2,491)**	(807)	106
Stock option costs	**(587)**	(844)	(899)
Other expenses	**(941)**	919	(714)
Income/(loss) before income taxes	**7,016**	(3,209)	(2,769)
Income tax (expense)/recovery	**(2,178)**	2,563	—
Net income/(loss)	**4,838**	(646)	(2,769)
Basic and diluted earnings/(loss) – $ per share	**0.04**	(0.01)	(0.05)
Weighted average shares outstanding – thousands	**132,268**	106,394	55,844
Total assets	**186,099**	155,857	35,973
Long-term debt	**2,316**	3,312	3,323
Cash provided by (used in) operations before changes in non-cash working capital	**18,673**	(147)	(1,902)
Cash flow provided by (used in) operating activities	**19,693**	7,747	(1,046)
Operating Highlights			
Ore milled – (000's tonnes)	**1,060.1**	743.9	—
Average head grade – (% lead)	**7.9**	6.5	—
Recovery	**75.5**	64.8	—
Concentrate produced – (000's dry tonnes)	**99.1**	49.2	—
Concentrate sold – (000's dry tonnes)	**98.0**	37.7	—
Lead metal in concentrate produced – (000's tonnes)	**63.2**	31.3	—
Lead metal in concentrate sold – (000's tonnes)	**63.0**	24.0	—
Concentrate inventory – (000's of dry tonnes)	**12.9**	11.9	—
Average lead price – LME 3-month – (cents per pound)	**58**	43	39
Ivernia's average lead sale price – (cents per pound)	**63**	47	—
Cash cost per pound sold – (cents)(3)	**38**	34	—

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

(1) Ivernia was engaged in the construction and commissioning of the Magellan mine prior to the start of commercial production on October 1, 2005

(2) Ivernia consolidated its 51% proportionate interest in Magellan prior to April 29, 2005

(3) Cash cost per pound sold is a non-GAAP measure. See the "Cash cost of lead sold" section of this document

FINANCIAL RESULTS

Revenue

Revenue for 2006 was $82.9 million, which resulted from sales of 63,000 tonnes of lead metal in concentrate at an average sale price of 63 cents per pound. In 2005, revenue was $14.7 million from the sale of 24,000 tonnes of lead metal in concentrate sold at an average sale price of 47 cents per pound.

The year-over-year increase in sales reflects the fact that Magellan started commercial operations on October 1, 2005.

The market fundamentals for lead improved substantially in the latter half of 2006. This is shown in the following table which details the LME 3-month official and Ivernia's realized prices for the years 2006, 2005 and 2004.

Lead prices

(cents per pound of lead)	2006	2005(1)	2004(1)
		Average	
LME 3-month official			
First quarter	**55**	43	37
Second quarter	**51**	43	35
Third quarter	**54**	39	40
Fourth quarter	**72**	46	42
Year	**58**	43	39
Ivernia's average lead sale price			
First quarter	**58**	—	—
Second quarter	**46**	—	—
Third quarter	**68**	—	—
Fourth quarter	**73**	47	—
Year	**63**	47	—

(1) Ivernia was engaged in the construction and commissioning of the Magellan mine prior to the start of commercial production on October 1, 2005

Cash cost of lead sold

Total cash costs for lead sold during 2006, including treatment charges, freight, mining and processing costs, but excluding royalty payments were $0.38 per pound. This compared with $0.34 per pound for 2005. Ongoing cost increases during the year for essentially all items in the production process, including labour and power costs, continue to have an impact on cash costs. However, the Company expects to achieve cost efficiencies when Magellan achieves steady-state operations, including the benefits of the gas pipeline, Metso filter and the decommissioning of the solar pad for drying concentrates.

Royalty payments on production are based on Magellan's net sales revenue and therefore fluctuate with the market price for lead. For instance, if the average market price for a pound of lead were $0.50, $0.70 and $0.90, royalty payments per pound of production would be $0.02, $0.03 and $0.04 respectively.

The following table demonstrates how the Company calculates its cash cost per pound of lead sold. Ivernia believes that this information enables investors to better assess its performance and understand changes in production costs, which in turn affect profitability and the Company's ability to generate cash flow. The disclosure here of "cash cost" is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. The measures are not necessarily indicative of operating profit or cash flow from operations as determined under Canadian GAAP. "Cash costs" have no standard meaning under Canadian GAAP and therefore is unlikely to be comparable to measures used and disclosed by other issuers.

($ thousands, unless otherwise indicated)	2006	2005(1)
	$	$
Lead metal in concentrate sold – (000's tonnes)	**63.0**	14.9
Treatment charges and freight	**14,376**	4,367
Mining and processing costs	**37,976**	6,696
Total cash costs – excluding royalties	**52,352**	11,063
Cash costs – (cents per pound of lead)	**38**	34

(1) Ivernia was engaged in the construction and commissioning of the Magellan mine prior to the start of commercial production on October 1, 2005

Write-down of low-grade ore stockpiles

In the second quarter of 2006, the Company recorded a $1.2 million write-down to the value of certain low-grade ore stockpiles. The stockpiles, with an average grade of 3%, were intended to be processed at the end of the mine life. The decision to write-down their value was taken due to the uncertainty of long-term metal prices and the timing for when and if the stockpiles will be processed.

In the first quarter of 2007, the Company conducted a two-week, low-grade ore trial to determine the economics of processing lower-grade ore going forward as part of regular operations. The initial results appear positive and further analysis will continue in order to determine the future impact.

Upon recommencement of operations the ability to economically process these ores under the current lead price environment could potentially extract significant additional value from the orebody.

Amortization

Plant and equipment are depreciated over the estimated lives of the related assets, calculated on units of production or contained metal where appropriate.

Mineral properties and deferred costs related to the mine are amortized over the estimated life of the proven and probable reserves to which they relate.

The amortization expense will be higher in periods where higher production and more mining take place. Periods with lower production and less mining will result in lower amortization.

Total amortization for 2006 was $9.0 million. This is an increase of $6.8 million from 2005, when amortization was recognized following the start of commercial production on October 1. Prior to October 1, 2005 amortization was deferred.

General and administrative

General and administrative expenses mainly consist of Magellan corporate office costs in Perth and Toronto corporate office costs. The expense increased by $2.6 million to $5.8 million, reflecting a full year of expenses and the Company’s new status as an operating company.

Magellan corporate costs were capitalized prior to October 1, 2005, when commercial production was achieved.

Interest expense

Net interest expense for the year was $2.5 million. This included interest of $1.5 million on the C$20 million secured promissory note issued by the Company to Sentient Global Resources Fund (together with its affiliates, associates and nominees, “Sentient”) on April 29, 2005 (the “Sentient Note”) and $1.4 million interest on the trade and finance facilities at Magellan. This was reduced by $0.4 million in interest revenue earned on cash balances.

The $0.8 million in net interest expense for 2005 consisted of $0.9 million in interest on the Sentient Note, $0.2 million in other interest, less $0.2 million in interest income earned on cash balances.

Stock option costs

As at December 31, 2006 options to purchase 3,277,334 common shares (December 31, 2005 – 4,333,584) remain available for grant. Compensation expense has been calculated using the Black-Scholes option-pricing model. The amount expensed in the year is in respect of both new stock options for the portion vesting in 2006, and stock options which were granted in 2003, 2004 and 2005 but for which a portion vested in 2006. The pricing assumes a five-year term, expected common stock price volatility of 40% (2005 – 45%), a weighted average risk-free interest rate of 4% and an assumption that dividends are reinvested in the Company.

The stock option expense was $587,000 for the year (2005 – $844,000). As at December 31, 2006 the aggregate unexpensed fair value of unvested stock options granted amounted to $927,000 (December 31, 2005 – $395,000).

Other expenses

Other expenses increased $1.2 million in 2006 compared with 2005 to total $1.5 million.

In the second quarter of 2006, the Company incurred a write-off of $0.4 million on the cost of two bag filter plants purchased in 2000 for the proposed refinery project. Due to the deterioration of their condition during the long storage period, it was considered uneconomic to restore them to functioning units. A total $0.9 million amortization on the Sentient Note extension and $0.2 million exploration and corporate development costs were expensed during the year. These expenses were partially offset by a $0.5 million foreign exchange gain.

The 2005 other expenses mainly consisted of $0.3 million related to the mark-to-market of lead put option agreements that were in place to mitigate the risk in the event of a downturn in market prices for lead market. A $1.2 million foreign exchange gain was also recognized in 2005.

Income tax

Income tax for the year was calculated at an annual accounting tax rate of 31%. The tax expense in 2006 was $2.2 million compared to a tax recovery of $2.6 million in 2005. The Company has minimal exposure to cash corporate income taxes due to the availability of tax loss carry-forwards to offset taxable income in Australia. The Company currently has A$22 million in loss carryforwards to offset future taxable income earned in Australia.

Net income/(loss)

The Company recognized net income of $4.8 million for the year or $0.04 per common share, compared with a net loss of $0.6 million or $0.01 per share in 2005.

Quarterly financial results

	2006				2005			
($ thousands, unless otherwise indicated and per share amounts)	First	Second	Third	Fourth	First	Second	Third	Fourth
Revenue	**17,128**	**12,983**	**20,018**	**32,780**	—	—	—	14,672
Operating income/(loss)	**3,981**	**(1,840)**	**4,593**	**10,145**	—	—	—	743
Net income/(loss)	**1,574**	**(3,761)**	**1,214**	**5,811**	(224)	(503)	(959)	1,040
Basic and diluted earnings/(loss) – $ per share	**0.01**	**(0.03)**	**0.01**	**0.04**	—	—	(0.01)	0.01
Cash provided by (used in) operations before changes in non-cash working capital	**4,171**	**(1,850)**	**4,393**	**11,853**	(132)	(50)	(789)	824

During the fourth quarter of 2006, the Company sold 21,300 tonnes of lead in concentrate at an average lead sale price of $0.73 per pound, compared with 14,900 tonnes of lead in concentrate at an average lead sale price of $0.47 per pound in the fourth quarter of 2005, generating an additional $18.1 million in revenue. Operating income increased from $0.7 million to $10.1 million in the fourth quarter of 2006 due to the additional revenue and increased efficiencies as the Company realized the operational benefits of the secondary ball mill and concentrate thickener which were completed during 2006.

Cash provided by operating activities increased $11.0 million in the fourth quarter of 2006 compared with the fourth quarter of 2005 due to increased revenue. This was slightly offset by increased cash production costs.

OPERATIONS REVIEW – MAGELLAN LEAD MINE, WESTERN AUSTRALIA

The Magellan operation is located in the mineral-rich East Murchison Mineral Field in Western Australia, approximately 30 kilometres west of Wiluna and 900 kilometres northeast of Perth. The operation is easily accessible by road and air transportation and is close to high-demand, high-growth Asian markets.

Magellan was commissioned on October 1, 2005 and upon recommencement of operations will ramp-up towards its target production level following which it will be the world's largest pure lead mine accounting for approximately 3% of the total world lead mine production.

During the 2006, Magellan continued its progress towards full operations. Key milestones included:

- completed key optimization projects thereby creating a step change in operating capacity
- produced 63,200 tonnes of lead metal in concentrate
- established new quarterly production and sales records of 18,500 tonnes and 21,300 tonnes of lead in concentrate during the fourth quarter, respectively
- installed a 35-kilometre gas pipeline to reduce operating cost and exposure to the volatile oil markets
- completed the majority of the installation for a new pressure filter to increase filter and overall production capacity
- implemented a planned preventive maintenance program

Operating summary

MINING

Ore mining was controlled to maintain adequate stockpiles for the processing plant. A total of 1,068,000 tonnes were mined for processing during 2006.

The following table summarizes mine production for years 2006 and 2005:

Years ended December 31	2006	2005
Mining		
Ore mined – 000's tonnes	**1,068**	831
Low-grade (<3%) ore mined – 000's tonnes	**190**	338
Total ore and waste mined – 000's bcm	**3,252**	3,115

Note: BCM = bulk cubic metres

PROCESSING

The completion of ball mill project in the third quarter provided a major step change in milling capacity and a stabilization of operations. During the 12 weeks of operation in the fourth quarter, milling operations equated to an annual throughput rate of approximately 1.4 million tonnes, which is the target throughput rate following the commissioning of the secondary ball mill.

The mill processed 1,060,100 tonnes of ore in the year with an average grade of 7.9% lead. Metal recoveries averaged 75.5% for the year, slightly below the 78% level recorded during normal operations at year-end.

Lead metal in concentrate production for 2006 totaled 63,200 tonnes of which 35,700 tonnes, or (56%), was produced in the third and fourth quarters. Total lead metal in concentrate shipments for the year amounted to 63,000 tonnes. This included a new quarterly record of 21,300 tonnes which was achieved in the fourth quarter.

The table below summarizes process production for years 2006 and 2005:

Years ended December 31	2006	2005
Processing		
Ore milled – 000's tonnes	**1,060.1**	743.9
Head grade – % lead	**7.9**	6.5
Recovery – %	**75.5**	64.8
Concentrate produced – 000's dry tonnes	**99.1**	49.2
Lead metal in concentrate produced – 000's tonnes	**63.2**	31.3

The table below summarizes the shipments and inventories at the end of years 2006 and 2005:

Years ended December 31	2006	2005
Sales and inventories		
Concentrate sold – 000's dry tonnes	**98.0**	37.7
Lead metal in concentrate sold – 000's tonnes	**63.0**	24.0
Concentrate inventory – 000's dry tonnes	**12.9**	11.9

Operational Objectives

Upon recommencement of operations management intends to focus on the following initiatives to optimize Magellan:

- Complete installation and commissioning of gas pipeline and new pressure filter
- Continue to improve plant reliability with an emphasis on planned preventative maintenance
- Further optimize plant performance to achieve a steady-state target throughput rate of approximately 180 tonnes per operating hour
- Increase efficiency of the concentrate handling system following the commissioning of the pressure filter
- Work towards improved metal recoveries approaching 80% compared to 75.5% in 2006

- Continue cost reduction initiatives
- Determine the economics of running the plant on some lower-grade ore types to extract additional value from the deposits
- Decommission the solar drying pad

Optimization projects

Construction of the 35-kilometre gas pipeline was completed in 2006 and commissioning started in the first quarter of 2007. Conversion from diesel to natural gas will reduce Ivernia's unit operating cost and exposure to the volatile oil markets and minimize the potential for energy-supply disruptions. The estimated capital investment for the project is approximately $7.0 million of which $5.5 million was invested in 2006.

A pressure filter has been installed and will be commissioned upon recommencement of operations. When in full operation, the filter will enable the operation to consistently achieve target transportable moisture levels without the use of the temporary solar drying pad. The solar drying pad will be decommissioned, thereby reducing operating costs and working capital requirements. The estimated capital investment for this project is approximately $5.0 million of which $2.5 million was invested in 2006.

Exploration program

Ivernia's 2006 exploration program focused on tenements in areas adjacent to the Magellan mine and in the surrounding regions. The objective was to rationalize the existing licenses and identify prospects to pursue new exploration or acquisition opportunities.

The 2006 drill program met with the Company's objectives and yielded a mixture of results that are summarized below:

A total of 299 drill holes for 9,841 metres were completed with approximately 50% on mature prospects, 20% on near-mine areas and the remaining 30% on scout drilling. In addition, progress on regional exploration was advanced through native title work, geological mapping, and prospect generation utilizing available data. The targeted areas have coincidence of lead or zinc anomalism and prospective geology.

The Pizarro prospect returned the most encouraging results with intersections of shallow, high-grade mineralization. Additional drilling totaling 53 drill holes for 2,121 metres was carried out to follow up the previously identified north-east trending mineralized zone in the eastern half of the tenement and to cover some of the limited drilling areas to the west and north of the mineralization.

Regional drilling at the Yandil tenement led to a downgrade of the prospect after no significant results were returned.

Magellan's future exploration programs will be focused on leveraging the results of the 2006 program by further defining resources and areas of mineralization in areas adjacent to the Magellan mine and existing tenements, expanding and exploring regional ground holdings and expanding the program to include suitable opportunities in Australia and overseas.

LIQUIDITY AND FINANCIAL CONDITION

Statement of cash flows

Years ended December 31 *(in thousands of dollars)*	2006	2005	2004
	$	$	$
Cash generated from (used in) operations before changes in non-cash working capital	**18,673**	(147)	(1,902)
Changes in working capital	**1,020**	7,894	856
Cash provided by (used in) operating activities	**19,693**	7,747	(1,046)
Cash used in investing activities	**(20,330)**	(68,268)	(12,836)
Cash provided by financing activities	**10,838**	57,163	20,172
Increase/(decrease) in cash	**10,042**	(3,356)	6,567

Operating activities

In its first full year of commercial production, the Company generated $19.7 million in cash from operating activities, or $0.15 per share(1) compared to $7.7 million or $0.07 per share in 2005. Cash generated in 2006 was used to fund the optimization projects including the gas pipeline and the Metso pressure filter and make interest and principal repayments on the Sentient Note.

Cash generated in 2005 was used to fund capital expenditures related to construction, commissioning and pre-stripping.

(1) Cash flow per share from operating activities is a non-GAAP measure

Investing activities

Net cash utilized in investing activities during 2006 was $20.3 million, mainly related to deferred stripping, expenditures on the construction and commissioning of the secondary ball mill and a second concentrate thickener, which were part of the optimization process to significantly increase grinding capacity and recoveries. Additional investing activities included the gas pipeline and the Metso pressure filters which were nearing completion at the end of the year. In 2005, $68.3 million was used in investing activities, which included $40.0 million to acquire the 49% of Magellan not previously held, and $28.2 million related to investments in property, plant and equipment, deferred stripping and continued commissioning of the processing plant.

Capital investments

The following table summarizes the capital investments made in 2006:

Year ended December 31 *(in thousands of dollars)*	**2006** $
Deferred stripping	**3,500**
Sustaining and other capital	**3,430**
Optimization projects	
Secondary ball mill	**5,000**
Pressure filter	**2,500**
Gas pipeline	**5,500**
Concentrate thickener	**400**
	20,330

Financing activities

A total of $10.8 million was generated by financing activities during 2006. Included in this amount was approximately $8.7 million from the exercise of common share purchase warrants which were issued in March 2004 and which expired in March 2006; $0.3 million from the exercise of stock options, and broker warrants due to expire in May 2006; and, $5.0 million drawn on the $10 million BNP Paribas credit facility. Additionally, the Company paid $2.2 million (C$2.4 million) in principal repayments (and $1.4 million (C$1.6 million) in interest) on the Sentient Note and $1.0 million in payments for long-term leases.

Net cash provided by financing activities during 2005 of $57.2 million consisted mainly of $35.7 million from the issue of shares concurrent with the acquisition of the remaining 49% of Magellan not currently held by the Company; $16.2 million from the issue of the Sentient Note; and, $2.0 million from the exercise of warrants.

The BNP facilities matured on March 30, 2007. The Company has reached agreement with BNP Paribas, subject to certain conditions, for a 30 day moratorium on the exercise of certain enforcement rights until April 30, 2007, to allow the Company to obtain alternate financing, The Company has accepted a commitment from Sentient to provide convertible debt facilities for (i) a 12 month extension of amounts currently outstanding in accordance with the Sentient Note at an interest rate of 11.25% and (ii) a US$22 million non-revolving loan facility at an interest rate of 9.25%, (the “Senior Facility”) to be used to retire a portion of the currently outstanding BNP Facilities and to assist with the Company’s overall funding requirements. Sentient is a significant shareholder of, and a “related party” (as such term is defined in Rule 61-501 of the Ontario Securities Commission) to the Company. A director of the Company is also a principal of Sentient. The conversion rights, which the Company will put before independent shareholders for approval at the 2007 annual meeting, will allow the holder to convert outstanding principal amounts (and certain capitalized amounts) into common shares of the Company at a conversion price equal to the Company’s volume weighted average price for a 40 trading day period from April 3, 2007. Participants in this transaction are precluded from trading shares of Ivernia during the 40 trading day period. The conversion rights begin expiring nine months from the date of the facilities and must be exercised within 12 months from the date of the facilities. Syndication will allow Ivernia to increase the availability under the Senior Facility to US$35 million. If shareholder approval is not obtained, the facilities will bear an interest rate of 35% and will not be repayable for a two-year period.

Upon successful completion of these transactions, the Company will have sufficient working capital to meet its current contractual obligations for the foreseeable future.

Balance sheet

Years ended December 31 *(in thousands of dollars)*	2006 $	2005 $	2004 $
Cash and cash equivalents	**17,062**	7,020	10,376
Working capital surplus (1)	**6,395**	775	8,423
Total assets	**186,099**	155,857	35,973
Total short-term financial liabilities	**15,971**	17,978	—
Total long-term financial liabilities	**2,316**	3,312	3,323
Reclamation provision	**2,396**	1,695	834
Future income tax	**21,372**	19,195	—
Total liabilities	**74,382**	59,833	6,855

(1) Working capital surplus is defined as cash, cash equivalents, accounts receivable and other current assets less accounts payable, other current liabilities and credit facilities

The ability of the Company to generate sufficient amounts of cash from its operations to meet its planned growth and development objectives has been interrupted by the current suspension of operations at Magellan.

See "Events Subsequent to December 31, 2006"

FACTORS AFFECTING COMPARABILITY OF FINANCIAL INFORMATION

The comparability of the selected consolidated financial information set out in this document is affected by the material factors described below:

(a) Magellan Acquisition

Effective April 29, 2005, the Company increased its equity interest in Magellan Metals from 51% to 100%. The Company now fully consolidates Magellan Metals. From March 31, 2004 to April 29, 2005, the Company proportionately consolidated its 51% interest in Magellan. From June 19, 2003 to March 31, 2004, the Company proportionately consolidated its 60% interest in Magellan Metals.

(b) Public Offerings

Concurrent with the Magellan Acquisition (see note 9(b) in notes to the consolidated financial statements), the Company completed a public offering of 31,543,100 common shares (including an overallotment of 2,493,100 common shares) at a price of C$1.55 per share for aggregate gross proceeds of C$48.9 million ($38.7 million) and net proceeds of C$44.9 million ($35.7 million) after share issuance costs.

(c) Credit facility

In July 2006, the Magellan operation completed the documentation for a $10.0 million credit facility, which can be drawn in either US dollars or the equivalent Australian dollars, and a $15.0 million inventory and export finance facility (collectively, the "Facilities"). The Facilities are currently secured by the Magellan assets located in Australia. The $15.0 million inventory and export finance facility replaced the Company's $15.0 million inventory and export finance facility with Ocean Partners (USA) Inc. The credit facility bears interest at a rate of the Australian Bank Bill Rate ("BBSY") + 1% if drawn in Australian dollars or LIBOR + 1% if drawn in US dollars. The inventory and export finance facility bears interest at the rate of LIBOR + 1.25% per annum.

The $10.0 million credit facility will be replaced by the Senior Facility described above (see "Events Subsequent to December 31, 2006"), and the Company will have no further obligations thereunder however, it is anticipated that the inventory and export facility will remain in place and draw downs thereunder will be available once shipping of concentrate recommences.

Working capital surplus (1)

As at December 31, 2006 the Company had a working capital surplus of $6.4 million (December 31, 2005 – $0.8 million), including cash of $17.1 million (December 31, 2005 – $7.0 million).

(1) Working capital surplus is defined as cash, inventory, accounts receivable and other current assets less accounts payable, other current liabilities and credit facility

Short-term debt

On April 29, 2005 the Company issued a C$20.0 million secured promissory note to Sentient (the "Sentient Note"). The Sentient Note is secured by a charge over the RHL shares and a charge over the benefit of the Magellan Metals Progress Loans held by RHL at the time of completion. See note 6(b) to the audited consolidated financial statements for the year ended December 31, 2006. The Sentient Note accrued interest at 8% per annum for the first year.

On December 28, 2005 the Company negotiated an agreement with Sentient that grants Ivernia an irrevocable option (the "Extension Option") to extend the maturity date of the Sentient Note by one year from April 29, 2006 to April 29, 2007. The Company issued 450,000 common shares in January 2006 as consideration for the Extension Option. The Company exercised the Extension Option of the Sentient Note on April 27, 2006.

In May 2006, C$2.0 million in cash was paid to Sentient consisting of accrued interest of approximately C$1.6 million and C$400,000 of principal repayment. An additional C$2.0 million principal repayment was made in December 2006.

The Company and Sentient also agreed that the original extension fee of 400,000 common shares of Ivernia would be satisfied by the following schedule of payments:

- An initial payment of 195,883 shares on the exercise of the option
- Equal monthly payments of 16,323 shares from May 2006 to July 2006 inclusive
- Equal monthly payments of 14,345 shares from August 2006 to April 2007 inclusive

The total maximum number of shares to be issued under this schedule is approximately 374,000 shares. The amount of the monthly share payments will be reduced pro-rata by any further partial or a full cash repayment of the Sentient Note. A total of 316,577 shares were issued to Sentient during the year.

With the exercise of the Extension Option, interest on the Sentient Note accrues at a rate of 9.25% per annum payable on the maturity date of April 29, 2007. The security for the Sentient Note remains unchanged. Ivernia may prepay the principal amount of the Sentient Note and any interest, in whole or in part, at any time prior to maturity without premium or penalty.

Upon the closing of the Junior Facility described above (see "Events Subsequent to December 31, 2006"), the Sentient Note will be fully repaid and the Company will have no further obligations thereunder.

Long-term debt

Magellan has entered into a five-year power supply contract Kalgoorlie Power Systems and has various equipment and vehicle leases in place as at December 31, 2006. The equipment and vehicle leases range in length from three to five years.

Future income tax

The Company has a future income tax liability of $21.4 million that was generated predominately from the acquisition in 2005 of Sentient's 49% interest in Magellan not previously held. The Company also has approximately $17 million (A$22 million) of loss carry forwards from Magellan that will be used to shelter future taxable income.

Contractual and other obligations

The following table summarizes the Company's contractual and other obligations including principal payments and interest as at December 31, 2006:

Payments Due by Period

	Total	Less than 1 year	1-5 years	More than 5 years
(in thousands of dollars)	$	$	$	$
Rental agreements and operating leases	462	124	318	20
Finance leases and hire-purchase (1)	2,874	559	1,739	576
Reclamation (2)	2,395	—	—	2,395
Exploration licences (3)	167	167	—	—
Mining leases (3) & (4)	165	165	—	—
	6,063	1,015	2,057	2,991

(1) Magellan Metals has a number of finance leases and hire-purchase obligations for plant and light vehicles

(2) Magellan Metals has reclamation provisions for the due and proper performance of mining leases. These obligations are supported in part by an unconditional performance bond with an Australian financial institution

(3) Under the terms of its exploration licences and mining leases, Magellan Metals is required to meet certain minimum expenditure requirements for a 12-month period commencing on the date of issue or renewal of the licence or lease. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2006 are dependent upon whether Magellan chooses to retain its current tenements

(4) Magellan Metals is obliged to make royalty payments of 5% of net royalty value of lead concentrates produced or 2.5% of royalty value of lead metal produced and a payment of A$0.08 per tonne of ore mined under the Heritage Agreement dated September 25, 1998 between Magellan Metals and the Milangka Group and the Land Use Agreement dated December 16, 1998 between Magellan Metals and the Wanmulla Group

Shares issued and outstanding

	Common shares	Preference shares
December 31, 2006	134,452,101	—
April 2, 2007	134,734,421	—

Common share warrants

The table below summarizes the number of common shares issuable upon the full exercise of the common share purchase warrants and broker warrants issued pursuant to the November 2004 Private Placement as at April 2, 2007:

	Common shares issuable if all warrants fully exercised	Common shares issued pursuant to warrants exercised to date	Common shares issuable upon exercise of remaining warrants	Proceeds received	
				C$	US$(1)
November 2004 Private Placement:					
Common share purchase warrants	4,240,000	287,000	3,953,000	403,000	344,000
November Broker Warrants	480,000	480,000	—	600,000	510,000
Total	4,720,000	767,000	3,953,000	1,003,000	854,000

(1) All proceeds were received in Canadian dollars. This column is the US dollar equivalent

Stock options

Under the Company's Stock Option Plan, certain directors, officers, employees and consultants may be granted options to purchase up to 9,184,834 common shares. As at December 31, 2006 options to purchase 3,277,334 common shares (December 31, 2005 – 4,333,584) remained 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 have a term up to ten years and may not be assigned. Unless the directors of the Company determine otherwise, one quarter of options granted become exercisable on the date of grant, one quarter following the first anniversary date, one quarter following the second anniversary date, and the balance at any time following the third anniversary date.

	Granted	Exercised	Shares issued	Expired
2006	2,090,000	615,166	372,082	1,033,750
2005	1,737,222	—	—	826,806

As at December 31, 2006 there were outstanding options to purchase 5,907,500 common shares of the Company, of which 3,335,833 were exercisable. As of April 2, 2007 3,227,334 options remain available to grant.

Results of equity financings and exercise of warrants

Concurrent with the Magellan Acquisition on April 29, 2005 (see note 9(b) in notes to the consolidated financial statements), the Company completed a public offering of 31,543,100 common shares (including an overallotment of 2,493,100 common shares) at a price of C$1.55 per share for aggregate gross proceeds of C$48.9 million ($38.7 million) and net proceeds of C$44.9 million ($35.7 million) after share issuance costs.

On March 25, 2004, the Company issued units consisting of, in aggregate, 80 million shares and warrants to purchase an additional 40 million common shares (the "March Private Placement") for gross proceeds of C$20.0 million. These 80 million common shares became 16 million common shares upon the share consolidation which became effective on June 30, 2004. The warrants collectively entitled the holders to purchase an aggregate of 8 million common shares for the effective exercise price of C$1.25 (or C$1.325 for insiders of Ivernia for security regulatory purposes) per common share until March 25, 2006. As part of their compensation for the March Private Placement, the agents were issued 4.68 million broker warrants (the "March Broker Warrants") which, post-consolidation, gave them the right to purchase, at any time until September 25, 2005 for proceeds of C$1.25 per March Broker Warrant, an aggregate of 936,000 common shares and warrants exercisable for an additional 468,000 common shares. Each whole warrant issuable upon exercise of the March Broker Warrants is exercisable at an effective price of C$1.25 per common share until March 25, 2006.

During 2005, all of the March Broker Warrants were exercised for proceeds of C$1.17 million. Also during 2005, 669,900 warrants were exercised for proceeds of C$837,000.

On March 27, 2006, all of the common share purchase warrants issued in connection with the March Private Placement had been exercised to raise additional proceeds of C$10.6 million.

On November 18, 2004, the Company issued 8 million units (the “November Private Placement”), each consisting of one common share and one-half of one common share purchase warrant at a price of C$1.25 per unit for total gross proceeds of C$10.0 million. Each whole warrant entitles the holder to purchase an additional common share at a price of C$1.40 per whole common share until November 18, 2009.

As part of their compensation for the November Private Placement, the underwriters were issued an aggregate of 480,000 broker warrants (the “November Broker Warrants”). The November Broker Warrants give them the right to purchase 480,000 units in the Company at any time until May 18, 2006. Each unit entitles the holder to purchase one common share and one-half common share purchase warrant for a price of C$1.25. Each whole share purchase warrant entitles the holder to purchase one common share at a price of C$1.40 per common share until November 19, 2009.

During 2005, 400,000 November Broker Warrants were exercised for proceeds of C$500,000 and 170,000 warrants were exercised for proceeds of C$238,000.

During the second quarter 2006, all of the outstanding November Broker Warrants were exercised for proceeds of C$100,000. During the fourth quarter 117,500 November Warrants were exercised for proceeds of C$165,000.

OTHER MATTERS

Magellan Acquisition

On April 29, 2005, Ivernia closed its acquisition from Sentient Global Resources Fund (together with its affiliates, associates and nominees, “Sentient”) of Sentient’s 49% interest in Magellan in order to consolidate 100% ownership within Ivernia (the “Magellan Acquisition”). The final consideration for Sentient’s 49% interest comprised of:

- C$29.8 million in cash, financed from a C$48.9 million public equity offering
- 23.5 million common shares of Ivernia (valued at C$1.55 per share); and
- C$19.9 million by delivery of a 12-month, secured promissory note

Under the terms of the acquisition, Sentient reimbursed Ivernia for expenses and certain other costs of the transaction and the public equity offering, including the underwriters’ fees and commissions amounting to C$5.3 million. The final consideration paid to Sentient was C$86.1 million ($68.5 million).

As a result of this transaction, Ivernia obtained a 100% ownership interest in the Magellan mine and its exploration properties.

Concurrent with the Magellan Acquisition, the Company completed a public offering of 31,543,100 common shares (including an overallotment of 2,493,100 common shares) at a price of C$1.55 per share for aggregate gross proceeds of C$48.9 million ($38.7 million) and net proceeds of C$44.9 million ($35.7 million) after share issuance costs.

CRITICAL ACCOUNTING POLICIES AND OTHER

Critical Accounting Estimates

In preparing financial statements management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management’s application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management.

Mineral Properties and Deferred Start-up Costs

The Company capitalizes the development costs of mining projects by commencing production when economically recoverable reserves, as shown by an economic study, are believed to exist. Upon commencement of commercial production, these costs are written off over the life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition the determination of economic reserves depends on assumptions regarding long-term commodity prices and in some cases, exchange rates.

Revenue Recognition and Inventory Valuation

Revenue is recognized when the title and risk of ownership of concentrates have passed and collection is reasonably assured. Revenue from the sale of metals contained in concentrates are provisionally priced using forward prices for the expected date of final settlement. Subsequent variations in the prices are recognized as revenue adjustments until final settlement of metal prices, weights and assays.

Economic Life

Management's estimate of the remaining economic life of the mine is approximately ten years based on the updated resource statement provided in accordance with National Instrument 43-101. Based on management's view of future metal prices the carrying value of the assets was not impaired at December 31, 2006.

Asset Retirement Obligations, Reclamation and Mine Closure

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total liability for future site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future.

Future Income Taxes

The Company has recognized a net future tax liability of $21.4 million that relates predominantly to the timing difference created between tax and accounting basis of assets and liabilities at the Magellan mine to-date. Management estimates that, using long-term lead prices in line with its mine plan estimates, future taxable income will be sufficient to utilize estimated tax liabilities.

Variable Interest Entities

Effective January 1, 2005, the Company adopted the new Accounting Guideline 15 ("AcG-15") – "Consolidation of Variable Interest Entities". The standard establishes when a company should consolidate a variable interest entity in its financial statements. AcG-15 requires a variable interest entity to be consolidated if a company is at risk of absorbing the variable interest entity's expected losses, or is entitled to receive a majority of the variable interest entity's residual returns, or both.

Deferred Stripping

Effective January 1, 2006 the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants with respect to stripping charges, EIC 160 Stripping Costs Incurred in the Production Phase of a Mining Operation ("EIC 160"). The new recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the period in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the stripping activity provides access to reserves that would not have been accessible in the absence of the stripping activity. When costs are deferred in relation to a betterment, the costs are amortized over the reserves accessed by the stripping activity using the units of production method.

The standard has been applied prospectively from January 1, 2007 and prior years' financial statements have not been restated. Application of this new accounting policy did not have a material impact on the financial position or results of operations as at or for the year ended December 31, 2006.

As at December 31, 2006 the balance of deferred stripping costs was $9.2 million. In accordance with EIC 160, the carrying value of the deferred stripping costs as at December 31, 2006 will be amortized over the life of the related mining assets on a units of production basis.

Evaluation of Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Company, with the participation of the CEO and the CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings") and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the CEO and the CFO in a timely manner.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate control over financial reporting. The Company maintains a set of internal controls which have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

Under the supervision and with the participation of the CEO and the CFO, the Company evaluated the design of its internal controls and procedures as defined under Multilateral Instrument 52-109 for the year ended December 31, 2006. This evaluation was based on the framework set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the internal control over financial reporting was effective as of that date.

There was no change in the Company's internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

The business of Ivernia is subject to a variety of risks, including those described below.

Matters Relating to Shipping Product

The Company is diligently pursuing the necessary approvals, and has a reasonable expectation, based upon conversations with government officials and the normal course timelines for such applications, that such approvals will likely require three to four months to obtain. There can be no assurance that the necessary amended licence to resume shipments will be granted within a reasonable time. The Company announced on April 2, 2007 that it will be placing the Magellan Mine operation under temporary care and maintenance until such time as it is given the approval to ship its concentrate out of a port in Western Australia.

Resources and Reserves

Ivernia believes that the reserve and resource figures calculated for Magellan have been conducted using appropriate methodology and provide a reasonable estimate based on the available data. The inherent imprecision of all such estimates is also recognized and the Company accepts that they are only estimates. Changes to the proposed mining plans that are used to generate the estimates is almost inevitable as more information becomes available and as economic parameter assumptions, such as metal prices and exchange rates, change with time. Consequently, no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated levels of metal recovery will be realized. Metal price fluctuations, as well as increased production costs or reduced recovery rates, may render ore reserves containing relatively lower grades uneconomic and may ultimately result in a restatement of such ore reserves. Moreover, short-term operating factors relating to ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore types or grades, may cause a mining operation to be unprofitable in any particular accounting period.

Metal Price Volatility

Ivernia's operating revenues are derived from the sale of lead concentrates and lead metal. Accordingly, the Company's earnings are directly related to the price of lead. Lead prices have fluctuated over time and are affected by numerous factors beyond Ivernia's control. The effects of these factors are impossible for Ivernia to predict. If the market price for lead falls below Ivernia's total cash costs and remains at such levels for a sustained period, Ivernia may, if it is not appropriately hedged, incur losses and may determine to discontinue mining operations. A lead price hedging strategy has been put in place by the Company.

Exchange Rates

Substantially all of the revenues and debt of the Magellan Mine are (or are expected to be) denominated in US dollars, whereas a significant portion of its operating costs relating to the Magellan Mine are denominated in Australian dollars. All of the revenues and debts of Ivernia are (or are expected to be) denominated in Canadian dollars. Fluctuations in the Australian/US dollar and the Canadian/US dollar exchange rates may significantly impact the earnings and cash flows of the Magellan Mine and Ivernia.

Single Mineral Property

Ivernia's only mineral property is the Magellan Mine. Any adverse development affecting the mine its production or operations could have a material and adverse effect on the Company and could materially and adversely affect its lead production, profitability, financial performance and results of operations.

Metallurgy

The Company is aware of the inherent risk of mineralogical changes in the planned treatment of the Magellan ore bodies. Particle liberation and the effectiveness of selective chemical collection are the key variables in any flotation-based process and these have been assessed on the sample suites available for test work, which has been limited to a relatively small weight percent of the planned mining operation. While every reasonable step has been taken to ensure that the metallurgical process is suited to the task, including third party reference advice, comparisons with similar operations both past and present and extensive test work on actual material, no assurance can be given that modifications will not be required or that the predicted performance will be achieved.

Environmental

Certain environmental issues could potentially affect the operation of the business. Although potential issues such as storm events, ground water, land contamination, tailings storage seepage, pit wall failure, dust and noise emissions have all been assessed and appropriate strategies implemented as a means of reducing these risks, with these strategies continually being reviewed and improved where required, based on practices at other lead mining and processing operations have been adopted, there can be no assurance that an unforeseen event will not occur which could have an impact on the viability of the operation. Currently, the government of Western Australia has placed a temporary suspension on the Esperance Port Authority restricting their ability to accept imports or exports of lead concentrate. Other than as previously disclosed herein, see "Events Subsequent to December 31, 2006". Ivernia is not aware of any other material environmental constraints affecting its existing mining or development properties that would preclude the economic development or operation of any specific mine or property.

Mining Risks

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

Insurance

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

Labour and Employment Regulations

Although Ivernia has good relations with its employees, production at its mining operation is dependant upon the efforts of Ivernia's employees and contractors. In addition, relations between Ivernia and its employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in whose jurisdiction Ivernia carries on business. Changes in such legislation or in the relationship between Ivernia and its employees may have a material adverse effect on Ivernia's business, results of operations and financial condition.

Health and Safety

Lead is a toxic substance that can become concentrated in the food chain and affect human and animal development. Although Ivernia has implemented procedures that are designed to protect the health and safety of employees, contractors and others, such procedures require strict adherence by the respective individuals and no assurance can be given that employees, contractors or others will not be exposed to toxic materials, which may attract liability to Ivernia. Mining and processing operations also involve a variety of other hazardous materials such as fuel, blasting agents and dangerous chemicals that could cause damage or harm to the Magellan Mine's operating facilities or employees. A risk to the operation of the Magellan Mine is that employees, contractors or others may not adhere to standard operating procedures that will be in place. The Company is aware that both careful monitoring and effective control are paramount but there is still a risk that incidents will occur which will require remedial action and may result in curtailment of operations.

In the event that control measures are not completely successful, employees, contractors or others could absorb enough lead to raise their blood lead levels above permissible levels and require their removal from the site. Temporary workers would need to be employed to maintain operational continuity, which would result in additional labour costs.

Government Regulation

Ivernia's activities are subject to extensive laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment and upon interests of native and/or indigenous peoples. Permits from a variety of regulatory authorities are required for many aspects of mine operation and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of Ivernia's properties, the extent of which cannot be predicted. In the context of environmental permitting, including the approval of reclamation plans, Ivernia must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. While it is possible that the costs and delays associated with compliance with such laws, regulations and permits could become such that Ivernia will not proceed with the development or operation of a mine. Currently, the government of Western Australia has placed a temporary suspension on the Port of Esperance restricting their ability to accept imports or exports of lead concentrate, including that of Magellan Metals. Other than as previously disclosed herein, see "Events Subsequent to December 31, 2006", Ivernia is not aware of any other material environmental constraint affecting its existing mining or development properties that would preclude the economic development or operation of any specific mine or property.

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

Dependence on Key Personnel

Ivernia's success depends to a significant extent on the continued services of certain key personnel. The failure to retain certain personnel and to attract qualified management in the future could adversely affect our ability to manage our operations.

Constraints on Cash Distributions from the Magellan Mine

The Magellan Mine was commissioned on September 30, 2005 and commercial production was achieved on October 1, 2005. The cash flow generated from the commencement of commercial production at the mine is subject to constraints before it can be distributed by Magellan Metals to the Company. These constraints include ongoing operating costs for the mine, completing the construction of a gas pipeline in 2007, the installation of a Metso pressure filter in 2007, and royalty payments to native title claimants under the Heritage Agreement and the Land Use Agreement. The ability of the Company to generate sufficient amounts of cash from its operations to meet its planned growth and development objectives has been interrupted by the current suspension of operations at Magellan.

Nature of Mineral Exploration and Development

The exploration for and development of mineral properties includes significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. Considerable expenditure is required to assess mineralized occurrences and the progression of such discoveries to potential ore-bodies is a high risk process which requires constant review. While the discovery of an ore deposit may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. To determine the commercial viability of a mineral deposit such as the Magellan Mine is an extremely complex process which includes the consideration of technical, economic and political factors such as the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices which are highly cyclical and government regulations, including regulations relating to prices, land tenure, taxes, royalties, land use, importing and exporting of minerals and environmental protection. Accordingly there can be no assurance that Ivernia's current business plan will result in profitable and sustained commercial mining operations. While contingency levels deemed appropriate for this type of operation have been included, no assurances of achieving the targets can be given as many outside factors can interfere, such as actual availability of equipment and services at the appropriate time or unusual climatic events.

FORWARD-LOOKING STATEMENTS

This document contains certain "forward-looking statements". All statements other than statements of historical fact) which address activities, events or developments that management anticipates will or may occur in the future are forward-looking statements, including statements as to the following: future targets and estimates for production, capital expenditures, operating costs, cash costs, mineral resources and ore reserves, recovery rates, grades and prices; business strategies and measures to implement such strategies; competitive strengths; estimated goals and plans for Ivernia's future business operations; and other such matters. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "contemplate", "target", "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 statements are based upon certain assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. However, whether actual results and developments will conform with management's expectations is subject to a number of risks and uncertainties, including those detailed from time to time in filings made by Ivernia with securities regulatory authorities, that may cause the actual results of Ivernia to differ materially from those discussed in the forward-looking statements, and even if such actual factors such as; the results of the government's continuing investigations into the matters referred to in "Events Subsequent to December 31, 2006", the timing of the receipt of required regulatory approvals required to resume shipment of lead concentrate, the duration of the suspension of mining and milling operations, the approval of the independent shareholders of the Company to the terms of the financings referred to herein, resources and reserves, metal price volatility, exchange rates, the fact that the Company currently has a single mineral property, metallurgy, environmental factors, mining risks, insurance, labour and employment, health and safety, government regulations, dependence on key personnel, constraints on cash distributions, the nature of mineral exploration and development, general economic, market or business conditions, the opportunities (or lack thereof) that may be presented to and pursued by management, competitive actions by other companies, changes in laws or regulations and other factors, many of which are beyond the Company's control. These factors may cause the actual results of the Ivernia to differ materially from those discussed in the forward-looking statements, and there can be no assurance that the actual results or developments anticipated by management will be realized or, even if substantially realized, that they will have the expected results on Ivernia. The reader should not place undue reliance on them. For further information concerning certain such factors, see the Company's most recent Annual Information Form filed with Canadian securities regulatory authorities on SEDAR at www.sedar.com. All of the forward-looking statements made herein are qualified by the foregoing cautionary statements. Ivernia expressly disclaims any obligation to update or revise any such forward-looking statements.

April 2, 2007

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Ivernia 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 2 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 by
Alan M. De'ath
President and Chief Executive Officer

Signed by
Mario Stifano
VP and Chief Financial Officer

April 2, 2007

Auditors' Report

TO THE SHAREHOLDERS OF IVERNIA INC.

We have audited the consolidated balance sheets of Ivernia Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, deficit 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 the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
April 2, 2007

Signed by
PricewaterhouseCoopers LLP
Chartered Accountants
Licensed Public Accountants

Consolidated Statements of Operations and Deficit

For the Years ended December 31 *(in thousands of United States dollars, except per share amounts)*	2006 $	2005 $
Revenue	**82,909**	14,672
Treatment charges and freight	**14,376**	4,367
Mining and processing costs	**39,140**	6,696
Royalties	**3,509**	635
Amortization	**9,005**	2,231
Operating income	**16,879**	743
Expenses		
General and administrative	**5,844**	3,220
Stock option costs *(note 9(d))*	**587**	844
Foreign exchange gain	**(533)**	(1,229)
Net interest expense	**2,491**	807
Other	**1,474**	310
	9,863	3,952
Income/(loss) before income taxes	**7,016**	(3,209)
Income tax expense/(recovery) *(note 10)*	**2,178**	(2,563)
Income/(loss) for the year	**4,838**	(646)
Deficit – beginning of year	**(79,311)**	(78,665)
Deficit – end of year	**(74,473)**	(79,311)
Basic earnings/(loss) per share *(note 9(f))*	**0.04**	(0.01)
Fully diluted earnings/(loss) per share *(note 9(f))*	**0.04**	(0.01)

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

Consolidated Balance Sheets

As at December 31 *(in thousands of United States dollars)*	2006 $	2005 $
Assets		
Current assets		
Cash and cash equivalents	**17,062**	7,020
Accounts receivable and other current assets	**12,795**	4,541
Inventory *(note 4)*	**8,865**	6,867
	38,722	18,428
Property, plant and equipment *(note 5)*	**146,647**	136,119
Restricted cash and cash equivalents *(note 3)*	**5**	1,175
Deferred charges and other assets	**725**	135
	186,099	155,857
Liabilities		
Current liabilities		
Accounts payable and other current liabilities	**27,327**	17,653
Credit facility *(note 6(a))*	**5,000**	—
Short term note payable *(note 6(b))*	**15,971**	17,978
	48,298	35,631
Long-term debt *(note 7)*	**2,316**	3,312
Reclamation provision *(note 8)*	**2,396**	1,695
Future income tax *(note 10)*	**21,372**	19,195
	74,382	59,833
Shareholders' Equity		
Share capital *(note 9(b))*	**182,215**	168,730
Share warrants *(note 9(c))*	**1,600**	4,713
Contributed surplus *(note 9(e))*	**2,375**	1,892
Deficit	**(74,473)**	(79,311)
	111,717	96,024
	186,099	155,857

Commitments and contingencies *(notes 12, 13)*

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

Approved by the Board of Directors

Signed by
J. Trevor Eyton
Director

Signed by
Alan De'ath
Director

Consolidated Statements of Cash Flows

For the Years ended December 31 *(in thousands of United States dollars)*	**2006**	**2005**
	$	$
Cash provided by/(used in)		
Operating activities		
Income/(loss) for the year	**4,838**	(646)
Non-cash items:		
Stock option costs	**587**	844
Amortization	**9,005**	2,231
Future income tax	**2,376**	(2,563)
Other	**1,867**	(13)
Changes in non-cash working capital:		
Accounts receivable and other current assets	**(8,253)**	(4,050)
Inventory	**(1,712)**	(1,100)
Accounts payable and accrued liabilities	**9,788**	13,178
Change in restricted cash and cash equivalents	**1,197**	(134)
	19,693	7,747
Investing activities		
Additions to property, plant and equipment	**(20,330)**	(28,255)
Magellan acquisition	**—**	(40,013)
	(20,330)	(68,268)
Financing activities		
Net cash proceeds on issue of shares	**8,993**	37,729
(Decrease)/increase in debt, net	**(2,159)**	17,054
Increase in financing	**5,000**	—
Increase/(decrease) in long-term leases	**(996)**	2,380
	10,838	57,163
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**(159)**	2
Net (decrease)/increase in cash and cash equivalents	**10,042**	(3,356)
Cash and cash equivalents – Beginning of year	**7,020**	10,376
Cash and cash equivalents – End of year	**17,062**	7,020
Supplementary information:		
Interest paid	**2,055**	469

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

Notes to Consolidated Financial Statements

(All dollar amounts are expressed in United States dollars, except as otherwise indicated)

1. NATURE OF OPERATIONS

Ivernia Inc. and its subsidiaries (collectively, the "Company") is active in one operating segment, namely the acquisition, exploration, development and mining of mineral properties. As at December 31, 2006 its principal asset was a 100% (December 31, 2005 – 100%) direct and indirect equity interest in Magellan Metals Pty Limited ("Magellan") in Australia. Effective April 29, 2005 the Company increased its equity interest in Magellan from 51% to 100%.

Ivernia achieved commercial production at the Magellan mine on October 1, 2005 and began production accounting at the same time to reflect its new status as an operating company. Prior to October 1, 2005 the Company was engaged in the construction and commissioning of the mine. All revenues and expenses were capitalized prior to commercial production; therefore comparisons between 2006 and 2005 may not be meaningful or informative.

See Subsequent events Note 13.

2. 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.

Inventory

Concentrate inventory is stated at the lower of production costs, including amortization and net realizable value. Raw materials and consumables are valued at the lower of cost and replacement value, net of obsolescence.

Mining property, plant and equipment

Plant and equipment are depreciated over the estimated lives of the related assets calculated on units of production or contained metal where appropriate.

Deferred costs include interest and financing costs relating to the construction of plant and equipment and operating costs net of revenues prior to the commencement of commercial production of new mines. Interest and financing costs are capitalized only for those projects for which funds have been borrowed.

Upon commencement of production, mineral properties and deferred costs relating to mines are amortized over the estimated life of the proven and probable reserves to which they relate.

Revenue recognition

Revenue is recognized when the title and risk of ownership of concentrates have passed and collection is reasonably assured. Revenue from the sale of metals contained in concentrates are provisionally priced using forward prices for the expected date of final settlement. Subsequent variations in the prices are recognized as revenue adjustments until final settlement of metal prices, weights and assays.

Derivative financial instruments

The company can use commodity price contracts, foreign exchange forward contracts and interest rate swaps to manage exposure to metal price fluctuations, foreign exchange and interest rate fluctuations. Realized gains and losses on these contracts are recognized in the period incurred. Derivative instruments that do not qualify as a hedge are recorded on the balance sheet at fair value, with changes in fair value recognized in earnings.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas requiring the use of significant estimates include the final revenue settlements, the determination of quantities of proven and probable reserves, the expected lives of long-term assets and the measurement of amortization, expected cost of asset retirement obligations, valuation of options, warrants, derivative instruments and their respective fair values, deferred income taxes and the assessment of impairment in value of long lived assets. Actual results could differ materially from those estimates.

Reporting currency

Management has determined that the United States dollar ("US$" or "US dollar") is the principal currency of the Company's business. Accordingly, the consolidated financial statements use the US dollar as the reporting currency. The Company also carries out transactions in Canadian dollars ("C$"), Australian dollars ("A$") and the Euro ("Euro").

Foreign currency translation

The financial statements of the Company's fully integrated subsidiaries are translated into US dollars using the temporal method. 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.

Foreign currency transactions and balances

The US dollar is the functional currency of the Company. Foreign currency transactions are translated using the exchange rates prevailing at the rate of exchange in effect at the date the transactions are recognized in income. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are included in income.

Asset retirement obligations

The Company realizes the legal obligations with the retirement of long-lived assets that result from the acquisition, construction, development and normal use of the assets. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred and is added to the carrying amount of the associated asset and this additional carrying amount is amortized over the life of the asset when in production. At the end of each reporting period, accretion of the liability is capitalized as part of the cost of the project during the construction phase, and is charged to operating expenses when in production. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or a loss on settlement.

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 property, plant and equipment. Upon reaching commercial production, deferred costs on the consolidated balance sheets are amortized into operations using the unit-of-production method or contained metal where appropriate over the estimated useful life of the estimated related ore reserves. The carrying values of property, plant and equipment 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 capitalized and deferred costs exceed the forecast related undiscounted net cash flows of ore reserves;

then the carrying amount is written down to fair value. An impairment loss charged to income is measured as the amount by which the carrying amount exceeds its fair value.

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

The Company uses the cost method for accounting for investments where the Company does not exercise significant influence or control. The investment is recorded at cost; earnings are recognized only to the extent received or receivable.

Leases

Leases are classified as capital or operating depending on the terms and the conditions of the contracts. Payments under operating leases are expensed in the period in which they are incurred. Asset values recorded under capital leases are amortized on a straight line basis over the period of expected use. Obligations under capital leases are reduced by lease payments, net of computed interest.

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 realized.

Stock options

The Company has a stock option plan that is described in note 9(d). The Company follows the fair value based method to account for stock-based transactions with directors, officers, eligible employees and consultants. The value of options granted 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.

Earnings/(loss) per share

Basic earnings or loss per share is computed by dividing the earnings or 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 is 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.

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2006.

3. RESTRICTED CASH AND CASH EQUIVALENTS

As at December 31, 2006 Magellan had restricted cash deposited with a financial institution of $5,000 (2005 – $1.18 million). During the year, $1.17 million was refunded to Magellan. These bonds are now secured by part of the credit facility with BNP Paribas (see note 6(a)). These deposits principally relate to unconditional performance bonds in favour of the State of Western Australia as security for the due and proper performance of the terms and conditions of Magellan mining leases (see note 8).

4. INVENTORY

Years ended December 31 *(in thousands of dollars)*	2006	2005
	$	$
Concentrate	**5,950**	4,605
Ore stockpiles	**868**	1,141
Consumables and other	**2,047**	1,121
	8,865	6,867

5. PROPERTY, PLANT AND EQUIPMENT

	2006			2005		
(in thousands of dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Plant and equipment	**35,462**	**(3,580)**	**31,882**	28,121	(1,504)	26,617
Leasehold improvements	**74**	**(27)**	**47**	74	(14)	60
Office equipment	**492**	**(235)**	**257**	401	(148)	253
Leased assets	**4,155**	**(582)**	**3,573**	4,155	(250)	3,905
Development costs and other	**116,890**	**(6,002)**	**110,888**	106,361	(1,077)	105,284
	157,073	**(10,426)**	**146,647**	139,112	(2,993)	136,119

During 2006 interest capitalized amounted to nil (2005 – $1.69 million).

6. CURRENT LIABILITIES

(a) Inventory and credit facilities

In July 2006, the Magellan operation completed the loan documentation to finalize a $10 million credit facility, which can be drawn in either US dollars or equivalent Australian dollars, and a $15 million inventory and export finance facility (collectively, the "Facilities"). The Facilities have been arranged with BNP Paribas of Australia.

The $15 million inventory and export finance facility replaced the Company's $15 million inventory and export finance facility with Ocean Partners (USA) Inc., the Company's sales representative for Magellan lead concentrates. The Facilities are secured by the Magellan assets located in Australia.

The credit facility bears interest at a rate of the Australian Bank Bill Rate ("BBSY") + 1% per annum if drawn in Australian dollars or LIBOR + 1% if drawn in US dollars. The inventory facility bears interest at a rate of LIBOR + 1.25% per annum.

The average interest rate was 6.45% from July to December.

As at December 31, 2006 $5 million of the credit facility and $4 million of the inventory facility had been drawn down. Also see Note 13.

(b) Short-term note payable

On April 29, 2005 the Company issued a C$20 million ($17.12 million) secured promissory note to Sentient (the "Sentient Note"). The Sentient Note is secured by a charge over the RHL shares and a charge over the benefit of the Magellan Metals Progress Loans held by RHL at the time of completion. The Sentient Note accrued interest at 8% per annum for the first year.

On December 28, 2005 the Company negotiated an agreement with Sentient that grants Ivernia an irrevocable option (the "Extension Option") to extend the maturity date of the Sentient Note by one year from April 29, 2006 to April 29, 2007. The Company issued 450,000 common shares in January 2006 as consideration for the Extension Option at a price of C$1.86. The Company exercised the Extension Option of the Sentient Note on April 27, 2006.

During May 2006, the Company paid to Sentient C$2 million in cash, consisting of accrued interest of approximately C$1.6 million and C$400,000 of principal repayment. The Company had committed to repay a further C$2 million of the principal of the Sentient Note in August 2006.

Subsequent to discussions during the third quarter between the Company and Sentient, the C$2 million principal repayment had been deferred until December 31, 2006. During December 2006, the Company paid the C$2 million ($1.72 million) in cash to Sentient, consisting entirely of principal.

The Company and Sentient have also agreed that the original extension fee of 400,000 common shares of Ivernia will be satisfied by the following schedule of payments:

- An initial payment of 195,883 shares on the exercise of the option.
- Equal monthly payments of 16,323 shares from May 2006 to July 2006 inclusive.
- Equal monthly payments of 14,345 shares from August 2006 to April 2007 inclusive.

The total maximum number of shares that will be issued under this schedule is approximately 374,000 shares. The amount of the monthly share payments will be reduced pro-rata by any further partial or a full cash repayment of the Sentient Note. A total of 316,577 shares were issued for the extension fee during the year at a weighted average price of C$1.95.

With the exercise of the Extension Option, interest on the Sentient Note accrues at a rate of 9.25% per annum payable on the maturity date of April 29, 2007. The security for the Sentient Note remains unchanged. Ivernia may prepay the principal amount of the Sentient Note and any interest, in whole or in part, at any time prior to maturity without premium or penalty.

The payment of the extension fee will not materially increase Sentient's equity interest in Ivernia, which currently stands at approximately 18% of shares outstanding. Also see Note 13.

7. LONG-TERM DEBT

Years ended December 31 *(in thousands of dollars)*	2006	2005
	$	$
Lease liabilities	**2,879**	3,873
	2,879	3,873
Less current portion:	**563**	561
	2,316	3,312

Magellan Metals has entered into a five-year power supply contract and has various equipment and vehicle leases in place as at December 31, 2006. The equipment and vehicle leases range in length from three to five years.

8. RECLAMATION PROVISION

As at December 31, 2006 the reclamation provision relating to Magellan Metals asset retirement obligations was $2.40 million (2005 – $1.70 million).

The following assumptions were used to estimate the fair values of the obligations:

Years ended December 31	2006	2005
Total undiscounted amount of estimated cash flows	**$ 3,729,000**	$ 2,845,000
Expected year of payment of cash flows	**2016**	2016
Discount rate	**7.5%**	7.5%

The estimate of the total liability for future asset retirement obligations is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in estimate, when applicable.

9. 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	Amount
	(000's)	($000's)
Outstanding as at December 31, 2004	68,099	101,140
Issued in connection with exercise of warrants (i)	1,943	2,027
Amount attributed to fair value of warrants	—	882
Issued in connection with public offering (ii)	31,543	35,701
Issued in connection with Magellan Acquisition (iii)	23,500	28,980
Outstanding as at December 31, 2005	125,085	168,730
Issued in connection with exercise of warrants (i)	8,228	8,888
Amount attributed to fair value of warrants	—	3,113
Issued in connection with short-term debt *(note 6(b))*	767	1,275
Issued in connection with exercise of options	372	209
Outstanding as at December 31, 2006	**134,452**	**182,215**

(i) On March 25, 2004 the Company issued units consisting of, in aggregate, 80 million shares and warrants to purchase an additional 40 million common shares for gross proceeds of C$20 million. The warrants collectively entitled the holders to purchase an additional 8 million common shares for the effective exercise price of C$1.25 (or C$1.325 for insiders of Ivernia for security regulatory purposes) per common share until March 25, 2006. As part of their compensation for the placement, the agents were issued 4.68 million broker warrants (the "March Broker Warrants") which, gave them the right to purchase, at any time until September 25, 2005 for proceeds of C$1.25 per March Broker Warrant, an aggregate of 936,000 common shares and warrants exercisable for an additional 468,000 common shares. Each whole warrant issued upon exercise of the March Broker Warrants was exercisable at an effective price of C$1.25 until March 25, 2006.

On November 18, 2004 the Company issued 8 million units, each consisting of one common share and one-half common share purchase warrant at a price of C$1.25 per unit for total gross proceeds of $10 million. Each whole warrant entitles the holder to purchase an additional common share at a price of C$1.40 per whole common share until November 18, 2009. As part of their compensation for the placement, the underwriters were issued an aggregate of 480,000 broker warrants (the "November Broker Warrants"). The November Broker Warrants gave them the right to purchase 480,000 units in the Company at any time until May 18, 2006. Each unit entitled the holder to purchase one common share and one-half purchase warrant for a price of C$1.25. Each whole share purchase warrant entitles the holder to purchase one common share at a price of C$1.40 per common share until November 19, 2009.

(ii) On April 29, 2005 the Company acquired all of the outstanding shares of Resources Holding Limited, that at the time of completion held 49% interest in Magellan Metals not already owned by Ivernia (the "Magellan Acquisition") from Sentient Global Resources Fund (together with its affiliates, associates and nominees, "Sentient"). Concurrent with the Magellan Acquisition, the Company completed a public offering of 31,543,100 common shares at a price of C$1.55 per share for aggregate gross proceeds of C$48.9 million.

(iii) As part of the consideration for the Magellan Acquisition, the Company issued 23,500,000 common shares at C$1.55 per common share to Sentient.

(c) Share warrants

	2006				2005			
	Warrants	Applicable shares	Fair value of warrants	Weighted average price	Warrants	Applicable shares	Fair value of warrants	Weighted average price
	(000's)		($000's)	(C$)	(000's)		($000's)	(C$)
Outstanding as at January 1	**43,248**	**12,181**	**4,713**	**1.30**	49,160	14,124	5,595	1.30
Exercised during the year	**(39,295)**	**(8,228)**	**(3,113)**	**1.25**	(5,912)	(1,943)	(882)	1.26
Outstanding as at December 31	**3,953**	**3,953**	**1,600**	**1.40**	43,248	12,181	(4,713)	1.30

(d) Employee stock options

The Company has in place a Stock Option Plan (the "Plan") under which certain directors, officers, employees and consultants may be granted options to purchase up to 9,184,834 common shares. As at December 31, 2006 options to purchase 3,277,334 shares (December 31, 2005 – 4,333,584) 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 Plan as at December 31, 2006 and December 31, 2005 and changes during the periods ending on those dates is presented on the following table:

	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
	(000's)	(C$)	(000's)	(C$)
Outstanding – beginning of year	**5,467**	**1.32**	4,556	1.22
Granted	**2,090**	**1.68**	1,738	1.64
Exercised	**(615)**	**0.84**	—	—
Expired	**(1,034)**	**2.30**	(827)	1.44
Outstanding – end of year	**5,908**	**1.33**	5,467	1.32
Exercisable – end of year	**3,336**	**1.17**	3,494	1.32

The following table summarizes information about stock options outstanding as at December 31, 2006:

	Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding at Dec. 31, 2006	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Dec. 31, 2006	Weighted average remaining contractual life	Weighted average exercise price
C$	(000's)	(years)	C$	(000's)	(years)	C$
0.50 – 1.45	**2,878**	**1.81**	**0.93**	**2,438**	**1.73**	**0.87**
1.46 – 2.50	**2,930**	**4.36**	**1.60**	**798**	**3.90**	**1.64**
2.51 – 5.00	**40**	**2.35**	**4.20**	**40**	**2.35**	**4.20**
5.01 – 8.40	**60**	**3.00**	**5.15**	**60**	**3.00**	**5.15**
0.50 – 8.40	**5,908**	**3.61**	**1.33**	**3,336**	**2.66**	**1.17**

During 2006, 2,090,000 (2005 – 1,737,222) stock options exercisable on or before dates ranging from January 2006 to December 2011 (2005 – August 2005 to June 2012) at a price ranging from C$1.55 to C$2.19 (2005 – C$1.55 to C$1.65) were issued pursuant to the terms of the Plan, with an estimated fair value of $1.3 million (2005 – $913,000), calculated using the Black-Scholes option-pricing model.

The option-pricing model assumes a term equal to the life of the option to a maximum of 5 years, an expected volatility of 40% (2005 – 45%), a weighted average life of 5 years, 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 terms of 5 years, with vesting periods ranging from immediate to three years from the grant date.

The stock option compensation expense for 2006 was $587,000 (2005 – $844,000). As at December 31, 2006 the aggregate unexpensed fair value of unvested stock options granted amounted to $927,000 (2005 – $395,000).

(e) Contributed surplus

Details of the movement in contributed surplus are as follows:

Years ended December 31 *(in thousands of dollars)*	2006	2005
	$	$
Balance – beginning of year	**1,892**	1,048
Option compensation recognized	**587**	844
Options exercised	**(104)**	—
Balance – end of year	**2,375**	1,892

(f) Earnings/(loss) per share

The profit/loss per share has been calculated using the weighted average number of shares outstanding during the year of 132,267,521 shares (2005 – 106,394,486).

The calculation of basic and dilutive earnings per share is detailed in the following table:

	2006			2005		
	Income	Weighted average number of shares	Per share amount	Income	Weighted average number of shares	Per share amount
	($000's)	(000's)	($)	($000's)	(000's)	($)
Basic income/(loss) per share	**4,838**	**132,268**	**0.04**	(646)	106,394	(0.01)
Incremental shares on assumed exercise of options and warrants	**—**	**1,919**	**—**	—	—	—
Diluted income/(loss) per share	**4,838**	**134,187**	**0.04**	(646)	106,394	(0.01)

10. INCOME TAXES

A reconciliation of the income taxes calculated at the statutory rates to the Company's effective income tax provision is as follows:

Years ended December 31 *(in thousands of dollars)*	2006	2005
	$	$
Statutory tax rate	**36.12%**	36.12%
Income tax recovery at the statutory rate	**2,537**	(1,167)
Effect of lower tax rates in foreign jurisdictions	**(3,071)**	(647)
Withholding tax	**802**	1,012
Changes in valuation allowance	**1,536**	(313)
Permanent differences	**374**	(1,448)
Provision for deferred income tax/(recovery)	**2,178**	(2,563)

Future income taxes arise from temporary differences in the recognition of income and expenses for financial reporting and tax purposes. The significant components of future income tax assets and liabilities at December 31 are as follows:

Years ended December 31 *(in thousands of dollars)*	2006	2005
	$	$
Property, plant, equipment, exploration and development	**29,678**	30,065
Non-capital loss carry forwards	**(5,505)**	(9,808)
Other	**(2,801)**	(1,062)
Future income tax liability	**21,372**	19,195

Future benefits for losses in Canada in the amount of $9.4 million have not been recognized because management believes that the future income tax assets associated with these losses are not more likely than not to be realized in the carryforward period.

11. RISK MANAGEMENT AND FINANCIAL AND COMMODITY INSTRUMENTS

(a) Risk management

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

(i) COMMODITY PRICE, FOREIGN CURRENCY AND INTEREST RATE RISK

As Magellan Metals is funded and receives revenue in US dollars and its costs are substantially in Australian dollars, the Company has exposure to currency fluctuations. As at December 31, 2006 there were no foreign exchange contracts outstanding.

In the fourth quarter of 2005 the Company entered into lead put contracts to mitigate risk to a downturn in metal prices. The Company entered into puts for 9,000 tonnes of lead maturing at 1,000 tonnes per month from April 2006 to December 2006 for an exercise price of $850 per tonne. As at December 31, 2006 there were no lead put contracts in place.

(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 other investments approximates fair value as at December 31, 2006.

The carrying amount of long-term debt approximates fair value as the rate of interest charged is consistent with market 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 judgment 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 mining development and exploration activities are subject to various governmental laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(b) Exploration licences and mining leases

The Company holds a number of exploration licenses and mining leases in Western Australia. The Company does not consider that it has any material outstanding commitments in respect of these licenses or leases. Under the terms of its exploration and mining leases, Magellan Metals is required to meet certain minimum expenditure requirements for a 12 month period commencing on the date of issue or renewal of the licence or lease. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2004 are dependent upon whether Magellan Metals chooses to retain its current tenements.

(c) Royalty payments

Magellan Metals is required to make royalty payments in accordance with the provisions of the Mining Act 1978 (Western Australia) and Mining Regulations 1981 (Western Australia) at the prescribed rate for lead concentrates sold of 5% of the royalty value and for lead metal sold of 2.5% of the royalty value. As at December 31, 2006 $2.1 million was accrued.

In accordance with the terms of the Heritage Agreement dated September 25, 1998 between Magellan Metals and the Milangka Group and the Land Use Agreement dated December 16, 1998 between Magellan Metals and the Wanmulla Group, Magellan Metals is required to make a royalty payment of A$0.08 per tonne of ore mined. As at December 31, 2006 $25,000 was accrued.

13. SUBSEQUENT EVENTS

On March 12, 2007 the Company was notified by the Esperance Port Authority that shipments of its lead concentrate had been temporarily suspended pending the outcome of government investigations into recent bird fatalities. The Company retained the services of environmental consultants, ENESAR of Australia, and along with members of the Company's own technical management team are working closely with the government agencies and the Esperance Port Authority to resolve the situation. On March 15, 2007 the DEC notified the Esperance Port Authority via prevention notice that future imports and exports of lead carbonate were to be suspended until completion of the department's investigation.

On March 23, 2007 the board of the Esperance Port Authority announced the port would no longer be accepting or shipping lead in loose concentrate form.

On March 26, 2007 DEC, in a media release, noted that marine sediment samples collected from the seabed directly under the Esperance Port Authority's discharge pipe had returned high lead and nickel levels and that the DEC had directed the Esperance Port Authority to carry out a comprehensive and scientifically structured sediment sampling program to determine the full extent of contamination, as a matter of urgency. The media release also noted that interim results taken from hand held meter readings of soil samples indicate some samples in the port and immediately outside the port gate exceeded health investigation levels for lead. Further, the DEC noted that sites tested elsewhere around the town, including primary schools, were all below health investigation levels and that tests on water bodies taken around Esperance showed lead and nickel levels were below the drinking water guidelines, except for a disused reservoir on the hill behind the Esperance port, where levels were above the drinking water guidelines.

On March 27, 2007 the Company announced that, due to the uncertainty on the timing of resumption of operations through the Port of Esperance, Magellan Metals was pursuing alternate shipping arrangements through the established regulatory processes. The proposed arrangements involve moving the material in ISO-approved enclosed and doublesealed containers and/or bulka bags, which will be transported from the mine site, through a port, then on to customers in Asia.

The BNP facilities matured on March 30, 2007. The Company has reached agreement with BNP Paribas, subject to certain conditions, for a 30 day moratorium on the exercise of certain enforcement rights until April 30, 2007, to allow the Company to obtain alternate financing. The Company has accepted a commitment from Sentient to provide convertible debt facilities for (i) a 12 month extension of amounts currently outstanding in accordance with the Sentient Note at an interest rate of 11.25% and (ii) a US$22 million non-revolving loan facility at an interest rate of 9.25%, (the "Senior Facility") to be used to retire a portion of the currently outstanding BNP Facilities and to assist with the Company's overall funding requirements. Sentient is a significant shareholder of, and a "related party" (as such term is defined in Rule 61-501 of the Ontario Securities Commission) to the Company. A director of the Company is also a principal of Sentient. The conversion rights, which the Company will put before independent shareholders for approval at the 2007 annual meeting, will allow the holder to convert outstanding principal amounts (and certain capitalized amounts) into common shares of the Company at a conversion price equal to the Company's volume weighted average price for a 40 trading day period from April 3, 2007. Participants in this transaction are precluded from trading shares of Ivernia during the 40 trading day period. The conversion rights begin expiring nine months from the date of the facilities and must be exercised within 12 months from the date of the facilities. Syndication will allow Ivernia to increase the availability under the Senior Facility to US$35 million. If shareholder approval is not obtained, the facilities will bear an interest rate of 35% and will not be repayable for a two-year period.

The Company is diligently pursuing the necessary approvals, and has a reasonable expectation, based upon conversations with government officials and the normal course timelines for such applications, that such approvals will likely require three to four months to obtain. There can be no assurance that the necessary amended licence to resume shipments will be granted within a reasonable time. The Company announced on April 2, 2007 that it will be placing the Magellan Mine operation under temporary care and maintenance until such time as it is given the approval to ship its concentrate out of a port in Western Australia.

Biographies

BOARD OF DIRECTORS

J. TREVOR EYTON [1, 2+, 3+]
Ontario, Canada
Chairman, Ivernia Inc.
Member of the Senate

Senator Eyton served as President and CEO and later as Chairman and Senior Chairman of Brascan Corporation (now Brookfield Asset Management). He was appointed a director of Ivernia's predecessor company in May 2000.

PETER CASSIDY [3, 4]
Sydney, Australia
Principal, The Sentient Group

Mr. Cassidy is a principal and co-founder of The Sentient Group, an independent private equity investment firm specializing in the resources industry. He was elected a director of Ivernia in June 2005.

ALAN M. DE'ATH
Ontario, Canada
President and Chief Executive Officer, Ivernia Inc.

Please refer to the Senior Management section.

JAY C. KELLERMAN
Ontario, Canada
Partner, Stikeman Elliott LLP

Mr. Kellerman is a partner with the Canadian law firm Stikeman Elliott LLP. He has over 15 years of experience as a corporate lawyer, primarily involved in securities related matters, including financings and mergers and acquisitions. Mr. Kellerman has been nominated for appointment to the board in 2007.

DAVID N. MURRAY [1, 2, 4+]
Leicestershire, England
Corporate Director

Mr. Murray has 34 years of operating experience in the mining industry of which 26 years were spent with Rio Tinto. He was elected a director of Ivernia in February 2007.

WALTER MURRAY [1+, 2, 3]
Ontario, Canada
Corporate Director

Mr. Murray served in several senior positions at the Royal Bank of Canada and RBC Capital Markets including Vice-Chairman from 2000 to 2005. He was appointed a director of Ivernia in October 2000.

PATRICK N. SCOTT
New South Wales, Australia
Executive Vice President and Chief Operating Officer, Ivernia Inc.

Please refer to the Senior Management section.

SENIOR MANAGEMENT

ALAN M. DE'ATH
President and Chief Executive Officer

Mr. De'ath has over 25 years of experience in senior management positions in the mining industry. He joined Ivernia in 2000 overseeing business development and finance before being appointed President and CEO and Director in July 2003.

PATRICK N. SCOTT
Executive Vice President and Chief Operating Officer

Mr. Scott is a Mining Engineer with almost 30 years of international experience in all aspects of the mining industry. He joined Ivernia in June 2006 and has been nominated for appointment to the board in 2007.

MARIO STIFANO
Vice President and Chief Financial Officer

Mr. Stifano is a Chartered Accountant with wide experience in corporate finance and business development. He joined Ivernia in July 2005.

Committees

1 Audit
2 Compensation
3 Corporation Governance
4 Safety, Health and Environment

+ indicates committee chairman

Note: Management slate effective June 2007

Corporate Information

DIRECTORS

J. Trevor Eyton 1, 2+, 3+
Peter Cassidy 3, 4
Alan M. De'ath
Jay C. Kellerman
David N. Murray 1, 2, 4+
Walter Murray 1+, 2, 3
Patrick N. Scott

COMMITTEES

1. Audit
2. Compensation
3. Corporate Governance
4. Safety, Health and Environment

\+ indicates committee chairman

Note: Management slate effective June 2007

MANAGEMENT – CORPORATE

Alan M. De'ath
President and
Chief Executive Officer

Patrick N. Scott
Executive Vice President
and Chief Operating Officer

Mario Stifano
Vice President and
Chief Financial Officer

Robert M. Closner
Corporate Secretary and General
Counsel

Sharon E. Loung
Director, Investor Relations

Richard G. Perfect
Corporate Controller

MANAGEMENT – OPERATIONS

Paul Cullen
General Manager,
Magellan Mine

Ben-Louis Ludik
Finance and
Administration Manager

Ben Murphy
Metallurgy Manager

Jon Pluckhahn
Deputy General Manager

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Toronto Stock Exchange
Symbol: IVW

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ANNUAL GENERAL MEETING

The annual general meeting of shareholders of Ivernia Inc. is scheduled to be held on Thursday, June 28, 2007 at 10:00 a.m. at the TSX Gallery, The Exchange Tower, 130 King Street West, Toronto, Ontario, Canada.

Printed in Canada

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