



## NEWS RELEASE

All Dollar Amounts are in U.S. Dollars Unless Otherwise Noted

### **IVERNIA INC. REPORTS SECOND QUARTER 2006 FINANCIAL AND OPERATING RESULTS**

**Ramp-up and Optimization of Magellan Mine Continues;  
2006 Production Forecast Lowered**

**TORONTO, ONTARIO – August 14, 2006** – Ivernia Inc. (“Ivernia” or the “Company”) (TSX:IVW) today reported a net loss of \$3.8 million, (\$0.03 per common share), for the second quarter of 2006. The operating loss and cash used to fund operating activities amounted to \$1.8 million and \$1.6 million, respectively. The operating loss included a write-down of \$1.2 million related to low-grade ore stockpiles.

Revenue for the quarter was down approximately 24% from the preceding quarter due to weaker lead prices and lower volumes of lead metal in concentrate shipped. Shipments of concentrate to the port were impacted by unusually wet weather in Western Australia which affected the concentrate drying and shipping processes and a shortage of road and rail transport capacity due to the high level of activity in the Western Australian resource sector. As a result, shipments were made towards quarter end and 11,500 tonnes, or 85%, of the total 13,500 tonnes of lead metal in concentrate shipped have a pricing period after quarter end. Consequently, shipments exposed to a future pricing period are marked-to-market at the June 30 LME price of \$0.45 per pound, thus heavily influencing the average lead price for revenue recognized in the quarter of \$0.46 per pound. Subsequent pricing and marked-to-market of the balance at the August 11 price of \$0.54 a pound together would have increased revenue by \$1.9 million to \$14.9 million, the average lead sale price to \$0.53 per pound and produced an operating profit of \$0.1 million. The final additional revenue will be recognized in the third quarter.

### **SECOND QUARTER HIGHLIGHTS**

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- Recorded revenue of \$13.0 million from the sale of 13,500 tonnes of lead metal in concentrate
  - Produced 13,000 tonnes of lead metal in concentrate; lower than first quarter as a result of a decrease in head grades and recoveries and unplanned maintenance shutdowns
  - Advanced installation of the secondary ball mill and started commissioning in early August
  - Received license and advanced pre-construction preparations for the gas pipeline; at current diesel prices, expected annual cost savings of approximately \$2.5 million or 1.5 cents per pound of lead when complete
  - Completed evaluation of long-term filtering and drying options; decision made to invest in and begin pre-installation design work for a pressure filter which will increase filtering capacity to 125,000 tonnes – about 25% above the current planned production levels – sufficient to accommodate a future expansion
  - The pressure filter will also eliminate the use of the temporary solar drying pad, reduce operating costs and working capital requirements and enable Magellan to consistently achieve transportable moisture levels
  - Began first phase of \$1 million 2006 exploration drill program
  - Completed \$25 million of new credit and finance facilities
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## Financial and Operating Summary

	Three months ended June 30, 2006	Six months ended June 30, 2006
<i>(\$ thousands, except earnings per share)</i>		
	Unaudited	
Revenue	12,983	30,111
Operating (loss)/income	(1,840)	2,141
Net loss	(3,761)	(2,187)
Basic loss per share	(0.03)	(0.02)
Cash flow (used in)/from operating activities	(1,616)	2,394
<i>(thousands of tonnes, except percentages)</i>		
Ore mined	245.8	499.0
Ore milled	225.7	436.9
Average head grade	7.7%	8.2%
Recovery	74.2%	76.5%
Concentrate produced	20.3	43.1
Lead metal in concentrate produced	13.0	27.5

### Optimization Projects Update

Installation of the secondary ball mill was completed and commissioning initiated in early August. The project is approximately two months behind schedule mainly due to an acute shortage of available contractors in Western Australia and is now expected to be operational in the third quarter. This key addition to the processing facilities will give the ability to significantly increase grinding capacity, throughput rates and production levels. The estimated capital investment for this project is approximately \$5 million.

Pre-construction preparations for the installation of a 35-kilometre gas pipeline were advanced. Additionally, the Company received the Miscellaneous License for the pipeline corridor following Native Title negotiations. Construction is expected to start in the third quarter and be complete before the end of 2006. The pipeline is expected to result in annual cost savings of approximately \$2.5 million or 1.5 cents per pound of lead when compared to current diesel prices. The estimated capital investment for this project is approximately \$7 million.

The evaluation of long-term filtering and drying options to replace the temporary solar drying pad was completed during the quarter. As a result, an investment in a new Metso pressure filter was made with expected delivery in the first quarter of 2007 and installation in the following quarter. The additional filter will increase filtering capacity to 125,000 tonnes which is comfortably beyond current planned production levels. It should also enable the operation to consistently achieve transportable moisture levels while maintaining the current non-dusting nature of the concentrate, eliminate the use of the temporary solar drying pad and reduce operating costs and working capital requirements. The estimated capital investment for this project is approximately \$5 million.

## 2006 OUTLOOK

### Production

As a result of operational and capacity restrictions currently being experienced with the existing belt filters in operation and the long lead time to secure the new pressure filter, the Company has extended the ramp-up period to its reported target production level of approximately 100,000 tonnes of lead metal in concentrate per annum into 2007. Production of approximately 15,000 tonnes of lead metal in concentrate for each of the third and fourth quarters are now expected for a revised total forecast for 2006 of approximately 60,000 tonnes.

## **Exploration Program**

Significant exploration potential exists within Ivernia's tenements at the Magellan mine both in areas adjacent to the Magellan mine and in the surrounding regions. The Company has committed approximately \$1 million in 2006 towards exploration at these tenements with the objective of rationalizing its existing licenses and pursuing new exploration or acquisition opportunities.

The next phase of exploration drilling was started in mid-July at the Magellan East prospect which is within hauling distance of the Magellan plant. A program comprising of 64 holes for approximately 3,000 metres is planned and is expected to continue until the end of August. The program is focused on identifying mineralization that can be readily added to Magellan's resource base and accessed by ongoing mining operations.

At the Yandil tenement to the northwest of the mine, preliminary advice permitting exploration to proceed was received from the Yamatji Land and Sea Council. Scout drilling is planned for the prospect following completion of the Magellan East program which is currently underway. The planned program consists of a total of 57 holes at 400-metre spacings for approximately 2,000 metres and covers the main area of Yelma Formation. This area is relatively unexplored and is considered a prime target for potential mineralization similar to the Magellan mine orebodies.

## **Commentary**

"The second quarter was challenging for us, particularly with the consequences of the unusually cool and wet winter weather on our drying process and shipping schedules and unplanned maintenance shutdowns," commented Alan De'ath, President and CEO.

"Consequently, we are taking steps to limit, as much as possible, our exposure to similar occurrences in the future. The implementation of a more effective maintenance monitoring program and the advances made to improve the filtration and drying facility will have several positive and sustainable benefits on production and cost structure over the life of the mine."

"We are confident that these improvements, together with the optimization projects recently completed or underway, will position Ivernia favourably to take advantage of the demand driven stronger fundamentals for lead that we envisage over the next few years," he concluded.

## **Conference call and webcast**

Ivernia invites you to join its second quarter conference call on Monday, August 14, 2006 at 10:00 am. Eastern time. The call is open to all investors and the media. To join the call, please dial (416) 695-7848 or 1-877-323-2091 (Canada and U.S.). Alternatively, an audio feed will be available on the Company's new website at [www.ivernia.com](http://www.ivernia.com). A recorded version of the call will be available on [www.ivernia.com](http://www.ivernia.com) shortly after the call, and via telephone until midnight on Monday, August 28, 2006 by calling (416) 695-5275 or 1-888-509-0081 and using the passcode 629027.

## **Management's Discussion and Analysis and consolidated financial statements**

Ivernia's consolidated financial statements and Management's Discussion and Analysis for the second quarter and six months ended June 30, 2006 are available on the Company's new website [www.ivernia.com](http://www.ivernia.com) and at SEDAR at [www.sedar.com](http://www.sedar.com).

## **About Ivernia**

Ivernia is an international base metals, exploration, development and operating company. The Company is the sole owner and operator of the Magellan lead mine in Western Australia. When in full

production, Magellan is expected to be one of the top five lead-producing mines in the world producing close to 3% of total world lead mine production. The inferred resources and considerable regional exploration opportunities offer significant potential to extend the mine's current long reserve life.

Ivernia trades under the symbol "IVW" on the Toronto Stock Exchange. Additional information on Ivernia is available on the Company's new web site at [www.ivernia.com](http://www.ivernia.com) and at SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

*This document may contain forward-looking statements within the meaning of Canadian securities law. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", and "intend" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements reflect the current internal projections, expectations or beliefs of Ivernia based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties, including those detailed from time to time in filings made by Ivernia with securities regulatory authorities, that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. The reader should not place undue reliance on them. Some factors that could cause actual results to differ materially from those set forth in the forward-looking statements include: resources and reserves, metal price volatility, exchange rates, single mineral property, metallurgy, environmental factors, mining risks, insurance, labour and employment regulations, health and safety, and government regulations, dependence on key personnel, constraints on cash flow and nature of mineral exploration and development. Other risks and factors that could cause actual results to differ are described in Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2005 under the heading "Risks and Uncertainties". Our MD&A and additional information on Ivernia are available on the Company's web site at [www.ivernia.com](http://www.ivernia.com) and on Ivernia's SEDAR profile at [www.sedar.com](http://www.sedar.com). All of the forward-looking statements made herein are qualified by the foregoing cautionary statements. Ivernia undertakes no obligation to publicly update or revise any forward-looking statements or information whether as a result of new information, future events or otherwise.*

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**IVERNIA INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

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

	<b>Three month period ended June 30</b>		<b>Six month period ended June 30</b>	
	<b>2006</b>	<b>2005</b>	2006	2005
	\$	\$	\$	\$
<b>Revenue</b>	12,983	-	30,111	-
Treatment charges and freight	3,240	-	6,389	-
Mining and processing costs	9,863	-	18,036	-
Amortization	1,720	-	3,545	-
<b>Operating (loss)/income</b>	<u>(1,840)</u>	<u>-</u>	<u>2,141</u>	<u>-</u>
<b>Expenses</b>				
General and administrative	1,565	634	2,641	974
Stock option costs (note 8(b))	146	456	298	547
Foreign exchange loss/(gain)	409	(762)	433	(941)
Net interest expense	593	175	1,069	147
Other	530	-	656	-
	<u>3,243</u>	<u>503</u>	<u>5,097</u>	<u>727</u>
<b>Loss before income taxes</b>	(5,083)	(503)	(2,956)	(727)
Income tax recovery	(1,322)	-	(769)	-
Loss for the period	(3,761)	(503)	(2,187)	(727)
<b>Deficit – Beginning of period</b>	<u>(77,737)</u>	<u>(78,889)</u>	<u>(79,311)</u>	<u>(78,665)</u>
<b>Deficit – End of period</b>	<u>(81,498)</u>	<u>(79,392)</u>	<u>(81,498)</u>	<u>(79,392)</u>
<b>Basic loss per share</b>	<u>(0.03)</u>	<u>(0.00)</u>	<u>(0.02)</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding (000s)	<u>133,816</u>	<u>106,137</u>	<u>130,354</u>	<u>87,334</u>

**IVERNIA INC.**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands of United States dollars)  
(unaudited)

	<b>June 30, 2006</b>	December 31, 2005
	<u>          </u>	<u>          </u>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,253	7,020
Accounts receivable and other current assets	5,427	4,541
Inventory (note 2)	7,698	6,867
	<u>20,378</u>	<u>18,428</u>
<b>Property, plant and equipment</b> (note 3)	142,734	136,119
<b>Restricted cash and cash equivalents</b> (note 4)	1,159	1,175
<b>Deferred charges and other assets</b>	992	135
	<u>165,263</u>	<u>155,857</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 5(a) and 9)	20,278	17,653
Short-term note payable (note 5(b))	17,739	17,978
	<u>38,017</u>	<u>35,631</u>
<b>Long-term debt</b> (note 6)	2,995	3,312
<b>Reclamation provision</b> (note 7)	1,777	1,695
<b>Future income tax</b>	18,426	19,195
	<u>61,215</u>	<u>59,833</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 8(a))	181,760	168,730
<b>Share warrants</b> (note 8(c))	1,647	4,713
<b>Contributed surplus</b>	2,139	1,892
<b>Deficit</b>	(81,498)	(79,311)
	<u>104,048</u>	<u>96,024</u>
	<u>165,263</u>	<u>155,857</u>

**IVERNIA INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of United States dollars)  
(unaudited)

	Three month period ended June 30		Six month period ended June 30	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Cash (used in)/provided by</b>				
<b>Operating activities</b>				
Loss for the period	(3,761)	(503)	(2,187)	(727)
Non-cash items:				
Stock option costs	146	456	298	547
Amortization	1,720	-	3,545	-
Future income tax	(1,322)	-	(769)	-
Other	1,367	(3)	1,434	(2)
Changes in non-cash working capital:				
Accounts receivable and other current assets	(2,919)	(1,076)	(886)	(1,138)
Inventory	(344)	-	(1,046)	-
Accounts payable and accrued liabilities	3,467	3,163	1,975	3,481
Change in restricted cash and cash equivalents	30	21	30	34
	<u>(1,616)</u>	<u>2,058</u>	<u>2,394</u>	<u>2,195</u>
<b>Investing activities</b>				
Additions to property, plant and equipment	(6,495)	(12,618)	(10,304)	(17,449)
Magellan acquisition	-	(40,013)	-	(40,013)
Sale of investments	-	-	106	-
	<u>(6,495)</u>	<u>(52,631)</u>	<u>(10,198)</u>	<u>(57,462)</u>
<b>Financing activities</b>				
Net cash proceeds on issue of shares and warrants	89	35,847	8,744	37,063
(Decrease)/increase in long-term debt (note 6)	(69)	2,796	(317)	2,813
(Decrease)/increase in debt, net (note 5(b))	(369)	16,223	(369)	16,223
	<u>(349)</u>	<u>54,866</u>	<u>8,058</u>	<u>56,099</u>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<u>13</u>	<u>(56)</u>	<u>(21)</u>	<u>(60)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(8,447)	4,237	233	772
<b>Cash and cash equivalents – Beginning of period</b>	<u>15,700</u>	<u>6,911</u>	<u>7,020</u>	<u>10,376</u>
<b>Cash and cash equivalents – End of period</b>	<u>7,253</u>	<u>11,148</u>	<u>7,253</u>	<u>11,148</u>

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2006 and 2005

(all dollar amounts are in United States dollars unless otherwise stated)  
(unaudited)

**1. Significant accounting policies**

The interim consolidated financial statements of Ivernia Inc. (“Ivernia”) and its subsidiaries (collectively, the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles, using the same accounting policies and basis as those disclosed in note 1 (Nature of operations) and note 2 (Summary of significant accounting policies) to the Company’s audited consolidated financial statements for the year ended December 31, 2005.

These interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2005. Capitalized terms used in these notes to the interim consolidated financial statements and not otherwise defined herein have the meanings given to them in the Company’s audited consolidated financial statements for the year ended December 31, 2005.

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

**2. Inventory**

Refer to note 4 to the Company’s audited consolidated financial statements for the year ended December 31, 2005.

	<b>June 30, 2006</b>	December 31, 2005
	(\$000’s)	(\$000’s)
Concentrate	4,996	4,605
Ore stockpiles	928	1,141
Other	1,774	1,121
	<b>7,698</b>	<b>6,867</b>

**3. Property, plant and equipment**

	<b>June 30, 2006</b>		December 2005
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
	(\$000’s)		(\$000’s)
Plant and equipment	28,319	(2,296)	26,023
Leasehold improvements	74	(21)	53
Office equipment	453	(185)	268
Leased assets	4,155	(411)	3,744
Development costs and other	115,717	(3,071)	112,646
	<b>148,718</b>	<b>(5,984)</b>	<b>142,734</b>
			<b>136,119</b>

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2006 and 2005

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**4. Restricted cash**

As at June 30, 2006 Magellan Metals had restricted cash deposited with a financial institution of \$1.16 million. 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 Metals mining leases. See note 7.

**5. Current liabilities**

**(a) Inventory facility**

Accounts payable and accrued liabilities include an inventory facility provided by Ocean Partners (USA) Inc. as part of a sales representation agreement for Magellan's lead concentrates. \$7.29 million of the \$15 million facility has been drawn down. The facility is secured against the concentrate inventory. See note 9.

**(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. See note 6(b) to the audited consolidated financial statements for the year ended December 31, 2005. The Sentient Note accrued interest at 8% per annum for the first year.

On December 28, 2005 the Company announced that it had successfully 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.

During May 2006, the Company paid to Sentient C\$2 million in cash, consisting of accrued interest of approximately C\$1.60 million and C\$400,000 of principal repayment. The Company has also committed to repay a further C\$2 million of the principal of the Sentient Note in August 2006. The Company and Sentient have also agreed that the original extension fee of 400,000 common shares of Ivernia will now be satisfied by the following schedule of payments:

1. An initial payment of 195,883 shares on the exercise of the option.
2. Equal monthly payments of 16,323 shares from May 2006 to July 2006 inclusive.
3. Equal monthly payments of 14,346 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 228,529 shares were issued to Sentient during the period.

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2006 and 2005

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With the exercise of the Extension Option, interest on the Sentient Note will accrue 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.

**6. Long-term debt**

	<b>June 30, 2006</b>	December 31, 2005
	(\$000's)	(\$000's)
Lease liabilities	<b>3,430</b>	3,873
Less current portion:	<b>435</b>	561
	<b>2,995</b>	3,312

Magellan Metals has entered into a five-year power supply contract and has various equipment and vehicle leases in place as at June 30, 2006. The equipment and vehicle leases range in length from three to five years.

**7. Reclamation provision**

As at June 30, 2006 the reclamation provision relating to Magellan Metals asset retirement obligations was \$1.78 million (December 31, 2005 - \$1.70 million).

The following assumptions were used to estimate the fair values of the obligations as at June 30, 2006:

Total undiscounted amount of estimated cash flows	<b>\$2,845,000</b>
Expected year of payment of cash flows	<b>2016</b>
Discount rate	<b>7.5%</b>

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 become 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.

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2006 and 2005

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**8. Share Capital**

Refer to note 9 to the Company's audited consolidated financial statements for the year ended December 31, 2005.

**(a) Issued and outstanding shares**

Details of issued and outstanding shares are as follows:

	<u>Number of common shares</u> (000's)	<u>Amount</u> (\$000's)
Outstanding as at December 31, 2005	125,085	168,730
Issued in connection with exercise of warrants	8,031	8,655
Issued in connection with exercise of options	101	51
Issued in connection with short-term debt (note 5(b))	450	719
Amount attributed to fair value of warrants	-	3,044
Outstanding as at March 31, 2006	<u>133,667</u>	<u>181,199</u>
Issued in connection with exercise of warrants	80	89
Issued in connection with short-term debt (note 5(b))	229	450
Amount attributed to fair value of warrants	-	22
Outstanding as at June 30, 2006	<u>133,976</u>	<u>181,760</u>

**(b) Employee stock options**

At June 30, 2006 there were outstanding options to purchase 5,468,750 common shares of the Company, of which 3,731,416 were exercisable at that date. During the quarter no options expired, 400,000 new options were granted and no options were exercised.

The compensation expense has been calculated using the Black-Scholes option-pricing model. A total of \$146,000 has been expensed in the quarter 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 vests in 2006 (second quarter 2005 – \$456,000). The pricing assumes a 5 year term, expected Common Stock price volatility of 45% (2005 – 45%), a weighted average risk-free interest rate of 4% and an assumption that dividends are reinvested in the Company.

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2006 and 2005

(all dollar amounts are in United States dollars unless otherwise stated)  
(unaudited)

**(c) Share warrants**

As at June 30, 2006 the Company has outstanding instruments, comprising common share purchase warrants and broker warrants, which are ultimately exercisable in one or more steps for 4,070,000 common shares of the Company (December 31, 2005 – 12,181,000).

	<b>Outstanding Warrants</b>	<b>Applicable Shares</b>	<b>Fair Value of Warrants</b>
	(000's)	(000's)	(\$000's)
Outstanding at January 1, 2006	43,248	12,181	4,713
March Warrants exercised (i)	(38,230)	(7,646)	(2,866)
March Broker Warrants exercised (ii)	(761)	(152)	(80)
November Broker Warrants exercised (iii)	(147)	(233)	(98)
Outstanding at March 31, 2006	4,110	4,150	1,669
November Broker Warrants exercised (iii)	(40)	(80)	(22)
Outstanding at June 30, 2006	4,070	4,070	1,647

The fair value of the warrants was calculated using the Black-Scholes option-pricing model. The pricing model assumed a common stock price volatility of 67% – 114%, a weighted average risk-free interest rate of 4%, and used the expiry dates of the warrants for the term.

- (i) On March 25, 2004 the Company issued 80 million units (the “March Private Placement”) for gross proceeds of C\$20 million. Each unit consisted of one common share and one-half of one common share purchase warrant (the “March Warrants”). Post consolidation, the March 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. See notes 9(a) and 9(b) to the Company’s audited consolidated financial statements for the year ended December 31, 2005. All of the warrants were exercised prior to their expiry.
- (ii) As part of their compensation for the March Private Placement on March 25, 2004 (note 8(c)(i)), the agents were issued an aggregate of 4.68 million broker warrants (the “March Broker Warrants”) which post consolidation gives 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 was exercisable at an effective price of C\$1.25 per common share until March 25, 2006. See note 9(b) to the Company’s audited consolidated financial statements for the year ended December 31, 2005. All of the warrants were exercised prior to their expiry.
- (iii) 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 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.

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2006 and 2005

(all dollar amounts are in United States dollars unless otherwise stated)  
(unaudited)

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") which gives them the right to purchase at any time until May 18, 2006 for proceeds of C\$1.25 per November Broker Warrant, an aggregate of 480,000 common shares and warrants exercisable for an additional 240,000 common shares. Each whole warrant issuable upon exercise of the November Broker Warrants is exercisable at an effective price of C\$1.40 per common share until November 19, 2009. See note 9(b) to the Company's audited consolidation financial statements for the year ended December 31, 2005. The 650,000 shares issued on exercise of November Broker Warrants includes 170,000 shares issued on exercise of warrants that were issued on exercise of November Broker Warrants. All of the November Broker Warrants were exercised prior to their expiry.

**9. Subsequent events**

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 replaces the Company's existing \$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.



## **Second Quarter 2006 Management's Discussion and Analysis**

The following discussion of the financial condition and operating results of Ivernia Inc. ("Ivernia" or the "Company") should be read in conjunction with the unaudited consolidated interim financial statements of the Company for the three and six months ended June 30, 2006 as well as the audited consolidated financial statements for the year ended December 31, 2005 and the related Management's Discussion and Analysis ("MD&A"), both of which are available on Ivernia's website at [www.ivernia.com](http://www.ivernia.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). The Company's financial statements and the financial data presented in this document have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

In addition, this discussion contains forward-looking statements within the meaning of Canadian securities law. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", and "intend" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements reflect the current internal projections, expectations or beliefs of Ivernia based on information currently available to the Company. Forward-looking statements are subject to a number of risks and uncertainties, including those detailed from time to time in filings made by Ivernia with securities regulatory authorities, that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on, the Company. The reader should not place undue reliance on them. Some factors that could cause actual results to differ materially from those set forth in the forward-looking statements include: resources and reserves, metal price volatility, exchange rates, single mineral property, metallurgy, environmental factors, mining risks, insurance, labour and employment regulations, health and safety, government regulations, dependence on key personnel, constraints on cash flow and nature of mineral exploration and development. Other risks and factors that could cause actual results to differ are described in the MD&A for the year ended December 31, 2005 under the heading "Risks and Uncertainties". Our MD&A and additional information on Ivernia are available on the Company's web site at [www.ivernia.com](http://www.ivernia.com) and on Ivernia's SEDAR profile at [www.sedar.com](http://www.sedar.com). All of the forward-looking statements made herein are qualified by the foregoing cautionary statements. Ivernia undertakes no obligation to publicly update or revise any forward-looking statements or information whether as a result of new information, future events or otherwise.

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

This information is presented as at August 13, 2006.

### **FINANCIAL REVIEW**

#### **Comparability of Results**

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 second quarters and first six months of 2006 and 2005 may not be meaningful or informative.

## Summary Financial Information

The following table is a summary of Ivvernia's financial and operating highlights for the periods ended June 30:

(\$ thousands, unless otherwise noted and per share amounts)	Three months ended June 30 Unaudited		Six months ended June 30 Unaudited	
	2006	2005 <sup>(1)</sup>	2006	2005 <sup>(1)</sup>
<b>Financial Highlights</b>				
Revenue	12,983	-	30,111	-
Treatment charges and freight	(3,240)	-	(6,389)	-
Mining and processing costs	(8,699)	-	(16,872)	-
Write-down of low-grade ore stockpiles	(1,164)	-	(1,164)	-
Amortization	(1,720)	-	(3,545)	-
Operating (loss)/income	(1,840)	-	2,141	-
General and administrative	(1,565)	(634)	(2,641)	(974)
Net interest expense	(593)	(175)	(1,069)	(147)
Stock option costs	(146)	(456)	(298)	(547)
Other expenses <sup>(2)</sup>	(939)	762	(1,089)	941
Loss before income taxes	(5,083)	(503)	(2,956)	(727)
Income tax recovery	1,322	-	769	-
Net loss	(3,761)	(503)	(2,187)	(727)
Basic loss per share	(0.03)	(0.00)	(0.02)	(0.01)
Average shares outstanding – thousands	133,816	106,137	130,354	87,334
Cash flow (used in)/provided by operating activities	(1,616)	2,058	2,394	2,195
<b>Operating Highlights</b>				
Ore milled - (000's tonnes)	225.7	-	436.9	-
Average head grade - (% lead)	7.7%	-	8.2%	-
Recovery	74.2%	-	76.5%	-
Concentrate produced - (000's dry tonnes)	20.3	-	43.1	-
Concentrate sold - (000's dry tonnes)	21.0	-	42.6	-
Lead metal in concentrate produced - (000's tonnes)	13.0	-	27.5	-
Lead metal in concentrate sold - (000's tonnes)	13.5	-	27.7	-
Concentrate inventory - (000's of dry tonnes)	12.2	-	12.2	-
Average lead price – LME cash - (cents per pound)	50	-	53	-
Ivvernia's average lead sale price - (cents per pound)	46	-	52	-
Cash cost per pound sold - (cents) <sup>(3)</sup>	40	-	38	-

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

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

(2) Other expenses consist mainly of bag filter plant write down, foreign exchange gains and losses, derivative and financing transactions and gain on sale of investments.

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

## **FINANCIAL RESULTS**

The second quarter of 2006 marked the third quarter of commercial production at the Magellan operation. Magellan, located in Western Australia, is in the process of ramping up operations to its reported annual target level of approximately 100,000 tonnes of lead metal in concentrate.

### **Revenue**

Revenue for the quarter was down approximately 24% from the preceding quarter due to weaker lead prices and lower volumes of lead metal in concentrate shipped. Shipments of concentrate to the port were impacted by unusually wet weather in Western Australia which affected the concentrate drying and shipping processes and a shortage of road and rail transport capacity due to the high level of activity in the Western Australian resource sector. As a result, shipments were made towards quarter end and 11,500 tonnes, or 85%, of the total 13,500 tonnes of lead metal in concentrate shipped have a pricing period after quarter end. Consequently, shipments exposed to a future pricing period are marked-to-market at the June 30 LME price of \$0.45 per pound, thus heavily influencing the average lead price for revenue recognized in the quarter of \$0.46 per pound. Subsequent pricing and marked-to-market of the balance at the August 11 price of \$0.54 a pound together would have increased revenue by \$1.9 million to \$14.9 million, the average lead sale price to \$0.53 per pound and produced an operating profit of \$0.1 million. The final additional revenue will be recognized in the third quarter.

For the first six months, the Company recorded sales of 27,700 tonnes of lead metal in concentrate at an average sale price of 52 cents per pound and recognized revenues of \$30.1 million. The LME average price of lead for the six-month period was 53 cents per pound.

### **Cash cost of lead sold**

The cash cost of lead sold, including treatment charges and freight, mining and processing costs, was \$11.9 million or 40 cents per pound of lead for the second quarter and \$23.3 million or 38 cents per pound in the first six months.

Ongoing cost increases for essentially all items in the production process continue to have an impact on costs. However, the Company expects to achieve cost efficiencies when Magellan achieves steady-state operations.

The following table demonstrates how the Company calculates its cash cost per pound of lead sold. Ivornia 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 operating 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.

Cash cost of lead sold	Three months ended June 30		Six months ended June 30	
	2006	2005 <sup>(1)</sup>	2006	2005 <sup>(1)</sup>
(\$ thousands, unless otherwise specified)				
Lead metal in concentrate sold - (tonnes)	13.5	-	27.7	-
Treatment charges and freight	3,240	-	6,389	-
Mining and processing costs	8,699	-	16,872	-
Total cash costs	11,939	-	23,261	-
Amortization	1,720	-	3,545	-
Total costs	13,659	-	26,806	-
Cash costs – (cents per pound of lead)	40	-	38	-
Total costs – (cents per pound of lead)	46	-	44	-

<sup>(1)</sup> 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

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

### Amortization

Amortization expense, calculated on a units of production basis, totaled \$1.7 million for the second quarter and \$3.5 million for the first six months. No amortization expense was recorded in 2005 as the mine was not in commercial production.

### General and administrative

General and administrative expenses increased \$0.9 million over the amount incurred in the second quarter of 2005 to total \$1.6 million. The increase is due principally to the inclusion of Australian corporate costs in 2006, which were capitalized during the construction phase in 2005, and higher costs associated with additional functions required of an operating company.

### Interest expense

Net interest expense of \$0.6 million includes \$0.4 million of interest expense on the Sentient Note and \$0.2 million on operating leases and inventory finance costs. These were slightly offset by interest income earned from cash on hand. Prior to commercial

production, interest expense related to mine development was capitalized. The Company recorded interest expense on the Sentient Note of \$0.2 million in the second quarter of 2005.

### Stock option costs

The stock option cost of \$0.1 million is lower than in the comparable period of 2005 as fewer options were issued in the current period. The stock-based compensation expense has been calculated using the Black-Scholes option pricing model.

### Other expenses

In the second quarter, 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. Their condition deteriorated during the long storage period and it is now considered uneconomic to restore them to functioning units.

In November 2005, Ivernia entered into lead price put option agreements to mitigate the risk in the event of a downturn in market prices for lead metal. While these agreements protect the Company from a downturn in metal prices they do not limit the upside potential if prices are higher than the agreements.

Ivornia has 6,000 tonnes of lead put options maturing at 1,000 tonnes per month from July 2006 to December 2006 at an exercise price of \$850 per tonne or 39 cents per pound. The unrealized gain of \$13,000 on these options for the quarter results from marking-to-market all the open positions at the end of the quarter. The unrealized loss of \$82,000 for the year is included in the "Other expenses" category.

Exercise price per tonne	Lead Metal (tonnes)	June 30, 2006 Market Price (\$000's)	March 31, 2006 Put Option Value (\$000's)	Difference (\$000's)
\$850	6,000	119	106	13

Other expenses in the second quarter also include \$0.2 million relating to amortization of financing costs from the Sentient Note extension. For the six months other expenses include \$0.3 million of amortization of the Sentient Note extension and a \$0.1 million gain on the sale of investments.

### Income tax

Income tax recovery for both the second quarter and six months was calculated at an estimated annual accounting tax rate of 26%. The Company does not expect to be cash taxable in 2006 due to Magellan's A\$45 million (\$33 million) in 2005 carryforward tax losses.

### Net loss

The net loss was \$3.8 million or \$(0.03) per share for the period and compares with a loss of \$0.5 million or \$(0.00) per share in the second quarter of 2005. The loss for the

first six months of 2006 was \$2.2 million or \$(0.02) per share compared with a loss of \$0.7 million or \$(0.01) per share for the same period in 2005.

## LIQUIDITY AND FINANCIAL CONDITION

The comparability of the selected consolidated financial information below is affected by Ivernia's new status as an operating company effective October 1, 2005. Prior to October 1, 2005, the Company was engaged in the construction and commissioning of the Magellan operation. Therefore, comparisons of the financial results between the second quarters and first six months of 2006 and 2005 may not be meaningful or informative.

Statement of Cash Flows (\$ thousands, unless otherwise specified)	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Cash (used in)/provided by operating activities	(1,616)	2,058	2,394	2,195
Cash used in investing activities	(6,495)	(52,631)	(10,198)	(57,462)
Cash (used in)/provided by financing activities	(349)	54,866	8,058	56,099
(Decrease)/increase in cash	(8,447)	4,237	233	772

### Operating activities

Ivernia used \$1.6 million to fund its operating activities in the second quarter including the C\$1.6 million interest payment on the Sentient Note. In the second quarter of 2005, the Company reported \$2.1 million of cash generated mainly from a change in working capital.

### Investing activities

Net cash used for investing activities during the quarter was \$6.5 million which included the construction and installation of the secondary ball mill, pre-construction work on the gas pipeline and deferred stripping. The secondary ball mill and gas pipeline are part of the optimization process to significantly increase grinding capacity and lower operating cost. In the second quarter of 2005, Ivernia invested \$52.6 million of which \$40.0 million relates to the purchase of Sentient's 49% interest in the Magellan mine, and \$12.6 million represents costs in commissioning the mine, leased generating equipment for power supply, continuing capital expenditures and commencement of exploration and drilling programs. Net cash used for investing activities for the first six months of 2006 totaled \$10.2 million and included costs for deferred stripping and investments in the secondary ball mill, gas pipeline and concentrate thickener.

### Financing activities

During the current second quarter, all of the November Broker Warrants were exercised, generating \$0.1 million in cash for the issue of 80,000 common shares. The Company also paid C\$0.4 million in principal repayment on the Sentient Note.

In the second quarter of 2005, net cash generated by financing activities was \$54.9 million, of which \$32.8 million related to 29,050,000 shares issued concurrent with the Magellan Acquisition, \$2.8 million related to 2,493,100 shares issued in the over-

allotment, and \$146,000 was received from the exercise of warrants. A further C\$20 million (\$16.2 million) was generated by the issue of the Sentient Note.

### **Working capital surplus <sup>(1)</sup>**

At June 30, 2006, the Company's working capital surplus amounted to \$0.1 million, down from \$0.8 million reported at December 31, 2005.

As at June 30, 2006 Magellan Metals had restricted cash deposited with a financial institution of \$1.2 million. These deposits relate principally 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 Metals mining leases.

<sup>(1)</sup> Working capital surplus is defined as cash, inventory, accounts receivable and other current assets less accounts payable and accrued liabilities.

### **Short-term debt**

In the second quarter, the Magellan operation secured bank credit approvals with BNP Paribas of Australia for 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"). These Facilities were finalized in July 2006.

The \$15 million inventory and export finance facility replaces the Company's existing \$15 million inventory finance facility with Ocean Partners (USA) Inc., the Company's sales representative for Magellan lead concentrates. The Facilities are secured by the Magellan assets in Australia. As at June 30, 2006 \$7.3 million had been drawn down from Ocean Partners to finance inventory.

In April 2006, Ivernia elected to exercise the Extension Option of its C\$20 million secured promissory note (the "Sentient Note") payable to Sentient Global Resources Fund. The Company has agreed to pay an extension fee to Sentient consisting of:

- (i) an initial payment of 195,883 common shares;
- (ii) equal monthly payments of 16,323 common shares from May 2006 to July 2006 inclusive; and
- (iii) equal monthly payments of 14,346 common shares from August 2006 to April 2007 inclusive.

The total maximum number of common shares that will be issued is approximately 374,000. The amount of the monthly common share payments may however be reduced pro-rata by any partial or full repayment of the Sentient Note during such time. Simultaneously, the Company paid C\$2 million to Sentient in May 2006, which consists of accrued interest of approximately C\$1.6 million and C\$400,000 of principal repayment. Furthermore the Company announced its commitment to repay a further C\$2 million of the principal of the Sentient Note during August 2006.

## Long-term debt

Long-term debt includes a five-year finance lease with Kalgoorlie Power Systems for generating equipment to supply power at the Magellan mine site and a five-year lease for a reagent facility (see note 6 to the Company's consolidated financial statements).

## Shares issued and outstanding

	Common shares	Preference shares
June 30, 2006	133,975,720	-
August 13, 2006	134,079,543	-

## 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 August 13, 2006:

	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\$ <sup>(1)</sup>
<b>November 2004 Private Placement:</b>					
Common share purchase warrants	4,000,000	-	4,000,000	-	-
November Broker Warrants	480,000	480,000	-	600,000	510,000
Common share purchase warrants issuable upon exercise of November Broker Warrants	240,000	170,000	70,000	238,000	200,000
<b>Total</b>	<b>4,720,000</b>	<b>650,000</b>	<b>4,070,000</b>	<b>838,000</b>	<b>710,000</b>

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

## Stock options

	Granted	Exercised	Shares issued	Expired
Second quarter 2006	400,000	-	-	-
First six months of 2006	600,000	177,666	101,249	420,000

As at June 30, 2006 there were outstanding options to purchase 5,468,750 common shares of the Company, of which 3,731,416 were exercisable.

## **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, rail and air transportation and is close to high-demand, high-growth Asian markets.

It was commissioned on October 1, 2005 and is currently in its ramp-up phase towards its reported target production level of approximately 100,000 tonnes of lead metal in concentrate per year. This will make Magellan the world's largest pure lead mine accounting for approximately 3% of the total world mine production.

During the second quarter, Magellan advanced its process optimization towards full operations. Key milestones include:

- Produced 13,000 tonnes of lead metal in concentrate for the quarter and 27,500 tonnes for the first six months.
- Advanced installation of the secondary ball mill and started commissioning in early August. The additional ball mill will significantly increase grinding capacity, throughput rates and production levels.
- Received Miscellaneous License and advanced pre-construction preparations for the gas pipeline. Construction is expected to commence in the third quarter and be complete by the end of 2006. At current diesel prices, the pipeline is expected to result in cost savings of approximately 1.5 cents per pound of lead annualized when complete.
- Obtained an eight-month operating licence extension for the temporary solar drying pad.
- Completed evaluation of long-term filtering and drying options; decision made to invest in and begin pre-installation design work for a pressure filter which will eliminate the use of the temporary solar drying pad, increase the concentrate drying capacity to approximately 125,000 tonnes of lead metal in concentrate, reduce working capital requirements and enable Magellan to consistently achieve transportable moisture levels. The 125,000 tonnes of capacity is about 25% above the current planned production levels - sufficient to accommodate a future expansion
- Began first phase of approximately \$1 million 2006 exploration drill program.
- Continued work on an updated ore reserve estimate and Life-of-Mine Plan which is expected to be completed by the end of 2006.

## Operating Summary

### Mining

In the second quarter, approximately 246,000 tonnes were mined for processing of which 35,000 tonnes were from the Cano deposit and 211,000 tonnes from the Magellan deposit. Ore mining was controlled to maintain adequate stockpiles for the processing plant.

The following table summarizes mine production for the quarter and six months:

	<b>Three Months Ended June 30, 2006</b>	Six Months Ended June 30, 2006
Ore mined - ('000's tonnes)	<b>245.8</b>	499.0
Waste mined - ('000's bcm)	<b>868</b>	1,545
Total mined - ('000's bcm)	<b>1,016</b>	1,846

Note: BCM = bulk cubic metres

### Processing

During the quarter, the mill processed a total of 225,700 tonnes of ore at an average grade of 7.7% lead. Higher throughput over the first quarter was due to increased efficiencies in the grinding circuit gained from the ongoing optimization.

Recovery of 74% was lower than the previous quarter as work continued to optimize the flotation circuit which was affected by a higher clay content in the ore processed. The lower head grades quarter over quarter also contributed to the lower recovery.

Total concentrate produced of 20,300 tonnes was lower than planned as a result of a decrease in head grades and recoveries and unplanned maintenance shutdowns. Plant utilization was approximately 84% in the quarter compared to the target of over 90%. The Company has implemented a maintenance monitoring program to better manage future stoppages with a particular focus on preventative maintenance to maximize plant utilization.

Shipments from the port of Esperance of 21,000 tonnes of concentrate were lower than expected. The schedule was impacted by unusually wet weather in Western Australia which affected the concentrate drying and transportation processes and a shortage of road and rail transport capacity due to the high level of activity in the Western Australian resource sector. The Company continues to work at reducing the resultant on-site concentrate inventory built up over the past six months.

The table below summarizes process production in the quarter and six months:

	<b>Three Months Ended June 30, 2006</b>	Six Months Ended June 30, 2006
Ore milled - ('000's tonnes)	<b>225.7</b>	436.9
Head grade - (% lead)	<b>7.7%</b>	8.2%
Recovery	<b>74.2%</b>	76.5%
Concentrate produced - ('000's dry tonnes)	<b>20.3</b>	43.1
Contained lead metal - ('000's tonnes)	<b>13.0</b>	27.5
Concentrate shipped - ('000's dry tonnes)	<b>21.0</b>	42.6

### Optimization Projects

Installation of the secondary ball mill was completed and commissioning initiated in early August. The project is approximately two months behind schedule mainly due to an acute shortage of available contractors in Western Australia and is now expected to be operational in the third quarter. This key addition to the processing facilities will give the ability to significantly increase grinding capacity, throughput rates and production levels. The estimated capital investment for this project is approximately \$5 million.

Pre-construction preparations for the installation of a 35-kilometre gas pipeline were advanced. Additionally, the Company received the Miscellaneous License for the pipeline corridor following Native Title negotiations. Construction is expected to start in the third quarter and be complete before the end of 2006. The pipeline is expected to result in annual cost savings of approximately \$2.5 million or 1.5 cents per pound of lead when compared to current diesel prices. The estimated capital investment for this project is approximately \$7 million.

The evaluation of long-term filtering and drying options to replace the temporary solar drying pad was completed during the quarter. As a result, an investment in a new Metso pressure filter was made with expected delivery in the first quarter of 2007 and installation in the following quarter. The additional filter will increase filtering capacity to 125,000 tonnes which is comfortably beyond current planned production levels. It should also enable the operation to consistently achieve transportable moisture levels while maintaining the current non-dusting nature of the concentrate, eliminate the use of the temporary solar drying pad and reduce operating costs and working capital requirements. The estimated capital investment for this project is approximately \$5 million.

### Exploration

Exploration drilling was conducted in the Pizarro, Cortez and Drake prospects. A total of 100 holes for 3,293 metres were completed across the program.

At the Pizarro prospect, a total of 50 holes for 1,710 metres were completed. Results returned to date suggest more closely-spaced drilling is required to accurately define the areas with resource potential.

At the Cortez prospect, no significant results were returned in the initial drill program. Follow-up drilling was conducted in late July.

At the Drake deposit, drilling has effectively defined the limit of the mineralization to the southwest.

## **2006 OUTLOOK**

### Production

As a result of operational and capacity restrictions currently being experienced with the existing belt filters in operation and the long lead time to secure the new pressure filter, the Company has extended the ramp-up period to its annualized target production level of approximately 100,000 tonnes of lead metal in concentrate into 2007. Production of approximately 15,000 tonnes of lead metal in concentrate for each of the third and fourth quarters are now expected for a revised total forecast for 2006 of approximately 60,000 tonnes.

### Exploration Program

Significant exploration potential exists within Ivernia's tenements at the Magellan mine both in areas adjacent to the Magellan mine and in the surrounding regions. The Company has committed approximately \$1 million in 2006 towards exploration at these tenements with the objective of rationalizing its existing licenses and pursuing new exploration or acquisition opportunities.

The next phase of exploration drilling was started in mid-July at the Magellan East prospect which is within hauling distance of the Magellan plant. A program comprising of 64 holes for approximately 3,000 metres is planned and is expected to continue until the end of August. The program is focused on identifying mineralization that can be readily added to Magellan's resource base and accessed by ongoing mining operations.

At the Yandil tenement to the northwest of the mine, preliminary advice permitting exploration to proceed was received from the Yamatji Land and Sea Council. Scout drilling is planned for the prospect following completion of the Magellan East program which is currently underway. The planned program consists of a total of 57 holes at 400-metre spacings for approximately 2,000 metres and covers the main area of Yelma Formation. This area is relatively unexplored and is considered a prime target for potential mineralization similar to the Magellan mine orebodies.

## **RESOURCES, RESERVES AND LIFE-OF-MINE PLAN**

In March 2006, the Company reported the lead mineral resource update as at December 31, 2005. The update was based on the 2005 Resource Model incorporating data from the 2005 infill drill program and refined the methodology used in the earlier 2004 Resource Model. It was reported at the time that the updated resource estimates for the Magellan, Cano and Pinzon deposits represented a significant increase in confidence in resources at the Magellan lead mine.

The earlier 2004 Resource Model had been the basis for the July 2004 resource and reserve statements. Mill reconciled mining figures for the six-month period to June 30 2006 have shown a 28% shortfall (in terms of contained lead mined) against the 2004 Resource Model. A Resource Model and Resource statement are amongst other factors prior to the adjustment for mining dilution and mining recovery factors which account for part of the reconciliation difference. The 2004 Ore Reserve estimate had applied a minus 5% mining dilution factor and a 98.5% (i.e. minus 1.5% ) mining recovery factor.

The reported refinement in methodology in the 2005 Resource Model (undiluted) appears to have significantly addressed earlier issues and has resulted in better reconciliation which supports the significant increase in confidence in resource estimates referred to above. Mill reconciled mining figures for the six-month period to June 30, 2006 have shown a more acceptable 14% shortfall (in terms of contained lead mined). The mining dilution and mining recovery factors are being reviewed as part of current ongoing work on an updated ore reserve estimate and Life-of-Mine Plan.

Magellan operations management continue to work with Cube Consultancy in Perth, Western Australia on an updated ore reserve estimate based on the 2005 Resource Model and an updated Life-of-Mine Plan. Both updates will include, for the first time, an ore reserve for the Pinzon deposit which was first discovered in 2004. It is anticipated that the work will be completed during the second half of 2006.

## **GROWTH STRATEGY**

The Company is focusing on growth plans beyond the Magellan mine, which provides a solid foundation upon which to build. However, the Company will continue to give priority to exploration and expansion at Magellan, with its high potential for the addition of resources and reserves.

Ivernia intends to leverage its leading position in lead mining and focus on advanced exploration opportunities or early stage projects in base metals. The Company's investment in its people and the Australian infrastructure provides it with a strategic advantage in executing its growth strategy.

## **LEAD MARKET FUNDAMENTALS**

The benchmark LME inventories ended the quarter at 111,400 tonnes. However, the persistent inventory draw-down which began in mid-June continues with inventories currently at approximately 89,600 tonnes. This represents roughly 4 days of demand and makes the lead market one of the tightest among the base metals.

The inventory draw-down reflects the ongoing trend of higher global demand for lead especially from China. This is to meet the growing demand for lead-acid batteries used in vehicles, industrial uses and infrastructure building.

For the first six months of 2006, demand from China continued its persistent climb and is estimated to have increased over 20% from the level in the first half of 2005. This

compares to an estimated 14% demand increase over the same period for zinc according to industry analysts.

## **RISKS AND UNCERTAINTIES**

The business of Ivernia is subject to a variety of risks and uncertainties. For a detailed discussion of these risks and uncertainties, please refer to the Company's most recent annual information form and 2005 Management's Discussion and Analysis which were filed by the Company with Canadian securities regulators. These documents are available on the Company's new website at [www.ivernia.com](http://www.ivernia.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

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