



## NEWS RELEASE

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

### IVERNIA INC. REPORTS FOURTH QUARTER 2006 FINANCIAL RESULTS

Highest Quarterly Sales and Production to Date  
Yield Record Earnings and Operating Cash Flow

**TORONTO, ONTARIO – February 26, 2007** – Ivernia Inc. (“Ivernia” or the “Company”) (TSX:IVW) today reported net income of \$5.8 million, or \$0.04 per common share, for the fourth quarter of 2006. The Company generated \$10.1 million of operating income and \$11.9 million of cash from operating activities (\$0.09 per common share)<sup>(1)</sup>, before changes in working capital. Results for the quarter benefited both from the rising lead price and from record sales and production of lead metal in concentrate.

#### FOURTH QUARTER HIGHLIGHTS

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##### Financial

- Recorded revenue of \$32.8 million
- Capitalized on the rising lead price with a record shipping program; achieved an average sales price of \$0.73 per pound
- Produced operating and net income of \$10.1 million and \$5.8 million, respectively
- Generated \$11.9 million of cash from operating activities before changes in working capital; cash increased to \$17.1 million at quarter end

##### Operational

- Increased sales by 52% quarter-over-quarter to 21,300 tonnes of lead metal in concentrate; set new quarterly record and exceeded guidance
  - Reduced concentrate inventory by 25% to 8,200 tonnes of lead in concentrate at quarter end
  - Produced 18,500 tonnes of lead metal in concentrate; established a new quarterly record that exceeded the preceding third quarter by approximately 8%
  - Continued installation of the gas pipeline towards scheduled completion in the first quarter of 2007
  - Advanced the Metso pressure filter project towards its scheduled installation in the second quarter of 2007
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##### Commentary

“I am pleased with the Company’s record performance and results for the fourth quarter. We built on the momentum started in the third quarter by setting new quarterly highs in production and sales which produced our best ever financial results. Most importantly, the results start to give a good insight on the earnings and cash flow generation potential of the Company,” commented Alan De’ath, President and CEO.

“This capability will be further reinforced with the operational benefits from the new pressure filter and gas pipeline which are on track for completion. Benefits from both projects will positively impact the bottom line from mid second quarter onwards. Simultaneously, our 2007 cost improvement program will be kick-started, beginning with the switch from diesel to natural gas and followed by the phase-out of the use of

<sup>(1)</sup> Cash flow per share from operating activities is a non-GAAP measure.

the solar drying pad. The net effect is evidenced in our projected increases in production and our reductions in unit cash cost as 2007 progresses.”

“With Magellan approaching steady-state operations, we are now well positioned to pursue Ivvernia’s growth strategy more aggressively. Our corporate development initiative is focused on identifying growth opportunities in base metals where we can leverage our financial resources and operational expertise. We anticipate Australia and Asia will become an even more meaningful part of Ivvernia’s future - and as such, are continuing to develop a strong network of relationships in the region. The resource potential in Australia and Asia is widely acknowledged and with the right approach, we envisage Ivvernia will be a part of this development.”

“I am pleased that Magellan is hitting its stride at a time when lead’s true fundamentals are coming to the fore as evidenced by the continually rising price in 2007 to date,” he concluded.

### Financial and Operating Summary

(\$ millions, except earnings per share)	Three Months ended	Year ended
	December 31, 2006	December 31, 2006
	Unaudited	
Revenue	32.8	82.9
Operating income	10.1	16.9
Net income	5.8	4.8
Basic earnings per share	0.04	0.04
Cash flow from operating activities before changes in working capital	11.9	18.7
Changes in working capital	4.8	1.0
Ore mined – 000’s dry tonnes	272	1,068
Ore milled – 000’s dry tonnes	321	1,060
Average head grade - % lead	7.7%	7.9%
Recovery - % lead	74.6%	75.5%
Concentrate produced – 000’s dry tonnes	29.0	99.1
Lead metal in concentrate produced – 000’s tonnes	18.5	63.2
Concentrate sold – 000’s dry tonnes	33.4	98.0
Lead metal in concentrate sold – 000’s tonnes	21.3	63.0
Concentrate inventory – 000’s dry tonnes	12.9	12.9

Revenue for the quarter benefited from record sales of 21,300 tonnes of lead metal in concentrate and the rising lead price. In addition, improved logistics on concentrate movement resulted in record shipments of concentrate to Asia amid the favorable price environment. The Company realized an average sale price of \$0.73 per pound of lead metal in concentrate. This slightly outperformed the LME average 3-month price of \$0.72 per pound for the period.

Cash from operations, including the positive impact of the concentrate inventory reduction and other working capital changes, amounted to \$16.7 million. After capital investments of \$6.9 million in the quarter and a C\$2.0 million repayment on the Sentient Note, the Company generated \$7.6 million of free cash flow to end the year with \$17.1 million in cash.

Mining conditions were favorable during the quarter with no weather-related interruptions. Ore mining activity by the mining contractor continues to be controlled to maintain adequate stockpiles of blended ore for the processing plant.

As previously announced, the processing plant underwent a planned seven-day maintenance shutdown in October. Despite this planned shutdown, lead metal in concentrate production of 18,500 tonnes set a new quarterly record, outperformed earlier guidance and exceeded the preceding third quarter by approximately 8%. Ore milled during the 12 weeks of operation in the quarter equated to an annual throughput rate of approximately 1.4 million tonnes, which was the target throughput rate following the commissioning of the secondary ball mill.

### Optimization Projects Update

Construction of the 35-kilometre gas pipeline was well advanced at the end of the quarter - with commissioning scheduled for the end of March, 2007. Conversion from diesel to natural gas will reduce Ivornia'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.

The pressure filter project is progressing well with key equipment in transit to the site from Japan and Europe. Foundation and steelwork construction on site is currently in progress and the project remains on schedule for completion and commissioning in the second quarter of 2007. When in full operation, the filter will enable the operation to consistently achieve transportable moisture levels - while maintaining the current non-dusting characteristic 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 \$5.0 million of which \$2.5 million was invested in 2006.

### 2007 Guidance

Production and operating costs in 2007 are expected to be positively impacted by the addition of the new pressure filter and gas pipeline. Total production is forecast to increase approximately 35% to 85,000 tonnes of lead metal in concentrate.

The operating plan includes a low-grade ore trial in the first quarter to determine the economics of running the plant on lower-grade ore types and the commissioning of the new pressure filter in the second quarter. Consequently, production for each of the first two quarters is expected to be relatively unchanged from the fourth quarter of 2006 at approximately 18,500 tonnes of lead metal in concentrate.

Production in the third and fourth quarters is expected to rise approximately 30% to 24,000 tonnes of lead metal in concentrate per quarter since the current filtering capacity constraint will be eliminated with the addition of the new pressure filter.

The cash cost of production is forecast to decrease over the second half of the year as we gain the benefits of steady-state operations, cost improvement programs and the full operation of the pressure filter and gas pipeline. The new pressure filter will eliminate the use of the solar drying pad and the related handling costs. The forecast for the first quarter includes the additional cost associated with the low-grade ore trial.

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, royalties payments per pound of production of \$0.02, \$0.03 and \$0.04, respectively would be payable.

	2007 Guidance				
	Q1	Q2	Q3	Q4	Year
Lead metal in concentrate production - tonnes	18,500	18,500	24,000	24,000	85,000
Cash cost - cents per lb sold (excluding royalties)	40	38	34	34	36

Management has initiated a study to evaluate the economics of increasing the throughput rate at Magellan. The study has two main objectives. The first is the likely effect of an increased throughput on reducing the operation's overall unit cost structure that has been impacted by inflationary pressures on

mining companies in Australia. The second objective is the optimization of the net present value of the project.

### **Conference Call and Webcast**

Ivernia invites you to join its fourth quarter conference call on Monday, February 26, 2006 at 10:00 am. Eastern time. The call is open to all investors and the media. Toronto area and overseas participants may access the call at (416) 695-7831. Other North American participants should dial the toll-free number (1-877) 888-3855. The call will also be broadcast live on the internet at [www.ivernia.com](http://www.ivernia.com).

If you are unable to participate during the live webcast, the call will be archived on Ivernia's website at [www.ivernia.com](http://www.ivernia.com) and will also be available via telephone until midnight on Monday, March 12, by calling (416) 695-5275 or (1-888) 509-0081 and using the passcode 639978.

### **Management's Discussion and Analysis and Consolidated Financial Statements**

Ivernia's consolidated financial statements and Management's Discussion and Analysis for the fourth quarter ended December 31, 2006 are available on the Company's 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 operating, development and exploration 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.

Ivernia trades under the symbol "IVW" on the Toronto Stock Exchange. Additional information on Ivernia is available on the Company's 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. 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)

	Three months ended December 31		Year ended December 31	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Revenue</b>	32,780	14,672	82,909	14,672
Treatment charges and freight	4,956	4,367	14,376	4,367
Mining and processing costs	13,017	6,696	39,140	6,696
Royalties	1,513	635	3,509	635
Amortization	3,149	2,231	9,005	2,231
<b>Operating income</b>	<u>10,145</u>	<u>743</u>	<u>16,879</u>	<u>743</u>
<b>Expenses</b>				
General and administrative	1,541	1,623	5,844	3,220
Stock option costs (note 8(b))	144	140	587	844
Foreign exchange gain	(1,014)	(183)	(533)	(1,229)
Net interest expense	606	376	2,491	807
Other	537	310	1,474	310
	<u>1,814</u>	<u>2,266</u>	<u>9,863</u>	<u>3,952</u>
<b>Income/(loss) before income taxes</b>	8,331	(1,523)	7,016	(3,209)
Income tax expense/(recovery)	2,520	(2,563)	2,178	(2,563)
<b>Net income/(loss) for the period</b>	<u>5,811</u>	<u>1,040</u>	<u>4,838</u>	<u>(646)</u>
<b>Deficit – Beginning of period</b>	<u>(80,284)</u>	<u>(80,351)</u>	<u>(79,311)</u>	<u>(78,665)</u>
<b>Deficit – End of period</b>	<u>(74,473)</u>	<u>(79,311)</u>	<u>(74,473)</u>	<u>(79,311)</u>
<b>Basic and diluted earnings/(loss) per share</b>	<u>0.04</u>	<u>0.01</u>	<u>0.04</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding (000's)	<u>134,223</u>	<u>125,085</u>	<u>132,268</u>	<u>106,394</u>

**IVERNIA INC.  
CONSOLIDATED BALANCE SHEETS**

(in thousands of United States dollars)  
(unaudited)

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

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

(in thousands of United States dollars)  
(unaudited)

	Three months ended December 31		Year ended December 31	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Cash (used in)/provided by</b>				
<b>Operating activities</b>				
Net income/(loss) for the period	5,811	1,040	4,838	(646)
Non-cash items:				
Stock option costs	144	140	587	844
Amortization	3,149	2,231	9,005	2,231
Future income tax	2,718	(2,563)	2,376	(2,563)
Other	31	(24)	1,867	(13)
Changes in non-cash working capital:				
Accounts receivable and other current assets	(6,999)	(2,972)	(8,253)	(4,050)
Inventory	1,227	(1,100)	(1,712)	(1,100)
Accounts payable and other current liabilities	10,438	7,851	9,788	13,178
Change in restricted cash and cash equivalents	146	19	1,197	(134)
	<u>16,665</u>	<u>4,622</u>	<u>19,693</u>	<u>7,747</u>
<b>Investing activities</b>				
Additions to property, plant and equipment	(6,948)	(3,022)	(20,330)	(28,255)
Magellan acquisition	-	-	-	(40,013)
	<u>(6,948)</u>	<u>(3,022)</u>	<u>(20,330)</u>	<u>(68,268)</u>
<b>Financing activities</b>				
Net cash proceeds on issue of shares and warrants	209	14	8,993	37,729
(Decrease)/increase in financing	(1,724)	(70)	(2,159)	17,054
Increase in financing	-	-	5,000	-
(Decrease)/increase in long-term debt	(509)	(309)	(996)	2,380
	<u>(2,024)</u>	<u>(365)</u>	<u>10,838</u>	<u>57,163</u>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<u>(89)</u>	<u>(6)</u>	<u>(159)</u>	<u>2</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	7,604	1,229	10,042	(3,356)
<b>Cash and cash equivalents – Beginning of period</b>	<u>9,458</u>	<u>5,791</u>	<u>7,020</u>	<u>10,376</u>
<b>Cash and cash equivalents – End of period</b>	<u>17,062</u>	<u>7,020</u>	<u>17,062</u>	<u>7,020</u>

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and twelve month periods ended December 31, 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>December 31, 2006</b>	December 31, 2005
	( <b>\$000's</b> )	(\$000's)
Concentrate	5,950	4,605
Ore stockpiles	868	1,141
Consumables and other	2,047	1,121
	<b>8,865</b>	6,867

**3. Property, plant and equipment**

	December 31, 2006			December 31, 2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(\$000's)			(\$000's)
Plant and equipment	35,462	(3,580)	31,882	26,617
Leasehold improvements	74	(27)	47	60
Office equipment	492	(235)	257	253
Leased assets	4,155	(582)	3,573	3,905
Development costs and other	116,890	(6,002)	110,888	105,284
	<b>157,073</b>	<b>(10,426)</b>	<b>146,647</b>	136,119

**IVERNIA INC.**  
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**4. Restricted cash**

As at December 31, 2006 Magellan Metals had restricted cash deposited with a financial institution of \$5,000. 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. During the period, \$141,000 was refunded to Magellan. These bonds are now secured by part of the credit facility with BNP Paribas. See notes 5(a) and 7.

**5. Current liabilities**

**(a) Inventory and credit facilities**

In July 2006, the Magellan operation secured 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 6.4% for the fourth quarter.

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

**(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 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.

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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 and paid in December 2006.

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:

- (i) An initial payment of 195,883 shares on the exercise of the option.
- (ii) Equal monthly payments of 16,323 shares from May 2006 to July 2006 inclusive.
- (iii) 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 43,035 shares were issued to Sentient during the fourth quarter.

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.

**6. Long-term debt**

	<u>December 31, 2006</u> (\$000's)	<u>December 31, 2005</u> (\$000's)
Lease liabilities	2,879	3,873
Less current portion:	<u>563</u>	<u>561</u>
	<u>2,316</u>	<u>3,312</u>

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.

**IVERNIA INC.**  
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**7. Reclamation provision**

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

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

Total undiscounted amount of estimated cash flows	<b>\$3,729,000</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.

**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:

	<b>Number of common shares</b>	<b>Amount</b>
	<b>(000's)</b>	<b>(\$000's)</b>
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>
Issued in connection with short-term debt (note 5(b))	45	50
Issued in connection with exercise of options	88	60
Outstanding as at September 30, 2006	<u>134,109</u>	<u>181,870</u>
Issued in connection with short-term debt (note 5(b))	43	56
Issued in connection with exercise of options	183	98
Issued in connection with exercise of warrants	117	144
Amount attributed to fair value of warrants	-	47
Outstanding as at December 31, 2006	<u><u>134,452</u></u>	<u><u>182,215</u></u>

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and twelve month periods ended December 31, 2006 and 2005

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**(b) Employee stock options**

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 at that date. During the quarter 588,750 options expired, 1,490,000 new options were granted and 350,000 options were exercised.

The stock option expense was \$144,000 for the fourth quarter and \$587,000 for the year. As at December 31, 2006 the aggregate unexpensed fair value of unvested stock options granted amounted to \$927,000.

The compensation expense has been calculated using the Black-Scholes option-pricing model. The amount expensed in the quarter 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 vests in 2006 (fourth quarter 2005 – \$140,000). 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.

**(c) Share warrants**

As at December 31, 2006 the Company has outstanding instruments, comprising common share purchase warrants and broker warrants, which are ultimately exercisable in one or more steps for 3,953,000 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>
	<b>(000's)</b>	<b>(000's)</b>	<b>(\$000's)</b>
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 and September 30, 2006	4,070	4,070	1,647
November Warrants exercised (iii)	(117)	(117)	(47)
Outstanding at December 31, 2006	3,953	3,953	1,600

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.

**IVERNIA INC.**  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
For the three and twelve month periods ended December 31, 2006 and 2005

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

- (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 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 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.

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 gave 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.



## Fourth 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 months and year ended December 31, 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").

This discussion contains forward-looking statements within the meaning of Canadian securities law. 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. For more detail on the risks and uncertainties, please refer to the section titled "Risks and Uncertainties" in this MD&A and the section titled "Risks and Uncertainties" in the Company's MD&A for the period ending December 31, 2005. 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 February 23, 2007.

## 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 fourth quarters and the years of 2006 and 2005 may not be meaningful or informative.

## Summary Financial Information

The following table is a summary of Ivernia's financial and operating highlights for the periods ended December 31:

(\$ thousands, unless otherwise indicated and per share amounts)	Three months ended December 31 Unaudited		Year ended December 31 Unaudited	
	2006	2005 <sup>(1)</sup>	2006	2005 <sup>(1)</sup>
<b>Financial Highlights</b>				
Revenue	32,780	14,672	82,909	14,672
Treatment charges and freight	(4,956)	(4,367)	(14,376)	(4,367)
Mining and processing costs	(13,017)	(6,696)	(37,976)	(6,696)
Write-down of low-grade ore stockpiles	-	-	(1,164)	-
Royalties	(1,513)	(635)	(3,509)	(635)
Amortization	(3,149)	(2,231)	(9,005)	(2,231)
Operating income	10,145	743	16,879	743
General and administrative	(1,541)	(1,623)	(5,844)	(3,220)
Net interest expense	(606)	(376)	(2,491)	(807)
Stock option costs	(144)	(140)	(587)	(844)
Other expenses <sup>(2)</sup>	477	(127)	(941)	919
Income/(loss) before income taxes	8,331	(1,523)	7,016	(3,209)
Income tax (expense)/recovery	(2,520)	2,563	(2,178)	2,563
Net income/(loss)	5,811	1,040	4,838	(646)
Basic earnings/(loss) per share	0.04	0.01	0.04	(0.01)
<b>Weighted average shares outstanding – thousands</b>	134,223	125,085	132,268	106,394
<b>Cash generated from operations before changes in non-cash working capital</b>	11,853	824	18,673	(147)
<b>Cash flow provided by operating activities</b>	16,665	4,622	19,693	7,747
<b>Operating Highlights</b>				
Ore milled - (000's tonnes)	321.3	243.9	1,060.1	743.9
Average head grade - (% lead)	7.7%	8.0%	7.9%	6.5%
Recovery – (%)	74.6%	75.6%	75.5%	64.8%
Concentrate produced - (000's dry tonnes)	29.0	23.0	99.1	49.2
Concentrate sold - (000's dry tonnes)	33.4	23.4	98.0	37.7
Lead metal in concentrate produced - (000's tonnes)	18.5	14.7	63.2	31.3
Lead metal in concentrate sold - (000's tonnes)	21.3	14.9	63.0	24.0
Concentrate inventory - (000's of dry tonnes)	12.9	11.9	12.9	11.9
Average lead price – LME 3-month - (cents per pound)	72	46	58	43
Ivernia's average lead sale price - (cents per pound)	73	47	63	47
Cash cost per pound sold - (cents) <sup>(3)</sup>	38	34	38	34

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

<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.

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

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

## FINANCIAL RESULTS

Ivernia Inc. ("Ivernia" or the "Company") 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 which is in the process of ramping up to target operating levels scheduled for the second half of 2007.

In the fourth quarter of 2006, the Company reported its highest quarterly production and sales to date. These new benchmarks were achieved amid a rising lead price environment producing record net income of \$5.8 million and cash from operating activities before changes in working capital of \$11.9 million.

### Revenue

Revenue for the quarter increased approximately 64% from the preceding quarter due to stronger lead prices and higher volumes of lead metal in concentrate sold. The Company sold a total of 21,300 tonnes of lead metal in concentrate and recorded revenue of \$32.8 million or \$0.73 per pound sold.

The London Metal Exchange ("LME") average 3-month price of lead for the fourth quarter was 72 cents per pound, an increase of 33% over the third quarter of 2006. The 3-month LME closing price on February 23 was 88 cents per pound.

For the year, the Company recorded sales of 63,000 tonnes of lead metal in concentrate at an average sale price of \$0.63 cents per pound and recognized revenues of \$82.9 million. The LME average price of lead for the year was \$0.58 cents per pound.

<b>LME LEAD PRICES (3-month Official)</b>		
<b>2006</b>	<b>Cents per pound</b>	
	<b>Quarter Average</b>	<b>YTD Average</b>
First quarter	55	55
Second quarter	51	53
Third quarter	54	53
Fourth quarter	72	58

### Cash cost of lead sold

The total cash costs for lead sold in the quarter, including treatment charges, freight, mining and processing costs, but excluding royalty payments was \$18.0 million. On a per pound basis this equated to 38 cents, unchanged from the preceding third quarter.

Ongoing cost increases during 2006 for essentially all items in the production process, including labour and power costs, continue to have an impact on costs. However, the Company expects to achieve cost efficiencies when Magellan achieves steady-state operations including yielding the benefits of the gas pipeline, Metso pressure filter and the decommissioning of the solar drying pad for 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 of \$0.02, \$0.03 and \$0.04, respectively would be payable.

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 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.

<b>Cash cost of lead sold</b>	<b>Three months ended December 31</b>		<b>Year ended December 31</b>	
	<b>2006</b>	2005 <sup>(1)</sup>	<b>2006</b>	2005 <sup>(1)</sup>
(\$ thousands, unless otherwise indicated)				
Lead metal in concentrate sold - (000's tonnes)	<b>21.3</b>	14.9	<b>63.0</b>	14.9
Treatment charges and freight	<b>4,956</b>	4,367	<b>14,376</b>	4,367
Mining and processing costs	<b>13,017</b>	6,696	<b>37,976</b>	6,696
Total cash costs – excluding royalties	<b>17,973</b>	11,063	<b>52,352</b>	11,063
Cash costs – (cents per pound of lead)	<b>38</b>	34	<b>38</b>	34

<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. Lead metal in concentrate sold prior to commercial production was 9,100 tonnes for a total of 24,000 tonnes in 2005.

### **Amortization**

Amortization expense, calculated on a units of production basis, totaled \$3.1 million for the fourth quarter and \$9.0 million for the year. Amortization for the fourth quarter and 2005 year totaled \$2.2 million. Prior to the fourth quarter 2005, amortization was not recognized since Magellan was not in commercial production.

### **General and administrative**

General and administrative expenses totaled \$1.5 million in the quarter. This was a decrease of approximately \$0.1 million from the amount incurred in the fourth quarter of 2005 which included restructuring costs. The general and administrative expenses were \$5.8 million for the year, an increase of \$2.6 million compared to 2005 reflecting the fact that Magellan was not in commercial production for the first three quarters of 2005 and therefore, such Magellan expenses were capitalized.

### **Interest expense**

Net interest expense of \$0.6 million includes \$0.4 million of interest expense on the Sentient Note and \$0.3 million on operating leases, the credit facility and inventory finance costs. These were slightly offset by \$0.1 million of interest income earned from cash on hand. Prior to commercial production in 2005, interest expense related to mine development was capitalized. The Company recorded interest expense on the Sentient Note of \$0.3 million in the fourth quarter of 2005. Total interest expense of \$1.5 million on the Sentient Note has been recognized in 2006.

### **Stock option costs**

The stock option cost of \$0.1 million for the fourth quarter is essentially unchanged compared to the same period of 2005. For the year, the stock option cost of \$0.6 million was \$0.2 million lower than the cost for 2005. The stock-based compensation expense has been calculated using the Black-Scholes option pricing model.

### **Other expenses**

Other expenses in the fourth quarter of \$0.5 million includes \$0.2 million for exploration and corporate development cost and \$0.3 million relating to amortization of financing costs from the Sentient Note extension. For the year, other expenses of \$1.5 million includes \$0.9 million from amortization of the Sentient Note extension, a write-off of \$0.4 million on the cost of two bag filter plants, exploration and corporate development costs of \$0.2 million and a \$0.1 million gain on the sale of investments.

## Income tax

Income tax expense and recovery for both the fourth quarter and the year was calculated at an annual accounting tax rate of 31% compared to a previously estimated rate of 26%. The Company was not cash taxable in 2006 and does not expect to be cash taxable in 2007.

## Net income/(loss)

Net income was \$5.8 million or \$0.04 per share for the fourth quarter. This compares to \$1.0 million or \$0.01 per share in the fourth quarter of 2005. The net income for the year was \$4.8 million or \$0.04 per share compared with a loss of \$0.6 million or \$(0.01) per share for the year 2005.

## LIQUIDITY AND FINANCIAL CONDITION

The comparability of the selected consolidated financial information below is affected by Ivernia's status as an operating company effective October 1, 2005 when it achieved commercial production at the Magellan mine. 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.

Statement of Cash Flows (\$ thousands, unless otherwise indicated)	Three months ended December 31		Year ended December 31	
	2006	2005	2006	2005
Cash generated from (used in) operations before changes in working capital	11,853	824	18,673	(147)
Changes in working capital	4,812	3,798	1,020	7,894
Cash provided by operating activities	16,665	4,622	19,693	7,747
Cash used in investing activities	(6,948)	(3,022)	(20,330)	(68,268)
Cash (used in)/provided by financing activities	(2,024)	(365)	10,838	57,163
Increase/(decrease) in cash	7,604	1,229	10,042	(3,356)

## Operating activities

In the fourth quarter, Ivernia generated \$11.9 million from operations before changes in working capital. Cash generated after working capital changes amounted to \$16.7 million. In the fourth quarter of 2005, the Company generated \$4.6 million of cash from operations. Cash generation was positively impacted by the rising lead price and an accelerated sales and shipping schedule. As a result, concentrate inventories reduced by approximately 25% to 8,200 tonnes of lead in concentrate. With the commissioning of the Metso pressure filter in the second quarter of 2007, management expects a further reduction in inventory in the second half of 2007.

## Investing activities

Net cash used for investing activities during the quarter was \$6.9 million which included capital expenditures on the construction and installation of the secondary ball mill, pre-construction work on the gas pipeline and pressure filter, and deferred stripping. The secondary ball mill, pressure filter and gas pipeline are part of the optimization process to significantly increase production capacity and lower unit operating costs. In the fourth quarter of 2005, Ivernia invested \$3.0 million which represented continuing capital expenditures and deferred stripping.

Net cash used for investing activities for 2006 totaled \$20.3 million and included costs for deferred stripping and investments in the secondary ball mill, gas pipeline, pressure filter and concentrate thickener.

## Financing activities

The Company paid C\$2.0 million principal on the Sentient note during the fourth quarter. A total of C\$4.1 million was paid in principal and interest to Sentient during the year. See note 5(b) to the consolidated financial statements. The Company also received \$0.2 million on exercise of warrants and options during the quarter. Net cash generated by financing activities for the year in the amount of \$10.8 million includes \$8.7 million received from the exercise of common share purchase warrants in the first quarter and \$5.0 million drawdown on the BNP Paribas credit facility (see note 5(a) to the consolidated financial statements).

In the fourth quarter of 2005, net cash utilized in financing activities was \$0.4 million mostly related to payment of long-term leases.

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

At December 31, 2006, the Company's working capital surplus amounted to \$6.4 million, up from \$0.8 million at December 31, 2005.

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

## Restricted cash

As at December 31, 2006 Magellan Metals had restricted cash deposited with a financial institution of \$5,000. 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. During the quarter, \$0.1 million was released to Magellan. These bonds and other bonds are now secured with \$1.6 million of the credit facility with BNP Paribas. At December 31, 2005 the Company had restricted cash of \$1.2 million.

## Short-term debt

In the second quarter, the Magellan operation secured bank credit approvals with BNP Paribas of Australia for a \$10.0 million credit facility, which can be drawn in either US dollars or equivalent Australian dollars, and a \$15.0 million inventory and export finance facility (collectively, the "Facilities"). These Facilities were finalized in July 2006.

The \$15.0 million inventory and export finance facility replaced the Company's \$15.0 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 December 31, 2006, \$4.0 million had been drawn down to finance inventory, \$5.0 million had been drawn down on the credit facility, and \$1.6 million has been utilized to guarantee 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.

In April 2006, Ivernia elected to exercise the Extension Option of its C\$20.0 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 14,345 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. In May 2006, the Company paid C\$2.0 million to Sentient, which consisted of accrued interest of approximately C\$1.6 million and C\$0.4 million of principal repayment. A

further C\$2.0 million repayment on the principal was made in December 2006. The balance outstanding at December 31, 2006 was C\$18.6 million, including C\$1.2 million of accrued interest.

### Long-term debt

Long-term debt includes a five-year finance lease for power generating equipment 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
December 31, 2006	134,452,101	-
February 23, 2007	134,540,791	-

### 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 February 23, 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 C\$	Received US\$ <sup>(1)</sup>
<b>November 2004 Private Placement:</b>					
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

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

### Stock options

	Granted	Exercised	Shares issued	Expired
Fourth quarter 2006	1,490,000	350,000	183,333	588,750
Year	2,090,000	615,166	372,082	1,033,750

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.

## OPERATIONS REVIEW – MAGELLAN LEAD MINE, WESTERN AUSTRALIA

The Magellan lead mine, commissioned on October 1, 2005, 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.

During the fourth quarter, Magellan continued its progress towards target operating levels. Key milestones included:

- Established new quarterly production record of 18,500 tonnes of lead in concentrate; achieved despite a planned seven-day maintenance shutdown and temporary reagent shortages in December
- Completed a major refurbishment of the Jaw Crusher during the October maintenance shutdown
- Set a quarterly shipping and sales record of 21,300 tonnes of lead in concentrate; resulted from the initiative to increase concentrate drying, transportation and shipping rates to match the higher production levels following the commissioning of the secondary ball mill
- Continued optimization of the milling circuit utilizing the additional ball mill installed in the third quarter
- Continued implementation of planned preventive maintenance program
- Gas pipeline project scheduled for completion in Q1 2007; all pipe in the ground, testing underway and commissioning is scheduled to begin by the end of the first quarter
- New Metso pressure filter project on schedule for commissioning in Q2 2007; construction underway and equipment currently in transit to the site
- Continued work on updates to the Life-of-Mine Plan including the impact of higher lead prices; revised ore resource and reserves estimates scheduled to be published in March 2007, as part of the Company's annual disclosure

### Operating Summary

#### Mining

Mining conditions were favorable during the quarter with no weather-related interruptions. Ore mining activity by the mining contractor was controlled to maintain adequate stockpiles for the processing plant. Approximately 272,000 tonnes were mined for processing.

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

	Three Months ended December 31, 2006	Year ended December 31, 2006
<b>Mining</b>		
Ore mined – 000's tonnes	272	1,068
Low-grade (<3%) ore mined – 000's tonnes	-	190
Total ore and waste mined – 000's bcm	587	3,252

Note: BCM = bulk cubic metres

#### Processing

As previously announced, the processing plant underwent a planned seven-day maintenance shutdown in October. During that time, a major refurbishment of the Jaw Crusher was successfully completed and it was returned to regular operations.

Despite the planned shutdown, lead metal in concentrate production of 18,500 tonnes set a new quarterly record, outperformed earlier guidance and exceeded the third quarter by approximately 8%.

A total of 321,000 tonnes of ore was milled in the quarter at an average grade of 7.7% lead. During the 12 weeks of operation in the 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.

Metal recoveries averaged 74.6% during the quarter, slightly below the average 74.9% achieved in the prior quarter. During October and November, recoveries exceeded the third quarter with an average of 78%. However, in December the plant experienced a temporary interruption in the Chinese supply of a key chemical reagent (sodium hydrosulphide - NaHS). The use of an alternative reagent during this period, to ensure continuity of operations, resulted in lower recovery rates. By the end of December, supplies of the preferred reagent (NaHS) were restored and metal recoveries returned to the 78% level. The Company has taken additional measures to reduce its exposure to any further interruption in Chinese supply by sourcing a larger portion of its requirements from Europe and increasing its local inventory levels.

Plant utilization, excluding the planned seven-day maintenance shutdown, was approximately 84%.

Sales increased approximately 52% over the third quarter to a new quarterly record of 21,300 tonnes of lead metal in concentrate, and exceeded the Company's earlier guidance of 20,000 tonnes. Lead in concentrate inventories of approximately 8,200 tonnes were over 25% lower compared to the end of the third quarter. Both improvements resulted from the initiative to increase concentrate drying, transportation and shipping rates to match the higher production levels following the commissioning of the secondary ball mill.

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

	Three Months ended Dec 31, 2006	Year ended Dec 31, 2006
<b>Processing</b>		
Ore milled – 000's tonnes	321.3	1,060.1
Head grade – % lead	7.7	7.9
Recovery – %	74.6	75.5
Concentrate produced – 000's dry tonnes	29.0	99.1
Lead metal in concentrate produced – 000's tonnes	18.5	63.2

The table below states the shipments and inventories at the end of the quarter and twelve months:

	Three Months ended Dec 31, 2006	Year ended Dec 31, 2006
<b>Sales and inventories</b>		
Concentrate sold – 000's dry tonnes	33.4	98.0
Lead metal in concentrate sold – 000's tonnes	21.3	63.0
Concentrate inventory – 000's dry tonnes	12.9	12.9

Operational optimization over the first half of 2007 will be focused on the following:

- 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; decommission the solar drying pad
- Work towards improved metal recoveries of approximately 80% compared to 76% in 2006
- Continue cost reduction initiatives ahead of full cost optimization program which will be implemented when the mine achieves steady state operations during the second half of 2007
- Conduct a two-week low-grade trial in February to determine the economics of running the plant on lower-grade ore types

## Optimization Projects Update

Construction of the 35-kilometre gas pipeline was well advanced at the end of the quarter - with commissioning scheduled for the end of March, 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.

The pressure filter project is progressing well with key equipment in transit to the site from Japan and Europe. Foundation and steelwork construction on site is currently in progress and the project remains on schedule for completion and commissioning in the second quarter of 2007. When in full operation, the filter will enable the operation to consistently achieve transportable moisture levels - while maintaining the current non-dusting characteristic 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 \$5.0 million of which \$2.5 million was invested in 2006.

## Exploration Program

Exploration in the quarter was focused on a RAB-hammer drilling program at the Pizarro prospect in late November. A total of 53 drill holes for 2,121 metres were drilled. This program was designed 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. It is anticipated that the results of this drill program will be reported at the end of March, 2007.

## **2007 Guidance**

Production and operating costs in 2007 are expected to be positively impacted by the addition of the new pressure filter and gas pipeline. Total production is forecast to increase approximately 35% to 85,000 tonnes of lead metal in concentrate.

The operating plan includes a low-grade ore trial in the first quarter to determine the economics of running the plant on lower-grade ore types and the commissioning of the new pressure filter in the second quarter. Consequently, production for each of the first two quarters is expected to be relatively unchanged from the fourth quarter of 2006 at approximately 18,500 tonnes of lead metal in concentrate.

Production in the third and fourth quarters is expected to rise approximately 30% to 24,000 tonnes of lead metal in concentrate per quarter since the current filtering capacity constraint will be eliminated with the addition of the new pressure filter.

The cash cost of production is forecast to decrease over the second half of the year as we gain the benefits of steady-state operations, cost improvement programs and the full operation of the pressure filter and gas pipeline. The new pressure filter will eliminate the use of the solar drying pad and the related handling costs. The forecast for the first quarter includes the additional cost associated with the low-grade ore trial.

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, royalties payments per pound of production of \$0.02, \$0.03 and \$0.04, respectively would be payable.

	2007 Guidance				
	Q1	Q2	Q3	Q4	Year
Lead metal in concentrate production - tonnes	18,500	18,500	24,000	24,000	85,000
Cash cost - cents per lb sold (excluding royalties)	40	38	34	34	36

Management has initiated a study to evaluate the economics of increasing the throughput rate at Magellan. The study has two main objectives. The first is the likely effect of an increased throughput on reducing the operation's overall unit cost structure that has been impacted by inflationary pressures on mining companies in Australia. The second objective is the optimization of the net present value of the project.

## **LEAD MARKET FUNDAMENTALS**

The cash lead price reached a new record high of \$0.82 per pound in mid-December as LME inventories fell below 40,000 tonnes. World demand in 2006 is estimated to have increased approximately 5% with the largest growth coming from China where consumption is estimated to have increased over 17% compared to 2005. Lead-acid batteries account for roughly 80% of all lead demand in China, with automotive batteries accounting for 60% to 70% of all battery output. China is the world's largest producer of lead-acid batteries and over the past few years exports have reportedly risen by an average of 40% each year.

In 2007, industry analysts are conservatively forecasting Chinese demand growth to increase by a healthy 13% year-over-year. This equates to an increase in absolute terms of over 280,000 tonnes. Most of which is expected to come from the lead-acid battery sector.

Despite a general weakness in base metal prices since late 2006, the lead price has performed well, and has continued to set new all-time high price levels in 2007. For the first seven weeks of the year, the LME 3-month lead price has averaged \$0.75 per pound. The average for the full year 2006 was \$0.58.

## **RISKS AND UNCERTAINTIES**

The business of Ivernia is subject to a variety of risks and uncertainties. Some factors that could cause actual results to differ materially from those set forth in this MD&A 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).

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