

FINANCIAL REVIEW

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CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

The following discussion is a review of the activities, results of operations and financial condition of Ivernia Inc. ("Ivernia" or the "Company") and its subsidiaries for the years ended December 31, 2007 and 2006, together with certain trends and factors that are expected to impact on future operations and financial results. This information is presented as of March 31, 2008. The discussion should be read in conjunction with the audited consolidated financial statements of the Company and the notes to those statements. Ivernia's consolidated financial statements and financial data have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

In addition, this discussion contains certain forward-looking statements regarding Ivernia's businesses and operations.

Actual results may differ materially from these statements as a result of a number of factors, many of which are beyond the control of Ivernia. For more detail on these factors, refer to the sections titled "RISKS AND UNCERTAINTIES" and "FORWARD-LOOKING STATEMENTS" in this document.

All dollar amounts are expressed in United States dollars, except as otherwise indicated where C\$ = Canadian dollars and A\$ = Australian dollars.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

COMPANY OVERVIEW

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

Magellan was commissioned on October 1, 2005 and was in continuous production until April 6, 2007 when it was placed on temporary care and maintenance following the March 12, 2007 suspension of lead concentrate shipments through the Port of Esperance. Magellan had, up to March 12, 2007, transported its lead carbonate concentrate, in bulk form, for export through the Port of Esperance.

In 2007, prior to placing Magellan under temporary care and maintenance, Ivernia sold 12,000 tonnes of lead metal in concentrate and realized an average sales price of \$0.80 per pound (\$1,764 per tonne). The Company's unit cash cost of production including treatment charges, freight, mining and processing costs was \$0.41 per pound (\$904 per tonne).

A full discussion of the events related to the placement of Magellan on temporary care and maintenance is contained in Ivernia's Annual Information Form ("AIF") dated March 31, 2008 under the heading "Three-Year History", and is incorporated herein by reference. The AIF is available at the Ivernia web site www.ivernia.com and on SEDAR at www.sedar.com.

Following the suspension of lead shipments, the Company engaged the services of leading environmental consultants, Coffey Natural Systems (formerly Enesar), to assist in the development of the sealed shipment process to remove the risk of its product being mishandled by contractors after leaving the mine site.

After a thorough review and public consultation process covering a 10-month period, the Western Australian Minister for the Environment granted the sealed shipment process conditional acceptance on January 17, 2008. The Minister also imposed additional conditions which Magellan will have to implement to the Minister's satisfaction before final approval is granted for shipments to be restarted.

A full discussion of the Minister's conditions and Magellan's progress in their implementation is contained in the "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" section of this document.

Following the resumption of operations (expected during 2008) and the achievement of target production levels, Magellan is expected to be the world's most significant pure lead mine accounting for approximately 2% of the total world lead mine production.

Mining is conducted by the open pit method. There are mining reserves in three principal deposits – Magellan, Cano and Pinzon.

Ivernia's revenues are normally derived from the sale of lead metal in concentrate. Force majeure provisions were invoked on all lead concentrate sales contracts negotiated prior to placing Magellan on temporary care and maintenance. When the mine resumes operations, China-based Yunnan Metallurgical Group ("YMG"), Ivernia's partner in a long-term strategic agreement, is expected to purchase approximately 50% of Magellan's annual forecasted lead concentrate production at market terms.

During normal operations, the key drivers of revenue in Ivernia's business are the Company's sales volumes and the market price for lead.

LEAD INDUSTRY AND KEY TRENDS

Demand

In recent years, lead metal demand has shown a dramatic departure from its previous historical patterns. After decades of negligible growth, global demand increased at an average annual rate of about 5% from 2002 to 2007. The increase equates to about 330,000 tonnes per year in terms of tonnage. In 2007, global demand rose to approximately 8.2 million tonnes, up from 6.6 million tonnes in 2002.

The increase in lead demand, since the turn of the century, is attributed mainly to the rapid industrialization of China and the rest of Asia. From 2002 to 2007, Chinese lead demand increased by 1.7 million tonnes – a 23% average annual growth rate – while Western World demand remained relatively flat.

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The outlook for the next several years is for this trend to continue. Rapidly developing countries like Brazil, Russia, India and China (BRIC countries) are expected to continue to experience double digit growth rates in lead metal demand while growth rates in mature economies like the US and Western Europe are expected to remain relatively unchanged.

Lead demand in the BRIC countries is driven mainly by new motor vehicle and E-Bike production – both of which require lead-acid batteries which are the major end-use for lead. In 2007, China, the world's second largest automotive market, manufactured approximately 9 million light vehicles and over 19 million E-Bikes.

Yet, despite the significant increase in recent years, vehicle ownership rates in BRIC countries are well below the world average. The car and light commercial vehicle density in China is 34 vehicles per thousand; for India it is about 20 vehicles per thousand and for Brazil, 130 vehicles per thousand. These compare to the vehicle density in the United States of over 800 vehicles per thousand and Western Europe and Japan with a vehicle density of over 600 vehicles per thousand.

The outlook is for vehicle ownership rates in BRIC countries to continue to increase in step with higher personal disposable incomes, a greater availability of lower-cost vehicles and easier access to credit.

Supply

2007 marked the fifth consecutive year of global market deficit for lead. As a result, the lead price recorded an all-time record high on the London Market Exchange (3-month official) of \$1.76 per pound (\$3,880 per tonne) during the year.

Typically, high prices for commodities bring out additional supply. This is the case with lead's sister metal, zinc, where high prices are anticipated to soon bring on an additional 1.4 million tonnes of new mine production between 2008 and 2010. By comparison, new lead mine production from expansions at existing mines, re-openings and new mines for the same time period is expected to be only about 300,000 tonnes. This is against the backdrop of demand increases of about 330,000 tonnes per year over the past five years. Factors contributing to the modest growth in mined lead output are:

- Historically, most lead is mined as a by-product of silver and zinc mines. The new zinc and silver mines brought into production over the last few years typically contain relatively small amounts of lead by historical standards.
- Exploration for lead-bearing mine prospects has been minimal. Low metal prices during the 1990's and early part of this decade along with lead's negative environmental image limited exploration for lead-bearing prospects. As a result, only two significant lead-bearing mines were in development once lead prices increased.
- Structural issues at existing mines have prevented significant expansion in recent years. In 2006 and 2007, production shortfalls from a variety of problems at some of the world's largest mines, resulted in Western World mined lead production actually declining in 2006 and 2007 from 2005 levels about 70,000 tonnes and 6,000 tonnes, respectively, despite a near tripling of the lead price.

GROWTH AND DIVERSIFICATION STRATEGY

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

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

- Optimize Magellan operations
- Increase reserve and resources base
- Diversify geographically and among the base metals

Long-term, multi-component agreement with YMG

The formation in 2007 of a long-term agreement with China-based YMG is a significant step forward in our strategy to optimize the value of Magellan and to grow and diversify Ivernia towards creating greater shareholder value.

YMG is a well-established, technologically-advanced, integrated base metals company operating out of the Yunnan province of China. It ranks within the top five non-ferrous metals and mining companies and the top 300 businesses in China. The company recently completed a 5-year, \$0.6 billion growth program and is about to embark on a second phase which includes planned investments of approximately \$1.5 billion. This stage of growth is focused on opportunities in Australia and the rest of Asia.

The multi-component agreement between Ivernia and YMG provides for:

- Collaboration to identify and evaluate new base metal opportunities for joint investment
- A joint and coordinated effort between the two companies to ensure successful operations at Magellan
- A long-term commercial concentrate agreement whereby YMG will purchase approximately 50% of Magellan's annual forecasted lead concentrate production at market terms
- The exchange of technical expertise on Magellan and other future base metal projects
- A C\$22 million private placement investment in Ivernia, by YMG through its Australian subsidiary, with the purchase of 14,692,488 common shares at C\$1.50 per share
- YMG's former Chairman, Mr. Chen Zhi, to join Ivernia's Board of Directors upon closing of the private placement

See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document.

Optimize Magellan operations

Magellan will be the foundation asset for Ivernia going forward. We believe the optimization of the mine will lead to a good return on investment in a strong metal price environment.

The incorporation of the sealed shipment process, operation of the new gas pipeline and the concentrate pressure filtration process, and the successful low-grade ore trial conducted in 2007 into the operating plan combined with the achievement of target production levels are expected to provide the economies of scale to achieve a competitive unit cost structure. The long-term commercial concentrate agreement with YMG for the purchase of approximately 50% of Magellan's annual forecasted production at market terms is another important step towards optimizing the value of the mine. YMG has significant capacity to smelt lead oxide concentrates and the capability of handling significant volumes of containerized lead concentrate.

Increase reserve and resources base

Our objective to increase our resource base will be partly pursued through exploration programs. Following the resumption of operations, a wider regional exploration program in Western Australia will be undertaken to build on the results of the limited local exploration conducted in 2007 and the 2006 exploration program which principally enabled us to rationalize the Magellan Metals licences. We also expect to expand our program to regions beyond Western Australia and establish Ivernia's presence in other parts of Australia as well as Asia.

Diversify geographically and among the base metals

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

The strategic component of the long-term agreement with YMG has the potential to accelerate our growth and diversification strategy. The combination of our technical and commercial experience and YMG's status opens a much wider range of growth opportunities for both parties than would have been available otherwise. Ivernia now has a strong platform for a presence in the world's fastest growing and dynamic economic regions.

RESULTS OF OPERATIONS

Results for 2007 reflect full operations at Magellan for the first 95 days of the year (ending April 5) and temporary care and maintenance for the remaining 270 days. This is as a consequence of the mine being placed on temporary care and maintenance following the suspension of lead concentrate shipments through the Port of Esperance. Prior to October 1, 2005 the Company was engaged in the construction and commissioning of the Magellan mine. Certain comparative figures

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have been reclassified to conform to the presentation adopted in 2007. Therefore, comparison of the financial results between the quarters for 2007, 2006 and 2005, and the years of 2007, 2006 and 2005 may not be meaningful or informative.

Selected annual information

Years ended December 31

(\$ thousands, unless otherwise indicated and per share amounts)

	2007 ⁽¹⁾	2006	2005 ^{(2), (3)}
	\$	\$	\$
Financial Highlights			
Revenue	20,014	82,909	14,672
Treatment charges and freight	(3,089)	(14,376)	(4,367)
Mining and processing costs	(7,742)	(37,976)	(6,696)
Write-down of low-grade ore stockpiles	—	(1,164)	—
Care and maintenance	(7,079)	—	—
Royalties	(1,047)	(3,509)	(635)
Loss on derivatives	(4,679)	—	—
Amortization	(3,129)	(9,005)	(2,231)
General and administrative	(6,482)	(5,844)	(3,220)
Parliamentary inquiry and shipping approval	(2,093)	—	—
Net interest expense	(11,905)	(2,491)	(807)
Stock option costs	(604)	(587)	(844)
Other expenses/(income)	(39)	(941)	919
(Loss)/income before income taxes	(27,874)	7,016	(3,209)
Income tax recovery/(expense)	6,837	(2,178)	2,563
Net (loss)/income	(21,037)	4,838	(646)
Basic and diluted (loss)/earnings – \$ per share	(0.15)	0.04	(0.01)
Weighted average shares outstanding – thousands	139,771	132,268	106,394
Total assets	184,721	186,099	155,857
Long-term debt	2,049	2,316	3,312
Cash (used in)/provided by operations before changes in non-cash working capital	(17,094)	18,673	(147)
Cash flow (used in)/provided by operating activities	(31,008)	18,496	7,881
Operating Highlights			
Ore milled – (000's tonnes)	393.4	1,060.1	743.9
Average head grade – (% lead)	7.3	7.9	6.5
Recovery (%)	74.6	75.5	64.8
Concentrate produced – (000's dry tonnes)	32.8	99.1	49.2
Concentrate sold – (000's dry tonnes)	18.8	98.0	37.7
Lead metal in concentrate produced – (000's tonnes)	21.4	63.2	31.3
Lead metal in concentrate sold – (000's tonnes)	12.0	63.0	24.0
Concentrate inventory – (000's of dry tonnes)	27.0	12.9	11.9
Average lead price – LME 3-month – (cents per pound)	116	58	43
Ivornia's average lead sale price – (cents per pound)	80	63	47
Cash cost per pound sold – (cents) ⁽⁴⁾	41	38	34

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

(1) Effective April 6, 2007 the Magellan operation was placed on temporary care and maintenance following the March 12, 2007 suspension of lead concentrate shipments through the Port of Esperance

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

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

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

FINANCIAL RESULTS

Revenue

Revenue for 2007 was \$20.0 million, which resulted from the shipment and sale of 12,000 tonnes of lead metal in concentrate. The average sale price realized was \$0.80 per pound of lead metal in concentrate. Shipments from the Magellan mine were curtailed by the suspension of lead shipments through the Port of Esperance on March 12, 2007. In 2006, revenue for the full year of \$82.9 million was realized from the shipment of 63,000 tonnes of lead metal in concentrate at an average sale price of 63 cents per pound.

The market fundamentals for lead improved substantially in the latter half of 2006 and continued to improve throughout 2007. The following table shows the LME 3-month official price and Ivernia's realized prices for the years 2007, 2006 and 2005.

Lead prices

(cents per pound of lead)

	2007 ⁽¹⁾	2006 Average	2005 ⁽²⁾
LME 3-month official			
First quarter	79	55	43
Second quarter	99	51	43
Third quarter	140	54	39
Fourth quarter	146	72	46
Year	116	58	43
Ivernia's average lead sale price			
First quarter	80	58	—
Second quarter	—	46	—
Third quarter	—	68	—
Fourth quarter	—	73	47
Year	80	63	47

(1) Shipments of lead concentrate from the Magellan mine were curtailed by the suspension of lead shipments through the Port of Esperance on March 12, 2007

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

Care and maintenance expenses

The following table identifies the Company's expenses while under care and maintenance, from April to December 2007, pending requisite approvals to ship containerized lead concentrate through the Port of Fremantle. Canadian GAAP does not recognize segregating cash and non-cash interest expenses; however, management believes separate disclosure of these amounts assists investors with better understanding the Company's cash and non-cash expenses.

Ongoing cash expenditures – April to December 2007

Care and maintenance expenses for the last nine months of 2007 totaled \$6.4 million, not including additional one-time restructuring related costs of \$0.7 million. General and administrative expenses were incurred at an average of \$1.7 million per quarter for a total of \$5.0 million for the period. During the same period, professional fees incurred for the development of the sealed shipment process, advancement of the application for regulatory approvals to ship containerized lead concentrates, and participation in the Parliamentary Inquiry amounted to \$2.0 million. Until lead concentrate shipments and operations at Magellan resume, the Company expects cash expenditures for care and maintenance, general and administration, and costs associated with securing final shipping approvals will be incurred at a rate of approximately \$4.5 million per quarter, excluding any required capital investments.

One-time costs, non-cash and deferred cash costs – April to December 2007

Non-cash interest expense and accretion of \$10.9 million relate primarily to the Secured Facility on which the associated interest expense is deferred and payable on maturity and the accretion of the equity portion of the Secured Facility. A \$0.1 million foreign exchange loss was realized as a result of the strengthening of the Australian and Canadian dollars relative to the U.S. dollar; the majority of Ivernia's expenses and cash balances are Australian and Canadian dollar denominated. The

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Company had entered into various short-term forward sales contracts to set the prices of its future shipments. Subsequent to the suspension of lead concentrate shipments through the Port of Esperance on March 12, 2007, the forward sales contracts were bought back to reduce the Company's exposure to the rising lead price. Of the total loss of \$4.7 million associated with the buy back program, a loss of \$1.3 million was recorded in the April to December period with the remainder recorded in the first quarter. The one-time costs also include a non-cash charge for amortization of \$0.6 million and restructuring and related costs to place Magellan on temporary care and maintenance of \$0.7 million.

Care and maintenance expenses

(in thousands of United States dollars)	For the period April 1 to December 31, 2007	
	Non-GAAP \$	Relevant GAAP measure \$
Continuing ongoing cash expenditures ⁽¹⁾		
Care and maintenance	6,429	6,429
General and administrative	4,952	4,952
Professional fees – Parliamentary Inquiry and shipping approval	1,993	1,993
Net cash interest expense	41	
Total continuing ongoing cash expenditures	13,415	
One-time costs, non-cash and deferred cash costs ⁽²⁾		
Amortization	609	609
Restructuring costs	650	650
Interest expense (payable on maturity) and accretion	10,931	
Stock option costs	430	430
Loss on derivatives	1,286	1,286
Foreign exchange loss and other	146	146
Total one-time costs, non-cash and deferred cash costs	14,052	
Net interest expense		10,972
	27,467	27,467

(1) Continuing ongoing cash expenditures is a non-GAAP measurement. Management believes separate disclosure of these amounts assists investors in better understanding the Company's ongoing cash commitments while the Magellan mine is under temporary care and maintenance.

(2) One-time costs, non-cash and deferred cash costs are non-GAAP measurements. Management believes separate disclosure of these amounts assists investors in better understanding the Company's ongoing non-cash commitments while the Magellan mine is under care and maintenance.

Cash cost of lead sold

Total cash costs for lead sold during 2007, including treatment charges, freight, mining and processing costs, but excluding royalty payments were \$0.41 per pound. This compared with \$0.38 per pound for 2006. Costs for essentially all items in the production and sales process, including labour, reagents and other supplies, treatment charges and transport and freight costs continue to increase significantly across the industry and are expected to impact Magellan on restart of operations.

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

(in thousands of United States dollars)	2007⁽³⁾	2006	2005 ⁽⁴⁾
	\$	\$	\$
Lead metal in concentrate sold – (000's tonnes)	12.0	63.0	14.9
Treatment charges and freight	3,089	14,376	4,367
Mining and processing costs	7,742	37,976	6,696
Total cash costs – excluding royalties	10,831	52,352	11,063
Cash costs – (cents per pound of lead)	41	38	34

(3) Shipments of lead concentrate from the Magellan mine were curtailed by the suspension of lead shipments through the Port of Esperance on March 12, 2007

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

Royalty

Royalty payments on lead concentrate sales are based on 5% of Magellan's net sales revenue after payment of treatment charges and freight and therefore fluctuate with the market price for lead.

Loss on derivatives

The Company had entered into various short-term forward sales contracts to set the prices of its future shipments. Subsequent to the suspension of lead concentrate shipments through the Port of Esperance, the forward sales contracts were bought back to reduce the Company's exposure to the rising lead price. A total loss of \$4.7 million was realized on the buy back program.

Amortization

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

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

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

Total amortization for 2007 was \$3.1 million. This is a decrease of \$5.9 million from 2006. Amortization of \$2.5 million was recognized for the first 95 days of 2007 since the Magellan operation was placed on temporary care and maintenance on April 6, 2007 following the temporary suspension of lead concentrate shipments through the Port of Esperance.

General and administrative

General and administrative expenses mainly consist of Magellan corporate office costs in Perth and Toronto corporate office costs. Expenses increased in 2007 by \$0.6 million to \$6.5 million from 2006, mostly on account of higher audit and taxation fees, and variable compensation in recognition of the achievement of performance targets in 2006.

Net interest expense

Net interest expense for the year was \$11.9 million, primarily comprised of interest expense on the Secured Facility which accrues at 9.25% per annum. Net interest expense also included a non-cash charge for accretion of the equity component of the Secured Facility and related fees amounting to \$8.4 million; and \$0.4 million interest on the Sentient Note, which was refinanced with proceeds from the Secured Facility in April 2007. See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document.

Net interest expense in 2006 was \$2.5 million. The increase in 2007 is mainly due to the interest charged on the accretion of the Secured Facility and a higher debt level in 2007 compared to 2006.

Stock option costs

As at December 31, 2007 options to purchase 3,263,584 common shares (December 31, 2006 – 3,277,334) remain available for grant. The stock-based compensation expense has been calculated using the Black-Scholes option-pricing model. The amount expensed in the year is in respect of both new stock options for the portion vesting in 2007, and stock options which were granted in 2004, 2005 and 2006 but for which a portion vested in 2007. The pricing assumes a five-year term with

MANAGEMENT'S DISCUSSION AND ANALYSIS

vesting periods ranging from one to three years from date of grant (2006 – immediate to three years), expected common stock price volatility of 40% (2006 – 40%), a weighted average risk-free interest rate of 4% and an assumption that dividends are reinvested in the Company.

The stock option expense was \$604,000 for the year (2006 – \$587,000). As at December 31, 2007 the aggregate unexpensed fair value of unvested stock options granted amounted to \$374,000 (December 31, 2006 – \$927,000). The weighted-average value of options issued was \$0.57 (2006 – \$0.62).

Other expenses

Other expenses, which include a foreign exchange loss of \$48,000, decreased to \$39,000 in 2007 from \$0.9 million in 2006. The 2006 expense included a write-off of \$0.4 million on the cost of two bag filter plants purchased in 2000 for the contemplated refinery project. Due to the deterioration of their condition during the long storage period, it was considered uneconomic to restore the bag filter plants to functioning units. A total \$0.9 million of amortization on the Sentient Note extension and \$0.2 million exploration and corporate development costs were also expensed during 2006. These expenses in 2006 were partially offset by a \$0.5 million foreign exchange gain.

Income tax

An income tax recovery of \$6.8 million was recorded in 2007. The annual accounting tax rate for the year was 25% (2006 – 31%). The tax expense in 2006 was \$2.2 million. The Company's exposure to cash corporate income taxes is reduced due to the availability of tax loss carry-forwards to offset future taxable income in Australia. The Company currently has approximately A\$44 million (\$40 million) in loss carry-forwards to offset future taxable income earned in Australia. There is no expiry date for Australian tax loss carry-forwards. The Company also has approximately C\$12 million in loss carry-forwards in Canada, with expiry dates ranging from 2008 to 2027.

Net (loss)/income

The Company recognized a net loss of \$21.0 million for the year or \$(0.15) per common share. This compared with net income of \$4.8 million or \$0.04 per share in 2006.

Results for the year were adversely impacted by the curtailment of lead concentrate shipments from the Magellan mine pending regulatory approval for containerized shipments through the Port of Fremantle including the loss from forward sales contracts and costs related to care and maintenance of Magellan, the development of the sealed shipment process, advancement of the application for regulatory approvals to ship containerized lead concentrates and participation in the Parliamentary Inquiry.

Quarterly financial results

(in thousands of United States dollars, unless otherwise indicated and per share amounts)	2007				2006			
	Fourth \$	Third \$	Second \$	First \$	Fourth \$	Third \$	Second \$	First \$
Revenue	—	—	—	20,014	32,780	20,018	12,983	17,128
Net (loss)/income	(6,516)	(5,820)	(8,536)	(165)	5,811	1,214	(3,761)	1,574
Comprehensive (loss)/income	(6,404)	(6,250)	(8,294)	(492)	5,811	1,214	(3,761)	1,574
Basic and diluted (loss)/earnings – \$ per share	(0.04)	(0.04)	(0.06)	(0.00)	0.04	0.01	(0.03)	0.01
Cash (used in)/provided by operations before changes in non-cash working capital	(5,655)	(4,267)	(10,092)	2,920	11,853	4,393	(1,850)	4,171

During the fourth quarter of 2007, the Company did not record revenue as Magellan remained on temporary care and maintenance during the period. Expenses for general and administrative and care and maintenance activities of \$4.4 million were in line with expectations while \$5.7 million was used to fund operations before changes in working capital.

During the fourth quarter of 2006, Magellan produced its highest operating quarter for that year which generated revenue of \$32.8 million and provided cash from operations of \$11.9 million. Total sales of 21,300 tonnes of lead in concentrate were recognized at an average lead sale price of \$0.73 per pound.

Quarterly care and maintenance expenses

	Non-GAAP			Relevant GAAP measure		
	Fourth	Third	Second	Fourth	Third	Second
(in thousands of United States dollars)	\$	\$	\$	\$	\$	\$
Continuing ongoing cash expenditures ⁽¹⁾						
Care and maintenance	2,607	1,844	1,978	2,607	1,844	1,978
General and administrative	1,816	1,361	1,775	1,816	1,361	1,775
Professional fees – Parliamentary Inquiry and shipping approval	262	725	1,006	262	725	1,006
Net cash interest (income)/expense	(177)	(17)	235			
Total continuing ongoing cash expenditures	4,508	3,913	4,994			
One-time costs, non-cash and deferred cash costs ⁽²⁾						
Amortization	260	215	134	260	215	134
Restructuring costs	—	—	650	—	—	650
Interest expense (payable on maturity) and accretion	3,944	4,342	2,645			
Stock option costs	137	141	152	137	141	152
Loss on derivatives	—	—	1,286	—	—	1,286
Foreign exchange loss/(gain) and other	13	(636)	769	13	(636)	769
Total one-time costs, non-cash and deferred cash costs	4,354	4,062	5,636			
Net interest expense				3,767	4,325	2,880
	8,862	7,975	10,630	8,862	7,975	10,630

(1) Continuing ongoing cash expenditures is a non-GAAP measurement. Management believes separate disclosure of these amounts assists investors in better understanding the Company's ongoing cash commitments while the Magellan mine is under temporary care and maintenance.

(2) One-time costs, non-cash and deferred cash costs are non-GAAP measurements. Management believes separate disclosure of these amounts assists investors in better understanding the Company's ongoing non-cash commitments while the Magellan mine is under care and maintenance.

OPERATIONS REVIEW – MAGELLAN LEAD MINE, WESTERN AUSTRALIA

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

Magellan was commissioned on October 1, 2005 and was in continuous production until April 2007 when it was placed on temporary care and maintenance. Following the resumption of operations (expected during 2008) and the achievement of target production levels, the mine is expected to be the world's most significant pure lead mine accounting for approximately 2% of the total world lead mine production.

Temporary care and maintenance

Effective April 6, 2007, Magellan was placed on temporary care and maintenance following the March 12, 2007 suspension of lead concentrate shipments through the Port of Esperance. A core team of employees was retained to carry out site care and maintenance until requisite approvals are received, plan and implement the on-site and transportation route changes for containerized shipments and execute the phased restart of operations. A full discussion of the events related to the placement of Magellan on temporary care and maintenance is contained in Ivernia's Annual Information Form ("AIF") dated March 31, 2008 under the heading "Three-Year History" which is incorporated herein by reference. The AIF is available at the Ivernia web site www.ivernia.com and on SEDAR at www.sedar.com.

Parliamentary Inquiry

On April 4, 2007, the Western Australian Government initiated a Parliamentary Inquiry ("Inquiry") into the "cause and extent of lead pollution in the Esperance Area". The terms of reference for the Inquiry were generally directed at reviewing the

MANAGEMENT'S DISCUSSION AND ANALYSIS

regulation of licensing and monitoring of the Esperance Port Authority's activities with respect to the export of lead, the responsibility of the Esperance Port Authority and other parties (including Magellan) for the high levels of lead detected at and in the vicinity of the Port of Esperance and the way the relevant government departments exercised their responsibility with regards to the export of lead from the Port of Esperance.

During the Inquiry, Magellan was requested to provide documents relevant to the terms of reference and appear before a public hearing. Magellan appeared at public hearings on May 2 and June 7, 2007, and provided relevant documents, a written submission to the Parliamentary Inquiry Committee ("Committee") and written answers to a series of written questions posed by the Committee. In addition, the Committee conducted a site visit to the Magellan mine and the Esperance port facility on May 1, 2007.

The Committee's report and recommendations were tabled on September 6, 2007. The Company subsequently issued a news release commenting on the report and its recommendations on September 7, 2007.

The Western Australian Government's response to the Inquiry's recommendations was issued on November 28, 2007. The Company subsequently issued a news release commenting on the response on December 3, 2007.

Copies of Magellan's submissions during the Inquiry, the tabled report, the Government's response and the Company's subsequent news releases are available on the Ivernica website at www.ivernic.com. Additional information relating to the Inquiry can also be obtained from the Parliament of Western Australia's website at www.parliament.wa.gov.au.

Proposal to export sealed shipments of lead concentrate

On December 10, 2007, the Western Australian Environmental Protection Authority ("EPA") made its recommendation to the Minister for the Environment on the proposal by Magellan to export sealed shipments of lead concentrate through the Port of Fremantle. The recommendation concluded that it is unlikely that the EPA's objectives would be compromised, provided there is satisfactory implementation by Magellan of the recommended conditions and commitments.

The recommendation that shipments could proceed under a number of strict conditions were accepted by the Minister on January 17, 2008. In accepting the recommendations, the Minister also imposed additional conditions to further assure Western Australia's communities, governments and regulators that the export process will be safe and effective.

The Company accepts the additional conditions and has committed to their implementation prior to commencing sealed shipment of its product from the Magellan mine site.

The Minister's conditions include:

- The lodgement of an A\$5 million bond
- The appointment of an independent auditor approved by the Minister and funded by Magellan to inspect each bag and container
- The completion of a comprehensive Health, Hygiene and Environmental Management plan to be prepared to the requirement of the Minister, on advice from the Department of Health, the Department of Consumer and Employment Protection, the Department of Industry & Resources and the Department of Environment & Conservation
- Baseline testing to be conducted along the transportation route prior to the first movement of lead and then regularly after that

Magellan will fully meet all Ministerial conditions prior to the resumption of operations at Magellan, and in addition commits to:

- Implementing a comprehensive information and support program with local authorities and community groups along the transportation route to ensure a thorough understanding of lead concentrate, its transportation process and the Emergency Response Plan for the immediate containment and rapid and complete clean up in the unlikely event of an accident creating a spill
- Transparent communication of monitoring results and compliance reporting in an easily accessible manner
- Continuing its community information program

The sealed shipment process for transporting lead concentrate is a completely different method from the current industry standard of bulk transport which was used for export through the Port of Esperance. It is an inherently safe process that includes independent validation on the integrity of the shipment process and no re-handling of material once it leaves the mine site.

The process, developed by leading environmental consultants Coffey Natural Systems (formerly Enesar) in partnership with Magellan's management, will involve sealing lead concentrate inside United Nations and State Government approved bulk bags which will then be bolt-locked inside steel shipping containers and transported from the mine site to customers overseas. Independent inspection and verification of the bag filling, container loading and container and vehicle cleaning procedures at the mine site will ensure the integrity of the shipment process. The Company believes this method creates a new world standard of industry best practice for the safe handling and transport of lead concentrate.

Containerization gives the Company control over critical aspects of the handling system, for which it previously relied on contractors, and ensures a clear line of responsibility for the handling and transport of its lead concentrate.

Prior to the Minister's decision, the process underwent review and comment by regulators and environmental experts and two four-week public comment periods over a 10-month period.

Further information on the process is available on Ivernia's website at www.ivernia.com and Magellan's website at www.magellanmine.com.

Community information program

A comprehensive information program with communities along the transport route to the Port of Fremantle and in the Fremantle area was started on July 7, 2007 and is expected to continue for the duration of Magellan's operating life. The program's objectives are to ensure a full understanding of the product, the sealed shipment process, the sampling and monitoring proposed and the Emergency Response Plan, and provide a way for the community to have any concerns or questions addressed.

Management team

In late 2007, the recruitment process was initiated to build in-house expertise to deliver on commitments to communities, employees, governments and other stakeholders. Key appointments include Dr. John Yeates, General Manager, Corporate and Social Responsibility, and Mr. Kane Blackman, Manager Health, Safety and Environment. Dr. Yeates has over 35 years of experience in all aspects of environmental management across a wide range of industries within Australia and in the Asia-Pacific region. Mr. Blackman was a consultant with Coffey Natural Systems, a leading Australian environmental consulting firm, where he managed environmental investigations within Australia and in several foreign jurisdictions for mining and oil and gas projects. He was a member of the consulting team which assisted Magellan in the development of the sealed shipment process and therefore has detailed knowledge of the Magellan operations and the new sealed shipment process.

Operating summary

Mining

Mining, conducted from January to April 2007, was controlled to maintain adequate stockpiles for the processing plant. A total of 413,000 tonnes were mined for processing during 2007 prior to the operation being placed on temporary care and maintenance.

The following table summarizes mine production for the years 2007, 2006 and 2005:

Years ended December 31	2007 ⁽¹⁾	2006	2005 ⁽²⁾
Mining			
Ore mined – (000's tonnes)	413	1,068	831
Low-grade (<3%) ore mined – (000's tonnes)	—	190	338
Total ore and waste mined – (000's bcm)	729	3,252	3,115

Note: bcm = bank cubic metres

(1) Effective April 6, 2007 the Magellan operation was placed on temporary care and maintenance following the March 27, 2007 suspension of lead concentrate shipments through the Port of Esperance

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Processing

The mill processed 393,400 tonnes of ore in 2007, prior to suspension of operations on April 6, 2007, with an average grade of 7.3% lead. Metal recoveries averaged 74.6% for the period of production, which included a low-grade trial conducted in February 2007.

Lead metal in concentrate production for 2007 totaled 32,800 tonnes. Total lead metal in concentrate produced amounted to 21,400 tonnes.

The table below summarizes process production for the years 2007, 2006 and 2005:

Years ended December 31	2007 ⁽¹⁾	2006	2005 ⁽²⁾
Processing			
Ore milled – (000's tonnes)	393.4	1,060.1	743.9
Head grade – (% lead)	7.3	7.9	6.5
Recovery – (%)	74.6	75.5	64.8
Concentrate produced – (000's dry tonnes)	32.8	99.1	49.2
Lead metal in concentrate produced – (000's tonnes)	21.4	63.2	31.3

(1) Effective April 6, 2007 the Magellan operation was placed on temporary care and maintenance following the March 27, 2007 suspension of lead concentrate shipments through the Port of Esperance

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

The table below summarizes the shipments and inventories at the end of years 2007, 2006 and 2005:

Years ended December 31	2007 ⁽¹⁾	2006	2005 ⁽²⁾
Sales and inventories			
Concentrate sold – (000's dry tonnes)	18.8	98.0	37.7
Lead metal in concentrate sold – (000's tonnes)	12.0	63.0	24.0
Concentrate inventory – (000's dry tonnes)	27.0	12.9	11.9

(1) Effective April 6, 2007 the Magellan operation was placed on temporary care and maintenance following the March 27, 2007 suspension of lead concentrate shipments through the Port of Esperance

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

Operational objectives

The principal objective for 2008 is the resumption of production at Magellan and transport of its lead carbonate concentrate on an ongoing basis utilizing the new sealed shipping process.

To achieve this objective, management's operational priorities are:

- Secure the requisite final regulatory approvals
- Commission the equipment required for concentrate bagging operations
- Establish facilities to accommodate inspection and transportation of shipping containers
- Bag and ship the on-site lead carbonate concentrate inventory of approximately 19,000 dry tonnes
- Recruit and train mine site workforce
- Reactivate mining and processing operations
- Commission the new gas pipeline and concentrate pressure filter
- Ensure full ongoing compliance with all regulatory conditions

Drilling and exploration program

Detailed infill drilling required for mine design was successfully conducted on the mining lease areas to provide definition of the Pinzon and Magellan (Pit H) areas during 2007. A gravity survey was also carried out over the mine lease area; the results of this survey are currently being analyzed.

Limited regional exploration was conducted in 2007; however a renewed focus on wider regional exploration in Western Australia will be undertaken in parallel with the recommencement of normal operations at Magellan.

Resources and reserves

The exploration program in 2007 focused on infill drilling mainly in the Magellan and Pinzon deposits to increase the confidence level and definition of the resource. The Company's current resources and reserves are available in its 2007 AIF dated March 31, 2008 under the heading "Three-Year History", and is incorporated herein by reference. The AIF is available at the Ivernia web site www.ivernia.com and on SEDAR at www.sedar.com.

Determination of the reserves at the Magellan mine includes consideration of technical factors such as recoveries, attributes of the deposit and economic factors such as metal prices, treatment charges and mining and processing costs. Decreases in actual metal prices from the estimate used in the reserve calculation or increases in mining and processing costs or treatment charges could have a negative impact on the reserves estimate and consequently the economic viability of the deposit. The Company's current reserves estimate is based on a \$2,000 lead price and a 2.1% cut-off grade. The \$2,000 lead price is supported by the historical two-year average lead price.

LIQUIDITY AND FINANCIAL CONDITION

Statement of cash flows

Years ended December 31

(in thousands of United States dollars)

	2007	2006	2005
	\$	\$	\$
Cash (used in)/ generated from operations before changes in non-cash working capital	(17,094)	18,673	(147)
Changes (decrease)/increase in working capital	(13,914)	(177)	8,028
Cash (used in)/provided by operating activities	(31,008)	18,496	7,881
Cash used in investing activities	(9,236)	(19,133)	(68,402)
Cash provided by financing activities	36,672	10,838	57,163
(Decrease)/increase in cash	(3,336)	10,042	(3,356)

Operating activities

Approximately \$31.0 million of cash was used to fund operating activities during 2007. Working capital was negatively impacted mainly by the lead concentrate inventory buildup at the mine site and Port of Esperance as a result of the suspension of lead shipments through the Port of Esperance, the continuation of operations at Magellan for about one month following the shipping suspension, and the repayment of the BNP Paribas inventory facility. The cash value of the lead concentrate inventories will be realized when the requisite shipping approvals are granted. Operating activities in 2007 were funded by a combination of cash resources and equity and debt financing.

In 2006, the Company generated \$18.5 million in cash from operating activities. Cash generated in 2006 was used to fund the optimization projects including the gas pipeline and the concentrate pressure filter and interest and principal repayments on the Sentient Note.

Investing activities

Cash utilized in investing activities during 2007 totaled \$9.2 million. Additions to property, plant and equipment of \$6.4 million were directed mainly to the construction and commissioning of the gas pipeline and concentrate pressure filter. Restricted cash increased by \$2.8 million due to the posting of bonds previously secured by part of the credit facility with BNP Paribas which was repaid during the second quarter of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net cash utilized in investing activities during 2006 was \$19.1 million, mainly related to deferred stripping, expenditures on the construction and commissioning of the secondary ball mill and a second concentrate thickener, all part of the optimization process to increase grinding capacity and recoveries. Cash was also utilized in the construction and installation of the gas pipeline and concentrate pressure filter. Restricted cash decreased by \$1.2 million due to the posting of bonds by part of the credit facility with BNP Paribas.

Capital investments

The following table summarizes the capital investments made in 2007 and 2006:

Years ended December 31 (in thousands of United States dollars)	2007	2006
	\$	\$
Deferred stripping	—	3,500
Sustaining and other capital	1,010	3,430
Optimization projects		
Secondary ball mill	—	5,000
Pressure filter	2,400	2,500
Gas pipeline	3,000	5,500
Concentrate thickener	30	400
	6,440	20,330

Capital resources

Ivernia has several available cash resources. Approximately \$10.0 million is available to be drawn on the Secured Facility (\$20.0 million currently drawn), which matures on April 27, 2009. See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document. In addition, the Company anticipates the closing of the private placement with YMG during the second quarter of 2008 after all regulatory approvals have been received, thereby providing approximately C\$22.0 million in net proceeds and the cash value of the lead concentrate inventories stored at the mine site and Port of Esperance is expected to be realized after the requisite final shipping approvals are received and shipping recommences. Management believes the Company's cash resources are sufficient to fund care and maintenance activities until final approval is received to resume shipments and operations.

The Company has proceeded with the design, construction and commissioning of the mobile bagging machine to facilitate the sealed shipment process of its lead concentrate for export and expects this total capital investment to amount to approximately \$1.0 million. Payment is planned for during 2008 and to be funded by cash reserves. The Company is in the early stages of designing a permanent bagging facility and will provide a capital investment estimate when available.

As part of the Minister's conditions for resumption of shipments, the Company will post an A\$5 million bond which it expects to fund from its current capital resources.

Financing activities

A total of \$36.7 million was generated by financing activities during 2007. In April, the Company refinanced the Sentient Note consisting of principal in the amount of C\$17.4 million (\$15.6 million) and C\$1.7 million (\$1.5 million) interest. These funds were part of the proceeds raised from the closing of the Secured Facility in the amount of \$50.0 million. Approximately \$40.0 million of the Secured Facility had been drawn at the end of 2007. The credit and inventory facilities, previously held with BNP Paribas, were repaid in full with proceeds from the Secured Facility. On August 1, 2007 the Company closed a bought deal financing for gross proceeds of C\$20.0 million (\$18.9 million) and net proceeds of C\$18.5 million (\$17.5 million) after share issuance costs. The majority of the funds raised were used to fund care and maintenance activities and general working capital.

A total of \$10.8 million was generated by financing activities during 2006. Included in this amount was approximately \$8.7 million from the exercise of common share purchase warrants which were issued in March 2004 and which expired in March 2006; \$0.3 million from the exercise of stock options, and broker warrants due to expire in May 2006; and, \$5.0 million drawn

on the \$10 million BNP Paribas credit facility. Additionally, the Company paid C\$2.4 million (\$2.2 million) in principal repayments and C\$1.6 million (\$1.4 million) in interest on the Sentient Note and \$1.0 million in payments for long-term leases.

Balance sheet

Years ended December 31

(in thousands of United States dollars)

	2007	2006	2005
	\$	\$	\$
Cash and cash equivalents	13,726	17,062	7,020
Working capital (deficit)/surplus ⁽¹⁾	(12,646)	6,395	775
Total assets	184,721	186,099	155,857
Total short-term financial liabilities	38,177	15,971	17,978
Total long-term financial liabilities	2,049	2,316	3,312
Reclamation provision	2,948	2,396	1,695
Future income tax	14,310	21,372	19,195
Total liabilities	66,178	74,382	59,833

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

The ability of the Company to generate sufficient amounts of cash from its operations to meet its planned growth and development objectives has been interrupted by the current suspension of operations at Magellan. See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document.

Factors affecting comparability of financial information

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

(a) Care and maintenance

Effective April 6, 2007 the Company's Magellan mine was placed on care and maintenance following the temporary suspension of lead concentrate shipments through the Port of Esperance.

(b) Magellan acquisition

Effective April 29, 2005, the Company increased its equity interest in Magellan Metals from 51% to 100%. The Company now fully consolidates Magellan Metals. Prior to April 29, 2005 the Company proportionately consolidated its interest in Magellan Metals.

(c) Public offerings

On August 1, 2007 the Company closed a bought deal financing. Under the terms of the agreement, the underwriters purchased 12,125,000 common shares of the Company at a price of C\$1.65 for gross proceeds of C\$20.0 million (\$18.9 million) and net proceeds of C\$18.5 million (\$17.5 million) after share issuance costs. On April 29, 2005 the Company completed a public offering of 31,543,100 common shares (including an over-allotment of 2,493,100 common shares) at a price of C\$1.55 per share for aggregate gross proceeds of C\$48.9 million (\$38.7 million) and net proceeds of C\$44.9 million (\$35.7 million) after share issuance costs.

(d) Credit facility

On April 27, 2007 the Company completed the closing of a \$50 million secured facility (the "Secured Facility") with a syndicate of lenders.

Part of the Secured Facility was used for the refinancing of the Sentient Note and for the repayment in full of the outstanding BNP Paribas credit and inventory facilities. As at December 31, 2007 a total of \$40 million of the Secured Facility had been drawn.

The Secured Facility has a one-year term which matures on April 27, 2008 and bears interest at 9.25% per annum, which will accrue and be payable at maturity or earlier repayment. The Secured Facility grants first ranking security interests over all the Company's assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Drawdowns under the Secured Facility entitle the lenders to conversion rights, providing for the conversion of principal into Ivernia common shares at a price of \$1.08 per share. If Ivernia repays drawn balances before maturity the lenders will be issued warrants for the pro rata amount at a US\$1.08 strike price that will expire concurrent with the maturity of the Secured Facility. These conversion rights were approved by the shareholders at the Company's 2007 annual and special meeting. Balances repaid before maturity may not be redrawn by the Company.

See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document.

In July 2006, Magellan Metals completed the documentation for a \$10.0 million credit facility, which was available to be drawn in either US dollars or the equivalent Australian dollars, and a \$15.0 million inventory and export finance facility (collectively, the "Facilities"). The Facilities were secured by the Magellan assets located in Australia. The credit bore interest at a rate of the Australian Bank Bill Rate ("BBSY") + 1% if drawn in Australian dollars or LIBOR + 1% if drawn in US dollars. The inventory and export finance facility bore interest at the rate of LIBOR + 1.25% per annum.

The Facilities were repaid in full in 2007 with proceeds from the Secured Facility described above.

Working capital (deficit)/surplus ⁽¹⁾

As at December 31, 2007 the Company had a working capital deficit including the Secured Facility of \$12.6 million. However, refer to section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document. The placement of the Company's Magellan operation on care and maintenance had a negative impact on the Company's working capital. Accounts receivable and other current assets decreased by \$11.2 million as the Company did not sell concentrate following the suspension of lead concentrate shipments. Overall inventories increased by \$10.1 million to \$19.0 million as the Company was not able to ship all the concentrate it produced during the year. Accounts payable and other current liabilities decreased by \$18.6 million to \$8.7 million as normal operations ceased.

The Company held shares in publicly traded companies which were marked-to-market. The unrealized loss during the period from its investments is \$0.4 million. The carrying value of its remaining investment at year end is \$0.6 million.

As detailed under the section "Cash resources", management believes there are sufficient cash resources available to the Company to fund the care and maintenance of Magellan until final approval is received to resume shipments and operations.

Restricted cash

As at December 31, 2007, Magellan had restricted cash deposited with a financial institution of \$2.9 million. This was an increase from \$5,000 at December 31, 2006. These deposits principally relate to unconditional performance bonds in favour of the state of Western Australia for the due and proper performance of the terms and conditions of the Magellan Metals mining leases. As at December 31, 2006 these bonds had been secured by part of the credit facility with BNP Paribas which was repaid in the second quarter of 2007.

Short-term debt

On April 29, 2005 the Company issued a C\$20.0 million secured promissory note to Sentient (the "Sentient Note"). The Sentient Note was 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, 2007. The Sentient Note accrued interest at 8% per annum for the first year.

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

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

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

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

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

The amount of the monthly payments of common shares was to be reduced pro-rata by any partial or full repayment of the Sentient Note during such time. The total number of shares issued to Sentient in accordance with the Extension Option was 373,957, of which 57,380 were issued during 2007.

With the exercise of the Extension Option, interest on the Sentient Note accrued at a rate of 9.25% per annum payable on maturity.

Upon the closing of the Secured Facility the Sentient Note was fully refinanced in the amount of C\$17.4 million (\$15.6 million) principal and C\$1.7 million (\$1.5 million) interest.

Long-term debt

Magellan Metals has entered into a five-year power supply contract Kalgoorlie Power Systems and has various equipment and vehicle leases in place as at December 31, 2007. The equipment and vehicle leases range in length from one to three years.

Future income tax

The Company has a future income tax liability of \$14.3 million (2006 – \$21.4 million) that was generated predominately from the acquisition in 2005 of Sentient's 49% interest in Magellan Metals not previously held due to the difference in the tax value and carrying value of assets and liabilities. The Company also has approximately A\$44 million (\$40 million) of loss carry-forwards from Magellan Metals that will be used to shelter future taxable income. The Australian tax losses have no expiry. The Company also has approximately C\$12 million in loss carry-forwards in Canada, with expiry dates ranging from 2008 to 2027.

Contractual and other obligations

The following table summarizes the Company's contractual and other obligations including principal payments and interest as at December 31, 2007:

Payments due by period

(in thousands of United States dollars)	Total	Less than 1 year	1-5 years	More than 5 years
	\$	\$	\$	\$
Rental agreements and operating leases	2,581	532	2,049	—
Finance leases and hire-purchase ⁽¹⁾	504	127	377	—
Reclamation ⁽²⁾	2,847	—	—	2,847
Exploration licences ⁽³⁾	186	186	—	—
Mining leases ^{(3) & (4)}	183	183	—	—
Total	6,301	1,028	2,426	2,847

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

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

(3) Under the terms of its exploration licences, Magellan Metals is required to meet certain minimum expenditure requirements for a 12-month period commencing on the date of issue or renewal of the licence or lease. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2007 are dependent upon whether Magellan chooses to retain its current tenements.

(4) Magellan Metals is obliged to make royalty payments of 5% of net royalty value of lead concentrates produced or 2.5% of royalty value of lead metal produced and a payment of A\$0.04 per tonne of ore mined under the Heritage Agreement dated September 25, 1998 between Magellan Metals and the Milangka Group and the Land Use Agreement dated December 16, 1998 between Magellan Metals and the Wanmulla Group

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fully diluted shares

	As at December 31, 2007
Shares issued	146,924,880
Options	5,486,250
Warrants	3,952,437
Convertible debt	37,037,037
Total	193,400,604

Shares issued and outstanding

	Common shares	Preference shares
December 31, 2007	146,924,880	—
March 31, 2008	146,924,880	—

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 March 31, 2008:

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

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

Stock options

Under the Company's Stock Option Plan, certain directors, officers, employees and consultants may be granted options to purchase up to 9,184,834 common shares. As at December 31, 2007 options to purchase 3,263,584 common shares (December 31, 2006 – 3,277,334) remained available for grant. The exercise price of each option may not be less than the market price of the common shares at the time the option is granted. An option may have a term up to ten years and may not be assigned. Unless the directors of the Company determine otherwise, one-quarter of options granted become exercisable on the date of grant, one-quarter following the first anniversary date, one-quarter following the second anniversary date, and the balance at any time following the third anniversary date.

The Stock Option plan provides for the cashless exercise of options.

	2007			2006		
	Exercised	Proceeds received C\$	Shares issued	Exercised	Proceeds received C\$	Shares issued
Cash exercises	60,000	45,000	60,000	250,000	134,375	250,000
Cashless exercises	375,000	—	230,339	365,166	—	122,082
	435,000	45,000	290,339	615,166	134,375	372,081

The options granted, exercised and expired for 2007, 2006 and 2005 are summarized below:

	Granted	Exercised	Shares issued	Expired
2007	125,000	435,000	290,339	111,250
2006	2,090,000	615,166	372,082	1,033,750
2005	1,737,222	—	—	826,806

As at December 31, 2007 there were outstanding options to purchase 5,486,250 of the Company, of which 4,083,333 were exercisable. As at March 31, 2008 an additional 60,000 had been granted and 3,203,584 options remain available to grant.

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.

Results of equity financings and exercise of warrants

On August 1, 2007 the Company closed a brought deal financing. The underwriters purchased 12,125,000 common shares of the Company at a price of C\$1.65 for gross proceeds of C\$20.0 million (\$18.9 million) and net proceeds of C\$18.5 million (\$17.5 million) after share issuance costs.

On April 29, 2005 the Company completed a public offering of 31,543,100 common shares (including an overallotment of 2,493,100 common shares) at a price of C\$1.55 per share for aggregate gross proceeds of C\$48.9 million (\$38.7 million) and net proceeds of C\$44.9 million (\$35.7 million) after share issuance costs.

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

During 2005, all of the March Broker Warrants were exercised for proceeds of C\$1.2 million. Also during 2005, 669,900 warrants were exercised for proceeds of C\$837,000.

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

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

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

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

During the second quarter 2006, all of the outstanding November Broker Warrants were exercised for proceeds of C\$100,000. During the fourth quarter of 2006, 117,500 November Warrants were exercised for proceeds of C\$165,000. No warrants were exercised during 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OTHER MATTERS

Accounting changes

In July 2006, the Accounting Standards Board issued a replacement of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1506, "Accounting Changes". The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements.

In December 2006, Section 3862, "Financial Instruments – Disclosures"; Section 3863, "Financial Instruments – Presentation"; and Section 1535, "Capital Disclosures" were issued. All three Sections will be applicable for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. Section 3862 on financial instrument disclosures, places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed and is consistent with Section 3861. The new Section removes duplicative disclosures and simplifies the disclosures relating to concentrations of risk, credit risk, liquidity risk and price risk currently found in Section 3861. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

Future changes in accounting policies

Effective January 1, 2008

The CICA has issued three new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the quarter ended March 31, 2008 and is considering the impact these will have on the Company's financial statements.

Section 1535, "Capital disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Company will be required to disclose quantitative and qualitative information about its objectives, policies and processes for managing capital.

Section 3031, "Inventories", provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862, "Financial instruments – disclosures", requires entities to disclose quantitative and qualitative information that enable users to evaluate (a) the significance of financial instruments for the Company's financial performance, and (b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The Company will be required to disclose the measurement bases used, and the criteria used to determine classification of financial instruments.

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company will adopt the requirements commencing in the quarter ended March 31, 2009 and is considering the impact this will have on the Company's financial statements.

Section 3064, "Goodwill and intangible assets", establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, "Revenues and Expenses" during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

EVENTS SUBSEQUENT TO DECEMBER 31, 2007

On January 17, 2008 the Company announced the acceptance by the Environment Minister, Hon. David Templeman, of the EPA's recommendations regarding the sealed shipment process for the export of lead concentrate. In accepting the recommendations, the Minister also imposed additional conditions that will further assure Western Australia's communities,

governments and regulators that the export process will be safe and effective. The Company has accepted the additional conditions and is committed to their implementation prior to commencing sealed shipment of its product from its mine site. The Minister's conditions included: the lodgement of an A\$5 million bond; the appointment of an independent auditor approved by the Minister and funded by Magellan Metals to inspect each bag and container at the mine and the Port; the completion of a comprehensive Health, Hygiene and Environmental Management plan for the mining and export process to be prepared to the requirement of the Minister, on advice from the Department of Health, the Department of Consumer and Employment Protection, the Department of Industry & Resources and the Department of Environment & Conservation; and baseline testing to be conducted along the transport route prior to the first movement of lead and then regularly after that.

As announced by the Company on January 18, 2008 the Company must and will fully meet all Ministerial conditions, and in addition has committed to: implementing a comprehensive information and support program with local authorities and community groups along the transportation route to ensure a thorough understanding of lead concentrate, its transportation process and the Emergency Response Plan for the immediate containment and rapid and complete clean up in the unlikely event of an accident creating a spill; transparent communication of monitoring results and compliance reporting in an easily accessible manner; and continuing its community information program.

The containerized method of transport for lead concentrate is a completely different method from the current industry standard of bulk transport. It is an inherently safe process that includes independent validation on the integrity of the shipment process and no re-handling of material once the material leaves the mine site.

Magellan's shipment method will involve sealing lead concentrate inside bulk bags which will then be bolt-locked inside steel shipping containers and transported from mine site to Fremantle and then overseas. Independent inspection and verification of the bag filling, container loading and container and vehicle cleaning procedures at the mine site will ensure the integrity of the shipment process. The Company believes this method creates a new world standard of industry best practice for the safe handling and transport of lead concentrate.

Magellan is continuing to work closely with the Esperance Port Authority and the Departments of Environment and Conservation, Health, and Consumer and Employment Protection to finalize the proposal for safe removal of the remaining concentrate stockpile at the Port of Esperance. This concentrate will be exported in sealed bags through the Port of Esperance using a process to be approved by the relevant regulatory authorities.

On March 31, 2008 the Company announced it had reached an agreement with the syndicate of lenders for the partial conversion and extension of the maturity date of the Secured Facility. By mutual agreement, \$20 million ("Conversion Amount") of the \$40 million currently drawn and outstanding against the Secured Facility will be converted into common shares of the Company prior to April 27, 2008 at the previously agreed to price of US\$1.08 per share. On conversion, a total of 18,518,518 shares will be issued to the Lenders. The maturity date of the Secured Facility has been extended to April 27, 2009 ("New Maturity Date") from April 27, 2008. With the extension, the lenders have until the New Maturity Date to convert the remaining \$20 million currently drawn on the Notes and any additional funds that may be drawn by the Company at anytime prior to April 27, 2009 (up to an additional \$10 million).

All interest and fees accrued on the Conversion Amount will be payable on the earlier of the closing of the Company's previously-announced C\$22 million private placement investment with YMG and the New Maturity Date.

Payment of interest on the outstanding principal amount of the Notes, not included in the Conversion Amount, will be deferred until the New Maturity Date. Additionally, future interest on the extended Notes will be at an interest rate of 6% per annum – down from the current interest rate of 9.25% per annum.

Other than the existing general security agreement granted by Ivernia, all other security currently in place on the Secured Facility shall be discharged by the lenders. The lenders have further agreed to subordinate their current security so as to permit an additional \$10 million of secured financing to rank ahead of the Secured Facility.

Also on March 31, 2008 the Company announced that it has been advised by YMG that the Chinese government approvals required to finalize the private placement investment in Ivernia through their Australian subsidiary have been received. YMG's Australian Subsidiary is currently working to obtain necessary Foreign Investment Review Board approval from the Australian

MANAGEMENT'S DISCUSSION AND ANALYSIS

government, which the Company has been advised, is in the final stages of the process. It is currently anticipated that the transaction will close in April 2008.

CRITICAL ACCOUNTING POLICIES AND OTHER

Critical accounting estimates

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

Mineral properties and deferred start-up costs

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

Revenue recognition

Revenue is recognized when the title and risk of ownership of concentrates have passed and collection is reasonably assured. Title and risk of ownership pass to the customer on shipment of concentrate. Revenue from the sale of metal contained in concentrate is provisionally priced based on a future quotational period. Revenue is adjusted during the quotational period for any variations in the forward price recognized on shipment until settlement. Final revenue is adjusted based on settlement of final weights and assays. Any variation in the price, weights or assays are offset by an increase or decrease in accounts receivable.

Economic life

Management's estimate of the remaining economic life of the mine is approximately seven years based on the updated resource statement provided in accordance with National Instrument 43-101. Based on management's view of future metal prices, the carrying value of the assets was not impaired at December 31, 2007.

Asset retirement obligations, reclamation and mine closure

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

Future income taxes

The Company has recognized a net future tax liability of \$14.3 million that relates predominantly to the timing difference created between tax and accounting basis of assets and liabilities at Magellan Metals to-date which mainly arose from the acquisition of Sentient's 49% interest in Magellan Metals not previously held by the Company. Canadian unused tax losses of C\$12 million have expiry dates ranging from 2008 to 2027. There is no expiry date for the Australian tax loss carry-forwards of A\$44 million.

Variable interest entities

The Company has adopted the Accounting Guideline 15 ("AcG-15") – "Consolidation of Variable Interest Entities". The standard establishes when a company should consolidate a variable interest entity in its financial statements. AcG-15 requires a variable

interest entity to be consolidated if a company is at risk of absorbing the variable interest entity's expected losses, or is entitled to receive a majority of the variable interest entity's residual returns, or both.

Deferred stripping

Effective January 1, 2007 the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants with respect to stripping charges, EIC 160 "Stripping Costs Incurred in the Production Phase of a Mining Operation" ("EIC 160"). The new recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the period in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the stripping activity provides access to reserves that would not have been accessible in the absence of the stripping activity. When costs are deferred in relation to a betterment, the costs are amortized over the reserves accessed by the stripping activity using the units of production method.

The standard has been applied prospectively from January 1, 2007 and prior years' financial statements have not been restated. Application of this new accounting policy did not have a material impact on the financial position or results of operations as at or for the year ended December 31, 2006. Future stripping costs that are not a betterment will not be deferred but will be expensed as incurred.

As at December 31, 2007 the balance of deferred stripping costs was \$8.9 million (2006 – \$9.2 million). In accordance with EIC 160, the carrying value of the deferred stripping costs will be amortized over the life of the related mining assets on a units of production basis.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2007 the Company adopted two new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"):

Handbook Section 1530 – Comprehensive Income

Under this standard, debt issue costs are not deferred and presented as separate assets, but are added to the carrying value of the debt. These fees are amortized over the term of the debt using the effective interest rate method. The Company has not restated prior periods and included comparative amounts, as the standards have been applied prospectively, but the transitional effects have been recorded as an adjustment to deficit as at January 1, 2007.

The Company has not made any voluntary changes in accounting policies since these standards were adopted.

Section 3855 – Financial Instruments – Recognition and Measurement

This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and liabilities including derivatives be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Fair value is the amount at which an item could be exchanged between willing parties. Measurement in subsequent periods depends on whether the financial instruments have been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

The Company designated certain financial assets and liabilities and adopted the following new accounting policies:

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

These assets and liabilities are classified as held-for-trading. They are recorded at fair value and any changes in their fair value are recorded in net income. Fair value is calculated using published price quotations in an active market, where applicable. December 31, 2006 carrying values for these assets and liabilities already approximated fair value because of their short terms of maturity; no adjustments were made to the opening values.

Deficit

The Company has adopted CICA Section 3855 – "Financial instruments – recognition and measurements". Under this standard, debt issue costs are not deferred and presented as separate assets, but are added to the carrying value of the debt. These

MANAGEMENT'S DISCUSSION AND ANALYSIS

fees are amortized over the term of the debt using the effective interest rate method. This treatment was adopted prospectively but calculated retrospectively, and as a result, the Company recorded an adjustment to the opening deficit as at January 1, 2007 as detailed below:

(in thousands of United States dollars)	\$
Opening deficit January 1, 2007	74,473
Retroactive effect of debt issue costs	322
Deficit January 1, 2007	74,795

Financial Instruments

Investments

Investments are classified as available-for-sale and recorded at fair value. Changes in their fair value, net of tax, are recorded in other comprehensive income. The change in fair value of an investment appears in net income only when it is sold or impaired. Fair value is calculated using the closing price of the investment as quoted in an active market. When the investment is disposed of or impaired, the changes in fair value are removed from accumulated other comprehensive income and recognized in the consolidated statement of operations and deficit.

Comprehensive loss

The Company holds shares in a publicly traded company. This investment is classified as available for sale. The changes in fair value are detailed below:

(in thousands of United States dollars)	Increase/(Decrease) In fair value \$
Balance as at January 1, 2007	—
March 31, 2007	(327)
June 30, 2007	242
September 30, 2007	(430)
December 31, 2007	112
Accumulated other comprehensive loss	(403)

EVALUATION OF DISCLOSURE CONTROLS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Under the supervision and with the participation of the CEO and the CFO, the Company evaluated the design of its internal controls and procedures as defined under Multilateral Instrument 52-109. This evaluation was based on the framework set

forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under this framework, management concluded that the internal control over financial reporting was effective as of that date.

Management continuously reviews its internal controls. There has been no change in the Company's internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

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

Operations temporarily suspended

On March 12, 2007 the Company was notified by the Esperance Port Authority that shipments of its lead concentrate had been temporarily suspended pending the outcome of government investigations into recent bird fatalities. On March 15, 2007 the Department of Environment and Conservation ("DEC") notified the Esperance Port Authority via a prevention notice that future imports and exports of lead concentrate were to be suspended until completion of the DEC's investigation. On March 23, 2007 the board of the Esperance Port Authority announced the port would no longer be accepting lead in loose concentrate form. On March 27, 2007 the Company announced that, due to the uncertainty on the timing of resumption of operations through the Port of Esperance, it was pursuing alternate shipping arrangements through the established regulatory processes.

The Company announced on April 2, 2007 that it had placed Magellan under temporary care and maintenance and had suspended operations at the mine due to the suspension of shipments at the Port of Esperance until such time as it received approval to ship concentrate out of a port in Western Australia. Magellan Metals also declared "force majeure" under many of its contracts, including all of its concentrate sales contracts. If and when the Company receives necessary approvals, the Company will initiate the process to restart operations. The Company expects to incur costs of approximately \$1.5 million per month until such time as Magellan resumes commercial production.

Currently, approximately 8,000 dry tonnes ("dmt") of lead carbonate concentrate remains at the Port of Esperance in secure storage. Magellan is actively working with the Port of Esperance, the DEC and other regulatory bodies on a proposal to export the carbonate concentrate from the Port of Esperance in sealed bulk bags. See Ivernia's Annual Information Form ("AIF") dated March 31, 2008 under the heading "Three-Year History", and is incorporated herein by reference.

The Company submitted its application for future containerized shipments through the Port of Fremantle to the EPA on September 14, 2007. On December 10, 2007 the EPA made public its recommendation to the Minister of Environment supporting the Company's proposal to transport lead concentrate inside sealed bulk bags within shipping containers through the Port of Fremantle.

On January 17, 2008 the Company announced the conditional acceptance by the Environment Minister, Hon. David Templeman, of the EPA's recommendations regarding the sealed shipment process for the export of lead concentrate. In accepting the recommendations, the Minister also imposed additional conditions that will further assure Western Australia's communities, governments and regulators that the export process will be safe and effective. The Company has accepted the additional conditions and is committed to their implementation prior to commencing sealed shipment of its product from its mine site.

The Minister's conditions included: the lodgement of an A\$5 million bond; the appointment of an independent auditor approved by the Minister and funded by Magellan Metals to inspect each bag and container at the mine and the Port; revision of the current comprehensive mine site Health, Hygiene and Environmental Management plan to additionally cover transportation to the Port of Fremantle Port and the loading process at the Port of Fremantle, all to the satisfaction of the Minister, on advice from the Department of Health, the Department of Consumer and Employment Protection, the Department of Industry & Resources and the Department of Environment & Conservation; and baseline testing to be conducted along the transport route prior to the first movement of lead and ongoing transportation route monitoring and reporting. There can be no assurances as to; the date of the resumption of operations at Magellan; that the necessary approvals and amendment to the Environmental Licence which permit shipments through the Port of Fremantle and permit the removal of the stranded lead carbonate concentrate at the Port of Esperance will be granted within a reasonable time, or at all; and that the Company will be able to secure additional financing in the event of any delay in the restart of operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Matters relating to shipping product

General

The risks arising out of the events following the lead pollution at Esperance, the suspension of shipping of lead through the Port of Esperance and developing alternative shipping proposals can be categorized as being one or more of the following: (i) the risk that shipments of lead carbonate concentrate may not be able to be resumed (although the Company has no knowledge that this will be the case); (ii) the risk of delay in resumption of shipping and mining (with respect to obtaining necessary approvals both in Western Australia and China, renegotiating contracts for transportation and sales of lead carbonate concentrate and recommencing mining); and (iii) the risk of litigation or regulatory action (with respect to allegations that the Company erroneously invoked "force majeure" under its supply contracts and other contracts), imposition of fines or prosecution by regulators with respect to alleged breaches of licence conditions or relevant legislation (which may cause further delays in grant of approvals to recommence shipping), amendment or revocation of existing consents, permits, licences or approvals, claims for compensation by the general public by way of class action or otherwise, including claims in connection with personal injury or illness, property damage and damage to local industry, or claims by the Esperance Port Authority or other affected entities. Each of these is discussed in more detail below.

Fremantle

The Company submitted its application for future containerized shipments through the Port of Fremantle to the EPA on September 14, 2007. On December 10, 2007 the EPA made public its recommendation to the Minister of Environment supporting the Company's proposal to transport lead concentrate inside sealed bulk bags within shipping containers through the Port of Fremantle. A four-week comment period ending January 7, 2008 was initiated on release of the EPA's recommendation to the Minister of Environment.

On January 17, 2008 the Company announced the acceptance by the Environment Minister, Hon. David Templeman, of the EPA's recommendations regarding the sealed shipment process for the export of lead concentrate through the Port of Fremantle. In accepting the recommendations, the Minister also imposed additional conditions that will further assure Western Australia's communities, governments and regulators that the export process will be safe and effective.

The Company has accepted the additional conditions and is committed to their implementation prior to commencing sealed shipment of its product from its mine site. However, there continues to be some opposition from the community and certain elected local officials to the proposals reported in the media. There can be no assurance that the necessary amendment to the Environmental Licence to permit shipments through the Port of Fremantle will be granted within a reasonable time, or at all.

Esperance

Currently, the government of Western Australia through the DEC has placed a prevention notice on the Esperance Port Authority, temporarily suspending its ability to accept imports or exports of lead concentrate. Currently, approximately 8,000 dmt of lead carbonate concentrate remains at Port of Esperance in secure storage. Magellan is actively working with the Port of Esperance, the DEC and other regulatory bodies on a proposal to export the carbonate concentrate from the Port in sealed bulk bags. As the application to resume shipment of lead through the Port of Esperance is not within Magellan's control, the anticipated timing for, and costs involved in, that operation cannot be determined and there can be no assurances that the application will be approved. Until the terms and conditions that will be placed on Magellan's shipment of lead carbonate concentrate are known, Magellan's costs associated with the handling, shipping and clean up cannot be determined.

Restart of mining and milling operations

The Company's expected normal care and maintenance costs during the temporary shutdown period are approximately \$1.5 million per month until such time as Magellan resumes commercial production. There can be no assurances as to the actual costs incurred or the date of the resumption of operations at Magellan. Recruiting, retaining and training qualified personnel in connection with the restart of mining and milling operations will be critical to the Company's success. The unemployment rate in Western Australia is currently at historical lows and the competition for persons skilled in the mining industry is intense. Although the Company believes it will be successful in attracting, training and retaining qualified personnel, there can be no assurance of such success, and the efficiency of the Company's operations may be affected. Additional events which may

impact the Company's ability to resume commercial production may include, among others; shortages, delays or difficulties in obtaining equipment and materials, adverse weather conditions or natural disasters, unanticipated increases in costs of labour, supplies and equipment; accidents; and unforeseen engineering, design, environmental or geological problems.

China-based customers

Prior to the current temporary care and maintenance period, Magellan's lead carbonate concentrate was produced for sale to third-party smelters, primarily in China and other parts of Asia. The proposed change in the method of shipping the concentrate and the reclassification of the concentrate to D.G.6.1 means that additional approvals for the importation of the product into China are required. These are in the process of being obtained. There is no expectation that these approvals will not be obtained in a timely manner, but there can be no assurance that these approvals will be granted within a reasonable time, or at all. In addition, the supply contracts will require some re-negotiation to accommodate the change in shipping processes. Accordingly, there is no guarantee that all of the Company's existing customers will accept the concentrate in future, either on the existing contractual terms or on modified terms with a higher treatment cost to reflect the additional costs of handling the product in bagged form, and the reclassification to a D.G.6.1 dangerous good.

Regulatory proceedings and litigation

The Company may be subject to civil claims (including class action claims), based on causes of action including; breach of contract, negligence, breach of statutory duty, public nuisance or private nuisance in connection with the lead pollution at Esperance or investigations relating thereto. While the Company is presently unable to quantify its potential liability, if any, under any of the above heads of damage, such liability may be material to the Company and may adversely affect its ability to continue operations.

In addition, the Company may be subject to actions by governmental or regulatory authorities in connection with the lead pollution at Esperance or investigations relating thereto. Such actions may include prosecution for breach of relevant legislation or failure to comply with the terms of the Company's licences and permits and may result in liability for pollution, other fines or penalties, revocations of consents, permits, approvals or licences or similar actions which could be material and which would not be anticipated in respect of similar breaches by other companies which are not subject to the scrutiny facing the Company and Magellan Metals. While the Company is presently unable to quantify its potential liability in connection with such actions, such liability may be material to the Company and may adversely affect its ability to continue operations. The Company's current insurance coverage may not be adequate to cover all the potential losses, liabilities and damages that could result from the civil and/or regulatory actions referred to above.

In the process of putting Magellan into care and maintenance, Magellan Metals claimed "force majeure" for a number of its agreements. Counterparties under two of its service contracts have disputed Magellan Metals' ability to claim "force majeure". One of the counterparties has formally terminated the agreement and requested damages of approximately A\$2 million, which the Company is contesting. Magellan Metals may be required to pay damages for breach of the relevant agreements if it is held that it could not claim "force majeure".

Implications stemming from the Inquiry

On April 4, 2007, the Western Australian Government initiated the Inquiry into the "cause and extent of lead pollution in the Esperance Area". The terms of reference for the Inquiry were generally directed at reviewing the regulation of licensing and monitoring of the EPA's activities with respect to the export of lead, the responsibility of the Esperance Port Authority (and others including Magellan Metals and its contractors) for the high levels of lead detected at the Port of Esperance and the way the relevant government departments exercised their responsibility with regards to the export of lead from the Port of Esperance. Inquiries by the Parliamentary Committees are conducted as Parliamentary proceedings, as opposed to judicial processes, without formal rules of evidence, sworn testimony or the opportunity for evidence to be tested by way of cross-examination.

During the Inquiry, Magellan Metals was requested to provide documents relevant to the terms of reference and appear before a public hearing. Magellan Metals appeared at public hearings on May 2 and June 7, 2007, and provided relevant documents, a written submission to the Inquiry Committee ("Committee") and written answers to a series of written questions posed by the Committee. In addition, the Committee conducted a site visit to the Magellan mine and the Port of Esperance facility on May 1, 2007.

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The Committee's report and recommendations were tabled on September 6, 2007. The Company subsequently issued a news release commenting on the report and its recommendations on September 7, 2007.

The report itself does not have binding effect, but serves to inform the Parliament of the Committee's view of what happened at Esperance, who may be responsible and recommended action for the Government to take.

On November 28, 2007 the government of Western Australia delivered its Response to the Inquiry's Report. The recommendations of the report include that the Department of Consumer and Employment Protection review the findings of the report to determine whether Magellan Metals had potentially breached its legal obligations under the Mines Safety and Inspection Regulations 1995. In addition, the report recommends that the EPA consider whether any action should be taken against Magellan Metals. Magellan Metals employees have been assisting various government departments with their investigations. To date, no prosecutions have been commenced against the Company however there can be no assurance that future prosecutions will not be forth coming.

General operating risks

Metal price volatility

Ivornia's operating revenues are derived from the sale of lead concentrates. Accordingly, the Company's earnings are directly related to the price of lead. Lead prices have fluctuated over time and are affected by numerous factors beyond Ivornia's control. The effects of these factors are impossible for Ivornia to predict. If the market price for lead falls below Ivornia's total cash costs and remains at such levels for a sustained period, Ivornia may, if it is not appropriately hedged, incur losses and may determine to discontinue mining operations. A lead price hedging strategy has been developed by the Company in the past and management will consider future hedging strategies within its corporate policy guidelines upon resumption of shipments from Magellan.

Treatment charges

The Company sells its lead carbonate concentrate to smelters which process it into refined metal. Smelter processing charges are made up of the contracted price for treatment charges, and costs to cover metal losses in the smelting process (referred to as content losses). Some smelter contracts also include a price participation clause under which the mines and smelters participate to some extent in the upward and downward movement in metal prices. Industry leaders set global benchmarks for contract terms and conditions. During 2008 the Company expects that a high level of volatility will remain in the treatment charges being charged by smelters.

Exchange rates

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

Single mineral property

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

Resources and reserves

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

factors relating to ore reserves, such as the need for sequential development of ore bodies and the processing of new or different ore types or grades, may cause a mining operation to be unprofitable in any particular accounting period.

Health and safety

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

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

Environmental

Certain environmental issues could potentially affect the operation of the business. Although potential issues such as storm events, ground water, land contamination, tailings storage seepage, pit wall failure, dust and noise emissions have all been assessed and appropriate strategies implemented as a means of reducing these risks, with these strategies continually being reviewed and improved where required, based on practices at other lead mining and processing operations have been adopted, there can be no assurance that an unforeseen event will not occur which could have an impact on the viability of the operation. Currently, the government of Western Australia has placed a temporary suspension on the Esperance Port Authority, restricting its ability to accept imports or exports of lead concentrate and the Company is awaiting necessary amendments to its Environmental Licence which would permit shipments through the Port of Fremantle. Other than as previously disclosed in Ivernia's AIF dated March 31, 2008 under the heading "General Developments of the Business – Three Year History", Ivernia is not aware of any other material environmental constraints affecting its existing mining or development properties that would preclude the economic development or operation of any specific mine or property.

Mining risks

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

Metallurgy

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

Labour and employment regulations

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Government regulation

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

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

Refinancing risk

The remaining principal owing in accordance with the Secured Facility matures on April 27, 2009. There can be no assurance that if the conversion feature of the Secured Facility is not exercised in full by the lenders and the principal amount of the Secured Facility becomes due that the Company will be able to refinance the Secured Facility on commercial terms, or at all. See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document.

Insurance

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

Dependence on key personnel

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

Constraints on cash distributions from Magellan

Magellan was commissioned on September 30, 2005 and commercial production was achieved on October 1, 2005. The cash flow generated from the recommencement of commercial production at the mine is subject to constraints before it can be distributed by Magellan Metals to the Company. These constraints include ongoing operating costs for the mine, capital costs for the restart of the mining operation, the potential repayment of the Secured Facility should the lenders elect not to convert the debt into equity, and royalty payments to native title claimants under the Heritage Agreement and the Land Use Agreement. Additionally any constraints or curtailments on Magellan's ability to ship lead concentrate will have a direct impact on Magellan Metal's ability to generate cash flow and thus impact distributions to the Company. Accordingly, there can be no guarantee that such distributions, if any, will be sufficient to fund any other activities which the Company may wish to undertake, or to fund the payment of dividends on the Common Shares.

Nature of mineral exploration and development

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

Potential dilution

As at December 31, 2007, the Company had outstanding options to purchase 5,486,250 common shares, warrants to purchase 3,952,437 common shares and convertible notes related to the Secured Facility entitling holders thereof to convert the remaining \$20 million drawn under the Secured Facility into common shares at a price of US\$1.08. As announced on March 31, 2008 the Company reached an agreement with the syndicate of lenders for the partial conversion and extension of the maturity date of the Secured Facility. See section titled "EVENTS SUBSEQUENT TO DECEMBER 31, 2007" in this document. On conversion of the Conversion Amount, the syndicate of lenders will be issued a total of 18,518,518 common shares. The syndicate of lenders will further be entitled to convert the remaining \$20 million currently drawn for an additional 18,518,518 common shares prior to April 27, 2009. The issuance of common shares by the Company upon the exercise of options, warrants and conversion of the Secured Facility will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional options, warrants, convertible securities or additional common shares from time to time in the future. If it does so, the ownership interest of the Company's then current shareholders could also be diluted.

Common share price volatility

The market price of the common shares of the Company could fluctuate significantly based on a number of factors in addition to those listed in Ivernia's AIF dated March 31, 2008, including:

- of the impact of any regulatory response or litigation arising from the Western Australia Government's Parliamentary Inquiry into the cause and extent of lead pollution in the Esperance area;
- the timing of the receipt of all regulatory approvals to commence shipment of lead concentrate;
- the timing of the restart of the Company's mining and milling operations;
- the Company's operating performance and the performance of competitors and other similar companies;
- the public's reaction to the Company's press releases, other public announcements and the Company's filings with the various securities regulatory authorities;
- changes in earning estimates or recommendations by research analysts who track the common shares of the shares of other companies in the resource sector;
- changes in the market price of lead;
- changes in general economic conditions;
- the number of common shares to be publicly traded assuming full conversion of the Secured Facility;
- the arrival or departure of key personnel; and
- acquisitions, strategic alliances or joint ventures involving the Company or its competitors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute forward-looking information within the meaning of securities laws. All statements included in this document (other than statements of historical fact) which address activities, events or developments that management anticipates will or may occur in the future are forward-looking statements, including statements as to the following: the duration of the suspension of the Company's mining and milling operations, final approvals to ship lead concentrate through the Port of Fremantle, the implications of the government of Western Australia's continuing investigations into the matters resulting in the suspension of mining operations, the possibility of legal or regulatory action (and any resulting costs or liabilities) which may be taken in connection with the matters being investigated, the estimated timing of the receipt of required regulatory approvals to ship the stranded lead concentrate at the Port of Esperance, the timeline for closing the C\$22 million private placement financing with Yunnan Metallurgical Group, future targets and estimates for production, capital expenditures, operating costs, cash costs, mineral resources and ore reserves, recovery rates, grades and lead prices; business strategies and measures to implement such strategies; competitive strengths; estimated goals and plans for Ivernia's future business operations; and other such matters. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "contemplate", "target", "believe", "plan", "estimate", "expect", and "intend" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. These statements are based upon certain reasonable factors, assumptions and analyses made by management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. However, whether actual results and developments will conform with management's expectations is subject to a number of risks and uncertainties, including factors underlying management's assumptions such as; the results of the government's continuing investigations into the matters resulting in lead contamination at the Port of Esperance, the timing of the receipt of final regulatory approvals required to ship lead concentrate through the Port of Fremantle, the duration of the suspension of mining and milling operations, the Company's ability to repay the Secured Facility in the event the lenders elect not to convert the debt into equity, resources and reserves, metal price volatility, treatment charges, exchange rates, the fact that the Company currently has a single mineral property, metallurgy, environmental factors, mining risks, insurance, labour and employment, health and safety, government regulations, dependence on key personnel, constraints on cash distributions, the nature of mineral exploration and development, general economic, market or business conditions, the opportunities (or lack thereof) that may be presented to and pursued by management, competitive actions by other companies, changes in laws or regulations and other factors, many of which are beyond the Company's control. Additional factors and considerations are discussed herein and in the Company's most recent Annual Information Form dated March 31, 2008, filed with Canadian securities regulatory authorities on SEDAR at www.sedar.com and the Company's website at www.ivernia.com. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. These factors may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements, and there can be no assurance that the actual results or developments anticipated by management will be realized or, even if substantially realized, that they will have the expected results on Ivernia. All of the forward-looking statements made in this document are based on our current estimates, expectations and projections, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation and do not undertake to update this information at any particular time.

March 31, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Ivernia Inc. were prepared by management in accordance with Canadian generally accepted accounting principles. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to Ivernia Inc. and its subsidiaries (collectively the "Company") circumstances. The significant accounting policies of the Company are summarized in note 2 to the consolidated financial statements.

Management has established systems of internal control over the financial reporting process which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

PricewaterhouseCoopers LLP, the Company's independent auditors, conduct an audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. Their audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. As well, they make an assessment of the accounting principles used and significant estimates made by management and they evaluate the overall financial statement presentation.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities. The Board of Directors is assisted in these responsibilities by its Audit Committee, whose members are not officers of the Company. The Audit Committee meets with management as well as with the independent auditors to review the internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee also reviews the Annual Report to ensure that the financial information reported therein is consistent with the information presented in the financial statements. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Signed by

Alan M. De'ath

President and Chief Executive Officer

March 31, 2008

Signed by

Mario Stifano

VP and Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF IVERNIA INC.

We have audited the consolidated balance sheets of Ivernia Inc. as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 31, 2008

Signed by
PricewaterhouseCoopers LLP
Chartered Accountants,
Licensed Public Accountants

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT AND COMPREHENSIVE LOSS

For the Years ended December 31 (in thousands of United States dollars, except per share amounts)	2007	2006
	\$	\$
REVENUE	20,014	82,909
Treatment charges and freight	(3,089)	(14,376)
Mining and processing costs	(7,742)	(39,140)
Care and maintenance (note 15)	(7,079)	—
Royalties	(1,047)	(3,509)
Loss on derivatives (note 11)	(4,679)	—
Amortization	(3,129)	(9,005)
	(6,751)	16,879
General and administrative	(6,482)	(5,844)
Parliamentary inquiry and shipping approval (note 1)	(2,093)	—
Stock option costs (note 9(d))	(604)	(587)
Foreign exchange (loss)/gain	(48)	533
Net interest expense	(11,905)	(2,491)
Other	9	(1,474)
	(21,123)	(9,863)
(Loss)/income before income taxes	(27,874)	7,016
Income tax recovery/(expense) (note 10)	6,837	(2,178)
(Loss)/income for the year	(21,037)	4,838
Deficit – beginning of year (note 14)	(74,795)	(79,311)
Deficit – end of year	(95,832)	(74,473)
Basic (loss)/earnings per share (note 9(f))	(0.15)	0.04
Diluted (loss)/earnings per share (note 9(f))	(0.15)	0.04
Net (loss)/income	(21,037)	4,838
Unrealized loss on investment (note 13)	(403)	—
Comprehensive (loss)/income	(21,440)	4,838

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

CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands of United States dollars)	2007	2006
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	13,726	17,062
Accounts receivable and other current assets	920	12,094
Inventory (note 4)	18,962	8,865
Investments available for sale	617	701
	34,225	38,722
Property, plant and equipment (note 5)	147,603	146,647
Restricted cash and cash equivalents (note 3)	2,893	5
Deferred charges and other assets (note 14)	—	725
	184,721	186,099
LIABILITIES		
Current liabilities		
Accounts payable and other current liabilities	8,694	27,327
Credit facility (note 6(a))	—	5,000
Secured facility (note 6(c))	38,177	—
Short-term note payable (note 6(b))	—	15,971
	46,871	48,298
Long-term debt (note 7)	2,049	2,316
Reclamation provision (note 8)	2,948	2,396
Future income tax (note 10)	14,310	21,372
	66,178	74,382
SHAREHOLDERS' EQUITY		
Share capital (note 9(b))	199,940	182,215
Share warrants (note 9(c))	1,600	1,600
Equity component of secured facility (note 6(c))	10,335	—
Contributed surplus (note 9(e))	2,903	2,375
	214,778	186,190
Deficit (note 14)	(95,832)	(74,473)
Accumulated other comprehensive loss (note 13)	(403)	—
	118,543	111,717
	184,721	186,099

Commitments and contingencies (notes 1, 16)

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

Approved by the Board of Directors

Signed by
J. Trevor Eyton
Director

Signed by
Alan De'ath
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years ended December 31 (in thousands of United States dollars)	2007	2006
	\$	\$
CASH PROVIDED BY/(USED IN)		
OPERATING ACTIVITIES		
(Loss)/income for the year	(21,037)	4,838
Non-cash items:		
Stock option costs	604	587
Amortization	3,129	9,005
Future income tax	(7,034)	2,376
Accretion	8,241	—
Other	(997)	1,867
Changes in non-cash working capital:		
Accounts receivable and other current assets	11,007	(8,253)
Inventory	(7,741)	(1,712)
Accounts payable and accrued liabilities	(17,180)	9,788
	(31,008)	18,496
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(6,440)	(20,330)
Change in restricted cash	(2,796)	1,197
	(9,236)	(19,133)
FINANCING ACTIVITIES		
Net cash proceeds on issue of shares	17,561	8,993
Payment of credit facility (note 6(a))	(5,000)	—
Decrease in financing	—	(2,159)
Decrease in long-term debt	(267)	(996)
Increase in financing	—	5,000
Secured facility (notes 6(a) and 6(c))	24,378	—
	36,672	10,838
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCY	236	(159)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,336)	10,042
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	17,062	7,020
CASH AND CASH EQUIVALENTS – END OF YEAR	13,726	17,062
Supplementary information:		
Net interest paid	1,480	2,055

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

Ivernia Inc. and its subsidiaries (collectively, the "Company") is active in one operating segment, namely the acquisition, exploration, development and mining of mineral properties. As at December 31, 2007 its principal asset was a 100% (December 31, 2006 – 100%) direct and indirect equity interest in Magellan Metals Pty Limited ("Magellan Metals") in Australia which owns and operates the Magellan lead mine ("Magellan").

The Company currently has no operating revenue due to the placement of its Magellan mine under temporary care and maintenance pending requisite approvals to ship containerized lead concentrate through the Port of Fremantle. On January 17, 2008 the Company announced the conditional acceptance by the Environment Minister of the Environmental Protection Agency's recommendations regarding the sealed shipment process for the export of lead concentrate. In accepting the recommendations, the Minister imposed additional conditions which the Company has accepted and has committed to their implementation prior to commencing sealed shipment of its product. The Company anticipates receiving final approval to recommence shipping and operations 2008. However, there is no fixed or guaranteed timeline and no certainty on the outcome. The Company has a working capital deficit, primarily due to the Secured Facility (note 6(c)). Subsequent to December 31, 2007 the Company announced, on March 31, 2008, the partial conversion and extension of the maturity date of the Secured Facility. By mutual agreement, \$20 million of the \$40 million currently drawn and outstanding against the Secured Facility will be converted into common shares of the Company ahead of its April 27, 2008 maturity date and the maturity date for the remaining drawn and undrawn amounts has been extended to April 27, 2009. With the partial conversion of the Secured Facility and extension of the maturity date, the Company has positive working capital.

2(a). SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Summarized below are the significant accounting policies used in these consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and highly liquid investments with a maturity of three months or less at the date of the original issue.

Accounts receivable

Accounts receivable are adjusted in every period for provisional payments to reflect the market fluctuations in the commodity prices. Accounts receivable adjustments are derived from the revenue adjustment; therefore a change in accounts receivable will be the offset to the change in revenue.

Inventory

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

Mining property, plant and equipment

Plant and equipment are depreciated over the estimated lives of the related assets calculated on units of production.

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

Upon commencement of production, mining properties and deferred development costs are amortized over the estimated life of the proven and probable reserves to which they relate on a units of production basis.

Revenue recognition

Revenue is recognized when the title and risk of ownership of concentrates have passed and collection is reasonably assured. Title and risk of ownership pass to the customer on shipment of concentrate. Revenue from the sale of metal contained in concentrate is provisionally priced based on a future quotational period. Revenue is adjusted during the quotational period for any variations in the forward price recognized on shipment until settlement. Final revenue is adjusted based on settlement of final weights and assays. Any variations in the price, weights or assays are offset by an increase or decrease in accounts receivable.

Derivative financial instruments

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

Convertible instruments

Convertible instruments are classified separately on the balance sheet as a liability and as equity on initial recognition in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3861. The value of the conversion option is determined by using the Black-Scholes option-pricing model. The debt component, representing the difference between proceeds received (net of pro-rated costs) and the equity component is recorded as a liability. The equity component (net of pro-rated costs) is recorded in equity. Over the term of the instrument, the debt component is accreted to the face value by the recording of additional interest expense. The pro-rated costs of financing in the debt portion are expensed over the life of the instrument by the recording of additional interest expense.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Areas requiring the use of significant estimates include the final revenue settlements, the determination of quantities of proven and probable reserves, the expected lives of long-term assets and the measurement of amortization, expected cost of asset retirement obligations, valuation of options, warrants, derivative instruments and their respective fair values, deferred income taxes and the assessment of impairment in value of long lived assets. Actual results could differ materially from those estimates.

Reporting currency

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

Foreign currency translation

The financial statements of the Company's fully integrated subsidiaries are translated into US dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate and all other assets and liabilities are translated at applicable historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect at the date the transactions are recognized in income. Realized exchange gains and losses and currency translation adjustments are included in income.

Foreign currency transactions and balances

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

Asset retirement obligations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Exploration and development costs

Expenditures during the initial exploration stage of projects are expensed as incurred. Property acquisition costs relating to exploration properties and expenditures incurred on properties identified as having development potential are deferred as property, plant and equipment. Upon reaching commercial production, deferred costs on the consolidated balance sheets are amortized into operations using the unit-of-production method or contained metal where appropriate over the estimated useful life of the estimated related ore reserves. The carrying values of property, plant and equipment represent costs incurred to date and do not necessarily reflect present or future values.

In the event that the long-term expectation is that the net carrying amount of these deferred exploration and development costs will not be recovered, such as would be indicated where:

Exploration properties:

- Exploration activities have ceased;
- Exploration results are not promising such that exploration will not be planned for the foreseeable future;
- Lease ownership rights expire or are allowed to lapse; or
- Insufficient funding is available to complete the exploration program;

Development properties:

- The carrying amounts of the capitalized and deferred costs exceed the forecast related undiscounted net cash flows of ore reserves;

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

Deferred stripping

Effective January 1, 2007 the Company adopted, on a prospective basis, the new recommendations of the CICA with respect to stripping charges, EIC 160 "Stripping Costs Incurred in the Production Phase of a Mining Operation" ("EIC 160"). The new recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations to be charged to income in the period in which they are incurred, except when the costs represent a betterment to the mineral property. Costs represent a betterment when the stripping activity provides access to reserves that would not have been accessible in the absence of the stripping activity. When costs are deferred in relation to a betterment, the costs are amortized over the reserves accessed by the stripping activity using the units of production method.

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

As at December 31, 2007 the balance of deferred stripping costs was \$8.9 million (December 31, 2006 - \$9.2 million). In accordance with EIC 160, the carrying value of the deferred stripping costs will be amortized over the life of the related mining assets on a units of production basis. Future stripping costs that are not a betterment will not be deferred but will be expensed as incurred.

Capitalization of interest

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

Financial instruments – recognition and measurement

On January 1, 2007 the Company adopted CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement". This section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and liabilities including derivatives be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or a non-financial

derivative contract. All financial instruments are measured at fair value on initial recognition except for certain related party transactions. Fair value is the amount at which an item could be exchanged between willing parties. Measurement in subsequent periods depends on whether the financial instruments have been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Cash and cash equivalents, account receivable, restricted cash and accounts payable and accrued liabilities

These assets and liabilities are classified as held-for-trading. They are recorded at fair value and any changes in their fair value are recorded in net income. Fair value is calculated using published price quotations in an active market, where applicable. December 31, 2006 carrying values for these assets and liabilities already approximated fair value because of their short terms of maturity; no adjustments were made to the opening values.

Investments

Investments are classified as available-for-sale and recorded at fair value. Changes in their fair value net of tax are recorded in other comprehensive income. The change in fair value of an investment appears in net income only when it is sold or impaired. Fair value is calculated using the closing price of the investment as quoted in an active market. The value on January 1, 2007 reflected fair value at the time and no adjustment was required to the balance.

Leases

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

Comprehensive income/loss

On January 1, 2007 the Company adopted CICA Handbook Section 1530 "Comprehensive Income". This section calls for a statement of comprehensive income and its components. Other comprehensive income/loss includes unrealized gains and losses on investments.

Income taxes

The Company accounts for income taxes under the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying values and tax bases of assets and liabilities. Future tax assets and liabilities are measured using substantially enacted tax rates expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded against future tax assets to the extent that the Company determines that the asset is not more likely than not to be realized.

Stock options

The Company has a stock option plan that is described in note 9(d). The Company follows the fair value based method to account for stock-based transactions with directors, officers, eligible employees and consultants. The value of options granted is recognized over the applicable vesting period as an increase in compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus will be credited to share capital. For options granted prior to January 1, 2002 the Company continues to follow the accounting policy under which no expense is recognized for these stock options. When those options are exercised, the proceeds received by the Company will be recorded as share capital.

Earnings/(loss) per share

Basic earnings or loss per share is computed by dividing the earnings or loss for the year by the weighted monthly average number of common shares outstanding during the year, including contingently issuable shares, which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a manner similar to basic earnings per share, except that the weighted average shares outstanding are increased to include potential common shares from the assumed exercise of convertible securities, options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants and on the as if converted method for convertible securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2007.

2(b). FUTURE CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008

The CICA has issued three new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2008. The Company will adopt the requirements commencing in the quarter ended March 31, 2008 and is considering the impact these will have on the Company's financial statements.

Section 1535, "Capital disclosures," establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Company will be required to disclose quantitative and qualitative information about its objectives, policies and processes for managing capital.

Section 3031, "Inventories," provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862, "Financial instruments – disclosures," requires entities to disclose quantitative and qualitative information that enable users to evaluate (a) the significance of financial instruments for the Company's financial performance, and (b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. The Company will be required to disclose the measurement bases used, and the criteria used to determine classification of financial instruments.

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company will adopt the requirements commencing in the quarter ended March 31, 2009 and is considering the impact this will have on the Company's financial statements.

Section 3064, "Goodwill and intangible assets," establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, "Revenues and expenses during the pre-operating period." As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

3. RESTRICTED CASH AND CASH EQUIVALENTS

As at December 31, 2007 Magellan Metals had restricted cash deposited with a financial institution of \$2.9 million (2006 – \$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. These bonds had been secured by part of the credit facility with BNP Paribas which was repaid during the second quarter. See notes 6(a) and 8.

4. INVENTORY

For the Years ended December 31
(in thousands of United States dollars)

	2007	2006
	\$	\$
Concentrate	14,350	5,950
Ore stockpiles	1,239	868
Consumables and other	3,373	2,047
	18,962	8,865

5. PROPERTY, PLANT AND EQUIPMENT

(in thousands of United States dollars)	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Plant and equipment	38,225	(5,088)	33,137	35,462	(3,580)	31,882
Leasehold improvements	74	(43)	31	74	(27)	47
Office equipment	733	(366)	367	492	(235)	257
Leased assets	3,088	(778)	2,310	4,155	(582)	3,573
Deferred stripping	9,192	(284)	8,908	9,192	(284)	8,908
Development costs and other	111,042	(8,192)	102,850	107,698	(5,718)	101,980
	162,354	(14,751)	147,603	157,073	(10,426)	146,647

Substantially all of the Company's property, plant and equipment is located in Australia.

6. CURRENT LIABILITIES

(a) Inventory and credit facilities

In July 2006, Magellan Metals completed the loan documentation to finalize a \$10 million credit facility, which could be drawn in either US dollars or equivalent Australian dollars, and a \$15 million inventory and export finance facility (collectively, the "Facilities"). The Facilities were arranged with BNP Paribas of Australia and were secured by the Magellan Metals assets located in Australia.

The credit facility bore 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 bore interest at a rate of LIBOR + 1.25% per annum.

On April 27, 2007 the Company completed a \$50 million secured facility (see note 6(c)). The credit facility in the amount of \$5 million and inventory facility in the amount of approximately \$3.5 million were repaid using this new facility.

(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 accrued interest at 8% per annum for the first year.

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

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

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

The amount of the monthly share payments would be reduced pro-rata by any further partial or a full cash repayment of the Sentient Note. A total of 57,380 shares were issued for the extension fee during 2007 at a weighted average price of C\$1.48.

During 2006, the Company paid to Sentient a total of approximately C\$2.4 million principal and C\$1.6 million in interest.

On April 27, 2007 the Company completed a \$50 million secured facility (see note 6(c)). The short-term note payable and interest was refinanced using this new facility, consisting of C\$17.4 million (\$15.6 million) principal and C\$1.7 million (\$1.5 million) interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Secured facility

On April 27, 2007 the Company completed the closing of a \$50 million secured facility (the "Secured Facility") with a syndicate of lenders.

Part of the Secured Facility was used for the refinancing of the Sentient Note (see note 6(b)) and for the repayment in full of the outstanding BNP Paribas credit facility (see note 6(a)). As at December 31, 2007 \$40 million of the Secured Facility had been drawn down.

The Secured Facility has a one-year term which matures on April 27, 2008 and bears interest at 9.25% per annum, which will accrue and be payable at maturity or earlier repayment. The Secured Facility grants first ranking security interests over all the Company's assets.

Drawdowns under the Secured Facility entitle the lenders to conversion rights, providing for the conversion of principal into Ivernia common shares at a price of C\$1.20 per share (based on exchange rates in effect on April 26, 2007, equating to a US\$1.08 share price). If Ivernia repays drawn balances before maturity the lenders will be issued warrants for the pro rata amount at a C\$1.20 (US\$1.08) strike price that will expire concurrent with the maturity of the Secured Facility. These conversion rights were approved by the shareholders at the Company's 2007 annual and special meeting. Balances repaid before maturity may not be redrawn by Ivernia.

Also see note 17.

The Secured Facility is accounted for in accordance with CICA Section 3861, whereby debt securities which have interest payable in cash and give the holder the right to convert the principal amount into common shares are split into a liability and an equity component on the date of issuance. The debt component is recorded as Secured Facility. The remaining component, representing the value ascribed to the holders' option to convert the principal balance into common shares, is classified in shareholders' equity as "Equity component of Secured Facility". Over the term of the Secured Facility, the debt component will be accreted to the face value of the Secured Facility by the recording of additional interest expense.

The balances for the Secured Facility are analyzed as follows:

(in thousands of United States dollars)	\$
Amount drawn on Secured Facility	40,000
Equity value of conversion option	(11,055)
Pro-rated costs of financing	(1,886)
Amortization of costs as at December 31, 2007	1,257
Accretion of debt as at December 31, 2007	7,370
Accrued interest as at December 31, 2007	2,491
	38,177

The balances for the equity component of the Secured Facility are analyzed as follows:

(in thousands of United States dollars)	\$
Equity value of conversion option	11,055
Pro-rated costs of financing	(720)
	10,335

7. LONG-TERM DEBT

For the Years ended December 31
(in thousands of United States dollars)

	2007	2006
	\$	\$
Lease liabilities	2,659	2,879
Less current portion:	610	563
	2,049	2,316

Magellan Metals has entered into a five-year power supply contract and has various equipment and vehicle leases in place as at December 31, 2007. The equipment and vehicle leases range in length from one to three years.

8. RECLAMATION PROVISION

As at December 31, 2007 the reclamation provision relating to Magellan Metals asset retirement obligations was \$2.95 million (2006 – \$2.4 million).

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

	2007	2006
Total undiscounted amount of estimated cash flows	\$ 4,190,000	\$ 3,729,000
Expected year of payment of cash flows	2016	2016
Discount rate	7.5%	7.5%

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

9. SHARE CAPITAL

(a) Authorized share capital

Authorized share capital of the Company is comprised of an unlimited number of common shares and an unlimited number of preference shares issuable in one or more series.

(b) Issued and outstanding shares

Details of issued and outstanding shares are as follows:

	Number of common shares (000's)	Amount (\$000's)
OUTSTANDING AS AT DECEMBER 31, 2005	125,085	168,730
Issued in connection with exercise of warrants (i)	8,228	8,888
Amount attributed to fair value of warrants	—	3,113
Issued in connection with short-term debt (note 6(b))	767	1,275
Issued in connection with exercise of options	372	209
OUTSTANDING AS AT DECEMBER 31, 2006	134,452	182,215
Public offering (ii)	12,125	17,522
Issued in connection with short-term debt (note 6(b))	57	73
Issued in connection with exercise of options	291	130
OUTSTANDING AS AT DECEMBER 31, 2007	146,925	199,940

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On November 18, 2004 the Company issued 8 million units, each consisting of one common share and one-half common share purchase warrant at a price of C\$1.25 per unit for total gross proceeds of \$10 million. Each whole warrant entitles the holder to purchase an additional common share at a price of C\$1.40 per whole common share until November 18, 2009. As part of their compensation for the placement, the underwriters were issued an aggregate of 480,000 broker warrants (the "November Broker Warrants"). The November Broker Warrants gave them the right to purchase 480,000 units in the Company at any time until May 18, 2006. Each unit entitled the holder to purchase one common share and one-half purchase warrant for a price of C\$1.25. Each whole share purchase warrant entitles the holder to purchase one common share at a price of C\$1.40 per common share until November 19, 2009. None of the November warrants were exercised during the year.

(ii) On August 1, 2007 the Company closed a bought deal financing. The underwriters purchased 12,125,000 common shares of the Company at a price of C\$1.65 for gross proceeds of C\$20 million (\$18.9 million) and net proceeds of C\$18.5 million (\$17.5 million) after share issuance costs.

(c) Share warrants

	2007				2006			
	Warrants (000's)	Applicable shares	Fair value of warrants (\$000's)	Weighted average price (C\$)	Warrants (000's)	Applicable shares	Fair value of warrants (\$000's)	Weighted average price (C\$)
Outstanding as at January 1	3,953	3,953	1,600	1.40	43,248	12,181	4,713	1.30
Exercised during the year	—	—	—	—	(39,295)	(8,228)	(3,113)	1.25
Outstanding as at December 31	3,953	3,953	1,600	1.40	3,953	3,953	1,600	1.40

(d) Employee stock options

The Company has in place a Stock Option Plan (the "Plan") under which certain directors, officers, employees and consultants may be granted options to purchase up to 8,749,834 (December 31, 2006 – 9,184,834) common shares. As at December 31, 2007 options to purchase 3,263,584 shares (December 31, 2006 – 3,277,334) common shares remain available for grant. The exercise price of each option may not be less than the market price of the common shares at the time the option is granted. An option may be for a term up to ten years and may not be assigned. Unless the directors of the Company determine otherwise, one quarter of the options granted become exercisable from the date of granting such options, one quarter at any time after the first anniversary date, one quarter at any time after the second anniversary date and the balance at any time after the third anniversary date.

A summary of the status of the Company's Plan as at December 31, 2007 and December 31, 2006 and changes during the periods ending on those dates is presented on the following table:

	2007		2006	
	Shares (000's)	Weighted average exercise price (C\$)	Shares (000's)	Weighted average exercise price (C\$)
Outstanding – beginning of year	5,908	1.33	5,467	1.32
Granted	125	1.55	2,090	1.68
Exercised	(435)	0.66	(615)	0.84
Expired	(112)	1.63	(1,034)	2.30
Outstanding – end of year	5,486	1.38	5,908	1.33
Exercisable – end of year	4,083	1.31	3,336	1.17

The following table summarizes information about stock options outstanding as at December 31, 2007:

Range of exercise prices C\$	Options outstanding			Options exercisable		
	Number outstanding at	Weighted average remaining	Weighted average	Number exercisable at	Weighted average remaining	Weighted average
	Dec. 31, 2007 (000's)	contractual life (years)	exercise price (C\$)	Dec. 31, 2007 (000's)	contractual life (years)	exercise price (C\$)
0.50 – 1.45	2,443	1.08	0.98	2,442	1.08	0.98
1.46 – 2.50	2,943	3.47	1.59	1,541	3.25	1.61
2.51 – 5.00	40	1.35	4.20	40	1.35	4.20
5.01 – 8.40	60	2.01	5.15	60	2.01	5.15
0.50 – 8.40	5,486	2.96	1.38	4,083	2.49	1.31

During 2007, 125,000 (2006 – 2,090,000) stock options exercisable on or before dates ranging from February 2008 to December 2012 (2006 – January 2006 to December 2011) at a price of C\$1.55 (2006 – C\$1.55 to C\$2.19) were issued pursuant to the terms of the Plan, with an estimated fair value of \$72,000 (2006 – \$1.3 million), calculated using the Black-Scholes option-pricing model. The weighted average value of options issued was \$0.57 (2006 – \$0.62).

The option-pricing model assumes a term equal to the life of the option to a maximum of 5 years, an expected volatility of 40% (2006 – 40%), a weighted average life of 5 years, a weighted average risk-free interest rate of 4% and an assumption that dividends are reinvested in the company. The options granted during the year have terms of 5 years, with vesting periods ranging from one to three years from the grant date (2006 – immediate to three years).

The stock option compensation expense for 2007 was \$604,000 (2006 – \$587,000). As at December 31, 2007 the aggregate unexpensed fair value of unvested stock options granted amounted to \$374,000 (2006 – \$927,000).

(e) Contributed surplus

Details of the movement in contributed surplus are as follows:

For the Years ended December 31 (in thousands of United States dollars)	2007	2006
	\$	\$
Balance – beginning of year	2,375	1,892
Option compensation recognized	604	587
Options exercised	(76)	(104)
Balance – end of year	2,903	2,375

(f) Earnings/(loss) per share

The earnings/(loss) per share has been calculated using the weighted average number of shares outstanding during the year of 139,771,121 shares (2006 – 132,267,521).

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

	2007			2006		
	Income (\$000's)	Weighted average number of shares (000's)	Per share amount (\$)	Income (\$000's)	Weighted average number of shares (000's)	Per share amount (\$)
Basic (loss)/income per share	(21,037)	139,771	(0.15)	4,838	132,268	0.04
Incremental shares on assumed exercise of options and warrants	—	—	—	—	1,919	—
Diluted (loss)/income per share	(21,037)	139,771	(0.15)	4,838	134,187	0.04

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAXES

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

For the Years ended December 31 (in thousands of United States dollars)	2007	2006
	\$	\$
Statutory tax rate	36.12%	36.12%
Income tax recovery at the statutory rate	(10,183)	2,537
Effect of lower tax rates in foreign jurisdictions	(1,193)	(3,071)
Withholding tax	1,163	802
Changes in valuation allowance	(3,502)	1,536
Change in future tax rate	3,040	—
Permanent differences	3,838	374
Provision for future income tax/(recovery)	(6,837)	2,178

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

For the Years ended December 31 (in thousands of United States dollars)	2007	2006
	\$	\$
Property, plant, equipment, exploration and development	32,319	29,678
Non-capital loss carry-forwards	(11,498)	(5,505)
Other	(6,511)	(2,801)
Future income tax liability	14,310	21,372

Future benefits for losses in Canada in the amount of C\$12 million have not been recognized because management believes that the future income tax assets associated with these losses are not more likely than not to be realized in the carryforward period.

The following table lists the Canadian unused tax losses and their related expiry dates:

Year of expiry	2008	2009	2010	2014	2025	2026	2027
Unused tax loss C\$ ('000's)	1,500	6,000	200	2,300	1,000	600	400

The Company also has approximately A\$44 million (\$40 million) of loss carryforward from Magellan Metals that will have no expiry date and will be used to shelter future taxable income.

11. LOSS ON DERIVATIVES

The Company had entered into various short-term lead sales contracts to set the price of its future shipments. Subsequent to the suspension of future shipments through the Port of Esperance (see note 15), the forward sales contracts were bought back to reduce the Company's exposure to rising commodity prices. As at December 31, 2007 the Company had no further commodity or foreign exchange derivatives. The loss on derivatives was \$4.7 million for the year.

12. RISK MANAGEMENT AND FINANCIAL AND COMMODITY INSTRUMENTS

(a) Risk management

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

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

As Magellan Metals is funded and receives revenue in US dollars and its costs are substantially in Australian dollars, the Company has exposure to currency fluctuations. As at December 31, 2007 there were no foreign exchange contracts outstanding.

The Company had entered into various short-term lead sales contracts to set the price of its future shipments. See note 11.

(b) Fair value

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities in the consolidated balance sheets approximate fair values due to the short-term maturities of these instruments.

The carrying amount of investments available for sale approximates fair value as at December 31, 2007. Changes in the fair value have been recorded in other comprehensive income.

The carrying amount of long-term debt approximates fair value as the rate of interest charged is consistent with market rates.

The carrying amount of restricted cash approximates fair values as the restricted cash is held in cash.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The Company holds shares in a publicly traded company. This investment is classified as available-for-sale. The changes in fair value are detailed below:

(in thousands of United States dollars)	Increase/(Decrease) In fair value \$
Balance January 1, 2007	—
Unrealized loss on investment	(403)
Accumulated other comprehensive loss as at December 31, 2007	(403)

14. DEFICIT

The Company has adopted CICA Section 3855 – “Financial instruments – recognition and measurements” (see note 2), and under this standard, debt issue costs are not deferred and presented as separate assets, but are added to the carrying value of the debt. These fees are amortized over the term of the debt using the effective interest rate method. This treatment was adopted prospectively but calculated retrospectively, and as a result, the Company recorded an adjustment to the opening deficit as at January 1, 2007 as detailed below:

(in thousands of United States dollars)	\$
Opening deficit as at January 1, 2007	74,473
Retroactive effect of debt issue costs	322
Deficit January 1, 2007	74,795

15. TEMPORARY CARE AND MAINTENANCE

Effective April 6, 2007, the Magellan operation was placed on temporary care and maintenance following the March 12, 2007 suspension of lead concentrate shipments through the Port of Esperance. A core team of employees was retained to carry out site care and maintenance until requisite approvals are received, plan and implement the on-site and transportation route changes for containerized shipments and execute the phased restart of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Environmental

The Company's mining development and exploration activities are subject to various governmental laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(b) Exploration licences and mining leases

The Company holds a number of exploration licenses and mining leases in Western Australia. The Company does not consider that it has any material outstanding commitments in respect of these licenses or leases. Under the terms of its exploration and mining leases, Magellan Metals is required to meet certain minimum expenditure requirements for a 12 month period commencing on the date of issue or renewal of the licence or lease. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond 2007 are dependent upon whether Magellan Metals chooses to retain its current tenements.

(c) Royalty payments

Magellan Metals is required to make royalty payments in accordance with the provisions of the Mining Act 1978 (Western Australia) and Mining Regulations 1981 (Western Australia) at the prescribed rate for lead concentrates sold of 5% of the royalty value and for lead metal sold of 2.5% of the royalty value. As at December 31, 2007, nil has been accrued (December 31, 2006 – \$2.1 million).

In accordance with the terms of the Heritage Agreement dated September 25, 1998 between Magellan Metals and the Milangka Group and the Land Use Agreement dated December 16, 1998 between Magellan Metals and the Wanmulla Group, Magellan Metals is required to make a royalty payment of A\$0.04 per tonne of ore mined. As at December 31, 2007, nil has been accrued (December 31, 2006 – \$25,000).

17. SUBSEQUENT EVENTS

On January 17, 2008 the Company announced the acceptance by the Environment Minister, Hon. David Templeman, of the EPA's recommendations regarding the sealed shipment process for the export of lead concentrate. In accepting the recommendations, the Minister also imposed additional conditions that will further assure Western Australia's communities, governments and regulators that the export process will be safe and effective. The Company has accepted the additional conditions and is committed to their implementation prior to commencing sealed shipment of its product from its mine site. The Minister's conditions included: the lodgement of an A\$5 million bond; the appointment of an independent auditor approved by the Minister and funded by Magellan Metals to inspect each bag and container at the mine and the Port; the completion of a comprehensive Health, Hygiene and Environmental Management plan for the mining and export process to be prepared to the requirement of the Minister, on advice from the Department of Health, the Department of Consumer and Employment Protection, the Department of Industry & Resources and the Department of Environment & Conservation; and baseline testing to be conducted along the transport route prior to the first movement of lead and then regularly after that.

As announced by the Company on January 18, 2008 the Company must and will fully meet all Ministerial conditions, and in addition has committed to: implementing a comprehensive information and support program with local authorities and community groups along the transportation route to ensure a thorough understanding of lead concentrate, its transportation process and the Emergency Response Plan for the immediate containment and rapid and complete clean up in the unlikely event of an accident creating a spill; transparent communication of monitoring results and compliance reporting in an easily accessible manner; and continuing its community information program.

On March 31, 2008 the Company announced it had reached an agreement with the syndicate of lenders for the partial conversion and extension of the maturity date of the Secured Facility. By mutual agreement, \$20 million ("Conversion Amount") of the \$40 million currently drawn and outstanding against the Secured Facility will be converted into common