



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) Alan M. De'ath

President and Chief Executive Officer

(Signed) Brent Omland

Vice President, Finance and
Chief Financial Officer

March 30, 2011

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF IVERNIA INC.

We have audited the accompanying financial statements of Ivernia Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, deficit and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ivernia Inc. as at December 31, 2010 and 2009 and its financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 30, 2011

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants,
Licensed Public Accountants

IVERNIA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(LOSS)

For the years ended December 31	Notes	2010	2009
(in thousands of United States dollars, except per share amounts)		\$	\$
Revenue		100,764	25,172
Operating costs	14(b)	(89,100)	(20,854)
Amortization		(5,028)	(887)
		6,636	3,431
General and administrative		(8,464)	(6,850)
Stock option costs	9(c)	(152)	(75)
Foreign exchange gain		4,383	318
Net interest expense		(2,575)	(2,812)
Accretion	6, 7, 8	(4,011)	(4,231)
Esperance/Fremantle and related costs	14(a)	-	(1,293)
Inventory recovery	4	2,161	4,188
Property write-down		(52)	(41)
Debt settlement expense	6	-	(753)
		(8,710)	(11,549)
Loss before income taxes		(2,074)	(8,118)
Income tax recovery	10	19,178	4,814
Net income (loss) for the year		17,104	(3,304)
Basic earnings (loss) per share	9(e)	0.08	(0.02)
Fully diluted earnings (loss) per share	9(e)	0.08	(0.02)
Weighted average number of common shares outstanding (000's)		210,115	180,252
Net income (loss)		17,104	(3,304)
Unrealized gain (loss) on investment	11	133	(4)
Comprehensive income (loss), net of tax		17,237	(3,308)

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

IVERNIA INC.
CONSOLIDATED STATEMENTS OF DEFICIT

(in thousands of United States dollars)	Notes	2010	2009
		\$	\$
Balance beginning of period		(182,105)	(186,001)
Debt settlement gain	6	-	7,200
Net income (loss)		17,104	(3,304)
Balance end of period		(165,001)	(182,105)

IVERNIA INC.

CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands of United States dollars)	Notes	2010 \$	2009 \$
ASSETS			
Current assets			
Cash and cash equivalents	3(a)	14,428	19,187
Accounts receivable and other current assets		9,002	4,515
Forward purchase contracts	13(c)	396	452
Inventory	4	14,558	10,673
Investments available for sale		195	62
		38,579	34,889
Property, plant and equipment	5	80,638	77,863
Restricted cash equivalents	3(b)	9,029	7,725
Future income tax	10	45,677	21,997
		173,923	142,474
LIABILITIES			
Current liabilities			
Accounts payable and other current liabilities		19,982	7,669
Forward sales contracts	13(c)	399	18
Current portion of long-term liabilities	7, 15	4,318	7,261
		24,699	14,948
Long-term liabilities	7,15	3,018	2,837
Convertible Notes	6	-	9,002
Reclamation provision	8	7,811	7,425
Future income tax	10	4,382	3,880
		39,910	38,092
SHAREHOLDERS' EQUITY			
Share capital	9(b)	288,835	247,242
Equity component convertible instruments	6	-	29,350
Contributed surplus	9(d)	10,050	9,899
		298,885	286,491
Deficit		(165,001)	(182,105)
Accumulated other comprehensive gain (loss)	11	129	(4)
		134,013	104,382
		173,923	142,474

Commitments and contingencies (notes 15 and 16)

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

Approved by the Board of Directors

(Signed) J. Trevor Eyton

Director

(Signed) Alan M. De'ath

Director

IVERNIA INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the year	17,104	(3,304)
Non-cash items:		
Stock option costs	152	75
Amortization	5,028	887
Future income tax	(23,178)	(4,814)
Accretion	4,011	4,231
Inventory recovery	(2,161)	(4,148)
Debt settlement expense	-	753
Net forward contracts marked to market	437	(434)
Property write-down	52	41
Other	(394)	(1,574)
Reclamation provision payments	(204)	-
Changes in non-cash working capital:		
Accounts receivable and other current assets	(4,487)	(3,644)
Inventory	(1,724)	4,468
Accounts payable and other current liabilities	12,313	4,517
	6,949	(2,946)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(8,226)	(415)
Restricted cash	(200)	(4,240)
	(8,426)	(4,655)
FINANCING ACTIVITIES		
Net cash proceeds on issue of shares	5	-
Net cash proceeds on issue of convertible note	-	15,000
(Decrease) increase in long-term liabilities	(2,998)	1,901
	(2,993)	16,901
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCY		
	(289)	15
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,759)	9,315
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	19,187	9,872
CASH AND CASH EQUIVALENTS - END OF YEAR	14,428	19,187
Supplementary Information:		
Net interest paid (received)	2,545	(25)
Changes in non-cash items in financing activities:		
Conversion of Convertible Notes into equity (note 6)	37,900	500

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

IVERNIA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. NATURE OF OPERATIONS

Ivernia Inc. and its subsidiaries (collectively, the "Company") are active in the acquisition, exploration, development and mining of mineral properties. As at December 31, 2010 its principal asset was a 100% (December 31, 2009 - 100%) equity interest in Magellan Metals Pty Ltd ("Magellan Metals") in Australia which owns and operates the Magellan lead mine ("Magellan Mine").

Revenue during the year was generated from the sale of lead carbonate concentrate produced and exported from the Magellan Mine.

On December 31, 2010 a stop order was issued by the Minister for Environment of Western Australia to Magellan Metals to temporarily halt transport of its product from the minesite. Transportation from the minesite was halted on that date. See note 18.

2. ACCOUNTING POLICIES

(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 a change in revenue.

Inventory

Concentrate inventory is stated at the lower of production costs, including amortization of the mining assets allocated to the cost of inventory, and net realizable value. Raw materials and consumables are valued at the lower of cost and net realizable value as measured by replacement value, net of obsolescence.

Mining property, plant and equipment

Plant and equipment are depreciated over the lesser of estimated lives of the related assets or life of mine. For the assets that are depreciated over the life of mine, the depreciation is calculated on units of production basis.

Deferred costs include interest and financing costs relating to the construction of plant and equipment. 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 units of production basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment tests are performed on property, plant and equipment when events or changes in circumstances indicate that the carrying values of the assets may not be recoverable. Undiscounted expected future cash flows derived from the assets are compared with the carrying value. If a shortfall exists, the assets are written down to estimated fair value using discounted expected future cash flows.

Office equipment

Office equipment is depreciated on a straight-line basis over its estimated useful life, net of estimated residual value.

Revenue recognition

Revenue is recognized when the risk of ownership of concentrates has passed and collection is reasonably assured. Risk of ownership passes to the customer on delivery to the carrier. Revenue from the sale of metal contained in concentrate is provisionally priced based on a future quotational period. Revenue is adjusted until the completion of the quotational period for any variations in the forward price recognized on shipment. 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. Gains and losses on commodity price contracts are included in revenue.

Derivative financial instruments

The Company may 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. Gains and losses on these contracts are recognized in the period incurred.

Convertible instruments

Convertible instruments are classified separately on the balance sheet as a liability and as equity on initial recognition in accordance with the CICA Handbook Section 3863, "Financial Instruments – Presentation". 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.

Capital disclosure

The Company discloses quantitative and qualitative information about its objectives, policies and processes for managing capital.

Financial instruments – recognition and measurement

The Company has 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 arms-length 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Financial instruments – disclosure

The Company discloses 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 also discloses information about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quotes prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See note 13(a) for the relevant disclosures.

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 provisional 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, 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.

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

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"). The Company also carries out some minor transactions in other currencies.

Foreign currency transactions are translated using the exchange rates in effect at the date of the transactions. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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 charged to accretion expense. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or a loss on settlement.

Exploration and development costs

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

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

Exploration properties:

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

Development properties:

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

then the carrying amount is written down to fair value using future expected discounted cashflows from the related asset. An impairment loss charged to income is measured as the amount by which the carrying amount exceeds fair value.

Deferred stripping

The Company has adopted the 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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.

Other comprehensive income/loss

Other comprehensive income/loss includes unrealized gains and losses on investments classified as available-for-sale.

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 substantively enacted tax rates expected to be recovered or settled. The effect on future income 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 likely to be realized.

Stock options

The Company has a stock option plan that is described in note 9(c). 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, are credited to share capital.

Earnings (loss) per share

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

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Future changes in accounting policies

The CICA has issued three new accounting standards: Section 1582 “Business Combinations;” Section 1601, “Consolidated Financial Statements;” and Section 1602, “Non-controlling Interests.” These new standards will be effective for fiscal years beginning on or after January 1, 2011 and earlier adoption is permitted as of the beginning of a fiscal year. Section 1582 replaces Section 1581, “Business Combinations” and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3 – “Business Combinations.”

Section 1601 and 1602 together replace Section 1600, “Consolidated Financial Statements.” Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

(c) International Financial Reporting Standards

Canadian GAAP for publicly accountable entities will be replaced by International Financial Reporting Standards (“IFRS”), effective for interim and annual periods beginning in the first quarter of 2011. As a result, the Company will publish its first consolidated financial statements, prepared in accordance with IFRS, for the quarter-ending March 31, 2011. The Company will also provide comparative data on an IFRS basis including an opening balance sheet as at January 1, 2010.

3. CASH

(a) Cash and cash equivalents

Cash equivalents are comprised of highly liquid investments with a maturity of three months or less. The Company does not hold any asset-backed commercial paper. The cash and cash equivalents were comprised of the following:

For the years ended December 31 (in thousands of United States dollars)	2010 \$	2009 \$
Cash	14,428	15,362
Cash equivalents	-	3,825
	14,428	19,187

(b) Restricted cash equivalents

As at December 31, 2010 Magellan Metals had restricted cash deposited with a financial institution of \$9.0 million (2009 - \$7.7 million). Most of the restricted cash relates to cash secured unconditional performance bonds in favour of the state of Western Australia as security for the due and proper performance of the terms and conditions of Magellan Metals mining leases (see note 8). All of the 2010 and 2009 balances are held in restricted cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

4. INVENTORY

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Concentrate - mine site and in transit	5,179	6,671
Low grade ore stockpiles	2,909	-
Medium and high grade ore stockpiles	2,077	1,239
Consumables and other	4,393	2,763
	14,558	10,673

During 2010, the Company recorded an inventory recovery of \$2.3 million related to previously written-off low-grade stockpiles. Also, the Company wrote off obsolete inventory in the consumables and other inventory in the amount of \$0.1 million.

5. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31	2010			2009		
(in thousands of United States dollars)	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Plant and equipment	52,600	(9,800)	42,800	39,035	(5,641)	33,394
Leasehold improvements	74	(71)	3	74	(70)	4
Office equipment	1,183	(762)	421	861	(642)	219
Leased assets	-	-	-	3,088	(1,339)	1,749
Deferred stripping	10,729	(903)	9,826	9,192	(284)	8,908
Construction work-in-progress	3,563	-	3,563	8,797	-	8,797
Development costs and other	110,917	(13,892)	97,025	109,793	(12,001)	97,792
Asset impairment	(73,000)	-	(73,000)	(73,000)	-	(73,000)
	106,066	(25,428)	80,638	97,840	(19,977)	77,863

Substantially all of the Company's property, plant and equipment are located in Australia. Included in development costs and other is \$1.0 million for exploration expenditures capitalized related to the Prairie Downs Joint Venture. See note 16(a).

During 2010, the Company wrote off \$52,000 (2009 - \$41,000) in exploration properties. During 2008, the Company realized an impairment loss of \$73.0 million on Magellan.

6. CONVERTIBLE NOTES

On April 27, 2007 the Company completed the closing of a \$50 million secured facility (the "Secured Facility") with a syndicate of lenders. A total of \$40 million of the Secured Facility was drawn down.

The Secured Facility had a one-year term which matured on April 27, 2008 and bore interest at 9.25% per annum, which accrued and was payable at maturity or earlier repayment. The Secured Facility granted first ranking security interests over all the Company's assets.

On April 2, 2008 the lenders partially converted and extended the maturity date of the Secured Facility. According to the agreement with the lenders of the Secured Facility, \$20.0 million of the \$40.0 million then drawn and outstanding against the Secured Facility was converted into common shares of Ivernia and the maturity date for the remaining drawn and undrawn amounts was extended to April 27, 2009. The interest rate was lowered to 6% per annum from 9.25% per annum for the unconverted amounts. The interest payable on the converted balance was paid in the second quarter of 2008; the balance of interest payable was due in April 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On March 27, 2009 the Company completed a transaction (the "2009 Note Restructuring") with the lenders (including Sentient Global Resources Fund II (with its affiliates collectively referred to as "Sentient")) of the Secured Facility by which the terms thereof were amended and restated (the Secured Facility as amended and restated being herein referred to as the "Amended and Restated Notes") as follows: (a) the due date was extended from April 27, 2009 to April 27, 2013; (b) interest and fees of \$3 million currently outstanding on the Secured Facility were added to the principal amount thereof; (c) interest was increased to 8% from 6% payable annually with one-half thereof being payable, at Ivernia's option, by the issuance of additional Amended and Restated Notes; and (d) the conversion price was changed from \$1.08 to \$0.11 per share. In connection with the transaction, Ivernia also granted the lenders registration rights in respect of the common shares in which the Amended and Restated Notes are convertible and pre-emptive rights to allow them to maintain their percentage share ownership in Ivernia.

Contemporaneously with the issuance of the Amended and Restated Notes, Sentient purchased an additional \$5.0 million in secured convertible notes with the same terms as the Amended and Restated Notes (the "New Notes"). As part of its agreement with the Company, Sentient agreed to purchase the difference between \$5.0 million and the principal amount of additional New Notes (the "Sentient Commitment"). New Notes in the principal amount of \$400,000 were issued to Sentient on March 27, 2009 as consideration for providing the Sentient Commitment.

The Amended and Restated Notes and the New Notes are collectively referred to as "Convertible Notes".

The Convertible Notes were accounted for in accordance with CICA Section 3863, 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 Convertible Notes. 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 convertible instruments". Over the term of the Convertible Notes, the debt component will be accreted to the face value of the Convertible Notes by the recording of additional interest expense.

To complete the extinguishment of the Secured Facility, a settlement expense of \$0.75 million was realized on the debt component and charged to income. A settlement gain of \$7.2 million was realized on the equity component and credited directly to the deficit account.

On March 27, 2009 Ivernia entered into a subscription agreement with OppenheimerFunds, Inc. under which they agreed to purchase \$5.0 million principal amount of New Notes, with the transaction completed in April 2009.

In April 2009, Rosspport Metals and Mining Fund LP purchased \$1.0 million in Convertible Notes. In May 2009, the final \$4.0 million in Convertible Notes was purchased by Sentient.

The costs of issuing the Convertible Notes were \$1.06 million; \$0.84 million was allocated to the equity portion and \$0.21 million to the debt portion.

The Convertible Notes, the repayment of which was secured by a general security agreement over Ivernia's assets, restricted the Company from: (a) incurring additional security interests exceeding \$2.0 million, except in the case of Magellan and other subsidiaries only, where under certain circumstances such as for working capital and financial instrument management facilities, additional security interests can be incurred; (b) creating classes of securities ranking in priority to, or pari passu with, the Convertible Notes; and (c) prior to the restart of commercial operations, from making distributions or paying dividends to shareholders. In addition, the Convertible Notes contained anti-dilutive provisions which allowed for an adjustment to the conversion price if the Company issues any common equity, convertible debt or other items convertible into common equity other than employee stock options. Sentient had certain rights under an agreement between

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Sentient and the Company (the "Governance Agreement") for so long as Sentient holds not less than \$4.0 million principal amount of Convertible Notes including the ability to appoint one of two Directors to the Magellan Metals board.

In December 2009 and January 2010, one of the lenders converted \$0.5 million principal amount of Convertible Notes into 4,545,455 common shares.

In December 2010, the lenders converted the remaining \$37.4 million principal amount of Convertible Notes into 340,000,003 common shares. The lenders agreed to defer interest payments until April 27, 2011. With the conversion of the Convertible Notes the Governance Agreement was terminated.

The balances for the Convertible Notes are analyzed as follows:

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Convertible Notes outstanding	37,900	38,400
Convertible Notes converted	(37,900)	(500)
Convertible Notes outstanding	-	37,900
Equity value of conversion options	-	(30,189)
Pro-rated costs of financing	-	(209)
Accretion	-	1,500
Accrued interest	2,033	2,252
	2,033	11,254
Less: Accrued interest included in accounts payable and other current liabilities	(2,033)	(2,252)
	-	9,002

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

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Equity value of conversion option	-	30,189
Pro-rated costs of financing	-	(839)
	-	29,350

7. LONG-TERM LIABILITIES

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Lease liabilities	-	1,534
Less current portion	-	(1,534)
Esperance settlement (note 15(a))	6,089	7,852
Less current portion	(3,071)	(5,294)
Esperance community fund (note 15(b))	629	712
Less current portion	(629)	(433)
Other	618	-
Less current portion	(618)	-
	3,018	2,837

The lease liability pertained to the power generation station purchased by the Company in May 2010.

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8. RECLAMATION PROVISION

As at December 31, 2010 the reclamation provision relating to Magellan Metals asset retirement obligations was \$7.8 million (2009 – \$7.4 million).

(in thousands of United States dollars)	2010	2009
	\$	\$
As at January 1	7,425	6,879
Payment	(204)	-
Accretion expense	590	546
As at December 31	7,811	7,425

Reclamation provisions are initially recorded as a liability at fair value, assuming credit adjusted risk-free discount rates between 7.5% and 8%, and inflation rates between 2.5% and 3.7%. The total undiscounted amount of estimated cash flows is A\$12.0 million (\$12.3 million). The accretion expense for the reclamation provision was \$0.6 million for 2010 (2009 - \$0.5 million).

There was no change to the rehabilitation provision in 2009 or 2010. Substantially all the payments are scheduled to be made in 2016.

9. SHARE CAPITAL

(a) Authorized share capital

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

(b) Issued and outstanding shares

Details of issued and outstanding shares are as follows:

	Number of common shares	Amount
	(000's)	(\$000's)
Outstanding as at December 31, 2008	180,153	246,738
Issued on conversion of Convertible Notes (note 6)	4,545	504
Outstanding as at December 31, 2009	184,698	247,242
Issued on exercise of options	47	6
Issued on conversion of Convertible Notes (note 6)	344,545	41,587
Outstanding as at December 31, 2010	529,290	288,835

Also see note 18.

(c) Employee stock options

The Company has in place a Stock Option Plan as amended on June 16, 2010 (the "Plan") under which certain directors, officers, employees and consultants may be granted options to purchase up to 52,929,013 common shares as at December 31, 2010 (December 31, 2009 – 8,699,834). As at December 31, 2010 options to purchase 10% of the issued and outstanding common shares from time to time, being 48,760,682 common shares (December 31, 2009 – 3,229,884) 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 under the plan unless the directors of the Company determine otherwise, one third of the options granted become exercisable at any time after the first anniversary date, one third at any time after the second anniversary date and the balance at any time after the third anniversary date.

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A summary of the status of the Company's Plan as at December 31, 2010 and December 31, 2009 and changes during the periods ending on those dates is presented on the following table:

	2010			2009		
	Applicable shares (000's)	Shares issued (000's)	Weighted average exercise price (C\$)	Applicable shares (000's)	Shares issued (000's)	Weighted average exercise price (C\$)
Outstanding – beginning of year	5,470		0.73	7,372		0.92
Granted	-		-	950		0.34
Exercised	(47)	47	0.10	-	-	-
Expired	(1,025)		1.70	(2,002)		1.46
Forfeited	(230)		0.10	(850)		0.27
Outstanding – end of year	4,168		0.53	5,470		0.73
Exercisable – end of year	2,862		0.66	2,821		1.20

The following tables summarize information about stock options outstanding as at December 31, 2010:

Range Of Exercise Prices C\$	Options Outstanding			Options Exercisable		
	Number outstanding at Dec. 31, 2010 (000's)	Weighted average remaining contractual life (Years)	Weighted average exercise price (C\$)	Number exercisable at Dec. 31, 2010 (000's)	Weighted average remaining contractual life (Years)	Weighted average exercise price (C\$)
0.10 – 0.19	2,148	2.63	0.10	1,495	2.55	0.10
0.20 – 0.34	450	3.44	0.275	150	3.44	0.275
0.35 – 0.98	500	3.97	0.405	167	3.97	0.405
0.99 – 1.60	910	0.93	1.55	890	0.91	1.55
1.61 – 1.65	160	0.98	1.65	160	0.98	1.65
0.10 – 1.65	4,168	2.44	0.53	2,862	2.08	0.66

The following table summarizes the assumptions used in calculating the fair value of options issued during 2010 and 2009:

Valuation assumptions	2010	2009
Expected terms (years)	N/A	4.8 - 5
Vesting period (years)	N/A	3
Expected volatility	N/A	104%
Expected dividend yield	N/A	Nil
Risk-free interest rate	N/A	2.5% - 2.7%
Aggregate unexpensed fair value of stock options granted as at December 31 (US\$)	82,000	242,000
Weighted average fair value of options granted (C\$)	N/A	0.26

The stock options expense for the year was \$152,000 (2009 - \$75,000).

(d) Contributed surplus

Details of the movement in contributed surplus are as follows:

For the years ended December 31 (in thousands of United States dollars)	2010 \$	2009 \$
Balance – beginning of year	9,899	8,224
Option compensation recognized	152	75
Options exercised	(1)	-
Warrants expired	-	1,600
	10,050	9,899

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(e) Earnings (loss) per share

The earnings per share has been calculated using the weighted average number of shares outstanding during the year of 210,114,547 shares (2009 – 180,252,178).

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

For the years ended December 31	2010			2009		
	Net income	Weighted average number of shares	Per share amount	Loss	Weighted average number of shares	Per share amount
	(\$000's)	(000's)	\$	(\$000's)	(000's)	\$
Basic earnings (loss) per share	17,104	210,115	0.08	(3,304)	180,252	(0.02)
Incremental shares on assumed exercise of options	-	1,677	-	-	-	-
Diluted earnings (loss)	17,104	211,792	0.08	(3,304)	180,252	(0.02)

The incremental shares on assumed exercise of options and conversion of Convertible Notes are anti-dilutive for 2009.

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	2010	2009
(in thousands of United States dollars)	\$	\$
Statutory tax rate	31.0%	33.0%
Income tax recovery at the statutory rate	(602)	(2,696)
Effect of lower tax rates in foreign jurisdictions	(2,216)	(1,888)
Withholding tax	701	(1,172)
Changes in valuation allowance	(12,140)	719
Change in future tax rate	451	-
Permanent differences	(5,373)	223
Provision for future income tax recovery	(19,178)	(4,814)

Foreign exchange gains of \$4.0 million (2009 – nil) on deferred taxes have been included in income.

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	2010	2009
(in thousands of United States dollars)	\$	\$
Property, plant, equipment, exploration and development	(10,331)	(14,853)
Non-capital loss carry-forwards	39,054	23,626
Other	16,954	13,224
Future income tax asset	45,677	21,997

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For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Property, plant, equipment, exploration and development	-	-
Non-capital loss carry-forwards	-	-
Other	4,382	3,880
Future income tax liability	4,382	3,880

Future benefits for losses in Canada in the amount of C\$23 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 carry forward period.

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

Year of expiry	2014	2026	2027	2028	2029	2030
Unused tax loss C\$ (000's)	2,000	5,700	3,300	900	4,200	10,300

In addition, the Company has a total of approximately A\$94 million (\$96 million) of loss carry-forwards from Magellan Metals that will have no expiry date and could be used to shelter future taxable income, and a total of C\$126 million in capital loss carry-forwards with no expiry date.

The Company paid nil cash taxes in 2010 (2009 - nil).

11. ACCUMULATED OTHER COMPREHENSIVE GAIN (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:

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Balance as at January 1	(4)	-
Unrealized gain (loss) on investments	133	(4)
Accumulated other comprehensive gain (loss), December 31	129	(4)

12. CAPITAL MANAGEMENT

The Company's objectives when managing capital are intended to: fund operating and other activities; fund the restart of operations; safeguard the Company's ability to support the Company's normal operating requirements on an ongoing basis; continue the development and exploration of the Magellan mine; and support any business development plans.

The capital of the Company consists of items included in the shareholders' equity and the Convertible Note net of cash and cash equivalents. The Company manages the capital structure and makes adjustments in view of changes in economic conditions and risk characteristics of the Company's assets.

To effectively manage capital requirements, the Company has in place a rigorous planning and forecasting process to help determine the funds required to ensure the Company has sufficient liquidity to meet its operating and growth objectives. The Company ensures that there is sufficient liquidity to meet its short term business requirements, taking into account its anticipated cash flows from operations and its holding of cash and cash equivalents.

Prior to the conversion of the Convertible Notes (see note 6), the Company was restricted from: (a) incurring additional security interests exceeding \$2.0 million, except in the case of Magellan Metals and other subsidiaries only, where under certain circumstances such as for working capital and financial instrument

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management facilities, additional security interests can be incurred; (b) creating classes of securities ranking in priority to, or pari passu with, the Convertible Notes; and (c) prior to the restart of commercial operations, from making distributions or paying dividends to shareholders. In addition, Sentient had the Governance Agreement in place for so long as Sentient held not less than \$4.0 million principal amount of Convertible Notes including the ability to appoint one of two Directors to the Magellan Metals board. With the conversion of the Convertible Notes these restrictions and the Governance Agreement are no longer in place.

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.

13. FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities

The Company's financial assets consist of cash and cash equivalents, accounts receivable and other current assets, investments, restricted cash and cash equivalents and forward sales and purchase contracts. The Company's financial liabilities consist of accounts payable and other current liabilities, forward sales contracts and the interest due on the Convertible Notes.

The cash and cash equivalents, restricted cash and cash equivalents, forward sales and purchase contracts, long-term liabilities and interest due on the Convertible Notes are recorded at amortized cost. The Company estimates the cash and cash equivalents and restricted cash and cash equivalents have fair values which approximate their carrying values on December 31, 2010 and December 31, 2009.

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The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2010 and 2009.

Financial assets and liabilities at fair value as at December 31, 2010

	Level 1	Level 2	Level 3	Total
(in thousands of United States dollars)	\$	\$	\$	\$
Accounts receivable and other current assets ⁽¹⁾	-	9,002	-	9,002
Accounts payable and other current liabilities ⁽¹⁾	-	(19,982)	-	(19,982)
Forward purchase contracts ⁽²⁾	396	-	-	396
Forward sales contracts ⁽²⁾	(399)	-	-	(399)
Investments ⁽³⁾	195	-	-	195
	192	(10,980)	-	(10,788)

Financial assets and liabilities at fair value as at December 31, 2009

	Level 1	Level 2	Level 3	Total
(in thousands of United States dollars)	\$	\$	\$	\$
Accounts receivable and other current assets ⁽¹⁾	-	4,515	-	4,515
Accounts payable and other current liabilities ⁽¹⁾	-	(7,669)	-	(7,669)
Forward purchase contracts ⁽²⁾	452	-	-	452
Forward sales contracts ⁽²⁾	(18)	-	-	(18)
Investments ⁽³⁾	62	-	-	62
	496	(3,154)	-	(2,658)

(1) Open provisionally priced lead sales which retain an exposure to future changes in commodity prices are marked-to-market based on London Metal Exchange ("LME") forward prices for lead with similar expiry dates to the provisional period.

(2) These contracts are standard forward purchase and sale contracts actively traded on the LME.

(3) These investments are traded in an active stock market.

The Company has investments designated as available for sale. The carrying value is marked to market based on the quoted value of the investments. Any gains or losses are included in other gain (loss). As at December 31, 2010 the investments available for sale had increased in fair value by \$133,000 during the year to represent its quoted market value.

(b) Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable and other current assets, restricted cash and restricted cash equivalents and forward purchase and sales contracts. Cash and cash equivalents include cash and short-term deposits that have been invested with reputable financial institutions with an investment grade rating at the time of purchase. Financial instruments included in accounts receivable and other current assets consist mainly of receivables from unrelated parties, prepayments, and security deposits. Financial instruments included in restricted cash and restricted cash equivalents include low interest restricted savings accounts. Financial instruments included in forward purchase and sales contracts may include current market amounts due to brokers at a future settlement date. Management believes the credit risk concentration with respect to financial instruments in cash and cash equivalents, accounts receivable and other current assets and restricted cash and restricted cash equivalents is negligible due to the credit-worthiness of the financial institutions and debtors.

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The Company's maximum exposure to credit risk at the balance sheet date is as follows:

For the years ended December 31	2010	2009
(in thousands of United States dollars)	\$	\$
Cash and cash equivalents	14,428	19,187
Accounts receivable and other current assets	9,002	4,515
Forward purchase contracts	396	452
Investments available for sale	195	62
Restricted cash and restricted cash equivalents	9,029	7,725
	33,050	31,941

Liquidity risk

The Company manages its liquidity to ensure it will be able to meet current and expected liabilities when due. As of December 31, 2010 the Company had a cash balance of \$14.4 million (December 31, 2009 - \$19.2 million) and total current assets of \$38.6 million (December 31, 2009 - \$34.9 million) to settle current liabilities of \$24.7 million (December 31, 2009 - \$14.9 million).

The contractual maturities of the Company's financial liabilities are as follows:

For the years ended December 31	2010			2009
(in thousands of United States dollars)	Within 1 year	1 to 4 years	Total	Total
	\$	\$	\$	\$
Accounts payable and other current liabilities	17,949	-	17,949	7,669
Forward sales contracts	399	-	399	18
Convertible Notes	2,033	-	2,033	40,152
Long-term liabilities	4,318	3,018	7,336	10,098
	24,699	3,018	27,717	57,937

Market risk

(i) Interest rate risk

The Company has cash balances and no variable interest bearing debt so has minimal exposure to interest rate risk.

Foreign currency risk

The Company's reporting currency is the United States dollar. Magellan Metals generates US\$ revenues from the sale of lead carbonate concentrate and converts those funds into A\$ to pay its A\$ operating costs. If necessary, Ivernica funds A\$ operating, capital and exploration expenditures through its wholly-owned subsidiaries. These costs are paid on a cash call basis using Australian dollars converted from its Canadian and US dollar bank accounts held in Canada. In addition, the Company funds administration costs related to its Toronto office in Canadian dollars from its Canadian dollar cash reserves.

The Company currently does not hedge its foreign exchange exposure. It is at management's discretion as to the amount and tenure of hedging that may be utilized to reduce the Company's foreign exchange exposure, within Board approved limits.

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At the balance sheet date, the following financial assets and liabilities were denominated in Canadian and Australian dollars:

For the years ended December 31 (in thousands of United States dollars)	2010		2009	
	A\$	C\$	A\$	C\$
Cash and cash equivalents	4,366	363	4,895	1,003
Accounts receivable and other current assets	2,299	161	1,499	179
Investments available for sale	195	-	62	-
Restricted cash and cash equivalents	9,029	-	7,725	-
Accounts payable and other current liabilities	20,777	703	6,097	327
Long-term liabilities	3,018	-	10,098	-

(ii) Price risk

The Company is exposed to price risk with respect to commodity prices, including the price of lead and cost inputs.

In the long-term, the Company aims to provide metal price exposure to its shareholders. The Company may consider opportunities to create an element of greater certainty for future cash flow streams. If management considers hedging appropriate it may use call options, put options, futures, and forwards, within Board approved limits, to meet these objectives. See note 13(c).

Sensitivity analysis

The Company has designated its cash and cash equivalents, accounts receivable and other current assets, restricted cash and cash equivalents, forward purchase and sales contracts and accounts payable and accrued liabilities and long-term liabilities as held for trading which are measured at fair market value. Investments are classified as available for sale and recorded at fair market value. The Convertible Notes are classified as other liabilities and recorded at amortized cost using the effective interest method.

As at December 31, 2010 the carrying value and fair market value of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a three month period.

The Company's investments are comprised of a \$195,000 investment in a publicly traded company classified as available-for-sale. Sensitivity to a 10% change in the investment's current market price would affect comprehensive loss by \$19,500.

The Company holds significant balances in Australian dollar and Canadian dollar currencies. A \$0.10USD/\$1AUD movement would affect net income (loss) by \$0.2 million before taxes. A \$0.10USD/\$1CAD movement would affect net income (loss) by \$15,000 before taxes.

Interest rate risk is negligible as the Company has no variable rate financial instruments.

A change in lead prices of \$100 per tonne will affect net income (loss) by \$0.6 million before taxes.

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(c) Forward sales and purchase contracts

(in thousands of United States dollars, except per pound amounts)					December 31, 2010
	Expiry Date	Tonnes	Market Value	Cost	Fair Value Adjustment Recorded in income
			\$	\$	\$
Forward purchase contracts	Jan/11	3,225	8,261	7,987	274
	Feb/11	525	1,340	1,268	72
	Mar/11	175	446	396	50
		3,925	10,047	9,651	396
Forward sales contracts	Jan/11	(3,575)	(9,169)	(8,821)	(348)
	Feb/11	(175)	(447)	(396)	(51)
		(3,750)	(9,616)	(9,217)	(399)
		175	431	434	(3)

(in thousands of United States dollars, except per pound amounts)					December 31, 2009
	Expiry Date	Tonnes	Market Value	Cost	Fair Value Adjustment Recorded in income
			\$	\$	\$
Forward purchase contracts	Jan /10	1,400	3,370	3,232	138
	Feb/10	1,600	3,868	3,715	153
	Mar/10	1,425	3,460	3,299	161
		4,425	10,698	10,246	452
Forward sales contracts	Jan/10	(1,400)	(3,375)	(3,361)	(14)
	Feb/10	(675)	(1,632)	(1,628)	(4)
		(2,075)	(5,007)	(4,989)	(18)
		2,350	5,691	5,257	434

Magellan Metals enters into sales contracts with lead carbonate concentrate customers whereas the price is settled at a future date typically the average monthly LME settlement price two to three months after shipment.

After shipment, Magellan Metals employs a pricing strategy that attempts to obtain cash flow certainty while meeting the average market price over the provisional pricing period by typically entering into forward lead sales contracts.

In some cases, the customer has the opportunity to set the price on all or a portion of the shipment based on prevailing market prices at any time prior to the quotational period. To ensure Magellan Metals is free to pursue its intended pricing strategy, the Company may enter into forward lead purchase contracts to offset the set price sales contracts.

Forward purchases and forward sales contracts of lead are recorded as derivatives and included in revenue. A total of \$3.3 million in realized settlements and unrealized fair value adjustments has been included in revenue for the year (2009 - \$0.3 million).

14. ESPERANCE AND FREMANTLE

(a) Esperance/Fremantle and related costs

On March 12, 2007, shipments of lead concentrate from the Port of Esperance were suspended pending the outcome of government investigations into bird fatalities. The Company incurred costs to advance the export

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shipment of the 8,300 dry metric tonnes of lead carbonate concentrate held at the Port of Esperance and finalize the details of the Minister's conditions to obtain final requisite approval to ship future lead concentrate in sealed containers through the Port of Fremantle. The final shipment of lead carbonate concentrate held at the Port of Esperance occurred in May 2009. Final approval to commence shipping through the Port of Fremantle was received August 13, 2009.

On August 26, 2009 Magellan Metals and Transpacific Cleanaway Ltd. (formerly known as BIS Cleanaway Ltd.) ("Transpacific") executed and delivered a Settlement Agreement (the "Settlement Agreement") under which they agreed to settle, without any admission of liability, a contract dispute between them in respect of which a Statement of Claim had been filed by Transpacific, and a counter claim by the Company. On September 23, 2009 Magellan Metals paid A\$1.3 million to Transpacific pursuant to the Settlement Agreement and full and final mutual releases were exchanged.

(b) Operating costs

Effective April 6, 2007, the Magellan Mine 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 activities until requisite approvals were received, plan and implement the on-site and transportation route changes for containerized shipments and upon receipt of the approvals execute the phased restart of operations.

On August 13, 2009 Magellan Metals received final approval to commence containerized shipping through the Port of Fremantle.

Included in operating costs are costs incurred by Magellan Metals on regular operating activities during the care and maintenance period and subsequent to receiving final approval to commence containerized shipping through the Port of Fremantle, less net gas revenue.

15. ESPERANCE SETTLEMENT

(a) Esperance contribution agreement

The Company has agreed with the State of Western Australia (the "State") and the Esperance Port Authority ("EsPA") to a financial contribution toward the resolution of outstanding lead issues at Esperance.

The agreement, dated December 23, 2008 (the "Esperance Agreement"), provides for a financial contribution by Magellan Metals of A\$9.0 million toward comprehensive clean-up activities at the Port of Esperance and within the town of Esperance. The Esperance Agreement has been formally approved and signed by the State, EsPA, Magellan and Ivernia and mutually releases the parties from claims against each other in respect of lead pollution in and around the Port of Esperance and the town of Esperance.

The clean-up activities to be undertaken by the State and EsPA include testing rainwater tanks and ceiling voids, and clean up where lead is present; plus demolition and disposal of the existing lead shed and clean-up within the Port of Esperance and surrounding area.

The State and EsPA will carry out the clean up under relevant laws and regulations and requirements and use their best efforts to complete the clean up by December 31, 2010. When the clean up has been completed in accordance with the terms of the Esperance Agreement, a validation report will be issued by a qualified third party consultant. Magellan Metals' contribution comprises three equal payments of A\$3.0 million on December 31, 2009 December 31, 2010 and the later of June 30, 2011 or the date on which the Validation Report is issued, whichever is later, subject to Magellan achieving set cumulative earnings targets beginning January 1, 2009. The cumulative earnings targets are A\$6.0 million, A\$12.0 million and A\$18.0 million

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respectively by the three repayment dates. In the event that such earnings targets before interest, taxation, depreciation, amortization, historic production costs and unrealized foreign exchange gains and losses have not been met by the respective due dates then the payment dates will be extended until such targets are met.

As at December 31, 2010 all indications are the Validation Report would not be issued before December 31, 2011.

If A\$6.0 million of the total contribution is not paid by Magellan Metals by June 30, 2012 the Esperance Agreement will be of no effect and the parties shall have the rights and remedies to claims as existed prior to the agreement being signed.

The State or EsPA have retained the right to seek to claim from Magellan Metals a future contribution to seabed remediation in the harbour adjacent to the port area to remove lead carbonate should this work be required in the future. Magellan Metals' maximum exposure to such a claim is A\$3.0 million, however the Company may defend such a claim as it sees fit.

The Company made the first A\$3.0 million payment in the first quarter of 2010 after achieving the first A\$6.0 million cumulative earnings target.

(b) Esperance community fund

In 2008, the Company also committed to an A\$1.0 million fund for community-based projects in Esperance over the next three years. This fund, to be administered by the Shire of Esperance (the "Shire"), is not part of the agreement with the State and will be jointly dispersed by Magellan and the Shire. During 2010, a total of A\$0.2 million was paid (2009 - A\$0.2 million). A total of A\$0.4 million has been paid.

16. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Prairie Downs

In June 2010, Ivernia signed a binding agreement in respect of the formation of an Earn-In arrangement with Prairie Downs Pty Ltd ("Prairie Downs") to acquire up to 80% of the Prairie Downs lead-zinc project the "Project" in Western Australia (the "Earn-In").

Under the earn-in arrangement Ivernia has committed to an immediate and accelerated initial A\$2.0 million exploration program of infill sampling and drilling. This program will take place within 12 months of the signing date and will test a number of geological, geochemical and geophysical targets in the vicinity of the known deposits at Prairie Downs.

The key features of the Earn-In include:

- An option in favour of Ivernia to purchase a 60% interest in the Project for A\$10.0 million in cash or Ivernia's shares (at Ivernia's election) exercisable by Ivernia after expenditure by it of A\$3.0 million in 18 months (subject to the condition that a minimum expenditure of A\$2.0 million must be spent in the first 12 months) or A\$5.0 million within 36 months.
- Upon the purchase by Ivernia of a 60% interest in the Project, the formation of an unincorporated joint venture between it and Prairie Downs with respect to the Project.
- The ability for Ivernia to increase its 60% interest to 80% by spending a further A\$5.0 million on exploration within two years of earning the initial 60% interest.
- If either party fails to contribute its proportion of costs, its interest in the joint venture will dilute proportionally until it is 2.5%, at which point the joint venture interest will convert to a free carried interest.

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- If the diluting party's interest falls to 5%, the other joint venture participant has a right to acquire that interest at fair market value.

During the twelve months ended December 31, 2010 the Company spent \$1.0 million on the Earn-In and completed A\$1.2 million in eligible expenditures towards achieving the first A\$3.0 million expenditure requirement.

(b) 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.

(c) Exploration licenses 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 license or lease. These obligations are expected to be fulfilled in the normal course of operations. Commitments beyond December 31, 2010 are dependent upon whether Magellan Metals chooses to retain its current tenements.

(d) 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 of 5% of net realized value for lead concentrates sold.

In accordance with the terms of the Wiluna Land Access Agreement of 2006 (which superseded the Heritage Agreement dated September 25, 1998, between Magellan Metals and the Milangka Native Title Claimant Group), Magellan Metals is required to make a payment of A\$0.04 per tonne of all ore milled from the mine into the Wiluna Claimant Trust Fund. Another Land Use Agreement, dated December 16, 1998, between Magellan Metals and the now unregistered Wanmulla Group, provides for a further A\$0.04 per tonne of all ore milled from the mine, which is payable if a descendent claim from the Wunmulla claim is registered. A second agreement with the Wiluna claimants, over the Magellan Metals gas pipeline route, requires an annual compensation payment into the Wiluna Claimant Trust Fund for use of the gas pipeline tenement area.

17. RELATED PARTY TRANSACTIONS

Sentient and its affiliates are a "related party" by virtue of its shareholding in Ivernia and by virtue of Mr. Cassidy's and Mr. Britz's representation on the Ivernia board.

On March 27, 2009 \$16.9 million of Convertible Notes were issued to Sentient. The transaction was measured at the exchange amount being the consideration established and agreed to by both the related parties and arms-length parties. This transaction was undertaken together with the entering into of the Governance Agreement and the granting of registration and pre-emptive rights by Ivernia to Sentient. On May 8, 2009

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Sentient Executive GP III, Limited, a company related to Sentient, committed to purchase an additional \$4.0 million of Convertible Notes and the transaction closed on May 29, 2009.

This transaction was exempt from minority shareholder approval and valuation requirements as a result of the determination by the board of directors, including all independent directors, that Ivernia was in serious financial difficulty, that the transaction was designed to improve the financial position of the Company, and that the terms of the transaction were reasonable in the circumstances.

On December 10, 2010 Sentient converted all the Convertible Notes it then held into 190,000,001 common shares of Ivernia.

In December 2010, Sentient transferred 225,047,928 common shares of Ivernia to a wholly owned subsidiary, Green SEA Resources Inc. ("GSR"). GSR is also considered a related party due to its ownership by Sentient and GSR's significant shareholdings in Ivernia. Some Ivernia management and directors perform management functions for GSR and/or serve on the board of directors of GSR. During the year, Ivernia provided various corporate and administrative services to GSR which was billed to GSR. The total billed during the year was C\$360,000 (\$345,000). The balance owed by GSR on December 31, 2010 was \$nil.

During the year, Ivernia provided various corporate and administrative services to Sentient which was billed to Sentient. The total billed during the year was A\$161,000 (\$148,000). The balance owed from Sentient on December 31, 2010 was A\$52,000 (\$53,000). Also, due to Sentient at December 31, 2010 is \$1.1 million in accrued interest from the Convertible Notes, which is due in April 2011.

All transactions with Sentient and GSR were measured at the exchange amount being the consideration established and agreed to by both the related parties and arms-length parties.

18. SUBSEQUENT EVENTS

On December 31, 2010 a stop order (the "Stop Order") was issued by the Minister for Environment of Western Australia to Magellan Metals to temporarily halt transport of lead carbonate concentrate from the minesite. Transportation from the minesite was halted on that date. A further order (the "Order") was issued on January 3, 2011 also requiring Magellan Metals to cease transporting lead carbonate from the minesite that replaces the stop order. Due to the uncertainty surrounding the timeline to recommence shipments, the Company commenced a temporary shutdown of mining and processing operations on January 5, 2011. On February 23, 2011 the Minister for Environment lifted the Order that required the temporary cessation of transport operations from the Magellan Mine and the Company resumed mining and processing operations shortly thereafter.

On January 13, 2011 Sentient purchased 52,900,000 common shares of Ivernia in a private placement, for C\$0.34 per common share, for gross proceeds of approximately C\$18.0 million (\$17.7 million), less costs C\$1.0 million (\$1.0 million), including C\$899,000 (\$887,000) commitment fee paid to Sentient. These shares were subsequently transferred to GSR.

On March 14, 2011 the Company announced that its rail transport contractor had advised it that for a two month period 10 trains carrying a total of 159 containers carrying lead concentrate were routed by the contractor to the Port of Fremantle along a 12 kilometer rail line this is not part of the usual rail route. As a result, the Company voluntarily delayed regular transport operations. On March 17, 2011 the Company announced that the Magellan Metals would be resuming regular transport operations.