NEWS RELEASE

All Dollar Amounts are in U.S. Dollars ("US$") Unless Otherwise Indicated

IVERNIA REPORTS FOURTH QUARTER AND YEAR END 2011 ANNUAL FINANCIAL RESULTS

TORONTO, ONTARIO – March 29, 2012 – Ivernia Inc. ("Ivernia" or the "Company") (TSX: IVW) today reported its fourth quarter and annual 2011 financial results. The Magellan Mine continued in care and maintenance throughout the fourth quarter of 2011 and did not ship any concentrate.

The Company recorded net income after tax of $10.9 million or $0.02 per common share for the fourth quarter of 2011, compared to $29.8 million or $0.10 per common share for the same period last year. The Company recorded a net loss after tax of ($18.6) million, or ($0.03) per common share, for the year ended December 31, 2011 compared with net income after tax of $37.2 million, or $0.18 per common share for 2010.

2011 FOURTH QUARTER AND ANNUAL HIGHLIGHTS

Financial

- Gross loss of $3.4 million for the fourth quarter of 2011 and $23.3 million for the year ended December 31, 2011.
- Net income after tax of $10.9 million for the fourth quarter of 2011. Net income after tax for the fourth quarter includes a foreign exchange gain of $11.2 million mainly related to Magellan Metals' functional currency being the Australian dollar ("A$") while Ivernia's reporting currency is the US$. The gain was as a consequence of the A$ strengthening against the US$ in the fourth quarter of 2011 with the US$/A$ rate increasing from 0.9744 on September 30, 2011 to 1.0250 on December 31, 2011. Of this foreign exchange gain, approximately $9.9 million is related to unrealized gains on Magellan Metals' intercompany loans denominated in US$ and Canadian dollars ("C$"). These intercompany loans are with wholly owned subsidiaries of the Company and are eliminated from the Statement of Financial Position on consolidation.
- Net loss after tax of $18.6 million for the year ended December 31, 2011.
- As at March 26, 2012, the Company had approximately $7.5 million in cash to fund ongoing care and maintenance activities at the Magellan Mine.
- The Company will require further financing to fund the ongoing care and maintenance and restart of the Magellan Mine. The amount of funding required will be dependent on the timing and content of final operating conditions to be issued by the Minister for Environment of Western Australia (the "Minister") as well as prevailing market conditions at that time.
- On March 29, 2012, the Company received a comfort letter from Sentient confirming its commitment to provide funding to Enirgi Group Corporation ("Enirgi Group"), to allow Enirgi Group, in turn, to provide financing to Ivernia up to an aggregate of $10 million, if, as and when needed, during the period ending March 31, 2013.
- The Company holds approximately 10,100 tonnes of lead carbonate concentrate inventory with a carrying value of $7.9 million as of December 31, 2011. Magellan Metals will not be in a position to ship the inventory until it has been issued its final operating conditions by the Minister and completes all required actions to be able to recommence transportation of lead carbonate concentrate.
- During the year, the Company issued 215.6 million common shares in three separate private placement financings for net total proceeds of C$42.0 million. The most recent private placement closed in December 2011 and 69.4 million common shares were issued for net total proceeds of C$5.9 million.

Operational

- In March 2011, the Company reported a significant increase in the mineral reserves (an increase of 76% in contained lead metal) and mineral resources (an increase of 45% in contained lead metal) from the mineral resources and mineral reserves stated as of December 31, 2009.
- In March 2011, Magellan Mine recorded a record monthly mill throughput of 127,000 tonnes of ore.
- In April 2011, the detection of lead bearing mud on the bottom of a few shipping containers, ultimately resulted in the operations being voluntarily placed in care and maintenance and the Company undertaking an end-to-end review of Magellan Metals' risk management and compliance systems.
- Magellan Metals provided submissions to the Office of the Environmental Protection Authority ("OEPA") and Minister on the future operating conditions for the Magellan Mine.
- On October 3, 2011 the Environmental Protection Authority of Western Australia ("EPA") released its report to the Minister entitled *Section 46 Report and Recommendation of the Environmental Protection Authority* (the "Section 46 Report").
- The Section 46 Report included the EPA's recommended operating conditions for any future operations at the Magellan Mine and transportation of lead carbonate concentrate from the Magellan Mine (the "Draft Recommended Conditions"). The Company and Enirgi Group, the Company's major shareholder, are having constructive and regular discussions with the Minister and his staff with respect to the timing and content of the final operating conditions. The Company believes progress is being made in these discussions, but cannot at the date hereof, provide guidance on the timing of the issuance of the final operating conditions by the Minister nor on their content.
- The Company does not expect to be in a position to make a decision on restarting the Magellan Mine until after the Minister issues the final operating conditions and Magellan Metals completes a review of these final operating conditions and their potential impact on any restart plans.
- During 2011, the Company substantially completed the internal end-to-end review of the effectiveness of Magellan Metals' risk management and compliance systems.

FINANCIAL AND OPERATING HIGHLIGHTS

The following table is a summary of Ivernia's financial and operating highlights for the three months and years ended December 31, 2011, 2010 and 2009:

(in thousands of United States dollars, unless otherwise indicated and per share amounts)	Three months ended December 31, 2011 $	2010 $	2009[3] $	Year ended December 31, 2011 $	2010 $	2009[3] $
Financial Highlights						
Revenue[1]	**–**	36,969	16,904	**11,272**	97,492	25,172
Operating costs	**(1,859)**	(26,054)	(13,823)	**(29,572)**	(88,107)	(20,854)
Inventory (write-down) recovery	**(1,346)**	251	–	**(3,361)**	1,729	4,188
Amortization	**(189)**	(4,062)	(387)	**(1,637)**	(6,152)	(887)
Gross (loss) profit	**(3,394)**	7,104	2,694	**(23,298)**	4,962	7,619
General and administrative	**(2,285)**	(2,423)	(1,757)	**(9,468)**	(8,465)	(6,850)
Severance costs	**–**	–	–	**(1,127)**	–	–
Esperance/Fremantle and related costs	**–**	–	(15)	**–**	–	(1,293)
Net interest (expense) income	**130**	(586)	(888)	**589**	(2,717)	(2,812)
Accretion	**(151)**	(558)	(734)	**(677)**	(2,030)	(4,231)
Stock option costs	**(475)**	(31)	(37)	**(826)**	(145)	(75)
Debt settlement expense	**–**	–	–	**–**	–	(753)
Foreign exchange and other expenses	**11,164**	14,991	646	**(63)**	31,281	277
	8,383	11,393	(2,785)	**(11,572)**	17,924	(15,737)
Income (loss) before income taxes	**4,991**	18,497	(91)	**(34,870)**	22,886	(8,118)
Deferred income tax	**5,871**	11,309	6,004	**16,230**	14,300	4,814
Net income (loss)	**10,862**	29,806	5,913	**(18,640)**	37,186	(3,304)
Basic (loss) earnings per share [2]	**0.02**	0.10	0.03	**(0.03)**	0.18	(0.02)
Fully diluted (loss) earnings per share [2]	**0.02**	0.10	0.01	**(0.03)**	0.18	(0.02)
Weighted average shares outstanding – thousands	**693,103**	310,102	180,548	**640,556**	210,115	180,252
Unrealized gain (loss) on investment	**–**	46	–	**(77)**	133	(4)
Foreign currency translation differences	**(4,811)**	(5,938)	–	**722**	(10,333)	–
Comprehensive income (loss)	**6,051**	23,914	5,913	**(17,995)**	26,986	(3,308)
Cash provided by (used in) operations before changes in non-cash working capital	**(5,110)**	8,079	530	**(28,619)**	900	(8,287)
Cash flow provided by (used in) operating activities	**(5,880)**	7,650	6,038	**(36,732)**	9,646	(2,946)
Operating Highlights						
Ore milled – (000's tonnes)	–	316	–	**161**	874	–
Average head grade – (% lead)	–	6.9	–	**6.9**	6.8	–
Recovery – (%)	–	78	–	**73**	74	–
Concentrate produced – (000's dry tonnes)	–	25.9	–	**12.7**	68.0	–
Concentrate sold – (000's dry tonnes)	–	23.5	11.3	**7.6**	71.3	20.1
Lead metal in concentrate produced – (000's tonnes)	–	16.9	–	**8.1**	44.1	–
Lead metal in concentrate sold – (000's tonnes)	–	15.3	7.3	**4.9**	46.2	12.8
Concentrate inventory – (000's of dry tonnes)	10.1	5.1	9.2	**10.1**	5.1	9.2
Average lead price – LME cash settlement– ($ per pound)	0.90	1.08	1.05	**1.09**	0.97	0.79
Ivernia's average lead sale price – ($ per pound)	–	1.19	1.10	**1.13**	1.04	0.94
Cash cost per pound sold – ($ per pound)[4]	N/A	N/A	N/A	**N/A**	N/A	N/A

(1) Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010. On April 5, 2011 Magellan Metals voluntarily ceased transportation and operations as result of the detection of lead bearing mud on one of its shipping containers. With the uncertainty surrounding these results and what was the third transportation disruption since December 31, 2010 the decision was made to undertake an end-to-end review of its business practices before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on full care and maintenance in April 2011. The Magellan Mine remains on care and maintenance as at March 29, 2012.

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

(3) 2009 financial statements were prepared under Canadian Generally Accepted Accounting Principles, have not been converted to IFRS and may not be comparable.

(4) Cash cost per pound sold is a non-IFRS measure. Cash cost of lead sold is not currently meaningful as the Magellan Mine worked through the issues surrounding the Order, transportation delays and then care and maintenance during 2011. Upon the restart of operations of the Magellan Mine and once the Magellan Mine achieves steady state production run rates information about the cash cost of lead sold will be reintroduced.

OPERATIONS REVIEW – MAGELLAN MINE

Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010. On December 31, 2010 Magellan Metals received a stop order from the Acting Minister for Environment of Western Australia (the "Stop Order") relating to the transport of lead carbonate concentrate from the Magellan Mine. Transportation operations from the Magellan Mine were immediately halted upon receipt of the Stop Order. The Stop Order was replaced by a subsequent order issued on January 3, 2011 from the Minister (the "Order") with respect to cessation of transportation of lead carbonate concentrate from the Magellan Mine. Magellan Metals stopped mining and processing operations at the Magellan Mine commencing January 5, 2011 until February 23, 2011 when the Minister announced the lifting of the Order. Following the lifting of the Order, Magellan Metals commenced a ramp up of operations. On April 5, 2011 Magellan Metals announced that it had voluntarily ceased transportation and operations as a result of the detection of a small amount of lead bearing mud on the outside of one of its shipping containers at the Port of Fremantle. On April 7, 2011 the Company announced that it had commenced placing the Magellan Mine on care and maintenance.

There was no production or sales of lead carbonate concentrate in the fourth quarter of 2011. For the year ended December 31, 2011, the Company produced approximately 12,700 dry metric tonnes of lead carbonate concentrate containing approximately 8,100 tonnes of contained lead metal. For the year ended December 31, 2011, the Company sold approximately 7,600 dry metric tonnes of lead containing approximately 4,900 tonnes of contained lead metal. At the time that the transport operations were stopped in April there were approximately 10,100 tonnes of lead concentrate on site at an estimated average concentrate grade of 64% lead, containing approximately 6,450 tonnes of lead. This concentrate remains stored in sealed bags and protected from the weather. Prior to the recommencement of any shipping operations, the cleanliness and integrity of all bags will be verified.

Principal activities during the fourth quarter of 2011 focused on: advancing the internal end-to-end review of Magellan Metals' risk management and compliance systems; providing its views to the Western Australian Government in regards to its future operating conditions and the potential for downstream processing; and completion of Magellan Metals' internal inquiry into the source and extent of lead bearing mud that was found on certain shipping containers. A key focus of these activities is to ensure enhanced systems and procedures are put in place to prevent a reoccurrence of such incidents in the future and to identify a robust, sustainable business model that will deliver uninterrupted operations upon restart.

On October 3, 2011, the EPA released the Section 46 Report to the Minister detailing the Draft Recommended Conditions. The Draft Recommended Conditions contain recommended changes to the interim implementation conditions issued by the Minister on February 23, 2011 that currently govern the Magellan Mine's operations (the "Interim Implementation Conditions"). In addition, the Draft Recommended Conditions contain recommended conditions that must be satisfied prior to the recommencement of transportation of any lead carbonate concentrate from the Magellan Mine. In the Section 46 Report the EPA stated: "…*that the current transport and handling methods are more than sufficient to protect human health and the environment*" and that "[*t]he transportation of the bulk bags in shipping containers is over and above what is required and is best practice*". Further, while the EPA stated that: "…*the conditions placed on Magellan are much stricter than would normally be required for the transport and monitoring of this type of product*", the Draft Recommended Conditions, in general, recommend preserving and, in some cases, enhancing the already strict auditing, monitoring and reporting requirements currently imposed on Magellan Metals pursuant to the Interim Implementation Conditions. As of the date hereof, the Section 46 Report and the Draft Recommended Conditions are currently under consideration by the Minister.

The Company cannot, at this time, provide any specific guidance on when the Company will restart operations at the Magellan Mine. The Company does not expect to be in a position to make a decision on restarting the Magellan Mine until after the Minister issues the final operating conditions and Magellan Metals completes a review of these final operating conditions and their potential impact on any restart plans. The Company has provided its input to the Minister on the Section 46 Report and is therefore awaiting the release of its final operating conditions. As of the date hereof, the Company and Enirgi Group, the Company's major shareholder, are having constructive and regular discussions with the Minister and his staff with respect to the timing and content of the final operating conditions. While the Company believes progress is being made in these discussions, at the date hereof, it cannot provide guidance on the timing of the issuance of the final operating conditions by the Minister nor on their content. The length of time between making the decision to restart the Magellan Mine and the actual commencement of operations at the Magellan Mine may be affected by several factors, including the content of the final operating conditions and pre-operational ramp-up. For instance, the final operating conditions may require that Magellan Metals complete certain actions prior to the recommencement of transportation from the Magellan Mine (see *Section 46 Inquiry and Review of Magellan Mine Operating and Transport Conditions* below*)*. In addition, following a decision to restart and prior to commencing a restart of operations at the Magellan Mine, Magellan Metals would need to undergo a significant recruiting and training effort. Once the restart of the Magellan Mine has commenced, the Company expects that it would take greater than six months of operations before the mine and processing plant would be operating at full production levels.

A full discussion of the events for the three year period to March 29, 2012 is contained in the Company's annual information form dated March 29, 2012 (the "2011 AIF") under the heading "Three-Year History - Operations". The 2011 AIF is available on the Ivernia web site at www.ivernia.com and on SEDAR at www.sedar.com.

The table below summarizes quarterly and annual mine production, process plant production, shipments and inventories for the year ended December 31, 2011.

	Three months ended March 31, 2011	Three months ended June 30, 2011	Three months ended September 30, 2011	Three months ended December 31, 2011	Year ended December 31, 2011
Mining					
Ore mined – 000's tonnes[1]	150	24	–	–	174
Low grade ore mined – 000's tonnes[2]	34	8	–	–	42
Total ore and waste mined – 000's bcm	264	52	–	–	316
Processing					
Ore milled – 000's tonnes	145	16	–	–	161
Average head grade – % lead	6.8	7.1	–	–	6.9
Average recovery – %	74	71	–	–	73
Concentrate produced – 000's dry tonnes	11.4	1.3	–	–	12.7
Concentrate grade – % lead	64	63	–	–	64
Lead metal in concentrate produced – 000's tonnes	7.3	0.8	–	–	8.1
Sales and inventories					
Concentrate sold – 000's dry tonnes	3.9	3.7	–	–	7.6
Concentrate grade – % lead	64	65	–	–	65
Lead metal in concentrate sold – 000's tonnes	2.5	2.4	–	–	4.9
Concentrate inventory – 000's dry tonnes	12.6	10.1	10.1	10.1	10.1

(1) Ore mined does not include low grade ore
(2) Low grade ore is 1.5 to 2.5% lead

Developments Related to the Magellan Mine

Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010 and mining and processing operations continued to January 5, 2011, when a temporary shutdown described above was commenced. Mining and processing operations recommenced following an announcement by Ivernia of February 23, 2011 of the lifting of the Order and continued until shortly after a further announcement by the Company on April 5, 2011, stating that all transportation had been voluntarily halted and an orderly shutdown of operations had commenced.

During the current care and maintenance period, the mine and processing plant have been maintained in a state of readiness for a restart of operations and on the basis of minimizing the amount of time required for a ramp-up of operations to full production levels. All process vessels have been drained, flushed and inspected with minor repairs conducted and the process vessels then refilled with water to prevent corrosion. All major equipment including mills, motors, pumps and agitators are operated on a routine basis to ensure that they are in good working order. Power supply has been rationalized in line with reduced power requirements. At the start of the care and maintenance period, all haul roads were secured. The mine has remained in a geotechnically stable condition throughout the care and maintenance period.

Since entering the care and maintenance period, Magellan Metals has substantially completed its internal comprehensive end-to-end review of all its compliance activities and response systems related to the Magellan Mine, including the mining, processing, transporting and management of lead carbonate production and export functions with the final review expected to be completed upon receipt of final operating conditions from the Minister. The objective of the end-to-end review is to prevent an ongoing pattern of temporary disruptions to operations and to further reduce risks associated with the wide range of potential events that can impact on compliance with what the Company believes are the most stringent transport conditions placed on any Western Australian mining operation.

During the fourth quarter of 2011, the Company delivered to the OEPA an internal report on its inquiry into the source and extent of lead bearing mud on containers that precipitated the Magellan Mine entering care and maintenance in April 2011. The inquiry identified that interruptions to Magellan Metals' normal transport routine from late December 2010 to March 2011 resulted in containers being stored at Magellan Metals' Wiluna mine site and the Leonora rail yard for extended and much longer than usual periods. During this time exceptionally heavy rain resulted in mud and water runoff accumulating in areas where containers were stored and mud contacting the containers. Subsequent extremely hot temperatures dried the mud and hardened it on the base of the containers. Attempts to physically sample the mud during the inquiry indicated that the mud was hard baked and required vigorous physical scraping to remove.

These conditions had not previously been encountered during Magellan Metals' sealed, double lined bags in locked shipping container transport process, and risk assessments had not identified this as being a foreseeable risk from the container handling, storage and transport process. The risk of mud baking hard onto containers was therefore not regulated or controlled by the Company's operating conditions and/or the Health, Hygiene, Environmental Monitoring Program that regulates Magellan Metals' transport operations.

Independent inspection of the containers prior to leaving the Magellan Mine did not report or identify the mud they observed on containers as an issue.

The mud on the containers is likely to have come from more than one source, and include mud from both the Magellan Mine at Wiluna and the Leonora rail yard. At least some of the lead in the mud originated from the Magellan Mine at some time, most likely from operations in the period 2005 to 2007 when lead carbonate concentrate was transported in covered kibbles via the Leonora rail yard. Naturally occurring lead and lead from historical mining and transport operations via the Leonora rail yard may have also contributed.

There is no evidence that the source of the lead in the mud was from the double lined bagged lead carbonate concentrate within the locked shipping containers. At no time was there was any risk from the mud on the containers, or its removal, to public safety or to the environment.

Based on the results to date of the Company's end-to-end review and the findings from the Company's internal inquiry into the source and extent of lead bearing mud on containers, the Company has identified a number of minor capital projects, risk reduction exercises, management plan redrafting and internal training exercises that it will undertake prior to restarting operations.

The Company will continue its internal planning process for a restart of operations; however, as previously mentioned, no decision on a restart of operations will be made until final operating conditions are issued by the Minister. A successful restart will be dependent on ensuring key personnel are in place. The care and maintenance team was carefully selected to ensure core skills were retained to allow for an efficient restart and the care and maintenance personnel are expected to fill key managerial, supervisory and staff roles in processing, maintenance, OHS&E, finance and logistics.

Section 46 Inquiry and Review of Magellan Mine Operating and Transport Conditions

Pursuant to the EP Act, the Interim Implementation Conditions remain in place pending a full inquiry and review of Magellan Metals' operating conditions by the EPA pursuant to section 46 of the EP Act (the "Section 46 Review") and the release of operating conditions from the Minister. The full text of the Interim Implementation Conditions is posted on the Magellan Metals website at www.magellanmetals.com.au.

As part of working with the EPA on its Section 46 Review, Magellan Metals made submissions throughout the year to the OEPA with respect to proposed amendments to the Health, Hygiene and Environmental Management and Monitoring Programs and the Interim Implementation Conditions. In May 2011, officers of the OEPA attended the Magellan Mine site to observe how Magellan Metals receives, stores, loads and washes containers to prevent concentrate and mud from leaving the site.

On October 3, 2011, the EPA released the Section 46 Report detailing the Draft Recommended Conditions that it proposed should replace the Interim Implementation Conditions that govern operations and transport from the Magellan Mine. The Section 46 Report is available on the EPA website. A link to the Section 46 Report, which includes the Draft Recommended Conditions, can be found on the Magellan Metals' website at: www.magellanmetals.com.au/compliance/ministerial-conditions.aspx.

As mentioned above, the Interim Implementation Conditions remain in place pending the Minister's consideration of the Section 46 Report and Draft Recommended Conditions resulting from the full inquiry and review of Magellan Metals' operating conditions by the EPA pursuant to the Section 46 Report.

The Section 46 Report provides the EPA's recommendations on Magellan Metals' operating conditions for the Minister's consideration. The Minister will now consider the Section 46 Report and decide on the final content of Magellan Metals' operating conditions.

If adopted and issued by the Minister in their current form, the Draft Recommended Conditions would change the Interim Implementation Conditions including by adding conditions that must be satisfied prior to the recommencement of transportation of any lead carbonate concentrate from the Magellan Mine. The Draft Recommended Conditions, in general, preserve and, in some cases, enhance the already strict auditing, monitoring and reporting requirements currently imposed on Magellan Metals.

If adopted and issued by the Minister in their current form, the Draft Recommended Conditions require that Magellan Metals provide the OEPA with a report from an acceptable independent expert summarizing the environmental impacts and parameters of downstream processing options including smelting lead into ingots. While the Company has not changed its historical position with respect to the feasibility of a smelter or refinery, in June 2011, the Company commenced a new study into the viability of downstream processing of its concentrates given the significant increase in mineral reserves at Magellan in 2011, the changing lead concentrate market and improved economic climate since the last review was completed in 2008. In January 2012, the Company delivered its preliminary findings to the OEPA and the Minister which demonstrates that at current lead prices and exchange rates downstream processing at the Magellan Mine remains uneconomic. The findings are preliminary as they require further studying of the environmental impact of a downstream processing facility by the Company.

The Company cannot provide any guidance on the content or timing for the finalization of the Minister's review and issuance of the final operating conditions nor can the Company provide any guidance whether the final operating conditions will be materially different from the Draft Recommended Conditions.

Capital Resources and Working Capital Requirements

As at March 26, 2012 the Company had approximately $7.5 million in cash to fund ongoing care and maintenance activities at the Magellan Mine and any costs associated with the restart of the Magellan Mine, if and when a restart decision is made. The Company expects to continue to have negative cash flows during the care and maintenance period. These negative cash flows may be offset by any revenue generated from the sale of stockpiled lead carbonate concentrate held at the Magellan Mine. However, Magellan Metals does not expect to be able to commence the shipping of stockpiles prior to the release of the final operating conditions by the Minister. Further, the final operating conditions, once issued, may require that Magellan Metals fulfill certain conditions to the satisfaction of the regulators prior to the recommencement of transportation of lead carbonate concentrate from the Magellan Mine. Accordingly, the Company cannot provide any guidance on the timing for the shipment of stockpiles from the Magellan Mine.

On March 29, 2012, the Company received a comfort letter from Sentient confirming its commitment to provide funding to Enirgi Group, to allow Enirgi Group, in turn, to provide financing to Ivernia up to an aggregate of $10 million, if, as and when needed, during the period ending March 31, 2013 (the "Enirgi Commitment").

The Company expects that it will likely require additional financing to restart the Magellan Mine, in excess of current cash balances, the Enirgi Commitment and any proceeds it may receive from the shipment of lead carbonate concentrate stockpiles. The quantum of this funding requirement cannot be estimated at this time and will be contingent on the timing of the receipt of final operating conditions from the Minister, the content of those final operating conditions (including any conditions required to be completed to the satisfaction the regulators before recommencing transportation and operations), net proceeds received from the sale of stockpiles, as well as general market conditions, including but not limited to lead prices, foreign exchange and capital markets. If the Company was unable to secure this additional financing, the Company may be unable to restart the Magellan Mine which, in turn, could affect its future ability to continue as a going concern.

Management's Discussion and Analysis and Consolidated Financial Statements

Ivernia's audited financial statements and management's discussion and analysis for the three months and year ended December 31, 2011 were filed today and will be available on the Ivernia website at www.ivernia.com or SEDAR at www.sedar.com.

About Ivernia

Ivernia is an international base metal mining company and the owner of the Magellan Mine, located in Western Australia.

Ivernia trades under the symbol "IVW" on the Toronto Stock Exchange. Additional information on Ivernia is available on the Company's website at www.ivernia.com and at SEDAR at www.sedar.com.

For further information please contact:

Ivernia Inc.
Brent Omland
Vice President, Finance & Chief Financial Officer
Suite 3303, 130 Adelaide Street West
Toronto, Ontario M5H 3P5
(416) 867-9298
Email: investor@ivernia.ca

Forward-Looking Statements

Certain statements contained in this press release constitute forward-looking information within the meaning of securities laws. All statements included herein (other than statements of historical facts) 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 transportation of lead carbonate from the Magellan Mine, the duration of the period of care and maintenance commenced in April 2011, future targets and estimates for production, capital expenditures, operating costs, cash costs, mineral resources, mineral reserves, life of mine, recovery rates, grades and prices, business strategies and measures to implement such strategies, competitive strengths, estimated goals and plans for Ivernia's future business operations, lead market outlook 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, finalization and content of Magellan Metals' final operating conditions, the duration of the suspension of the Company's transportation of lead carbonate from the Magellan Mine, the duration of the period of care and maintenance commenced in April 2011, the timing and need for additional financing, risks relating to the operations being placed on care and maintenance, matters relating the restart of mining and milling operations, matters relating to ramping up mining and milling throughput and operations, regulatory compliance and approvals, metal price volatility, lead carbonate concentrate treatment charges, exchange rates, regulatory proceedings and litigation, the fact that the Company has a single mineral property, resources and reserves, health and safety, environmental factors, mining risks, metallurgy, labour and employment regulations, government regulations, insurance, dependence on key personnel, constraints on cash flow, the nature of mineral exploration and development, matters relating generally to the transportation of lead carbonate, presence of a majority shareholder, matters related to public opinion, matters related to the Esperance settlement and shipments through the Port of Fremantle, and common share price volatility and the dilution of the Company's common shares. Additional factors and considerations are discussed in the Company's 2011 AIF and may be included in other documents filed from time to time by Ivernia with Canadian securities regulatory authorities. While Ivernia considers these assumptions to be reasonable based on information currently available to it, 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 the Company. Undue importance should not be placed on forward-looking information nor should reliance be placed upon this information as of any other date. Except as required by law, while it may elect to, Ivernia is under no obligation and does not undertake to update this information at any particular time.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Ivernia Inc. were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgements and estimates and the choice of accounting principles and methods that are appropriate to Ivernia Inc. and its subsidiaries (collectively the "Company") circumstances. The significant accounting policies of the Company are summarized in Note 3(a) 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 auditor, 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 29, 2012

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF IVERNIA INC.

We have audited the accompanying consolidated financial statements of Ivernia Inc. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2011 and December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes which comprise a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 the Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and 2010 in accordance with IFRS.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Toronto, Ontario
March 29, 2012

(Signed) PricewaterhouseCoopers LLP
Chartered Accountants,
Licensed Public Accountants

IVERNIA INC.
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31 (in thousands of United States dollars, except per share amounts)	Note	**2011** **$**	2010 $
Revenue		**11,272**	97,492
Cost of sales	15	**(34,570)**	(92,530)
Gross (loss) income		**(23,298)**	4,962
General and administrative	12(c), 15	**(10,294)**	(8,662)
Severance costs	15	**(1,127)**	–
Foreign exchange (loss) gain		**(434)**	28,061
Other income	14(d)	**371**	3,272
Operating (loss) income		**(34,782)**	27,633
Interest income	16	**602**	726
Interest expense	16	**(690)**	(5,473)
(Loss) income before tax		**(34,870)**	22,886
Deferred income tax	17	**16,230**	14,300
Net (loss) income		**(18,640)**	37,186
Fair value (loss) gain on AFS investments, net of tax		**(77)**	133
Foreign currency translation differences, net of tax		**722**	(10,333)
Comprehensive (loss) income, net of tax		**(17,995)**	26,986
Basic (loss) earnings per share		**(0.03)**	0.18
Fully diluted (loss) earnings per share	12(d)	**(0.03)**	0.18
Weighted average shares outstanding (000's)		**640,556**	210,115

The corresponding Notes form an integral part of these consolidated financial statements.

IVERNIA INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of United States dollars)	Note	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
ASSETS				
Current assets				
Cash and cash equivalents	5(a)	**11,839**	14,428	19,187
Accounts receivable and other current assets	6	**1,067**	9,002	4,515
Forward purchase derivatives	14(d)	**–**	396	452
Inventory	7	**8,053**	15,115	10,689
Available-for-sale investments	14(b)	**118**	195	62
		21,077	39,136	34,905
Non-current assets				
Inventory	7	**6,277**	–	–
Property, plant and equipment	8	**113,448**	109,254	92,693
Restricted cash and cash equivalents	5(b)	**9,053**	9,029	7,725
Deferred tax assets	17	**63,018**	41,299	22,497
		212,873	198,718	157,820
LIABILITIES				
Current liabilities				
Accounts payable and other current liabilities	9(a)	**4,480**	19,982	7,669
Forward sales derivatives	14(d)	**–**	399	18
Current portion of non-current liabilities	9(b)	**790**	4,318	7,261
Current portion of decommissioning liability	11	**129**	–	–
		5,399	24,699	14,948
Non-current liabilities				
Non-current liabilities	9(b)	**3,103**	3,018	2,837
Decommissioning liability	11	**13,661**	10,983	9,084
Convertible Notes	10	**–**	–	31,818
Deferred tax liabilities	17	**9,872**	4,382	3,880
		32,035	43,082	62,567
SHAREHOLDERS' EQUITY				
Share capital	12(a), (b)	**329,955**	287,581	247,252
Accumulated other comprehensive income		**52**	129	(4)
Equity portion of convertible debt	10	**–**	–	7,076
Contributed surplus		**10,860**	10,037	9,893
Cumulative translation adjustments		**(9,611)**	(10,333)	–
Retained deficit		**(150,418)**	(131,778)	(168,964)
		180,838	155,636	95,253
		212,873	198,718	157,820

The corresponding Notes form an integral part of these consolidated financial statements.
General Information and Going Concern (Note 1)
Commitments and Contingent Liabilities (Note 24)

Approved by the Board of Directors

(Signed) J. Trevor Eyton
Director

(Signed) Alan M. De'ath
Director

IVERNIA INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of United States dollars)	Share capital $	Equity component of convertible instruments $	Accumulated other comprehensive income $	Contributed surplus $	Cumulative translation adjustment $	Retained deficit $	Total $
Balance, January 1, 2011	287,581	–	129	10,037	(10,333)	(131,778)	155,636
Net loss for the period	–	–	–	–	–	(18,640)	(18,640)
Foreign currency translation differences – foreign operations	–	–	–	–	722	–	722
Net change in fair value of available-for-sale financial assets	–	–	(77)	–	–	–	(77)
Total other comprehensive loss	–	–	(77)	–	722	–	645
Net proceeds on issuance of shares (Note 12(b))	42,351	–	–	–	–	–	42,351
Share based compensation:							
Expense (Note 12(c))	–	–	–	826	–	–	826
Proceeds on issue of shares	23	–	–	(3)	–	–	20
Balance, December 31, 2011	329,955	–	52	10,860	(9,611)	(150,418)	180,838

The corresponding Notes form an integral part of these consolidated financial statements.

(in thousands of United States dollars)	Share capital $	Equity component of convertible instruments $	Accumulated other comprehensive income $	Contributed surplus $	Cumulative translation adjustment $	Retained deficit $	Total $
Balance, January 1, 2010	247,252	7,076	(4)	9,893	–	(168,964)	95,253
Net income for the period	–	–	–	–	–	37,186	37,186
Net change in fair value of available-for-sale financial assets	–	–	133	–	–	–	133
Foreign currency translation differences – foreign operations	–	–	–	–	(10,333)	–	(10,333)
Total other comprehensive loss	–	–	133	–	(10,333)	–	(10,200)
Conversion of Convertible Notes (Note 12(b))	40,323	(7,076)	–	–	–	–	33,247
Share based compensation:							
Expense (Note 12(c))	–	–	–	145	–	–	145
Proceeds on issue of shares	6	–	–	(1)	–	–	5
Balance, December 31, 2010	287,581	–	129	10,037	(10,333)	(131,778)	155,636

The corresponding Notes form an integral part of these consolidated financial statements.

IVERNIA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands of United States dollars)	**2011** **$**	2010 $
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net (loss) income for the year	**(18,640)**	37,186
Non-cash items:		
Depreciation	**1,637**	6,152
Stock-based compensation	**826**	145
Deferred income tax	**(16,230)**	(18,300)
Inventory write-down (recovery)	**3,361**	(1,729)
Property write-down	**–**	52
Foreign exchange and other	**447**	(22,202)
Reclamation provision payments	**(1)**	(204)
Restricted cash	**(19)**	(200)
Changes in non-cash working capital:		
Accounts receivable and other current assets	**7,935**	(4,487)
Net forward contracts marked to market	**(3)**	437
Inventory	**(2,576)**	(2,697)
Accounts payable and other current liabilities	**(13,469)**	15,493
	(36,732)	9,646
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(3,769)**	(7,897)
	(3,769)	(7,897)
FINANCING ACTIVITIES		
Net cash proceeds on issue of shares	**42,374**	5
Interest paid on Convertible Notes	**(2,033)**	(3,180)
Payment of non-current liabilities	**(3,496)**	(2,992)
	36,845	(6,167)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCY	**1,067**	(341)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,589)**	(4,759)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	**14,428**	19,187
CASH AND CASH EQUIVALENTS – END OF YEAR	**11,839**	14,428

The accompanying Notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION AND GOING CONCERN

Ivernia Inc. ("Ivernia") and its subsidiaries (collectively, the "Company") is an international base metal mining company, which, through its wholly-owned subsidiary, Magellan Metals Pty Ltd. ("Magellan Metals"), is the sole owner and operator of the Magellan lead mine (the "Magellan Mine") in Western Australia. Magellan Metals mines lead carbonate, produces lead carbonate concentrate, which is then sold to customers overseas. Ivernia is incorporated and domiciled in Canada. The address of its registered office is 130 Adelaide Street West, Suite 3303, Toronto, Ontario M5H 3P5.

Enirgi Group Corporation ("Enirgi Group") and its affiliates hold 58.90% of the issued and outstanding shares of Ivernia. Enirgi Group is 100% held by The Sentient Group of Global Resource Funds ("Sentient"), the ultimate controlling parent of Ivernia.

The Company's major subsidiaries are: Magellan Metals Pty Ltd.; Ivernia Australia Pty Ltd.; Ivernia Australia Exploration Pty Ltd.; Resource Finance One Ltd.; Resource Finance Two Ltd.; Ivernia Australian Holdings Ltd.; Ivernia (Barbados) Ltd.; and Redback Pipelines Pty Ltd.

On April 5, 2011, Magellan Metals voluntarily ceased operations as result of the detection of lead bearing mud on one of its shipping containers. With the uncertainty surrounding these results and what would be the third transportation disruption since December 31, 2010 the decision was made to undertake an end-to-end review of its risk management and compliance systems before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on full care and maintenance in April 2011.

On October 3, 2011, the Environmental Protection Authority of Western Australia ("EPA") released its report to the Minister for Environment for Western Australia entitled *Section 46 Report and Recommendation of the Environmental Protection Authority* (the "Section 46 Report") detailing its recommendations of the operating conditions for the Magellan Mine ("Draft Recommended Conditions"). The Draft Recommended Conditions contain recommended changes to the current conditions in place for the Company ("Interim Implementation Conditions") and recommended conditions that must be satisfied prior to the recommencement of transportation of any lead carbonate concentrate from the Magellan Mine. As of the date hereof, the Section 46 Report and the Draft Recommended Conditions are currently under consideration by the Minister. The Company has provided its input to the Minister on the Section 46 Report and is therefore awaiting the release of its final operating conditions. As of the date hereof, the Company and Enirgi Group, the Company's major shareholder are having constructive and regular discussions with the Minister and his staff with respect to the timing and content of the final operating conditions. The Company believes that progress is being made in these discussions, but cannot at the date hereof, provide guidance on the timing of the issuance of the final operating conditions by the Minister nor on their content.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. Different basis of measurement may be appropriate when a company is not expected to continue operations for the foreseeable future.

For the year ended December 31, 2011, the Company reported a loss of $18.6 million and an accumulated deficit of $150.4 million at that date. The Company's historical major sources of funding have been the issuance of equity and convertible debt securities for cash. In 2011, the Company issued 215.6 million common shares in three separate private placement financings for total net proceeds of C$42.0 million of which 213.8 million of those common shares were issued to Enirgi Group. The Company's cash balance at

December 31, 2011 was $11.8 million and it has no sources of operating cash flows until it either sells its lead carbonate concentrate inventory or the Magellan Mine is in operation again.

On an ongoing basis, the Company examines various financing alternatives to address future funding requirements. The Company's ability to continue as a going concern is dependent on the Company raising additional funds. On March 29, 2012, the Company received a comfort letter from Sentient confirming its commitment to provide funding to Enirgi Group, to allow Enirgi Group, in turn, to provide financing to Ivernia up to an aggregate of $10 million, if, as and when needed, during the period ending March 31, 2013 (the "Enirgi Commitment").

The Company estimates it will be able to continue as a going concern on the basis that between current cash balances and the Enirgi Commitment it can sustain itself on a reduced care and maintenance basis for at least the next twelve months however as part of this estimate, the Company has not assumed that it will receive final operating conditions and be able to ship lead carbonate concentrate stockpiles or restart the Magellan Mine during this period. If the Company was able to sell the lead carbonate concentrate stockpiles during this period, it is expected that such a sale would improve the Company's overall financial condition.

The Company expects that it will likely require additional financing to restart the Magellan Mine, in excess of current cash balances, the Enirgi Commitment and any proceeds it may receive from the shipment of lead carbonate concentrate stockpiles. The quantum of this funding requirement cannot be estimated at this time and will be contingent on the timing of the receipt of final operating conditions from the Minister, the content of those final operating conditions (including any conditions required to be completed to the satisfaction the regulators before recommencing transportation and operations), net proceeds received from the sale of stockpiles, as well as general market conditions, including but not limited to lead prices, foreign exchange and capital markets. If the Company was unable to secure this additional financing, the Company may be unable to restart the Magellan Mine which, in turn, could affect its future ability to continue as a going concern. There can be no assurance that the steps management is taking will be successful.

These material uncertainties may lend significant doubt as to the Company's ability to continue as a going concern and accordingly, the ultimate use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate, and those adjustments could be material.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS as issued by the International Accounting Standards Board ("IASB"), and require publically accountable companies to apply each standard effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. The term "Canadian GAAP" in these statements refers to Canadian generally accepted accounting principles before the adoption of IFRS.

The audited consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in Note 4(a), the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4(b) discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010, prepared under Canadian GAAP.

These audited consolidated financial statements were approved by the Board of Directors on March 29, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATION UNCERTANTIES

(a) Summary of significant accounting policies

Basis of consolidation

Subsidiaries are all entities over which the Company has the power to determine the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is acquired by the Company; they are no longer consolidated from the date the control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

Critical accounting estimates

Management makes estimates and assumptions when preparing the consolidated financial statements. These affect the reported amounts for assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated, based on managements' experience and other factors, including expectations of future costs that are believed reasonable under the circumstances. Actual results can differ from these estimates.

The significant area of estimation and uncertainty include, but are not limited to:

Inventory valuations

At each reporting date, the Company records its concentrate inventory at the lower of production cost or net realizable value. Future metal prices and the costs to realize the inventory value are used in the determination of net realizable value and are subject to market forces. Although the Company has controls and procedures in place to assist in determining tonnes in inventory, calculated inventory amounts can differ from actual amounts. At current inventory levels and values, an increase in lead prices of $100 per tonne will increase inventory values by $0.2 million whereby a decrease in lead prices of $100 per tonne will decrease inventory values by $0.5 million.

Depreciation of property, plant and equipment

Mineral properties and plant and equipment, including development costs and other, comprise a large component of the Company's assets. The depreciation, depletion and amortization of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company depreciates the assets over the life of the mine based on the depletion of the mine's proven and probable reserves.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional information subsequent to the initial assessment. This may include additional data from continued exploration, results from the reconciliation of actual mining production data with the original reserve estimates or the impact of economic factors such as changes in the price of commodities, the cost of components of production or foreign exchange rates.

A change in the original estimate of reserves would result in a change in the rate of depreciation of the related mining assets and those differences could be material.

Exploration and development costs

Expenditures during the initial exploration stage of projects are expensed as incurred. Property acquisition costs relating to exploration properties, and exploration and development expenditures incurred on properties identified as having development potential are capitalized as property, plant and equipment. Upon reaching commercial production, capitalized development costs on the consolidated statement of financial position 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.

Critical estimates are made concerning the future viability of exploration and development properties, including potential mineral content and recoverability of costs.

Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income taxes bases (“temporary differences”), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax payable involves judgment and certain assumptions about the future performance of the Company. Assessment is required about whether it is “probable” that taxable profit will be available against which the deductible temporary difference can be utilized. Changes in economic conditions, metal prices, foreign exchange rates and other factors could result in revisions to the estimates of the benefits to be realized or the timing of the utilization of the losses.

The recognition of the tax asset assumes that all the tax losses at Magellan Metals will be recovered.

Decommissioning liabilities

The Company has obligations for site restoration, rehabilitation and decommissioning related to its mining properties. The future obligations for mine closure activities are estimated using mine closure plans or other similar studies, outlining the requirements that will need to be carried out to meet the obligations. The requirements could change as a result of amendments in laws and regulations relating to environmental protection or other legislation. A number of assumptions and judgements are made in the determination of closure provisions, including timing and cost.

Provisions are established for future mine closure costs at the commencement of mining operations based on the present value of future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. Actual results could differ from estimates, and those differences could be material.

The value of the liability is affected by changes in the inflation rate and discount rate used. An increase to the inflation rate by one percentage point increases the decommissioning liability $0.3 million. An increase to the discount rate by one percentage point decreases the decommissioning liability $1.1 million.

Deferred stripping

Deferred stripping consists of costs that have been capitalized when the stripping activity represented a betterment, less amortization using the units of production method. The reserves made accessible by the betterment are estimated based on professional evaluations. A change in the original estimate of reserves would result in a change in the rate of amortization of the deferred stripping and those differences could be material.

Critical accounting judgements

Management makes judgements when preparing the consolidated financial statements. These affect the reported amounts for assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Judgements are continuously evaluated, based on managements' experience and other factors, including changes in business and economics.

The significant areas of judgement include, but are not limited to:

Impairment

Impairment tests are performed on all property, plant and equipment when events or changes in circumstances indicate that the carrying values of the assets may not be recoverable and on an annual basis. The higher of estimated discounted expected future cash flows derived from the assets less costs to sell are compared with the carrying value. If a shortfall exists, the assets are written down to estimated discounted expected future cashflows.

Future cashflows are based on estimates of long term future metal prices, exchanges rates and costs related to the Company.

Actual results could differ from estimates and those differences could be material.

Functional currency

Management has determined that the functional currency of Magellan Metals and its Australian subsidiaries is the Australian dollar based on the economic activity of the entities. Management has determined that the functional currency of Ivernia Inc. at an entity level is the US dollar. These professional judgements determine the method of consolidating the entities and have a material impact on the reporting of assets, liabilities and equity. They also have a material impact on net income, especially in foreign exchange gains and losses.

Going concern

Professional judgement is used in determining if the Company is a going concern. Significant areas include future expected cash flows, including expected costs and expected revenue.

Other accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with financial institutions, and other short-term highly liquid investments with original maturities of three months or less.

Accounts receivable

Accounts receivable are adjusted in every period for provisional payments to reflect the market fluctuations in 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 and net realizable value. Materials and other supplies held for use in the production of inventories are carried at average cost and are not written down below that cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of concentrates indicates that the cost of the finished products exceeds net realizable value, the inventory is written down to net realizable value.

Net realizable value for the concentrate inventories is the estimated selling price in the ordinary course of business based on prevailing metal prices at the reporting date, less estimated costs to bring the concentrate to sale. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

Production costs included in inventory include materials, labour, amortization and overhead if they are directly related to bringing the inventory to its current condition and location. Administrative and finance costs are excluded.

Inventory that is not expected to be used within a year is classified as long-term.

Property, plant and equipment

Plant and equipment are recorded at cost and are depreciated over the lesser of estimated lives of the related assets or life of mine (as at December 31, 2011 estimated at 10 years). For the assets that are depreciated over the life of mine, the depreciation is calculated on units of production basis.

If the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

If the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs it incurred during that period.

Mining properties are recorded at cost and are amortized over the estimated life of the proven and probable reserves to which they relate on units of production basis.

Impairment of non-financial assets

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. An impairment loss would be calculated as the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell; or, value in use (the discounted present value of future cash flows). For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash flows (cash generating units). Any impairment could be reversed in future periods if the conditions that gave rise to the original impairments are deemed to no longer apply. The carrying value of the asset is increased to the revised estimate of its recoverable amount, not to exceed the original carrying amount of the asset.

Residual values, the depreciation period for major categories, and the useful lives of assets are reviewed annually and adjusted, if appropriate.

Office equipment

Office equipment is recorded at cost and depreciated on a straight-line basis over its estimated useful life (usually 5 years), net of estimated residual value. Residual values and the useful lives of assets are reviewed annually and adjusted, if appropriate.

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.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At initial recognition, the Company classifies financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- Financial assets and liabilities at fair value through profit (loss): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transactions costs are expenses in the period they were incurred. Gains and losses arising from changes in fair value are presented in the statement of loss and within other income (expenses) in the period in which they arise. Financial assets and liabilities at fair value through loss are classified as current.
- Available-for-sale investments: Available-for-sale investments are non-derivatives comprising of marketable securities and investments in equity securities. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income.

When the investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in other income (expenses).

- Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables, cash and cash equivalents, and restricted cash and restricted cash equivalents. These are categorized as current, except for restricted cash and cash equivalents, due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received. Subsequently they are measured at amortized cost using the effective interest rate method.
- Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables and payments for the Esperance settlement and Esperance community fund ("Esperance payments"). Trade payables are initially recognized at the amount required to be paid. Financial liabilities are classified as current liabilities if payment is expected to be settled within twelve months; otherwise, they are presented as non-current liabilities. The Esperance payments are initially recorded at the amount required to be paid, less a discount to reduce to fair value. Subsequently the Esperance payments are measured at amortized cost using the effective interest method.
- Derivative financial instruments: The Company uses derivatives in the form of forward purchase contracts and forward sales contracts. All derivatives are classified as financial assets and liabilities at fair value through profit (loss) and are classified as current. Gains and losses on re-measurement are included in other income (expense).

The Company 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 quoted 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 14 for the relevant disclosures.

Impairment of financial assets

At each reporting date the Company tests for impairment and assesses whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of an impairment loss include:

- Significant financial difficulty of the obligor
- Delinquencies in interest or principal payments
- High probability that borrower will enter bankruptcy or other financial reorganization

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss as follows:

- Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of estimated future cash flows. The carrying amount of the asset is reduced either directly or indirectly through the use of an allowance account. The impairment may be reverse subsequently.

- Available-for-sale financial assets: The impairment loss is the difference between the acquisition cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of loss and comprehensive loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the statement of loss and comprehensive loss. On disposal, any amounts in other comprehensive income related to the asset are recorded as other income (expense) in the statement of loss and comprehensive loss. The carrying value of the financial asset is increased to the revised estimate of its recoverable amount, not to exceed the original carrying amount of the financial asset. Impairment losses recognized in profit and loss for an investment in an equity instrument is not reversed through profit and loss.

Accounts payable

Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method. Gains and losses on derecognition are recognized in other gains and losses.

Convertible instruments

Convertible instruments are classified separately on the statement of financial position as a liability and as equity on initial recognition. The debt component is measured as the present value of the interest payments and principal repayment. The residual is recorded as the equity component (net of pro-rated costs) 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.

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 of containers 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 at each measurement date. 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 derivative commodity price contracts are not included in revenue but are included in other income/(expenses).

Cost of sales

While the Magellan Mine is in production, cost of sales consists of the cost of mining and processing lead carbonate concentrate, including related support services, depreciation, treatment charges, freight and royalties. During the care and maintenance period, cost of sales includes costs incurred in maintaining the Magellan Mine in good condition, including maintenance.

Foreign currency translation

Functional and presentation currency:

Items included in the financial statements of each consolidated entity in the Company's group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in US$, which is Ivernia's reporting currency.

The financial statements of entities ("foreign operations") that do not have the US$ as the functional currency are translated into US$ as follows: assets and liabilities—at the closing rate at the date of the statement of financial position, income and expenses—at the average rate of the period (if this is considered a reasonable approximation to actual rates) or at the rate on the date of transaction. All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Management has determined the functional currency of Magellan Metals and its other Australian based subsidiaries is the Australian dollar (A$), the functional currency of Ivernia (Toronto office) is the US$, and the functional currency of all other subsidiaries is the US$.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the subsidiary's functional currency are recognized separately in the statement of profit (loss).

Decommissioning liabilities

Mining, processing, development and exploration activities are subject to various laws and regulations governing the protection of the environment. A liability is recognized in the period when a legal and or constructive obligation is identified. The liability is measured at the present value of the estimated cost of rehabilitation based on the risk-free nominal interest rate. A corresponding increase to the carrying value of the related asset is recorded and depreciated over the life of the related asset.

The restoration and rehabilitation activities include: dismantling and removal of structures; rehabilitation of mines and tailing dams; dismantling operating facilities; closure of plant and waste sites; and, restoration and re-vegetation of affected areas.

The liability is accreted over time to its expected future settlement values. The accretion expense is recognized in finance costs in the consolidated statement of profit (loss).

Decommissioning liabilities are appraised at every year-end or if there has been a material increase in restoration and rehabilitation activities. The liability is adjusted annually for changes in estimates in costs and timing of work to be performed. Changes in the nominal risk free interest rate and inflation rates are recognized annually, with the changes recognized as additions to or reductions from the liability and a corresponding addition to or reduction from property, plant and equipment. Any reduction to the asset may not exceed the carrying value of that asset. Upon settlement of the liability of the decommissioning liability, any difference from the carrying value is charged to net earnings (loss).

Changes in estimates of decommissioning liabilities include changes due to movement in the exchange rates.

Provisions

Provisions for claims, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. Any gain or loss realized is recorded in net income.

Exploration and development costs

Expenditures during the initial exploration stage of projects are expensed as incurred. Property acquisition costs relating to exploration properties, and exploration and development expenditures incurred on properties identified as having development potential are capitalized as property, plant and equipment. Upon reaching commercial production, capitalized development costs on the consolidated statement of financial position 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;
- Mining leases 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 the recoverable amount, which is the higher of fair value less costs to sell or value in use. An impairment loss charged to earnings is measured as the amount by which the carrying amount exceeds recoverable amount.

Deferred stripping

With respect to stripping charges, the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations are 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.

Impairment tests are performed on the deferred stripping when events or changes in circumstances indicate that the carrying values of the deferred stripping may not be recoverable, and on an annual basis. An impairment loss would be calculated as the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of its fair value less cost to sell; or, value in use (the discounted present value of future cash flows). Any impairment could be reversed in future periods if the conditions that gave rise to the original impairments are deemed to no longer apply. The carrying value of the deferred stripping is increased to the revised estimate of its recoverable amount, not to exceed the original carrying amount of the asset.

Other comprehensive income (loss)

Other comprehensive income (loss) includes unrealized gains and losses on investments classified as available-for-sale; and, cumulative translation gains (losses) (see "foreign currency translation").

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss except to the extent it relates to items recognized in other comprehensive income or directly in equity, in which case the income tax is also recognized in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements except some exemptions. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the financial reporting date and are expected to apply when the deferred tax asset or liability is realized/settled. Deferred tax assets are recognized to the extent that taxable profit will be available against which the deferred tax difference can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Share-based compensation

The Company has a share-based compensation plan that is described in Note 12(c). The Company records at fair value for stock-based compensation to 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.

The fair value is determined using a Black-Scholes valuation model. The total expense is adjusted to reflect the number of awards that will ultimately vest based on management's best estimate of forfeitures. If actual results differ from the estimate, the impact of the revision is recognized in profit and loss with a corresponding adjustment to contributed surplus.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income or loss for the year by the weighted 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. The profit or loss is adjusted by the after-tax effect of: any dividends or other items related to dilutive potential common shares deducted in arriving at profit or loss attributable to ordinary shareholders; any interest recognized in the period related to dilutive potential common shares, and; any other changes in income or expense that would result from the conversion of the dilutive potential common shares.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

(b) Accounting Standards issued but not yet applied

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard.

International Financial Reporting Standard 10—Consolidated Financial Statements ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidation and Separate Financial Statements. This IFRS is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has not yet assessed the impact of IFRS 10.

International Financial Reporting Standard 11—Joint Arrangements ("IFRS 11")

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. This IFRS is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has not yet assessed the impact of IFRS 11.

International Financial Reporting Standard 12—Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as: subsidiaries; joint arrangements; associates; and, unconsolidated structured entities. This IFRS carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. This IFRS is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company has not yet assessed the impact of IFRS 12.

International Financial Reporting Standard 13—Fair Value Measurement ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. This IFRS is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has not yet assessed the impact of IFRS 13.

International Accounting Standard 1—Presentation of Financial Statements ("IAS 1")

IAS 1 has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The Company has not yet assessed the impact of IAS 1.

International Accounting Standard 12—Income Taxes ("IAS 12")

Amendments to IAS 12 were issued by adding "Deferred Tax: Recovery of Underlying Assets" issued in December 2010. This amendment illustrates circumstances where the tax base of an asset or liability is not immediately apparent. With certain limited exceptions, a deferred tax liability (asset) shall be recognized whenever recovery or settlement of the carrying amount of and asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Circumstances are illustrated when, for example, the tax base of an asset or liability depends on the expected manner of recovery or settlement. The amendment introduces an exception to the existing principle to the measurement of deferred taxes arising on investment property measured at fair value.

This amendment is required to be applied for annual periods beginning on or after January 1, 2012 with earlier adoption permitted. The Company has not yet assessed the impact of the amendment.

International Accounting Standard 19—Employee Benefits ("IAS 19")

IAS 19 has been amended to make changes to the recognition and measurements of defined benefit pension expense and termination benefits, and to enhance the disclosure of all employee benefits. IAS 19 requires immediate recognition of actuarial gains and losses in OCI as they arise, without subsequent recycling to net income. The Company does not have a defined benefit pension plan so does not expect to be materially affected by this change.

A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosure.

International Financial Reporting Interpretations Committee 20—Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20")

IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: inventory produced; and, improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2—Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset. This IFRIC is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company has not yet assessed the impact of IFRIC 20.

4. Transition to IFRS

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this Note as follows:

(a) Transition elections
(b) Reconciliation of statements of financial position and comprehensive loss as previously reported under Canadian GAAP to IFRS
(c) Adjustments to the statement of cash flows

Amounts have been rounded to the nearest $ thousand.

(a) Transition elections

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in Note 4(a)
Deemed cost of property, plant and equipment	(i)
Cumulative translation adjustment	(ii)
Business combinations	(iii)
Share based payment transactions	(iv)
Decommissioning liabilities	(v)

The functional currency of Magellan Metals is determined under IFRS to be the Australian dollar. This was previously accounted for as if it had US$ as functional currency. Transition adjustments in Note 4(b)(i), (ii), (iv) and (xi) had material foreign exchange movements.

(i) Deemed cost of property, plant and equipment

This optional exemption applies to items of property, plant and equipment, and certain intangible assets measured under the cost model. The Company elected to carry its assets at deemed cost, which was the carrying value. Any impairment losses from previous years are included in the carrying value and cannot be reversed.

(ii) Cumulative translation adjustment

This optional exemption allows the Company to set the balance in the cumulative translation adjustment account to $nil on transition.

(iii) Business combinations

This optional exemption applies to all business combinations that occurred prior to the date of transition. It also applies to acquisitions of associates and interests in joint ventures. The Company has elected to take this optional exemption for all its business combinations.

(iv) Share based payment transactions

The Company is required to apply IFRS 2 to equity instruments that were granted after November 7, 2002, that vest after January 1, 2010. The Company has elected to take the optional exemption to elect not to apply IFRS 2 to equity instruments that were granted after November 7, 2002, that vested before January 1, 2010.

(v) Decommissioning liabilities

In applying this optional exemption, the Company measured the decommissioning liabilities as at January 1, 2010 and recognized directly in retained deficit any difference between that amount and the carrying amount determined under Canadian GAAP. It was recognized in retained deficit as the related asset was stated at fair value at the opening statement of financial position date.

(b) Reconciliation of Statement of Financial Position as previously reported under Canadian GAAP

	Notes	December 31, 2010			January 1, 2010		
(in thousands of United States dollars)	4 (b)	CGAAP $	Adj $	IFRS $	CGAAP $	Adj $	IFRS $
Assets							
Current assets							
Cash and cash equivalents		14,428	–	14,428	19,187	–	19,187
Accounts receivable		9,002	–	9,002	4,515	–	4,515
Forward purchase contracts		396	–	396	452	–	452
Forward sales contracts	–		–	–	–	–	–
Inventory	(i)	14,558	557	15,115	10,673	16	10,689
Available-for-sale investments		195	–	195	62	–	62
		38,579	557	39,136	34,889	16	34,905
Restricted cash		9,029	–	9,029	7,725	–	7,725
Property, plant and equipment	(ii)	80,638	28,616	109,254	77,863	14,830	92,693
Deferred tax	(xi)	45,677	(4,378)	41,299	21,997	500	22,497
		173,923	24,795	198,718	142,474	15,346	157,820
Liabilities							
Current liabilities							
Accounts payable and accrued liabilities		19,982	–	19,982	7,669	–	7,669
Forward purchase contracts		–	–	–	–	–	–
Forward sales contracts		399	–	399	18	–	18
Current portion of non-current debt		4,318	–	4,318	7,261	–	7,261
		24,699	–	24,699	14,948	–	14,948
Non-current debt		3,018	–	3,018	2,837	–	2,837
Convertible Note	(iii)	–	–	–	9,002	22,816	31,818
Decommissioning liabilities	(iv)	7,811	3,172	10,983	7,425	1,659	9,084
Deferred tax		4,382	–	4,382	3,880	–	3,880
		39,910	3,172	43,082	38,092	24,475	62,567
Shareholders' Equity							
Share capital	(iii)	288,835	(1,254)	287,581	247,242	10	247,252
Accumulated other comprehensive income (loss)		129	–	129	(4)	–	(4)
Equity portion of convertible debt	(iii)	–	–	–	29,350	(22,274)	7,076
Contributed surplus	(v)	10,050	(13)	10,037	9,899	(6)	9,893
Cumulative translation adjustments	(vi)	–	(10,333)	(10,333)	–	–	–
Retained deficit	(vii)	(165,001)	33,223	(131,778)	(182,105)	13,141	(168,964)
		134,013	21,623	155,636	104,382	(9,129)	95,253
		173,923	24,795	198,718	142,474	15,346	157,820

Reconciliation of Statement of Comprehensive Loss as previously reported under Canadian GAAP

	Notes	Year ended December 31, 2010		
(in thousands of United States dollars)	4 (b)	CGAAP $	Adj $	IFRS $
Revenue	(x)	100,764	(3,272)	97,492
Cost of sales	(viii)	(91,967)	(563)	(92,530)
Gross profit (loss)		8,797	(3,835)	4,962
General and administrative	(v)	(8,516)	(146)	(8,662)
Share-based compensation	(v)	(152)	152	–
Foreign exchange gain	(ix)	4,383	23,678	28,061
Other income (expense)	(x)	–	3,272	3,272
Operating income (loss)		4,512	23,121	27,633
Interest income		142	–	142
Interest expense	(iii)	(6,728)	1,839	(4,889)
Income (loss) before taxes		(2,074)	24,960	22,886
Income tax recovery	(xi)	19,178	(4,878)	14,300
Net income (loss)		17,104	20,082	37,186
Foreign currency translation differences – foreign operations	(vi)	–	(10,333)	(10,333)
Net change in fair value of available-for-sale financial assets		133	–	133
Comprehensive income (loss), net of tax		17,237	9,749	26,986

(i) Inventory

The temporal method of consolidation was used under Canadian GAAP for all Australian subsidiaries. As such, inventory was a non-monetary asset and recorded at historic foreign exchange rates. Due to the change in functional currency to A$, all assets and liabilities are converted to US$ at period end foreign exchange rates. At January 1, 2010, foreign exchange increased inventory by $16,000. At December 31, 2010, the foreign exchange increased inventory by $989,000 and the write-down reversal decreased by $432,000.

(ii) Property, plant and equipment

The temporal method of consolidation was used under Canadian GAAP for all Australian subsidiaries. As such, property, plant and equipment was a non-monetary asset and recorded at historic foreign exchange rates. Due to the change in functional currency to A$, all assets and liabilities are converted to US$ at period end rates. Amortization of these assets under Canadian GAAP was based on the historic rates. Due to the change in functional currency to A$, the depreciation of these assets is based on the average foreign exchange rate for the period. See Note 4(b)(iv) for an explanation of the differences arising from the changes in the decommissioning liabilities. At January 1, 2010 the increase due to foreign exchange to property, plant and equipment was $14,830,000. At December 31, 2010, depreciation increased $989,000, the decommissioning asset increased by $1,642,000 and the foreign exchange increase was $27,963,000.

(iii) Convertible Notes, share capital and equity portion of convertible debt

With both Canadian GAAP and IFRS, the liability and equity components of the convertible instrument are classified separately. Under Canadian GAAP, Ivernia valued the equity component first with the residual allocated to the debt component. Under IFRS, for convertible instruments, the liability component is valued first with the residual allocated to the equity component. Also, under Canadian GAAP, transaction costs were capitalized and amortized over the remaining term of the liability. Under IFRS transaction costs are expensed in the period incurred when an exchange of debt instruments or a modification of the terms of a debt instrument is accounted for as an extinguishment. At January 1, 2010, the Convertible Notes were increased in the amount of $22,816,000 to reflect the revaluations. At December 31, 2010, the Convertible Notes had been converted into shares so no adjustment was required. At January 1, 2010, the equity portion of convertible debt was decreased by the amount of $22,274,000. At December 31, 2010, the Convertible Notes had been converted into shares so no adjustment was required. At January 1, 2010, the reduction in the accretion resulted in a $10,000 addition to share capital for Convertible Notes already converted prior to transition to IFRS. At December 31, 2010, the share capital was decreased $1,254,000 consisting of reduced accretion.

(iv) Decommissioning liabilities

Under Canadian GAAP, asset retirement obligations were valued using a layered approach meaning a new layer was created whenever an additional liability was identified. The discount rate on the provision was based on the credit adjusted risk free rate of 7.5% to 8%. On adoption of IFRS the cash flows were all discounted at the risk free nominal rate of 5.25%. Under Canadian GAAP the asset retirement obligations were accounted for as a non-monetary liability and converted to US$ at historic rates. Under IFRS all assets and liabilities are converted to US$ at period end rates. Changes in the decommissioning liabilities arising from foreign exchange gains or losses, and changes to the estimated future cash flows are recognized through an adjustment to the decommissioning asset in property, plant and equipment. See Note 4(b)(ii). At January 1, 2010 the decommissioning liabilities increased $1,659,000 to reflect these adjustments. At December 31, 2010 the decommissioning liabilities increased $3,172,000 consisting of $216,000 in reduced accretion and $3,388,000 in foreign exchange increases.

(v) Contributed surplus and share based compensation

The Company's share based compensation plan requires a length of employment service in order to vest. Under Canadian GAAP, actual forfeitures were recognized when the occurred. Under IFRS, the Company must estimate the number of forfeitures when the options are issued. At January 1, 2010, contributed surplus was reduced by $6,000 reflecting the effect for estimated forfeitures. At December 31, 2010, contributed surplus was reduced by $13,000 reflecting the effect for estimated forfeitures. For the year ended December 31, 2010, the share based compensation was decreased by $7,000. The share based compensation is included in general and administrative expenses for presentation purposes; under Canadian GAAP it was a separate line item.

(vi) Cumulative translation adjustment

The temporal method of consolidation was used under Canadian GAAP for all Australian subsidiaries. As such, monetary assets and liabilities were converted to US$ at the period end foreign exchange rates; non-monetary assets and liabilities were converted to US$ at historic foreign exchange rates; revenue and most expenses were converted at either the spot rate at the date of the transaction or at average rates for expenses that were incurred evenly throughout the period, and amortization was converted at the historic foreign exchange rate to the underlying asset. For foreign entities with a functional currency other than the US$, under IFRS all assets and liabilities are converted at period end foreign exchange rates; revenue and most expenses are converted at either the spot rate at the date of the transaction or at average rates for expenses that were incurred evenly throughout the period, and amortization is converted at the average rate. At January 1, 2010, the Company elected under IFRS 1 to reset the balance in the cumulative translation adjustment to zero. This resulted in a credit to the retained deficit account in the amount of $8,859,000. At December 31, 2010, the cumulative translation adjustment decreased $10,333,000.

(vii) Retained deficit

(in thousands of United States dollars) (unaudited)	Note 4(b)	December 31, 2010 $	January 1, 2010 $
Retained deficit as reported under Canadian GAAP		(165,001)	(182,105)
IFRS adjustments:			
Convertible Note	(iii)	(552)	(552)
Share based compensation	(v)	6	6
Cumulative translation adjustment	(vi)	13,687	13,687
Cost of sales	(viii)	(563)	–
General and administrative		(1)	–
Share based compensation	(v)	7	–
Foreign exchange	(ix)	23,678	–
Interest expense	(iii), (iv)	1,839	–
Taxes	(xi)	(4,878)	–
Retained deficit under IFRS		(131,778)	(168,964)

(viii) Cost of sales

The temporal method of consolidation was used under Canadian GAAP for the Australian entities. Property, plant and equipment and inventory were non-monetary assets and recorded at historic foreign exchange rates. Due to the change in functional currency to A$, all assets and liabilities are converted to US$ at period end rates. Amortization of these assets under Canadian GAAP was based on the historic rates. For the year ended December 31, 2010, the depreciation of property, plant and equipment increased $1,124,000, the inventory recovery increased $892,000 and foreign exchange gain decreased $331,000.

(ix) Foreign exchange gain

The temporal method of consolidation was used under Canadian GAAP for the Australian entities. Monetary assets and liabilities were converted to US$ at the period end foreign exchange rates; non-monetary assets and liabilities were converted to US$ at historic foreign exchange rates; revenue and most expenses were converted at either the spot rate at the date of the transaction or at average rates for expenses that were incurred evenly throughout the period, and amortization was converted at the historic foreign exchange rate to the underlying asset. Due to the change in functional currency to A$, all assets and liabilities are converted at period end foreign exchange rates; revenue and most expenses are converted at either the spot rate at the date of the transaction or at average rates for expenses that were incurred evenly throughout the period, and amortization is converted at the average rate. For the year ended December 31, 2010, the foreign exchange gain increased $23,678,000.

(x) Revenue and other income (expenses)

Under Canadian GAAP realized and unrealized gains and losses on forward sales and purchase contracts were recorded in revenue. Under IFRS realized and unrealized gains and losses on forward sales and purchase contracts are recorded as other income (expenses). At December 31, 2010, the realized and unrealized gains were $3,272,000.

(xi) Deferred taxes and tax expense

The decommissioning liability increased in value under IFRS (see Note 4(b)(iv) above). This caused an increase in the tax asset as at January 1, 2010, in the amount of $500,000. At December 31, 2010, due to changes in the decommissioning liability and foreign exchange the tax recovery and the tax asset were both decreased by $4,878,000.

(c) Adjustments to the statements of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that under IFRS, cash flows related to interest are classified in a consistent manner as operating, investing or financing each period.

5. CASH

(a) Cash and cash equivalents

Cash equivalents are comprised of highly liquid investments with a maturity of three months or less and were comprised of the following:

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Cash	**11,839**	14,428	15,362
Cash equivalents	**–**	–	3,825
	11,839	14,428	19,187

(b) Restricted cash and cash equivalents

As at December 31, 2011, Magellan Metals had restricted cash deposited with a financial institution of $9.1 million (December 31, 2010 - $9.0 million January 1, 2010 - $7.7 million). Most of the restricted cash relates 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 for mining leases and shipments through the Port of Fremantle. All of the 2011 and 2010 balances are held in restricted cash equivalents.

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Accounts receivable	**800**	8,757	4,261
Prepaid expenses	**267**	245	254
	1,067	9,002	4,515
Less: Accounts receivable from related parties (Note 23)	**(204)**	(53)	–
Accounts receivable and other current assets from unrelated parties	**863**	8,949	4,515

7. INVENTORY

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Concentrate – mine site and in transit	**7,920**	5,736	6,446
Medium and high grade ore stockpiles	–	2,077	1,310
Low grade ore stockpiles	–	2,909	–
Consumables and other	**133**	4,393	2,933
Total current inventory	**8,053**	15,115	10,689
Medium and high grade ore stockpiles	**1,633**	–	–
Low grade ore stockpiles	**8**	–	–
Consumables and other	**4,636**	–	–
Total long-term inventory	**6,277**	–	–
	14,330	15,115	10,689

The cost of inventories recognized as an expense and included in cost of sales during 2011 was $9.7 million (2010 - $65.3 million).

During 2011, $3.4 million of inventory write-downs were recorded due to changes in market rates affecting the net realizable value of concentrate and ore inventory, and the write-off of gas and reagent inventories.

During 2010, $1.7 million of inventory recovery was recorded due to increased lead prices, reversing previously recorded write-downs in low grade ore stockpiles.

Inventory that is not expected to be used within a year is classified as long-term.

8. PROPERTY, PLANT AND EQUIPMENT

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
Year ended December 31, 2011							
Opening net book value	57,460	10	450	13,776	5,133	32,425	109,254
Additions	143	–	(18)	–	1,315	4,477	5,917
Depreciation	(1,192)	–	(151)	(194)	–	(395)	(1,932)
Transfers	202	–	128	–	(577)	247	–
Exchange differences	84	(2)	3	19	(14)	119	209
Closing net book value	**56,697**	**8**	**412**	**13,601**	**5,857**	**36,873**	**113,448**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
At December 31, 2011							
Cost	70,990	102	1,526	14,991	5,857	44,988	138,454
Accumulated depreciation	(14,293)	(94)	(1,114)	(1,390)	–	(8,115)	(25,006)
Net book value	**56,697**	**8**	**412**	**13,601**	**5,857**	**36,873**	**113,448**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
At January 1, 2010							
Cost	56,126	89	963	10,143	10,697	23,664	101,682
Accumulated depreciation	(8,181)	(80)	(728)	–	–	–	(8,989)
Net book value	**47,945**	**9**	**235**	**10,143**	**10,697**	**23,664**	**92,693**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
Year ended December 31, 2010							
Opening net book value	47,945	9	235	10,143	10,697	23,664	92,693
Additions	109	–	314	2,404	1,973	3,427	8,227
Write-down's	–	–	–	–	–	(52)	(52)
Depreciation	(3,418)	(1)	(132)	(741)	–	(2,255)	(6,547)
Transfer	6,560	–	–	–	(8,648)	2,088	–
Exchange differences	6,264	2	33	1,970	1,111	5,553	14,933
Closing net book value	**57,460**	**10**	**450**	**13,776**	**5,133**	**32,425**	**109,254**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
At December 31, 2010							
Cost	70,539	102	1,417	14,600	5,133	40,124	131,915
Accumulated depreciation	(13,079)	(92)	(967)	(824)	–	(7,699)	(22,661)
Net book value	**57,460**	**10**	**450**	**13,776**	**5,133**	**32,425**	**109,254**

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

All the property, plant and equipment assets were secured by a general security agreement in connection with the Convertible Notes until December 2010 when the notes were converted. As at December 31, 2011 none of the property, plant and equipment assets were pledged as security. No property, plant and equipment assets were disposed of during the year.

Included in cost of sales is $1.6 million (2010 - $6.2 million) for depreciation.

Expenditures related to the Prairie Downs Project (see Note 24 (a)) are included in development cost and other.

9. LIABILITIES

(a) CURRENT LIABILITIES

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Accounts payable	**4,480**	19,982	7,669
Less: Accounts payable to related parties (Note 23)	**(50)**	–	–
Accounts payable and other current liabilities to unrelated parties	**4,430**	19,982	7,669

(b) NON-CURRENT LIABILITIES

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Lease liabilities	**–**	–	1,534
Less current portion	**–**	–	(1,534)
Esperance settlement (Note 19(a))	**3,075**	6,089	7,852
Less current portion	**–**	(3,071)	(5,294)
Esperance community fund (Note 19(b))	**299**	629	712
Less current portion	**(299)**	(629)	(433)
Other	**519**	618	–
Less current portion	**(491)**	(618)	–
	3,103	3,018	2,837

During March 2011, the Company paid the second A$3 million ($3 million) payment as part of the Esperance settlement. See Note 19(a).

10. CONVERTIBLE NOTES

In March, April and May 2009, in order to settle previously issued convertible notes and to raise additional funds, the Company issued a total of $38.4 million in convertible notes (the “Convertible Notes”) as follows: (a) a due date of April 27, 2013; (b) interest of 8% payable annually with one-half thereof being payable, at Ivernia’s option, by the issuance of additional Convertible Notes; and (c) the conversion price of $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 Convertible Notes are convertible and pre-emptive rights to allow them to maintain their percentage share ownership in Ivernia.

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 Sentient and the Company (the “Governance Agreement”) 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.

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 Company paid the interest due on April 27, 2011, in the amount of $2 million.

The balances for the Convertible Notes are analyzed as follows:

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Convertible Notes outstanding	–	–	37,900
Convertible Notes converted	–	–	–
Convertible Notes outstanding	–	–	37,900
Equity value of conversion options	–	–	(7,076)
Accretion	–	–	994
Accrued interest	–	2,033	2,252
	–	2,033	34,070
Less: Accrued interest included in accounts payable	–	(2,033)	(2,252)
	–	–	31,818

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

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Equity value of conversion option	–	–	7,076
	–	–	7,076

11. DECOMMISSIONING LIABILITIES

As at December 31, 2011, the decommissioning liabilities relating to Magellan Metals' asset retirement obligations were $13.8 million (December 31, 2010 - $11.0 million, January 1, 2010 - $9.1 million) of which $129,000 is current.

Decommissioning liabilities are recorded at present value of estimated costs, assuming an adjusted nominal risk-free discount rate of 3.67% (December 31, 2010 – 5.4%, January 1, 2010 - 5.25%), and an inflation rate of 3.10% (December 31, 2010 – 2.6%, January 1, 2010 - 2.1%). The total undiscounted amount of estimated cash flows is A$14.3 million ($14.7 million) (December 31, 2010 – A$12.1 million ($12.3 million), January 1, 2010 - A$12.1 million ($10.9 million). The accretion expense was $0.6 million for the year 2011.

The Company released an updated closure plan as at December 31, 2011, reflecting the increased mineral reserves and resources of the Magellan Mine issued on March 30, 2011, and updated guidance on mine closure plans from the Department of Mines and Petroleum of Western Australia. This resulted in a $2.2 million change in cash flow estimates.

(in thousands of United States dollars)	**2011** **$**	2010 $
As at January 1	**10,983**	9,084
Changes in cash flow estimates	**2,150**	329
Foreign exchange movements and other	**38**	1,276
Payment	**(1)**	(204)
Accretion expense	**620**	498
Less current portion	**(129)**	–
As at December 31	**13,661**	10,983

12. 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 January 1, 2010	184,698	247,252
Issued on conversion of Convertible Notes	344,545	40,323
Issued on exercise of options	47	6
Outstanding as at December 31, 2010	529,290	287,581
Issued in private placement	215,641	42,351
Issued on exercise of options	200	23
Outstanding as at December 31, 2011	745,131	329,955

On January 13, 2011, the Company issued 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 ($18.2 million), less costs of C$1.0 million ($1.0 million), including C$0.9 million ($0.9 million) commitment fee paid to Sentient (see Note 23).

On May 27, 2011, the Company issued 93,370,682 common shares of Ivernia in a private placement for gross proceeds of C$0.2142 per share or approximately C$20.0 million ($20.3 million) less a commitment fee of C$1.0 million ($1.0 million) paid to Enirgi Group (see Note 23).

On December 8, 2011, the Company issued 67,570,000 common shares of Ivernia in a private placement for gross proceeds of C$0.085 per share or approximately C$5.7 million ($5.6 million) to Enirgi Group (see Note 23).

Also on December 8, 2011, the Company issued an additional 1,800,000 common shares for gross proceeds of C$0.085 per share or C$153,000 ($150,000).

During 2011, a total of 200,000 options were exercised at C$0.10 for proceeds of C$20,000 ($20,000); a total of $3,000 was transferred from contributed surplus to share capital.

(c) Share based compensation

The Company has in place a share based compensation 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 74,513,081 common shares as at December 31, 2011 (December 31, 2010 – 52,929,013). As at December 31, 2011, options to purchase 10% of the issued and outstanding common shares, being 51,088,081 common shares (December 31, 2010 – 48,760,682) 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 five years and may not be assigned under the plan. Unless the board of directors or the board committee responsible for the Plan 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. Some of the options outstanding on December 31, 2011 had been issued before the Plan was amended on June 16, 2010; accordingly, some of these outstanding options have a seven year life.

In the third quarter of 2011, the Company issued a total of 20.2 million options to senior management and employees exercisable at C$0.165 per share. Subject to certain discretion afforded to the Compensation Committee, the options granted are exercisable as to: (i) one third on the date of restart of the Magellan Mine, (ii) one third one year after the date of restart assuming no significant stoppages of mining, milling and transportation operations for any prolonged period of time, and (iii) one third a further twelve months after the date of the second vesting, assuming no significant stoppages of mining, milling and transportation operations for any prolonged period of time. Another 0.3 million options, were issued in the third quarter of 2011 that vest one third on January 1, 2012, one third on January 1, 2013 and the remainder on January 1, 2014.

A summary of the status of the Company's Plan as at December 31, 2011 and December 31, 2010 and changes during the periods ended on those dates is presented on the following table:

	2011			2010		
	Options (000's)	**Shares issued (000's)**	**Weighted average exercise price (C$)**	Options (000's)	Shares issued (000's)	Weighted average exercise price (C$)
Outstanding – beginning of year	**4,168**		**0.53**	5,470		0.73
Granted	**20,500**		**0.16**	–		–
Exercised	**(200)**	**200**	**0.10**	(47)	47	0.10
Expired	**(927)**		**1.37**	(1,025)		1.70
Forfeited	**(116)**		**0.17**	(230)		0.10
Outstanding – end of year	**23,425**		**0.18**	4,168		0.53
Exercisable – end of year	**2,658**		**1.85**	2,862		0.66

The following tables summarize information about stock options outstanding as at December 31, 2011:

	Options Outstanding			Options Exercisable		
Range Of Exercise Prices C$	Number outstanding at Dec. 31, 2011 (000's)	Weighted average remaining contractual life (Years)	Weighted average exercise price (C$)	Number exercisable at Dec. 31, 2011 (000's)	Weighted average remaining contractual life (Years)	Weighted average exercise price (C$)
0.01 – 0.10	1,760	1.75	0.10	1,760	1.75	0.10
0.11 – 0.165	20,500	4.59	0.165	–	–	–
0.17 – 0.275	400	2.00	0.275	300	1.85	0.275
0.28 – 0.405	500	2.97	0.405	333	2.97	0.405
0.41 – 1.65	265	0.64	1.58	265	0.64	1.58
0.10 – 1.65	23,425	4.25	0.18	2,658	1.80	0.306

The following table summarizes the assumptions used in calculating the fair value of options issued during 2011 and 2010:

Valuation assumptions	**2011**	2010
Expected terms (years)	**5**	–
Vesting period (years)	**0.5 - 3**	–
Expected volatility	**83% - 108%**	–
Expected dividend yield	**0%**	–
Expected forfeiture rate	**10%**	–
Risk-free interest rate	**1.4% - 2.5%**	–
Weighted average fair value of options granted (C$)	**0.12**	–

The expected volatility was calculated from the historic volatility of Ivernia's share price with the same expected terms as the option. The fair value of the options was calculated using the Black-Scholes model.

The weighted-average market price on the date of exercise of options was C$0.23.

The share based compensation for 2011 was $826,000 (2010 - $145,000). The remaining share based compensation cost to be expensed of options granted as at December 31, 2011, was $1,364,000 (December 31, 2010 - $82,000).

(d) Earnings (loss) per share

The earnings per share has been calculated using the weighted average number of shares outstanding during the year of 640,556,392 shares (2010 – 210,114,547).

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

For the years ended December 31	**2011**			2010		
	Net loss ($000's)	**Weighted average number of shares (000's)**	**Per share amount $**	Net income ($000's)	Weighted average number of shares (000's)	Per share amount $
Basic earnings (loss) per share	**(18,640)**	**640,556**	**(0.03)**	37,186	210,115	0.18
Incremental shares on assumed exercise of options	**–**	**–**	**–**	–	1,677	–
Diluted earnings (loss)	**(18,640)**	**640,556**	**(0.03)**	37,186	211,792	0.18

The incremental shares on assumed exercise of options are anti-dilutive for 2011 and do not change the loss per share.

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are intended to: fund operating and other activities at the Magellan Mine, whether the Magellan Mine is operating or on care and maintenance; 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 the Prairie Downs project; and support any business development plans.

The capital of the Company consists of items included in the shareholders' equity net of cash, long term debt and cash equivalents. As at December 31, 2011, the Company had $11.8 million in cash and cash equivalents (December 31, 2010 - $14.4 million, January 1, 2010 - $19.2 million). The Company has no long term debt as at December 31, 2011 (December 31, 2010 - $nil, January 1, 2010 - $31.8 million). The Company manages the capital structure and makes adjustments in view of changes in economic conditions and risk characteristics of the Company's assets.

In 2011, the Company issued 215.6 million common shares in three separate private placement financings totalling C$42.0 million, including C$41.8 million from Enirgi Group and Sentient (see Note 23).

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.

On March 29, 2012, the Company received a comfort letter from Sentient confirming its commitment to provide funding to Enirgi Group, to allow Enirgi Group, in turn, to provide financing to Ivernia up to an aggregate of $10 million, if, as and when needed, during the period ending March 31, 2013 (the "Enirgi Commitment").

The Company estimates that the Company will be able to continue as a going concern on the basis that between current cash balances and the Enirgi Commitment it can sustain itself on a reduced care and maintenance basis for the next twelve months. As part of this estimate, the Company has not assumed that it will receive final operating conditions and be able to ship lead carbonate concentrate stockpiles or restart the Magellan Mine during this period. If the Company were able to sell the stockpiles during this period, it is expected that such a sale would improve the Company's overall financial condition.

The Company expects that it will likely require additional financing to restart the Magellan Mine, in excess of current cash balances, the Enirgi Commitment and any proceeds it may receive from the shipment of lead carbonate concentrate stockpiles. The quantum of this funding requirement cannot be estimated at this time and will be contingent on the timing of the receipt of final operating conditions from the Minister, the content of those final operating conditions (including any conditions required to be completed to the satisfaction the regulators before recommencing transportation and operations), net proceeds received from the sale of stockpiles, as well as general market conditions, including lead prices, foreign exchange and capital markets. If the Company were unable to secure this additional financing, the Company may be unable to restart the Magellan Mine which, in turn, could affect its future ability to continue as a going concern.

14. FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities

The Company's financial assets consist of cash and cash equivalents, accounts receivable and other current assets, available-for-sale investments, restricted cash and cash equivalents and forward sales derivatives. The Company's financial liabilities consist of accounts payable and other current liabilities, forward purchase derivatives and non-current liabilities.

The cash and cash equivalents, restricted cash and cash equivalents and non-current liabilities 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, 2011, December 31, 2010 and January 1, 2010.

The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2011, December 31, 2010 and January 1, 2010.

Financial assets and liabilities at fair value as at December 31, 2011 (in thousands of United States dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Forward purchase contracts(1)	–	–	–	–
Forward sales contracts(1)	–	–	–	–
Available-for-sale investments(2)	118	–	–	118
	118	–	–	118

Financial assets and liabilities at fair value as at December 31, 2010 (in thousands of United States dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Forward purchase derivatives(1)	396	–	–	396
Forward sales derivatives(1)	(399)	–	–	(399)
Available-for-sale investments(2)	195	–	–	195
	192	–	–	192

Financial assets and liabilities at fair value as at January 1, 2010 (in thousands of United States dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Forward purchase derivatives(1)	452	–	–	452
Forward sales derivatives(1)	(18)	–	–	(18)
Available-for-sale investments(2)	62	–	–	62
	496	–	–	496

(1) These derivatives are standard forward purchase and sale contracts actively traded on the London Metal Exchange.
(2) These equity securities are traded in an active stock market.

(b) Available for sale investments

The Company has equity investments designated as "available for sale". The carrying value is marked to market based on the quoted value of the investments. Any fair value gains or losses are included in other comprehensive loss.

(c) Financial risk factors

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 financial instruments. The Company does not acquire, hold or issue these instruments for trading purposes.

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable and other current assets and restricted cash and restricted cash equivalents. 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 cash and cash equivalents, accounts receivable and other current assets consist mainly of receivables from unrelated parties, and security deposits. Financial instruments included in restricted cash and restricted cash equivalents include low interest restricted savings accounts. Management reviews credit risk by reviewing the ongoing credit rating of its financial institutions and through standard accounts receivable aging analysis. The credit risk concentration with respect to financial instruments in cash and cash equivalents, accounts receivable restricted cash and restricted cash equivalents is negligible due to the credit-worthiness of the financial institutions and debtors.

The Company's maximum exposure to credit risk at the statement of financial position date is as follows:

(in thousands of United States dollars)	**December 31, 2011** $	December 31, 2010 $	January 1, 2010 $
Cash and cash equivalents	**11,839**	14,428	19,187
Accounts receivable and other current assets	**1,067**	9,002	4,515
Forward purchase contracts	**–**	396	452
Available-for-sale investments	**118**	195	62
Restricted cash and restricted cash equivalents	**9,053**	9,029	7,725
	22,077	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, 2011, the Company had a cash balance of $11.8 million (December 31, 2010 – $14.4 million) to settle current liabilities of $5.4 million (December 31, 2010 - $24.7 million). See Note 1.

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

	December 31, 2011			December 31, 2010	January 1, 2010
(in thousands of United States dollars)	**Within 1 year** $	**1 to 4 years** $	**Total** $	Total $	Total $
Accounts payable and other current liabilities	**4,480**	**–**	**4,480**	17,949	5,417
Forward sales contracts	**–**	**–**	**–**	399	18
Decommissioning liabilities	**129**	**–**	**129**	–	–
Convertible Notes	**–**	**–**	**–**	2,033	40,152
Non-current liabilities	**790**	**3,103**	**3,893**	7,336	10,098
	5,399	**3,103**	**8,502**	27,717	55,685

These amounts represent actual cash payments to be made on the due date of the liabilities.

Market risk

(i) Interest rate risk

The Company has cash balances and no variable interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions. The Company continuously monitors the investments and is satisfied with the credit rating of its banks.

(ii) Foreign currency risk

The Company's presentation currency is the United States dollar. The Company funds operating, capital and exploration expenditures through its wholly-owned subsidiary Magellan Metals. 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.

At the statement of financial position date, the following financial assets and liabilities were denominated in Canadian and Australian dollars:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in thousands of United States dollars)	**A$**	**C$**	A$	C$	A$	C$
Cash and cash equivalents	**394**	**11,224**	4,366	363	4,895	1,003
Accounts receivable and other current assets	**421**	**315**	2,299	161	1,499	179
Available-for-sale investments	**118**	**–**	195	–	62	–
Restricted cash and cash equivalents	**9,053**	**–**	9,029	–	7,725	–
Accounts payable and other current liabilities	**2,989**	**1,136**	16,459	703	6,097	327
Non-current liabilities	**4,021**	**–**	7,336	–	10,098	–

(iii) 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 14(d).

Sensitivity analysis

As at December, 2011, December 31, 2010 and January 1, 2010, the carrying value and fair market value of the Company's current financial assets and current financial liabilities 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 twelve month period.

The Company's investments are comprised of an $118,000 equity investment in a publicly traded company classified as available-for-sale. Sensitivity to a 10% change in the equity investment's current market price would affect comprehensive income (loss) by $11,800.

The Company holds balances in Australian dollar and Canadian dollar currencies. A $0.10USD/$1AUD movement would affect net income (loss) before taxes and comprehensive income (loss) before taxes by $16 million. A $0.10USD/$1CAD movement would affect net income (loss) before taxes and comprehensive income (loss) before taxes by $6 million. A $0.10CAD/$1AUD movement would affect net income (loss) before taxes and comprehensive income (loss) before taxes by $6 million.

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

A decrease in lead prices of $100 per tonne will decrease net income (loss) by $0.5 million whereas an increase in lead prices of $100 per tonne will increase net income (loss) by $0.2 million.

(d) Forward sales and purchase derivatives

(in thousands of United States dollars)	December 31, 2011				
	Expiry Date	Tonnes	Market Value	Cost	Fair Value Adjustment
			$	$	$
Forward purchase contracts	N/A	–	–	–	–
		–	–	–	–
Forward sales contracts	N/A	–	–	–	–
		–	–	–	–
		–	–	–	–

(in thousands of United States dollars)	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)	January 1, 2010				
	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 other income (expenses). A total of $0.4 million in realized settlements and unrealized fair value adjustments has been included in other income for 2011 (2010 – $3.3 million).

15. EXPENSES BY NATURE

Included in cost of sales are all costs incurred by Magellan Metals in relation to the sale of lead carbonate concentrate and operations at the Magellan Mine including cost of goods sold, treatment charges, transportation, royalties and other operating expenses.

For the year ended (in thousands of United States dollars)	**2011** **$**	2010 $
Mining	**7,000**	15,175
Processing	**8,601**	22,563
Power	**1,162**	4,579
Maintenance	**2,750**	6,127
Site administration	**5,919**	6,074
Product realization	**5,586**	31,427
Royalties	**545**	3,918
Depreciation and amortization	**1,637**	6,152
Severance	**1,127**	–
Stockpile movements, inventory write-down's and other	**1,370**	(3,485)
Toronto and Perth office	**9,468**	8,517
Share based compensation	**826**	145
	45,991	101,192

16. FINANCE COSTS

For the year ended (in thousands of United States dollars)	**2011** **$**	2010 $
Interest income	**(602)**	(726)
Interest expense	**13**	3,443
Accretion	**677**	2,030
	88	4,747

17. 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)	**2011** **$**	2010 $
Statutory tax rate	**28.25%**	31.0%
Income tax (recovery) expense at the statutory rate	**(9,851)**	7,095
Effect of lower tax rates in foreign jurisdictions	**(2,802)**	(2,504)
Withholding tax	**4,639**	701
Change in future tax rate	**–**	451
Change in deferred tax assets not recognized	**(10,041)**	(12,140)
Permanent differences and other	**1,825**	(7,903)
Provision for deferred income tax (recovery) expense	**(16,230)**	(14,300)

In 2011, the statutory tax rate for the Company decreased from 31% to 28.25% due to a decrease in Canadian statutory tax rates.

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

For the years ended December 31 (in thousands of United States dollars)	**2011** **$**	2010 $
Property, plant, equipment, exploration and development	**(5,832)**	(4,766)
Non-capital loss carry-forwards	**37,644**	28,911
Other	**31,206**	17,154
Deferred income tax asset	**63,018**	41,299

For the years ended December 31 (in thousands of United States dollars)	**2011** **$**	2010 $
Property, plant, equipment, exploration and development	–	–
Non-capital loss carry-forwards	–	–
Other	**9,872**	4,382
Deferred income tax liability	**9,872**	4,382

All temporary differences are expected to reverse after 2012.

Other deferred tax assets include $26.3 million for intercompany financing (2010 - $12.0 million) and $4.9 million in provisions (2010 - $5.2 million). Other deferred tax liabilities consist solely of intercompany financing.

The Company has a total of approximately A$122 million ($125 million) of loss carry-forwards from Magellan Metals that have no expiry date and could be used to shelter future taxable income. These losses have been fully recognized because management believes it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Deferred benefits for losses and share issue costs in Canada in the amount of C$3.0 million have not been recognized because management believes it is not probable that future taxable profit will be available against which the unused tax losses can be utilized. These losses expire in 2031. In May 2011, after Enirgi Group purchased common shares in a private placement with the Company, they immediately owned greater than 50% of the issued and outstanding shares of the Company. This triggered an acquisition of control for Canadian tax purposes and as a result the Company lost C$15 million of non-capital losses and C$118 million of capital losses. These losses had not been previously recognized because management believed that it was not probable that the deferred income tax assets associated with those losses would be realized in the carry forward period.

Future benefits for losses in Netherlands in the amount of $6.6 million have not been recognized because management believes that it is not probable that future taxable profit will be available against which the unused tax losses can be utilized. These losses expire in 2014 through 2020.

All movements in the deferred tax provision are expected to be recognized through net income (loss).

The Company paid nil cash taxes in 2011 (2010 – nil).

There are no unremitted earnings in the Company’s wholly owned subsidiaries and therefore no withholding taxes have been accrued.

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

18. SEGMENT REPORTING

As revenue is a function of prevailing market prices at any given point, the breakdown has been provided on the basis of physical sales volumes rather than actual revenue, as this is the most accurate depiction of the Company's sales profile.

The Company has the following breakdown of its revenue by segments:

Breakdown by Product Type	% of 2011 and 2010 Sales Volume by Product
Lead Carbonate Concentrate	100%
Total	**100%**

The Company's only operation is the Magellan Mine in Western Australia which produces one product which is a clean high grade lead carbonate concentrate for sale to primary and secondary smelters around the world.

Breakdown by Customer Location	% of 2011 Sales Volume by Region	% of 2010 Sales Volume by Region
China	**69%**	84%
Europe	**31%**	10%
Africa	–	5%
Australasia	–	1%
Total	**100%**	**100%**

Breakdown by Major Customer	% of 2011 Sales Volume by Product	% of 2010 Sales Volume by Product
Major Customer A	**43%**	9%
Major Customer B	**27%**	2%
Major Customer C	**26%**	29%
Major Customer D	–	43%
Other customers	**4%**	17%
Total	**100%**	**100%**

The Company's sales mix fluctuates from year to year and is comprised of both spot and annual frame contracts. The sales mix for 2011 was especially concentrated amongst a smaller amount of customers due to the disruption of operations at the Magellan Mine during 2011. See Note 20.

19. 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 make 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 million toward comprehensive clean-up activities at the Port and within the town. The agreement has been formally approved and signed by the State, EsPA, Magellan Metals and Ivernia and mutually releases the parties from claims against each other in respect of lead pollution in and around the Port and 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 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 Metal's contribution comprises three equal payments of A$3 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 Metals achieving set cumulative earnings targets beginning January 1, 2009. The cumulative earnings targets are A$6 million, A$12 million and A$18 million 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.

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 concentrate should this work be required in the future. Magellan Metals' maximum exposure to such a claim is A$3 million; however the Company may defend such a claim as it sees fit.

The Company made the first A$3 million payment in the first quarter of 2010 after achieving the first A$6 million cumulative earnings target and the second A$3 million payment in the first quarter of 2011 after achieving the A$12 million cumulative earnings target. As a result of the Magellan Mine being in care and maintenance since April 2011 and the validation report not having been released, Magellan Metals has neither reached the third earnings target nor made the third and final payment to the State. With Magellan Metals having satisfied the condition to pay A$6 million of the total contribution prior to June 30, 2012, the provision in the Esperance Agreement that it will automatically terminate on such date is no longer of force and effect.

(b) Esperance community fund

In 2009, the Company committed to an A$1 million fund for community-based projects in Esperance over a three year period. This fund, to be administered by the Shire of Esperance, is not part of the agreement with the State and will be jointly dispersed by Magellan Metals and the Shire. A total of A$0.3 million was paid in 2011 (2010 — A$0.2 million). A total of A$0.3 million (2010—A$0.6 million) remains to be paid as at December 31, 2011.

20. CARE AND MAINTENANCE AT THE MAGELLAN MINE

In April 2011, management made the decision to place the mine on care and maintenance and undertake an end-to-end review of Magellan Metals' risk management and compliance practices before the recommencement of transportation and operations would resume.

The Magellan Mine remains on care and maintenance as at December 31, 2011.

21. COMPENSATION OF KEY MANAGEMENT

For the years ended December 31 (in thousands of United States dollars)	**2011** $	2010 $
Salaries and short-term employee benefits	**2,484**	1,551
Post-employment benefits	**239**	156
Other non-current employee benefits	**41**	45
Share-based payments	**606**	135
	3,370	1,887

Key management includes the Board of Directors, Chief Executive Officer and Ivernia Vice Presidents reporting directly to the Chief Executive Officer.

22. COMPENSATION OF EMPLOYEES

For the years ended December 31 (in thousands of United States dollars)	**2011** $	2010 $
Salaries and short-term employee benefits	**6,447**	9,393
Severance	**1,127**	–
Post-employment benefits	**811**	948
Share-based payments	**219**	13
	8,604	10,354

23. RELATED PARTY TRANSACTIONS

Sentient, Enirgi Group and its affiliates are a "related party" by virtue of its shareholding in Ivernia (Enirgi Group holding 58.90% of the issued and outstanding shares of Ivernia) and by virtue of Mr. Cassidy's representation on the Ivernia board of directors. Some Ivernia management and directors perform management functions for Enirgi Group and/or serve on the board of directors of Enirgi Group.

On March 27, 2009, $16.9 million of Convertible Notes were issued to Sentient. The transaction was measured at the same amount as 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 29, 2009 Sentient purchased an additional $4.0 million of Convertible Notes.

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 Enirgi Group.

Enirgi Group (formerly known as Green SEA Resources Inc.) is considered a related party due to its ownership by Sentient and Enirgi Group's significant shareholdings in Ivernia. Some Ivernia management and directors perform management functions for Enirgi Group and/or serve on the board of directors of Enirgi Group. Ivernia incurs expenses and provides various corporate and administrative services to Enirgi Group, which are billed to Enirgi Group. The total billed during the year was C$671,000 ($678,000) (2010 – C$360,000 ($345,000)). The balance owed by Enirgi Group at December 31, 2011 was C$207,000 ($204,000) (December 31, 2010 – $nil).

From time to time, Enirgi Group incurs expenses and provides various corporate and administrative services to Magellan Metals, and Magellan Metals incurs expenses and provides various corporate and administrative services to Enirgi Group. The total billed during 2011 was $50,000 to Magellan Metals by Enirgi Group (2010 – A$161,000 ($148,000) billed by Magellan Metals to Enirgi Group). The balance owed to Enirgi Group on December 31, 2011 was $50,000 (December 31, 2010 – A$52,000 ($53,000) owed to Magellan Metals).

On January 13, 2011, the Company sold 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 ($18.2 million), less costs of C$1.0 million ($1.0 million), including C$0.9 million ($0.9 million) commitment fee paid to Sentient.

On May 27, 2011, the Company sold 93,370,682 common shares of Ivernia in a private placement for gross proceeds of C$0.2142 per share or approximately C$20.0 million ($20.3 million) less a commitment fee of C$1.0 million ($1.0 million) to Enirgi Group.

On December 8, 2011, the Company sold 67,570,000 common shares of Ivernia in a private placement for gross proceeds of C$0.085 per share or approximately C$5.7 million ($5.6 million) to Enirgi Group.

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Prairie Downs

Under the terms of an earn-in agreement (“Earn-In Agreement”) signed in June 2010, a wholly-owned subsidiary of Ivernia may acquire up to 80% interest in the Prairie Downs lead-zinc project (the “Project”) from Australian Stock Exchange listed Prairie Downs Metals Limited (“PDML”). The Project, located 60 kilometers southwest of Newman in Western Australia, is located within 250 kilometers of the Magellan Mine.

The key features of the Earn-In Agreement with PDML:

- 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 PDML 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.
- 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.

As at December 31, 2011, the Company had spent $3.2 million (2010 - $1.1 million) pursuant to the Earn-In Agreement and completed A$3.5 million (December 31, 2010 – A$1.2 million) in eligible expenditures towards achieving the A$5.0 million expenditure requirement.

(b) Contractual and other obligations

The following table summarizes the Company's contractual and other obligations including principal payments and interest as at December 31, 2011:

Payments due by period[1] (in thousands of United States dollars)	Less than 1 year $	1-5 years $	More than 5 years $	Total $
Rental agreements and operating leases[2]	264	616	–	880
Employee benefits	491	18	8	517
Reclamation[3]	129	–	13,661	13,790
Exploration licenses[4]	181	–	–	181
Mining leases[5]	251	–	–	251
Esperance settlement[5]	–	3,075	–	3,075
Esperance community fund[6]	299	–	–	299
Purchase obligation[7]	2,255	6,765	2,255	11,275
Total	3,870	10,474	15,924	30,268

(1) These amounts are presented on an undiscounted basis.
(2) The Company has various office and office equipment leases expiring May 2012 and September 2015.
(3) 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.
(4) Under the terms of its exploration licenses, 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 2011 are dependent upon whether Magellan Metals chooses to retain its current tenements.
(5) Magellan Metals' contribution towards the cost of clean-up being undertaken by the State and EsPA originally comprised three equal payments of A$3 million on December 31, 2009, December 31, 2010 and June 30, 2011 dependent on certain cumulative earnings targets. See Note 19(a).
(6) Pursuant to an agreement executed in December, 2008, Magellan Metals committed to an A$1 million obligation to community-based projects in Esperance over a three year period.
(7) Gas supply contract until November 30, 2016.

(c) 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.

(d) 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, 2012, are dependent upon whether Magellan Metals chooses to retain its current tenements.

(e) 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 carbonate concentrates sold of 5% of the royalty value.

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 royalty 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 Wanmulla Group 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 trust for use of the gas pipeline tenement area.

Ivernia

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

For the Year Ended
December 31, 2011

Table of Contents

March 29, 2012

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is a review of the activities, financial performance and financial condition of Ivernia Inc. ("Ivernia" or the "Company") and its subsidiaries for the quarter and year ended December 31, 2011, together with certain trends and factors that are expected to impact on future operations and financial results. The information contained herein is presented as at March 29, 2012 except as otherwise noted. This discussion should be read in conjunction with the comparative annual audited consolidated financial statements and notes thereto of the Company as at and for the years ended December 31, 2011 and December 31, 2010 (the "2011 Financial Statements"). The 2011 Financial Statements have for the first time been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A 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, please refer to the section titled "Forward-Looking Statements" contained in this MD&A. All of the forward-looking statements made in this document are qualified by the foregoing cautionary statements. The business of Ivernia is subject to a variety of risks as described in the Company's Annual Information Form dated March 29, 2012 ("2011 AIF") and other continuous disclosure documents filed from time to time with the Canadian Securities Administrators and available at www.sedar.com and www.ivernia.com.

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

Additional information relating to the Company, including its most recent Annual Information Form, is available at www.sedar.com and www.ivernia.com.

OUR BUSINESS, OUTLOOK AND LONG-TERM OBJECTIVES

Ivernia is an international base metal mining company which, through its wholly-owned subsidiary, Magellan Metals Pty Ltd. ("Magellan Metals"), is the sole owner and operator of the Magellan lead mine (the "Magellan Mine") in Western Australia, which is the Company's principal asset. In April 2011, following the third transportation disruption since December 31, 2010, the pro-active decision was made to undertake an end-to-end review of Magellan Metals' risk management and compliance systems before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on care and maintenance. The mine remains on care and maintenance as at March 29, 2012. The Company cannot, at this time, provide any specific guidance on when the Company will restart operations at the Magellan Mine. The Company does not expect to be in a position to make a decision on restarting the Magellan Mine until after the Minister for Environment of Western Australia (the "Minister") issues final operating conditions (described below) and Magellan Metals completes a review of these final operating conditions and their potential impact on any restart plans. The Company has provided its input to the Minister on the Section 46 Report (defined below) and is now awaiting the release of its final operating conditions. As of the date hereof, Magellan Metals and Enirgi Group Corporation ("Enirgi Group"), the Company's major shareholder are having constructive and regular discussions with the Minister and his staff with respect to the timing and content of the final operating conditions. The Company believes progress is being made in these discussions, but cannot at the date hereof, provide guidance on the timing of the issuance of the final operating conditions by the Minister nor on their content. The length of time between making the decision to restart the Magellan Mine and the actual commencement of operations at the Magellan Mine may be affected by several factors, including the content of the final operating conditions and pre-operational ramp-up.

For further details on the events leading to the Magellan Mine being put on care and maintenance see below under "*Magellan Mine Operations*".

Ivernia's long-term goal is to become a successful mid-tier international mining company. The common shares ("Common Shares") of the Company are listed on the Toronto Stock Exchange under the symbol IVW.

Our strategy to achieve our long-term goal is centered on the initiatives outlined in the following sections.

Magellan Mine Technical Report

On March 30, 2011, the Company announced a significant increase in mineral resources and reserves at the Magellan Mine, and the filing of an updated National Instrument 43-101 Technical Report (the "2011 Technical Report") prepared by SRK Consulting (Australasia) Pty Ltd ("SRK"). A copy of the 2011 Technical Report is filed on SEDAR and is available at www.sedar.com.

The 2011 Technical Report highlighted an option to review the sizing of the operation in the third year following a resumption of production, as at higher throughput levels the Company has the potential to achieve significant economies of scale. Upon a restart of operations, the Company plans to conduct a review of the sizing of the Magellan Mine to determine the optimum throughput levels to best capitalize on potential economies of scale within the operation based on this increased resource base and exploration potential. Any increase above 1.7 million tonnes of ore milled per annum would require additional regulatory approvals (see "*Risks Factors – Regulatory Compliance and Approvals*" in the 2011 AIF).

The 2011 Technical Report assumes that, subject to regulatory approval, the Company will increase throughput capacity levels to 2.0 million tonnes of ore milled per annum in the first two years of production and that the Company will produce on average approximately 93,000 tonnes of lead contained in concentrate per annum over the next seven years of mine life and on average approximately 60,000 tonnes of lead contained in concentrate per annum over the final three and a quarter years. Even at these higher throughput levels, this would increase the life of the operation to greater than ten years. However, the Company intends to consider a number of different sizing options during the optimization and review of optimal size versus capital investment.

The mineral resources and mineral reserves estimates as at December 31, 2011 are detailed in the section below entitled *"Mineral Resources, Mineral Reserves and Mine Life"*. The mineral resources and mineral reserves have been prepared on the same basis as the 2011 Technical Report and reflect only the minor depletion from mining operations that occurred in 2011. Upon a restart of operations, the detailed review of the sizing will represent an important exercise to be completed.

Magellan Mine Operations

The Magellan Mine remains on voluntary care and maintenance as at March 29, 2012. Upon receipt of final operating conditions and assessment of those conditions the Company will focus on restarting the mine in a sustainable manner designed to unlock the value of the increased mineral resource and mineral reserve base, as detailed in the 2011 Technical Report.

The Company plans to undertake a full review of its operations upon restart to identify opportunities to provide meaningful long-term improvements to operations and increased returns to shareholders.

A Continued Focus on Compliance, Health, Safety and Environment

The events surrounding the voluntary placement of the mine on care and maintenance in April 2011 indicate that a major priority before the resumption of operations is minimizing the risk of future non-compliances with the ministerial conditions relating to the operations and transportation of lead carbonate concentrate from the Magellan Mine and maintaining a high level of transparency over Ivernia's health, safety and environmental activities. The health and safety of its employees, stakeholders and the community are paramount. The Company intends to continue to focus on assuring its numerous stakeholders in Western Australia that there has been no human health risk from the production or transportation of lead carbonate concentrate from the events that precipitated placing the Magellan Mine on voluntary care and maintenance.

Unlocking Value through the Enirgi Group Relationship

As a result of the three equity financings undertaken in 2011, Enirgi Group, a wholly-owned subsidiary of the Sentient Group of Global Resource Funds ("Sentient"), has become a significant majority shareholder holding 58.90% of the Common Shares of Ivernia. Enirgi Group was formerly known as Green SEA Resources Inc. until it changed its name in February of 2012. Enirgi Group has been a supportive majority shareholder in 2011 and has a wealth of experience in the lead industry in Australia. Enirgi Group has stated that it views Magellan Metals as an integral part of its broader energy strategy.

By leveraging off of this relationship, the Company hopes to gain from the knowledge and experience that Enirgi Group has in the lead industry while looking for ways to unlock economies of scale available to a larger consolidated lead group.

While the majority of Ivernia's Board of Directors are independent of Enirgi Group, certain directors and officers of the Company have positions with Enirgi Group. In particular, Mr. Wayne Richardson is a Director of Ivernia and the Chairman of Magellan Metals and President, Chief Executive Officer and a Director of Enirgi Group and Mr. Alan De'ath is the President, Chief Executive Officer and a Director of Ivernia and the Deputy Chairman of Enirgi Group. See *"Related Party Transactions"*.

FINANCIAL AND OPERATING HIGHLIGHTS

The following table is a summary of Ivernia's financial and operating highlights for the three months and years ended December 31, 2011, 2010 and 2009:

	Three months ended December 31,			Year ended December 31,		
(in thousands of United States dollars, unless otherwise indicated and per share amounts)	**2011** **$**	2010 $	2009[3] $	**2011** **$**	2010 $	2009[3] $
Financial Highlights						
Revenue[1]	**–**	36,969	16,904	**11,272**	97,492	25,172
Operating costs	**(1,859)**	(26,054)	(13,823)	**(29,572)**	(88,107)	(20,854)
Inventory (write-down) recovery	**(1,346)**	251	–	**(3,361)**	1,729	4,188
Amortization	**(189)**	(4,062)	(387)	**(1,637)**	(6,152)	(887)
Gross (loss) profit	**(3,394)**	7,104	2,694	**(23,298)**	4,962	7,619
General and administrative	**(2,285)**	(2,423)	(1,757)	**(9,468)**	(8,465)	(6,850)
Severance costs	**–**	–	–	**(1,127)**	–	–
Esperance/Fremantle and related costs	**–**	–	(15)	**–**	–	(1,293)
Net interest (expense) income	**130**	(586)	(888)	**589**	(2,717)	(2,812)
Accretion	**(151)**	(558)	(734)	**(677)**	(2,030)	(4,231)
Stock option costs	**(475)**	(31)	(37)	**(826)**	(145)	(75)
Debt settlement expense	**–**	–	–	**–**	–	(753)
Foreign exchange and other expenses	**11,164**	14,991	646	**(63)**	31,281	277
	8,383	11,393	(2,785)	**(11,572)**	17,924	(15,737)
Income (loss) before income taxes	**4,991**	18,497	(91)	**(34,870)**	22,886	(8,118)
Deferred income tax	**5,871**	11,309	6,004	**16,230**	14,300	4,814
Net income (loss)	**10,862**	29,806	5,913	**(18,640)**	37,186	(3,304)
Basic (loss) earnings per share [2]	**0.02**	0.10	0.03	**(0.03)**	0.18	(0.02)
Fully diluted (loss) earnings per share [2]	**0.02**	0.10	0.01	**(0.03)**	0.18	(0.02)
Weighted average shares outstanding – thousands	**693,103**	310,102	180,548	**640,556**	210,115	180,252
Unrealized gain (loss) on investment	**–**	46	–	**(77)**	133	(4)
Foreign currency translation differences	**(4,811)**	(5,938)	–	**722**	(10,333)	–
Comprehensive income (loss)	**6,051**	23,914	5,913	**(17,995)**	26,986	(3,308)
Cash provided by (used in) operations before changes in non-cash working capital	**(5,110)**	8,079	530	**(28,619)**	900	(8,287)
Cash flow provided by (used in) operating activities	**(5,880)**	7,650	6,038	**(36,732)**	9,646	(2,946)
Operating Highlights						
Ore milled – (000's tonnes)	–	316	–	**161**	874	–
Average head grade – (% lead)	–	6.9	–	**6.9**	6.8	–
Recovery – (%)	–	78	–	**73**	74	–
Concentrate produced – (000's dry tonnes)	–	25.9	–	**12.7**	68.0	–
Concentrate sold – (000's dry tonnes)	–	23.5	11.3	**7.6**	71.3	20.1
Lead metal in concentrate produced – (000's tonnes)	–	16.9	–	**8.1**	44.1	–
Lead metal in concentrate sold – (000's tonnes)	–	15.3	7.3	**4.9**	46.2	12.8
Concentrate inventory – (000's of dry tonnes)	10.1	5.1	9.2	**10.1**	5.1	9.2
Average lead price – LME cash settlement– ($ per pound)	0.90	1.08	1.05	**1.09**	0.97	0.79
Ivernia's average lead sale price – ($ per pound)	–	1.19	1.10	**1.13**	1.04	0.94
Cash cost per pound sold – ($ per pound)[4]	N/A	N/A	N/A	**N/A**	N/A	N/A

(1) Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010. On April 5, 2011 Magellan Metals voluntarily ceased transportation and operations as result of the detection of lead bearing mud on one of its shipping containers. With the uncertainty surrounding these results and what was the third transportation disruption since December 31, 2010 the decision was made to undertake an end-to-end review of its business practices before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on full care and maintenance in April 2011. The Magellan Mine remains on care and maintenance as at March 29, 2012.

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

(3) 2009 financial statements were prepared under Canadian Generally Accepted Accounting Principles, have not been converted to IFRS and may not be comparable.

(4) Cash cost per pound sold is a non-IFRS measure. Cash cost of lead sold is not currently meaningful as the Magellan Mine worked through the issues surrounding the Order, transportation delays and then care and maintenance during 2011. Upon the restart of operations of the Magellan Mine and once the Magellan Mine achieves steady state production run rates information about the cash cost of lead sold will be reintroduced.

HIGHLIGHTS FOR THE QUARTER AND YEAR ENDED DECEMBER 31, 2011

Financial

- Gross loss of $3.4 million for the fourth quarter of 2011 and $23.3 million for the year ended December 31, 2011.
- Net income after tax of $10.9 million for the fourth quarter of 2011. Net income after tax for the fourth quarter includes a foreign exchange gain of $11.2 million mainly related to Magellan Metals' functional currency being the A$ while Ivernia's reporting currency is the US$. The gain was as a consequence of the A$ strengthening against the US$ in the fourth quarter of 2011 with the US$/A$ rate increasing from 0.9744 on September 30, 2011 to 1.0250 on December 31, 2011. Of this foreign exchange gain, approximately $9.9 million is related to unrealized gains on Magellan Metals' intercompany loans denominated in US$ and Canadian dollars ("C$"). These intercompany loans are with wholly owned subsidiaries of the Company and are eliminated from the Statement of Financial Position on consolidation.
- Net loss after tax of $18.6 million for the year ended December 31, 2011.
- As at March 26, 2012, the Company had approximately $7.5 million in cash to fund ongoing care and maintenance activities at the Magellan Mine. The Company will require further financing to fund the ongoing care and maintenance and restart of the Magellan Mine. The amount of funding required will be dependent on the timing and content of final operating conditions to be issued by the Minister for Environment of Western Australia (the "Minister") as well as prevailing market conditions at that time.
- On March 29, 2012, the Company received a comfort letter from Sentient confirming its commitment to provide funding to Enirgi Group, to allow Enirgi Group, in turn, to provide financing to Ivernia up to an aggregate of $10 million, if, as and when needed, during the period ending March 31, 2013.
- The Company holds approximately 10,100 tonnes of lead carbonate concentrate inventory with a carrying value of $7.9 million as of December 31, 2011. Magellan Metals will not be in a position to ship the inventory until it has been issued its final operating conditions by the Minister and completes all required actions to be able to recommence transportation lf lead carbonate concentrate.
- During the year, the Company issued 215.6 million Common Shares in three separate private placement financings for net total proceeds of C$42.0 million. The most recent private placement closed in December 2011 and 69.4 million Common Shares were issued for net total proceeds of C$5.9 million.

Operational

- In March 2011, the Company reported a significant increase in the mineral reserves (an increase of 76% in contained lead metal) and mineral resources (an increase of 45% in contained lead metal) from the mineral resources and mineral reserves stated as of December 31, 2009.
- In March 2011, Magellan Mine recorded a record monthly mill throughput of 127,000 tonnes of ore.
- In April 2011, the detection of lead bearing mud on the bottom of a few shipping containers, ultimately resulted in the operations being voluntarily placed in care and maintenance and the Company undertaking an end-to-end review of Magellan Metals' risk management and compliance systems.
- Magellan Metals provided submissions to the Office of the Environmental Protection Authority ("OEPA") and Minister on the future operating conditions for the Magellan Mine.
- On October 3, 2011 the Environmental Protection Authority of Western Australia ("EPA") released its report to the Minister entitled *Section 46 Report and Recommendation of the Environmental Protection Authority* (the "Section 46 Report").
- The Section 46 Report included the EPA's recommended operating conditions for any future operations at the Magellan Mine and transportation of lead carbonate concentrate from the Magellan Mine (the "Draft Recommended Conditions"). The Company and Enirgi Group, the Company's major

shareholder, are having constructive and regular discussions with the Minister and his staff with respect to the timing and content of the final operating conditions. The Company believes progress is being made in these discussions, but cannot at the date hereof provide guidance on the timing of the issuance of the final operating conditions by the Minister nor on their content.

- The Company does not expect to be in a position to make a decision on restarting the Magellan Mine until after the Minister issues the final operating conditions and Magellan Metals completes a review of these final operating conditions and their potential impact on any restart plans.
- During 2011, the Company substantially completed the internal end-to-end review of the effectiveness of Magellan Metals' risk management and compliance systems.

OPERATIONS REVIEW – MAGELLAN MINE

Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010. On December 31, 2010 Magellan Metals received a stop order from the Acting Minister for Environment of Western Australia (the "Stop Order") relating to the transport of lead carbonate concentrate from the Magellan Mine. Transportation operations from the Magellan Mine were immediately halted upon receipt of the Stop Order. The Stop Order was replaced by a subsequent order issued on January 3, 2011 from the Minister (the "Order") with respect to cessation of transportation of lead carbonate concentrate from the Magellan Mine. Magellan Metals stopped mining and processing operations at the Magellan Mine commencing January 5, 2011 until February 23, 2011 when the Minister announced the lifting of the Order. Following the lifting of the Order, Magellan Metals commenced a ramp up of operations. On April 5, 2011 Magellan Metals announced that it had voluntarily ceased transportation and operations as a result of the detection of a small amount of lead bearing mud on the outside of one of its shipping containers at the Port of Fremantle. On April 7, 2011 the Company announced that it had commenced placing the Magellan Mine on care and maintenance.

There was no production or sales of lead carbonate concentrate in the fourth quarter of 2011. For the year ended December 31, 2011, the Company produced approximately 12,700 dry metric tonnes of lead carbonate concentrate containing approximately 8,100 tonnes of contained lead metal. For the year ended December 31, 2011, the Company sold approximately 7,600 dry metric tonnes of lead containing approximately 4,900 tonnes of contained lead metal. At the time that the transport operations were stopped in April there were approximately 10,100 tonnes of lead concentrate on site at an estimated average concentrate grade of 64% lead, containing approximately 6,450 tonnes of lead. This concentrate remains stored in sealed bags and protected from the weather. Prior to the recommencement of any shipping operations, the cleanliness and integrity of all bags will be verified.

Principal activities during the fourth quarter of 2011 focused on: advancing the internal end-to-end review of Magellan Metals' risk management and compliance systems; providing its views to the Western Australian Government in regards to its future operating conditions and the potential for downstream processing; and completion of Magellan Metals' internal inquiry into the source and extent of lead bearing mud that was found on certain shipping containers. A key focus of these activities is to ensure enhanced systems and procedures are put in place to prevent a reoccurrence of such incidents in the future and to identify a robust, sustainable business model that will deliver uninterrupted operations upon restart.

On October 3, 2011, the EPA released the Section 46 Report to the Minister detailing the Draft Recommended Conditions. The Draft Recommended Conditions contain recommended changes to the interim implementation conditions issued by the Minister on February 23, 2011 that currently govern the Magellan Mine's operations (the "Interim Implementation Conditions"). In addition, the Draft Recommended Conditions contain recommended conditions that must be satisfied prior to the recommencement of transportation of any lead carbonate concentrate from the Magellan Mine. In the Section 46 Report the EPA stated: "…*that the current transport and handling methods are more than sufficient to protect human health and the environment*" and that "[*t]he transportation of the bulk bags in shipping containers is over and above what is required* *and is best practice*". Further, while the EPA stated that: "*…the conditions placed on Magellan are much stricter than would normally be required for the transport and monitoring of this type of product*", the Draft Recommended Conditions, in general, recommend preserving and, in some cases, enhancing the already strict auditing, monitoring and reporting requirements currently imposed on Magellan Metals pursuant to the Interim Implementation Conditions. As of the date hereof, the Section 46 Report and the Draft Recommended Conditions are currently under consideration by the Minister.

The Company cannot, at this time, provide any specific guidance on when the Company will restart operations at the Magellan Mine. The Company does not expect to be in a position to make a decision on restarting the Magellan Mine until after the Minister issues the final operating conditions and Magellan Metals completes a review of these final operating conditions and their potential impact on any restart plans. The Company has provided its input to the Minister on the Section 46 Report and is therefore awaiting the release of its final operating conditions. As of the date hereof, the Company and Enirgi Group, the Company's major shareholder, are having constructive and regular discussions with the Minister and his staff with respect to the timing and content of the final operating conditions. The Company believes progress is being made in these discussions, but cannot at the date hereof, provide guidance on the timing of the issuance of the final operating conditions by the Minister nor on their content. The length of time between making the decision to restart the Magellan Mine and the actual commencement of operations at the Magellan Mine may be affected by several factors, including the content of the final operating conditions and pre-operational ramp-up. For instance, the final operating conditions may require that Magellan Metals complete certain actions prior to the recommencement of transportation from the Magellan Mine (see *Section 46 Inquiry and Review of Magellan Mine Operating and Transport Conditions* below). In addition, following a decision to restart and prior to commencing a restart of operations at the Magellan Mine, Magellan Metals would need to undergo a significant recruiting and training effort. Once the restart of the Magellan Mine has commenced, the Company expects that it would take greater than six months of operations before the mine and processing plant would be operating at full production levels.

A full discussion of the events for the three year period to March 29, 2012 is contained in 2011 AIF under the heading "Three-Year History - Operations", and is incorporated herein by reference. The 2011 AIF is available on the Ivernia web site at www.ivernia.com and on SEDAR at www.sedar.com.

The table below summarizes quarterly and annual mine production, process plant production, shipments and inventories for the year ended December 31, 2011.

	Three months ended March 31, 2011	Three months ended June 30, 2011	Three months ended September 30, 2011	Three months ended December 31, 2011	Year ended December 31, 2011
Mining					
Ore mined – 000's tonnes(1)	150	24	–	–	174
Low grade ore mined – 000's tonnes(2)	34	8	–	–	42
Total ore and waste mined – 000's bcm	264	52	–	–	316
Processing					
Ore milled – 000's tonnes	145	16	–	–	161
Average head grade – % lead	6.8	7.1	–	–	6.9
Average recovery – %	74	71	–	–	73
Concentrate produced – 000's dry tonnes	11.4	1.3	–	–	12.7
Concentrate grade – % lead	64	63	–	–	64
Lead metal in concentrate produced – 000's tonnes	7.3	0.8	–	–	8.1
Sales and inventories					
Concentrate sold – 000's dry tonnes	3.9	3.7	–	–	7.6
Concentrate grade – % lead	64	65	–	–	65
Lead metal in concentrate sold – 000's tonnes	2.5	2.4	–	–	4.9
Concentrate inventory – 000's dry tonnes	12.6	10.1	10.1	10.1	10.1

(1) Ore mined does not include low grade ore
(2) Low grade ore is 1.5 to 2.5% lead

Developments Related to the Magellan Mine

Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010 and mining and processing operations continued to January 5, 2011, when a temporary shutdown described below was commenced. Mining and processing operations recommenced following an announcement by Ivernia of February 23, 2011 of the lifting of the Order and continued until shortly after a further announcement by the Company on April 5, 2011, stating that all transportation had been voluntarily halted and an orderly shutdown of operations had commenced.

In mid-December 2010, Magellan Metals met and advised the OEPA that an internal review of data showed that lead from the Magellan Mine, in amounts above a baseline trigger level, potentially may have been identified in the air within two locked shipping containers. The OEPA had requested additional information from Magellan Metals, which Magellan Metals was prepared to meet in the timeline agreed with the OEPA. However, on December 31, 2010, Magellan Metals received the Stop Order relating to the transport of lead carbonate concentrate from the Magellan Mine. Transportation operations from the Magellan Mine were immediately halted upon receipt of the Stop Order. Magellan Metals received the Order on January 3, 2011, from the Minister, which replaced the Stop Order received on December 31, 2010.

On January 5, 2011, due to uncertainty surrounding the timeline to recommence shipments, Magellan Metals commenced a temporary shutdown of mining and processing operations.

On January 10, 2011, in connection with the issuance of the Order, Magellan Metals received notice of an investigation by the OEPA into Magellan Metals' compliance with the operating conditions imposed on it under the *Environmental Protection Act 1986* of Western Australia (the "EP Act"), particularly in relation to the reporting requirements for sampling results. The Managing Director of Magellan Metals was interviewed by the OEPA on March 29, 2011 and in February 2012, Magellan Metals received communication from the OEPA that its investigation had been completed and advised that no further action would be taken against Magellan Metals in relation to this matter or in relation to the diversion of trains containing Magellan lead carbonate concentrate as discussed below.

From January 5, 2011 to February 23, 2011, while operations were temporarily shutdown, Magellan Metals worked collaboratively with the Government of Western Australia and the OEPA on matters relating to the Order. On February 23, 2011, the Minister announced that the independent review commissioned by the OEPA had confirmed that no lead in container air samples exceeded the baseline of 20 micrograms of lead per cubic meter and lifted the Order. Mining and processing operations recommenced shortly after lifting of the Order on February 23, 2011.

On February 23, 2011, with immediate effect, the Minister also issued the Interim Implementation Conditions that apply to the operations and transport process from the Magellan Mine through, to, and within the Port of Fremantle. The Interim Implementation Conditions legally supersede (including adding to, but in many ways practically amending and restating) the conditions in Statement 559 (as amended by Ministerial Statement 783) and also include new interim conditions on Magellan Metals. Pursuant to the EP Act, the Interim Implementation Conditions remain in place pending a full inquiry and review of Magellan Metals' operating conditions by the EPA pursuant to section 46 of the EP Act (the "Section 46 Review"). For more information on the Interim Implementation Conditions, see *"Section 46 Inquiry and Review of Magellan Mine Operating and Transport Conditions."*

During the January 5, 2011 to February 23, 2011 temporary shutdown, Magellan Metals kept its employees on full pay and conditions in order to retain the skilled workforce that had been amassed. This approach was successful with only one resignation through that period due to the long term job uncertainty that the situation created. This decision by Magellan Metals to retain the workforce was recognized by the employees and generated significant loyalty and engagement within the Magellan Metals team. During this period the Company took a similar approach with its open pit mining contractor by making suspension payments to ensure the availability of their resources at short notice for operations to restart. As a result the operations at the Magellan Mine were able to quickly restart once the Order was lifted.

During March 2011, Ivernia voluntarily delayed the resumption of regular transport operations from the Magellan Mine, as a result of information received by the OEPA suggesting some trains carrying containers with bagged lead concentrate may not have travelled along the usual rail route from the Magellan Mine to the Port of Fremantle. During this period the Company continued at full production rates and stockpiled concentrate at the mine site. Magellan Metals investigated this matter and was advised by its rail transport contractor (the "Contractor") that between November 10, 2010 and January 4, 2011 ten trains carrying a total of 159 containers with lead carbonate concentrate were routed by the Contractor to the Port of Fremantle along a 12 kilometer rail line that is not part of the usual rail route. The decision to divert trains was made by the Contractor without Magellan Metals' approval or knowledge. Magellan Metals believes that the diversion was made by the Contractor in an attempt to reduce the volume of rail shipments into the Port of Fremantle which has had issues with congestion in the past. Magellan Metals has received assurances from the senior management of the Contractor that steps have been taken to prevent the repeat of such a diversion.

Magellan Metals completed and received the results of a voluntary program of soil sampling for lead analysis and isotopic testing along the 12 kilometers of rail line that was not part of the usual rail route. The samples were submitted to an independent, NATA accredited laboratory and the results showed no evidence of the Magellan Mine's lead in the environment along the 12 kilometer route. On March 17, 2011, Ivernia announced the resumption of regular transport operations from the Magellan Mine.

On April 5, 2011, Ivernia announced that Magellan Metals had voluntarily halted all operations at the Magellan Mine in Western Australia. Magellan Metals isotopically tested a sample of dried mud from underneath a shipping container that was transported from the Magellan Mine to the Port of Fremantle. The result showed a high probability that some or all of the lead in the sample came from the Magellan Mine. Magellan Metals immediately informed the OEPA.

Magellan Metals immediately and voluntarily ceased transportation and commenced an internal inquiry into the source and extent of the mud found on the container and disclosed that mud was observed on a small number of other containers. When transportation was disrupted there were a total of 71 containers in transit in four locations along the transport route. Consistent with previous sampling by Magellan Metals, and by the OEPA at the Port of Fremantle, there is no suggestion the source of the lead is from the bagged lead carbonate concentrate within the shipping containers, which is consistent with previous sampling results along the transport route, and there is no evidence of risk to public safety or to the environment. Samples of the mud on the containers were sent for isotopic testing which indicated a high probability of lead originating from the Magellan Mine. The shipping containers with lead bearing mud were cleaned in accordance with a protocol approved by the OEPA, and the mud disposed of by a licensed contractor in accordance with waste disposal requirements. The process, approved by the OEPA, did not pose any risk to public health or safety. The last of the 71 containers were exported in the first half of June 2011.

In April 2011, with the uncertainty surrounding the results of the mud on containers described in detail above and what would be the third transportation disruption since December 31, 2010, the decision was made to undertake an end-to-end review of Magellan Metals' business practices before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was voluntarily placed on care and maintenance.

As part of care and maintenance, Magellan Metals undertook a process of retrenchment of its work force. Magellan Metals followed an open and engaging process with its workforce over the retrenchments and received generally positive feedback both from those who were retrenched and those who were retained. The selection process was designed to retain the required skills and numbers to conduct the necessary care and maintenance work as well as the projects required to return the project to operation. Prior to care and maintenance, approximately 220 employees and contractors were employed at the Magellan Mine and an additional 15 people in the Perth office. As at December 31, 2011, a total of 29 employees and 6 contractors were employed by Magellan Metals at its Perth office and the Magellan Mine.

Since entering into care and maintenance, Magellan Metals has amended its open pit mining contract (the "Amended Contract") to suspend the services of its mining contractor at the Magellan Mine. The Amended Contract requires that Magellan Metals pay non-refundable suspension and demobilization fees and certain fixed costs to the mining contractor as part of suspending its services during the care and maintenance period. These payments were made in July 2011. Other than these fixed payments, there are no ongoing or periodical payments under the Amended Contract. Pursuant to the Amended Contract, Magellan Metals is permitted to reinstitute the services of the mining contractor following notice of re-commencement of work and payment of re-mobilization fees. Magellan Metals has issued notices of force majeure on all of its sales contracts with its lead concentrate customers. In connection with other suppliers, Magellan Metals has reduced the level of goods and services requirements in line with an operation on care and maintenance.

On April 7, 2011, Magellan Metals had a significant container inventory at the mine site with the majority of these containers containing lead carbonate concentrate in sealed two tonne bags. To avoid incurring additional demurrage charges, Magellan Metals unloaded some of the containers and stored the bagged concentrate at the mine site. This unloading process took place during the months of April, May and June; with 250 empty containers being returned to the Port of Fremantle. Magellan Metals also purchased 144 containers that were on site in order to store bagged concentrate. As at March 29, 2012, Magellan Metals continues to hold significant bagged lead carbonate concentrate stockpiles at the mine site of approximately 10,100 tonnes.

During the current care and maintenance period, the mine and processing plant have been maintained in a state of readiness for a restart of operations and on the basis of minimizing the amount of time required for a ramp-up of operations to full production levels. All process vessels have been drained, flushed and inspected with minor repairs conducted and the process vessels then refilled with water to prevent corrosion. All major equipment including mills, motors, pumps and agitators are operated on a routine basis to ensure that they are in good working order. Power supply has been rationalized in line with reduced power requirements. At the start of the care and maintenance period, all haul roads were secured. The mine has remained in a geotechnically stable condition throughout the care and maintenance period.

Since entering the care and maintenance period, Magellan Metals has substantially completed its internal comprehensive end-to-end review of all its compliance activities and response systems related to the Magellan Mine, including the mining, processing, transporting and management of lead carbonate production and export functions with the final review expected to be completed upon receipt of final operating conditions from the Minister. The objective of the end-to-end review is to prevent an ongoing pattern of temporary disruptions to operations and to further reduce risks associated with the wide range of potential events that can impact on compliance with what the Company believes are the most stringent transport conditions placed on any Western Australian mining operation.

During the fourth quarter of 2011, the Company delivered to the OEPA an internal report on its inquiry into the source and extent of lead bearing mud on containers that precipitated the Magellan Mine entering care and maintenance in April 2011. The inquiry identified that interruptions to Magellan Metals' normal transport routine from late December 2010 to March 2011 resulted in containers being stored at Magellan Metals' Wiluna mine site and the Leonora rail yard for extended and much longer than usual periods. During this time exceptionally heavy rain resulted in mud and water runoff accumulating in areas where containers were stored and mud contacting the containers. Subsequent extremely hot temperatures dried the mud and hardened it on the base of the containers. Attempts to physically sample the mud during the inquiry indicated that the mud was hard baked and required vigorous physical scraping to remove.

These conditions had not previously been encountered during Magellan Metals' sealed, double lined bags in locked shipping container transport process, and risk assessments had not identified this as being a foreseeable risk from the container handling, storage and transport process. The risk of mud baking hard onto containers was therefore not regulated or controlled by the Company's operating conditions and/or the Health, Hygiene, Environmental Monitoring Program that regulates Magellan Metals' transport operations.

Independent inspection of the containers prior to leaving the Magellan Mine did not report or identify the mud they observed on containers as an issue.

The mud on the containers is likely to have come from more than one source, and include mud from both the Magellan Mine at Wiluna and the Leonora rail yard. At least some of the lead in the mud originated from the Magellan Mine at some time, most likely from operations in the period 2005 to 2007 when lead carbonate concentrate was transported in covered kibbles via the Leonora rail yard. Naturally occurring lead and lead from historical mining and transport operations via the Leonora rail yard may have also contributed.

There is no evidence that the source of the lead in the mud was from the double lined bagged lead carbonate concentrate within the locked shipping containers. At no time was there was any risk from the mud on the containers, or its removal, to public safety or to the environment.

Based on the results to date of the Company's end-to-end review and the findings from the Company's internal inquiry into the source and extent of lead bearing mud on containers, the Company has identified a number of minor capital projects, risk reduction exercises, management plan redrafting and internal training exercises that it will undertake prior to restarting operations.

The Company will continue its internal planning process for a restart of operations; however, as previously mentioned, no decision on a restart of operations will be made until final operating conditions are issued by the Minister. A successful restart will be dependent on ensuring key personnel are in place. The care and maintenance team was carefully selected to ensure core skills were retained to allow for an efficient restart and the care and maintenance personnel are expected to fill key managerial, supervisory and staff roles in processing, maintenance, OHS&E, finance and logistics.

Production Outlook

The Magellan Mine remains on voluntary care and maintenance as at March 29, 2012.

Upon resumption of operations, the Company will provide updated guidance on its production outlook.

Health, Safety, Environment and Compliance

Health and Safety

The Company places the utmost importance on the health and safety of its employees, contractors, visitors, and the community, and is committed to continue to improve its health and safety performance, where necessary, through engaging with our employees and stakeholders and applying appropriate risk management techniques.

During 2011, there were 2 lost time injuries. Focal points during the year were on advancing the end-to-end review and updating key safety procedures including a "permit to work" system.

The Company recognizes the importance of lead management to protect its workforce, its stakeholders and the environment. Magellan Metals has a comprehensive occupational health and safety program designed to minimize the exposure of personnel to hazards, which is periodically reviewed and improved.

Environment and Compliance

The Company recognizes the importance of environmental management; it is committed to implementing and maintaining best environmental practice and continuously improving where necessary, its environmental performance through review, assessment and reporting.

As they become available, the results of transport route and Port of Fremantle monitoring are updated on the Magellan Metals website at www.magellanmetals.com.au and presented to: the OEPA, DEC, Department of Health, Department of Transport, Department of Mines and Petroleum ("DMP"), Fremantle Ports and the relevant local Government Authority as required by the Interim Implementation Conditions under which the Magellan Mine currently operates. By letter dated November 7, 2011, the OEPA advised Magellan Metals that it could cease the transport route and Fremantle Port sampling programs under the Health, Hygiene and Environmental Monitoring Program while operations remained in care and maintenance with such sampling to resume once transportation of the lead carbonate concentrate recommences from the Magellan Mine.

Along the transport route and at the Port of Fremantle, any sample that detects the presence of lead above a baseline is isotopically tested to verify whether the lead has an origin from the Magellan Mine. In October 2011, isotopic testing indicated that a sample in the Leonora rail yard facilities that had exceeded the baseline trigger level was likely to be lead primarily sourced from the Magellan Mine. This rail yard has formed part of Magellan Metals' transportation route since 2005, including throughout the period 2005-2007 when its lead carbonate concentrate was transported in bulk form in kibbles, prior to the introduction in 2009 of a process of transportation in sealed bags inside locked shipping containers. The soils at the Leonora rail yard have also been identified as one of the possible sources for the lead bearing mud found on the outside of a container at Fremantle that caused the Company to voluntarily cease operations in April and review its processes. It is not possible to identify exactly when the lead was deposited but there is no evidence of any lead having escaped from Magellan Metals' current container transport system since it commenced operations in late 2009. For this sample site the baseline trigger level and the identified samples are well below the Australian National Environment Protection Council (NEPC) investigation level for an industrial site such as this.

As a result of the sample at the Leonora rail yard, Magellan Metals has voluntarily undertaken an investigation into the source and extent of the lead identified. An Investigation Response Plan detailing Magellan Metals' responses to the findings and recommendations of the source and extent investigation and an independent review of packaging and transport procedures is being prepared by Magellan Metals. The investigation has failed to identify any evidence of lead carbonate concentrate being released into the environment from the present transport process using sealed double lined bags inside locked shipping containers. Further, practices associated with the packaging and transport process are reviewed monthly, during operations, by the OEPA approved independent accredited auditor and quarterly by the OEPA approved independent third party auditor. The monthly and quarterly reports are provided to the CEO of the OEPA.

Pursuant to the Interim Implementation Conditions, if a transport route soil sample exceeds the baseline trigger level for lead and is then confirmed to be lead from the Magellan Mine through isotopic testing, Magellan Metals must immediately cease transportation of lead carbonate concentrate from the mine site. Following which, Magellan Metals can only resume transportation from the mine site after satisfying certain preconditions, including the preparation of a re-commencement plan that is approved by the OEPA. Since Magellan Metals had voluntarily ceased transportation in April 2011 due to an unrelated matter, several months prior to the identification of the Leonora sample, it believes that such preconditions to the resumption of transportation do not apply in these circumstances. However, the OEPA may still seek to require Magellan Metals to complete some documents in respect of re-commencement prior to the re-commencement of the transportation of lead carbonate concentrate from the mine site.

In November 2011, the Company withdrew an application to the DMP to develop the Pinzon deposit pending issuance of its final operating conditions issued before submitting the application. Once Magellan Metals has been issued final operating conditions by the Minister, the Company expects to submit an updated application for the development of the Pinzon deposit and the planned increase in throughput rates highlighted in the 2011 Technical Report.

As required by the Interim Implementation Conditions, an independent third party approved by the OEPA completed four quarterly audit reports for 2011 on Magellan Metals' implementation of its Health Hygiene and Environmental Management and Monitoring Programs. These reports and Magellan Metals' response to the findings of the independent third party auditor's reports can be found on the Magellan Metals' website at www.magellanmetals.com.au.

On February 22, 2012, the Company filed a new decommissioning and rehabilitation plan (the "Closure Plan") with the CEO of the OEPA as required under its Interim Implementation Conditions. The Closure Plan reflects the expected disturbances as highlighted in the life of mine plan contained in the 2011 Technical Report. The purpose of the Closure Plan is to outline the steps to allow the mine to be closed, rehabilitated and decommissioned in an environmentally sensitive manner. The anticipated post-mining land use will be to return the land (with the exclusion of pit shells and permanent waste landforms) to the pre-mining land use of pastoral activities in accordance with the surrounding activities. It is anticipated that pit shells and permanent waste landforms will be made safe and stable and the permanent waste landforms will be designed to encourage the re-establishment of self-sustaining ecosystems.

On March 30, 2012, Magellan Metals expects to file its Compliance Assessment Report ("CAR") to the Proposal Implementation Monitoring Branch of the OEPA and its Annual Environment Report ("AER") for 2011 to the DMP. The CAR and AER are the key environmental disclosure documents produced by Magellan Metals and submitted to the Western Australian regulatory authorities.

Section 46 Inquiry and Review of Magellan Mine Operating and Transport Conditions

Pursuant to the EP Act, the Interim Implementation Conditions remain in place pending a full inquiry and review of Magellan Metals' operating conditions by the EPA pursuant to section 46 of the EP Act (the "Section 46 Review") and the release of operating conditions from the Minister. The full text of the Interim Implementation Conditions is posted on the Magellan Metals website at www.magellanmetals.com.au.

As part of working with the EPA on its Section 46 Review, Magellan Metals made submissions throughout the year to the OEPA with respect to proposed amendments to the Health, Hygiene and Environmental Management and Monitoring Programs and the Interim Implementation Conditions. In May 2011, officers of the OEPA attended the Magellan Mine site to observe how Magellan Metals receives, stores, loads and washes containers to prevent concentrate and mud from leaving the site.

On October 3, 2011, the EPA released the Section 46 Report detailing the Draft Recommended Conditions that it proposed should replace the Interim Implementation Conditions that govern operations and transport from the Magellan Mine. The Section 46 Report is available on the EPA website. A link to the Section 46 Report, which includes the Draft Recommended Conditions, can be found on the Magellan Metals' website at: www.magellanmetals.com.au/compliance/ministerial-conditions.aspx.

As mentioned above, the Interim Implementation Conditions remain in place pending the Minister's consideration of the Section 46 Report and Draft Recommended Conditions resulting from the full inquiry and review of Magellan Metals' operating conditions by the EPA pursuant to the Section 46 Report.

The Section 46 Report provides the EPA's recommendations on Magellan Metals' operating conditions for the Minister's consideration. The Minister will now consider the Section 46 Report and decide on the final content of Magellan Metals' operating conditions.

If adopted and issued by the Minister in their current form, the Draft Recommended Conditions would change the Interim Implementation Conditions including by adding conditions that must be satisfied prior to the recommencement of transportation of any lead carbonate concentrate from the Magellan Mine. The Draft Recommended Conditions, in general, preserve and, in some cases, enhance the already strict auditing, monitoring and reporting requirements currently imposed on Magellan Metals.

If adopted and issued by the Minister in their current form, the Draft Recommended Conditions require that Magellan Metals provide the OEPA with a report from an acceptable independent expert summarizing the environmental impacts and parameters of downstream processing options including smelting lead into ingots. While the Company has not changed its historical position with respect to the feasibility of a smelter or refinery, in June 2011, the Company commenced a new study into the viability of downstream processing of its concentrates given the significant increase in mineral reserves at Magellan in 2011, the changing lead concentrate market and improved economic climate since the last review was completed in 2008. In January 2012, the Company delivered its preliminary findings to the OEPA and the Minister which demonstrates that at current lead prices and exchange rates downstream processing at the Magellan Mine remains uneconomic. The findings are preliminary as they require further studying of the environmental impact of a downstream processing facility by the Company.

The Company cannot provide any guidance on the content or timing for the finalization of the Minister's review and issuance of the final operating conditions nor can the Company provide any guidance whether the final operating conditions will be materially different from the Draft Recommended Conditions.

Corporate Social Responsibility

Corporate social responsibility and fostering good relationships with all stakeholders is an essential part of the Company's emphasis on sustainable operations and developments. The Company has been actively involved in the communities of Wiluna and Esperance in a variety of ways, including the Magellan Community Fund in Esperance and the Wiluna Partnership Agreement. Additional information on current initiatives may be found at www.magellanmetals.com.au.

Esperance Settlement Agreement

Magellan Metals' contribution towards the cost of clean-up being undertaken by the Port of Esperance ("EsPA") and the State of Western Australia (the "State") pursuant to the Esperance Settlement Agreement ("ESA") comprises three equal payments of A$3 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, subject to Magellan Metals achieving set cumulative earnings targets beginning January 1, 2009. The cumulative earnings targets are A$6 million, A$12 million and A$18 million, respectively, by the three payment dates. In the event that such earnings targets before interest, taxation, historic production costs, depreciation, amortization 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. Ivernia has guaranteed the obligations of Magellan Metals. Magellan Metals reached the A$6 million earnings target in 2009 and, accordingly, on February 4, 2010 paid the State the amount of A$3 million, representing the first installment of the total agreed amount of A$9 million. Magellan Metals reached the cumulative A$12 million earnings target in 2010 and, accordingly, on March 1, 2011 paid the State the amount of A$3 million, representing the second installment of the total agreed amount of A$9 million. As a result of the Magellan Mine being in care and maintenance since April 2011 and the validation report not having been released, Magellan Metals has neither reached the third earnings target nor made the third and final payment to the State. With Magellan Metals having satisfied the condition to pay A$6 million of the total contribution prior to June 30, 2012, the provision in the ESA that it will automatically terminate on such date is no longer of force and effect.

For additional information with respect to the terms of the ESA see the Company's 2011 AIF.

Magellan Community Fund

The A$1.0 million Magellan Community Fund ("MCF") was established in 2008 as part of the negotiations, which concluded with the signing of the ESA. It provides approximately A$0.3 million annually over three years to community groups for projects delivering a sustainable benefit to a broad range of Esperance residents. As of December 31, 2011 the final commitments of the MCF have been made and remaining funding for already committed projects is being completed.

Community Relations and Native Title

The Company recognizes and meets the legal and moral obligations to traditional land owners. The Magellan Mine operations lie within the Wiluna and Tarlpa registered native title claim areas. Land Use Agreements with the Wiluna claimants were finalized in 2006 for three Magellan Metals mining tenements and for access to land on which the Magellan Metals' Gas Pipeline is constructed. Magellan Metals however, has no current mining agreements with the Tarlpa claimants as the Magellan Mine mining tenements were granted prior to the Tarlpa claim being legally recognized.

In 2010, Magellan Metals signed agreements in relation to newly granted exploration tenement areas within the Tarlpa claim area. In 2011, Magellan Metals formalized a negotiation protocol with the combined Wiluna and Tarlpa claimants to develop a broader agreement over the whole of the Magellan Mine, which will replace existing agreements. Magellan Metals is negotiating an Exploration and Prospecting Deed of Agreement with Wiluna and Tarlpa claimants which, if and when executed by all parties, would replace the previous agreements.

The Company is committed to a positive, proactive approach to community engagement.

Magellan Metals is engaging with the Wiluna Regional Partnership Agreement ("WRPA"), aimed at improving the socio-economic status of the largely indigenous Wiluna community. The WRPA brings some 50 partners together from the Aboriginal community, all levels of government, industry (with an emphasis on the mining industry) and the wider community of the Shire of Wiluna. Magellan Metals is one of eight mining company industry partners working collaboratively to demonstrate good corporate social responsibility practices to the wider community.

A major focus of the Industry Partners Group of the WRPA is development of employment and small business opportunities for the largely indigenous populations, via a 'pathways to employment' strategy. This strategy involves the mining companies in the region, the State Government through local education and training providers, the Federal Government through job service providers, non-government organizations and the local community in identifying opportunities within the mining industry, and providing training, and where appropriate support small business loans to community members.

Mineral Resources, Mineral Reserves and Mine Life

In 2011, SRK prepared the 2011 Technical Report with an effective date of March 30, 2011. SRK is a global mining consulting firm independent of Ivernia. Information from the 2011 Technical Report has been summarized in the 2010 annual information form dated March 30, 2011 (the "2010 AIF") under the heading "Description of the Business of the Company – Magellan Mine – Mineral Resources, Mineral Reserves and Mine Life". The 2010 AIF and 2011 Technical Report are available on Ivernia's website at www.ivernia.com and on SEDAR at www.sedar.com.

On March 29, 2012, the Company released updated estimates of mineral resources and mineral reserves in its 2011 AIF. The mineral resources and mineral reserves represent the same resources and reserves from the 2011 Technical Report depleted by mining activities in 2011.

Updated Mineral Resource Estimate (depleted by mining surfaces as at December 31, 2011) (1-6)

Domain	Category	Tonnes (Mt)	Grade (Pb %)	Contained Pb Metal ('000 t)
Magellan	Measured	8.4	5.2	440
	Indicated	9.2	3.9	360
	Total M&I	**17.6**	**4.5**	**800**
	Inferred	3.1	3.5	110
Gama	Measured	–	–	–
	Indicated	2.6	4.6	120
	Total M&I	**2.6**	**4.6**	**120**
	Inferred	3.4	4.9	160
Cano	Measured	2.6	5.0	130
	Indicated	1.2	3.3	40
	Total M&I	**3.8**	**4.4**	**170**
	Inferred	0.7	3.4	20
Pinzon	Measured	2.0	5.0	100
	Indicated	9.8	4.4	430
	Total M&I	**11.8**	**4.5**	**530**
	Inferred	1.1	3.3	40
Pizarro	Measured	–	–	–
	Indicated	3.6	4.2	150
	Total M&I	**3.6**	**4.2**	**150**
	Inferred	1.1	4.0	40
Drake	Measured	–	–	–
	Indicated	–	–	–
	Total M&I	**–**	**–**	**–**
	Inferred	2.7	4.1	110
Stockpiles	Measured	0.8	3.6	30
	Indicated	–	–	–
	Total M&I	**0.8**	**3.6**	**30**
	Inferred	–	–	–
Total	Measured	13.8	5.0	690
	Indicated	26.4	4.2	1,100
	Total M&I	**40.2**	**4.5**	**1,790**
	Inferred	12.1	4.0	480

(1) Mineral resources are inclusive of mineral reserves.
(2) Mineral resources have been reported based on a cut-off grade of 2.1% lead. Mineral resources are based on a report prepared by CSA Global Pty Ltd ("CSA") titled "Magellan Lead Project – 2011 Mineral Resource Estimate" dated March 29, 2012, (the "Mineral Resource Report").
(3) Mineral resources are reported in accordance with the 2004 update of the JORC code, which is consistent with the Canadian Institute of Mining, Metallurgy and Petroleum Estimation of Mineral Resources and Mineral Reserves Best Practices Guidelines.
(4) Jeff Elliott and Steve Rose of CSA are the Qualified Persons for purposes of NI 43-101, are independent of the Company and have verified the above mineral resource figures, including the underlying sampling, analytical and test data. Data was verified by a site visit and review of Magellan Metals' data.
(5) Mineral resources which are not mineral reserves do not have demonstrated economic viability. The estimate of mineral resources may be materially affected by environmental, permitting, legal, marketing, or other relevant issues.
(6) Table entries are rounded to the second significant figure, with the exception of totals. Differences may occur due to rounding.

This mineral resource estimate has been reported above a cut-off of 2.1% Pb, with the cut-off grade based on current operating parameters and consistent with previous mineral resource estimates for the Magellan Mine. The updated mineral resource estimate includes data available as at December 31, 2011 and is reported in accordance with the 2004 updated of the JORC Code. Resource classification is based on confidence in the geological domaining, data quality, drill spacing and geostatistical measurements.

The updated mineral resource estimate for Magellan Hill creates a single geological model for the Magellan, Cano, Pinzon and Gama deposits. The geostatistical parameters, including variography, top cuts, modeling parameters and estimation methods were evaluated. Wireframes were constructed and split into four deposits, based on natural breaks in the Pb grade.

Open pit mining at the Magellan Mine is by conventional drill and blast, with trucks and shovels transporting ore to a number of stockpiles to be reclaimed and fed to the primary crusher. A life of mine plan was developed for the 2011 Technical Report.

The updated mineral reserves were developed using a cut-off grade of 2.1% Pb, a price of $2,200 per tonne of Pb and at an exchange rate of US$0.95 to A$1.00. Inputs are estimated mining, processing, transportation costs and treatment charges, based upon current production cost information, capital improvements and a proposed expansion of the mill throughput from 1.7 million tonnes per annum ("Mtpa") to 2.0 Mtpa in year three of planned future mine life operations.

The updated life of mine schedule indicates a current mine life in excess of ten years, producing 1.30 million tonnes of lead concentrate containing 0.84 Mt of lead at production rates of 1.7 to 2.0 Mtpa. Such an increase in production rates would be subject to regulatory approval.

Mineral Reserves Estimate as at December 31, 2011 (1-8)

Deposit	Category	Tonnes (Mt)	Pb (%)	Contained Pb Metal ('000 t)
Magellan	Proven	5.6	6.3	354
	Probable	1.9	5.3	100
	Total	**7.5**	**6.1**	**454**
Gama	Proven	–	–	–
	Probable	1.6	5.6	88
	Total	**1.6**	**5.6**	**88**
Cano	Proven	1.8	5.6	99
	Probable	0.2	4.5	9
	Total	**2.0**	**5.5**	**108**
Pinzon	Proven	1.4	5.8	81
	Probable	5.0	5.4	270
	Total	**6.4**	**5.4**	**350**
Pizarro	Proven	–	–	–
	Probable	1.4	5.5	80
	Total	**1.4**	**5.5**	**80**
Stockpiles	Proven	0.8	3.6	30
Total Reserves	Proven	9.6	5.9	564
	Probable	10.1	5.4	547
	Total	**19.7**	**5.6**	**1,111**

(1) Mineral reserves are a subset of measured and indicated mineral resources.
(2) All mineral reserves are reported in accordance with the JORC Code. The JORC Code uses the term "ore reserve" which is equivalent to the term "mineral reserve", as defined in NI 43-101.
(3) Mineral reserves have been reported based on a cut-off grade of 2.1% Pb, an exchange rate of US$0.95/A$1.00, a lead price of US$2,200 per tonne (approx. A$2,316 per tonne) and estimated operating costs.
(4) Mineral reserves are based upon mineral resource estimates set out above, which, in turn, are based on the Mineral Resource Report prepared by CSA.
(5) Mr. Andy Robb (General Manager, Technical Services of Magellan Metals) is a Fellow of the Australasian Institute of Mining and Metallurgy and is responsible for the mineral reserves and has prepared and verified the above mineral reserve figures. Mr. Robb is a "Qualified Person" within the meaning of NI 43-101.
(6) Mineral reserves have a waste to ore ratio of 2.4 to 1.
(7) Contained lead is total lead mined, planned plant recovery is over 75% as per the life of mine plan and 95% payable contained lead.
(8) Table entries are rounded to the second significant figure. Total may not add up due to rounding.

CORPORATE DEVELOPMENT AND EXPLORATION

Prairie Downs

Under the terms of an earn-in agreement ("Earn-In Agreement") announced by the Company on June 14, 2010 a wholly-owned subsidiary of Ivernia may acquire up to 80% interest in the Prairie Downs Project from Australian Stock Exchange listed Prairie Downs Metal Limited ("PDML"). The Prairie Downs Project, located

60 kilometers southwest of Newman in Western Australia, is located within 250 kilometers of the Magellan Mine. The Company has completed drilling programs in two phases at the Prairie Downs Project.

The detailed results of the phase one and phase two programs are presented in Ivernia's news release dated January 20, 2011 and June 15, 2011 respectively, and filed on SEDAR at www.sedar.com and are also available at www.ivernia.com.

In November 2011, Ivernia notified PDML that it had met its initial A$3 million expenditure threshold as required under the Earn-In Agreement and, as a result, the Company has elected to enter into a further expenditure program for a minimum additional expenditure of A$2 million to be completed by June 2013. At the end of this additional expenditure program, the Company will have the option to purchase a 60% interest in the Prairie Downs Project for A$10 million in cash or Ivernia Common Shares (at Ivernia's election).

LEAD MARKET FUNDAMENTALS

Price of Lead

The most significant factor in determining profitability and cash flow from the Company's operations, when shipping lead carbonate concentrate, is the price of lead. During the fourth quarter of 2011, the London Metal Exchange ("LME") cash settlement lead price averaged $1,983 per tonne ($0.90 per pound), including a high of $2,119 per tonne ($0.96 per pound) and a low of $1,792 per tonne ($0.81 per pound).

Lead prices	Average		
	2011(2)	2010(1)	2009(1)
(United States dollars per pound of lead)	**$**	$	$
LME Cash Settlement Price			
First quarter	**1.18**	1.01	0.53
Second quarter	**1.16**	0.88	0.68
Third quarter	**1.12**	0.92	0.87
Fourth quarter	**0.90**	1.08	1.04
Year	**1.09**	0.97	0.78
Ivernia's average lead sale price(1)			
First quarter	**1.19**	0.97	0.59
Second quarter	**1.06**	0.81	0.74
Third quarter	**-**	1.05	1.03
Fourth quarter	**-**	1.19	1.10
Year	**1.13**	1.04	0.94

(1) Shipments of lead carbonate concentrate from the Magellan Mine were curtailed by the suspension of lead shipments through the Port of Esperance on March 12, 2007, leaving two stockpiles totalling approximately 29,000 dry metric tonnes of lead carbonate concentrate, of which 21,000 dry metric tonnes was located at the Magellan Mine site and 8,000 dry metric tonnes at the Port of Esperance. This suspension was lifted in December 2008, following which a first shipment of approximately 600 dry metric tonnes was made in March 2009 and a second shipment of approximately 7,700 dry metric tonnes in May 2009. Final reconciliation of the Esperance stockpile led to an inventory gain of approximately 300 dry metric tonnes of lead carbonate concentrate. Final reconciliation of the mine site stockpile in the first quarter of 2010 lead to an inventory loss of approximately 800 dry metric tonnes of lead carbonate concentrate. Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010.

(2) On April 5, 2011 Magellan Metals voluntarily ceased transportation and operations as result of the detection of lead bearing mud on one of its shipping containers. With the uncertainty surrounding these results and what would be the third transportation disruption since December 31, 2010 the decision was made to undertake an end-to-end review of its risk management and compliance systems before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on full care and maintenance in April 2011. The Magellan Mine remains on care and maintenance as at March 29, 2012.

Lead Price Outlook

The LME lead cash settlement price averaged $1,983 per tonne ($0.90 per pound) during the fourth quarter of 2011 and $2,402 per tonne for the year ($1.09 per pound), representing a decrease of 19.5% from the third quarter and an increase of 11.8% over the average price of 2010. Starting in mid-September, the LME lead price declined mainly due to the economic uncertainty surrounding the European debt crisis and projected slower growth in Chinese lead consumption. The highest cash settlement price of $2,939 per tonne ($1.33 per pound) occurred on April 11, 2011 and the lowest cash settlement price of $1,792 ($0.81 per pound) per tonne on October 20, 2011. The highest monthly average price was July 2011 at $2,683 per tonne ($1.22 per pound).

LME lead inventories decreased by 22,400 tonnes in the fourth quarter of 2011 but increased by 144,475 tonnes for the year, ending at 351,000 tonnes. At year end, LME inventories stood at 12.5 days of global consumption. Virtually all of the LME inventory build occurred in Asia with a year on year increase of 157,325 tonnes. European LME lead inventories increased by 3,425 tonnes while US LME lead inventories decreased by 16,275 tonnes.

Shanghai Futures Exchange ("SHFE") lead stocks ended the year at 30,600 tonnes. The SHFE started accepting lead shipments into warehouses on March 24, 2011. SHFE stocks represent 2.4 days of Chinese lead use.

Preliminary data from the International Lead Zinc Study Group ("ILZSG") indicate that in 2011, global lead supply of refined lead exceeded demand by 156,000 tonnes. The market balance for China was a 16,000 tonne surplus and for the rest of the world excluding ("ROW ex") China, the market surplus was 140,000 tonnes with 124,000 tonnes of that surplus occurring in Europe.

China continues to drive the global lead market consuming over 45% of the world's lead. In 2011, Chinese lead consumption rose by 419,000 tonnes, a 9.9% growth rate. This strong demand in China occurred despite modest growth in vehicle production. According to Thomson Reuters GFMS, automobile production rose by 0.8% to 18.4 million units and E-bike production rose by 4.3% to 9.5 million units for the 10 months ended October 2011 compared to the same period last year. The continued high growth rate of Chinese lead production reflects high replacement battery sales driven by the rapid increase in the passenger vehicle and E-bike fleet.

Chinese lead consumption was negatively impacted by the government clamp down on the lead acid battery industry for health and environmental violations.

Lead consumption in the rest of Asia outside of China grew modestly in 2011 by about 2.2%. Of the four largest lead consuming countries, three are in Asia; China, India and South Korea.

Global refined lead production outpaced lead consumption in 2011, growing 7.1% versus 5.5% for lead usage. China alone accounted for 448,000 tonnes of the 690,000 tonne increase in refined lead output. South Korea and India also increased lead production in 2011 reflecting new smelting capacity coming on-stream in both countries.

Global lead mine production increased by 412,000 tonnes of lead contained in 2011. Chinese mined lead output increased by over 27% or 507,000 tonnes. China represents 51% on global mined lead production, up from 38% in 2007. The ROW ex China mined lead output actually dropped by 4.1% from 2010 to 2011 with most of the drop occurring in Australia followed by the US and Peru.

Mined lead production outside of China is expected to continue to decline for the foreseeable future as little new mine production is coming on stream and ore depletion will result in the expected closure of several large mines over the next few years.

The January 2012 Reuters Lead Price Forecast Poll forecast an average 2012 price of $2,221 per tonne ($1.01 per pound) with the range of forecasts being between $1,900 and $2,500 per tonne (between $0.86 and $1.13 per pound). For 2013, the average forecast price is $2,492 per tonne ($1.13 per pound) with a range from $1,984 to $3,100 per tonne (between $0.90 and $1.41 per pound).

The information contained in "Lead Price Outlook" has been prepared for the Company by a third party and while the Company does not have reason to believe such information is inaccurate, market information has not been independently verified by the Company. See "*Forward Looking Statements*".

FINANCIAL RESULTS

The Company had no revenue in the first quarter of 2009 and in the second half of 2011 as a result of the Magellan Mine being put under temporary care and maintenance; therefore a comparison of the financial results between the quarters for 2011, 2010 and 2009 and the years of 2011, 2010 and 2009 may not be meaningful or informative. Also, the 2009 financial information has not been converted to International Financial Reporting Standards ("IFRS"). See "*Operations Review – Magellan Mine*" above and "*Basis of Preparation and Adoption of IFRS*" below.

On December 10, 2010, all of the outstanding $37.4 million in Convertible Notes (defined below) were converted into 340,000,003 Common Shares.

In 2011, the Company issued 215.6 million Common Shares in three separate private placement financings for total net proceeds of C$42.0 million.

See "*Private Placements*" and "*Financing Activities*" below.

On January 1, 2010, the Company adopted IFRS as detailed below.

Basis of Preparation and Adoption of IFRS

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and require publically accountable companies to apply each standard effective for years beginning on or after January 1, 2011. Accordingly, the 2011 Financial Statements are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. The term "Canadian GAAP" in this MD&A and the 2011 Financial Statements refers to Canadian generally accepted accounting principles before the adoption of IFRS.

The 2011 Financial Statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in Note 4(a) in the 2011 Financial Statements, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4(b) in the 2011 Financial Statements discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010 prepared under Canadian GAAP.

Critical accounting estimates

Management makes estimates and assumptions when preparing the consolidated financial statements. These affect the reported amounts for assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated, based on management's experience and other factors, including expectations of future costs that are believed reasonable under the circumstances. Actual results can differ from these estimates.

The significant area of estimation and uncertainty include, but are not limited to:

Inventory valuations

At each reporting date, the Company records its concentrate inventory at the lower of production cost or net realizable value. Future metal prices and the costs to realize the inventory value are used in the determination of net realizable value and are subject to market forces. Although the Company has controls and procedures in place to assist in determining tonnes in inventory, calculated inventory amounts can differ from actual amounts. At current inventory levels and values, an increase in lead prices of $100 per tonne will increase inventory values by $0.2 million; a decrease in lead prices of $100 per tonne will decrease inventory values by $0.5 million.

Depreciation of property, plant and equipment

Mineral properties and plant and equipment, including development costs and other, comprise a large component of the Company's assets. The depreciation, depletion and amortization of these assets have a significant effect on the Company's financial statements. Upon commencement of commercial production, the Company depreciates the assets over the life of the mine based on the depletion of the mine's proven and probable reserves.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves may change based on additional information subsequent to the initial assessment. This may include additional data from continued exploration, results from the reconciliation of actual mining production data with the original reserve estimates or the impact of economic factors such as changes in the price of commodities, the cost of components of production or foreign exchange rates.

A change in the original estimate of reserves would result in a change in the rate of depreciation of the related mining assets and those differences could be material.

Exploration and development costs

Expenditures during the initial exploration stage of projects are expensed as incurred. Property acquisition costs relating to exploration properties, and exploration and development expenditures incurred on properties identified as having development potential are capitalized as property, plant and equipment. Upon reaching commercial production, capitalized development costs on the consolidated statement of financial position 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.

Critical estimates are made concerning the future viability of exploration and development properties, including potential mineral content and recoverability of costs.

Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income taxes bases ("temporary differences"), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax payable involves judgement and certain assumptions about the future performance of the Company. Assessment is required about whether it is "probable" that taxable profit will be available against which the deductible temporary difference can be utilized. Changes in economic conditions, metal prices, foreign exchange rates and other factors could result in revisions to the estimates of the benefits to be realized or the timing of the utilization of the losses.

The recognition of the tax asset assumes that all the tax losses at Magellan Metals will be recovered.

Decommissioning liabilities

The Company has obligations for site restoration, rehabilitation and decommissioning related to its mining properties. The future obligation for mine closure activities are estimated using mine closure plans or other The Company has obligations for site restoration, rehabilitation and decommissioning related to its mining properties. The future obligations for mine closure activities are estimated using mine closure plans or other similar studies, outlining the requirements that will need to be carried out to meet the obligations. The requirements could change as a result of amendments in laws and regulations relating to environmental protection or other legislation. A number of assumptions and judgements are made in the determination of closure provisions, including timing and cost.

Provisions are established for future mine closure costs at the commencement of mining operations based on the present value of future cash flows required to satisfy the obligations. The amount of the present value of the provision is added to the cost of the related mining assets and depreciated over the life of the mine. Actual results could differ from estimates, and those differences could be material. The value of the liability is affected by changes in the inflation rate and discount rate used. An increase to the inflation rate by one percentage point increases the decommissioning liability $0.3 million. An increase to the discount rate by one percentage point decreases the decommissioning liability $1.1 million.

Deferred stripping

Deferred stripping consists of costs that have been capitalized when the stripping activity represented a betterment, less amortization using the units of production method. The reserves made accessible by the betterment are estimated based on professional evaluations. A change in the original estimate of reserves would result in a change in the rate of amortization of the deferred stripping and those differences could be material.

Critical accounting judgements

Management makes judgements when preparing the consolidated financial statements. These affect the reported amounts for assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Judgements are continuously evaluated, based on managements' experience and other factors, including changes in business and economics.

The significant areas of judgement include, but are not limited to:

Impairment

Impairment tests are performed on all property, plant and equipment when events or changes in circumstances indicate that the carrying values of the assets may not be recoverable and on an annual basis. The higher of estimated discounted expected future cash flows derived from the assets less costs to sell are compared with the carrying value. If a shortfall exists, the assets are written down to estimated discounted expected future cashflows.

Future cashflows are based on estimates of long term future metal prices, exchanges rates and costs related to the Company.

Actual results could differ from estimates and those differences could be material.

Functional currency

Management has determined that the functional currency of Magellan Metals and its Australian subsidiaries is the Australian dollar based on the economic activity of the entities. Management has determined that the functional currency of Ivernia Inc. at an entity level is the US dollar. These professional judgements determine the method of consolidating the entities and have a material impact on the reporting of assets, liabilities and equity. They also have a material impact on net income, especially in foreign exchange gains and losses.

Going concern

Professional judgement is used in determining if the Company is a going concern. Significant areas include future expected cash flows, including expected costs and expected revenue.

Accounting Standards issued but not yet applied

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013 with earlier adoption permitted. The Company has not yet assessed the impact of the standard.

International Financial Reporting Standard 10—Consolidated Financial Statements ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidation and Separate Financial Statements. This IFRS is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has not yet assessed the impact of IFRS 10.

International Financial Reporting Standard 11—Joint Arrangements ("IFRS 11")

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC 13, Jointly Controlled Entities—Non-monetary Contributions by Venturers. This IFRS is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has not yet assessed the impact of IFRS 11.

International Financial Reporting Standard 12—Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as: subsidiaries; joint arrangements; associates; and, unconsolidated structured entities. This IFRS carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. This IFRS is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company has not yet assessed the impact of IFRS 12.

International Financial Reporting Standard 13—Fair Value Measurement ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. This IFRS is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

The Company has not yet assessed the impact of IFRS 13.

International Accounting Standard 1—Presentation of Financial Statements ("IAS 1")

IAS 1 has been amended to require entities to separate items presented in other comprehensive income into two groups, based on whether items may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

The Company has not yet assessed the impact of IAS 1.

International Accounting Standard 12—Income Taxes ("IAS 12")

Amendments to IAS 12 were issued by adding "Deferred Tax: Recovery of Underlying Assets" issued in December 2010. This amendment illustrates circumstances where the tax base of an asset or liability is not immediately apparent. With certain limited exceptions, a deferred tax liability (asset) shall be recognized whenever recovery or settlement of the carrying amount of and asset or liability would make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences. Circumstances are illustrated when, for example, the tax base of an asset or liability depends on the expected manner of recovery or settlement. The amendment introduces an exception to the existing principle to the measurement of deferred taxes arising on investment property measured at fair value.

This amendment is required to be applied for annual periods beginning on or after January 1, 2012 with earlier adoption permitted. The Company has not yet assessed the impact of the amendment.

International Accounting Standard 19—Employee Benefits (“IAS 19”)

IAS 19 has been amended to make changes to the recognition and measurements of defined benefit pension expense and termination benefits, and to enhance the disclosure of all employee benefits. IAS 19 requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. The Company does not have a defined benefit pension plan so does not expect to be materially affected by this change.

A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment of taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosure.

International Financial Reporting Interpretations Committee 20—Stripping Costs in the Production Phase of a Surface Mine (“IFRIC 20”)

IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: inventory produced; and, improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2—Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset. This IFRIC is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Company has not yet assessed the impact of IFRIC 20.

Revenue and other income (expenses)

Concentrate revenue for the fourth quarter of 2011 was $nil, compared to concentrate revenue of $37.0 million in the fourth quarter of 2010 resulting from the shipment and sale of 23,500 dry metric tonnes of lead carbonate concentrate. No shipments took place in the fourth quarter of 2011.

Revenue for the year ended December 31, 2011, was $11.3 million from the sale of 7,600 dry metric tonnes of lead carbonate concentrate compared to $97.5 million from the sale of 71,300 dry metric tonnes of lead carbonate concentrate for the year ended December 31, 2010.

Revenue is recognized when the risk of ownership of concentrates has passed and collection is reasonably assured. Risk of ownership passes to the customer upon container 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 at each measurement date. 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 derivative commodity price contracts are not included in revenue but are included in other income (expenses).

Other income (expenses) relates to net realized and unrealized gains and losses from LME lead forward sales and purchase contracts. Other income (expenses) for the fourth quarter of 2011 and the year ended December 31, 2011 were $nil expense and $0.4 million income respectively. Other income (expenses) for the fourth quarter of 2010 and the year ended December 31, 2010 were $0.3 million income and $3.3 million income respectively.

Cash cost of lead sold – non-GAAP measure

Cash cost of lead sold is not currently meaningful as the Magellan Mine is on care and maintenance.

Upon the restart of operations of the Magellan Mine and once the Magellan Mine achieves steady state production run rates information about the cash cost of lead sold will be reintroduced.

Operating Costs

The operating costs were $2.0 million for the fourth quarter of 2011, compared to $30.8 million for the fourth quarter of 2010. Operating costs were $31.2 million for the year ended December 31, 2011 compared to $94.3 million for the year ended December 31, 2010. Operating costs include mine site operating costs, including mining, processing, site administration, power, royalties, freight, depreciation and treatment charges as well as all costs related to putting the Magellan Mine on care and maintenance. Operating costs were within expectations during the fourth quarter of 2011 as the Magellan Mine remains on care and maintenance.

Depreciation

Depreciation was $0.2 million for the fourth quarter of 2011, compared with $4.1 million for the fourth quarter of 2010. Depreciation was $1.6 million for the year ended December 31, 2011, compared with $6.2 million for the year ended December 31, 2010. Depreciation will increase with the restart of operations as the Company depreciates the plant and equipment, mineral properties and deferred costs, calculated on a units-of-production basis, contained metal, or proven and probable ore reserves where appropriate. Depreciation fluctuates depending on the levels of production and mining activity during the period.

Inventory (write-down) recovery

Inventory write-down was $1.3 million for the fourth quarter of 2011, compared with an inventory recovery of $0.3 million for the fourth quarter of 2010. Inventory write-down was $3.4 million for the year ended December 31, 2011, compared with an inventory recovery of $1.7 million for the year ended December 31, 2010. The inventory write-down in 2011 consists of net realizable value write downs to ore and concentrate stockpiles, reagent and gas inventories. The inventory recovery in 2010 relates to an increase in the value of low grade stockpiles.

General and administrative

General and administrative expenses consist primarily of corporate office costs for the Perth and Toronto offices and exclude stock based compensation in the MD&A. General and administrative expenses were $2.3 million for the fourth quarter of 2011, compared with $2.4 million for the fourth quarter of 2010.

General and administrative expenses totaled $9.5 million for the year ended December 31, 2011 plus an additional $1.1 million in severance costs, compared with $8.5 million for the year ended December 31, 2010 with no severance costs. General and administrative expenses have been reduced by $0.7 million (2010 – $0.3 million) for the year ended December 31, 2011 due to cost recoveries from Enirgi Group.

The general and administrative expenses for the year ended 2011 were $1.0 million higher than in 2010, mainly due to increased professional fees incurred as a result of the Order, the placement of the Magellan Mine on care and maintenance and IFRS implementation costs.

Severance costs

The severance costs of $1.1 million relate to the retrenchment process that took place in April and May 2011 as a result of the placement of the Magellan Mine on care and maintenance. There were no severance costs in the fourth quarter of 2011 or in 2010.

Foreign exchange

The foreign exchange gain was $11.2 million for the fourth quarter of 2011 compared with a gain of $14.8 million for the fourth quarter of 2010. Of the foreign exchange gain in the fourth quarter of 2011, approximately $9.9 million is related to unrealized gains on Magellan Metals' intercompany loans denominated in US$ and C$. The foreign exchange loss was $0.4 million for the year ended December 31, 2011 compared with a gain of $28.1 million for the year ended December 31, 2010.

The US$/A$ rates increased from 0.9744 on September 30, 2011 to 1.0250 on December 31, 2011; the US$/C$ rates increased from 0.9626 on September 30, 2011 to 1.0170 on December 31, 2011.

The US$/A$ rates increased from 1.0235 on December 31, 2010 to 1.0250 on December 31, 2011; the US$/C$ rates increased from 0.9946 on December 31, 2010 to 1.0170 on December 31, 2011.

The Company has significant intercompany loan balances within its wholly owned subsidiaries denominated in US$ and C$. Magellan Metals and the other Australian subsidiaries use the A$ as their functional currency so currency movements give rise to significant foreign exchange gains and losses. While these loans are eliminated on consolidation and largely unrealized, any foreign exchange gains and losses are not fully eliminated due to the differences in functional currency treatments.

The Company will continue to be exposed to foreign exchange movements notably in the A$ to US$, US$ to C$, and A$ to the C$. See *'Financial Instruments'* for a discussion of sensitivities.

Net interest expense and accretion

Net interest income of $0.1 million for the fourth quarter of 2011 is comprised primarily of interest earned on the cash balances. In addition to the net interest income is accretion expense of $0.2 million, primarily on the decommissioning liability. Net interest income and accretion expense for the year were $0.6 million and $0.7 million, respectively.

Net interest expense in the fourth quarter of 2010 was $0.6 million, and $0.6 million in accretion. Net interest expense and accretion for the year ended December 31, 2010, were $3.4 million, and $2.0 million, respectively. Accretion for 2010 consists of $1.3 million in the Convertible Notes, and $0.7 million in reclamation and long-term liabilities.

Share based compensation

The share based compensation was $475,000 for the fourth quarter of 2011 compared with $31,000 for the fourth quarter of 2010. The share based compensation was $826,000 for the year ended December 31, 2011 compared with $145,000 for the year ended December 31, 2010. During the fourth quarter of 2011, no options were granted (fourth quarter 2010 – nil), no options were exercised (fourth quarter 2010 – 46,666), 500,000 options expired (fourth quarter 2010 – nil), and no options were forfeited (fourth quarter 2010 – 33,334). See "Balance Sheet – Stock Options".

Expenses by nature

Included in cost of sales are all costs incurred by Magellan Metals in relation to the sale of lead carbonate concentrate and operations at the Magellan Mine including cost of goods sold, treatment charges, transportation, royalties and other operating expenses, less net gas revenue.

For the year ended (in thousands of United States dollars)	**2011** **$**	2010 $
Mining	**7,000**	15,175
Processing	**8,601**	22,563
Power	**1,162**	4,579
Maintenance	**2,750**	6,127
Site administration	**5,919**	6,074
Product realization	**5,586**	31,427
Royalties	**545**	3,918
Depreciation and amortization	**1,637**	6,152
Severance	**1,127**	-
Stockpile movements and other	**1,370**	(3,485)
Toronto and Perth office	**9,468**	8,517
Share based compensation	**826**	145
	45,991	101,192

Finance costs

	Three months ended December 31		**Year ended December 31**	
(in thousands of United States dollars)	**2011** **$**	2010 $	**2011** **$**	2010 $
Interest income	**(130)**	(241)	**(602)**	(726)
Interest expense	**-**	1,555	**13**	4,171
Accretion	**151**	170	**677**	1,302
	21	1,484	**88**	4,747

Interest expense is less in 2011 than in 2010 because the Company's Convertible Notes (as defined below) were converted into Common Shares during the fourth quarter of 2010. See *Financing Activities – (b) Convertible Notes* below. The Company has no debt outstanding.

Deferred income tax

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)	**2011** **$**	2010 $
Statutory tax rate	**28.25%**	31.0%
Income tax (recovery) expense at the statutory rate	**(9,851)**	7,095
Effect of lower tax rates in foreign jurisdictions	**(2,802)**	(2,504)
Withholding tax	**4,639**	701
Change in future tax rate	**–**	451
Change in deferred tax assets not recognized	**(10,041)**	(12,140)
Permanent differences and other	**1,825**	(7,903)
Provision for deferred income tax (recovery) expense	**(16,230)**	(14,300)

In 2011, the statutory tax rate for the Company decreased from 31% to 28.25% due to a decrease in Canadian statutory tax rates.

Net income (loss)

Net income for the fourth quarter of 2011 was $10.9 million or $0.02 per share ($0.02 fully diluted), compared to a net income of $29.8 million or $0.10 per share ($0.10 fully diluted) for the fourth quarter of 2010. The net loss was $18.6 million or $0.03 ($0.03 fully diluted) per share for the year ended December 31, 2011. This compares to a net income of $37.2 million or $0.18 ($0.18 fully diluted) per share for the year ended December 31, 2010. Net (loss) will continue to be exposed to foreign exchange movements notably in the A$ to US$, US$ to C$, and A$ to the C$ The Company has significant intercompany loan balances within its wholly owned subsidiaries denominated in US$ and C$. Magellan Metals and the other Australian subsidiaries use the A$ as their functional currency so currency movements give rise to significant foreign exchange gains and losses. While these loans are eliminated on consolidation and largely unrealized, any foreign exchange gains and losses are not fully eliminated due to the differences in functional currency treatments.

Quarterly financial results

			2011				2010	
(in thousands of United States dollars, except per share amounts) (1) (2)	**Fourth** **$**	**Third** **$**	**Second** **$**	**First** **$**	Fourth $	Third $	Second $	First $
Revenue	**-**	**(37)**	**5,713**	**5,596**	36,969	34,268	15,014	11,241
Foreign exchange gain (loss)	**11,164**	**(21,732)**	**7,109**	**3,025**	14,757	24,379	(14,953)	3,878
Net (loss) income	**10,862**	**(21,948)**	**(2,938)**	**(4,616)**	29,806	28,769	(19,506)	(1,883)
Comprehensive (loss) income	**6,051**	**(13,396)**	**(5,431)**	**(5,219)**	23,914	19,607	(9,333)	(3,017)
Basic (loss) income per share	**0.02**	**(0.03)**	**(0.00)**	**(0.01)**	0.10	0.15	(0.10)	(0.01)
Fully diluted (loss) income per share	**0.02**	**(0.03)**	**(0.00)**	**(0.01)**	0.10	0.06	(0.10)	(0.01)
Cash (used in) provided by operations before changes in non-cash working capital	**(5,110)**	**(7,661)**	**(9,096)**	**(6,752)**	8,079	4,697	(5,031)	(6,845)

(1) Shipments of lead carbonate concentrate from the Magellan Mine were curtailed by the suspension of lead shipments through the Port of Esperance on March 12, 2007, leaving two stockpiles totalling approximately 29,000 dry metric tonnes of lead carbonate concentrate, of which 21,000 dry metric tonnes was located at the Magellan Mine site and 8,000 dry metric tonnes at the Port of Esperance. This suspension was lifted in December 2008, following which a first shipment of approximately 600 dry metric tonnes was made in March 2009 and a second shipment of approximately 7,700 dry metric tonnes in May 2009. Final reconciliation of the Esperance stockpile led to an inventory gain of approximately 300 dry metric tonnes of lead carbonate concentrate. Final reconciliation of the mine site stockpile in the first quarter of 2010 lead to an inventory loss of approximately 800 dry metric tonnes of lead carbonate concentrate. Ivernia restarted operations at the Magellan Mine in late February, 2010. A ramp-up of operations took place throughout 2010.

(2) On April 5, 2011 Magellan Metals voluntarily ceased transportation and operations as result of the detection of lead bearing mud on one of its shipping containers. With the uncertainty surrounding these results and what would be the third transportation disruption since December 31, 2010 the decision was made to undertake an end-to-end review of its business practices before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on full care and maintenance in April 2011. The Magellan Mine remains on care and maintenance as at March 29, 2012.

Other comprehensive income (loss)

The Company holds shares in publicly traded companies which are classified as available-for-sale and were marked-to-market. The Company has recorded an unrealized loss of $77,000 in accumulated other comprehensive income for 2011. The carrying value of its available-for-sale investments at December 31, 2011 is $118,000.

The changes in fair value are detailed below:

	Increase (decrease) in fair value	
	2011	2010
(in thousands of United States dollars)	**$**	$
Balance as at January 1:	**129**	(4)
Unrealized gain on investments, March 31	**2**	–
Unrealized loss on investments, June 30	**(75)**	(31)
Unrealized gain on investments, September 30	**(4)**	118
Unrealized gain on investments, December 31	**-**	46
Accumulated other comprehensive gain	**52**	129

LIQUIDITY AND FINANCIAL CONDITION

Statement of Cash Flows

	Three months ended December 31		
	2011	2010	2009
(in thousands of United States dollars)	**$**	**$**	**$**
Cash (used in) provided by operations before changes in non-cash working capital	**(5,110)**	8,079	530
Changes in working capital	**(770)**	(429)	5,508
Cash (used in) provided by operating activities	**(5,880)**	7,650	6,038
Cash used in investing activities	**(519)**	(1,422)	(182)
Cash provided by financing activities	**6,042**	883	–
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**1,642**	(195)	(235)
Increase in cash and cash equivalents	**1,285**	6,916	5,621

	Year ended December 31		
	2011	2010	2009
	$	**$**	**$**
Cash (used in) provided by operations before changes in non-cash working capital	**(28,619)**	900	(8,287)
Changes in working capital	**(8,113)**	8,746	5,341
Cash (used in) provided by operating activities	**(36,732)**	9,646	(2,946)
Cash used in investing activities	**(3,769)**	(7,897)	(4,655)
Cash provided by (used in) financing activities	**36,845**	(6,167)	16,901
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	**1,067**	(341)	15
(Decrease) increase in cash and cash equivalents	**(2,589)**	(4,759)	9,315

Operating activities

A total of $5.9 million was used in operating activities during the fourth quarter of 2011 (2010 – operating activities provided $7.7 million).

In the fourth quarter of 2011, the Magellan Mine had no shipments and continued under care and maintenance. Work continued on the end-to-end review at the Magellan Mine. The cash used in operating activities during the fourth quarter was funded from cash reserves and a financing closed in December 2011. The cash used in operating activities for the year ended December 31, 2011 has mainly been funded from

$17.2 million raised in a private placement in the first quarter, the $19.3 million raised in a private placement in the second quarter and the $5.9 million raised in a private placement in the fourth quarter of 2011.

Investing activities

For the fourth quarter of 2011, net cash used for investing activities totaled $0.5 million. Cash used in investing activities for the fourth quarter included $0.5 million in capital projects, exploration and deferred development costs, including $0.4 million for the Prairie Downs Project. Cash used in investing activities for the year included $3.8 million in capital projects, exploration and deferred development costs, including $2.2 million for the Prairie Downs Project.

For the fourth quarter of 2010, net cash used for investing activities totaled $1.4 million; a total of $1.1 million was used in capital projects, exploration and deferred development costs. The investment in the Prairie Downs Project increased $0.9 million during the fourth quarter of 2010, mainly attributable to costs incurred in the first drilling campaign.

For the year ended December 31, 2010, net cash used for investing activities totaled $7.9 million. Cash used in investing activities during 2010 included $6.9 million in capital projects, exploration and deferred development costs, and an additional $1.0 million in the Prairie Downs Project mainly for costs incurred with the drilling program.

(a) Private Placements

On January 13, 2011, the Company issued 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 ($18.2 million), less costs of C$1.0 million ($1.0 million), including a C$899,000 ($911,000) commitment fee paid to Sentient Executive GP III, Limited.

On May 27, 2011 in connection with the Magellan Mine being placed on care and maintenance, the Company issued 93,370,682 Common Shares to Enirgi Group, at a price of C$0.2142 per Common Share. Enirgi Group was paid a commitment fee of C$1 million ($1.0 million), which was deducted from the gross proceeds, resulting in net proceeds of C$19 million ($19.3 million). The Company received written consents from shareholders representing a majority of the disinterested Common Shares of the Company (the "Consenting Shareholders") in support of the private placement. These Consenting Shareholders owned or controlled approximately 28.05% of the Company's total outstanding shares or approximately 53.67% of the outstanding shares held by shareholders other than Enirgi Group and its associates and affiliates. The Company approached a number of institutional and accredited investors who were existing shareholders in the Company with respect to participating in the private placement. While the overall response from such persons was supportive of the private placement, and contributed to obtaining a majority of minority approval, the Company did not receive any commitments to participate in the private placement from such investors within the necessary timeline. Immediately following the closing of this private placement, Enirgi Group's reported ownership was 371,318,610 Ivernia Common Shares, or 54.96% of the total issued and outstanding Common Shares of the Company. The proceeds of the offering were used to strengthen Ivernia's financial position generally and specifically to provide working capital to fund Magellan Metals during the care and maintenance period of the Magellan Mine including the end-to-end review process.

On December 8, 2011, the Company issued 69,370,000 Common Shares of Ivernia in a private placement for C$0.085 per Common Share, for gross proceeds of approximately C$5.9 million ($5.8 million) to Enirgi Group (67,570,000 Common Shares) and an additional investor (1,800,000 Common Shares). The Company offered the opportunity to participate in the financing to a number of other institutional and accredited investors who are existing shareholders in the Company. Immediately following the closing of this financing Enirgi Group's reported ownership was 438,888,610 Common Shares, or approximately 58.9% of Ivernia's outstanding

Common Shares. The proceeds of the Offering were used to strengthen Ivernia's financial position generally and specifically to provide working capital to fund the care and maintenance period at the Magellan Mine

See "*Risk Factors– Funding Requirements*" in the 2011 AIF.

(b) Convertible Notes

In December 2010, the lenders converted the remaining $37.4 million in convertible secured promissory notes ("Convertible Notes") into 340,000,003 Common Shares. The interest payment in the amount of $2 million due on conversion was deferred to and paid on April 27, 2011. For a full description of the Convertible Notes see the 2011 AIF.

Capital Resources and Working Capital Requirements

As at March 26, 2012 the Company had approximately $7.5 million in cash to fund ongoing care and maintenance activities at the Magellan Mine and any costs associated with the restart of the Magellan Mine, if and when a restart decision is made. The Company expects to continue to have negative cash flows during the care and maintenance period. These negative cash flows may be offset by any revenue generated from the sale of stockpiled lead carbonate concentrate held at the Magellan Mine. However, Magellan Metals does not expect to be able to commence the shipping of stockpiles prior to the release of the final operating conditions by the Minister. Further, the final operating conditions, once issued, may require that Magellan Metals fulfill certain conditions to the satisfaction of the regulators prior to the recommencement of transportation of lead carbonate concentrate from the Magellan Mine. Accordingly, the Company cannot provide any guidance on the timing for the shipment of stockpiles from the Magellan Mine.

On March 29, 2012, the Company received a comfort letter from Sentient confirming its commitment to provide funding to Enirgi Group, to allow Enirgi Group, in turn, to provide financing to Ivernia up to an aggregate of $10 million, if, as and when needed, during the period ending March 31, 2013 (the "Enirgi Commitment").

The Company estimates that the Company will be able to continue as a going concern on the basis that between current cash balances and the Enirgi Commitment it can sustain itself on a reduced care and maintenance basis for the next twelve months. As part of this estimate, the Company has not assumed that it will receive final operating conditions, complete any conditions to the recommencement of transportation from the mine to the satisfaction of the regulators and be able to ship lead carbonate concentrate stockpiles during this period. If the Company was able to sell the stockpiles during this period, however, it is expected that such a sale would improve the Company's overall financial condition.

The Company expects that it will likely require additional financing to restart the Magellan Mine, in excess of current cash balances, the Enirgi Commitment and any proceeds it may receive from the shipment of lead carbonate concentrate stockpiles. The quantum of this funding requirement cannot be estimated at this time and will be contingent on the timing of the receipt of final operating conditions from the Minister, the content of those final operating conditions (including any conditions required to be completed to the satisfaction the regulators before recommencing transportation and operations), net proceeds received from the sale of stockpiles, as well as general market conditions, including but not limited to lead prices, foreign exchange and capital markets. If the Company was unable to secure this additional financing, the Company may be unable to restart the Magellan Mine which, in turn, could affect its future ability to continue as a going concern. There can be no assurance that the steps management is taking will be successful.

These material uncertainties may lend significant doubt as to the Company's ability to continue as a going concern and accordingly, the ultimate use of accounting principles applicable to a going concern. The Company's 2011 Financial Statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate, and those adjustments could be material.

BALANCE SHEET

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Cash and cash equivalents	**11,839**	14,428	19,187
Working capital surplus (1)	**15,678**	14,437	19,957
Deferred tax assets	**63,018**	41,299	22,497
Total assets	**212,873**	198,718	157,820
Accounts payable and other current liabilities	**4,480**	19,982	7,669
Current portion of non-current financial liabilities	**790**	4,318	7,261
Current portion of decommissioning liability	**129**	–	–
Long-term financial liabilities	**3,103**	3,018	2,837
Convertible Notes	**–**	–	31,318
Decommissioning liability	**13,661**	10,983	9,084
Deferred tax liabilities	**9,872**	4,382	3,880
Total liabilities	**32,035**	43,082	62,567

(1) Working capital surplus is defined as current assets less current liabilities.

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 - 2007

Effective April 6, 2007, the Magellan Mine was placed on temporary care and maintenance following issue of the prevention notice placed on the Esperance Port Authority by the Department of Environment and Conservation that prevented lead from being exported through the Port. On August 13, 2009 the Company received final Ministerial approvals to commence sealed shipments in sealed double-lined bulk bags enclosed within locked shipping containers through the Port of Fremantle. As a result thereof, management determined that the Magellan Mine was no longer on care and maintenance. Shipments through the Port of Fremantle of the existing mine stockpile (approximately 20,200 dry metric tonnes of lead carbonate concentrate after reconciliation) commenced during the third quarter of 2009 until the stockpiles was fully depleted in the first quarter of 2010.

On February 23, 2010 the processing plant was restarted with a plan to increase throughput in a staged manner.

(b) Care and maintenance - 2011

On April 5, 2011 Magellan Metals announced that it had voluntarily ceased transportation and operations as result of the detection of lead bearing mud on one of its shipping containers. With the uncertainty surrounding these results and what would be the third transportation disruption since December 31, 2010 the decision was made to undertake an end-to-end review of its business practices before the recommencement of transportation would resume. As such, the Magellan Metals workforce commenced an orderly shutdown of operations and the mine was placed on full care and maintenance in April 2011. The Magellan Mine remains on care and maintenance as at March 29, 2012.

Cash and cash equivalents

Cash equivalents are comprised of highly liquid investments with an original 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:

in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Cash	**11,839**	14,428	19,187
Cash equivalents	**–**	–	–
	11,839	14,428	19,187

Working capital

As at December 31, 2011, the Company had a working capital surplus of $15.7 million. During the year, cash decreased by $2.6 million, accounts receivable and other current assets decreased $7.8 million, current inventory decreased $7.1 million (including $6.3 million reclassified into long-term) and accounts payable and other current liabilities decreased $15.5 million. Overall, working capital surplus increased by $1.2 million over the year.

See *"Capital resources and working capital requirements"* for further details on working capital requirements.

Accounts receivable and other current assets

As at December 31, 2011 the Company had accounts receivable and other current assets of $1.1 million of which $0.4 million was for prepaid expenses and $0.2 million due from related parties; $nil was for accounts receivable from lead carbonate concentrate sales. Accounts receivable and other current assets decreased $7.9 million from December 31, 2010 as Magellan Metals' lead carbonate concentrate shipment volumes decreased during the period and are expected to remain low until shipping recommences.

During periods when shipping takes place, accounts receivable are adjusted each reporting date for the changes in value to provisionally priced shipments from prior periods. Accounts receivable adjustments are derived from the revenue adjustment; therefore, a change in receivables will be offset to a change in revenue.

Inventory

As of December 31, 2011 the Company had lead carbonate concentrate inventory of approximately 10,100 tonnes at a cost of $7.9 million. As at December 31, 2010 the Company had lead carbonate concentrate inventory of 5,100 tonnes at a cost of $5.7 million.

During 2011, $3.4 million in inventory write-downs were recorded (2010 - $1.7 million recovery) due to changes in market rates affecting the net realizable value of concentrate and ore inventory as well as the write-off of gas and reagent inventories. At December 31, 2011 there was a total of $6.4 million of write-downs in the ore stockpiles that are available for reversal (December 31, 2010 – $3.1 million).

Inventory that is not expected to be consumed within a year is classified as long-term.

Following is a summary of inventory values:

Inventory (unaudited) (in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Concentrate – mine site and in transit (1) (2)	**7,920**	5,736	6,446
Medium and high grade ore stockpiles	**–**	2,077	1,310
Low grade ore stockpiles	**–**	2,909	–
Consumables and other	**133**	4,393	2,933
Total current inventory	**8,053**	15,115	10,689
Medium and high grade ore stockpiles	**1,633**	–	–
Low grade ore stockpiles	**8**	–	–
Consumables and other	**4,636**	–	–
Total long-term inventory	**6,277**	–	–
	14,330	15,115	10,689

(1) 2011: 10,100 tonnes – mine site
(2) 2010: 5,100 tonnes – mine site and in transit

Restricted cash

As at December 31, 2011, Magellan Metals had restricted cash deposited with a financial institution of $9.1 million (December 31, 2010 - $9.0 million; January 1, 2010 - $7.7 million). Most of the restricted cash relates 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 for mining leases and shipments through the Port of Fremantle. All of the 2011 and 2010 balances are held in restricted cash equivalents.

Property, plant and equipment

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
Year ended December 31, 2011							
Opening net book value	57,460	10	450	13,776	5,133	32,425	109,254
Additions	143	–	(18)	–	1,315	4,515	5,955
Depreciation	(1,192)	–	(151)	(194)	–	(395)	(1,932)
Transfers	202	–	128	–	(577)	247	–
Exchange differences	84	(2)	3	19	(14)	2,229	2,319
Closing net book value	**56,697**	**8**	**412**	**13,601**	**5,857**	**39,021**	**113,448**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
At December 31, 2011							
Cost	70,990	102	1,526	14,991	5,857	44,988	138,454
Accumulated depreciation	(14,293)	(94)	(1,114)	(1,390)	–	(8,115)	(25,006)
Net book value	**56,697**	**8**	**412**	**13,601**	**5,857**	**36,873**	**113,448**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
At January 1, 2010							
Cost	56,126	89	963	10,143	10,697	23,664	101,682
Accumulated depreciation	(8,181)	(80)	(728)	–	–	–	(8,989)
Net book value	**47,945**	**9**	**235**	**10,143**	**10,697**	**23,664**	**92,693**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
Year ended December 31, 2010							
Opening net book value	47,945	9	235	10,143	10,697	23,664	92,693
Additions	109	–	314	2,404	1,973	3,427	8,227
Write-down's	–	–	–	–	–	(52)	(52)
Depreciation	(3,418)	(1)	(132)	(741)	–	(2,255)	(6,547)
Transfer	6,560	–	–	–	(8,648)	2,088	–
Exchange differences	6,264	2	33	1,970	1,111	5,553	14,933
Closing net book value	**57,460**	**10**	**450**	**13,776**	**5,133**	**32,425**	**109,254**

(in thousands of United States dollars)	Plant and Equipment	Leaseholds	Office Equipment	Deferred Stripping	Work-in-process	Develop. & Other	Total
At December 31, 2010							
Cost	70,539	102	1,417	14,600	5,133	40,124	131,915
Accumulated depreciation	(13,079)	(92)	(967)	(824)	–	(7,699)	(22,661)
Net book value	**57,460**	**10**	**450**	**13,776**	**5,133**	**32,425**	**109,254**

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

All the property, plant and equipment assets were secured by a general security agreement in connection with the Convertible Notes until December 2010 when the notes were converted. As at December 31, 2011 none of the property, plant and equipment assets were pledged as security.

Included in cost of sales is $1.6 million (2010 - $6.2 million) for depreciation. Included in inventory is $1.1 million for depreciation (2010 - $0.7 million).

Expenditures related to the Prairie Downs Project are included in development cost and other.

Capital investments

The following table summarizes the capital investments made in 2011, 2010 and 2009.

Years ended December 31 (in thousands of United States dollars)	**2011** **$**	2010 $	2009 $
Deferred stripping	**-**	2,706	–
Prairie Downs Project	**2,242**	1,026	-
Sustaining and other capital	**1,337**	1,506	415
Tailings storage facility	**-**	656	–
Expenditure on tenements	**184**	1,238	–
Tailings dam	**6**	765	–
	3,769	7,897	415

Accounts payable and other current liabilities

As at December 31, 2011 the Company had $4.5 million in accounts payable and other current liabilities of which $50,000 was due to related parties, a decrease of $15.5 million from December 31, 2010. Most of the decrease in the balance is due to Magellan Metals being on care and maintenance and therefore having lower volumes of creditor payments and the payment of $2.0 million interest on the Convertible Notes during the second quarter.

Convertible Notes

In March, April and May 2009, in order to settle previously issued convertible notes and to raise additional funds, the Company issued a total of $38.4 million in convertible notes (the "Convertible Notes") as follows: (a) a due date of April 27, 2013; (b) interest of 8% payable annually with one-half thereof being payable, at Ivernia's option, by the issuance of additional Convertible Notes; and (c) the conversion price of $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 Convertible Notes are convertible and pre-emptive rights to allow them to maintain their percentage share ownership in Ivernia.

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 Metals 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 Sentient and the Company (the "Governance Agreement") 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.

In two separate occasions 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 Company paid the interest due on April 27, 2011, in the amount of $2 million.

See "Financing Activities – (b) Convertible Notes" above.

The balances for the Convertible Notes are analyzed as follows:

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Convertible Notes outstanding	–	–	37,900
Convertible Notes converted	–	–	–
Convertible Notes outstanding	–	–	37,900
Equity value of conversion options	–	–	(7,076)
Accretion	–	–	994
Accrued interest	–	2,033	2,252
	–	2,033	34,070
Less: Accrued interest included in accounts payable	–	(2,033)	(2,252)
	–	–	31,818

The balances for the equity component of the convertible instruments are analyzed as follows:

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Equity value of conversion option	–	–	7,076
	–	–	7,076

Non-current financial liabilities

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Lease liabilities	**–**	–	1,534
Less current portion	**–**	–	(1,534)
Esperance settlement(1)	**3,075**	6,089	7,852
Less current portion	**–**	(3,071)	(5,294)
Esperance community fund(1)	**299**	629	712
Less current portion	**(299)**	(629)	(433)
Other	**519**	618	–
Less current portion	**(491)**	(618)	–
	3,103	3,018	2,837

(1) See above under "Operational Review – Magellan Mine" for particulars of these agreements.

The current portion of long-term liabilities decreased by $3.5 million during 2011 as the Company paid A$3 million ($3 million) as part of the Esperance settlement and A$0.3 million ($0.3 million) as part of the Esperance community fund.

Decommissioning Liabilities

The Company filed the Closure Plan with the OEPA in February 2012, which included an updated decommissioning and rehabilitation plan as at December 31, 2011 reflecting the increased mineral reserves and resources from the 2011 Technical Report and updated guidance on mine closure plans from the DMP. As a result, the Company also updated its decommissioning liability in 2011 to reflect the decommissioning liability associated with current disturbances to date. This resulted in a A$2.2 million change in cash flow estimates.

The decommissioning liability only reflects actual areas disturbed to date.

(in thousands of United States dollars)	**2011** **$**	2010 $
As at January 1	**10,983**	**9,084**
Changes in cash flow estimates	**2,150**	**329**
Foreign exchange movements and other	**38**	**1,276**
Payment	**(1)**	**(204)**
Accretion expense	**620**	**498**
As at December 31	**13,790**	**10,983**

Decommissioning liabilities are recorded at present value of estimated costs, assuming an adjusted nominal risk-free discount rate of 3.67% (December 31, 2010 – 5.4%, January 1, 2010 - 5.25%), and an inflation rate of 3.10% (December 31, 2010 – 2.6%, January 1, 2010 - 2.1%). The total undiscounted amount of estimated cash flows is A$14.3 million ($14.7 million) (December 31, 2010 – A$12.1 million ($12.3 million), January 1, 2010 - A$12.1 million ($10.9 million). The accretion expense was $0.6 million for the year 2011.

Deferred income tax

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

For the years ended December 31 (in thousands of United States dollars)	2011 $	2010 $
Property, plant, equipment, exploration and development	**(5,832)**	(4,766)
Non-capital loss carry-forwards	**37,644**	28,911
Other	**31,206**	17,154
Deferred income tax asset	**63,018**	41,299

For the years ended December 31 (in thousands of United States dollars)	2011 $	2010 $
Property, plant, equipment, exploration and development	–	–
Non-capital loss carry-forwards	–	–
Other	**9,872**	4,382
Deferred income tax liability	**9,872**	4,382

All temporary differences are expected to reverse after 2012.

Other deferred tax assets include $26.3 million for intercompany financing (2010 - $12.0 million) and $4.9 million in provisions (2010 - $5.2 million). Other deferred tax liabilities consist solely of intercompany financing.

The Company has a total of approximately A$122 million ($125 million) of loss carry-forwards from Magellan Metals that have no expiry date and could be used to shelter future taxable income. These losses have been fully recognized because management believes it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Deferred benefits for losses and share issue costs in Canada in the amount of C$3.0 million have not been recognized because management believes it is not probable that future taxable profit will be available against which the unused tax losses can be utilized. These losses expire in 2031. In May 2011, after Enirgi Group purchased Common Shares in a private placement with the Company, they immediately owned greater than 50% of the issued and outstanding shares of the Company. This triggered an acquisition of control for Canadian tax purposes and as a result the Company lost C$15 million of non-capital losses and C$118 million of capital losses. These losses had not been previously recognized because management believed that the deferred income tax assets associated with those losses would be realized in the carry forward period.

Future benefits for losses in Netherlands in the amount of $6.6 million have not been recognized because management believes that it is not probable that future taxable profit will be available against which the unused tax losses can be utilized. These losses expire in 2014 through 2020.

All movements in the deferred tax provision are expected to be recognized through net income (loss).

The Company paid nil cash taxes in 2011 (2010 – nil).

There are no unremitted earnings in the Company's wholly owned subsidiaries and therefore no withholding taxes have been accrued.

Contractual and other obligations

The following table summarizes the Company's contractual and other obligations including principal payments and interest as at December 31, 2011:

Payments due by period(1) (in thousands of United States dollars)	Less than 1 year $	1-5 years $	More than 5 years $	Total $
Rental agreements and operating leases(2)	264	616	–	880
Employee benefits	491	18	8	517
Reclamation(3)	129	–	13,661	13,790
Exploration licenses(4)	181	–	–	181
Mining leases(5)	251	–	–	251
Esperance settlement(5)	–	3,075	–	3,075
Esperance community fund(6)	299	–	–	299
Purchase obligation(7)	2,255	9,020	–	11,275
Total	3,870	12,729	13,669	30,268

(1) These amounts are presented on an undiscounted basis.
(2) The Company has various office and office equipment leases expiring May 2012 and September 2015.
(3) 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.
(4) Under the terms of its exploration licenses, 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 2011 are dependent upon whether Magellan Metals chooses to retain its current tenements.
(5) Magellan Metals' contribution towards the cost of clean-up being undertaken by the State and EsPA originally comprised three equal payments of A$3 million on December 31, 2009, December 31, 2010 and June 30, 2011 dependent on certain cumulative earnings targets.
(6) Pursuant to an agreement executed in December, 2008, Magellan Metals committed to an A$1 million obligation to community-based projects in Esperance over a three year period.
(7) Gas supply contract until November 30, 2016.

Contingencies and commitments

Commitments

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 has made, and expects to make in the future, expenditures to help ensure compliance with applicable laws and regulations.

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, 2012, are dependent upon whether Magellan Metals chooses to retain its current tenements.

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 carbonate concentrates sold of 5% of the royalty value.

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 Wanmulla 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.

Shares issued and outstanding

Fully diluted shares

As at December 31	**2011**	2010	2009
Shares issued	**745,130,812**	529,290,131	184,698,007
Options	**23,425,000**	4,168,331	5,470,000
Convertible Instruments	**–**	–	344, 545,455
Total	**768,555,812**	533,458,462	534,713,462

Shares issued and outstanding

	As at March 29, 2012	As at December 31, 2011
Common Shares	**745,130,812**	745,130,812
Preference Shares	**–**	–

Stock options

Under the stock option plan as amended on June 16, 2010 (the "Plan"), certain directors, officers, employees and consultants may be granted options to purchase up to 74,513,081 Common Shares as at December 31, 2011 (December 31, 2010 – 52,929,013). As at December 31, 2011, options to purchase 10% of the issued and outstanding Common Shares, being 51,088,081 Common Shares (December 31, 2010 – 48,760,682 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 five years and may not be assigned under the plan. Unless the board of directors or the board committee responsible for the Plan 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. Some of the options outstanding on December 31, 2011 had been issued before the Plan was amended on June 16, 2010; accordingly, some of these outstanding options have a seven year life.

In the third quarter of 2011, the Company issued a total of 20.2 million options to senior management and employees exercisable at C$0.165 per share. Subject to certain discretion afforded to the Compensation Committee, the options granted are exercisable as to: (i) one third on the date of restart of the Magellan Mine, (ii) one third one year after the date of restart assuming no significant stoppages of mining, milling and transportation operations for any prolonged period of time, and (iii) one third a further twelve months after the date of the second vesting, assuming no significant stoppages of mining, milling and transportation operations for any prolonged period of time. Another 0.3 million options, were issued in the third quarter of 2011 that vest one third on January 1, 2012, one third on January 1, 2013 and the remainder on January 1, 2014.

The options were valued using the Black-Scholes model assuming an expected life equal to the expiry dates; annual pre-vest forfeiture rate of 10%; an expected annual volatility of 83% - 108%%; and risk-free rate of

1.4%-2.5%; and, expected annual dividend yield of 0%. The expected volatility was calculated from the historic volatility of Ivernia's share price with the same expected terms as the option. The fair value of the options was calculated using the Black-Scholes model. The options granted were calculated to have a weighted-average fair value of C$0.12 per option.

A summary of the status of the Company's Plan as at December 31, 2011 and December 31, 2010 and changes during the periods ended on those dates is presented on the following table:

	2011			2010		
	Options (000's)	**Shares issued (000's)**	**Weighted average exercise price (C$)**	Options (000's)	Shares issued (000's)	Weighted average exercise price (C$)
Outstanding – beginning of year	**4,168**		**0.53**	5,470		0.73
Granted	**20,500**		**0.16**	–		–
Exercised	**(200)**	**200**	**0.10**	(47)	47	0.10
Expired	**(927)**		**1.37**	(1,025)		1.70
Forfeited	**(116)**		**0.17**	(230)		0.10
Outstanding – end of year	**23,425**		**0.18**	4,168		0.53
Exercisable – end of year	**2,658**		**1.85**	2,862		0.66

The following tables summarize information about stock options outstanding as at December 31, 2011:

	Options Outstanding			Options Exercisable		
Range Of Exercise Prices C$	Number outstanding at Dec. 31, 2011 (000's)	Weighted average remaining contractual life (Years)	Weighted average exercise price (C$)	Number exercisable at Dec. 31, 2011 (000's)	Weighted average remaining contractual life (Years)	Weighted average exercise price (C$)
0.01 – 0.10	1,760	1.75	0.10	1,760	1.75	0.10
0.11 – 0.165	20,500	4.59	0.165	–	–	–
0.17 – 0.275	400	2.00	0.275	300	1.85	0.275
0.28 – 0.405	500	2.97	0.405	333	2.97	0.405
0.41 – 1.65	265	0.64	1.58	265	0.64	1.58
0.10 – 1.65	23,425	4.25	0.18	2,658	1.80	0.306

The following table summarizes the assumptions used in calculating the fair value of options issued during 2011 and 2010:

Valuation assumptions	**2011**	2010
Expected terms (years)	**5**	–
Vesting period (years)	**0.5 - 3**	–
Expected volatility	**83% - 108%**	–
Expected dividend yield	**0%**	–
Expected forfeiture rate	**10%**	
Risk-free interest rate	**1.4% - 2.5%**	–
Weighted average fair value of options granted (C$)	**0.12**	–

The share based compensation for 2011 was $826,000 (2010 - $145,000). The remaining share based compensation cost to be expensed of options granted as at December 31, 2011, was $1,364,000 (December 31, 2010 - $82,000).

Results of equity financings

See "Liquidity and Financial Condition – Investing Activities – (a) Private Placements" for a discussion of the results of equity financings during 2011.

FINANCIAL INSTRUMENTS

Financial assets and liabilities

The Company's financial assets consist of cash and cash equivalents, accounts receivable and other current assets, available-for-sale investments, restricted cash and cash equivalents and forward sales derivatives. The Company's financial liabilities consist of accounts payable and other current liabilities, forward purchase derivatives and non-current liabilities.

The cash and cash equivalents, restricted cash and cash equivalents and non-current liabilities 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, 2011, December 31, 2010 and January 1, 2010.

The following tables illustrate the classification of the Company's financial instruments within the fair value hierarchy as at December 31, 2011, December 31, 2010 and January 1, 2010.

Financial assets and liabilities at fair value as at December 31, 2011 (in thousands of United States dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Forward purchase contracts(1)	–	–	–	–
Forward sales contracts(1)	–	–	–	–
Available-for-sale investments(2)	118	–	–	118
	118	–	–	118

Financial assets and liabilities at fair value as at December 31, 2010 (in thousands of United States dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Forward purchase derivatives(1)	396	–	–	396
Forward sales derivatives(1)	(399)	–	–	(399)
Available-for-sale investments(2)	195	–	–	195
	192	–	–	192

Financial assets and liabilities at fair value as at January 1, 2010 (in thousands of United States dollars)	Level 1 $	Level 2 $	Level 3 $	Total $
Forward purchase derivatives(1)	452	–	–	452
Forward sales derivatives(1)	(18)	–	–	(18)
Available-for-sale investments(2)	62	–	–	62
	496	–	–	496

(1) These derivatives are standard forward purchase and sale contracts actively traded on the London Metal Exchange.
(2) These equity securities are traded in an active stock market.

Financial risk factors

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.

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents, accounts receivable and other current assets and restricted cash and restricted cash equivalents. 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 cash and cash equivalents, accounts receivable and other current assets consist mainly of receivables from unrelated parties, and security deposits. Financial instruments included in restricted cash and restricted cash equivalents include low interest restricted savings accounts. Management reviews credit risk by reviewing the ongoing credit rating of its financial institutions and through standard accounts receivable aging analysis. The credit risk concentration with respect to financial instruments in cash and cash equivalents, accounts receivable restricted cash and restricted cash equivalents is negligible due to the credit-worthiness of the financial institutions and debtors.

The Company's maximum exposure to credit risk at the statement of financial position date is as follows:

(in thousands of United States dollars)	**December 31, 2011** **$**	December 31, 2010 $	January 1, 2010 $
Cash and cash equivalents	**11,839**	14,428	19,187
Accounts receivable and other current assets	**1,067**	9,002	4,515
Forward purchase contracts	**–**	396	452
Investments available for sale	**118**	195	62
Restricted cash and restricted cash equivalents	**9,053**	9,029	7,725
	22,077	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, 2011, the Company had a cash balance of $11.8 million (December 31, 2010 – $14.4 million) to settle current liabilities of $5.4 million (December 31, 2010 - $24.7 million).

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

	December 31, 2011			December 31, 2010	January 1, 2010
(in thousands of United States dollars)	**Within 1 year** **$**	**1 to 4 years** **$**	**Total** **$**	Total $	Total $
Accounts payable and other current liabilities	**4,480**	**–**	**4,480**	17,949	5,417
Forward sales contracts	**–**	**–**	**–**	399	18
Decommissioning liabilities	**129**	**–**	**129**	–	–
Convertible Notes	**–**	**–**	**–**	2,033	2,252
Long term liabilities	**790**	**3,103**	**3,893**	7,336	10,098
	5,399	**3,103**	**8,502**	27,717	17,785

These amounts represent actual cash payments to be made on the due date of the liabilities.

Market risk

(i) Interest rate risk

The Company has cash balances and no variable interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions. The Company continuously monitors the investments and is satisfied with the credit rating of its banks.

(ii) Foreign currency risk

The Company's presentation currency is the United States dollar. The Company funds operating, capital and exploration expenditures through its wholly-owned subsidiary Magellan Metals. 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.

At the statement of financial position date, the following financial assets and liabilities were denominated in Canadian and Australian dollars:

	December 31, 2011		December 31, 2010		January 1, 2010	
(in thousands of United States dollars)	**A$**	**C$**	A$	C$	A$	C$
Cash and cash equivalents	**394**	**11,224**	4,366	363	4,895	1,003
Accounts receivable and other current assets	**421**	**463**	2,299	161	1,499	179
Investments available for sale	**118**	**–**	195	–	62	–
Restricted cash and cash equivalents	**9,053**	**–**	9,029	–	7,725	–
Accounts payable and other current liabilities	**2,989**	**1,136**	16,459	703	6,097	327
Non-current liabilities	**4,021**	**–**	7,336	–	10,098	–

(iii) 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.

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 non-current liabilities as financial assets and liabilities at fair value through profit and loss. Investments are classified as available for sale and recorded at fair market value. The debt component of the Convertible Notes was classified as other liabilities and recorded at amortized cost using the effective interest method.

As at December, 2011, December 31, 2010 and January 1, 2010, the carrying value and fair market value of the Company's current financial assets and current financial liabilities 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 twelve month period:

- The Company's investments are comprised of an $118,000 equity investment in a publicly traded company classified as available-for-sale. Sensitivity to a 10% change in the equity investment's current market price would affect comprehensive income (loss) by $11,800.
- The Company holds balances in Australian dollar and Canadian dollar currencies. A $0.10USD/$1AUD movement would affect net income (loss) before taxes and comprehensive income (loss) before taxes by $16 million. A $0.10USD/$1CAD movement would affect net income (loss) before taxes and comprehensive income (loss) before taxes by $6 million. A $0.10CAD/$1AUD

movement would affect net income (loss) before taxes and comprehensive income (loss) before taxes by $6 million.

- Interest rate risk is negligible as the Company has no variable rate financial instruments.
- A decrease in lead prices of $100 per tonne will decrease net income (loss) by $0.5 million whereas an increase in lead prices of $100 per tonne will increase net income (loss) by $0.2 million.

Forward sales and purchase contracts

(in thousands of United States dollars)	December 31, 2011				
	Expiry Date	Tonnes	Market Value	Cost	Fair Value Adjustment
			$	$	$
Forward purchase contracts	N/A	–	–	–	–
		–	–	–	–
Forward sales contracts	N/A	–	–	–	–
		–	–	–	–
		–	–	–	–

(in thousands of United States dollars)	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)	January 1, 2010				
	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

The Company is not currently selling lead carbonate concentrate; however, when selling lead carbonate concentrate, Magellan Metals enters into sales contracts with 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 other income (expenses). A total of $14,000 in net realized settlement losses and have been included in other expenses in the third quarter of 2011 and $0.4 million net gains for the first nine months of 2011 (third quarter 2010 – $3.0 million in other income - first nine months of 2010 – $2.3 million in other income).

RELATED PARTY TRANSACTIONS

Sentient, Enirgi Group and its affiliates are a "related party" by virtue of its shareholding in Ivernia (Enirgi Group holding 58.90% of the issued and outstanding shares of Ivernia) and by virtue of Mr. Cassidy's representation on the Ivernia board. Some Ivernia management and directors perform management functions for Enirgi Group and/or serve on the board of directors of Enirgi Group. The Enirgi Group has been a supportive majority shareholder in 2011 with a wealth of experience in the lead industry in Australia. Enirgi Group has stated that it views Magellan Metals as an integral part of its broader energy strategy.

On March 27, 2009, $16.9 million of Convertible Notes were issued to Sentient. The transaction was measured at the same amount as 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 29, 2009 Sentient purchased an additional $4.0 million of Convertible Notes.

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 Enirgi Group.

On January 13, 2011 the Company issued 52,900,000 Common Shares of Ivernia to Sentient in a private placement for C$0.34 per common share, for gross proceeds of approximately C$18.0 million ($18.2 million), less costs of C$1.0 million ($1.0 million), including C$899,000 ($911,000) commitment fee paid to Sentient. The Common Shares were subsequently transferred to Enirgi Group.

On May 27, 2011, the Company issued 93,370,682 Common Shares of Ivernia in a private placement to Enirgi Group for gross proceeds of C$0.2142 per share or approximately C$20 million ($20.3 million) less a commitment fee of C$1 million ($1.0 million) to Enirgi Group.

On December 8, 2011, the Company issued 67,570,000 Common Shares of Ivernia in a private placement to Enirgi Group for gross proceeds of C$0.085 per share or approximately C$5.7 million ($5.6 million).

Enirgi Group (formerly known as Green SEA Resources Inc.) is considered a related party due to its ownership by Sentient and Enirgi Group's significant shareholdings in Ivernia. Some Ivernia management and directors perform management functions for Enirgi Group and/or serve on the board of directors of Enirgi Group. Ivernia incurs expenses and provides various corporate and administrative services to Enirgi Group, which are billed to Enirgi Group. The total billed during the year was C$671,000 ($678,000) (2010 – C$360,000 ($345,000)). The balance owed by Enirgi Group at December 31, 2011 was C$207,000 ($204,000) (December 31, 2010 – $nil).

From time to time, Enirgi Group incurs expenses and provides various corporate and administrative services to Magellan Metals, and Magellan Metals incurs expenses and provides various corporate and administrative services to Enirgi Group. The total billed during 2011 was $50,000 to Magellan Metals by Enirgi Group (2010

– A$161,000 ($148,000) billed by Magellan Metals to Enirgi Group). The balance owed to Enirgi Group on December 31, 2011 was $50,000 (December 31, 2010 – A$52,000 ($53,000) owed to Magellan Metals).

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company has established and maintains disclosure controls and procedures ("DC & P") designed to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer by others, particularly during the period in which annual filings are being prepared, and that information required to be disclosed in the Company's annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified by such securities legislation. The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's DC & P as of December 31, 2011, through inquiry and review, as well as by drawing upon their own relevant experience. The Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2011, the Company's DC & P were effective.

The Company also maintains a system of internal controls over financial reporting ("ICFR") designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS, however, due to inherent limitations, ICFR may not prevent or detect all misstatements and fraud. The Board of Directors approves the audited financial statements and ensures that management discharges its financial responsibilities. The Audit Committee, which is composed of independent directors, meets periodically with management and auditors to review financial reporting and control matters and approves the interim financial statements with the Board of Directors approving the annual financial statements. The Board of Directors has also appointed a Compensation Committee composed of independent directors whose recommendations relating to executive compensation and other matters are considered by the Board of Directors.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, and evaluating the effectiveness of the Company's internal control over financial reporting as at each fiscal year end. Management has used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework to evaluate the effectiveness of the Company's internal control over financial reporting as at December 31, 2011. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that as at December 31, 2011, the Company's ICFR was effective and no material weaknesses existed.

There have been no changes in the Company's internal control over financial reporting during the fiscal year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISKS AND UNCERTAINTIES

The business of Ivernia is subject to a variety of risks as described in the Company's 2011 AIF filed with Canadian securities regulators and available at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. All statements included herein (other than statements of historical facts) 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 transportation of lead carbonate from the Magellan Mine, the duration of the period of care and maintenance commenced in April 2011, future targets and estimates for production, capital expenditures, operating costs, cash costs, mineral resources, mineral reserves, life of mine, recovery rates, grades and prices, business strategies and measures to implement such strategies, competitive strengths, estimated goals and plans for Ivernia's future business operations, lead market outlook 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, finalization and content of Magellan Metals' final operating conditions, the duration of the suspension of the Company's transportation of lead carbonate from the Magellan Mine, the duration of the period of care and maintenance commenced in April 2011, the timing and need for additional financing, risks relating to the operations being placed on care and maintenance, matters relating the restart of mining and milling operations, matters relating to ramping up mining and milling throughput and operations, regulatory compliance and approvals, metal price volatility, lead carbonate concentrate treatment charges, exchange rates, regulatory proceedings and litigation, the fact that the Company has a single mineral property, resources and reserves, health and safety, environmental factors, mining risks, metallurgy, labour and employment regulations, government regulations, insurance, dependence on key personnel, constraints on cash flow, the nature of mineral exploration and development, matters relating generally to the transportation of lead carbonate, presence of a majority shareholder, matters related to public opinion, matters related to the Esperance settlement and shipments through the Port of Fremantle, and common share price volatility and the dilution of the Company's common shares. Additional factors and considerations are discussed in the Company's 2011 AIF under "Description of the Business of the Company – Risk Factors" and elsewhere in this MD&A and in other documents filed from time to time by Ivernia with Canadian securities regulatory authorities. While Ivernia considers these assumptions to be reasonable based on information currently available to it, 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 the Company. Undue importance should not be placed on forward-looking information nor should reliance be placed upon this information as of any other date. Except as required by law, while it may elect to, Ivernia is under no obligation and does not undertake to update this information at any particular time.