

ANNUAL INFORMATION FORM
OF
BREAKWATER RESOURCES LTD.
YEAR ENDED DECEMBER 31, 2006

Date: March 29, 2007

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NOMENCLATURE

Unless the context indicates otherwise, a reference to the “Company” in this Annual Information Form means Breakwater Resources Ltd. and its subsidiaries and other entities owned or controlled, directly or indirectly, by Breakwater Resources Ltd.

PRELIMINARY NOTES

Cautionary Note Regarding Forward Looking Statements

This annual information form (this “Annual Information Form”) of Breakwater Resources Ltd. (the “Company”) for the financial year ended December 31, 2006 and documents incorporated by reference contain forward-looking information and statements (“forward looking statements”) as defined in applicable securities laws. These statements relate to future events or future performance. All statements other than statements of historical fact are forward-looking statements. When used in this Annual Information Form, the words “anticipate”, “believe”, “intend”, “estimate”, “plan”, “continue”, “project”, “expect”, “will”, “budget”, “could”, “may”, “predict”, “potential”, “should” and similar expressions are intended to identify forward-looking statements, but the absence of such a word does not mean that the statement is not forward-looking. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These statements speak only as of the date of this Annual Information Form, or as of any other date specified in it or in the documents incorporated by reference, as the case may be. These forward-looking statements include but are not limited to, statements concerning:

- prices and price volatility for zinc, copper, lead, gold and other primary metals;
- long-term demand for and supply of zinc, copper, lead, gold and other primary metals and minerals;
- sensitivity of financial results to changes in metal prices;
- treatment and refining charges;
- strategies and objectives;
- interest and other expenses;
- tax position and applicable tax rates;
- political unrest or instability in countries such as Honduras and Chile and its impacts on our foreign assets, including our interest in the El Mochito and El Toqui mines;
- timing of decisions regarding the timing and costs of construction and production with respect to, and the issuance of the necessary permits and other authorizations required for, development and expansion projects;
- interpretation of drill results and estimates of the quantity and quality of mineral reserves and resources;
- planned capital expenditures and estimates of reclamation and other costs related to environmental protection;
- future capital and mine production costs and production levels, including the costs and potential impact of complying with existing and proposed environmental laws and regulations in the operation and closure operations (including without limitation laws or regulations intended to address climate change or the effects of global warming);
- cost reduction and other financial and operating objectives;
- exploration, environmental, health and safety initiatives;
- availability of qualified employees;
- resolution of labour disputes and the satisfactory negotiation of collective agreements with unionized employees, including at the Myra Falls mine, the El Mochito mine and the El Toqui mine;
- the outcome of legal proceedings and other disputes;

- general business and economic conditions; and
- dividend policy.

Inherent in forward-looking statements are risks and uncertainties beyond the ability of the Company to predict or control, including risks that may affect operating or capital plans including risks generally encountered in the development of mineral properties such as unusual or unexpected geological formations, unanticipated metallurgical difficulties, ground control problems, adverse weather conditions (including without limitation adverse weather caused or influenced by climate change or the effects of global warming), accidents, process upsets and equipment malfunctions; risks associated with labour disturbances and unavailability of skilled labour; fluctuations in the market price of principal commodities which are cyclical and subject to substantial price fluctuations; risks created through competition for mining properties; risk associated with lack of available market information as to expected supply from and demand for zinc and copper in China; risks posed by fluctuations in exchange rates and interest rates, as well as general economic conditions; risks associated with environmental compliance and changes in environmental legislation and regulation; risks associated with dependence on third parties for the provision of transportation and other critical services, including without limitation ocean transport of concentrate and the availability of ships and satisfactory contracts for such transport; risks associated with non-performance by contractual counterparties; risks associated with aboriginal title claims and other title risks; social and political risks associated with operations in foreign countries; risks of changes in tax laws or their interpretation; and risks associated with tax assessments and legal proceedings.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Annual Information Form. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- interest rates and foreign exchange rates;
- the supply and demand for, deliveries of, and the level and volatility of prices of zinc, copper, lead and gold and other primary metals;
- the timing of receipt of regulatory and governmental approvals for development projects and other operations;
- availability of financing for development projects on reasonable terms;
- costs of production and production and productivity levels, as well as those of our competitors;
- power prices;
- ability to secure adequate transportation for our products;
- ability to procure mining equipment and operating supplies (including without limitation haul truck and loader tires) in sufficient quantities and on a timely basis;
- ability to attract and retain skilled staff;
- impact of changes in Canadian-US dollar and other foreign exchange rates on our costs and results;
- engineering and construction timetables and capital costs for development and expansion projects;
- costs of closure of various operations;
- market competition;
- the accuracy of our reserve estimates (including with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based;
- tax benefits and tax rates;
- the resolution of proceedings or disputes; and
- ongoing relations with employees and business partners and joint venturers.

The reader is cautioned that the foregoing list of important factors and assumptions is not exhaustive. Events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. You should also carefully consider the matters discussed under “Risk Factors” in this Annual Information Form. We undertake no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise.

GLOSSARY OF TERMS

The following is a glossary of certain words and terms used in this Annual Information Form.

“**Assay**” means the chemical test of rock samples to determine the metal content.

“**Common Shares**” means the common shares of Breakwater Resources Ltd.

“**concentrate**” means a product containing the valuable metal and from which most of the waste material in the ore has been eliminated.

“**feasibility study**” means a comprehensive study of a deposit in which all geological, engineering, operating, economic and other relevant factors are considered in sufficient detail that it could reasonably serve as the basis for a final decision by a financial institution to finance the development of the deposit for mineral production.

“**flotation**” means a milling process by which some mineral particles are induced to become attached to bubbles of froth and float, and others to sink, so that the valuable minerals are concentrated and separated from the gangue.

“**indicated mineral resource**” means that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

“**inferred mineral resource**” means that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

“**measured mineral resource**” means that part of a mineral resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

“mineral reserve” means the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allowances for losses that may occur when the material is mined.

“mineral resource” means a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

“net smelter royalty” or **“NSR”** means a royalty based on the gross proceeds received from the sale of minerals less the cost of smelting, refining, freight and other related costs.

“ounce” or **“oz.”** means a troy ounce or 20 pennyweights or 480 grains or 31.1035 grams.

“preliminary feasibility study” and **“pre-feasibility study”** each mean a comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established and an effective method of mineral processing has been determined, and includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a Qualified Person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve.

“probable mineral reserve” means the economically mineable part of an Indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

“proven mineral reserve” means the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

“qualified person” means an individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association.

“SEDAR” means System for Electronic Document Access and Retrieval at www.sedar.com.

“semi-autogenous mill (“SAG mill”)” means a large diameter grinding mill utilizing steel balls and large rock pieces to grind mineralized material from a coarse feed size to a relatively small particle size. The semi-autogenous mill replaces the equipment normally used for fine crushing and rod milling.

“tailing” means material rejected from a mill after the recoverable valuable minerals have been extracted.

“total cash costs” means all cash costs incurred and expensed at the mine site, plus treatment charges, shipping and marketing costs, net of by-product credits.

“Tradeable Warrants” means the warrants issued by the Company on January 28, 2004 and July 23, 2004, each such whole warrant being exercisable for one Common Share at an exercise price of \$1.00 until January 28, 2009.

UNITS OF MEASUREMENT CONVERSION

Imperial Units	Multiply By	Equals Metric Units
Acres	0.404686	Hectares
Feet	0.30480	Metres
Miles	1.609344	Kilometres
Troy ounces	31.1035	Grams
Short tons	0.907185	Tonnes
Troy ounces per ton	34.2857	Grams per tonne

CURRENCY

All dollar amounts in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

ITEM 1 CORPORATE STRUCTURE

1.1 Name, Address and Incorporation

The Company was incorporated under the laws of the Province of British Columbia under the name “Gambier Exploration Ltd.” on October 15, 1979. Effective June 23, 1981, the name of the Company was changed to “Breakwater Resources Ltd.”. The Company was continued under the *Canada Business Corporations Act* effective May 11, 1992. By articles of amendment dated June 8, 1995, the issued Common Shares of the Company were consolidated on a one-for-400 basis and then immediately subdivided on a 20-for-one basis resulting in a one-for-20 consolidation. Except as otherwise expressly stated, all references in this Annual Information Form to numbers and prices of Common Shares are after giving effect to the foregoing articles of amendment.

The registered and principal office of the Company is located at Suite 950, 95 Wellington Street West, Toronto, Ontario, Canada M5J 2N7.

1.2 Significant Inter-corporate Relationships

The following table sets forth the name of material subsidiaries of the Company and the jurisdiction of incorporation and the direct or indirect percentage ownership by the Company of each such subsidiary.

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage Ownership</u>
American Pacific Honduras S.A. de C.V.	Honduras	100%
NVI Mining Ltd.	Canada	100%
Sociedad Contractual Minera El Toqui	Chile	100%

ITEM 2 GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three Year History

Major developments in the Company’s business in each of the financial years ended December 31, 2004 to December 31, 2006 were as follows:

Highlights from 2006

- The Company realized net earnings of \$156.5 million or \$0.41 per share in 2006 compared with \$14.0 million or \$0.04 per share in 2005, a \$142.5 million increase.
- The contribution from mining activities was \$168.5 million in 2006 compared with \$29.6 million in 2005.
- Net cash provided by operating activities increased by \$139.8 million to \$158.5 million in 2006 and was primarily used for \$75.7 million of capital expenditures and \$16.6 million of debt repayment.
- At December 31, 2006, cash and cash equivalents were \$81.4 million and total debt was \$2.7 million.
- Gross sales revenue increased by 44.5% to \$452.2 million in 2006 from \$313.0 million in 2005.
- Development of the Langlois mine is on track to commence commercial production by mid-2007.
- Mineral reserves at Langlois increased by 10% and mineral resources increased by 14% through the addition of the Grevet B deposit.
- Exploration success at Langlois prompted the Company to stake an additional 4,000 hectares surrounding the Company’s land package.
- Development of El Toqui’s Concordia deposit is on track and production is anticipated by mid-2007.

- On the Coulon joint venture with Virginia Mines Inc., exploration carried out during 2006 led to the discovery of two new significant polymetallic lenses, bringing the total known lenses to five, and confirmed the vertical continuity of lens 9-25 to a depth of 365 metres.
- On August 1, 2006, it was announced that the Company had completed the sale of the Caribou and Restigouche mines to Blue Note Metals Inc. (“Blue Note”).

Highlights from 2005

- The Company realized net earnings of \$14.0 million or \$0.04 per share in 2005 compared with \$3.3 million or \$0.01 per share in 2004, a \$10.7 million increase. These results were generated from a realized zinc price of US\$1,297 per tonne of zinc compared with US\$1,035 per tonne in 2004. This compares with a significantly higher current price of US\$2,372 per tonne. Included in the 2005 net earnings was an amount of \$6.5 million, set up to recognize future income tax assets at El Mochito and El Toqui. This amount was offset by an \$8.1 million charge against Nanisivik for higher than estimated costs for reclamation and closure of that mine.
- Gross sales revenue increased by 30% to \$313.0 million, a new high, from \$240.3 million in the prior year.
- The contribution from mining activities was \$29.6 million compared with \$28.5 million in 2004.
- Reclamation and closure activities, and reclamation security funding consumed \$31.9 million of the Company’s cash, \$25.2 million on actual reclamation work and severance payments and \$6.7 million for reclamation security deposits.
- The development of Langlois was announced in November 2005 with commercial production expected from the mine by mid-2007.
- The Company announced a mineral resource for the El Toqui mine’s Concordia deposit of 1.87 million tonnes grading 10.0 percent zinc, 5.2 percent lead and 68 grams of silver per tonne. The Company is working towards bringing Concordia into production in 2007.
- In May 2005, the Company entered into a contract with a customer whereby the customer made a prepayment of US\$5.0 million against future deliveries of zinc concentrate for the years 2005 through to 2009. The facility was assigned to a third party to whom the Company has issued eight promissory notes, each for US\$625,000, plus interest. The prepayment facility is repayable in eight tranches, one in each of the consecutive six month periods commencing July 1, 2005.
- In August 2005, the Company entered into a gold loan facility with Natexis Banques Populaires of France whereby the Company received US\$10.0 million gold equivalent (sufficient gold was borrowed and then sold at the prevailing spot price of US\$431 per ounce to provide the equivalent US dollar value of the Facility). The funds were used for capital investment and working capital requirements at Myra Falls.
- In December 2005, the Company entered into a Royalty Agreement (the “Agreement”) with Red Mile Resources No. 4 Limited Partnership (“Red Mile”) whereby the Company sold a basic royalty on a portion of the payable zinc production, over the life of the Myra Falls mine. The Company received cash of \$56.5 million which included royalty income of \$50.5 million and indemnity fees and interest of \$6.0 million. The royalty income is shown as Royalty Obligation on the balance sheet and will attract a level interest rate over the life of the obligation that will be recorded as interest expense. The fees and interest received will be brought into income over the life of the agreement. \$50.5 million of the funds received were placed with a financial institution, for which the Company took back a restricted promissory note. Interest earned from the promissory note and a portion of the principal must be used to fund the expected Basic Royalty payments. The remaining funds of \$6.0 million will be used for working capital and capital requirements at the Myra Falls mine. (See note 10 of the consolidated financial statements for details).

Highlights from 2004

- Gross sales revenue increased by 16% to \$240.3 million on 336,896 tonnes of concentrate sold in 2004.
- Contribution from mining activities increased to \$28.5 million in 2004.
- Metals prices were significantly stronger in 2004, as the Company realized an average zinc price of US\$1,035 per tonne. The improved metals prices were offset to some degree by the stronger Canadian dollar which averaged \$1.3010 per US\$ in 2004, compared with \$1.4115 in 2003 (see metal price table).
- Net earnings increased to \$3.3 million in 2004. Excluding net earnings gain of \$10.3 million from the sale of the Lapa properties and \$11.6 million from a foreign exchange gain on US dollar denominated debt, 2004 resulted in an improvement in net income of \$24.5 million from 2003. The acquisition of the Myra Falls mine negatively impacted the Company's earning by \$5.1 million. The Company continues to effect change at this newly acquired operation with improvements expected in the latter half of 2005.
- Total concentrate production increased to 388,736 tonnes in 2004 from 356,913 tonnes in 2003 due mainly to the acquisition of the Myra Falls mine.
- Total cash cost per pound of payable zinc increased in 2004 to US\$0.34 from US\$0.32. This increase was due to the inclusion of the higher cost Myra Falls mine in the Company's production profile in 2004, higher than expected unit costs at the Bougrine mine, higher treatment charges and freight costs and the stronger Canadian dollar.
- The bank debt was fully repaid and the credit facility agreement cancelled in 2004.
- On January 28, 2004, the Company completed the sale of 57,142,858 units for net proceeds of \$37.0 million. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant. On July 23, 2004, as part of the consideration for the Myra Falls mine, the Company issued 5,000,000 Common Share purchase warrants exercisable at \$1.00 per Common Share. Each whole Tradeable Warrant entitles the holder to acquire one Common Share at a price of \$1.00 at any time until January 28, 2009. The Company used \$16 million of the proceeds to retire the debt, \$16.4 million was targeted for use to continue the development of the Langlois mine of which \$4 million was spent in 2004 and \$4.6 million was used for working capital and general corporate purposes.
- The Company completed the acquisition of the Myra Falls mine on July 23, 2004, adding significantly to the Company's production profile. Annualized zinc and copper concentrate from Myra Falls is expected to be over 110,000 tonnes and 35,000 tonnes, respectively. The acquisition was accounted for as a purchase transaction in accordance with CICA Handbook Section 1581, Business Combinations.
- In December 2004, the Company entered into a royalty agreement (the "Agreement") with Red Mile Resources No. 5 Limited Partnership ("Red Mile") whereby the Company sold a basic royalty on a portion of the payable zinc production, over the life of the Myra Falls mine. The Company received cash of \$13.5 million, which included a royalty of \$12 million and fees and interest of \$1.5 million. Under the terms of the Agreement the Company is required to make basic royalty payments at fixed amounts per pound of payable zinc produced, which amounts escalate from \$0.003 per pound to \$0.016 per pound over the first 12 years of the agreement. In addition, the Company granted Red Mile a net smelter return of 0.4%, 0.5% or 0.7% in years 2010 through 2014 if the price of zinc in a given calendar year in that period averages US\$2,250, US\$2,500 or US\$2,750 per tonne, respectively. \$11.8 million of the cash received was placed with a financial institution for which the Company received an interest bearing promissory note. Interest earned from the promissory note will be used to fund the expected basic royalty payments during the first five years of the Agreement. Over the remaining years of the Agreement, interest and principal from the promissory note will be used to fund the basic royalty payments.

The balance of the funds received, \$1.7 million will be used for working capital and capital requirements at the Myra Falls mine. Under certain circumstances the Company has the right under the terms of a call option to acquire the partnership units of Red Mile for the lower of fair market value or the balance outstanding under the promissory note.

Metal Price Table

Realized Prices	2006	2005	2004
Zinc (US\$/tonne)	3,199	1,297	1,035
Copper (US\$/tonne)	7,217	3,543	2,852
Lead (US\$/tonne)	1,297	983	900
Gold (US\$/ounce)	559	445	414
Silver (US\$/ounce)	10.28	7.22	6.52
Exchange rate (C\$/US\$1.00) yearly average	1.1362	1.2154	1.3010

2.2 Significant Acquisitions

No significant acquisition or material acquisition was made in 2006.

ITEM 3 DESCRIPTION OF THE BUSINESS

3.1 General

The Company is a resource company engaged in mining base metal deposits in the Americas. The Company owns or has the exploration rights to base metal and gold exploration properties in Canada, Chile, Honduras and Tunisia. The Company is engaged in the acquisition, exploration and development of base and precious metals deposits globally. The Company is currently developing its Langlois mine near Lebel-Sur-Quévillon, Québec with commercial production expected by mid-2007.

The Company's principal product is zinc concentrate. It also produces copper, lead and gold concentrates and silver by-products. The Company sells concentrates to smelters located in Canada, Europe, Asia and South America and to resellers who sell the concentrates to smelters throughout the world. The Company sells a portion of the concentrate it produces under long-term supply agreements. A portion is also sold by tender as well as into the spot market.

During 2006, the Company's concentrate production was derived from two mines located in Canada, one each in British Columbia and Québec; and a mine located in each of Chile and Honduras.

3.2 Operations of the Company

Three Year History of Production

The Company's production in 2006 came from two mines in Canada and a mine located in each of Chile and Honduras. The Canadian mines are the Myra Falls mine in British Columbia and the Langlois mine in Québec. The following table summarizes the Company's production for the three years ended December 31, 2004, December 31, 2005 and December 31, 2006.

Historical Production Table

	Milled Tonnes	Metal in Concentrates				
		Zinc tonnes	Copper tonnes	Lead tonnes	Gold ounces	Silver ounces
Myra Falls						
2006	714,443	33,708	4,885	-	20,231	857,662
2005	912,656	48,084	7,640	-	31,744	1,165,056
2004 ⁽¹⁾	381,698	18,218	4,449	-	11,239	445,997
El Mochito						
2006	690,243	37,646	-	11,775	-	1,769,456
2005	700,190	42,698	-	10,488	-	1,723,825
2004	650,017	41,413	-	8,877	-	1,550,232
El Toqui						
2006	539,803	31,725	-	-	36,795	71,703
2005	519,963	28,347	-	-	41,605	131,020
2004	466,953	27,190	-	-	27,865	231,872
Langlois						
2006 ⁽⁴⁾	59,373	4,057	208	-	205	22,855
2005	-	-	-	-	-	-
2004	-	-	-	-	-	-
Bougrine						
2006	-	-	-	-	-	-
2005 ⁽²⁾	216,823	15,889	-	8,708	-	-
2004	330,392	28,265	-	5,470	-	-
Bouchard-Hébert						
2006	-	-	-	-	-	-
2005 ⁽³⁾	118,933	6,292	470	-	2,644	40,013
2004	993,168	54,823	3,914	-	17,284	309,920

(1) For the period July 24, 2004 to December 31, 2004.

(2) Production up to September 10, 2005.

(3) Production up to February 20, 2005.

(4) For the period November 2006 to December 2006.

For financial information relating to the production of the Company, please refer to the “Management’s Discussion and Analysis of Financial Condition and Results of Operation” for the financial year ended December 31, 2006 filed on SEDAR at www.sedar.com.

3.3 Summary of Number of Employees

The following table summarizes the number of salaried and hourly employees as well as contractors and temporary employees at each of the mines as at January 31, 2007:

Summary of Number of Employees

Property	Salaried Employees	Hourly Employees	Expatriates	Contractors	Temporary Employees	Total
Myra Falls ⁽¹⁾	99	351	-	22	6	478
El Toqui ⁽²⁾	366	-	4	282	46	698
El Mochito ⁽³⁾	155	479	23	114	62	833
Bougrine ⁽⁴⁾	13	9	2	-	3	27
Langlois ⁽⁵⁾	44	65	-	190	3	302
Bouchard-Hébert ⁽⁶⁾	6	-	-	14	-	20
Nanisivik	1	-	-	6	1	8
Corporate & other	24	-	-	1	-	25
Total	708	904	29	629	121	2,391

(1) Represented by Canadian Auto Workers Union Local 3019. The labour agreement will expire on March 31, 2008.

(2) Sindicato de Trabajadores de Sociedad Contractual Minera El Toqui represents 212 employees. The collective agreement will expire in September 2007. All except two employees are at the mine site. Santiago office is staffed by two employees.

(3) Unionized employees. Union agreement will expire in September 2007.

(4) Represented by an employees' union which reviews the remuneration package on an annual basis.

(5) Represented by a union with a collective agreement which expires in January 2012.

(6) As of December 31, 2006.

3.4 Risk Factors

Before making an investment decision, the reader should carefully consider the risks and uncertainties described below as well as the other information contained and incorporated by reference in this Annual Information Form. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties currently not known to the Company or that the Company considers immaterial may also impair the business operations of the Company. If any of such risks or uncertainties actually occur, the Company's business, prospects, financial condition, cash flows and operating results could be materially harmed.

Risks Inherent in the Mining and Metals Business

The business of exploring for minerals is inherently risky. Few properties that are explored are ultimately developed into producing mines. The business involves significant financial risks over a significant period of time for which even a combination of careful evaluation, experience and knowledge may not eliminate. It is impossible to ensure that the Company's current or proposed exploration programs will result in commercially viable mining operations.

Commercial viability of developing a mineral reserve depends on a number of factors, such as, size and grade of the deposit, proximity to infrastructure, financing costs and governmental regulations that include regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of minerals and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Mineral properties are often non-productive for reasons that cannot be anticipated in advance. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations or conditions,

unanticipated metallurgical difficulties, labour disruptions, unavailability of materials and equipment on a timely basis or at all, weather conditions (including historically unforeseen and unpredictable changes in weather patterns such as significantly increased severity of adverse conditions that may be brought about by the phenomenon of global warming or climate change), rock bursts, cave-ins or other ground control problems, seismic activity, flooding, water conditions and mineral or concentrate losses. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties or production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse government action.

Insurance Risks

The Company maintains insurance to cover some of these risks and hazards. The insurance is maintained in amounts that are believed to be reasonable depending on the circumstances surrounding each identified risk. No assurance can be given that such insurance will cover every risk, or continue to be available, or that it will be available at economically feasible premiums, or that the Company will maintain such insurance. Our property, business interruption and liability insurance may not provide sufficient coverage for losses related to these other hazards. Insurance against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or other companies within the industry. Any such event could have a material adverse effect on the Company's business.

Employee Relations and Recruitment

Most of our employees are employed under collective bargaining agreements. The collective bargaining agreements at the El Mochito mine and the El Toqui mine are scheduled to expire in September, 2007. The collective agreements at the Myra Falls mine and Langlois mine are scheduled to expire in March, 2008 and January, 2012 respectively. The Company could be subject to labour unrest or other labour disturbances including strikes as a result of any failure of negotiations on new collective agreements which could, while ongoing, have a material adverse effect on the Company's business.

Currently, the mining industry is generally facing a significant shortage of skilled labour. The Company competes with other mining companies to attract and retain key executives and employees. If the Company is unable to hire and retain sufficient skilled employees or to secure suitable mining equipment, its ability to operate optimally will be impaired which may adversely affect its business.

Commodity Price Fluctuations and Hedging

The results of our operations are significantly affected by the market price of base metals and gold and silver which are cyclical and subject to substantial price fluctuations. Our earnings are particularly sensitive to the change in market price of zinc. Market prices can be affected by numerous factors beyond our control, including levels of supply and demand for a broad range of industrial products, substitution of new or different products in critical applications for our existing products, expectations with respect to the rate of inflation, the relative strength of the US dollar and of certain other currencies, interest rates, global or regional political or economic crises and sales of gold and base metals by holders in response to such factors. If prices should decline below the Company's cash costs of production and remain at such levels for any sustained period, the Company may determine that it is not economically feasible to continue commercial production at any or all of our mines and may also be required to look for alternatives other than cash flow to maintain its liquidity until metal prices recover.

The profitability of the Company is directly related to the market price of metals produced. The Company may from time to time undertake hedging programs, with an intention to reduce the risk of a commodity's market price while optimizing upside participation, to maintain adequate cash flows and

profitability to contribute to the long-term viability of the business. There are, however, risks associated with hedging programs including, among other things, an increase in the world price of the commodity, an increase in gold lease rates (in the case of gold hedging), an increase in interest rates, rising operating costs, counter-party risks and production interruption events. There can be no assurance that the Company will or will not undertake hedging programs or that if hedging programs are undertaken, that the Company will be able to achieve realized prices for metals in excess of average London Metal Exchange prices as a result.

Price Fluctuations of Consumed Commodities

Prices and availability of commodities consumed or used in connection with exploration and development and mining such as natural gas, diesel, oil and electricity, also fluctuate and these fluctuations affect the costs of production at various operations. These fluctuations can be unpredictable, can occur over short periods of time and may have a materially adverse impact on our operating costs or the timing and costs of various projects.

Shortage of Mining Equipment and Supplies

The growth in global mining activities has created a demand for mining equipment and related supplies that exceeds supply. For example, there is a global shortage of haulage truck tires which is expected to continue into 2008. Consequently, if equipment or other supplies cannot be procured on a timely basis, expansion activities, production, development or operations could be negatively affected.

Competition for Mining Properties

Because the life of a mine is limited by its ore reserves, the Company is continually seeking to replace and expand its reserves through the exploration of existing properties as well as through acquisitions of interests in new properties or of interests in companies which own such properties. We encounter strong competition from other mining companies in connection with the acquisition of properties. This competition may increase the cost of acquiring suitable properties, should such properties become available to us. The Company cannot assure that it will continue to be able to successfully compete with its competitors in acquiring attractive properties.

Market Access and Competition for Product Markets

Access to markets for our products may be subject to ongoing interruptions and trade barriers due to policies and tariffs of individual countries, and the actions of certain interest groups to restrict the import of certain commodities. There can be no assurance that our access to these markets will not be curtailed or restricted entirely in the future.

The mining industry in general is intensely competitive and even if commercial quantities of mineral resources are developed, a profitable market may not exist for sale of such minerals. We must sell base metals, metal concentrates, by-product metals and concentrate, and gold and silver at prices determined by world markets over which we have no influence or control. Our competitive position is determined by our costs in comparison to those of other producers in the world. If our costs increase due to our locations, grade and nature of materialized minerals, or our operating and management skills, our revenues may be affected. We have to compete with larger companies that have greater assets and financial and human resources than we do, and which may be able to sustain larger losses than us to develop or continue business.

Mineral Reserve and Resource Estimates

Disclosed reserve estimates should not be interpreted as assurances of mine life or of the profitability of current or future operations. We estimate our mineral reserves in accordance with the requirements of the applicable Canadian securities regulatory authorities and established mining standards.

Where used by the Company, figures for mineral reserves and mineral resources are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. Market fluctuations in the price of zinc and/or other metals and/or a fluctuation in currency exchange rates may render certain mineral reserves and mineral resources uneconomical. Prolonged declines in the market price of zinc may also render mineral reserves and mineral resources containing relatively lower grades of zinc mineralization uneconomic to exploit. Such price fluctuations could materially reduce the Company's reported mineral reserves and mineral resources. Should such reductions occur, material write-downs of its investment in mining properties or the discontinuation of development or production might be required, and there could be material delays in the development of new projects, increased net losses and reduced cash flow. Moreover, short-term operating factors relating to mineral reserves, such as the need for orderly development of the mineral deposit or the processing of new or different mineral grades, may cause a mining operation to be unprofitable in any particular accounting period.

The SEC does not permit mining companies in their filings with the SEC to disclose estimates other than mineral reserves. However, because we prepare this Annual Information Form in accordance with Canadian disclosure requirements, we incorporate estimates of mineral resources. Mineral resources are concentrations or occurrences of minerals that are judged to have reasonable prospects for economic extraction, but for which the economics of extraction cannot be assessed, whether because of insufficiency of geological information or lack of feasibility analysis, or for which economic extraction cannot be justified at the time of reporting. Consequently, mineral resources are of a higher risk and are less likely to be accurately estimated or recovered than mineral reserves.

Certain of our mineral reserves and resources are estimated by persons who are employees of the respective operating company for each of our operations under the supervision of our employees. These individuals are not "independent" for purposes of applicable securities legislation.

Exploration and Development

We must continually replace mining reserves depleted by production to maintain production levels over the long term. This is done by expanding known mineral reserves or by locating new mineral deposits. There is, however, a risk that depletion of reserves will not be offset by future discoveries of mineral reserves. Exploration for minerals is highly speculative in nature and the projects involve many risks. Many projects are unsuccessful and there are no assurance that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves and to construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flow and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title to or other land rights and availability of financing.

Currency Fluctuations, Foreign Exchange and Interest Rate Risk

The Company operates using the Canadian dollar, the United States dollar and other currencies, and as such may be negatively affected by fluctuations in foreign exchange rates. Currency fluctuations may affect the revenues which the Company realizes from its operations, as concentrates are sold in the world market in United States dollars while a significant percentage of the Company's expenses are

denominated in non-US dollars. This exposes the Company to increased volatility in earnings due to fluctuations in foreign exchange rates. While foreign currencies are generally convertible into Canadian and US dollars, there is no guarantee that they will continue to be so convertible or that fluctuations in the value of such currencies will not have an adverse effect on the Company.

Our exposure to changes in interest rates results from investing and borrowing activities undertaken to manage our liquidity and capital requirements. There can be no assurance that we will not be materially adversely affected by interest rate changes in the future. In addition, our use of interest rate swaps exposes us to the risk of default by the counterparties to such arrangements. Any such default could have a material adverse effect on our business.

Credit Risk

The Company is subject to credit risk through trade receivables. The Company manages this risk through evaluation and monitoring processes. The Company believes its customers to be established and creditworthy. Credit risk is further mitigated through the use of provisional payment arrangements and the use of letters of credit and other financial instruments, where appropriate. Credit risk also relates to derivative contracts arising from the possibility that a counterparty to an instrument in which the Company has an unrealized gain fails to perform. The Company transacts only with counterparties it considers to be highly-rated. The Company does not consider the credit risk associated with these financial instruments to be significant. Nonetheless there can be no guarantee that all customers of the Company will be able to fulfill its obligations, which could have an adverse effect on the Company.

Environment, Health and Safety Regulations

Environmental, health and safety legislation affects nearly all aspects of our operations including mine development, worker safety, waste disposal, emission controls and protection of endangered and protected species. Compliance with environmental, health and safety legislation can require significant expenditures and failure to comply with environmental, health and safety legislation may result in the imposition of fines and penalties, the temporary or permanent suspension of operations, clean-up costs arising out of contaminated properties, damages and the loss of important permits. Exposure to these liabilities arises not only from our existing operations, but from operations that have been closed or sold to third parties. We are required to reclaim properties after mining is completed and specific requirements vary among jurisdictions. In some cases, we may be required to provide financial assurances as security for reclamation costs, which may exceed our estimates for such costs. Our historical operations have generated significant environmental contamination. We could also be held liable for worker exposure to hazardous substances and for accidents causing injury or death. There can be no assurances that we will at all times be in compliance with all environmental, health and safety regulations or that steps to achieve compliance would not materially adversely affect our business.

Environmental, health and safety laws and regulations are evolving in all jurisdictions where we have activities. We are not able to determine the specific impact that future changes in environmental, health and safety laws and regulations may have on our operations and activities, and our resulting financial position; however, we anticipate that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent environment, health and safety regulation. For example, emissions standards are poised to become increasingly stringent as are laws relating to the use and production of regulated chemical substances. Further changes in environmental, health and safety laws, new information on existing environmental, health and safety conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits, could require increased financial reserves or compliance expenditures or otherwise have a material adverse effect on us. Changes in environmental, health and safety legislation could also have a

material adverse effect on product demand, product quality and methods of production and distribution. In the event that any of our products were demonstrated to have negative health effects, we could be exposed to workers compensation and product liability claims which could have a material adverse effect on our business.

Transportation Risks

Due to the geographical location of our mining properties and locations, we are highly dependent on third parties for the provision of rail and port services. We negotiate prices for the provision of these services in circumstances where we may not have viable alternatives to using specific providers, or have access to regulated rate setting mechanisms. Contractual disputes, demurrage charges, rail and port capacity issues, availability of vessels and rail cars, weather problems or other factors can have a material adverse effect on our ability to transport materials according to schedules and contractual commitments.

Aboriginal Title Claims

Recent Canadian jurisprudence requires governments to consult with aboriginal peoples with respect to grants of mineral rights and the issuance or amendment of project authorizations. This may affect our ability to acquire, either within a reasonable time frame or at all, effective mineral titles in Canada in which aboriginal title is claimed. The risk of unforeseen aboriginal title claims also exists in foreign jurisdictions and also could affect existing operations as well as development projects and future acquisitions. These legal requirements may affect our ability to expand or transfer existing operations or to develop new projects.

Foreign Activities

Our business currently operates in Chile, Honduras and Tunisia, and may operate in other foreign countries in the future, where there are added risks and uncertainties due to the different economic, cultural and political environments. Some of these risks include nationalization and expropriation, social unrest and political instability, uncertainties in perfecting mineral titles, trade barriers and exchange controls and material changes in taxation.

There is no assurance that future political and economic conditions in the countries in which we operate will not result in their governments adopting different policies respecting foreign development and ownership of mineral resources. In Honduras, there have been recent political initiatives to amend the 1998 General Mining Act (the "Mining Act") which is the principal legislation governing mining in Honduras. As it relates to the Company, these initiatives, if undertaken as presently understood, are most likely to affect environmental, fiscal and taxation matters and result in increased operating costs. While it is not expected that these mining law reform initiatives will have a material adverse impact on the Company's business, such an impact cannot be ruled out given that developments are not within the control of the Company.

Any changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, concentrate sales, environmental protection, labour relations, repatriation of income and return of capital, which may affect both the ability of the Company to undertake exploration and development activities in respect of future properties in the manner then currently contemplated, as well as its ability to continue to explore, develop and operate those properties in respect of which the Company has obtained exploration, development and operating rights.

Further, developing country status or an unfavorable political climate may make it difficult for us to obtain financing for projects in some countries.

Greenhouse Gas Emissions

The primary source of greenhouse gas emissions in Canada is the use of hydrocarbon energy. Our operations depend significantly on hydrocarbon energy sources to conduct daily operations, and there are currently no economic substitutes for these forms of energy. The federal and provincial governments have not finalized any formal regulatory programs to control greenhouse gases and it is not yet possible to reasonably estimate the nature, extent, timing and cost of any programs proposed or contemplated, or their potential effects on operations.

Accounting Policies and Internal Controls

We prepare our financial reports in accordance with accounting policies and methods prescribed by Canadian generally accepted accounting principles. In preparation of financial reports, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. Significant accounting policies are described in more detail in our Consolidated Financial Statements. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, we have implemented and continue to analyze our internal control systems for financial reporting. Although we believe our financial reporting and financial statements are prepared with reasonable safeguards to ensure reliability, we cannot provide absolute assurance.

Legal Proceedings

The nature of our business subjects us to numerous regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of our business. The Company is currently subject to litigation and may be involved in disputes with other parties in the future which may result in litigation. The outcome of these legal proceedings cannot be predicted with certainty. There can be no assurances that these matters will not have a material adverse effect on our business.

Regulatory and Environmental Risks

The Company's mining, processing operations and exploration activities are subject to various laws and regulations governing the protection of the environment, exploration, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. New laws and regulations, amendments to existing laws and regulations or more stringent implementation of existing laws and regulations could have a material adverse impact on the Company, increase costs, cause a reduction in levels of production and/or delay or prevent the development of new mining properties. The Company believes it is currently in compliance in all material respects with all applicable environmental laws and regulations. Such compliance requires significant expenditures and increases mine development and operating costs.

Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mineral exploration and production. Environmental liability may result from mining activities conducted by others prior to the Company's ownership of a property. To the extent the Company is subject to uninsured environmental liabilities, the payment of such liabilities would reduce the Company's otherwise available earnings and could have a material adverse effect on the Company. Should the Company be unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy, which could have a material adverse effect on the

Company. In addition, the Company does not have coverage for certain environmental losses and other risks, as such coverage cannot be purchased at a commercially reasonable cost.

Licenses and Permits

The Company's operations require licenses and permits from various governmental authorities. The Company believes it holds all material licenses and permits required under applicable laws and regulations and believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

Royalties

The Company's mining properties are subject to various royalty and land payment agreements. Failure by the Company to meet its payment obligations under these agreements could result in the loss by the Company of its related property interests.

Title to Properties

The validity of the mining claims that constitute most of the Company's property holdings can be uncertain and may be contested. Although the Company has attempted to acquire satisfactory title to its properties, some risk exists that such titles, particularly title to undeveloped properties, may be defective.

3.5 Qualified Persons

The effective date of the Company's mineral reserves and mineral resources estimate is December 31, 2006. The 2006 estimated measured and indicated mineral resource and the estimated inferred mineral resource were prepared under the supervision of Torben Jensen, P.Eng., who is employed by the Company as VP, Engineering and who is a qualified person. The qualified person responsible for the Myra Falls mineral reserve and mineral resource estimates is Ken Atkin, P.Geo. (BC), Chief Geologist. The qualified person responsible for the Langlois mineral reserve and mineral resource estimates for Zones 3 and 4 is Donald Gervais, member of l'Ordre des géologues du Québec, Chief Geologist. The qualified person responsible for the Langlois mineral reserve and mineral resource estimates for Zone 97 is Jean-Francois Couture, P.Geo. of SRK Consulting ("SRK"). The qualified person responsible for the Grevet B mineral resource estimate is Bernard Salmon, Ing. of Scott Wilson RPA. The qualified person responsible for the El Mochito mineral reserve and mineral resource estimates is Renaud Adams, P.Eng., General Manager, El Mochito mine. The qualified person responsible for the El Toqui mineral reserve and mineral resource estimates is Robert McGuire, P.Eng., General Manager, El Toqui mine.

3.6 Summary of Mineral Reserves and Mineral Resources

The following table summarizes the Company's mineral reserves and mineral resources estimates as at December 31, 2006.

Mineral Reserves and Mineral Resources Table

Proven and Probable Reserves

	December 31, 2006						December 31, 2005					
	Tonnes (000's)	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)	Tonnes (000's)	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)
Myra Falls	6,134	5.7	0.5	1.0	41	1.2	6,000	6.4	0.5	1.1	46	1.3
El Mochito	2,899	6.1	2.7	-	89	-	2,413	6.6	2.2	-	87	-
El Toqui	2,869	8.2	-	-	-	1.3	2,591	7.8	-	-	-	2.1
Langlois	3,658	10.1	-	0.8	49	0.1	3,323	10.8	-	0.8	52	0.1
Total	15,560	7.3	-	-	-	-	14,327	7.7	-	-	-	-

Measured and Indicated Resources*

	December 31, 2006						December 31, 2005					
	Tonnes (000's)	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)	Tonnes (000's)	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)
Myra Falls	7,224	7.2	0.6	1.2	55	1.7	8,647	7.8	0.7	1.4	64	1.8
El Mochito	3,199	6.7	2.8	-	97	-	3,195	8.2	2.8	-	111	-
El Toqui	3,597	8.9	-	-	-	1.3	3,420	8.4	-	-	-	1.9
Langlois	5,699	10.7	-	0.8	51	0.1	4,981	11.1	-	0.8	54	0.1
Total	19,719	8.4	-	-	-	-	20,243	8.8	-	-	-	-

* Includes proven and probable reserves but excludes inferred resources

Inferred Resources

	December 31, 2006						December 31, 2005					
	Tonnes (000's)	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)	Tonnes (000's)	Zn (%)	Pb (%)	Cu (%)	Ag (g/t)	Au (g/t)
Myra Falls	4,431	6.9	0.8	1.0	81	2.0	2,419	4.8	0.6	0.9	45	1.4
El Mochito	2,480	5.7	2.3	-	75	-	2,174	7.2	4.3	-	131	-
El Toqui	4,626	8.5	-	-	-	0.5	3,012	7.9	-	-	-	0.5
Langlois	1,808	8.8	-	0.5	39	0.1	1,255	9.7	-	0.5	40	0.1
Total	13,345	7.5	-	-	-	-	8,860	7.1	-	-	-	-

Metal Price Assumptions

For the December 31, 2006 mineral reserves estimates, metal prices, including premiums, used to determine economic viability were US\$1.12/lb. zinc, C\$/US\$ exchange rate of 1.09, US\$600/oz. gold, US\$12/oz. silver, US\$2.55/lb. copper and US\$0.54/lb. lead. For Grevet B, the satellite deposit at Langlois, the metal prices used were US\$1.45/lb. zinc, C\$/US\$ exchange rate of 1.09, US\$12/oz. silver and US\$3.27/lb. copper. Higher prices were used on this deposit as it is expected that it will be mined over the next two years.

For the December 31, 2005 mineral reserves, the following metal price assumptions were used for the various mineral reserve/mineral resource estimates.

Mineral reserves and mineral resources at Myra Falls were based on an NSR cut-off of \$65/tonne for the HW deposit and \$70/tonne for all other deposits. Prices used for the mineral reserve/mineral resource estimates were US\$0.80/lb. zinc, US\$1.80/lb. copper, US\$7.50/oz. silver, US\$500/oz. gold and a C\$/US\$ exchange rate of \$1.18.

For both El Mochito and El Toqui, long term metal prices and exchange rates were first assigned in 1998. Prices used for the mineral reserve/mineral resource estimates were US\$0.55/lb. zinc, US\$0.25/lb. lead, US\$5/oz. silver, US\$275/oz. gold and a C\$/US\$ exchange rate of \$1.43. Prior to 2006, no modification of these prices had been made since that time. Both operations use a specific cut-off grade which has been applied annually since that time. Mineral resources at El Mochito are based on a grade cut-off of 3.0 to 5.0% zinc depending on the deposit. Mineral resources at El Toqui are based on a grade cut-off of 4.75% zinc for all deposits.

At Langlois, the NSR values used to outline mineral reserves were based on US\$0.50/lb. zinc US\$0.80/lb. copper, US\$5/oz. silver, US\$343/oz. gold and a C\$/US\$ exchange rate of \$1.43 for Zone 97 and US\$0.55/lb. zinc, US\$0.90/lb. copper, US\$5/oz. silver, US\$275/oz. gold and a C\$/US\$ exchange rate of \$1.55 for Zones 3 and 4.

Scientific and Technical Data

The Company is reporting mineral resource and reserve estimates in accordance with the CIM Definition Standards For Mineral Resources and Mineral Reserves (the “CIM Guidelines”) for the estimation, classification and reporting of resources and reserves.

The Canadian Securities Administrators’ National Instrument 43-101 (“NI 43-101”) requires mining companies to disclose reserves and resources using the subcategories of “proven” reserves, “probable” reserves, “measured” resources, “indicated” resources and “inferred” resources in accordance with the meanings ascribed to those terms in the CIM Guidelines. Mineral resources that are not mineral reserves do not have demonstrated economic viability.

A mineral reserve is the economically mineable part of a measured or indicated resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral reserve includes diluting materials and allows for losses that may occur when the material is mined. A proven mineral reserve is the economically mineable part of a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

A mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth’s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge.

A measured mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape, physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations

such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

An indicated mineral resource is that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

An inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. Mineral resources which are not mineral reserves do not have demonstrated economic viability.

3.6 Operating Mines

A) MYRA FALLS MINE

Project Description and Location

The Company owns and operates, through its subsidiary, NVI Mining Ltd., the Myra Falls zinc/copper/lead/gold/silver mine located near Campbell River, British Columbia. Effective July 23, 2004, the Company acquired all of the outstanding shares of Boliden Westmin (Canada) Limited (“BWCL”), the owner of the Myra Falls mine from Boliden Limited (“Boliden”) for consideration consisting of 18 million Common Shares and Tradeable Warrants to purchase 5 million Common Shares at an exercise price of \$1.00 expiring on January 28, 2009. Subsequently, the Company changed the name of BWCL to NVI Mining Ltd.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Myra Falls mine is located in Strathcona-Westmin Provincial Park in central Vancouver Island, British Columbia. The mine is linked by a 90 kilometre paved road to the port of Campbell River on the east coast of Vancouver Island and also by paved road to the west coast of Vancouver Island via the town of Gold River. Campbell River is an important local centre, which is connected by road to the provincial capital, Victoria, and has air links to Vancouver.

The mine and other installations are located on the floor of Myra valley at an elevation of approximately 275 metres above sea level. On both sides of the valley are steep, rugged mountains rising to approximately 1,850 metres above sea level. The lower slopes are covered by forest composed of fir, hemlock and cedar. Alpine meadow occurs at higher elevations and the summits are bare rock with local glacial ice.

Precipitation is high, reaching the equivalent of 2,500 millimetres of rain per year, which may include up to three metres of snow in winter. The temperature ranges from 28°C in summer to -18°C in winter.

The Myra Falls mine facilities include an underground mine and a conventional milling facility which produces separate zinc and copper concentrates. Other facilities include a headframe and hoist building,

which houses the compressors that provide compressed air for the underground mine and ancillary functions, a hydraulic backfill plant and a concentrate loadout facility located in Campbell River. Electrical power is provided by two hydro-electric power stations producing 11.2 megawatts. As well, there is a 12 megawatt diesel generating plant which supplies any additional power required.

The mine property covers 2,209.97 hectares held under mining leases, 317.62 hectares held under freehold title to minerals and 1,110 hectares held under two post mining claims. The leases are valid for varying terms and, upon expiry, may be renewed by formal application to the applicable governmental authorities.

History

- 1918 James Cross and Associates staked claims in the Myra Falls/Buttle Lake area discovering H-W, Lynx, Price and Myra mines.
- 1920's Following the discovery of the Lynx mineralization, Paramount Mining Co. of Toronto started first development work in the area but inconclusive findings along with the remoteness of the area and depressed metal prices resulted in little work being done.
- 1959 Reynolds Syndicate acquired the claims.
- 1961 Western Mines Limited acquired the claims.
- 1966 The Lynx mine started as an open pit operation.
- 1967 Lynx mine producing 860 tonnes per day and diamond drilling established underground mineral reserves.
- 1969 Myra mine deposits discovered.
- 1972 Myra mine in production. Brascan Resources Ltd. acquired a controlling interest in Western Mines Limited.
- 1975 Lynx open pit mine was completed. The Lynx underground mine produced approximately 8,500 tonnes per month.
- 1976 Aggressive exploration program initiated to offset the decline in the Lynx and Myra mineral reserves.
- 1979 Exploration program successful in locating the large massive sulphide deposit now known as the H-W deposit.
- 1981 Western Mines Limited merged with Brascan Resources Ltd. to become Westmin Resources Ltd.
- 1982 Over three years a new tailings disposal facility was installed and commissioned.
- 1985 Following additional drilling, development and feasibility studies at the new H-W mine, a shaft and headframe was completed. After completion of a conveyor to the new mill, initial production averaged 2,700 tonnes per day.
- 1986 Myra mine operations closed.
- 1989 Mill production at the H-W mine increased to 3,650 tonnes per day.
- 1991 The Battle and Gap deposits were discovered.
- 1993 Lynx operations suspended.
- 1995 Marshall deposit discovered.
- 1996 Mining in the Battle-Gap zone commenced.
- 1998 Boliden Limited acquired the Myra Falls mine through take-over of Westmin Resources Ltd. and subsequently transferred the Myra Falls assets to its wholly-owned subsidiary, Boliden Westmin (Canada) Limited ("BWCL"). Mining operations temporarily suspended at Myra Falls. An action plan was put in place to deal with difficult ground conditions.
- 1999 Mining resumed at Myra Falls.
- 2001 Myra Falls shut down for four months as the organization was restructured to adjust to falling metal prices.
- 2004 The Company purchased all the outstanding shares of BWCL from Boliden Limited. BWCL name changed to NVI Mining Ltd.

Geological Setting and Mineralization

Volcanic hosted massive sulphide (“VHMS”) deposits on Vancouver Island, including those at Myra Falls, are hosted by ancient island arc systems of the Paleozoic Sicker Group. The Sicker Group is exposed on Vancouver Island in several fault-bounded uplifts.

At Myra Falls, the Devonian to Mississippian aged Sicker Group volcanic rocks are conformably overlain by limestone of the Permian aged Buttle Lake Formation. In order of decreasing age, the Sicker Group comprises the basement Price Formation andesite, Myra Formation felsic to mafic volcanic rocks, Thelwood Formation mafic fine-grained volcanoclastic rocks, Flower Ridge Formation mafic breccias and sills, and Buttle Lake limestone.

Sulphide mineralogy at Myra Falls is typical of most VHMS deposits. The common sulphide minerals present in order of decreasing abundance are pyrite, sphalerite, chalcopyrite, and galena. Less common sulphides are pyrrhotite, arsenopyrite and the copper-rich sulphides bornite, renierite, and anilite. The VHMS deposits are hosted by the Myra Formation and are associated with two rhyolite horizons, the at-depth H-W Horizon and the near-surface Lynx-Myra-Price (“L-M-P”) Horizon.

Deposits within the H-W Horizon are primarily classified as a zinc-copper type and include the H-W deposit and its adjacent lenses. The Battle and Gap deposits also fall within the zinc-copper group in spite of their high lead and zinc values relative to other deposits on the property.

VHMS mineralization associated with the H-W Horizon is typically at or proximal to the Price Formation andesite contact. VHMS deposits immediately overlying the Price Formation andesite contact are the 22 million tonne H-W deposit and the six million tonne Battle deposit. The H-W Horizon also has subordinate but economically significant mineralization within stacked lenses located ten to 70 metres above the larger deposits. In mine terminology these stacked lenses are known as Upper Zone mineralization. In the Battle deposit area, Upper Zone mineralization is hosted by felsic volcanoclastic rocks proximal to the base of or within quartz feldspar porphyry flow-dome complexes.

VHMS mineralization in the L-M-P Horizon is located in the upper portion of the Myra Formation. These deposits were the first to be exploited on the property due to their surface exposure. The near surface L-M-P Horizon has a 7.2 million tonne pre-mining mineral resource with an average deposit size of 2.4 million tonnes.

There are a number of smaller sulphide lenses between and beyond the main deposits. These include the Extension and the 43 Block, which represent part of the current mineral reserve, as well as more outlying bodies such as the Trumpeter, Marshall and Ridge Zones which already contribute to the mineral resource.

Mineral Resource and Mineral Reserve Estimation Methodology

The mineral resource and mineral reserve estimates for the Myra Falls mine are developed using Gemcom modelling software. Separate block models are maintained for the H-W, Battle-Gap, Extension, Lynx Level 6, Ridge, and Marshall zones.

The block model mineral resources are classified into measured, indicated and inferred categories based on the distance of a block from its nearest composite.

Mineral resources comprise mineralized areas which:

- i) have been drilled and/or otherwise sampled to the knowledge level of measured or indicated mineral resources;
- ii) are considered accessible and extractable from currently-active mine workings and are included in the current mining plan; and
- iii) have an NSR value equal to or exceeding a predetermined cut-off value.

A separate extraction factor and dilution rate is applied to each mining area to estimate mineral reserve tonnages and grades. The result is regarded as a mineral reserve with proven and probable status.

A summary of mineral reserves and mineral resources is set out in the mineral reserves and mineral resources table in Paragraph 3.6 entitled "Summary of Mineral Reserves and Resources" in this Annual Information Form.

Mining Operations

Myra Falls currently operates two underground mines: the H-W mine which commenced production in 1985 and the Battle-Gap mine which commenced significant production in 1997. The H-W mine is accessed by a 716 metre deep, six-compartment vertical shaft serviced by a 49 metre high headframe. The shaft is linked to the production areas by 14 kilometres of ramps and lateral development. The Battle-Gap mine is linked to the H-W shaft by a 1.8 kilometre long drift on the 18 level. The mine operates on two ten hour shifts per day. All workers and materials are transported to and from both mines via the H-W shaft.

Mining in the H-W mine is now mainly restricted to the recovery of pillars. Most primary stopes have been mined out and backfilled with cement-stabilized hydraulic backfill material. The main production method in the H-W mine is sublevel stoping with longhole drilling.

Mining in the Battle-Gap includes sublevel stoping and drift-and-fill mining techniques according to the ground conditions. Opened in 1997, this mine is focused on primary production. Hydraulic backfilling is applied here as well. Up to 55% of tailings generated by the mill are returned underground as fill material in H-W and Battle-Gap zones.

Loaded by rubber-tired diesel scoop-trams and hauled to ore-passes, the blasted material falls by gravity to the main haulage level (24 level). Mineralized material is transported by electric locomotives to the primary jaw crusher located underground on 25 level in the H-W mine. Trains are loaded and sent to the crusher according to specific tramming schedules designed, where possible, to even out grade variations. Mineralized material is crushed to less than 150 millimetres (six inches) in a 1.2 metre by 1.1 metre jaw crusher and hoisted to the surface in two counterbalanced 10.5 tonne-capacity skips to a 100 tonne storage bin in the headframe. From there the mineralized material is transported by a 1.4 kilometre long conveyor to a 3,600 tonne coarse ore storage bin at the concentrator.

Ground control is achieved by means of rockbolts, screening, shotcreting and tight filling of voids. In the Battle-Gap zone, high rock pressures arising from the mine's location under Mount Phillips, demand vigilance.

The Phillips Reach-surface ramp was started in 2005. The ramp was completed to the top of the Level 14 ventilation raise at the end of 2006. The raise was drilled off but not blasted until January 2007. The ramp will continue to the Levels 14 and 15 in the Lynx mine in 2007. This will provide both service access to the upper levels of the Lynx mine as well as ventilation to the west end of the Battle-Gap mine.

Underground exploration work consisting of drift development to the Marshall zone on the 24-level track drift and diamond drilling continued during 2006. Diamond drilling was concentrated on the Marmot Trough located below and to the south of the Battle-Gap mine. Drilling in 2007 will focus on a wider range of targets.

Metallurgical Processing

The Myra Falls concentrator has a rated capacity of 1.4 million tonnes per year and produces zinc, copper and precious metals concentrates. The original Myra Falls concentrator, constructed in 1966, was replaced in 1985 by the current concentrator that has been progressively modernized since that time. In 1990, the zinc and copper flotation circuits were streamlined by adding column cells and reducing the re-circulation load which resulted in improved zinc recovery. In 1992, a Knelson gravity concentrator was added to each grinding circuit to improve gold recovery. In 2006, the copper and zinc flotation circuits were refurbished and extra cells were added to enable production of a separate lead concentrate when required.

At surface, the mineralized material is transported from the H-W mine headframe to the mill by a 1.4 kilometre long conveyor belt. This conveyor belt discharges into a 3,600 tonne coarse ore bin at the concentrator. Secondary and tertiary cone crushing and screening reduces the mill feed to less than 16 millimetre by 28 millimetre size. Two 3,500 tonne fine ore bins receive this crushed material.

The concentrator has two parallel grinding circuits, each capable of treating 2,000 tonnes per day. Rod mill discharge is pumped to a pair of Krebs D20LB cyclones operating in closed circuit with the ball mill. Cyclone underflow, containing 80 – 85% solids, returns to the ball mill. Part of the cyclone underflow stream is passed through a Knelson gold concentrator to recover coarse free gold. Gold and silver recoveries are about 53% and 74%, respectively. The gold circuit was modified in 2006 to include further gold concentration using a vibratory gold shaking table.

Cyclone overflow is fed to the copper flotation circuit; particle size is 75 – 80% finer than 75 microns (200 mesh). Copper minerals are recovered in a conventional rougher-scavenger circuit followed by three cleaning stages. During 2006, mechanical cells replaced the column cell that previously operated as the final cleaner. The final concentrate reports to the 9.8 metre diameter copper concentrate thickener. The thickened concentrate is dewatered by pressure filtration and discharged to the load-out bay.

The copper scavenger tails and copper first cleaner tails are combined and pumped to the zinc flotation circuit.

The feed to zinc flotation is conditioned for approximately ten minutes ahead of rougher flotation. Lime is added to raise the pH and assist in iron (mainly pyrite) depression and copper sulfate is added to reactivate the zinc mineral. Collector is added to the conditioner discharge. Zinc rougher concentrate is pumped to a regrind mill ahead of three stages of cleaning. During 2006 mechanical flotation cells replaced the column cell that previously functioned as the final cleaner. The zinc final concentrate reports to the 9.8 metre diameter zinc concentrate thickener. The thickened concentrate is further dewatered by pressure filtration and discharged to the load-out bay.

Zinc and copper recoveries during 2006 were 86.5% and 73.0% respectively.

The dewatered concentrates are transported from the property in 38 tonne truck/trailer units 90 kilometres to Discovery Terminal, a deep-sea docking facility located in Campbell River where they are loaded onto barge or ship.

Flotation tailing is pumped from the mill to a cyclone plant where the particles are classified into a coarse sand fraction that is returned underground as hydraulic backfill, and a fine slurry that is pumped to a paste tailings plant.

In the paste tailings plant, the fine solids are flocculated and settle in a high-capacity thickener. The thickener overflow (clear process water) is recycled to the milling process. The thickener underflow slurry, contains around 55% solids and a portion of this stream is pumped to a vacuum disc filter where it is further dewatered to produce a filter cake of 85% solids. The filter cake is recombined with thickener underflow slurry at a ratio of 60:40 in a paddle mixer. The resulting “paste” then discharges from the paddle mixer into a positive-displacement pump. The paste tailings are pumped to a deposition site along the northern perimeter of the tailings pond.

During the fourth quarter of 2005, metallurgical test work was carried out to investigate the feasibility of producing a lead concentrate of marketable quality, with the ultimate goal of reducing the quantity of lead and zinc reporting to the copper concentrate. The test work was positive, indicating that copper recoveries could be improved by 30 to 40% with a dramatic reduction in impurities and zinc concentrate grades could be improved by 11%. A mill flowsheet was developed and the flotation circuits were modified along with the reagent additions to improve zinc and lead rejection in the copper circuit and improve zinc concentrate grade. The components were installed to float off a lead concentrate and this portion of the circuit will be commissioned in early 2007. During the fourth quarter of 2006, zinc recoveries were 88.2% and copper recoveries were 71.20% during the circuit commissioning.

A summary of three year production information is set out in the Historical Production Table in Paragraph 3.2 entitled “Operations of the Company” in this Annual Information Form.

Environmental Management and Permitting

The Myra Falls mine is located within Strathcona-Westmin Provincial Park. The park was established as a Class B park inside the boundaries of Strathcona Provincial Park, which is a larger Class A park and covers a total area of 231,000 hectares. The Class B park designation was established in 1989 to allow mining interests to continue as industrial development is not permitted within a Class A provincial park.

Although the Company’s mineral claims cover more than 3,600 hectares, the surface area affected by the Myra Falls mine is less than 170 hectares.

The surface tailings disposal facility (“TDF”) is a 43 hectare “side-hill” impoundment created by upstream dam raises of fill. The crescent shaped dam is approximately 1,400 metres long and 28 metres high. Drainage from the facility reports to a water treatment system with a series of settling ponds before being released to Myra Creek. The TDF receives up to 50% of the whole tailings stream and the balance reports underground as cemented hydraulic fill (via the backfill plant).

In 1997, a geotechnical audit of the TDF by independent experts, indicated that the facility did not satisfy the British Columbia guidelines for dam seismic standards (a one-in-475 year earthquake event for an operating mine). Several alternatives for strengthening the facility were reviewed and a proposal was finally selected that will enable the TDF to exceed the recommended operating design standard and meet the recommended closure standard of a one-in-1,000 year earthquake event. The proposal was approved by the British Columbia government and construction of the upgrade is in progress and scheduled to be completed in 2008.

As of January 1, 2007, approximately 18 months of storage space remains available for tailings in the TDF. The storage available is considerably more than was reported last year and this has been confirmed

by the Geotechnical Consultant, AMEC Earth and Environmental Inc. While the storage space is being consumed, a new facility in the Lynx Pit is being constructed and is expected to have sufficient storage capacity to accommodate tailings for an additional 11 years.

Mining and milling activities at Myra Falls are conducted pursuant to various environmental permits, including waste water and air emission permits issued under the British Columbia Waste Management Act, mining and reclamation permits issued under the *British Columbia Mines Act* (the “Mines Act”) and park use permits issued under the *British Columbia Park Act*. Operations at Myra Falls are conducted in substantial compliance with all of these permits.

The Myra Falls mine holds Park Use Permits issued by the British Columbia Ministry of Parks for mining and power generation. The permits are valid for a period of 27 years commencing June 1, 1985 (expiring on May 31, 2012) and are renewable.

The Myra Falls site currently operates under a Reclamation Permit (M-26) (the “Reclamation Permit”) issued by the British Columbia Ministry of Energy and Mines (“MEM”). The Reclamation Permit contains the MEM’s reclamation requirements including financial security obligations by the permittee.

An updated conceptual closure plan for the Myra Falls mine was filed with the Chief Inspector of Mines of the MEM on December 22, 2003 to meet the requirements under the British Columbia *Mines Act* and Reclamation Code. The report details closure techniques and methods for all site components complete with cost estimates to implement the plan. The updated reclamation and closure costs are estimated at \$10.3 million. A continued annual operating cost of \$0.6 million is also expected for long term treatment of site drainage after closure.

The Reclamation Permit contains conditions for the posting of reclamation and security requirements. The Company has fulfilled its obligations by posting an aggregate of \$13.4 million of which a sum of \$10.8 million was for reclamation and closure costs and \$2.6 million for the TDF upgrade program.

Exploration

Since the opening of the Lynx mine in 1966, there have been four subsequent phases of exploration, development and mining (“E-D-M”) from four past and current producing mines. Each cycle has taken about a decade to run its course, with some minor overlap. Initiation of each cycle commenced with the need to discover new resources as existing resources were being depleted.

Diamond drilling for new undiscovered VHMS deposits has yet to be successful during the current E-D-M cycle. Based on financial constraints over the past four years, an interim decision has curtailed development of strategically positioned underground diamond drill platforms for targets on the western and northern portions of the property. Development of diamond drill platforms is essential as the western half of the property lies under the 1,520 metre high Phillips Ridge. The Company commenced development of the Phillips Reach ramp from surface in the Lynx mine area to the west during 2005. This ramp will provide new underground diamond drill platforms. Diamond drilling from the Phillips Reach ramp commenced during 2006. The diamond drill contractor mobilized in the fourth quarter and set up on surface to drill the extension of the Marshall zone.

Definition diamond drilling is currently delineating the Extension Zone and the 43 Block. The Extension Zone is located between the H-W and Battle-Gap mines and extends over a one kilometre strike length. The 43 Block definition diamond drilling is nearing completion; mining of initial stoping blocks on this structurally deformed lens commenced in 2001. Near surface mineral resources of the high-grade Lynx deposit S-Zone of the L-M-P Horizon have also been outlined.

B) EL MOCHITO MINE

Project Description and Location

The Company owns and operates the El Mochito zinc/lead/silver mine located in Honduras through American Pacific Honduras S.A. de C.V. (“AMPAC”). Except for a short duration in 1987, the mine has been in production for 58 years.

The El Mochito mine is located in northwest Honduras, near the town of Las Vegas, approximately 88 kilometres southwest of San Pedro Sula and 220 kilometres northwest of the capital city, Tegucigalpa. The concentrate produced at El Mochito is shipped to the port city of Puerto Cortés, which is 35 kilometres north of San Pedro Sula.

The El Mochito mine consists of an underground zinc/lead/silver mine and a 2,300 tonne per day concentrator. The El Mochito property includes 53 exploitation concessions totalling 10,835 hectares of mineral rights. AMPAC has sole title to the exploitation concessions, which are 40 year concessions expiring in 2027. In addition, AMPAC has legal title to extensive surface lands covering a portion of the El Mochito zone of claim concessions; these surface lands are necessary for worker camps, surface mine and mill facilities, present and future tailings dams, exploration activity and water springs.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access to the mine from San Pedro Sula is by a paved highway. Located in the Province of Santa Barbara, the mine, town site and industrial facilities are situated on the slopes of mountains overlooking Las Vegas, a rural community of 25,000 people.

The mine is located at an elevation of 1,000 metres in a mild, semi-tropical climate. Maximum daily temperatures range from 23°C to 29°C and average rainfall per annum is 2,300 millimetres. Due to its tropical location and varied topography, Honduras enjoys a variety of climates. The temperatures are warm all year around but the patterns of rainfall, humidity and tropical vegetation vary depending on the altitude, prevailing winds, the location in relation to the coasts, and to what extent the mountains block the passage of clouds.

Electrical Power at El Mochito is supplied by National Grid belonging to the Honduran Government. The mine has an on-site diesel power plant that has the capacity to cover all aspects of the mine (mill excluded) operation with the exception of the hoisting operation.

History

- 1938 El Mochito mine discovered.
- 1943 New York and Honduras Mining Corporation (later Rosario Resources Corporation “Rosario”) purchased the property.
- 1948 Production began with the initial zinc product being jig concentrates containing native silver, a bulk flotation concentrate and a silver product.
- 1960 Zinc concentrate became economic to produce.
- 1978 Amax, Inc. acquired Rosario.
- 1987 The mine was closed due to high taxes, labour problems and high operating costs. American Pacific Mining Corporation, Inc. (“American Pacific”) purchased the mine. Mine reopened.
- 1990 The Company acquired American Pacific by way of an amalgamation of American Pacific with a wholly-owned subsidiary of the Company now named Santa Barbara Mining Company, Inc.

Geological Setting and Mineralization

Zinc/lead/silver mineralization at El Mochito occurs in sedimentary rocks of the Cretaceous age and belongs to the economically important class of high-temperature replacement zinc/lead deposits in carbonates. Carbonates are particularly susceptible to replacement by acid hydrothermal solutions which, in the case of El Mochito, have deposited skarn minerals such as garnet, epidote and pyroxene together with sulphides of iron, zinc and lead.

The replacement deposits can take two shapes: some follow the essentially flat bedding of their host rock (“mantos”) while others cut across the rocks (“chimneys” or “pipes”). At El Mochito, both of the replacement deposits are prominently developed, with mantos forming at the lower contact of the Cretaceous Atima limestone, where upwelling solutions emerged from the underlying Todos Santos siltstone package. Mantos also formed at the lower contact of the Mochito shale, a 150 metre thick limy siltstone unit some 550 metres above the base of Atima limestone. In many cases, a chimney-type connection between the lower and upper mantos is present, the largest of which is the San Juan pipe, now largely mined out. Others are the Nacional, Salva Vida, Yojoa, Niña Blanca and Nueva pipes. Overall, some 70% of the total known tonnage at El Mochito occurs in the chimney/pipe setting.

There is also a tendency for the formation of manto-like bodies immediately above the Mochito shale from which a number of individual pipes rise into the 450 metres of the overlying upper Atima limestone where a number of high grade pipes or chimneys sustained the mine in its earlier history. The known mineralization at El Mochito occurs within a rock volume measuring some 2.5 kilometres east-west and 600 metres north-south, with a vertical (stratigraphic) extent of more than one kilometre. Within these dimensions, the known mineralized bodies occupy 0.3% of the overall volume.

El Mochito has a pronounced overall vertical metal zoning. It is generally accepted that a set of pre-existing faults guided the ascent of the mineralizing fluids. Of particular importance are the sub-parallel, generally east-northeast trending Porvenir, Main and Nacional/Salva Vida faults. All of the major mineralized bodies discovered to date at El Mochito are localized by the intersection of these faults with north-northeast trending “N” style faults.

Post-mineralization faulting is ubiquitous. A prominent set strikes northeasterly and has steep dips, with the hanging-wall side moving down. While the offsets along these faults are generally small, they create poor ground conditions. Knowledge of their location in space is required for detailed mine layout.

The high-grade Port Royal zone discovered in 1999 and the Barbasco zone discovered in 2001 are similar to smaller high-grade zones mined decades ago; however, they occur over 770 metres west of similar structures previously mined and confirm the continuing exploration potential of these structures.

Mineral Resource and Mineral Reserve Estimation Methodology

The mineral resource and mineral reserve estimates for the El Mochito mine are developed using Gemcom modelling software. The method used in the December 31, 2006 mineral resource and mineral reserve estimation was different from the previous years in several aspects. This year, the cut-off grade was changed to 5% zinc equivalent grade from a 5% zinc grade. Secondly, a true grade block model was created using an inverse distance ($1/D^2$) interpolation method rather than the traditional polygonal method. And lastly, treatment of planned dilution in mining was modified. All other parameters, such as drill spacing, specific gravity, sampling method, geochemical analysis, and mining method and factors, are the same as preceding estimates.

A summary of mineral reserves and mineral resources is set out in the mineral reserves and mineral resources table in Paragraph 3.6 entitled “Summary of Mineral Reserves and Resources” in this Annual Information Form.

Mining Operations

All the present mineralized bodies are mined employing a “post and pillar” cut and fill method. Using pneumatic jumbos with hydraulic backfill yielding approximately 84% recovery of the reserves. This method is ideally suited for the mine’s variable geometry, grade distribution and rock conditions. Good control over grade and dilution is achieved. The mine functions well within the constraints of small shafts and has consistently improved over the years.

Mineralized material in the Nacional and Lower San Juan is loaded by 2.7 cubic metre capacity load haul dump vehicles into 15 tonne trucks for transport to an ore-pass which feeds an underground crusher and then a 0.9 metre-wide conveyor. The material is then conveyed upgrade to chutes on the shaft-access rail system where it is transported to the shaft ore-pass system. Material is hoisted via ten tonne skips to surface, where it is conveyed to the surface crushing circuit and subsequently to storage in a surface ore bin.

Metallurgical Processing

The mill at El Mochito is a conventional, differential sulphide flotation mill capable of processing 2,300 tonnes per day, producing separate zinc and lead concentrates. The process consists of crushing, grinding, flotation, concentrate dewatering and tailings disposal.

Mineralized material from underground is crushed in a three stage surface facility (jaw and cone crushers with vibrating screens) prior to trucking to the ore bin at the mill site. The grinding circuit consists of parallel open circuit rod mills, the discharges of which are combined and passed through two stages of ball milling. Each stage of ball milling is in closed circuit with cyclones. The ground ore is conditioned with reagents and then subjected to differential flotation in roughing and cleaning flotation circuits to produce saleable lead concentrate and zinc concentrate. These concentrates are separately thickened and then vacuum filtered before they are conveyed to storage sheds at the mill site.

The flotation tailings are pumped to the mine backfill facility where the tailings, upon demand, are subjected to cycloning to produce hydraulic backfill for the mine or bypassed to the tailings impoundment area. No tailings effluent is recycled to the mill, but it is treated and discharged.

The concentrates are hauled to a storage shed at Puerto Cortés via truck for subsequent export to smelters.

Since opening in 1948, the El Mochito mine has processed over 19.1 million tonnes with an average grade of 7.4% zinc, 3.5% lead and 233 grams of silver per tonne. Concentrate grades are in the 52% range for zinc and in the 70% range for lead (containing approximately 2,500 grams of silver per tonne). The high silver content in the lead concentrate combined with the good grade of lead makes this concentrate readily marketable.

A summary of three year production information is set out in the Historical Production Table in Paragraph 3.2 entitled “Operations of the Company” in this Annual Information Form.

Environmental Management

The El Mochito mine operates under the Honduras *Law of the Environment (1993)*. This law has a very limited section referring specifically to mining, for which the standards are, for the most part, World Bank standards. The Company believes that the mine meets relevant North American standards which are used by the Company as guidelines for its mining practices. In 1998, a new Mining Code was published which calls for the creation of a “Manual of Environmental Policy” for establishing environmental standards. This manual was recently published in draft form and is now undergoing review by all stakeholders. The mining industry is participating in the review through its mining association in Honduras.

Mill tailings that are not used for mine backfill are discharged to the Pozo Azul tailings facility (“Pozo Azul”) where they are hydro-cycloned into coarse and fine fractions. Coarse material is used for upstream dam construction while the fine fraction reports to the reservoir portion of the pond. The reservoir portion of Pozo Azul provides retention time to naturally treat water prior to discharge to the Quebrada Raices, and subsequently to Lake Yojoa.

Dam construction and geotechnical evaluations are contracted to an independent consulting firm. Dam inspection reports prepared annually by the independent consulting firm do not indicate any significant stability issues associated with the dams on site.

Stage two of a two-stage dam construction schedule has been completed. Stage two has sufficient capacity to contain tailings until the end of 2007. To accommodate reserves past this date, a new tailings disposal facility (“Soledad”) has been engineered and approved by the Honduran authorities and construction began in 2004. During 2006, storm damage necessitated a repair to the geomembrane liner which delayed commissioning into the third quarter of 2007. Once complete, Soledad is expected to have capacity for seven years at current production rates and the current tailings impoundment facility, Pozo Azul, will be reclaimed.

The Company has prepared a conceptual reclamation and closure plan for the El Mochito mine. The reclamation and closure plan focuses on the decommissioning of mine and surface infrastructure and the reclamation of the tailings facilities. Progressive reclamation of the Pozo Azul tailings facility will begin once the Soledad facility is commissioned. Final and long-term reclamation of El Bosque tailings facility was practically completed at the end of 2006 and consists mainly of geotechnical stabilization and erosion protection. The only remaining work is to construct a surface drainage spillway which will be designed in 2007 and constructed in 2008.

Closure and reclamation costs for El Mochito are estimated to be \$4.6 million. The Honduran government does not require security to be posted.

Exploration

During 2006, Western Mining Services LLC. (“WMS”) was contracted by the Company to give technical support in defining the geological potential and preparing an aggressive three year exploration program for all the Company’s operations, including El Mochito.

i) Underground Exploration and Delineation Drilling

For the year 2006, 43,847 metres of delineation and exploration diamond drilling was performed at El Mochito of which roughly 72% of the drilling was delineation drilling. Resources were upgraded and reserves were added in the Santo Niño, San Jose, and La Leona areas of the mine.

At San Jose, a total of 8,212 metres of delineation drilling was completed, along 236 metres of the manto trend, along 15 metre spaced sections on the 2450 Level. On the east side of San Jose, 1,458 metres of exploration drilling has confirmed the continuation of the San Jose manto into the Santo Niño area.

From the 2790 Level in the Santo Niño area, 8,850 metres of exploration drilling successfully tested 152 metres of the manto trend. An additional 5,076 metres of exploration drilling from the 2790 Level further demonstrated the connection between the San Jose and Santo Niño mantos. In addition 1,514 metres of delineation drilling was completed along 15 metre sections on the Santo Niño manto. The Santo Niño manto is open to the northwest.

On the 1850 Level, in the far western portion of the mine, 1,829 metres of drilling added 61 metres to the length to the La Leona manto. This manto is open to the west.

Exploration drilling in the Imperial area was of limited success. Drilling failed to show a connection between Imperial and the Barbasco Extension.

In the near future, exploration drilling will focus on the eastern portions of the mine. This area includes the Deep East target, the Santo Niño NW manto, the Santo Niño chimney, the Santa Blanca, and the Santa Paula mantos.

Delineation drilling in 2007 will continue to focus on developing resources and adding reserves in the Santo Niño, San Jose, and La Leona manto areas.

ii) Surface Exploration

Two soil sample grids, covering an area of 3.5 square kilometres and totalling 1,528 samples, were completed in 2006 in the Mochito area. The soil grids covered the 21 de Octubre and Arandanos areas.

The sample spacing on all grids is a 50 metre by 50 metre pattern. All the samples are sent to independent laboratories and analyzed for 31 elements using ICPMS.

In the 21 de Octubre grid, which is centered in the immediate vicinity of the El Mochito mine, a total of 705 samples were collected from an area of 1.6 square kilometres. The grid over the Arandanos area, which is northwest of the mine district, covered an area of 1.9 square kilometres and contained 823 samples.

A third soil sample grid was started in 2006 and will be completed in February 2007. This grid, called Enlace, covers the ground between the two completed grids. It is designed to cover 6.1 square kilometres and have about 2,560 samples.

Geochemical anomalies noted in the results from the 21 de Octubre soil sample grid, centered on the mine area, are useful reference parameters for exploration in the district. An interesting geochemical anomaly, with dimensions and values similar to those observed at 21 de Octubre area, was found in the Arandanos grid area.

In 2006, ten diamond surface drill holes totalling 5,543 metres tested three areas. These areas were the San Juan Arriba, Bonanza, and Caliche.

In San Juan Arriba, an area located above the San Juan deposit, five diamond drill holes totalling 2,371 metres were completed. The drilling targeted a strong Natural Source Audio-frequency Magnetotelluric Imaging ("NSAMT") geophysical anomaly in this area. Drilling intersected a skarn zone with weak

mineralization in the Mochito Shale above the San Juan deposit. Drilling failed to find any mineralization extending above the Mochito Shale.

At the Bonanza area, located about 300 metres southeast of the San Juan Arriba area, two diamond drill holes totalling 961 metres were drilled. A magnetic anomaly was tested with this drilling. The second hole intersected 77 metres of strong skarn alteration in the Mochito Shale. It is believed that this intersection may represent a mineralized zone lying between the San Juan and Nispero Superior deposit. This new area is called Santa Paula.

The third area, Caliche, is located roughly three kilometres northeast of the mine. Three diamond drill holes, totalling 2,211 metres, were drilled on a geochemical anomaly. Drilling failed to find any mineralization and the drilling results suggest the Mochito Shales are absent in Atima limestone in this area.

Geological mapping was completed on the Arandanos area at a scale of 1:5000 in 2006. The mapping results clarified questions concerning the stratigraphy and helped recognize important structural features in the area. The target of Todos Santos/Lower Atima contact in this area is inferred not to be deep and may be only 600 metres below the surface.

At the end of 2006, WMS reprocessed the AeroDat airborne magnetic geo-physical survey data collected in 1997. Using a GMSYS-3D magnetic and gravity modelling software process, they were able to sharpen and refine the 3D details of various anomalies of exploration interest.

Of interest was the improved resolution over the Arandanos and Big Fuzzy exploration areas. In the Arandanos area, three anomalies are noted with one coincident to the geochemical anomaly. At the Big Fuzzy area, four, well-defined, finger shaped apophyses are noted protruding upward from the broad anomaly at depth. Arandanos and Big Fuzzy are planned to be drill tested in 2007.

C) EL TOQUI MINE

Project Description and Location

The Company owns and operates the El Toqui zinc/gold mine in Chile through its wholly-owned subsidiary, Sociedad Contractual Minera El Toqui ("El Toqui"). Except for the year 1986 and a brief period in 1998, the El Toqui mine has been in continuous production since 1983.

In August 1997, the Company purchased all of the outstanding common shares of El Toqui for \$18.7 million, including \$7.8 million for working capital, and a net smelter return royalty. The royalty is 1% when the LME price of zinc exceeds US\$0.50 per pound and increases to a maximum of 3% when the LME price of zinc is equal to or greater than US\$0.60 per pound.

The El Toqui mine is located in Chile's Region XI, approximately 1,350 kilometres south of Santiago. The site is situated approximately 120 kilometres by road north of the regional capital, Coyhaique and an equal distance northeast from the port town of Chacabuco.

The El Toqui mine operates under various Chilean permits and authorities related to the environment. Site discharge waters are regulated under Decreto No. 90 (República de Chile, 2000), which establishes water quality limits for all effluents to surface waters.

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The property is accessed by paved road to within 17 kilometres of the mine and then by an all weather gravel road. The mine is located in the Andes Mountains within the El Toqui river valley (southern slope) between 600 and 1,000 metres above sea level.

Southern Chile tends to be wet all year round, featuring frequent disturbed, changeable weather. Annual precipitation can be as high as 1,200mm, much of which falls as snow farther south and on the higher mountains. On the coast, winters are rarely very cold, however summers are cool and cloudy.

The El Toqui property covers approximately 1,200 square kilometres of mountainous terrain and includes the currently producing Doña Rosa zinc-gold mining area, the Aserradero gold-zinc mining area, the Estatuas zinc mining area, the new Concordia zinc-lead-silver mining area, and the former producing San Antonio and Mallin-Monica zinc/lead mines and a 1,500 tonnes per day concentrating plant.

The El Toqui operation mines and processes material containing zinc, gold, silver, and lead. The concentrates produced by the plant are transported to a deep-water port in Puerto Chacabuco for export. El Toqui owns and operates a dedicated hydroelectric power generating plant as well as a diesel generating plant. The property includes a concentrator, mine and maintenance offices, a laboratory, service buildings, catering facilities, accommodation modules, housing, and a ship loader in Puerto Chacabuco.

History

- 1970's El Toqui deposit was discovered and owned by Ignacio Walker, a Chilean entrepreneur, who then signed a joint venture agreement with Metallgesellschaft AG to explore the district.
- 1983 El Toqui commenced production in November.
- 1987 Lac Minerals acquired a majority interest.
- 1989 Lac Minerals acquired the remaining 15% minority interest to become the sole owner.
- 1994 Barrick Gold Corporation acquired Lac Minerals.
- 1997 The Company purchased all outstanding common shares of El Toqui from Compania Minera Barrick Ltda. and Sociedad Contractual Minera Barrick, wholly-owned subsidiaries of Barrick Gold Corporation.
- 2004 The Company increased the mill capacity to 520,000 tonnes per annum.
- 2006 The Company installed a Gekko intensive leaching plant to recover gold and silver from the Aserradero deposit.

Geological Setting and Mineralization

The El Toqui property is situated in an area of Jurassic-Cretaceous volcanic and volcano-sedimentary rocks, which are intruded by intermediate to felsic porphyritic bodies of Upper Cretaceous to Tertiary age. The volcanic and volcano-sedimentary rocks have flat to shallow dips in the El Toqui area.

Structurally, the area of the property is characterized by block faulting. The dominant strike direction is west-northwest to north, but northeast faults of secondary importance are also present.

The El Toqui property can be divided into two sectors in terms of mineralization, namely zinc and zinc/gold, with some areas, such as Concordia, having high lead and silver. Zinc and zinc/gold mineralization is present in the western part of the property within a west-northwest trending area approximately eight kilometres by 30 kilometres. The El Toqui mining district occupies a small part of

this sector, about ten kilometres by four kilometres. It appears to represent a horst bounded by west-northwest faults.

Mineralization at El Toqui occurs as manto deposits hosted by a five metre to 12 metre thick bed of fossiliferous limestone, known as the Main Manto unit. The Main Manto unit, or Coquina bed, occurs within a sequence of volcano-sedimentary rocks in the lower part of the Coyhaique Formation. Sulphides, mainly sphalerite and pyrrhotite, selectively replace the matrix of the fossil shells, and in places the fossil shells themselves, in the Main Manto unit. Other sulphides present in lesser quantities include pyrite, galena, chalcopyrite and arsenopyrite.

The Main Manto unit is not mineralized throughout the property. Vertically, the Main Manto unit contains economic grades in the mining areas with thicknesses from a few metres to 12 metres. Normally, a porphyry sill forms the footwall to the Main Manto. Locally, apophyses from this sill extend up through the Main Manto unit.

The three original deposits at El Toqui, Doña Rosa, Mallin-Monica and San Antonio adjoin each other but are separated by faults. They were likely part of the same mineralized body, but are now at different elevations due to block faulting. The Doña Rosa deposit, the most westerly, is faulted down 40 metres to 50 metres from the Mallin-Monica deposit, which in turn is stepped down by faulting from the San Antonio, the most easterly body. Some faults are occupied by porphyry dikes. Since 2000, exploration activity identified the new deposits of Estatuas, San Antonio East, Aserradero, Mallin-sur, and Concordia, all believed to be part of the original mineralized body but now at different elevations due to faulting.

Mineral Resource and Mineral Reserve Estimation Methodology

The estimation of mineral resources and mineral reserves at El Toqui is a two-stage process.

First, all mineral resources are estimated for the main manto unit at a minimum width and cutoff grade based upon metal prices, costs, recovery and other considerations. Second, mineral reserves are estimated by applying a series of factors and dilution to the mineral resources. The use of a polygonal-block-based method combined with regularly spaced drill holes, is believed to provide a reasonably accurate estimate of the mineral resources.

To convert mineral resources to mineral reserves, the following assumptions are made:

- (a) Dilution is added to all resource tonnages at a rate of 10% at zero grade, which is based upon a normal over-break of 0.2 metres on the roof and floor for a typical four metre high room.
- (b) Room and pillar mining results in a general recovery factor of 80% before dilution and pillar recovery. A 50% recovery factor is used for the pillars. Specific areas are designed differently if rock quality is low or other issues exist. Geo-mechanical studies are in process to improve recoveries further.

A summary of mineral reserves and mineral resources is set out in the mineral reserves and mineral resources table in Paragraph 3.6 entitled “Summary of Mineral Reserves and Resources” in this Annual Information Form.

Mining Operations

The El Toqui deposits are amenable to room and pillar mining. The Doña Rosa, Estatuas, and Concordia mining areas are accessed via adits. Mining is normally carried out in a single horizon from flat lying

mineralization varying in thickness from four to 12 metres, except where localized faulting may offset the manto into smaller stopes accessed via mine ramps. In Estatuas, there is a lower secondary manto which has economic zinc grades and is being mined.

A room and pillar extraction method is used with 11 metre rooms around eight metre pillars. Generally, ground conditions are good and roof support consists of friction split set bolts installed in a 1.5 metre by 1.5 metre pattern. In more highly faulted zones such as in Estatuas, mesh and shotcreting are used, especially at drift intersections and where intersecting and low lying faults exist. Part of the mine plan is partial pillar recovery, normally 50% of the design size.

The mine operations are well staffed. Daily production is achieved with six metre by six metre drift development mining, slashing and some pillar mining. There are four jumbos and four eight yard load haul dump scooptrams, two rock bolters, three 50 tonne trucks, one 40 tonne truck, and three utility vehicles used for loading of explosives and services installation. The underground mobile equipment is being replaced starting in 2007. The mining areas, which are situated well above the valley bottom, are relatively dry. Rainfall in the area is high and some localized water inflow occurs that is collected and pumped out. Mine water inflow volumes are small and submersible pumps feed small fixed base pumps which pump water to surface from each mining area.

Metallurgical Processing

The mill at El Toqui is a conventional, differential sulphide flotation mill capable of processing 1,500 tonnes per day to produce two separate concentrates. The process consists of crushing, grinding, flotation, concentrate dewatering and tailings disposal.

Mineralized material from underground is trucked to the surface crushing plant or adjacent stockpiles where it is stored pending the scheduled milling campaign for each mineral type.

Crushing is performed in three stages (jaw and cone crushers with vibrating screens) to reduce the material to 80% minus eight millimetres. Grinding is done in two stages of ball milling with the final stage in closed circuit with cyclones. Conventional differential flotation including rougher and cleaner flotation circuits produce gold/lead concentrates and zinc concentrates. The zinc circuit also includes a regrind stage.

The flotation circuits are operated in various configurations, depending on the mineral type being processed. Low grade lead material from the Estatuas and Doña Rosa deposits yields only zinc concentrate, and the lead circuit is bypassed when this material is treated. With Aserradero gold/zinc mineralized material, the lead circuit is used to produce a gold flotation concentrate (with some sphalerite and arsenopyrite) and the zinc circuit produces a “high-gold” zinc concentrate. In mid-2007, the higher lead grade Concordia deposit will begin production and both circuits will then be operated in conventional lead-zinc configuration.

Concentrates are separately thickened and filtered on pressure filters before being dumped to a storage area in the mill. Both the zinc concentrate and the lead concentrate are trucked 120 kilometres to Puerto Chacabuco for subsequent export to custom smelters for refining.

During 2006, the Company installed an intensive leaching plant from Gekko Systems (Australia) to leach the gold concentrate and produce gold doré on site. The production of metal doré is expected to result in a significant increase in the realized value by eliminating the treatment charge and the penalties associated with treatment of gold in zinc concentrate or in gold concentrate. This plant will be commissioned in early 2007.

A summary of three year production information is set out in the Historical Production Table in Paragraph 3.2 entitled “Operations of the Company” in this Annual Information Form.

Environmental Management

Mill tailings are discharged to the Confluencia tailings impoundment where they are separated via hydro-cyclone into coarse and fine fractions. The coarse fraction is utilized to construct the tailings dam in a centre line configuration in accordance with Chilean regulations. The fine fraction reports to the interior of the pond where it is deposited subaqueously. Reclaimed water is pumped back to the mill for mineral processing while any excess is discharged via two sedimentation ponds to the Toqui River.

The Confluencia impoundment was expanded in 2004 to accommodate an additional five years of production. Meanwhile, an independent consulting firm has been contracted to assist in evaluating potential new tailings disposal areas. Geotechnical evaluations are on-going. The new site will require environmental permitting and SCMET is assembling the required data to support the permitting application.

A Closure Plan for the Confluencia tailings impoundment is also being prepared.

There are three additional tailings facilities that are out of service and at various stages of reclamation. These are included in the Company’s conceptual Reclamation and Closure Plan for the El Toqui mine. Removal of all hazardous waste materials is carried out on an ongoing basis as per Chilean law.

The Reclamation and Closure Plan will be updated periodically.

Exploration

Exploration potential in the El Toqui district is considered excellent for identifying additional resources and reserves. The Company has placed renewed emphasis on exploration in the Toqui District in southern Chile. Since acquiring the El Toqui mine in 1997, the Company has systematically explored the region and has identified several areas which have expanded the mineral reserves and resources in the area of the mine. The company has planned a significant exploration and infill diamond drilling program for 2007.

New targets identified following extensive geochemical surveying over the past few years are now being diamond drilled. All of these targets are within an area of about ten kilometres by four kilometres known to host zinc mineralization at El Toqui.

One area, Concordia, three kilometres northwest of the present mining areas, was discovered by diamond drilling from 2003 to 2005. This area is now being developed for mine production. This area has high zinc, lead, and silver grades. Further infill drilling and extension drilling will be carried out in 2007 and onwards.

The Aserradero area, 250 metres south of the existing Doña Rosa mine, hosts zinc and gold mineralization has been in production for three years. Recent additional diamond drilling is expanding the reserves and resources in this area.

The newly discovered Porvenir deposit continues to be diamond drilled with the goal of increasing mineral resources. Porvenir is located 400 metres to the southwest of Aserradero. The drilling continues to intercept strong mineralized manto. The drill program has been highly successful in defining the zone

and extending it to the southeast and the northwest, both of which remain open. Drilling to the end of 2006 has outlined a new inferred mineral resource of 1.6 million tonnes grading 9.6% zinc and 0.34g/t gold.

Other areas of exploration activity are; Southeast Aserradero, Altazor to the east of Doña Rosa, BK zone to the southwest of Porvenir, and San Antonio East extension towards Altazor.

Underground exploration areas include south, southwest and northwest of Estatuas to expand the resources and reserves in this mining area, extension drilling in the Concordia mining area, and extension drilling in San Antonio East and Aserradero Southeast.

New exploration targets to be investigated will be the Melchor target east of Altazor, the Terryuno target southwest of Estatuas, Doña Rosa deep drilling, and in the area of the Concordia deposit.

D) LANGLOIS MINE

Project Description and Location

The Company acquired the Langlois zinc/copper mine effective May 1, 2000 for US\$19.8 million, which included approximately US\$0.9 million of working capital. The Langlois mine is located in northwestern Québec, approximately 48 kilometres northeast of the town of Lebel-Sur-Quévillon and 213 kilometres northeast of Val d'Or. Lebel-Sur-Quévillon has a population of approximately 3,500.

The property is held through a 133 hectare mining lease granted until the year 2015. The lease, upon expiry, may be renewed by formal application to the applicable governmental authorities. In addition, there are 248 claims surrounding the lease covering 4,682 hectares in Grevet and Mountain Townships. In 2006, 223 claims covering 4,062 hectares were added on the northern boundary bringing the property total to 471 claims (8,744 hectares) in Grevet and Mountain townships. Another block of 208 claims was recently staked on the Wedding River property bringing the total land area to 10,245 hectares in Grevet, Mountain, Franquet and Verneuil townships. There are no royalties payable on mineral production from the Langlois mine.

In 2006, the Company entered into a joint venture with Metco Resources Inc. ("Metco") on adjacent properties covering 185 claims (3,402 hectares) located in the Grevet, Mountain and Ruelle townships.

The mine operates under required Certificates of Authorization issued by the Québec Ministry of Environment under the Loi sur la qualité de l'environnement (L.R.Q., chapter Q-2). In addition, all approvals/leases required for land use (tailings pond, quarries and pits) have been issued by the Québec Ministry of Natural Resources pursuant to the Loi sur les mines (L.R.Q., chapter M-13.1).

Accessibility, Climate, Local Resources, Infrastructure and Physiography

The mine is accessed via a gravel road jointly maintained by the Company and a forest products company which has recently stopped its operation for an undefined period of time.

The climate in northwestern Québec includes long cold winters followed by short temperate summers. Temperatures in winter can reach -45°C and summer temperatures can reach $+33^{\circ}\text{C}$. Average precipitation is 690 millimetres per year.

The mine facilities include a headframe, a paste backfill plant, mechanical and electrical shops, a service building, a zinc/copper concentrator and a tailings pond. The mine produces zinc and copper

concentrates, which are sold and shipped to smelters for further processing. From such processing, gold and silver credits are obtained as by-products.

The mine is equipped with a 902 metre deep four-compartment shaft. There are two hoists, a three metre diameter double drum hoist for skipping and a 2.4 metre diameter double drum service hoist. Two seven tonne skips are used to hoist the blasted material to surface. At present, there is a crusher station at the bottom level of the mine. However, due to severe ore-pass wall erosion, constant plugging and consequent dilution, an additional loading facility was established on the Level 11. Other loading facilities are currently being installed on Levels 9 and 13 to overcome the ore-pass problems which plagued previous operations.

History

- 1989 Deposit (known as the Grevet Project) discovered by Serem-Québec Inc (50%) and VSM Exploration Inc. (50%).
- 1992 Cambior Inc. (“Cambior”) acquired its initial 50% interest by acquiring VSM Exploration Inc.
- 1993 Cambior acquired the remaining 50% interest from Serem-Québec Inc.
- 1996 Commercial production began. Production halted in December due to significant dilution problems.
- 1997 Dilution problems rectified and production resumed.
- 2000 The Company purchased the mine and suspended operations in late November due to operating problems with the main ore-pass system and low zinc prices.
- 2001 SRK issued a full feasibility study incorporating the latest drill results of Zone 97 and a complete rework of the mine design and plan.
- 2002 Initiated drill program totalling 7,935 metres.
- 2003 SRK issues an updated feasibility study incorporating latest drill results.
- 2005 The Company announced its plans to develop the Langlois mine.
- 2006 The Company resumed the development of the Langlois mine, the development of the Grevet B project and initialized a major exploration program on the properties.

Geological Setting

The Langlois mine produces zinc (along with lesser values of copper, silver and gold) from narrow, tabular VMS bodies. The bodies are hosted within mafic to intermediate volcanic and volcanoclastic units in the central-east portion of the northern Archean volcanic belt of the Abitibi Sub-province or, more precisely, within the Miquelon segment. The lithologies in the area predominately consist of a succession of mafic to intermediate lava flows and volcanoclastic with less abundant felsic volcanic and sedimentary units. The rock sequence has been affected by a regional deformation, which forms sub-vertical isoclinal folds. The predominant structure in the area is the Cameron shear zone, which trends 120 degrees and extends for more than 80 kilometres along strike and is up to five kilometres thick. The massive sulphide horizons at the Langlois mine are hosted by the strongly schistosed rocks of the Cameron shear zone.

The Langlois mine contains four zinc-rich deposits consisting of zones of massive sulphides, primarily pyrite and sphalerite, occurring within a thick, highly deformed felsic volcanic sequence injected by numerous barren mafic dikes. Each massive sulphide body is relatively thin (one to eight metres), but with considerable vertical and lateral extensions (more than 500 metres in either direction).

The massive sulphide zones trend easterly with a near vertical dip, sub-parallel to the regional structural fabric. The zones are stacked across the felsic sequence along a narrow corridor slightly oblique to the main structural trend. From southwest to northeast the zones are: Zone 5 (small economic lens near

surface), Zone 4, Zone 3 and Zone 97. In longitudinal section, each massive sulphide zone portrays an elongated lensoid shape, whose long axis plunges moderately towards the southeast, parallel to the plunge of the regional stretching lineation. In addition, the centre of gravity of each lens becomes progressively deeper moving along the stacking corridor toward the northeast. Consequently, the top of Zone 97 is located at approximately 300 metres below surface. Production at the Langlois mine has historically come exclusively from two zones, namely Zones 3 and 4, while Zone 97 discovered in 1994 was not fully defined until recently.

Mafic dikes cut the mineralized zones in many areas and have historically been a major contributor to dilution. In addition, the well-foliated, chloritic volcanic host rocks have contributed to ground-control problems and often excessive dilution.

Mineral Resource and Mineral Reserve Estimation Methodology

The mineral resources and mineral reserves at Langlois for Zones 3 and 4 are estimated utilizing two-dimensional polygons on cross-section, using the information from core drilling and underground chip sampling across development faces. Two-dimensional kriging and polygons on longitudinal section have also been used to a lesser degree, typically in areas where there is less available data.

From the borehole database coded by the Company, SRK extracted intercept data for three sulphide-bearing zones (North, Main and South) comprised within Zone 97 and constructed solid bodies for each sulphide zone. Limits of each zone were determined visually on vertical sections based on geology, sulphide abundance and mineralogy and not based on an arbitrary lower zinc cut-off. Assay data for zinc, copper, silver and gold were density-weighted and composited over the true thickness of each zone. Variography analysis and kriging was completed on the product of the composited density-weighted grades and the true thickness. Grade for individual blocks in the model were derived by dividing the resulting interpolated grade/thickness by the true thickness of each block. In this way the true thickness and density variability are considered during grade interpolation, something that is not possible with polygonal sectional interpolation. Capping of the zinc grades was not deemed to be necessary because it is appropriately accounted for during kriging. Drill holes intersecting the mineralized zone at an angle less than 15 degrees were discarded, as well as those holes or underground samples that did not intersect the entire width of the mineralized zone.

Scott Wilson RPA carried out mineral resource estimation for the Grevet B deposit using 3D block modelling. A total of six lenses were interpreted, namely #1, #2, #2 North, #3, #3 North and #3 South. The Grevet B mineralization contains significant values for three elements: zinc, copper and silver. An NSR value was determined by the Company for each metal unit. These metal units were then used to calculate the NSR value of each sample interval while defining the resource envelopes, and of each mineralized block while determining the resource estimates. zinc, copper and silver grades of each sample have been converted into dollar values based on the smelter parameter. The minimum mining width used for interpretation of the lenses is two metres. The lenses were interpreted from drill holes projected on level plans at every ten metres from Elevation 2,980 metres to Elevation 2,820 metres, over a strike length of about 300 metres. The 3D solid of each lens was created by adding tie lines to plan views in order to create 3D tins.

A summary of mineral reserves and mineral resources is set out in the mineral reserves and mineral resources table in Paragraph 3.6 entitled "Summary of Mineral Reserves and Resources" in this Annual Information Form.

Mining Operations

The mining method initially implemented in 1996 at the Langlois mine was transverse longhole stoping using 114 millimetre ITH drills with subsequent paste backfill. The level spacing was 60 metres and mining blocks were 20 metres along strike and four to five metres thick. Remote operated scooptrams were used for mucking. Once terminated, the stopes were filled with high-density paste backfill containing 78% solids.

From the beginning, the mining operation experienced excessive dilution. This excessive dilution stemmed from the height of the stopes, the sericitization and chloritization of the joint sets and the wall erosion from the ore-passes. In 1997, Cambior, the original operator, made a decision to stop the operation and convert the 60 metre high stopes into smaller 15 metre or 30 metre high stopes depending on the width of the mineralization.

The revised mining method used by the Company saw the block sizes reduced to 20 metres high and 20 metres long (15 metres between sublevels). Where widths were over three metres, sublevels were spaced at 30 metres. Smaller production drill holes were employed in order to reduce the blast damage (54 millimetre diameter). Remote operated scoops that ranged from three to 3.5 cubic yards were used in mucking.

Production drilling in the 30 metre high stopes was carried out using a GMS 360 ITH drill, drilling 102 millimetre holes. Casings of 75 millimetre diameter were inserted in all the holes to prevent hole blockage and to reduce stope wall blast damage. Two other production drills were used for production drilling and cable bolting. In the 20 metre high stopes, a standard carrier-mounted top-hammer longhole rig was used for drilling 64 millimetre diameter holes. Hole lengths were approximately 15 metres on a drill pattern of 1.4 metres by 1.6 metres.

The stope and drift rounds are blasted using ANFO. Most of the holes are drilled down except in the extremities of the zone where no access is available above. A gradual conversion of the production drilling to 64 millimetres from 54 millimetre diameter holes is occurring in order to reduce the blast damage caused by the larger diameter holes. All the blasting is done centrally.

The mine is trackless. In general, where the mineralized width is over three metres, a ramp access to the sublevel is made. All broken material from the stopes is then hauled to a short ore-pass system or to a loading station.

All backs and walls are screened with wire mesh. 2.1 metre long rebars are placed in the back on a 1.2 metre by 1.2 metre pattern. Resin bolts are used in the back to avoid corrosion of the ground support due to mildly acid mine water. The walls were bolted with 1.5 metre long split set bolts.

During operation, approximately 60% of the tailings are used as paste backfill. The paste backfill plant thickens and filters the mill tailings and then mixes these tailings with cement and water to make a paste that flows underground by gravity to Zone 3. The Company plans to install a pump to deliver paste backfill to Zones 4 and 97 by the end of 2007. The actual capacity of the paste backfill plant is 75 tonnes per hour using only one of the two available disc filters.

A main ventilation raise supplies 220,000 cubic feet per minute of fresh air to the mine. Exhaust is through the main production shaft and through a raise bore-hole in Zone 97.

Primary dewatering pumps are multistage Mather and Platts. The average pumping rate is 100 US gallons per minute. The main pump stations are located on Levels 13 and 16.

During 2006, 3,170 metres of development was done mostly to access Zone 97 on Levels 4, 9 and 13 and to develop the infrastructure referred to in the SRK feasibility study. Production also resumed gradually and a total of 60,117 tonnes of mineralized material was blasted and hoisted to surface and stockpiled.

In March 2006, the Company performed a small drilling program over the Grevet B deposit to verify past drilling and to better establish the continuity in the mineralization. Following the success of this program, the company decided to extract a 15,000 tonne bulk sample to prove spatial relationship and grade.

The development of the Grevet B project was initiated starting mid-2006. Total project development at the end of 2006 was 843 metres including infrastructure development on Levels 25 and 54. In 2006, a total of 9,738 tonnes of mineralized material was extracted as part of a 15,000 tonne bulk sample program.

Metallurgical Processing

During operation, the Langlois mill processes less than 2,000 tonnes per day, five days per week. However, it has a nominal capacity of 2,570 tonnes per day. During operation, zinc and copper concentrates are produced by differential flotation, with payable gold and silver recovered in the copper concentrate.

Mineralized material is crushed in a primary jaw crusher installed on surface and then sent to the grinding circuit, which consists of an open circuit SAG mill and a ball mill in closed circuit with cyclones. The grinding circuit cyclone overflow feeds the copper flotation circuit, where SO₂ is added to modify the pH and to depress the pyrite. The copper flotation circuit includes a conventional rougher, scavenger and three cleaner flotation stages with a regrind mill to maximize the copper or zinc concentrate grade. The final copper concentrate is then pumped to the copper thickener and stock tank.

The copper first cleaner tailings and copper scavenger tailings are pumped to the zinc flotation circuit where they are conditioned in two tanks with lime to increase pH and depress the pyrite. The zinc flotation circuit includes roughers, scavengers and three cleaner flotation stages. The tailings from the zinc scavenger and zinc first cleaner scavenger constitute the final mill tailings and are pumped to the tails thickener to be used as backfill underground. The zinc third cleaner concentrate is pumped to the zinc thickener.

During operation, underflows from the zinc and copper thickeners are separately pumped to storage tanks and then batch filtered. The filtered concentrates are then conveyed to their respective loading areas. A storage building is annexed to the filter area/loading station for storage of final concentrates and loaded using a front-end loader when railcars are received. Most of the tailings pond effluent overflow is recycled as mill process water.

The zinc concentrate is loaded on CN railcars directly at the mine site and transported to Xstrata Plc.'s ("Xstrata") CEZ smelter in Valleyfield, Québec or to the HudBay Minerals Inc. smelter in Flin-Flon, Manitoba. Copper concentrate is sent by rail to Xstrata's Horne smelter in Rouyn-Noranda, Québec.

Milling resumed in November 2006. A total of 59,373 tonnes were processed during the last two months of 2006. All this material was from Zones 3 and 4 except for 3,256 tonnes from Grevet B. In 2006, shipments of zinc and copper concentrates were respectively 7,096 and 909 dry tonnes.

Environmental Management and Permitting

There are two surface dumps for the storage of waste rock. One dump is for the storage of non-acid generating rock and the other is for material with a low potential for acid generation.

The mill tailings not used for paste backfill underground are discharged subaqueously at a 91.88 square kilometre tailings impoundment. Retaining dykes are constructed of sand and gravel mass with slope protection composed of clean, non-acid generating mine rockfill. Seepage control within the dykes is achieved with a low permeability geosynthetic clay liner (thin layer of bentonite sandwiched between two layers of geotextile). The pond is located three kilometres away from the mine site and has the capacity to store all the tailings to be produced from the currently known mineral reserves and resources.

A portion of the tailings pond effluent (from rainfall and snow melt) is released to the Wedding River after treatment, if required, with caustic or lime to maintain pH levels in accordance with regulations.

Langlois holds a restoration plan (the “Plan”) that received approval from the Québec Ministry of Natural Resources after consultation with the Québec Ministry of the Environment in August 1996. The Plan was subsequently updated, as required, and resubmitted in 2005. This Plan consists of the following main elements:

- placing non-acid generating waste rock underground and placing the acid-generating waste rock under one metre of water in the tailings pond to avoid acid generation;
- following closure of the tailings pond, directing surplus water through the emergency discharge and building an alternate discharge point on the southeastern side of the pond;
- dismantling all the buildings and infrastructure, moving equipment to another mining operation and disposing of any remaining hazardous materials off-site; and,
- re-vegetating the site.

The cost to reclaim the mine site is currently estimated to be approximately \$1.7 million.

Exploration

The Company’s land holdings around the Langlois mine include several mining properties that cover in excess of 10,000 hectares in 679 claims. In 2006, a 50/50 joint venture agreement with Metco as the operator added new ground around Langlois mine. All properties now extend over more than 27 kilometres laterally and are underlain by the same stratigraphic rock sequence that hosts the massive sulphide zones at the Langlois mine. The massive sulphide horizons at the Langlois mine are elongated and narrow.

Extensive exploration conducted by Cambior and its predecessor companies in the area located several scattered mineralized horizons that carry anomalous zinc values. These horizons are predominately located along the general elongated trends or parallel to Zones 3, 4 and 97 and, to a lesser extent, Zone 5 and Grevet B.

In 2006, an airborne Megatem survey was conducted over the entire property. Several conductors were outlined and are presently being reviewed. The magnetic mapping of the entire property lead to some promising targets for finding new VMS bodies. An aggressive drilling program commenced to verify these targets, mainly scattered on the east side of the Langlois mine. In 2006, more than 24,600 metres were drilled on the property. Drilling revealed some interesting anomalies, without economic significance. At the end of 2006, some electro-magnetic anomalies identified by down-hole geophysical surveys remain unexplained. The 2007 drilling program will focus on investigating these anomalies

further. In 2007, a full scale GoCAD model will be built over all the properties including the Metco joint venture to assist in the optimization of a deep exploration strategy.

During the fourth quarter of 2006, Metco announced that a pre-feasibility study will be conducted on the Orphée deposit during the first half of 2007. The Orphée deposit is located six kilometres away from the Langlois mill. Should the results of the pre-feasibility be positive, then the Orphée deposit could become a source of additional mill feed for Langlois, which currently has excess mill capacity.

3.7 Non-Operating Mines

A) BOUGRINE MINE

The Bougrine mine ceased operation on September 10, 2005 due to the exhaustion of known mineral reserves. During the Company's ownership, the Bougrine mine processed 2.9 million tonnes between May 1998 and September 10, 2005. Closure activities have commenced and are expected to be completed during 2007. The Company is presently investigating other uses for the Bougrine infrastructure. A description of the closure activities is set out below under the subheading "Environmental Management".

Project Description and Location

The Company owns and operated the Bougrine zinc/lead mine located in Tunisia through its wholly-owned subsidiary, Breakwater Tunisia S.A. The Bougrine mine is located in the province of Le Kef, some 160 kilometres southwest of Tunis, the capital of Tunisia. Tunisia is a north African country located south of the Mediterranean Sea. The Company closed the Bougrine mine in September 2005 due to depletion of mineral reserves.

In September 1997, the Company acquired the Bougrine mine and related assets for \$26.8 million. The Company spent \$10.7 million in pre-production capital costs in 1997 and 1998 to ready the mine for production. Operations commenced on May 2, 1998 and the mine was considered to be in commercial production commencing June 1, 1998.

The Bougrine mine operated under an environmental agreement entered into in August 1991 (the "Environmental Agreement") with the Tunisian Environmental Protection Agency, which stipulated operational guidelines and closure requirements for the tailings pond.

History

Zinc and lead deposits have been mined in the region since Roman times.

1930's Some small-scale development took place at Bougrine.

1980's A drilling program by ONM (an exploration division of the Tunisian government) resulted in the discovery of the F2 and F3 zones at depth. Late in the 1980's Metallgesellschaft AG was awarded a license to develop the mine at Bougrine. Metallgesellschaft AG transferred its interest in the property to Metall Mining Corporation (subsequently renamed Inmet Mining Corporation) which, with a group of Tunisian banks, established Société Minière de Bougrine ("SMB").

1992 Construction of the Bougrine facility.

1994 Production commenced.

1996 Operations suspended due to low zinc prices and financial constraints.

1997 The Company purchased the Bougrine mine assets from SMB.

1998 Commercial production commences.

- 2005 The Bougrine mine ceases production due to depletion of known mineral reserves.
2006 The Company progresses through its closure plan for Bougrine and proceeds with its regional exploration program.

Environmental Management

With the scheduled cessation of mining and milling in September 2005, an intensive progressive reclamation effort was maintained leading up to closure. This activity included the completion of a Phase II Environmental Site Assessment to characterize and delineate reclamation targets, and the concurrent removal of surface waste rock, contaminated soils and decommissioned infrastructure.

After closure in 2005, waste rock, contaminated soils and demolition debris were disposed of in the underground workings. All access ways to the underground mine were “tight filled” and recontoured to blend in with the surrounding topography. A top soil dressing was applied in these areas, utilizing terracing and windrows to accommodate tree planting and discourage erosion.

Other 2005 reclamation activities included the recontouring of borrow areas and quarries, as well as recontouring the mine water basin and polishing pond, with the construction of an engineered cover over these graded surfaces. Stabilization studies are complete for the surface tailings impoundment and an engineered cover was applied over 40% of the 25 hectare surface area by the end of 2006.

In 2006, the site cleaning of contaminated material continued. Progress for the cleaning phase of the project is estimated at more than 90% complete and areas left to be cleaned are the old powder magazine and the fields at the southern limits on the site.

The Bougrine mine is situated in a semi-arid climate zone with a high rate of water evaporation. Water from the tailings facility will continue to seep into the underground mine workings and into the shallow groundwater system after closure. Groundwater in the area is saline, therefore not used as a potable or irrigation water source by area residents. As the tailings facility dries out, seepage from the facility is expected to cease. With the planned covering and surface run-off control, mobilization of metals outside of the tailings facility during the post-closure period is not expected.

The host rock in the mine is limestone and therefore has acid neutralizing properties. Acid drainage issues, therefore, are not expected from any waste rock that may be on surface or from the underground workings after closure. Sampling and geochemical characterization of surface waste rock was conducted in preparation for closure planning.

Tunisia does not have specific mine closure requirements, however, the Company is following reclamation practices which are consistent with Canadian regulations. The Company is currently exploring other mining ventures in the country and is therefore leaving some of the processing equipment and infrastructure in place while this continues. In the event that no other economic opportunities are identified, the Company will demobilize the facility and rehabilitate the footprint.

The closure and reclamation costs for the Bougrine mine are estimated to be \$3 million. The Tunisian Government does not require security to be posted.

Exploration

In 2006, the Company started a surface exploration program on the El Aguiba and Aïn Allega permits near Tabarka located approximately 170 kilometres north of the Bougrine mine. A gravity and electro-magnetic geophysical campaign was carried out on El Aguiba property followed by 2,000 metres of

diamond drilling. All analysis results had been received by the end of September. No economic mineralization was identified.

A second geophysical campaign on El Aguiba and Ain Allega permits was completed by the end of November with a total of eight IP profiles being performed on both permits. Final results were still pending at the end of 2006.

A second drilling program commenced in early 2007.

B) BOUCHARD-HÉBERT MINE

The Bouchard-Hébert mine ceased operations during February 2005 due to the exhaustion of known mineral reserves. During the Company's ownership, commencing in May 2000, the Bouchard-Hébert mine processed 4.8 million tonnes until its closure in February 2005. Closure activities have commenced, which are described below under the subheading "Environmental Management".

Project Description and Location

The Company owns 100% of and operated the Bouchard-Hébert zinc/copper/gold/silver mine located 30 kilometres northeast of Rouyn-Noranda in Dufresnoy Township, Québec. On May 1, 2000, the Company acquired the Bouchard-Hébert mine and the Langlois mine from Cambior for US\$40.3 million. The purchase price allocated to the Bouchard-Hébert mine was US\$20.5 million which included approximately US\$1.1 million of working capital.

The mine property covers 107 hectares including two mining leases, one granted until 2008 and the other until 2015. Surrounding the mining leases are 215 claims covering 7,982 hectares. The leases, upon expiry, may be renewed by formal application to the applicable governmental authorities.

The Company operated the Bouchard-Hébert mine under required Certificates of Authorization issued by the Québec Ministry of Environment under the Loi sur la qualité de l'environnement (L.R.Q., chapter Q-2). In addition, all approvals/leases required for land use (tailings pond, quarries and pits) have been issued by the Québec Ministry of Natural Resources in conformity with the Loi sur les mines (L.R.Q., chapter M-13.1).

History

- 1955 Rio Algom discovered the "Main Lens" of the Mobrún deposit.
- 1984 Falconbridge Copper Corporation ("FCC") acquired the property subject to an NSR retained by Mobrún Copper, a wholly-owned subsidiary of Rio Algom.
- 1985 Option Agreement between Mobrún Copper and Audrey Resources Inc. ("Audrey"). Audrey acquired 70% interest.
- 1986 Open pit mining at 1,000 tonnes per day began with material treated at FCC's Norbec Mill. FCC restructured and renamed Minnova Inc. ("Minnova").
- 1987 Audrey built a 1,100 tonnes per day mill at mine site because "1100 Lens" was discovered at depth and 250 metres southeast of Main Lens.
- 1992 Operation interrupted due to reserve depletion. Cambior acquired 65% of Audrey. An exploration and delineation program was initiated at 1100 Lens.
- 1993 Metall Mining Corporation ("MMC") acquired Minnova.
- 1994 MMC was renamed Inmet Mining Corporation ("Inmet"). Cambior purchased 4% NSR from Inmet. Cambior acquired remaining 35% of Audrey and Mobrún mine renamed Bouchard-Hébert. Commercial production from 1100 Lens began.

- 1999 Audrey merged into its parent, Cambior.
- 2000 The Company agreed, effective as of May 1, 2000, to purchase the Bouchard-Hébert and Langlois mines from Cambior.
- 2005 The Bouchard-Hébert mine ceases production due to depletion of known mineral reserves.
- 2006 The Company continues to execute its closure plan on the site and its surface exploration program.

Environmental Management

A closure plan in respect of the Bouchard-Hébert mine was approved by the Québec Ministry of Environment and the Québec Ministry of Natural Resources. Key elements of the closure plan include:

- ◆ All buildings and infrastructure will be decommissioned, piping will be removed and all mine openings secured. All recyclable materials will be recycled while non-recyclable materials will be accumulated in excavations left by the foundations, and then buried with benign covering materials. Hazardous waste removal will be contracted to specialists in this field.
- ◆ Non-acid generating waste rock dumps will be sloped at 25% to provide permanent stability. Acid generating waste material will be excavated (stripped) and dumped into the open pit. The pit will subsequently be flooded to eliminate further oxidation and release of metals.
- ◆ The tailings deposit will be contoured as a “hill” to facilitate runoff with a 2% slope on the south face and a 10% slope on the north face. The entire area will then be covered with an engineered cover acting as an oxygen diffusion barrier to prevent the occurrence of acid mine drainage.
- ◆ The water holding ponds will be dredged of solids and spillways will be modified to restore natural drainage. Dykes will be contoured and the entire area will be re-vegetated.

Due to continuing exploration efforts of identified “near-field” targets, the reclamation effort will be a staged undertaking over several years. Stage one, which began in the second quarter of 2005 (concurrent with exploration drilling), included removal of acid generating waste rock, the closure of the underground workings and the commencement of the tailings cover construction. Stage two was carried out in 2006 and included partial installation of the engineered tailings cover. The remaining reclamation will be deferred until drilling determinations are complete. If a viable mineralized material is identified through exploration, the operation will be reactivated within the existing footprint, with the additional requirement to build a new tailings impoundment. If, however, exploration is unsuccessful, the final stage of the reclamation efforts will be triggered and the remaining elements listed above will be completed. A five year post closure monitoring period is included in the closure plan.

In 2006, a total of 391,000m² of the tailings dam were covered with materials as agreed with the Québec Ministry of Environment. The covering of the tailings dam will be completed early in 2007. The backfill plant and the headframe were taken down and removed from the site.

Exploration

In 2006, the company conducted an airborne Megatem survey over the entire property and two Titan-24 surveys were conducted over the old Bouchard-Hébert mine vicinity and over the most promising deep targets. A complete GoCAD model is being built with all available geological data as well as geophysical data. The model will be operational in the first quarter of 2007 to optimize the Company’s deep exploration strategy.

In 2006, more than 26,300 metres of diamond drilling was completed to verify various targets, both shallow and deep. Nothing of economic interest was discovered from the drilling campaign.

C) CARIBOU MINE

The Company owned the Caribou zinc/lead/silver mine located in New Brunswick. The Caribou mine was placed on care and maintenance due to poor metal recoveries and low metal prices from August 1998 until the sale to Blue Note in August 2006.

The Caribou mine consisted of an underground mine and mill located in Restigouche County in northeastern New Brunswick, 50 kilometres west of Bathurst, New Brunswick and an open pit mine (formerly known as the Restigouche property) located approximately 80 kilometres west of Bathurst and 30 kilometres from the Caribou mill.

On October 3, 2004, the Company signed a letter of intent with Blue Note, at that time a subsidiary of Forest Gate Resources Inc. ("Forest Gate"), relating to a possible sale of the Caribou mine. The October 3, 2004 letter of intent was terminated in its entirety without further obligations. The Company signed a revised letter of intent with Blue Note and Forest Gate on July 5, 2005. The proposed transaction was conditional upon and subject to a number of conditions precedent including, among other things, Blue Note securing financing sufficient for the project, execution of a definitive agreement, approval of the directors and shareholders of all relevant parties and receipt of all required regulatory and third party approvals and consents, and releases by relevant third parties.

On August 1, 2006, it was announced that the Company had completed the sale of the Caribou and Restigouche mines to Blue Note. Under the terms of the agreement, Blue Note acquired the Caribou and Restigouche mines by replacing the Company's reclamation deposits of approximately \$5.9 million with the Government of New Brunswick for environmental rehabilitation and by issuing to the Company a \$15.0 million unsecured subordinated convertible debenture with a maturity of five years. The Company has the right to convert the debenture into a direct 20% property interest following commencement of commercial production and the expenditure by Blue Note of at least \$1.5 million of exploration on the properties. The Company will receive a one to two percent net smelter return royalty on zinc metal production provided the price of zinc is above US\$0.65 per pound as determined by the London Metals Exchange.

Following the expiration of the conversion period, if the Company has not converted the debenture, Blue Note may redeem the debenture for cash or its shares at its option.

D) NANISIVIK MINE

The Company owns the Nanisivik zinc/lead/silver mine located on Strathcona Sound, Baffin Island, Nunavut. During the Company's ownership, the Nanisivik mine processed 5.3 million tonnes between 1996 and 2002. The Company permanently closed the Nanisivik mine in September 2002 due to exhaustion of known mineral reserves and reclamation activities are ongoing.

In July 1996, the Company acquired Nanisivik Mines Ltd. from AEC West Limited for \$44.2 million. The purchase price included working capital of \$39.4 million, composed principally of zinc concentrate. In 1997, the mine was sold to CanZinco Ltd.

Environmental Management and Permitting

The operating license for the Nanisivik mine is an industrial water license issued by the Nunavut Water Board (“NWB”) and administered by the Department of Indian Affairs and Northern Development (“DIAND”). The license sets parameters for water use and waste disposal during the closure and reclamation period. The current license was granted in October 2002 and expires in May 2008. It is expected that all reclamation work and post-closure monitoring will be completed within the current license period, although the duration of the post-closure monitoring period has not yet been decided by the NWB.

During operations, tailings from the mill were pumped to the 60 hectare West Twin disposal area (“WTDA”). The WTDA is made up of a surface cell, a reservoir and a polishing pond. Tailings were deposited both sub-aerially and subaqueously.

The WTDA internal dykes are of frozen core construction and were last inspected in August 2005 by an independent consulting firm. No significant stability issues were identified during the inspection.

The Nanisivik Closure and Reclamation Plan (the “Nanisivik Plan”) was approved by the Nunavut Water Board in July 2004. The Nanisivik Plan details the remediation work required to reach the required objective of “returning the land to its pre-mining use”. The reclamation is scheduled to be completed in 2007.

To date, approximately 2.5 million tonnes of material has been handled as part of reclamation. This includes:

1. Placement of a geothermal cover of shale (one metre) and armour (0.25 metres) over exposed tailings to ensure that the tailings remain frozen and isolated from the environment. Geothermal modelling was conducted under worst-case prediction scenarios for climate warming.
2. Provision of one metre water cover over subaqueous tailings to prevent oxidation of tailings from affecting water quality.
3. Construction of an engineered outflow spillway from the covered tailings area designed for the probable maximum flood.
4. Relocation of surface mineralized waste rock to the underground mine or to open pits where backfilling is required.
5. Contouring and backfilling of open pits and placement of a geothermal cover. Cover thickness for waste rock has been designed at 1.95 metres shale plus 0.25 metres of armour (76% thicker than tailings cover to reflect differences in physical properties of waste).
6. Placement of a thermal insulation cover of shale (1.95 metres) and armour (0.25 metres) over the landfill facility.
7. Dismantling of industrial and residential buildings and salvage components of economic value for shipment off site or for sale locally.
8. Disposal of non-hazardous demolition debris and residual scrap materials in the underground mine or in open pits where backfilling is required.
9. Remediation of contaminated soils by covering in-place or by excavation and disposal in either the underground mine or in open pits that require backfilling.
10. Installation of additional monitoring instruments to monitor ground temperature and depth of thaw in reclaimed areas.

Total cost of work completed to date is \$16 million with an estimated \$2.4 million remaining under the asset retirement obligation.

Post closure monitoring of the mine site is scheduled for a period of five years following reclamation. This will include water quality, ground temperatures, general reclamation inspections and geotechnical inspections. The results of the monitoring program will be reported to the Nunavut Water Board quarterly and any maintenance work that may be identified will be completed. At the end of the five year period, the effectiveness of the reclamation work will be evaluated through a *Comprehensive Performance Review*, and a determination will be made regarding the need for continued monitoring or return of the property to the government.

Under the terms of the water license, the Company is required to post security for reclamation in an aggregate amount of \$17.6 million. The Company has provided an unsecured promissory note to DIAND to cover the total security requirement of \$17.6 million.

ITEM 4 DIVIDENDS

The Company has not paid dividends during the last five years and has no fixed dividend policy. The amount and timing of any dividends is within the discretion of the Company's Board of Directors and is determined from time to time based upon the cash requirements of operating assets, exploration and development activities, as well as potential expansions or acquisitions, combined with the current and projected financial position of the Company.

The ability of the Company to pay dividends on its outstanding Common Shares is subject to limitations imposed by the *Canada Business Corporations Act* relating to asset and liquidity conditions.

ITEM 5 DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares and 200,000,000 preferred shares. As of March 29, 2007, the Company had 417,505,735 Common Shares outstanding. There are no preferred shares outstanding.

Common Shares

The holders of Common Shares are entitled:

- (i) to vote at any meetings of shareholders, except meetings at which only holders of shares of a specified class or series of shares are entitled to vote;
- (ii) subject to the rights, privileges, restrictions and conditions attaching to shares of any other class or series of shares of the Company, to receive any dividend declared by the Company on the Common Shares; and
- (iii) subject to the rights, privileges, restrictions and conditions attaching to shares of any other class or series of shares of the Company, to receive the remaining property of the Company upon its dissolution.

Preferred Shares

The preferred shares can be issued in series, rank in priority to Common Shares in respect of the return of capital and are non-voting except at meetings where the holders of such shares would be entitled by law to vote separately as a class. The Board of Directors of the Company are entitled to determine other specific designations, rights, privileges, restrictions and conditions attaching to preferred shares.

ITEM 6 MARKET FOR SECURITIES

6.1 Trading Price and Volume

The Common Shares are listed on The Toronto Stock Exchange (the “TSX”) under the symbol “BWR”. The following table sets forth the monthly high, low and closing prices and volume of the Common Shares for the year ended December 31, 2006.

Month	High \$	Low \$	Close \$	Volume
Jan-2006	0.93	0.64	0.90	69,972,621
Feb-2006	1.22	0.80	0.99	85,285,236
Mar-2006	1.45	0.97	1.31	72,744,987
Apr-2006	1.69	1.35	1.43	58,918,220
May-2006	1.66	0.99	1.31	74,259,305
Jun-2006	1.29	1.01	1.24	48,612,114
Jul-2006	1.44	1.16	1.28	37,244,782
Aug-2006	1.41	1.18	1.30	48,718,148
Sep-2006	1.39	0.92	1.04	86,832,634
Oct-2006	1.59	0.96	1.57	60,882,371
Nov-2006	1.95	1.46	1.90	87,227,553
Dec-2006	2.13	1.75	1.84	64,155,771

The Tradeable Warrants are listed on the TSX under the symbol “BWR.WT”. Each such Tradeable Warrant being exercisable for one Common Share at an exercise price of \$1.00 until January 28, 2009. The following table sets forth the monthly high, low and closing prices and volume of the Tradeable Warrants for the year ended December 31, 2006.

Month	High \$	Low \$	Close \$	Volume
Jan-2006	0.41	0.24	0.38	5,174,709
Feb-2006	0.56	0.35	0.40	9,194,252
Mar-2006	0.71	0.39	0.65	7,625,538
Apr-2006	0.91	0.66	0.75	4,737,725
May-2006	0.90	0.52	0.64	5,664,820
Jun-2006	0.69	0.45	0.69	3,414,775
Jul-2006	0.74	0.55	0.71	1,410,920
Aug-2006	0.74	0.60	0.66	2,109,840
Sep-2006	0.75	0.44	0.52	2,580,340

Oct-2006	0.84	0.46	0.82	3,365,087
Nov-2006	1.10	0.71	1.07	7,309,963
Dec-2006	1.26	0.96	1.07	3,406,486

ITEM 7 DIRECTORS AND OFFICERS

7.1 Name, Occupation and Security Holding

Directors are elected at the Company's annual meeting of shareholders for a one year term. If a director's office is vacated during the year, such vacancy is filled in accordance with the by-laws of the Company.

The following table sets out information regarding the directors and officers of the Company, their jurisdiction of residence and principal occupation as at March 29, 2007:

Directors

Name and Jurisdiction of Residence	Principal Occupation	Director Since
Garth A.C. MacRae ⁽¹⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁹⁾ Ontario, Canada	Chairman of the Board Also, a Governor of Dynamic Mutual Funds and a director of Dundee Corporation, GeneNews Ltd. (formerly, "ChondroGene Limited"); Dundee Precious Metals Inc., Dundee Wealth Management Inc., Eurogas Corporation, Torque Energy Inc., Great Plains Exploration Inc. and Uranium Participation Corporation	1993
George E. Pirie ⁽³⁾⁽⁷⁾⁽⁸⁾ Ontario, Canada	President and Chief Executive Officer of the Company Also, a director of Paladin Resources Ltd.	2005
Ned Goodman ⁽²⁾ Ontario, Canada and Québec, Canada	Director, President and Chief Executive Officer, Dundee Corporation; Director, Chairman, President and Chief Executive Officer, Dundee Wealth Management Inc.; Chairman of Goodman & Company, Investment Counsel Ltd. and Chairman Goodman Private Wealth Management. He is also Chairman, Emeritus of the Canadian Council of Christians and Jews, a Governor of Junior Achievement of Canada and a director of Dundee Precious Metals Inc., Dundee Realty Corporation, Eurogas Corporation, Valdez Gold Inc. and Cogitore Resources Inc. (formerly, "Woodruff Capital") and Chairman of the Board of Trustees of Dundee REIT	1993
Jonathan C. Goodman ⁽⁸⁾ Ontario, Canada	Director, President and Chief Executive Officer of Dundee Precious Metals Inc.; a director of Dundee Corporation, Dundee Resources Limited, Eurogas	2001

Name and Jurisdiction of Residence	Principal Occupation	Director Since
	Corporation, Odyssey Resources Ltd., Major Drilling Group International, Inc., Tahera Diamond Corporation (formerly, "Tahera Corporation"), Frontier Pacific Mining Corporation and Cogitore Resources Inc. (formerly, "Woodruff Capital")	
Donald K. Charter ⁽⁴⁾⁽⁵⁾⁽⁹⁾ Ontario, Canada	Mr. Charter is Corporate Director and President of 3Cs Corporation. He is also a director of IAMGold Corporation, Great Plains Exploration Inc., Glencairn Gold Corporation, Dundee REIT, EuroZinc Mining Corporation and subsequently Lundin Mining Corporation	1999
Grant A. Edey ⁽⁶⁾⁽⁸⁾ Ontario, Canada	Chief Financial Officer of IAMGOLD Corporation. Also a director of Khan Resources Inc.	2005
A. Murray Sinclair, Jr. ⁽⁵⁾⁽⁶⁾⁽⁹⁾ British Columbia, Canada	The Managing Director of Quest Capital Corp. and also a director of the following companies: Arapaho Capital Corp., Bannockburn Resources Limited, Choice Resources Corp., Dexit Inc., Gabriel Resources Ltd., General Minerals Corporation, GTO Resources Inc.; Jura Energy Corporation, Pearl Exploration and Production Ltd., Premier Gold Mines Limited, Quest Capital Corp., Western Geopower Corp. and Wolfden Resources Inc.	1992

- (1) Mr. MacRae was reappointed as the Chairman of the Board on June 8, 2006 and has been Chairman since June 23, 2005. He was previously Chairman from September 6, 1993 to August 1, 1997 and November 30, 2001 to November 29, 2004. He was also interim President and Chief Executive Officer from December 23, 2004 to June 23, 2005; Chief Executive Officer from September 6, 1993 to November 12, 1993 and Vice-Chairman from August 1, 1997 to November 30, 2001.
- (2) Mr. Goodman was previously a director from May 21, 1993 to June 19, 2001 and was re-elected November 29, 2004. He was also the Chairman from November 29, 2004 to June 23, 2005.
- (3) Mr. Pirie was appointed as a director on June 23, 2005 and the President and Chief Executive Officer of the Company on June 23, 2005. Prior to joining the Company on July 4, 2005, was an Executive Vice President with Placer Dome Inc. and the President and Chief Executive Officer of Place Dome Canada until December 31, 2004.
- (4) Mr. Charter resigned as a director of the Company on March 29, 2007. Prior to December 2005, was an Executive Vice President of Dundee Corporation and Dundee Wealth Management Inc. and the Chairman, President and Chief Executive Officer of Dundee Securities Corporation and Dundee Private Investors. Prior to joining the Dundee Group of Companies in 1996, he was a partner in the law firm of Smith, Lyons LLP now incorporated under the practice of Gowlings LLP.
- (5) Member of the Compensation Committee.
- (6) Member of the Audit Committee.
- (7) Member of the Hedging Committee.
- (8) Member of Environmental, Health and Safety Committee.
- (9) Member of Corporate Governance and Nominating Committee.

Officers

Name and Jurisdiction of Residence	Office Held
Garth A.C. MacRae ^(A) Ontario, Canada	Chairman
George E. Pirie ^(B) Ontario, Canada	President and Chief Executive Officer
David C. Langille ^(C) Ontario, Canada	Vice President, Finance and Chief Financial Officer
William M. Heath ^(D) Ontario, Canada	Executive Vice President
Jason C. Stevens ^(E) Ontario, Canada	Executive Vice President, Legal and Corporate Affairs & Secretary
Bertrand Boivin ^(F) Québec, Canada	Vice President, Canada
Robert Carreau ^(G) Ontario, Canada	Vice President, Environment
Robert Cuttriss ^(H) British Columbia, Canada	Vice President, Technical Services
Daniel Goffaux ^(I) Québec, Canada	Vice President, Latin America
J. Steven Hayes Ontario, Canada	Vice President, Commercial
Torben Jensen ^(J) Ontario, Canada	Vice President, Engineering
G. Wesley Roberts ^(K) Ontario, Canada	Vice President, Corporate Development
E. Ann Wilkinson ^(L) Ontario, Canada	Vice President, Investor Relations and Assistant Secretary
Leroy A. Fong Ontario, Canada	Controller

Each of the officers of the Company has held the position set out opposite their name or other executive or equivalent management functions with his or her present employer or its predecessor or affiliates during the last five years except:

- (A) Mr. MacRae was appointed as the interim President and Chief Executive Officer from December 23, 2004 to June 23, 2005.
- (B) Mr. Pirie, prior to joining the Company on July 4, 2005, was an Executive Vice President with Placer Dome Inc. and the President and Chief Executive Officer of Place Dome Canada until December 31, 2004.
- (C) Mr. Langille, prior to joining the Company on June 5, 2006 was Senior Vice President and Chief Financial Officer of Lindsey Morden Group Inc. (now Cunningham Lindsey Group Inc.) and, prior thereto, Executive Vice-President and Chief Financial Officer of Capital Environmental Resources Inc. (now Waste Services, Inc.).
- (D) Mr. Heath, prior to March 29, 2006, was Vice President, Administration.
- (E) Mr. Stevens, prior to joining the Company on September 1, 2006, was General Counsel, Projects of Placer Dome Inc. until May 1st, 2006, prior thereto was Vice-President & General Counsel of Placer Dome Canada from November, 2002 and prior thereto in 2001 was Senior Legal Counsel of Placer Dome Inc.
- (F) Mr. Boivin, prior to November 8, 2005, was the President, Director General of Breakwater Tunisia S.A., a subsidiary of the Company.
- (G) Mr. Carreau, prior to May 10, 2005, was the Manager, Environmental Affairs of the Company.
- (H) Mr. Cuttriss was Manager, Research for Placer Dome Inc. from July 2003 to October 2005. Prior to that was Managing Partner of Interpro Zinc LLC, a private Colorado corporation developing zinc recycling technology.

- (I) Mr. Goffaux, prior to rejoining the Company on October 5, 2006, was a Senior Mining Engineer at Micon International, prior thereto, was a General Mine Manager of the Company and, prior thereto, Vice-President Corporate Development of Black Hawk Mining Inc.
- (J) Mr. Jensen, prior to December 2003, was Manager, Engineering and North American Exploration of the Company.
- (K) Mr. Roberts, prior to joining the Company on May 29, 2006, was a self-employed mining consultant.
- (L) Ms. Wilkinson, prior to November 2005, was Corporate Secretary of the Company.

Shareholdings of Directors and Officers

To our knowledge, as at March 29, 2007, the directors and executive officers of the Company as a group, beneficially owned, directly or indirectly, or exercised control or direction over 2,329,077 or less than 1% of 417,505,735 issued and outstanding common shares and no director or executive officer of the Company beneficially owned or controlled voting securities of any of the Company's subsidiaries.

7.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

A. Murray Sinclair Jr.

PetroFalcon Corporation (formerly Pretium Industries Inc.)

On February 27, 2002 the British Columbia Securities Commission delivered an order relating to an application by Mercury Partners & Company Inc. to overturn a decision of the Canadian Venture Exchange Inc. (as it then was), namely an approval to close a private placement of 4,000,000 common shares of the corporation which was completed in November 2001 (the "BCSC Order"). Subsequent to the private placement, Mr. A. Murray Sinclair was appointed a director of PetroFalcon Corporation. Pursuant to the BCSC Order, PetroFalcon Corporation was required to place the matter before its shareholders and, in order that the status quo be maintained to the greatest extent possible until the occurrence of the shareholders meeting, the British Columbia Securities Commission considered it to be in the public interest to remove the applicability of exemptions from prospectus and registration requirements for PetroFalcon until the shareholders meeting was held. In addition, the British Columbia Securities Commission, during that time period, removed the applicability of exemptions from prospectus and registration requirements for Quest Ventures Ltd. (as subscriber to the private placement referred to above) in respect of the 4,000,000 common shares received pursuant to the private placement referred to above. During this time, A. Murray Sinclair was also a principal of Quest Ventures Ltd. The approval of shareholders was sought and received in May 2002 at a meeting of shareholders.

Katanga Mining Limited (formerly Balloch Resources Ltd. and New Inca Gold Ltd.)

A. Murray Sinclair, Jr. was a director of Balloch Resources Ltd. from May 1, 1998 to July 10, 2006. On February 25, 2002 New Inca Gold Ltd. was issued a cease trade order from the British Columbia Securities Commission, the Alberta Securities Commission and the Ontario Securities Commission for failure to file financial statements within the prescribed period of time and pay the filing fees. New Inca Gold Ltd. has since filed the financial statements and paid the filing fees as required by those securities commissions. Effective October 21, 2003, trading of the securities of New Inca Gold Ltd. resumed. The Alberta Order was rescinded on October 23, 2003 and the Ontario Order was rescinded on March 6, 2003 and the British Columbia Order was rescinded on October 21, 2003.

7.3 Conflicts of Interest

Three directors of the Company, namely Messrs. Garth MacRae, Ned Goodman and Jonathan Goodman are directors and/or officers of Dundee Corporation ("Dundee") and/or certain of its affiliates. Mr. Donald Charter was an officer of Dundee and/or officer and director of certain of its affiliates. As at March 14, 2007, Dundee owned, directly or indirectly or exercised control or direction over 101,880,061 Common Shares representing approximately 24.4% of the outstanding Common Shares.

7.4 Interest of Management and Others in the Material Transactions

The only material transactions entered into since January 1, 2004 that have affected or are expected to materially affect the Company or any of the affiliates of the Company involving an officer or director of the Company, the principal shareholder of the Company or any associate or affiliate of any such persons or companies are as follows:

- a) In December 2005, a syndicate of investment dealers comprising Dundee Securities Corporation (“DSC”) and GMP Securities (“GMP”) participated in raising \$6 million flow through financing for the Company. DSC is related to the significant shareholder of the Company. The Company paid the syndicate a commission of \$240,000 of which DSC earned \$120,000.
- b) In 2004, DSC participated in the syndicate of underwriters in connection with the offering of 57,142,858 Units of the Company each consisting of one Common Share and one half of a Tradeable Warrants to purchase a Common Share for gross proceeds of \$40 million and received a portion of the commission paid by the Company to the underwriters in connection with the underwriting.

ITEM 8 LEGAL PROCEEDINGS

The disclosure with respect to legal proceedings in the Management Discussion and Analysis and financial statements for the year ended December 31, 2006 is hereby incorporated by reference.

ITEM 9 TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Common Shares and the Tradeable Warrants of the Company is Computershare Investor Services Inc. at its principal office located at 100 University Avenue, 9th Floor, Ontario, Canada M5J 2Y1.

ITEM 10 INTERESTS OF EXPERTS

10.1 Names of Experts

The following persons and firms have prepared or certified a statement, report or valuation described or included in a filing or referred to in a filing made by the Company under National Instrument 51-102 as follows during or relating to, the financial year of the Company ended December 31, 2006:

PricewaterhouseCoopers LLP, Chartered Accountants, are the Company's auditors and such firm has prepared an opinion with respect to the Corporation's financial statements as at and for the fiscal year ended December 31, 2006. PricewaterhouseCoopers LLP, Chartered Accountants have reported that they are independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Ontario.

ITEM 11 AUDIT COMMITTEE

Audit Committee Charter

1. **Policy Statement**

It is the policy of Breakwater Resources Ltd. (the “Corporation”) to establish and maintain an audit committee (the “Audit Committee”) to assist the directors (individually a “Director” and collectively the “Board”) of the Corporation in carrying out the Board’s oversight responsibility for the internal controls, financial reporting and risk management processes of the Corporation. The Audit Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including appropriate administrative support. If determined appropriate by the Audit Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or other experts.

2. **Composition of Committee**

- (a) The Audit Committee shall consist of a minimum of three Directors, at least half of whom shall be resident Canadians. The Board shall appoint the members of the Audit Committee and may seek the advice and assistance of the Corporate Governance and Nominating Committee in identifying qualified candidates. The Board may appoint one member of the Audit Committee to be the Chairman of the Audit Committee or delegate such authority to appoint the Chairman of the Audit Committee to the Audit Committee. The Chairman of the Audit Committee shall have such accounting or related financial management expertise as the Board may determine in their business judgement.
- (b) Each member of the Audit Committee must be a Director who is independent and financially literate to the extent required by (and subject to the exemptions and other provisions set out in) applicable laws, rules and regulations, and stock exchange requirements (collectively “Applicable Laws”). In this Charter, the terms “independent” and “financially literate” have the meaning ascribed to such terms by Applicable Laws, and include the meanings given to similar terms by Applicable Laws.
- (c) A Director appointed by the Board to the Audit Committee shall be a member of the Audit Committee until replaced by the Board or until his or her resignation.

3. **Meetings of the Committee**

- (a) The Audit Committee shall convene a minimum of four times each year at such times and places as may be acceptable to the Chairman of the Audit Committee and whenever a meeting is requested by the Board, a member of the Audit Committee, the auditors or senior management of the Corporation. Scheduled meetings of the Audit Committee shall correspond with the review of the quarterly and year-end financial statements and management discussion and analysis.
- (b) Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee and to the auditors of the Corporation, who shall be entitled to attend each meeting of the Audit Committee and shall attend whenever requested to do so by a member of the Audit Committee.

- (c) Notice of a meeting of the Audit Committee shall:
 - (i) be in writing, which includes electronic communication facilities;
 - (ii) state the nature of the business to be transacted at the meeting in reasonable detail;
 - (iii) to the extent practicable, be accompanied by a copy of any documentation to be considered at the meeting; and
 - (iv) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Audit Committee may permit.
- (d) A quorum for the transaction of business at a meeting of the Audit Committee shall consist of a majority of the members of the Audit Committee. However, it shall be the practice of the Audit Committee to require review, and, if necessary, approval of important matters by all members of the Audit Committee.
- (e) A member or members of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities as permits all persons participating in the meeting to communicate with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
- (f) In the absence of the Chairman of the Audit Committee, the members of the Audit Committee shall choose one of the members present to be chairman of the meeting. In addition, the members of the Audit Committee shall choose one of the persons present to be the secretary of the meeting.
- (g) The Audit Committee may invite such persons to attend meetings of the Audit Committee as the Audit Committee considers appropriate, except to the extent exclusion of certain persons is required pursuant to this Charter or by Applicable Laws.
- (h) The Audit Committee may invite the external auditors to be present at any meeting of the Audit Committee and to comment on any financial statements, or on any of the financial aspects, of the Corporation.
- (i) The Audit Committee (i) shall meet with the external auditors separately from individuals other than the Audit Committee and (ii) may meet separately with management of the Corporation.
- (j) Minutes shall be kept of all meetings of the Audit Committee and shall be signed by the chairman and the secretary of the meeting.

4. **Duties and Responsibilities of the Committee**

- (a) The primary duties and responsibilities of the Audit Committee are to:

- (i) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
 - (ii) monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
 - (iii) monitor the independence and performance of the external auditors;
 - (iv) deal directly with the external auditors to approve external audit plans, other services (if any) and fees;
 - (v) directly oversee the external audit process and results (in addition to items described in subsection 4(d) below);
 - (vi) provide an avenue of communication between the external auditors, management and the Board;
 - (vii) review annually with management of the Corporation the anti-fraud and risk assessment programs of the Corporation; and
 - (viii) carry out a review designed to ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting or financial matters to an appropriately independent individual.
- (b) The Audit Committee shall have the authority to:
- (i) inspect any and all of the books and records of the Corporation and its subsidiaries;
 - (ii) discuss with the management of the Corporation and its subsidiaries, any affected party and the external auditors, such accounts, records and other matters as any member of the Audit Committee considers appropriate;
 - (iii) engage independent counsel and other advisors as it determines necessary to carry out its duties; and
 - (iv) set and pay the compensation for any advisors engaged by the Audit Committee.
- (c) The Audit Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as considered appropriate.
- (d) The Audit Committee shall:
- (i) review the audit plan with the external auditors and with management;
 - (ii) discuss with management and the external auditors any proposed changes in major accounting policies or principles, the presentation and impact of material

risks and uncertainties and key estimates and judgements of management that may be material to financial reporting;

- (iii) review with management and with the external auditors material financial reporting issues arising during the most recent financial period and the resolution or proposed resolution of such issues;
 - (iv) review any problems experienced or concerns expressed by the external auditors in performing any audit, including any restrictions imposed by management or any material accounting issues on which there was a disagreement with management;
 - (v) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;
 - (vi) review the audited annual financial statements (including management discussion and analysis) and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all material variances between comparative reporting periods;
 - (vii) consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;
 - (viii) review with financial management and the external auditors the quarterly unaudited financial statements and management discussion and analysis before release to the public;
 - (ix) before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management discussion and analysis and press releases; and
 - (x) oversee the financial affairs of the Corporation and its subsidiaries, and, if deemed appropriate, make recommendations to the Board, external auditors or management.
- (e) The Audit Committee shall:
- (i) evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditors or the discharge of the external auditor when circumstances are warranted and the compensation of the external auditor;
 - (ii) consider the recommendations of management in respect of the appointment of the external auditors;

- (iii) pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by its external auditors, or the external auditors of subsidiaries of the Corporation in accordance with the Audit Committee Policy on the Review and Pre-Approval of Auditors' Fees for Audit and Non-Audit Services, subject to the overriding principle that the external auditors not be permitted to be retained by the Corporation to perform internal audit outsourcing services or financial information systems services; provided that notwithstanding the above, the foregoing pre-approval of non-audit services may be delegated to a member of the Audit Committee, with any decisions of the member with the delegated authority reporting to the Audit Committee at the next scheduled meeting;
 - (iv) approve the engagement letter for non-audit services to be provided by the external auditors or affiliates thereof together with estimated fees, and consider the potential impact of such services on the independence of the external auditors;
 - (v) when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the notice of change of auditors and documentation required pursuant to the then current legislation, rules, policies and instruments of applicable regulatory authorities and the planned steps for an orderly transition period; and
 - (vi) review all reportable events, including disagreements, unresolved issues and consultations, as defined by Applicable Laws, on a routine basis, whether or not there is to be a change of the external auditors.
- (f) The Audit Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters which are directed to the Audit Committee by any member of the Board, a shareholder of the Corporation, the external auditors or senior management.
 - (g) The Audit Committee shall periodically review with management the need for an internal audit function.
 - (h) The Audit Committee shall review the accounting and reporting of costs, liabilities and contingencies of the Corporation.
 - (i) The Audit Committee shall establish and maintain procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or audit matters.
 - (j) The Audit Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors.

- (k) The Audit Committee shall review with the Corporation's legal counsel, on no less than an annual basis, any legal matter that could have a material impact on the Corporation's financial statements and any enquiries received from regulators or government agencies.
- (l) The Audit Committee shall assess, on an annual basis, the adequacy of this Charter and the performance of the Audit Committee.

Composition of the Audit Committee

The members of the Company's Audit Committee are: Grant A. Edey (Chairman), Garth A.C. MacRae and A. Murray Sinclair, Jr. Each of Messrs. Edey, MacRae and Sinclair are independent and financially literate within the meaning of Multilateral Instrument 52-110 – Audit Committees.

Relevant Education and Experience

Set out below is a description of the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member:

- | | |
|-------------------------|---|
| Grant A. Edey | Mr. Edey has served as a director of the Company since 2005. Mr. Edey graduated from Queen's University in 1971 with a B.Sc. in mining engineering and subsequently held mine engineering positions with Inco Limited. He graduated from the University of Western Ontario in 1975 with an MBA and worked in the corporate planning department of Rio Algom Limited until mid-1977. In 1977, Mr. Edey joined Eldorado Nuclear Limited where he was responsible for various functions including corporate planning and development, operations management, and financial planning. In 1989, Mr. Edey joined Trans-Canada Pipelines Limited as a financial manager. In 1990, Mr. Edey joined Strathcona Mineral Services and Nanisivik Mines Limited where he was responsible for economic valuations, treasury, marketing and corporate secretarial functions. From January 1996 to January 2003, Mr. Edey was Vice President, Finance and Chief Financial Officer of Repadre Capital Corporation. With the acquisition of Repadre by IAMGOLD Corporation in 2003, Mr. Edey became Chief Financial Officer of IAMGOLD Corporation. |
| Garth A.C. MacRae | Mr. MacRae, Chartered Accountant, has served as a director of the Company since 1993 and served as Chairman from June 2005. Mr. MacRae has over 16 years of public accounting experience and has held executive positions with Dundee Corporation, Hudson Bay Mining, Brinco Limited and Denison Mines Limited. Mr. MacRae is a member of several public company boards and audit committees. |
| A. Murray Sinclair, Jr. | Mr. Sinclair holds a Bachelor of Commerce from Queen's University, Kingston, Ontario and has served as a director of the Company since 1992. He is also the Managing Director of Quest Capital Corp., a merchant bank listed on the Toronto (TSX), London (AIM) and United States (AMEX) stock exchanges that provides financial services to small and mid-cap companies operating primarily in North America. Mr. Sinclair is also a director and/or officer of other reporting companies. |

Pre-Approval Policies and Procedures

The Audit Committee's charter has a policy for pre-approval titled "Audit Committee Policy on Review and Pre-Approval of Auditors Fees for Audit and Non-Audit Services" which sets out the responsibilities regarding the provision of non-audit services by the Company's external auditors. This policy, in conjunction with the Audit Committee charter, encourages consideration of whether the provision of services other than audit services is compatible with maintaining the auditor's independence and requires Audit Committee pre-approval of permitted audit and audit-related services.

External Auditor Service Fees

The following provides disclosure of fees charged by the auditor during the 2006 and 2005 fiscal years:

- Audit Fees:** The aggregate fees, including expenses reimbursed for professional services rendered for the audit of the consolidated financial statements of the Company and its subsidiaries, for the reviews of the Company's quarterly financial statements, and services that generally only the independent auditor can reasonably provide such as statutory audits, consents, and assistance and review of documents filed with Securities and Exchange Commission and Canadian Securities regulatory authorities billed by PricewaterhouseCoopers LLP ("PWC") in fiscal year 2006 were \$800,868 and billed by Deloitte & Touche LLP ("D&T") in fiscal year 2005 were \$833,920.
- Audit Related Fees:** The aggregate fees, including expenses reimbursed, billed by PWC for fiscal year 2006 were \$11,585 and billed by D&T for fiscal year 2005 were \$38,000. These fees relate to *Sarbanes-Oxley Act of 2002* readiness assistance and the audit of the pension plan financial statements.
- Tax Fees:** The aggregate fees, including expenses reimbursed, billed by PWC for fiscal year 2006 were nil and billed by D&T for fiscal year 2005 were \$29,105. These fees include assistance relating to tax compliance.
- All Other Fees:** The aggregate fees, including expenses reimbursed for services rendered to the Company and its subsidiaries, other than for the services described above, billed by PWC for fiscal year 2006 were nil and billed by D&T for fiscal year 2005 were nil.

ITEM 12 ADDITIONAL INFORMATION

Additional information relating to the Company is available on SEDAR under the Company's name at www.sedar.com. Further additional information, including directors' and officers' remuneration and indebtedness, if any, principal holders of the Company's securities, and securities authorized for issuance under the share incentive plan can be found in the Company's Management Information Circular dated May 8, 2006 furnished in connection with its annual and special meeting of shareholders held on June 8, 2006. The management information circular for the 2007 shareholder meeting to be held for the purpose of, among other things, the election of directors, will be available on SEDAR in accordance with the time prescribed by law. The Company's consolidated financial statements and the management's discussion and analysis for the fiscal year ended December 31, 2006 can be found on SEDAR at www.sedar.com and at the Company's website www.breakwater.ca.