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**INTERNATIONAL ROYALTY**  
CORPORATION

**ANNUAL INFORMATION FORM**

March 27, 2006

AR/S

12-31-05

**International Royalty Corporation**  
10 Inverness Drive East, Suite 104  
Englewood, CO 80112

An additional copy of this Annual Information Form  
may be obtained upon request from the Corporate Secretary,  
International Royalty Corporation at the above address.

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## CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

Some of the statements contained in this document are forward-looking statements, such as statements that describe the Company's future plans, intentions, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur and specifically the Company's anticipation that its first payment from the Voisey's Bay royalty will be received during 2006. Since forward-looking statements are not statements of historical fact and address future events, conditions and expectations, forward-looking statements by their nature inherently involve unknown risks, uncertainties, assumptions and other factors well beyond the Company's ability to control or predict. Actual results and developments may differ materially from those contemplated by such forward-looking statements depending on, among others, such key factors as the timing of Voisey's Bay Nickel Company's booking of proceeds under applicable sales agreements. The forward-looking statements included in this document represent the Company's views as of the date of this document. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this document. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on any forward-looking statements.

### Material Assumptions

The Company's statement in this document regarding its anticipated timing of a Voisey's Bay royalty payment is based on certain assumptions. Such assumptions include, but are not limited to, the validity of statements made by Inco Limited ("Inco") to the Company directly, Inco's statements in the public domain and that the terms of the applicable sales agreements for the concentrate will be consistent with statements made by Inco to the Company.

## CURRENCY AND EXCHANGE RATES

All references to "dollars" and "\$" herein are expressed in United States currency unless specifically stated otherwise. As at March 27, 2006, the Bank of Canada noon rate of exchange per US\$1.00 was CA\$1.1687.

## METRIC CONVERSION TABLE

The following table sets forth certain factors for converting metric measurements into imperial equivalents.

METRIC		IMPERIAL UNITS		
Description and abbreviation	Multiply by	Unit	Divide by	Description and Abbreviation
<b>Length</b>				
Millimeters - mm	25.400	1	0.30937	Inches - in
Meters - m	0.3048	1	3.2808	Feet - ft
Meters - m	0.9144	1	1.0936	Yards - yd
Kilometers - km	1.609	1	0.6215	Miles - mile
<b>Area</b>				
Square centimeters - cm <sup>2</sup>	6.4516	1	0.1550	Square inches - in <sup>2</sup>
Square meters - m <sup>2</sup>	0.0929	1	10.76	Square feet - ft <sup>2</sup>
Hectares - ha	0.40469	1	2.471	Acres - acre
Square kilometers - km <sup>2</sup>	2.5900	1	0.3861	Square miles - sq miles
<b>Weight</b>				
Grams - g	31.1035	1	0.032151	Troy ounces - oz
Tonne (1,000 kg) - t	0.907185	1	1.102311	Short ton (2,000 lbs) - st

## ACCESS TO PROPERTY INFORMATION

As a royalty holder, the Company has limited, if any, access to properties on which the Company holds royalty interests. The Company must usually rely principally on publicly available information regarding properties and mining operations and may not have legal rights to constant access to the properties or to a review of the data which was used to substantiate the technical information which has been publicly disclosed. In the future, the Company will usually be dependent on publicly available information to prepare required disclosures pertaining to properties and mining operations on the properties on which the Company holds royalty interests. This annual information form includes information regarding properties and mining operations which is based on information publicly disclosed by the owners or operators of the properties on which the Company holds royalty interests. Certain technical information contained in this annual information form relating to the Voisey's Bay Project has been taken from the report dated October 29, 2004, revised on February 1, 2005, and entitled "Independent Technical Report, Voisey's Bay Project Royalty, Labrador, Canada" (the "Qualifying Report") prepared by Mr. William Crowl of Gustavson Associates LLC who is a Qualified Person for the purposes of National Instrument 43-101, *Standards of Disclosure for Mineral Projects* ("NI 43-101"). The information contained in the Qualifying Report relating to the Voisey's Bay property is primarily extracted from the technical report effective as of August 31, 2003 prepared and filed by Inco Limited. Other technical information included in this annual information form has been reviewed by Mr. Nick Michael of SRK Consulting, also a Qualified Person for the purposes of NI 43-101 (together with Mr. Crowl, the "Qualified Persons"). Neither the Company nor the Qualified Persons have undertaken an independent due diligence investigation to confirm the accuracy at this time of any such previously publicly disclosed information. In some instances, the disclosure of the technical information may have been re-worded or edited in this annual information form by the Qualified Persons so as to better comply with the requirements of NI 43-101.

## CORPORATE STRUCTURE

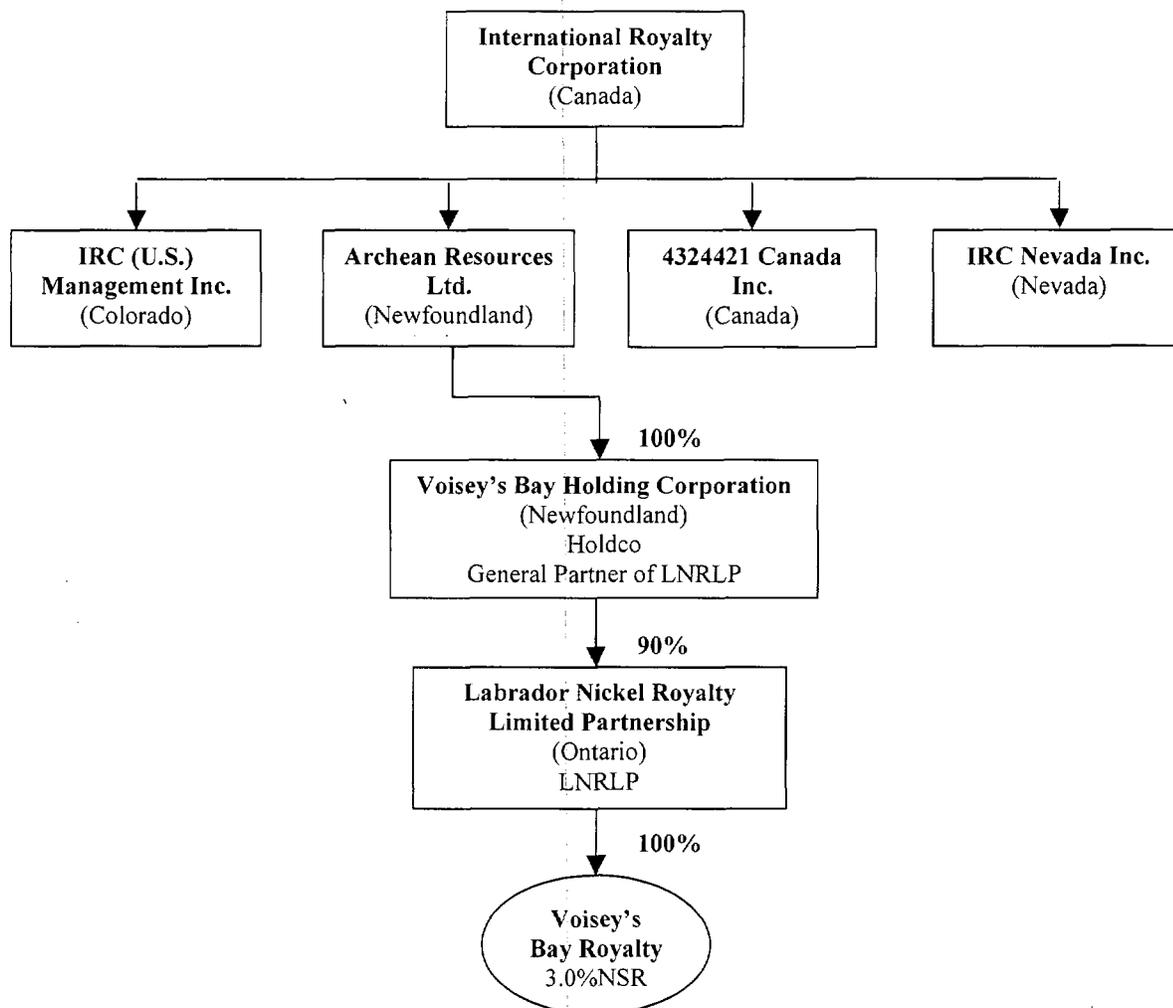
### Name and Incorporation

The Company was incorporated under the *Business Corporations Act* (Yukon) on May 7, 2003 by registration of its articles of incorporation with the Yukon Department of Community Services Consumer and Safety Services, Corporate Affairs. On November 12, 2004, the Company was continued under the *Canada Business Corporations Act*.

The Company's head office is located at 10 Inverness Drive East, Suite 104, Denver, Colorado 80112 and the registered office of the Company is located at 66 Wellington Street West, Suite 4200, Toronto Dominion Bank Tower, Box 20, Toronto-Dominion Centre, Toronto, Ontario, Canada, M5K 1N6.

### Intercorporate Relationships

The Company owns 100% of the outstanding shares of IRC (U.S.) Management Inc., which was incorporated pursuant to the laws of Colorado, United States, and also owns 100% of the outstanding shares of IRC Nevada Inc., which was incorporated pursuant to the laws of Nevada, United States, for the purpose of the acquisition of royalty interests in properties in the United States. On February 22, 2005, the Company completed the acquisition of 100% of the common shares of Archean Resources Ltd. ("Archean"), a Newfoundland and Labrador corporation. Archean owns 100% of Voisey's Bay Holding Corporation ("Holdco"), a Newfoundland and Labrador corporation, which is the general partner and 90% owner of Labrador Nickel Royalty Limited Partnership ("LNRLP"), an Ontario limited partnership. The head office of each of these subsidiaries of the Company is located at 10 Inverness Drive East, Suite 104, Denver, Colorado 80112.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

The Company was incorporated for the purpose of acquiring and creating natural resource royalties with a specific emphasis on mineral royalties. The Company has acquired a royalty portfolio diversified over five continents and ten countries, and including over 15 commodities. The portfolio includes royalties on 53 exploration stage properties, two feasibility, four in the development stage, and three currently in production. Economically, the primary minerals in the portfolio are nickel, cobalt, copper and gold. The Company intends to continue to acquire royalties in a wide variety of locations and commodities in order to maintain a diversified portfolio. Management of the Company has identified in excess of 2,300 existing mineral royalties. These royalties will be investigated and pursued, if appropriate, time and funds allowing. Based on the current target list the Company intends to pursue a royalty acquisition program with the objective of expanding its royalty ownership portfolio and generating additional revenue.

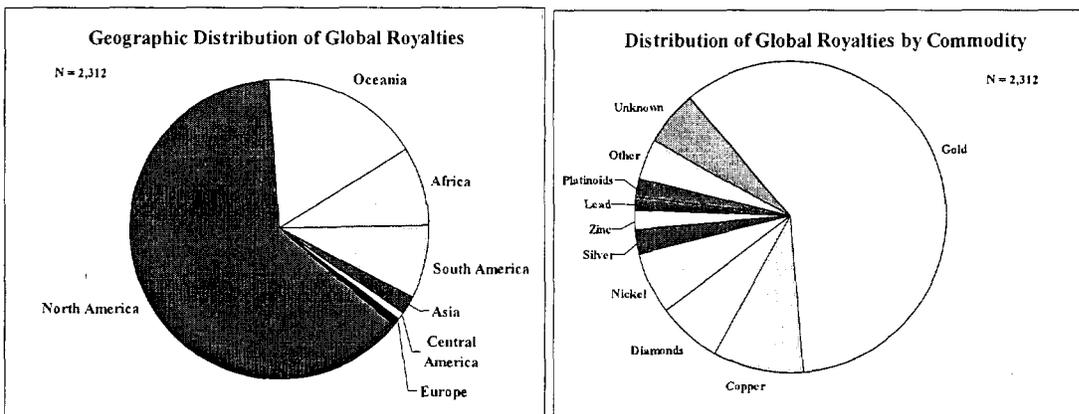
Because royalty companies do not incur mine site operating costs or any ongoing capital commitments in respect of properties, the Company expects to have a high operating cash flow to revenue ratio. With exposure to multiple commodities, the Company's portfolio should have sufficient diversity to provide a more stable cash flow base than would otherwise be the case with a single commodity portfolio. In management's view, there is an opportunity to provide royalty holders with a means to monetize the future value of their royalties through a sale to the Company.

## Overview of Royalties

A royalty is a payment to a royalty holder by a property owner or an operator of a property of a percentage of the minerals or other products produced or the profits generated from the property. The granting of a royalty to a person other than the property owner or the operator of the property typically arises as a result of: (i) raising funds by granting the royalty; (ii) paying part of the consideration payable to prospectors or junior mining companies for the purchase of their property interests; or (iii) a conversion to a royalty of a participating interest in a joint venture relationship. Royalties are not working interests in the property. Therefore, the royalty holder is neither responsible for, nor has an obligation to contribute additional funds for any purpose, including, but not limited to, operating or capital costs, or environmental or reclamation liabilities. Furthermore, because many royalties are constructed as legal contracts rather than property interests, the royalty holder's risk exposure is usually limited to metal prices and operational performance. These unique characteristics provide royalty holders with special commercial benefits not available to the property owner because the royalty holder enjoys the upside potential of the property with reduced risk. In some cases, royalties are considered an interest in the land, thereby adding protection to the royalty holder in the event the royalty payor enters into receivership.

Royalties have been imposed since at least Roman times (400 A.D.) when a 10% "tax" was imposed on privately owned mines. The English and French were the first European states to codify the practice around 1300 A.D. Today, the creation of royalties is most prevalent in the British Commonwealth or former colonial entities although the governments of a number of countries around the world have adopted royalties as part of the payments owed to them by mine owners when the projects go into production. Private royalties have been created by contracts in many jurisdictions and often have the same characteristics as government royalties.

The Company has identified more than 2,300 existing mineral royalties worldwide. Most of such royalties are related to gold projects located in North America. The growth of royalties elsewhere in the world is a direct reflection of North American companies investing in these regions with arrangements that have now become standard industry practice. The following charts, created from the Company's database, depict the geographic distribution of global royalties and the distribution of global royalties by commodity type.



The Company has identified more than 40 different types of royalty forms. The principal types include:

- Gross Sales Royalties ("GSR") are based on total revenues in cash or in-kind products and calculated in respect of sales agreements by multiplying the metal content by a reference price from the sale of ore, minerals or other products extracted from the area covered by a project. These are also known as gross overriding royalties ("GOR") or Gross Royalties ("GR").
- Net Smelter Return Royalties ("NSR") are based on a percentage of proceeds received for refined minerals from the smelter or refinery less specified transport, insurance and other expenses.
- Net Profit Royalty or Net Interest Royalties ("NPR" or "NPI") are based on the total revenues less specified accounting expenses, possible recovery of capital and interest on expenditures incurred.

Minority working or equity interests are not considered to be royalties because of the ongoing funding commitments, although they can be similar in their calculations to NPIs or NPRs. NSRs are by far the most common royalty form for mineral projects with variations being based on a dollar per tonne processed or changing ("sliding") rate tied to either metal prices, grade and/or capital repayment schedules.

#### **Initial Financing**

On August 12, 2003, the Company completed a private placement of 4,400,000 special warrants (the "Initial Financing Special Warrants") at a price of CA\$0.80 per Initial Financing Special Warrant, for gross proceeds of CA\$3,520,000. Each Initial Financing Special Warrant was exercisable for one common share of the Company ("Common Share") and approximately 0.216 of a warrant ("Financing Warrant") for no additional consideration.

During November and December 2004, 1,850,000 Initial Financing Special Warrants were exercised for 1,850,000 Common Shares and 399,432 Financing Warrants. All 399,432 Financing Warrants were also exercised for 399,432 Common Shares at an exercise price of CA\$3.00 per Common Share for aggregate proceeds to the Company of CA\$1,198,296. All of the remaining Initial Financing Special Warrants were automatically exercised on February 23, 2005. Each outstanding Financing Warrant is exercisable for one Common Share at a price of CA\$3.00 per Common Share for a period of two years from February 22, 2005 ("IPO Date").

Haywood Securities Inc., the agent for the private placement of the Initial Financing Special Warrants, received 308,000 Compensation Special Warrants as partial compensation for acting as agent for such private placement. Each Compensation Special Warrant was exercisable for one Common Share at no additional cost to the holder and was automatically exercised on March 1, 2005, five business days after the IPO Date. Haywood Securities Inc., as the agent for such private placement, also received 440,000 Common Share purchase warrants (the "Compensation Warrants"). Each Compensation Warrant is exercisable for one Common Share at a price of CA\$0.80 per Common Share until February 22, 2007.

#### **Acquisition of Williams Royalty**

On August 12, 2003, the Company acquired the Williams Royalty from an individual for cash consideration of CA\$2,876,722 and the issuance of Common Share purchase warrants exercisable to purchase 950,000 Common Shares at an exercise price of CA\$3.00 per Common Share (the "Williams Mine Warrants"). The Williams Mine Warrants are exercisable until February 22, 2007. See "Williams Royalty".

#### **Acquisition of Livermore Royalty Portfolio**

On January 10, 2005, the Company acquired royalty interests on the Pinson gold and the Hasbrouck Mountain gold-silver deposits, both in Nevada, United States from John S. Livermore for cash consideration of \$520,000. See "Other Royalty Interests - Livermore Royalty Portfolio".

#### **Initial Public Offering and Unit Offering**

On February 22, 2005, the Company completed an initial public offering ("IPO") of 37,790,698 Common Shares at CA\$4.30 per Common Share (the "IPO Price") for gross proceeds of CA\$162,500,000. Concurrent with the IPO, the Company also completed a private placement unit offering (the "Unit Offering") for gross proceeds of CA\$30,000,000. The Unit Offering consisted of CA\$30,000,000 of 5.5% senior secured debentures (the "Debentures") due February 22, 2011 and 1,395,360 Common Shares.

The Debentures will mature on February 22, 2011 and will bear interest at the rate of 5.5% per annum, payable semi-annually, on February 28 and August 31. The holders of the Debentures have the benefit of certain covenants of the Company and of Archean which, among other things and subject to certain exceptions, restrict the ability of the Company and Archean to incur and to permit or authorize Holdco or LNRLP to incur certain additional indebtedness, create liens on certain assets and dispose of certain assets. Archean has guaranteed the payment of principal and interest on the Debentures and the performance by the Company of its other payment obligations under the Debenture Indenture. The obligations of the Company under the Debenture Indenture are secured by a general

security agreement over all of the assets of the Company relating to the Voisey's Bay Royalty (defined herein) and the obligations of Archean under the guarantee are secured by a general security agreement over all of the assets of Archean.

#### **Acquisition of Archean and the Voisey's Bay Royalty Interest**

On February 22, 2005, the Company completed the acquisition of all of the outstanding shares of Archean pursuant to separate share purchase agreements (collectively the "SPAs") with two individuals for total consideration of CA\$184.3 million (\$149.4 million), consisting of CA\$152.5 million in cash and 7,395,349 Common Shares valued at the IPO Price. The principal asset of Archean is a 90% indirect ownership interest in the Voisey's Bay Royalty (effectively a 2.7% NSR royalty) on the Voisey's Bay nickel-copper-cobalt property. One of the SPAs also provides one former shareholder of Archean, Christopher Verbiski, with the right to nominate two directors of the Company for election by the shareholders of the Company for a period of six years after the IPO Date. See "Archean and the Voisey's Bay Royalty Interest".

#### **Acquisitions of Other Royalty Interests**

On February 22, 2005, the Company acquired from Hecla Mining Company a portfolio of 14 mineral royalty interests. Total consideration paid was \$553,000, paid by the issue of 158,566 Common Shares valued at the IPO Price. See "Other Royalty Interests - Hecla Mining Company Royalty Portfolio".

On February 22, 2005, the Company acquired from parties represented by the Hunter Exploration Group a portfolio of 17 gross overriding royalty interests in respect of diamonds on approximately 20 million acres of land located in Nunavut Territory in Canada that are presently the subject of diamond exploration activities. Total consideration paid was CA\$5 million payable by the issue of 1,162,791 Common Shares valued at the IPO Price. See "Other Royalty Interests - Hunter Exploration Group Royalty Portfolio".

On November 15, 2004, the Company signed a letter agreement with BHP Billiton Worldwide Exploration Inc. ("BHPB") (superseded by a definitive agreement dated March 18, 2005) to acquire a mineral portfolio of 22 royalty interests for consideration of \$605,000 to be paid in cash and \$625,000 in Common Shares valued at the IPO Price of CA\$4.30, equal to 180,189 Common Shares. On April 19, 2005, the Company completed the purchase of 14 of these royalties from BHPB for all of the Common Shares and \$65,000. The purchase of a further five royalty interests was closed on May 2, 2005 for consideration of \$510,000. The acquisition of the three remaining royalties for \$30,000 is expected to be completed during 2006.

#### **Pending Royalty Acquisition**

On December 7, 2004, the Company signed a letter agreement with David Fawcett to acquire 20.3% of a 1% royalty interest on five coal licenses in British Columbia for total consideration of CA\$312,500 in cash and CA\$937,500 in Common Shares valued at the IPO Price. On February 22, 2005, the parties entered into a royalty purchase agreement superseding the letter agreement, and an escrow agreement whereby the cash and 218,023 Common Shares were placed in escrow pending receipt of executed royalty assignment agreements from the property owner, Western Canadian Coal Corp. ("Western"). On March 21, 2005, Western filed a petition with the Supreme Court of British Columbia to have the underlying royalty sharing agreement set aside. On February 24, 2006, the Supreme Court of British Columbia upheld the underlying royalty sharing agreement. On March 24, 2006, Western filed a notice to appeal the decision.

## DESCRIPTION OF THE BUSINESS

### Archean and the Voisey's Bay Royalty Interest

#### *Background*

Archean, a private Newfoundland company, entered into an option agreement with Diamond Fields Resources Inc. ("DFR") on May 18, 1993 to conduct a regional exploration program of geographic Labrador (the "Labrador Option Agreement"). Archean retained a 3.0% GOR royalty on diamonds and a 3.0% NSR royalty on base metals, precious metals, rare earth metals, elements and other minerals normally subject to net smelter returns with respect to the properties which are subject to the Labrador Option Agreement (the "Voisey's Bay Royalty"). The Voisey's Bay Ovoid and certain other nickel, copper and cobalt deposits were discovered during the course of this program. The Voisey's Bay Royalty applies to the properties now referred to and known as the Voisey's Bay property. On June 28, 1995, DFR assigned its interests in the Labrador Option Agreement and the Voisey's Bay property to its then subsidiary, Voisey's Bay Nickel Company Limited ("VBNC"). Through various transactions, Inco Limited ("Inco"), either directly or through a subsidiary, acquired all of the outstanding shares of VBNC through its acquisition in August 1995 of all of the outstanding shares of DFR it did not then own. The Voisey's Bay Royalty was secured by a mortgage granted by VBNC, as mortgagor, which mortgage was registered on June 28, 1995. The mortgage secures VBNC's obligation to pay the Voisey's Bay Royalty until \$50 million has been paid, after which time the mortgage will become void and the obligation to make further royalty payments will become an unsecured contractual obligation. The mortgage amount may be increased to a maximum of \$100 million in the event that financing to fund the Voisey's Bay mine and mill in the amount of \$500 million is put in place. Inco has advised that there has been no borrowing to finance the Voisey's Bay mine and mill and accordingly the mortgage amount is currently \$50 million. In July 2003, Archean formed a limited partnership called Labrador Nickel Royalty Limited Partnership ("LNRLP") to hold the Voisey's Bay Royalty. On July 10, 2003, Archean transferred and assigned the Voisey's Bay Royalty to LNRLP. Altius Resources Inc. ("Altius") acquired a 7.5% interest in LNRLP on August 29, 2003 together with an option to increase this interest to 10%. On August 29, 2003, Voisey's Bay Holding Corporation ("Holdco"), a wholly-owned subsidiary of Archean, acquired Archean's interest in, and became the general partner of, LNRLP. On December 8, 2004, Altius exercised its option and currently holds a 10% interest in LNRLP.

Pursuant to the terms of the Labrador Option Agreement, the Voisey's Bay Royalty means 3.0% (of which Archean holds a 90% indirect ownership interest through LNRLP) of "the actual proceeds received from any mint, smelter, refinery or other purchaser for the sale of ores, base metals, precious metals, rare earth metals, elements and any other minerals normally subject to net smelter returns or concentrates produced from the properties and sold, after deducting from such proceeds the following charges to the extent that they were not deducted by the purchaser in computing payment: smelting and refining charges; penalties; smelter assay costs and umpire assay costs; cost of freight and handling of ores, metals or concentrates from the properties to any mint, smelter, refinery, or other purchaser; marketing costs; insurance on all such ores, metals or concentrates; customs duties; or mineral taxes or the like and export and import taxes or tariffs payable in respect of said ores, metals or concentrates". In addition, any charges to be incurred which are made to a company associated with VBNC, as successor to DFR, must be on commercially reasonable terms or must be approved in writing by the owner of the Voisey's Bay Royalty.

The owner of the Voisey's Bay Royalty, LNRLP, is also entitled to audit, during normal business hours, such books and records as are necessary to determine the correctness of the payment of the royalty, provided, however that such audit may only be conducted on an annual basis and within 12 months after the end of the fiscal period in respect of which such audit is to be conducted. The Labrador Option Agreement also contains arbitration provisions on selected matters in the event of a dispute. The Labrador Option Agreement, as amended by a 1995 agreement between the parties thereto, provides that any mineral interest acquired at any time in Labrador by either of the parties thereto, or by companies controlled by them, shall be deemed to be included as properties for the purpose of the Labrador Option Agreement. Holdco, as general partner of LNRLP, manages LNRLP and has broad powers and authority, subject to the advice of an executive committee comprised of three members, one of whom is a nominee of Altius and two of whom are nominees of Holdco. Such powers include undertaking such actions as Holdco deems appropriate to verify the amount of the Voisey's Bay Royalty payments, including the incurring of costs to investigate and verify the calculation of royalty payments under the Labrador Option Agreement and such dealings and negotiations with VBNC as may be advisable.

On February 22, 2005, the Company completed the acquisition of 100% of the shares of Archean from Christopher Verbiski and Albert Chislett, (the "Vendors"). The purchase price was CA\$184.3 million (\$149.4 million), paid CA\$152.5 million in cash and the balance by the issue of 7,395,349 Common Shares valued at the IPO price. The Company's economic assumptions in determining the consideration to be paid were based on a nickel price of \$4.00/lb, a copper price of \$1.00/lb, a cobalt price of \$15.00/lb, a 6% discount rate and a US\$/CA\$ exchange rate of 0.75.

A further term of the SPAs requires that in the event that the tax payable in respect of the Voisey's Bay Royalty under the *Mining and Mineral Rights Tax Act* (Newfoundland and Labrador) is abolished or reduced during the period of 25 years after the closing of the purchase of the shares of Archean (the "Tax Adjustment Period"), the Company will pay an additional amount to the Vendors representing the aggregate reduction in taxes payable to the end of the Tax Adjustment Period.

### *Independent Consultant's Report*

At the request of the Company, Gustavson Associates, LLC, ("Gustavson") based in Boulder, Colorado, prepared a report dated October 29, 2004, revised on February 1, 2005, and entitled "Independent Technical Report, Voisey's Bay Project Royalty, Labrador, Canada" (the "Qualifying Report"). William J. Crowl, the author of the Qualifying Report, is a registered professional geologist in the state of Oregon and a member in good standing of the Australasian Institute of Mining and Metallurgy, is independent from the Company and is a "Qualified Person" for the purposes of NI 43-101. Except where noted below, all of the technical information below is based upon the Qualifying Report and has been reviewed by the Qualified Person. The Qualifying Report has been filed on the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).

NI 43-101 contains certain requirements relating to disclosure of technical information in respect of mineral projects. Pursuant to an exemption order dated December 22, 2004 granted to the Company by the securities regulatory authorities in each of the provinces of Canada, the information contained in the Qualifying Report with respect to the Voisey's Bay property is primarily extracted from the technical report effective as of August 31, 2003 (the "Inco Report") prepared and filed by Inco in accordance with NI 43-101, as well as general information available in the public domain including the Company's database of public domain data, Inco annual reports, Inco annual information forms, information available on the Inco website and information available on other websites. The Qualified Person did not conduct a site visit, did not independently sample and assay portions of the deposit and did not review the following items prescribed by NI 43-101: (i) geological investigations, reconciliation studies, independent check assaying and independent audits; (ii) estimates and classification of mineral resources and mineral reserves, including the methodologies applied by Inco in determining such estimates and classifications, such as check calculations; or (iii) life of mine plan and supporting documentation and the associated technical-economic parameters, including assumptions regarding future operating costs, capital expenditures and saleable metal for the mining asset.

The Inco Report includes freight costs incurred at the mine to transport the concentrates, an intermediate product, to the port, however such expenses are not segregated from the other costs. With the exception of the freight costs, none of the mine-site costs set out in the Inco Report impact the calculation of royalty amounts expected to be received by the Company. The Inco Report does not separately disclose smelting and refining costs.

The Qualifying Report presents gross revenues and the anticipated smelter, refining, transportation and marketing costs as reviewed by Gustavson and found to be reasonable. The Qualifying Report does not include any of the mine site costs (with the exception of freight costs) because they are specifically excluded from the calculation of the Voisey's Bay Royalty.

### *Property Description and Location*

The Voisey's Bay property is located on the northeast coast of Labrador, on a peninsula bordered to the north by Anaktalak Bay and to the south by Voisey's Bay. The nearest communities are Nain, approximately 35 kilometers to the northeast, and Natuashish, approximately 80 kilometers to the southeast. The site of the Voisey's Bay property is centered approximately at latitude 56°10', longitude 62°00' and extends from 555150E to 556200E and

from 6242550N to 6243450N (UTM NAD83 coordinates). The Voisey's Bay property is approximately 900 kilometers north-northwest of St. John's, the capital of Newfoundland and Labrador (the "Province").

The government of the Province (the "Provincial Government") has issued nine mineral licenses consisting of a total of 1,978 claims (20,012 hectares) to VBNC, a wholly-owned subsidiary of Inco, which cover the main claim block (the "Main Block") of the Voisey's Bay project. Mineral licenses are issued for a period of five years and may be extended for three additional five-year renewal periods, for a total of 20 years.

The mineral license numbers and initial expiry dates are as follows:

License	Expiry Date
6866M	March 21, 2014
6867M	March 21, 2014
6870M	November 7, 2014
9143M	March 21, 2014
9528M	March 21, 2014
9534M	March 21, 2014
9538M	March 21, 2014
9582M	March 21, 2014
9584M	March 21, 2014

A mineral license does not entitle its holder to extract any minerals from the Voisey's Bay property covered by such license. In order to extract minerals, a mining lease must be obtained from the Provincial Government. The Provincial Government issued a mining lease to VBNC for a period of 25 years, effective 2002 and covering approximately 1,600 hectares. The mining lease gives VBNC the exclusive right to extract minerals and carry out mineral exploration, mining operations or mining processing and develop in, on or under the lands, or part of the lands, covered by the mining lease, subject to VBNC and Inco continuing to meet the terms of and conditions of a development agreement between Inco, VBNC and the Provincial Government.

On June 11, 2002, VBNC, Inco and the Provincial Government announced that they had reached a non-binding statement of principles ("Statement of Principles") covering the commercial development of the Voisey's Bay property. The Statement of Principles was approved by the provincial legislature in late June 2002 and, on October 7, 2002, Inco and VBNC signed definitive agreements with the Provincial Government to implement the terms of the Statement of Principles. The definitive agreements provide for the development of a mine and concentrator processing plant, a research and development program focusing on hydromet processing technologies, an industrial and employment benefits program for the Voisey's Bay property, a timetable for the start and completion of the principal stages of the Voisey's Bay property and other key parts and requirements covering the overall development of the Voisey's Bay property. The definitive agreements set forth certain obligations of VBNC and Inco to construct and operate (i) a demonstration plant in the Province as part of the overall research and development program to test hydromet processing technologies to treat nickel-containing ores or intermediate products from the Voisey's Bay deposits and (ii) subject to technical and economic feasibility pursuant to the terms thereof, a commercial processing facility in the Province by the end of 2011 to treat all of the Voisey's Bay ores or intermediate products to produce finished nickel and other products based upon hydromet processing technologies or, if such technologies do not meet certain technical and/or economic feasibility requirements, as may be determined by one or more agreed upon experts as provided for in such agreements, a conventional refinery for matte processing. Once the demonstration plant is completed and has received intermediate concentrate product(s) produced by the Voisey's Bay property for testing, VBNC and Inco can ship quantities of intermediate product(s) produced by the Voisey's Bay property containing nickel and/or cobalt to Inco's facilities in Ontario and Manitoba for further processing into finished nickel and cobalt products. Shipments of such Voisey's Bay intermediate concentrates are limited to certain maximum aggregate quantities and will end when the construction of the hydromet commercial processing facility is completed. If, however, a conventional matte refinery is constructed, as referred to above, then this facility would be subject to an exemption order that would enable quantities of nickel in

concentrate to be shipped out of the Province on an annual basis equivalent to the contained nickel in matte processed in the conventional matte refinery during such year.

Under the definitive agreements, VBNC and Inco will also be required, prior to the cessation of the Voisey's Bay mining operations in the Province, subject to certain exceptions relating to the availability of such external sources, to bring into the Province for further processing at the hydromet or conventional matte processing facility to be constructed in the Province from sources outside the Province, in one or more intermediate forms, quantities of intermediate product, subject to certain annual minimum quantities, containing in total quantities of nickel and cobalt equivalents to what was shipped to Inco's Ontario and Manitoba operations. The definitive agreements also set forth: (1) VBNC's and Inco's commitment to an underground exploration program covering the Voisey's Bay deposits with the objective of discovering sufficient nickel-containing mineral reserves for processing beyond Phase I of the Voisey's Bay property, (2) the terms under which processing of copper intermediate in the Province would be justified, and (3) the Province's commitment to (i) a tax regime that will apply to the Voisey's Bay property, (ii) electric power rates for the Voisey's Bay property, and (iii) the issuance of the necessary permits and authorizations to enable the Voisey's Bay property to proceed. The definitive agreements also provide for programs and arrangements relating to employment and industrial benefits in connection with the construction and related aspects of the Voisey's Bay property. In addition, the definitive agreements include specific sanctions if VBNC and Inco were not to meet certain of its contractual obligations under such agreements, including the effective forfeiture of its lease to conduct mining operations in the Province. All of the conditions to the completion of the definitive agreements, including securing acceptable financing arrangements, completing the feasibility study and the finalization and execution of the tax agreement among the Provincial Government, Inco and VBNC, have been met.

The Voisey's Bay property is located in an area which is subject to recognized aboriginal land claims. Effective July 29, 2002, the Labrador Inuit Association (the "LIA") and the Innu of Labrador, represented by the Innu Nation, ratified agreements with Inco and VBNC with respect to: (1) certain payments to be made to each of the LIA and Innu Nation by VBNC over the life of the project, (2) programs related to training, employment and business opportunities to be created for the LIA and Innu Nation, and (3) the participation of each of the LIA and Innu Nation in environmental and certain other programs and procedures relating to the Voisey's Bay property.

#### *Accessibility, Climate, Local Resource, Infrastructure and Physiography*

Recent public statements and project updates by VBNC and Inco indicate that a network of raised-gravel roads from the port at Edward's Cove in Anaktalak Bay now provides access to the Voisey's Bay property. Access is also available from an all-weather 1,600 meter gravel-surfaced airstrip. During the shipping season (January to April, June to December), the nearest community, Nain, is serviced by coastal freighter.

Northern Labrador represents a transition zone between Arctic and sub-Arctic climates. In the fall and winter seasons, intense, low-pressure weather systems commonly bring gale to storm-force winds and heavy snow to the northern coast of Labrador. Winds tend to be more moderate in summer. The Voisey's Bay area has experienced an average annual total precipitation of approximately 845 mm, comprised of 398 mm of rain and 447 mm of snow. Typical of northern regions of Canada, the coldest months in the Voisey's Bay area are January and February, when daily temperatures average -17°C. July and August are the warmest months, with average temperatures of +10°C. Seasonal extremes range between -39°C and +32°C.

The Main Block is generally sparsely treed with barren highlands to the east and west. A central, north-south trending valley runs throughout, which is well treed, has widely spaced string bogs and is covered by thick overburden. The mountainous region to the west is drained by three brooks, which empty through rocky, steep-sided valleys into Voisey's Bay. Elevations on the Main Block extend from sea level to 175 meters at Discovery Hill and to 225 meters at the Eastern Deeps. Maximum elevations in the area of the Voisey's Bay property are found at Anaktalak Bay, with hills up to 500 meters.

#### *History and Development Plan*

What is now the Voisey's Bay property was discovered in September 1993 by Archean, working on behalf of DFR during the course of a regional exploration program. A gossan was discovered at what became known as Discovery Hill that sampled up to 6% Cu and up to 3% Ni. Claims were staked in early 1994 and Archean then performed an

initial ground horizontal-loop electromagnetic and magnetometer survey over the Discovery Hill and Ovoid deposits. Drilling began in October 1994. Hole VB94-02 intersected 71 meters grading 2.23% Ni, 1.47% Cu and 0.12% Co. In January 1995, DFR reported the first intersection for the Ovoid deposit: DDH VB95-07 intersected 104.3 meters of massive sulphide. In June 1995, Inco acquired a 25% interest in VBNC and an approximate 7% interest in DFR. Baseline studies were then commenced. In August 1996, Inco acquired the balance of VBNC. VBNC is now a wholly-owned subsidiary of Inco.

By November 1996, VBNC and Inco had selected the smelter and refining complex site for processing concentrates from the Voisey's Bay property. By August 1999, the mine and mill/concentrator area had been released from further environmental assessment. Negotiations with various governmental and aboriginal groups were pursued by VBNC and Inco. In January 1998 negotiations towards a commercial agreement were suspended but in June 2001 the Provincial Government, Inco and VBNC resumed negotiations towards a commercial agreement. The Statement of Principles was agreed upon on June 11, 2002. On October 7, 2002, definitive agreements were signed. On July 29, 2002 separate agreements between the LIA and Innu Nation with VBNC and Inco were ratified and made effective. Construction began in mid-2003 for the mine and concentrator. Inco began mining operations in the summer of 2005 and announced production of the first nickel concentrate from the mine in September 2005. In November 2005, Inco announced the first shipment of concentrate from Voisey's Bay and announced the completion of its first finished nickel from the Voisey's Bay mine in early January 2006. Full commercial production is expected to be achieved during 2006.

A summary of the drilling program on the Voisey's Bay property is taken from the Inco Report and is summarized in the table below.

Voisey's Bay Summary of Drilling					
Period	Purpose	Holes	Meters	Core Size	Assayed Samples
<b>Ovoid / Mini-Ovoid Drilling</b>					
1994-1998	Exploration	108	19,524	NQ	5,523
1995	Metallurgical Bulk Sample	29	4,436	HQ	257
1997	Metallurgical Bulk Sample	34	2,765	PQ	0
1997-1998	Pit Delineation Program	20	1,706	NQ	367
1997	Pit Wall Design	4	704	NQ	0
1997	Soil Testing	8	491	NQ, BQ	0
2002	Metallurgical Bulk Sample	63	6,605	PQ	0
2002	Pit Delineation Program	17	1,690	NQ	991
<b>Total</b>		<b>266</b>	<b>37,957</b>		<b>6,147</b>
<b>Southeast Extension Drilling</b>					
1995-1998	Exploration	37	8,236	NQ	3,454
1997	Soil Testing	2	319	NQ, BQ	4
1997	Pit Delineation	3	259	NQ	105
1997	Exploration	5	639	NQ	162
2002	Exploration & Metallurgy	7	1,250	NQ	566
<b>Total</b>		<b>55</b>	<b>10,703</b>		<b>4,291</b>

### *Regional Geology*

The regional geology is dominated by juxtaposed terranes of Archean and Proterozoic gneisses, extensively intruded by suites of troctolitic, gabbroic/anorthositic and granitic plutonic rocks.

The major structural feature in the region is a north-south trending collisional suture, juxtaposing Archean Nain Province gneisses to the east with Lower Proterozoic Churchill Province gneisses to the west. The crustal suture was formed more than 1,800 million years ago.

The next major geological event occurred between 1,350 and 1,290 million years ago, when the area was intruded by massive volumes of magma resulting in the emplacement of widespread, batholithic intrusions. These intrusions, collectively referred to as the Nain Plutonic Suite, include a spectrum of igneous rock types but consist mainly of anorthosite, troctolite, diorite and granite.

The gneisses and intrusive rocks of the Nain Plutonic Suite have been cut by a series of regional east-west lineaments, many of which show significant movement, and some of which cut and displace portions of the Nain Plutonic Suite. Otherwise, there has been no major deformation since the emplacement of the Nain Plutonic Suite. Mafic dikes occupy parts of these east-west structures.

The Voisey's Bay deposit occurs in three intrusions. The first comprises the large, easterly plunging, troctolite chamber overlying the Eastern Deeps deposit. The second is the troctolite dike, commonly referred to as the "feeder dike" or "conduit". It extends north of the Eastern Deeps deposit as a thin, flat-lying body and then westward, with progressively steeper northerly dips eventually overturning to steep southerly dips. The Ovoid, Mini-Ovoid and Discovery Hill deposits occur in the steep, north-dipping segment while the Reid Brook deposit occurs in the south-dipping portion. The "conduit" ultimately approaches the top of the third body, the Western Deeps troctolite chamber below the Reid Brook deposit at a depth of about 1,000 meters. The feeder dike joins the two chambers.

#### *Mineralization*

There are four principal types of sulphide mineralization at Voisey's Bay: massive, leopard-textured, basal breccia, and disseminated in variable troctolite. The last three types are interfingering and cannot be correlated as distinct units. They have been combined and classified as disseminated sulphide in the geological model for the Ovoid, Mini-Ovoid and Southeast Extension deposits. For the mineral resource estimates, the mineralization has been divided into two domains: massive sulphide and disseminated sulphides. The contact between the massive and disseminated sulphides is sharp with very little inter-fingering.

Current work has divided the Voisey's Bay property into six deposits: Discovery Hill, Eastern Deeps, Mini-Ovoid, Ovoid, Reid Brook, and Southeast Extension. Deposits that occur within the feeder include the Reid Brook, Discovery Hill and the Ovoid/Mini-Ovoid. The Eastern Deeps deposit occurs at the junction of a feeder dike with the Eastern Deeps chamber. The Ovoid and Mini-Ovoid deposits and a portion of the southeast extension deposit constitute the mineralization contained within the proposed open pit for Phase I of the Voisey's Bay property.

The Ovoid and Mini-Ovoid deposits form an elongate, tadpole-shaped feature with a length of 800 meters along a west-northwest axis and a maximum width of 350 meters, narrowing to less than 50 meters at its northwestern end. Toward the western extension of the Ovoid deposit, the deposit becomes more elongate or trough-like in transition to the more dike-like form of the Discovery Hill deposit. This area is known as the Mini-Ovoid deposit. In the southeast corner of the Ovoid deposit, mineralized troctolite and basal breccias extend over a buried ridge of footwall gneiss that separates the Ovoid deposit from the Eastern Deeps deposit. The Southeastern Extension mineralization averages between 50 and 100 meters thick and subcrops at the southeast end of the Ovoid deposit, plunging eastward to a depth of 450 meters.

Nickel distribution in massive sulphide is consistent throughout the Ovoid and Mini-Ovoid deposits. Overall, the massive sulphide is composed of approximately 75% pyrrhotite/troilite, 12% pentlandite, 9% chalcopyrite/cubanite and contains 5% magnetite.

Because cobalt grades are closely correlated with those of nickel, cobalt shows a very similar pattern to nickel. The significant concentration of cobalt in pentlandite suggests that nearly all cobalt occurs in this mineral.

Copper grades are considerably more variable than those of nickel. Copper grades in massive sulphide are highest along the southwest side and central portion and lowest along the west, north and east sides of the Ovoid deposit.

### *Sampling and Analysis: Security of Samples*

Inco has reported that all diamond drill holes were securely boxed at the drill site and transported to the exploration camp via helicopter by Archean and/or VBNC personnel. Geologists would then log the holes recording lithology, descriptive text, structure, sulphide percentages and mineralogy. The data was input into a BORIS™ electronic database that interacts with the sample assay database. A comprehensive training project insured that new personnel followed consistent logging and sampling practices.

All samples were appropriately flagged in the core boxes and a standardized sample labelling protocol was employed with the core split and preserved for future work. Systematic collection of geotechnical data began in July 1995. Data recorded included core recovery, rock quality designation, fracture frequency, characteristics and attitude, point load data, magnetic susceptibility and resistivity. Efforts were made to take duplicate samples for analysis. In 2002, an audit of the database was conducted and no sampling errors were found. In addition, photographs were taken of all core. According to the Inco Report, "The authors are not aware of any factors in the sampling procedures that could materially impact the accuracy/reliability of the mineral resource and mineral reserve estimates set forth in their report." The sample checks have demonstrated that the samples are representative of the mineralization and that there is no bias in the sampling.

Chemical analysis of sample pulps from all phases of diamond drilling at the Ovoid deposit were carried out by Chemex Labs Ltd. ("Chemex") in Vancouver.

In 1995, Teck Corporation conducted a program of check analyses as part of its work. A total of 200 samples from five holes in the Ovoid deposit previously analyzed by Chemex were re-analyzed by independent assay laboratories. The program conducted by Teck Corporation corroborated Chemex's nickel and copper assays but found a bias in cobalt values. Inco carried out a similar program in 1996 and found a similar bias. The cause of the bias in cobalt analyses was identified and previous results corrected.

### *Mineral Resources and Reserves*

A mineral resource model was completed in January 1998 and upgraded to include the Southeast Extension deposit in April 1999. This mineral resource model formed the basis for the mineral reserve estimate and mine plan used in the Inco March 2003 feasibility study and reported in the Inco Report. The mineral resource estimate has been classified in accordance with the CIM Standards of Mineral Resources and Reserves Definitions and Guidelines as set out in NI 43-101.

The following historical table was taken from the Inco Report:

<b>Voisey's Bay Mineral Resource Estimate</b>					
<b>Zone</b>	<b>Tonnes</b>	<b>Ni</b>	<b>Cu</b>	<b>Co</b>	<b>Category</b>
Ovoid/Mini-Ovoid Massive	21,280,000	3.72%	2.17%	0.184%	Measured
Ovoid/Mini-Ovoid Disseminated	8,030,000	1.00%	0.67%	0.055%	Measured
Total Ovoid/Mini-Ovoid <sup>(1)</sup>	29,310,000	2.97%	1.76%	0.149%	Measured
Southeast Extension <sup>(2)</sup>	2,600,000	0.81%	0.47%	0.038%	Indicated
<b>Total Measured and Indicated</b>	<b>31,910,000</b>	<b>2.79%</b>	<b>1.65%</b>	<b>0.140%</b>	

<sup>(1)</sup> All the blocks in the model are reported as a mineral resource i.e. no cut-off grade applied.

<sup>(2)</sup> Assuming selective mining of 10 x 10 x 5 meter blocks based on a 0.5% Ni cut-off grade.

Inco's calculation of a mineral reserve represents a recovery of 95% of the mineral resource estimate. The open pit deposits used a 10 x 10 x 5 meter high block size.

According to the Inco Report, the assumptions in the table below were only for open pit design used to derive the ultimate pit design as of August 31, 2003.

Inco's Voisey's Bay Economic Parameters for Ultimate Pit Definition	
Nickel Price	\$3.00/lb
Copper Price	\$0.90/lb
Cobalt Price	\$7.00/lb
Exchange Rate	US\$0.66 = CA\$1.00
Mining Cost	CA\$3.34/tonne material
Milling Cost	CA\$13.01/tonne ore
Pit Slope	Hard rock slope angles varied from 43-53°; overburden slopes set at 17°
General and Administrative Costs (including on-site and off-site charges and are generally fixed costs)	CA\$13.33/tonne ore
Mill Recoveries and Concentrate Grades	100% massive sulphide recovery in open pit and a 72.4% recovery of the disseminated sulphide resource. The Total Resource recovered and planned to be sent to the mill is estimated to be 29 million tonnes grading 2.99% Ni, 1.76% Cu and 0.15% Co.
Smelting-Refining-Freight	Includes allowances for penalties for deleterious elements (nickel in the copper concentrate).
Other	Includes an allowance for the net smelter royalty payment to LNRLP and an Inco technical/management fee.

In its 2005 annual report to shareholders, Inco states that the Voisey's Bay project involves, as of December 31, 2005, an estimated indicated resource of 40 million tonnes grading 1.89% Ni, 0.90% Cu and 0.12% Co and an estimated inferred resource of 6 million tonnes grading 2.30% Ni, 1.00% Cu and 0.20% Co which are to be mined by both open pit and underground methods, in addition to its reported open pit proven reserves and probable reserves of 32 million tonnes grading 2.75% Ni, 1.59% Cu and 0.14% Co for the Ovoid, Mini-Ovoid and Southeast Extension deposits.

### Operations

#### Mining Operations

According to the Inco Report, the following planned production schedule was used for purposes of mining the Reserves as of August 31, 2003:

Voisey's Bay Proposed Mining Schedule								
Mining Year	Block NSR Cut-off per tonne (CA\$)	Mineral Reserves				Waste		Annual Total tonnes '000s
		Ore tonnes '000s	Mill Head Grade			Rock tonnes '000s	Overburden tonnes '000s	
			Ni-%	Cu-%	Co-%			
2003-2005							6,200	6,200
2006	20.00	1,612	3.35	2.18	0.157	200	1,188	3,000
2007	15.00	1,944	3.67	2.33	0.172	77	2,579	4,600

Voisey's Bay Proposed Mining Schedule								
Mining Year	Block NSR Cut-off per tonne (CAS)	Mineral Reserves				Waste		Annual Total tonnes '000s
		Ore tonnes '000s	Mill Head Grade			Rock tonnes '000s	Overburden tonnes '000s	
			Ni-%	Cu-%	Co-%			
2008	15.00	2,016	3.56	2.22	0.167	418	2,166	4,600
2009	15.00	2,131	3.33	1.89	0.165	1,441	1,028	4,600
2010	25.00	2,190	3.25	1.78	0.161	1,579	831	4,600
2011	25.00	2,190	3.25	1.90	0.160	1,619	2,391	6,200
2012	35.00	2,190	3.36	1.98	0.154	1,750	2,260	6,200
2013	32.00	2,400	3.08	1.67	0.156	2,295	1,505	6,200
2014	13.01	2,625	2.23	1.27	0.119	3,029	546	6,200
2015	13.01	2,625	2.23	1.29	0.115	2,257	118	5,000
2016	13.01	2,625	2.23	1.27	0.115	1,375	0	4,000
2017	13.01	2,554	2.30	1.36	0.119	1,446	0	4,000
2018	13.01	2,595	2.25	1.35	0.118	1,760	0	4,355
2019	13.01	722	2.34	1.30	0.123	267	0	989
<b>Total / Average:</b>		<b>30,419</b>	<b>2.85</b>	<b>1.68</b>	<b>0.142</b>	<b>19,513</b>	<b>20,812</b>	<b>70,744</b>

The Ovoid deposit is planned to be mined utilizing conventional open pit methods. According to the Inco Report, VBNC intends to drill on five meter benches, with final walls being double (or quadruple) benched. Material is planned to be loaded into 50 tonne haul trucks using wheel loaders and ore is planned to be hauled to the primary crusher located at the mill. Waste rock and overburden is planned to be hauled and deposited on dumps located within close proximity to the pit.

### *Processing*

The selected metallurgical process for the concentrate is planned to include conventional crushing, wet grinding and differential flotation, using slaked lime for pH control throughout the circuit, to produce high-grade and middling nickel concentrates and a copper concentrate. It is expected that thickeners and pressure filters will dewater these concentrates to produce damp filter cake for shipment to the property port and beyond. The concentrator plant is planned to commence operations at a feed rate of 6,000 tonnes per day and is planned to be upgraded to 7,200 tonnes per day in the second half of the Ovoid deposit mine life as the ore grade decreases.

The Inco Report estimates total capital costs to be CA\$2.33 billion over the life of the Voisey's Bay project, of which approximately CA\$900 million will be spent on Phase I. The only phase of the Voisey's Bay project that is addressed in great detail in the Inco Report as of August 31, 2003 is Phase I.

Inco estimates, in the Inco Report, that the operating costs per pound of nickel for Phase I of the Voisey's Bay project to be incurred by VBNC are \$0.93/lb Ni net of by-product credits and \$1.65/lb Ni excluding by-product credits. On a cost per tonne of ore basis, the distribution of these on-site costs are presented below.

<b>Voisey's Bay Estimated Operating Costs</b>	
<b>Operating Costs</b>	<b>CAS/Tonne Ore</b>
Mining	8.68
Concentrator	12.60
VBNC General and Administrative	17.33
Owner's Costs	2.14
Freight to Supply Site	4.57
<b>Total Operating Costs</b>	<b>45.32</b>

Inco projected, in the Inco Report, that if the hydromet technology is commercially feasible, the processing costs to be incurred by VBNC over the period of operation of that facility are estimated to be CA\$33.06 per tonne of ore processed.

During Phase I of the Voisey's Bay project, the property is expected to produce two nickel concentrates which will also contain cobalt and which are to be processed at Inco's Sudbury and Thompson operations until the hydromet commercial plant is operational in 2012 and thereafter (Phase II) the property will produce finished nickel and cobalt products, subject to hydromet processing technologies meeting certain technological and/or economic feasibility requirements. Copper concentrate is expected to be produced and sold to companies with copper smelting and refining facilities over the life of the Voisey's Bay project.

According to the Inco Report, over Phase I, the Voisey's Bay mine project is expected to produce an average of 110 million pounds of nickel per year plus 85 million pounds of copper and 5 million pounds of cobalt per year.

The Voisey's Bay Royalty is expected to begin paying during 2006. During the first 13 years of operations of the Voisey's Bay property, the Company projects that its share of the proceeds payable to LNRLP will range from CA\$14.02 to CA\$21.40 million per year, with an average of CA\$16.40 million per year on a pre-tax basis, after withholding of the Labrador mineral royalty tax, and assuming a US\$/CA\$ exchange rate of 0.75. The Voisey's Bay Royalty is most sensitive to nickel prices.

The cash flow model in the table below as set out in the Qualifying Report assumes different prices from those set out in the Inco Report.

**Voisey's Bay Property Cash Flow**  
(calculated with respect to the Company's indirect 2.7% interest) taken from the Qualifying Report

	Units	Total or Avg.	Pre-production... 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Metal Prices</b>																	
Nickel	S/lb	4.40	-	-	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Copper	S/lb	1.00	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cobalt	S/lb	15.00	-	-	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Ore Treated	kt	29,697	0	0	1,612	1,944	2,016	2,131	2,190	2,190	2,190	2,400	2,625	2,625	2,625	2,554	2,595
<b>Tons Processed</b>																	
<b>Ore Grade</b>																	
Nickel	%	2.86%	0.00%	0.00%	3.35%	3.67%	3.56%	3.33%	3.25%	3.25%	3.36%	3.08%	2.23%	2.23%	2.23%	2.30%	2.25%
Copper	%	1.68%	0.00%	0.00%	2.18%	2.33%	2.22%	1.89%	1.78%	1.90%	1.98%	1.67%	1.27%	1.29%	1.27%	1.36%	1.36%
Cobalt	%	0.14%	0.00%	0.00%	0.16%	0.17%	0.17%	0.17%	0.17%	0.16%	0.15%	0.16%	0.12%	0.12%	0.12%	0.12%	0.12%
<b>Contained Metal</b>																	
Nickel	kilb	1,875,397	0	0	119,053	157,287	158,223	156,443	156,912	156,912	162,223	162,964	129,052	129,052	129,052	129,503	128,721
Copper	kilb	1,102,445	0	0	71,473	99,858	98,667	88,792	85,940	91,733	95,596	88,360	73,496	74,653	73,496	76,575	77,805
Cobalt	kilb	93,784	0	0	5,686	7,286	7,556	7,987	8,208	7,725	7,435	8,254	6,887	6,655	6,655	6,700	6,751
<b>Process</b>																	
Nickel Concentrate	K dmt	3,864	0	0	241	316	319	321	322	320	329	334	261	280	281	280	261
Copper Concentrate	K dmt	1,313	0	0	92	118	117	106	102	109	114	105	88	89	88	91	93
Tails	K dmt	24,520	0	0	1,279	1,510	1,581	1,705	1,766	1,761	1,747	1,961	2,276	2,256	2,256	2,183	2,240
Total	K dmt	29,697	0	0	1,612	1,944	2,016	2,131	2,190	2,190	2,190	2,400	2,625	2,625	2,625	2,554	2,595
<b>Gross Revenue</b>																	
Nickel Concentrate	\$000	7,993,115	0	0	595,214	790,371	656,832	651,749	652,600	652,307	668,589	677,978	531,061	528,178	528,141	531,421	528,674
Copper Concentrate	\$000	897,795	0	0	63,386	81,677	80,824	72,553	69,950	74,998	78,251	72,072	59,542	60,211	59,361	61,882	63,089
Total	\$000	8,890,910	0	0	658,600	872,048	737,656	724,302	722,551	727,305	746,840	750,051	590,602	588,388	587,502	593,303	591,763
<b>Smelting, Refining, Freight &amp; Marketing Costs</b>																	
Total	\$000	1,487,617	0	0	98,132	129,110	129,457	126,591	126,165	127,294	125,935	124,863	98,259	100,668	100,632	101,364	99,146
Net Smelter Return	\$000	7,403,293	0	0	560,468	742,938	608,199	597,711	596,385	600,010	620,904	625,187	492,343	487,721	486,870	491,939	492,617
<b>NSR Royalty Cash Flow</b>																	
Royalty @ 2.7%	\$000	199,889	0	0	15,133	20,059	16,421	16,138	16,102	16,200	16,764	16,880	13,293	13,168	13,145	13,282	13,301
<b>Costs</b>																	
Acquisition	\$000	135,000	135,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Labrador Tax @ 20%	\$000	39,978	0	0	3,027	4,012	3,284	3,228	3,220	3,240	3,353	3,376	2,659	2,634	2,629	2,656	2,660
Costs	\$000	174,978	135,000	0	3,027	4,012	3,284	3,228	3,220	3,240	3,353	3,376	2,659	2,634	2,629	2,656	2,660
Royalty Cash Flow*	\$000	159,911	(135,000)	0	12,106	16,047	13,137	12,911	12,882	12,960	13,412	13,504	10,635	10,535	10,516	10,626	10,641
CASH000	CASH000	213,215	(180,000)	0	16,141	21,397	17,516	17,214	17,176	17,280	17,882	18,005	14,179	14,046	14,022	14,168	14,187
	CASH00=US\$0.75																

\*For Years 2006 - 2018 only

*Expected Royalty Cash Flow Sensitivity to Nickel Price*

2006 Ni Price (\$/Lb)					2007 Ni Price (\$/Lb)				
\$3.00	\$4.00	\$5.00	\$6.00	\$7.00	\$3.00	\$4.00	\$5.00	\$6.00	\$7.00
Revenues (\$ millions)					Revenues (\$ millions)				
7.68	9.89	12.11	14.32	16.54	10.16	13.10	16.05	18.99	21.93

**Williams Royalty**

The following information relating to the Williams gold mine (the "Williams Mine") was taken from information publicly disclosed by Teck Cominco Limited ("Teck Cominco") including Teck Cominco's 2004 annual information form dated March 22, 2005. Teck Cominco has not reviewed this annual information form and takes no responsibility nor assumes any liability for the statements included herein. No express or implied representation or warranty has been made by Teck Cominco that the contents of this annual information form are verified, accurate, suitably qualified, reasonable or free from errors, omissions or other defects.

The Company owns a 0.25% NSR royalty (the "Williams Royalty") on the Williams Mine in the Township of Bomby, District of Thunder Bay, Ontario, Canada, approximately 35 kilometers east of the town of Marathon. The Williams Mine is currently owned and operated equally by Teck Cominco and Homestake Canada Inc., a wholly-owned subsidiary of Barrick Gold Corporation, and is subject to a total 2.25% NSR royalty. The Williams Mine has been operating since the fall of 1985.

The Company acquired the Williams Royalty on August 12, 2003 from an individual for cash consideration of \$2,876,722 and the issuance of the Williams Mine Warrants.

The Williams Mine is comprised of 11 patented claims and six leased claims covering approximately 270 hectares. These claims include: TB 32051, TB 32052, TB 32053, TB 32054, TB 32154, TB 32155, TB 32055, TB 32156, TB 32157, TB 32158, and TB 32159.

The Williams Mine lies adjacent to the Trans-Canada Highway in the Hemlo Mining District and operates throughout the year. The Williams Mine operates under certificates of approval for industrial wastewater and air, which are administered by the provincial regulatory authorities, and all necessary permits and certificates that are material to the operation are in place.

The Williams Mine has been in continuous production since December 1985 with the following results:

**Williams Mine Historical Production**

Year	Tonnes Milled ('000)	Gold Grade G/T	Recovery Rate %	Gold Ounces ('000)	Cash Costs <sup>(1)</sup> \$/Oz
1985	149	N/A	N/A	10	N/A
1986	1,356	5.3	91.7	233	223
1987	1,224	7.6	94.2	281	194
1988	1,542	8.1	94.2	379	194
1989	1,923	8.4	95.0	494	194
1990	2,281	8.5	95.0	594	164
1991	2,185	7.8	95.0	519	174
1992	2,300	7.0	95.4	497	188
1993	2,320	6.9	95.4	492	186
1994	2,303	6.3	95.4	445	191

**Williams Mine Historical Production**

<b>Year</b>	<b>Tonnes Milled ('000)</b>	<b>Gold Grade G/T</b>	<b>Recovery Rate %</b>	<b>Gold Ounces ('000)</b>	<b>Cash Costs<sup>(1)</sup> \$/Oz</b>
1995	2,366	5.6	95.0	405	216
1996	2,343	5.7	95.3	411	218
1997	2,409	5.5	94.9	402	224
1998	2,468	5.2	94.7	390	212
1999	2,432	5.7	95.2	424	200
2000	2,497	5.4	95.0	414	192
2001	3,038	4.9	93.1	446	187
2002	3,029	4.4	94.6	405	219
2003 <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A
2004 <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A
2005 <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A

<sup>(1)</sup> During this period of time, the definition of cash cost has been standardized. Therefore, the earlier cash costs may not be directly comparable on a year-to-year basis.

<sup>(2)</sup> Since 2003, the operator has commingled ore from the Williams Mine and the David Bell mine and does not provide data specific to the Williams Mine.

As of December 31, 2005, Teck Cominco reported in its 2005 annual report that the Williams Mine hosted underground proven and probable reserves of 3,980,000 tonnes grading 5.38 g/t Au and open pit proven and probable reserves totalling 13,720,000 tonnes grading 1.82 g/t Au. These reserves were calculated using a \$425 per ounce gold price. Measured and indicated resources total 2,620,000 tonnes grading 5.10 g/t Au. An additional inferred resources of 5,120,000 tonnes grading 4.91 g/t Au is also reported.

The Williams Mine is primarily an underground operation with some open-pit mining. The underground mine is accessed by a 1,300 meter production shaft and mining is carried out by long hole stoping with paste backfill.

The Williams Mine and the David Bell mine share milling, processing and tailings facilities. Crushed ore is conveyed from the mine head frame to a coarse ore bin. The coarse ore is then conveyed to a two-stage semi-autogenous ball mill run in conjunction with a ball mill. After grinding, the pulp is thickened prior to pre-aeration and leaching for gold extraction by carbon-in-pulp processes. The carbon is then stripped of its gold content and the gold is recovered by electrowinning. Approximately 20% of the gold is recovered by a gravity circuit. The recovered gold is smelted into doré on site and shipped to an outside refinery for processing into bullion.

The Williams mill was initially commissioned at a processing rate of approximately 3,000 tonnes per day and capacity was expanded to 6,000 tonnes per day in late 1988. The Williams mill presently operates at the rate of approximately 10,000 tonnes per day. According to Teck Cominco, the Williams Mine has a remaining mine life of over 10 years.

Power for the operation at the Williams Mine is taken from the Ontario Hydro grid. Water requirements are sourced from Cedar Creek. Personnel from the Williams Mine live in nearby areas, with the majority living in Marathon, Ontario.

In 2002, a new tertiary grinding circuit was commissioned successfully in the first quarter. This increased the fineness of grind and allowed gold recovery rates to return to historical levels at the current milling rate. The \$8 million project was completed in 26 weeks, ahead of schedule and under budget.

During the past five years, the Williams Royalty has paid the following amounts:

Williams Mine Royalty Receipts		
Year	Royalty Receipts CAS	Gold Price US\$/Oz <sup>(2)</sup>
2001 <sup>(1)</sup>	472,721	270.99
2002 <sup>(1)</sup>	490,421	309.97
2003 <sup>(1)</sup>	562,004	363.51
2004	463,753	409.15
2005	471,447	444.68

<sup>(1)</sup> Amounts paid to the previous owner. The Company began to receive the Williams Royalty payments in the third quarter of 2003. Of the CA\$562,004 paid in 2003, CA\$238,799 was received by the Company.

<sup>(2)</sup> Simple average of the annual London Gold P.M. Fix.

### Other Royalty Interests

#### *Livermore Royalty Portfolio*

On January 10, 2005, the Company acquired royalty interests on the Pinson gold and the Hasbrouck Mountain gold-silver deposits, both in Nevada, United States from John S. Livermore for cash consideration of \$520,000.

A brief description (including the name of the property subject to each royalty) of the royalties acquired by the Company from John S. Livermore is provided below.

Livermore Royalty Portfolio					
Property	Location	Royalty	Operator	Status	Commodity
Hasbrouck Mountain	Nevada, United States	1.5% NSR	Vista Gold Corporation	Feasibility	Au, Ag
Pinson	Nevada, United States	3.0% NSR	Atna Resources	Exploration	Au

Neither of the royalties acquired from John S. Livermore is subject to any buy-down right, claw-back right or pre-emptive right.

According to publicly disclosed information, Atna Resources Ltd. ("Atna"), the operator of the Pinson property, which is located in the Getchell trend of Nevada, is acquiring an initial 70% in the property by spending \$12 million over four years with a commitment to spend \$1.5 million in the first year. Upon Atna's vesting with a 70% interest and delivering a preliminary feasibility study, Barrick Gold Corporation, through its wholly-owned subsidiary, Pinson Mining Company, may elect to: (1) back in to a 70% interest by spending an additional \$30 million on the property over a three year period, or (2) form a 70:30 joint venture, with Atna holding a 70% interest as operator and each party contributing its share of further expenditures, or (3) sell its remaining 30% interest to Atna for \$15 million. Atna intends to explore the potential for the underground development of several known zones of high-grade mineralization that dip below the historic Pinson open pit mines and are believed to potentially host in excess of one million ounces of gold. The drilling of a total of 29 holes, including 20,000 meters of reverse circulation pre-collars and 10,000 feet of core tails, was started in 2004.

Table 1-1: Mineral Resource, Combined CX and Range Front Zones <sup>(1)</sup>

<u>Category</u>	<u>Cut-off (Au opt)</u>	<u>Tons (000)</u>	<u>Grade (Au opt)</u>	<u>Contained Au (koz)</u>
Measured	0.15	445	0.27	119
	0.20	319	0.30	97
	0.25	213	0.34	73
	0.30	130	0.39	50
Indicated	0.15	1,313	0.30	400
	0.20	1,148	0.32	371
	0.25	860	0.36	305
	0.30	585	0.39	230
<b>Measured + Indicated</b>	<b>0.15</b>	<b>1,758</b>	<b>0.30</b>	<b>519</b>
	<b>0.20</b>	<b>1,467</b>	<b>0.32</b>	<b>467</b>
	<b>0.25</b>	<b>1,073</b>	<b>0.35</b>	<b>379</b>
	<b>0.30</b>	<b>715</b>	<b>0.39</b>	<b>281</b>
Inferred	0.15	4,211	0.32	1,332
	0.20	3,889	0.33	1,273
	0.25	3,054	0.36	1,084
	0.30	1,612	0.43	690
<b>Grand Total</b>	<b>0.15</b>	<b>5,969</b>	<b>0.31</b>	<b>1,851</b>
	<b>0.20</b>	<b>5,356</b>	<b>0.33</b>	<b>1,741</b>
	<b>0.25</b>	<b>4,126</b>	<b>0.35</b>	<b>1,463</b>
	<b>0.30</b>	<b>2,327</b>	<b>0.42</b>	<b>971</b>

<sup>(1)</sup> Source: Atna Resources Ltd. technical report on the Pinson Gold Property dated March 24, 2005.

Since February 2005, Atna has announced large exploration and development budgets at the Pinson Gold Project. It has accelerated its option expenditure commitments of US\$12.0 million over four years to vest by year-end 2005, some 30 months in advance of its original obligations. In 2005, Atna drilled 12,100 meters, and completed over 917 meters of underground workings and metallurgical bench testing. Atna is assembling technical data to advance the project toward a prefeasibility study by verifying resources through underground work. Completion of technical studies to support the prefeasibility study are expected sometime in 2006. Atna has accelerated the expected production start date to July of 2006. Production plans include underground mining, and transportation of raw ore to a local processing autoclave facility.

The additional drilling in 2005 has added more mineralization, including a new mineralized structure between the CX and Range Front Zones, called the Ogee Zone. The Ogee Zone was cut by the new underground adit driven by Atna from the eastern CX Pit wall to test underground rock conditions and provide drill stations to test continuity of mineralized structures. Assays of the Ogee Zone in the walls of the adit returned results of more than 0.68 ounces per ton gold over greater than 35 feet in both walls of the adit.

#### *Hecla Mining Company Royalty Portfolio*

On February 22, 2005, the Company acquired from Hecla Mining Company ("Hecla") a portfolio of 14 mineral royalties. The purchase price was \$550,000 payable by the issue of 158,566 Common Shares valued at the IPO Price. Hecla has agreed to provide the Company with a right of first offer with respect to the Common Shares issued to Hecla for the purchase of the 14 mineral royalties.

A brief description (including the name of the property subject to each royalty) of the royalties acquired by the Company from Hecla is provided below.

Hecla Mining Company Royalty Portfolio					
Property	Location	Royalty	Operator	Status	Commodity
Alto Dorado	Peru	2.5% NSR	Candente Resource Corp	Exploration	Au, Cu
Ambrosia Lake	New Mexico, United States	2.0% GOR	Unknown	Exploration	U
Apex	Utah, United States	3.0% Capped NSR	Unknown	Exploration	Ga, Ge, Cu
Clear	Nevada, United States	3.0% NSR	Minefinders Corp.	Exploration	Au
Dottie	Nevada, United States	3.0% NSR	Minefinders Corp.	Exploration	Au
Gutsy	Nevada, United States	3.0% NSR	Minefinders Corp.	Exploration	Au
Liard / Schaft Creek	British Columbia, Canada	3.5% NPR	Teck Cominco	Exploration	Cu, Mo, Au
Longton/ Triple W	Oklahoma, United States	0.0625% Working Interest	Geodome Petroleum	Producer	Oil
Oro Blanco	Arizona, United States	3.0% NSR	Minefinders Corp.	Exploration	Au, Ag
Soledad Mountain	California, United States	Capped Sliding Scale NSR	Golden Queen Mining	Feasibility	Au, Ag
Trenton Canyon	Nevada, United States	3.0% GR	Newmont Mining	Development	precious metals <sup>(1)</sup>
Trenton Canyon	Nevada, United States	10.0% NPI	Newmont Mining	Development	non-precious metals <sup>(2)</sup>
Wheeler 7U-1	Colorado, United States	0.00015672 Working Interest	Texaco Exploration	Producer	Gas
Yellowknife Lithium	Northwest Territories, Canada	2.0% NPR	Erex International	Exploration	Li

<sup>(1)</sup> Products from properties from which greater than 60% of the revenues are projected to be derived from the production and sale of gold and silver according to the feasibility study upon which a production decision is based.

<sup>(2)</sup> Products from properties from which less than 60% of the revenues are projected to be derived from the production and sale of gold and silver according to the feasibility study upon which a production decision is based.

With the exception of the royalty on the Alto Dorado gold-silver exploration property, which is subject to a buy-back right, none of the royalties acquired from Hecla are subject to any pre-emptive right, buy-back right or claw-back right.

A significant royalty in the Hecla portfolio is on the Alto Dorado property located in northern Peru. The operator, Candente Resources Corporation ("Candente"), has publicly reported that the current land position encompasses 2,400 hectares (6,000 acres) but the royalty also applies to an additional three

kilometer area of mutual interest. Candente publicly reported that on June 1, 2002, Candente entered into an agreement with Hecla to acquire a 100% interest in the Alto Dorado property for consideration including a 2.5% NSR royalty. If Candente sells any interest in the Alto Dorado property to another party, 25% of any cash payment or shares of any company (less annual vigencia payments) received as consideration are to be paid to the holder of the royalty if the sale is within the first year, declining to 20% if the sale is in the second year, 15% if the sale is in the third year and 10% if the sale is in the fourth year. The NSR royalty can be reduced from 2.5% to 1.0%, by paying the amount of \$1.5 million. The cash equivalent value of any consideration paid by Candente will be applied to the NSR royalty buy-back right.

Candente has also publicly reported that the Alto Dorado property hosts both high sulphidation and porphyry gold targets similar to those found at the Pierina and Yanacocha mines located in Peru and is located halfway between the Yanacocha and Pierina mines and 36 kilometers south-southeast of the Alto Chicama property.

The Alto Dorado property has no known Resources or Reserves.

On December 8, 2005, Candente announced that they have entered into an option agreement with Gallipoli Mining of Australia whereby Gallipoli can earn a 50% interest in the Alto Dorado property by incurring exploration expenditures of US\$5.4 million over 3.5 years on the property, Stages I and II. Gallipoli can also increase their interest to 65% by funding and completing a bankable feasibility study on the property within an additional 3 years.

In a press release dated February 28, 2006, Candente announced that results from the Stage I drilling program have confirmed the presence of a very extensive porphyry style copper system. In addition, two zones of high sulphidation alteration and mineralization (native sulphur, enargite, massive to vuggy silica and alunite) were intersected in the two northern most holes.

According to the February 28, 2006 press release, the largest and most northern one of three porphyry centres on the property was tested by this drilling. All six holes intersected typical porphyry style alteration and mineralization and two of the holes are believed to have been drilled over the centre of the system. It is believed that a higher grade core could lie beneath this area as the alteration and mineralization was getting stronger with depth. The following are highlights of the grades intersected:

Hole	From	To	Interval	Cu Grade (%)
AD06-010	0	463	463	0.15
	26	50	247	0.33
	306	342	36	0.34
within	306	322	16	0.44
within	312	318	6	0.70
AD06-011	310	325	15	1.08
within	310	315	5	0.57
within	317	325	8	1.65
AD06-014	208	227	19	0.32

#### *Hunter Exploration Group Royalty Portfolio*

On February 22, 2005, the Company acquired from parties represented by the Hunter Exploration Group (the "Hunter Group") one half of their interests in gross overriding royalties in respect of diamonds on approximately 20 million acres (8.297 million hectares) of prospective diamond exploration lands in Nunavut Territory in the eastern Arctic region of Canada. The purchase price for these 17 royalties was CA\$5 million paid by the issue of 1,162,791 of Common Shares valued at the IPO Price. The royalties acquired from the Hunter Group range from 1.0% to 1.25% GOR.

The Hunter Group acquisition took the form of four separate transactions, all dated February 22, 2005. These transactions were between the Company and:

- a) Stuart Angus, Henry Awmack, Bernice Kosiur, Donald McInnes, Catherine McLeod-Seltzer, Peter Robson, Kelly Taylor, John S. Brock Limited, Lawrence Barry, John Robins, Adam Vary, 344967 BC Ltd. and 524520 BC Ltd. ("Aviat One" transaction);
- b) 524520 BC Ltd., 344967 BC Ltd. and Adam Vary ("Melville" transaction);
- c) 524520 BC Ltd., 344967 BC Ltd. and Adam Vary ("Coronation" transaction); and
- d) 524520 BC Ltd., 344967 BC Ltd., Adam Vary, Bill Whitehead, Peter Robson, Stuart Angus, Graham Scott and John Robbins ("Dirty Shovel" transaction).

The consideration paid was allocated between each of the transactions as follows:

Transaction	Acquisition Cost (CA\$)	Number of Common Shares Issued
Aviat One	1,800,000	418,605
Melville	133,334	31,008
Coronation	3,000,000	697,674
Dirty Shovel	66,666	15,504
<b>Total</b>	<b>5,000,000</b>	<b>1,162,791</b>

A brief description (including the name of the property subject to each royalty) of the royalties acquired by the Company from the Hunter Group is provided below.

Hunter Exploration Group Royalty Portfolio					
Property	Location	Royalty	Operators	Commodity	Transaction
Aviat One	Melville Peninsula Nunavut, Canada	1% GOR	Stornoway Diamond BHP Billiton Hunter Exploration	Diamonds	Aviat One
Aviat Two	Melville Peninsula, Nunavut, Canada	1% GOR	Stornoway Diamond, BHP Billiton, Hunter Exploration	Diamonds	Melville
Barrow Lake and North Kellet River	Boothia Peninsula, Nunavut, Canada	1% GOR	Indicator Exploration Hunter Exploration	Diamonds	Coronation
Bear	Coronation Gulf, Nunavut, Canada	1% GOR	Stornoway Diamond Strongbow Exploration	Diamonds	Coronation
Boothia Peninsula	Boothia Peninsula Nunavut, Canada	1% GOR	Indicator Exploration Hunter Exploration	Diamonds	Coronation

Hunter Exploration Group Royalty Portfolio					
Property	Location	Royalty	Operators	Commodity	Transaction
Churchill	Churchill District, Nunavut, Canada	1% GOR	Shear Minerals Stornoway Diamond BHP Billiton	Diamonds	Coronation
Churchill West	Churchill District, Nunavut, Canada	1% GOR	International Samuel Shear Minerals Stornoway Diamond BHP Billiton	Diamonds	Coronation
Dirty Shovel	Melville, Nunavut, Canada	1% GOR	BHP Billiton	Diamonds	Dirty Shovel
Fury, Sarcpa and Gem	Melville Regional Nunavut, Canada	1% GOR	Strongbow Exploration NDT Ventures	Diamonds	Melville
Hayes River	Boothia Peninsula, Nunavut, Canada	1% GOR	Indicator Exploration Hunter Exploration	Diamonds	Coronation
Jewel	Coronation Gulf, Nunavut, Canada	1% GOR	Stornoway Diamond Strongbow Exploration	Diamonds	Coronation
Jubilee	Coronation Gulf, Nunavut, Canada	0.5% GOR	Stornoway Diamond International Samuel Nordic Diamonds	Diamonds	Coronation
Melville	Melville, Nunavut, Canada	1% GOR	Strongbow Exploration Stornoway Diamond Hunter Exploration	Diamonds	Melville
Naniruaq and Qulliq	Boothia Peninsula, Nunavut, Canada	1% GOR	Indicator Exploration International Samuel Hunter Exploration	Diamonds	Coronation
Peregrine	Coronation Gulf, Nunavut, Canada	1% GOR	Diamondex Resources Stornoway Diamond	Diamonds	Coronation
Princess, Marquis & Crown	Coronation Gulf, Nunavut Canada	1% GOR	Stornoway Diamond	Diamonds	Coronation
Repulse Bay Area	Boothia Peninsula, Nunavut, Canada	1% GOR	Indicator Exploration Hunter Exploration	Diamonds	Coronation

None of the royalties acquired from the Hunter Group are subject to pre-emptive or claw-back rights with the exception of Dirty Shovel, which is subject to a pre-emptive right. The following properties are subject to buy-back rights for the benefit of the operator of the property: Bear, Fury, Sarcpa and Gem, Jewel, Melville, Peregrine, and Princess, Marquis & Crown.

According to news releases dated September 21, 2005 and January 12, 2006 by Stornoway Diamond Corporation, exploration has successfully defined three new kimberlite pipes in addition to the six kimberlite pipes previously found on the Aviat One property, all of which are diamondiferous. On the Churchill and Churchill West properties 41 kimberlites have now been found (February 21, 2006 Stornoway Diamond Corporation press release). Further evaluation of the properties is scheduled for 2006, with drilling of specific anomalous areas.

Indicator Minerals Inc. ("IME") and its joint venture partner, the Hunter Group, announced on March 27, 2006 that 25.5kg of kimberlite float discovered on the Barrow Project ("Barrow") in the Nunavut Territory in 2005 has yielded 171 micro diamonds and five macro diamonds. In a press release dated March 27, 2006 IME stated:

"The 25.5kg sample was submitted to SRC Geoanalytical Laboratories ("SRC") for micro diamond analysis using caustic fusion. A total of 171 micro diamonds and five macro diamonds (defined as greater than or equal to 0.50mm in 2 dimensions) were recovered (see table below). SRC provided descriptions for diamonds down to 0.3mm. The majority were described as clear and colourless and were dominated by octahedral crystal form (see attached photograph or visit our website at [www.indicatorminerals.com](http://www.indicatorminerals.com)). The three largest diamonds measure as follows: 1.00mm x 0.50mm x 0.40mm, 0.84mm x 0.70mm x 0.38mm and 0.78mm x 0.58mm x 0.50 mm.

Sample	0.075	0.106	0.150	0.212	0.300	0.425	0.600	Total
UPR6401DK 25.5kg	mm							
Diamonds (i)	71	45	19	16	18	6	1	176

(i) As reported by Saskatchewan Research Council

The kimberlite float was discovered on the Barrow Project during the 2005 field season while following up high priority airborne geophysical targets and is part of the same occurrence from which a macro-diamond was recovered during the extraction of indicator minerals (see IME news release dated 27 September, 2005). IME is confident that the kimberlite float originated on its property; however, this cannot be definitively established without drilling."

#### ***BHP Billiton Royalty Portfolio***

On November 15, 2004, the Company signed a letter agreement with BHP Billiton World Exploration Inc. and several of its affiliates ("BHP Billiton") (superseded by a definitive agreement dated as of March 18, 2005) to acquire a mineral portfolio of 22 royalty interests. Consideration to be paid is \$1,230,000, consisting of \$605,000 to be paid in cash and \$625,000 in Common Shares valued at the IPO Price (180,189 Common Shares). On April 19, 2005, the Company completed the purchase of 14 royalties from BHPB for all of the Common Shares and \$65,000. An additional 5 royalties were closed on May 2, 2005 for consideration of \$510,000. The acquisition of three remaining royalties for \$30,000 is expected to be completed in the near future. The portfolio contains various types of royalties on five feasibility-stage and 18 exploration-stage properties being explored for copper, diamonds, gold, molybdenum, non-metallics, nickel, platinoids, silver or zinc. BHP Billiton has agreed to provide the Company with a right of first offer with respect to the Common Shares issued to BHP Billiton for the purchase of the mineral royalties. These properties are located predominantly in Canada but also are located in Brazil, Burkina Faso, Ghana, Mexico, Russia, Tunisia and the United States. A brief description (including the name of the property subject to each royalty) of the royalties in the BHP Billiton portfolio is provided below.

BHP Billiton Royalties					
Property	Location	Royalty	Operator	Status	Commodity
Almaden -1	Oaxaca, Mexico	2.0% NSR	Almaden Minerals	Exploration	Cu, Au
Almaden -2	Oaxaca, Mexico	1.0% GOR	Almaden Minerals	Exploration	Diamonds, Non-metallic
Belahouro	Burkina Faso	2.5% NSR	Resolute (West Africa) Limited	Feasibility	Au
Caber	Quebec, Canada	1.0% NSR	Metco Resources	Feasibility	Zn, Cu, Au, Ag
Expo (Hushamo)	British Columbia, Canada	10.0% NPI	Lumina Resources	Exploration	Cu, Au
Island Mountain (Poorman Creek)	Nevada, United States	2.0% NSR	Gateway Gold	Exploration	Au
Kubi Village	Ghana	3.0% NPI	AngloGold Ashanti	Feasibility	Au
Mara Rosa	Goias, Brazil	1.0% NSR	Amarillo Gold	Feasibility	Au
Pana - 1 <sup>(1)</sup>	Russia	0.75% - 1.0% NSR	Barrick Gold	Exploration	PGM, Ni, Cu, Au, Ag
Pana - 2 <sup>(1)</sup>	Russia	0.5% NSR	Barrick Gold	Exploration	PGM, Ni, Cu, Au, Ag
Pana - 3 <sup>(1)</sup>	Russia	1.25% - 1.50% NSR	Barrick Gold	Exploration	PGM, Ni, Cu, Au, Ag
Qimmiq - 1	Nunavut, Canada	1.0%-3.0% NSR	Commander Resources	Exploration	Au
Qimmiq - 2	Nunavut, Canada	2.0% NSR	Commander Resources	Exploration	Au
Qimmiq - 3	Nunavut, Canada	1.0% GOR	Commander Resources	Exploration	Au
Railroad	New Brunswick, Canada	3.0% NSR	Eastmain Resources	Exploration	Zn, Pb, Ag
Tropico	Sinaloa, Mexico	2.25% NSR	Almaden Minerals	Exploration	PGM
Trozza	Tunisia	2.5% NSR	Albidon Ltd.	Exploration	Zn
Ulu	Nunavut, Canada	5.0% NSR	Wolfden Resources	Feasibility	Au

<sup>(1)</sup> Acquisition is still pending but expected to close in the near future.

The definitive agreement with BHP Billiton provides that in the event a current operator of any of the properties which is subject to a royalty to be acquired from BHP Billiton exercises its buy-down right in respect of all or any part of the royalty, then the buy-down price payable by the operator is to be paid to the Company. Three royalties (Caber, Kubi Village and Railroad) are subject to buy-down rights.

Certain of the royalties (Almaden-1, Almaden-2, Pana-1, Pana-2, Pana-3, Qimmiq-1, Qimmiq-2 and Qimmiq-3) are subject to pre-emptive rights for the benefit of the operators. BHP Billiton has also retained the right to claw-back the royalty in respect of the Trozza property. Pursuant to the terms of the definitive agreement, the Company will be paid compensation equal to twice the purchase price allocated to the particular royalty if the claw-back occurs within five years after the closing date of the purchase of the royalties (or three times such price if the claw-back is exercised more than five years after the closing date of the purchase of the royalties).

**Pending Royalty Acquisition**

***B.C. Coal Royalty Portfolio***

On December 7, 2004, the Company signed a letter agreement with David Fawcett (superseded by a royalty purchase agreement dated February 22, 2005) to acquire 20.3% of a 1% royalty of the FOB (Free on Board) price of product tonnes of coal produced from the Wolverine and Brazion properties located in north eastern British Columbia. Consideration to be paid is CA\$312,500 in cash and CA\$937,500 in Common Shares valued at the IPO Price. Pursuant to an escrow agreement between the parties dated February 22, 2005, as amended on March 31, 2005, the cash and 218,023 Common Shares is being held in an escrow account pending receipt of executed royalty assignment agreements from the property owner, Western Canadian Coal Corp. (“Western”). On March 21, 2005, Western filed a petition with the Supreme Court of British Columbia to have the underlying royalty sharing agreement set aside. On February 24, 2006, the Supreme Court of British Columbia upheld the underlying royalty sharing agreement. On March 24, 2006, Western filed a notice to appeal the decision.

The Wolverine and Brazion properties are located in the Liard Mining Division. The three Wolverine properties are approximately 23 kilometers west of Tumbler Ridge. The Brazion property is located southwest of Chetwynd. A brief description of the properties subject to the royalty being acquired by the Company from David Fawcett is provided below.

<b>B.C. Coal Royalty Portfolio</b>				
<b>Project</b>	<b>Property</b>	<b>Tenure No.</b>	<b>Hectares</b>	<b>Acres</b>
Wolverine	Mount Speiker	381711 to 381717, 37597, 379598 and 379600	Approx 3,000	Approx 7,413
Wolverine	Perry Creek	379594 to 379596, 379601, 383177 to 383179 and three other licenses under application.	Approx 3,000	Approx 7,413
Wolverine	Hermann	383180 to 383183	Approx 1,200	Approx 2,965
Brazion	West Brazion	379579 to 379582 and 379585	Approx 2,500	Approx 6,177

The royalty being acquired from David Fawcett is not subject to any buy-down right, claw-back right or pre-emptive right.

According to a technical report dated December 29, 2005 (the “Marston Report”) filed in accordance with the resource and reserve requirements of NI 43-101 on behalf of Western Canadian Coal Corp. and prepared by Marston Canada, Ltd for inclusion in an admission document as disclosed in a material change report filed by Western Canadian Coal Corp. at [www.sedar.com](http://www.sedar.com) on December 29, 2005, the following Resource estimates were reported for the Wolverine properties:

## WOLVERINE PROJECT ESTIMATED COAL RESOURCES AND RESERVES

COAL RESOURCES (Mt)		COAL RESERVES (Mt)		AVERAGE PLANT YIELD (%)	SALEABLE COAL RESERVES (Mt)	
Measured	Indicated	Proven	Probable		Proven	Probable
38.7	7.8	35.8	7.4	64%	22.8	4.9

Western Canadian Coal Corp. has not reviewed this annual information form and takes no responsibility nor assumes any liability for the statements herein. No express or implied representation or warranty has been made by Western Canadian Coal Corp. that the contents of this annual information form are verified, accurate, suitably qualified, reasonable or free from errors, omissions or other defects.

The operator of the Wolverine properties, Western Canadian Coal Corp., has publicly announced plans to build a coal preparation plant at Perry Creek by mid-2006. Western Canadian Coal Corp. received permits for the anticipated operation in May 2005 to produce 1.6 million tonnes of clean metallurgical coal per annum. Western has applied to the British Columbia government for an increase to the allowable production to 2.4 million tonnes per annum and expects to begin production starting in mid-2006. The Wolverine properties have been the subject of a feasibility study completed by Norwest Corporation and Cochrane Engineering. Western Canadian Coal Corp. announced in a press release issued on December 16, 2004 a six year purchase agreement for PCI ("pulverized coal injection") coal from its current operation at Burnt River (which is located on the Brazion property, but is not subject to the royalty being acquired from Fawcett) as well as metallurgical coal from its planned operations at Perry Creek.

The following table sets forth the proposed production schedule for Perry Creek and EB Trend properties as reported in the Marston Report (in thousands of tonnes):

### WOLVERINE PRODUCTION FORECAST

Period	2006 H1	2006 H2	2007	2008	2009	Average 2010 - 2018
Waste (Kbcm)	5,319	6,753	16,540	17,260	25,706	18,958
ROM Coal (Kt) *	407	1,836	3,601	3,605	4,131	3,295
Clean Coal (Kt)	0	1,154	2,384	2,275	2,624	2,142

\* Run of Mine Coal.

### Information on Royalty Portfolios' Mineral Properties

Based upon public disclosure by the various operators of mineral properties referred to in this section "Description Of The Business": (i) it has been estimated that at least \$49 million in exploration and feasibility work will have been conducted on such properties during 2005; (ii) there are approximately 3.2 million ounces of Reserves, 10.4 million ounces of Measured Resources and Indicated Resources and 3.9 million ounces of Inferred Resources on gold exploration properties; and (iii) the total combined area of all mineral properties is greater than 23 million acres.

### RISK FACTORS

The following discussion pertains to the outlook and conditions currently known to management which could have a material impact on the financial condition and results of the operations of the Company. This discussion, by its nature, is not all-inclusive. It is not a guarantee that other factors will or will not affect the Company in the future. This discussion should be read in conjunction with material contained in other sections of this annual information form.

### **Company Valuation Heavily Dependent on Voisey's Bay Royalty**

The Company's valuation is presently heavily weighted with the value of the Voisey's Bay Royalty. The Voisey's Bay Royalty is very material to the Company's ability to generate revenue. Therefore, the risk associated with the Company's valuation is heightened in the event that the Voisey's Bay property does not perform as expected.

### **Reliance on Management**

The Company is dependent upon the continued availability and commitment of its key management, whose contributions to immediate and future operations of the Company are of key importance. The Company is in the process of obtaining "key man" insurance for three members of its management, including its Chairman and Chief Executive Officer.

### **Fluctuation in Mineral Prices**

Mineral prices have fluctuated widely in recent years. The marketability and price of metals, minerals and gems on properties for which the Company holds royalty interests will be influenced by numerous factors beyond the control of the Company.

### **Speculative Nature of Mineral Exploration and Mining**

If mineable deposits are discovered, substantial expenditures are required to establish reserves through drilling, to develop processes to extract the resources and, in the case of new properties, to develop the extraction and processing facilities and infrastructure at any site chosen for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained at all or on terms acceptable to the operator. Although the Company intends to only hold royalty interests and not be responsible for these expenditures, the operator may not be in a financial position to obtain the necessary funds to advance the project.

### **Recoverability of Resources and Reserves**

The figures provided in connection with Reserves and Resources in respect of the properties in which the Company has acquired royalty interests are estimates and no assurance can be given that full recovery of the anticipated tonnages and grades will be achieved or that any indicated level of recovery will be realized. The ore actually recovered may differ from the estimated grades of the Reserves and Resources. Future production could differ from Reserve and Resources estimates for, among others, the following reasons:

- (a) mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- (b) increases in operating mining costs and processing costs could adversely affect whether the mineralization remains as a Reserve or Resource;
- (c) the grade of the Reserves or Resources may vary significantly from time to time and there is no assurance that any particular level of mineralization will be recovered from the Reserves or Resources;
- (d) declines in the market prices of metals may render the mining of some or all of the Reserves uneconomic;
- (e) unexpected penalties may be imposed by smelters or refiners; and
- (f) the metallurgy may turn out differently than that anticipated.

### **Government Regulation**

The properties on which the Company holds royalty interests are located in multiple legal jurisdictions and political systems. Any changes in governmental laws, regulations, economic conditions or shifts in political attitudes or stability are beyond the control of the Company and may adversely affect its business.

### **Limited Access to Data Regarding Operation of Mines**

As a royalty holder, the Company neither serves as the mine's operator nor does the Company have any input into how the operations are conducted. As such, the Company has varying access to data on the operations or to the actual properties themselves. This could affect its ability to assess the value of the royalty interest or enhance the royalty's performance. It is difficult or impossible for the Company to ensure that the properties are operated in its best interest. As well, most of the information regarding mining operations provided by the Company in this annual information form was taken from publicly available documents and the Company is unable to verify the accuracy of such information.

The Company's royalty payments may be calculated by the royalty payors in a manner different from the Company's projections. The Company may or may not have rights of audit with respect to such royalty interests.

### **Limited History of Operations**

The Company has a limited history of performance and earnings.

### **Permits and Licenses**

The mine operations may require licenses and permits from various governmental authorities. There can be no assurance that the operator of any given project will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations.

### **Foreign Currency Fluctuations**

The Company's royalty interests are subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position and results. There can be no assurance that the steps taken by management to address foreign currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

### **Uncertainty of Exploration Results**

Exploration for minerals, precious gems and energy resources is a speculative venture necessarily involving substantial risk. There is no certainty that the expenditures made by the operator of any given project will result in discoveries of commercial quantities of minerals or precious gems on lands where the Company holds royalties.

### **Competition**

The mining industry, and more specifically, the royalty business, is intensely competitive and the Company must compete in all aspects of its operations. There are a number of established mining and royalty companies with substantial capabilities and greater financial and technical resources than the Company. The Company may be unable to acquire additional attractive royalties on terms it considers to be acceptable.

### **Future Funding Requirements**

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of further business activities. The Company will require new capital to grow its business and there are no assurances that capital will be available when needed, if at all. It is likely such additional capital will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders.

### **Dividend Policy**

Payment of dividends on the Common Shares will be within the discretion of the Company's board of directors and will depend upon the Company's future earnings, its acquisition capital requirements, financial state, and other relevant factors. There can be no assurance that the Company will be in a position to issue dividends.

### **Royalties Subject to Other Rights**

Some royalties may be subject to (i) buy-down right provisions pursuant to which an operator may buy-back all or a portion of the royalty, (ii) pre-emptive rights pursuant to which the operator has the right of first refusal or first offer with respect to a proposed sale or assignment of a royalty to the Company, or (iii) claw back rights pursuant to which the seller of a royalty to the Company has the right to re-acquire the royalty.

### **Potential Litigation**

Potential litigation may arise on a property on which the Company has a royalty (for example litigation between joint venture partners or original property owners). As a royalty holder, the Company will not generally have any influence on the litigation nor will it generally have access to data.

### **Land Claims**

Claims by aboriginal groups in Canada and elsewhere may impact on the operator's ability to conduct activities on a property to the detriment of the Company's royalty interests.

### **Contractual Interest Only**

Royalties may be contractual rather than an interest in land and as such, in the case of receivership or bankruptcy, royalty holders will be treated like any other unsecured creditor. The Voisey's Bay Royalty is a contractual right and is only secured by a mortgage of \$50 million.

### **Foreign Operations**

Foreign operations may be subject to certain limitations including exchange controls, limitations on repatriation of earnings, foreign taxation, foreign environmental laws and enforcement and other similar risks.

### **Change in Conditions**

Royalties are based on mine life and in some instances a drop in metal prices or a change in metallurgy may result in a project being shut down.

### **Limited Disclosure of Information**

Some royalties, including the Voisey's Bay Royalty, may be subject to confidentiality arrangements which govern the disclosure of information with regard to royalties and as such the Company may not be in a position to publicly disclose non-public information with respect to certain royalties.

### **Registration**

The right to record or register royalties in various registries or mining recorders offices may not necessarily provide any protection to the royalty holder. Accordingly, the royalty holder may be subject to risk from third parties.

### **Revenue Dependent on Single Royalty**

The Company is currently dependent on a single royalty, the Williams Royalty, for revenues until other properties, including the Voisey's Bay property, commence payment on the royalty.

## **DIVIDEND POLICY**

The Company has not paid any dividends since incorporation. The Company intends to adopt a dividend policy once consistent levels of cash flows have been established from the Company's producing royalties.

## **DESCRIPTION OF SECURITIES**

### **Common Shares**

The authorized share capital of the Company consists of an unlimited number of Common Shares of which 57,038,140 Common Shares are outstanding as of March 27, 2006.

There are no special rights or restrictions of any nature attached to the Common Shares. All Common Shares rank equally as to dividends, voting powers and participation in assets or liquidation. Each Common Share carries the right to one vote at all meetings of shareholders of the Company.

### **Senior Secured Debentures**

On February 22, 2005, the Company issued 60 senior secured debentures (the "Debentures"), with a principal amount of \$500,000 each, pursuant to a trust indenture among the Company, Archean and CIBC Mellon Trust Company (the "Debenture Indenture"). Each Debenture matures on the February 28, 2011 and bears interest at the rate of 5.5% per annum, payable semi-annually, on February 28 and August 31. The holders of Debentures have the benefit of certain covenants of the Company and of Archean which, among other things and subject to certain exceptions, restrict the ability of the Company and Archean to incur and to permit or authorize Holdco or LNRLP to incur certain additional indebtedness, create liens on certain assets and dispose of certain assets. Archean has guaranteed the payment of principal and interest on the Debentures and the performance by the Company of its other payment obligations under the Debenture Indenture. The obligations of the Company under the Debenture Indenture are secured by a general security agreement over all of the assets of the Company relating to the Voisey's Bay Royalty and the obligations of Archean under the guarantee are secured by a general security agreement over all of the assets of Archean.

## MARKET FOR SECURITIES

The Company's Common Shares are listed on the Toronto Stock Exchange ("TSX") under the symbol IRC. The following table sets forth the price range and trading volume of Common Shares as reported by the TSX from the initial date of trading of February 23, 2005.

<u>2005</u>	<u>High (C\$)</u>	<u>Low (C\$)</u>	<u>Average Daily Trading Volume</u>
February <sup>(1)</sup>	5.00	4.30	2,282,875
March	5.10	4.30	7,510,946
April	4.45	3.51	973,439
May	4.00	3.48	2,372,879
June	3.90	3.30	2,643,365
July	3.60	3.25	6,517,019
August	3.85	3.47	4,297,133
September	4.55	3.50	3,265,242
October	4.50	3.86	627,683
November	3.95	3.50	2,424,171
December	3.75	3.35	3,650,307

<sup>(1)</sup> The numbers reported for February 2005 relate to the period from February 23, 2005 to February 28, 2005.

## DIRECTORS AND OFFICERS

### Name, Address, Occupation and Security Holdings

The following table sets forth the name, province or state and country of residence and position held with the Company and principal occupation of each director and executive officer of the Company. The Company currently has nine directors. Pursuant to the SPA with Christopher Verbiski, Mr. Verbiski may nominate two directors for election to the board of directors of the Company. Mr. Daly and Mr. Seviour are the two directors nominated by Mr. Verbiski.

<u>Name, Province / State and Country of Residence</u>	<u>Position with the Company</u>	<u>Director Since</u>	<u>Principal Occupation</u>
<b>DOUGLAS B. SILVER</b> <sup>(4)</sup> Colorado, USA	Director, Chairman and Chief Executive Officer	2003	Chairman and Chief Executive Officer of the Company
<b>DOUGLAS J. HURST</b> <sup>(4)</sup> British Columbia, Canada	Director and President	2003	President of the Company
<b>RAY W. JENNER</b> <sup>(4)</sup> Colorado, USA	Chief Financial Officer and Secretary	N/A	Chief Financial Officer and Secretary of the Company
<b>DAVID R. HAMMOND</b> Colorado, USA	Vice President, Strategic Planning	N/A	Vice President, Strategic Planning of the Company
<b>GEORGE S. YOUNG</b> <sup>(4)</sup> Colorado, USA	Director and Vice President, General Counsel	2003	Director and Vice President, General Counsel of the Company
<b>ROBERT W. SCHAFER</b> <sup>(1) (2)(3)</sup> Utah, USA	Director	2003	Vice President, Business Development of Hunter Dickinson, Inc. (a mineral company)

<u>Name, Province / State and Country of Residence</u>	<u>Position with the Company</u>	<u>Director Since</u>	<u>Principal Occupation</u>
<b>GORDON J. FRETWELL</b> <sup>(3)</sup> British Columbia, Canada	Director	2003	Securities lawyer at Gordon J. Fretwell Law Corporation (a law corporation)
<b>RENE G. CARRIER</b> <sup>(1)(2)(3)</sup> British Columbia, Canada	Lead Director	2003	President of Euro American Capital Corporation (a consulting company)
<b>CHRISTOPHER DALY</b> <sup>(1)(2)</sup> Newfoundland, Canada	Director	2004	Chief Financial Officer of Coordinates Capital Corporation (a venture capital company)
<b>COLM ST. ROCH SEVIOUR</b> <sup>(1)(3)</sup> Newfoundland, Canada	Director	2005	Senior mining partner of the law firm of Stewart McKelvey Stirling Scales
<b>EDWARD L. MERCALDO</b> <sup>(1)</sup> California, USA	Director	2005	Financial consultant and private investor since 1996

<sup>(1)</sup> Independent director.

<sup>(2)</sup> Member of the audit committee.

<sup>(3)</sup> Member of the compensation committee.

<sup>(4)</sup> Member of the executive committee.

The directors and executive officers of the Company, as a group, beneficially own, directly or indirectly, or exercise control or direction over an aggregate of 3,926,001 Common Shares, representing 6.9% of the Common Shares outstanding.

Each director's term of office will expire at the next annual meeting of shareholders of the Company or until his successor is duly elected or appointed, unless his office is vacated earlier in accordance with the by-laws of the Company or he becomes disqualified to act as a director of the Company.

Additional biographical information regarding the directors and executive officers of the Company for the past five years is provided as follows:

**Douglas B. Silver**, Director, Chairman and Chief Executive Officer. Mr. Silver has a Bachelor of Arts from the University of Vermont and a Masters of Science in Economic Geology from the University of Arizona and is a certified general appraiser. Mr. Silver has 27 years of experience as an active professional in the mineral industries, having served in a variety of capacities, including exploration geologist, business development specialist, mineral economist, corporate advisor and director of investor relations. Mr. Silver has acknowledged expertise in international mineral appraisals, management consulting and strategic planning research and has served as a strategic advisor to small and large mining companies. Prior to and during the past 15 years Mr. Silver has provided management and mineral economic consulting services through his company Balfour Holdings Inc.

**Douglas J. Hurst**, Director and President. Mr. Hurst has a Bachelor of Science in Geology from McMaster University. Mr. Hurst has over 20 years of experience in the mining industry having acted as contract geologist, but primarily as a mining analyst since 1987. He worked with McDermid St. Lawrence and Sprott Securities Inc. between 1987 and 1995 and started to consult as a mining analyst through his company, D.S. Hurst Inc. His duties focused on mining stock exchange market related assignments such as assisting companies and dealers with due diligence, research and corporate finance duties, as well as corporate advice to the mining industry.

**Ray W. Jenner**, Chief Financial Officer and Secretary of the Company since April 2005. From 2001 to 2004, Mr Jenner was Vice President Finance & Chief Financial Officer of Lextron, Inc. a national distributor of animal health products. Prior thereto, he was a senior officer of public mining companies, including Vice President and Treasurer of Echo Bay Mines Ltd. and Chief Financial Officer of Nord Resources Corporation and Nord Pacific Limited. Mr Jenner is a Chartered Accountant.

**David R. Hammond**, Vice President, Strategic Planning. Dr. Hammond has a Bachelor of Science and a Masters of Science in geological engineering, a Masters in Business Administration with finance specialization and a Ph.D. in Mineral Economics, the latter from the Colorado School of Mines. He has over 30 years experience in the natural resource industries, with responsibilities in exploration, engineering, financial analysis and planning, commodity market research and business development. He has held staff and management positions with major mining and energy companies such as Atlantic Richfield Corporation, The Anaconda Company, Royal Dutch Petroleum Company and Ladd Petroleum Corporation. Since 1991 he has provided mineral economics consulting services to the international mining industry, focusing on mineral asset valuation and appraisal, mining feasibility studies, due diligence investigations, risk analysis, and commodity market research. From 1997 to 2000 he provided such services as a member of PricewaterhouseCoopers' Global Energy & Mining Group. Dr. Hammond is also an adjunct lecturer in corporate finance at the University of Denver's Daniels College of Business.

**George S. Young**, Director and Vice President, General Counsel. Mr. Young holds a Bachelor of Science in metallurgical engineering and a law degree from the University of Utah. Mr. Young has over 25 years of experience in mining and natural resource financing. He performed the duties of metallurgical engineer in the construction and start-up of a new copper smelter, and later served as general counsel and a member of management of major mining corporations and utilities. Mr. Young has also fulfilled the role of chief executive officer and president of various publicly traded mining companies. From 1984 to 1988, Mr. Young was general counsel and Acting General Manager of the Intermountain Power Agency; from 1988 to 1990, he was general counsel of Bond International Gold, Inc., and later was Chief Executive Officer of Oro Belle Resources Corporation; from 1998 to 2002 Mr. Young was in the private practice of law, and since that time has been chief executive officer of Palladon Ventures Ltd. and Fellows Energy Ltd.

**Robert W. Schafer**, Director. Mr. Schafer has a Bachelor of Science and a Masters of Science in geology from Miami University and a Masters of Science in Mineral Economics from the University of Arizona. Mr. Schafer has acknowledged expertise in mineral exploration, managing and supervising exploration budgets and has more than a decade of senior management experience working with some of the world's largest base and precious metal companies. From 1992 to 1996 Mr. Schafer was the U.S. Regional Manager for BHP Minerals Internationals Inc. and from 1996 to 2002 Mr. Schafer was vice-president of Kinross Gold Corporation. From 2002 to 2004 Mr. Schafer was president and chief executive officer of Coniagas Resources Ltd. Since 2005, Mr. Schafer has held the position of Vice President, Business Development of Hunter Dickinson, Inc.

**Gordon J. Fretwell**, Director. Mr. Fretwell holds a Bachelor of Commerce and Bachelor of Laws from the University of British Columbia. Mr. Fretwell has been practicing law for over 20 years and over the last approximately 15 years has concentrated in the area of corporate and securities law with an emphasis on the mining sector. Mr. Fretwell is currently practicing law at Gordon J. Fretwell Law Corporation.

**Rene G. Carrier**, Director. Mr. Carrier is a former Vice-President of Pacific International Securities Inc. where he had worked for 10 years until 1991. Since that time Mr. Carrier has been President of Euro American Capital Corporation, a private company which specializes in restructuring and raising venture capital funds for junior companies. Mr. Carrier is an officer and/or director of various public companies involved in the mining sector and is a director of Chartwell Technologies Inc., a software company.

**Christopher Daly**, Director. Mr. Daly holds a Bachelor of Commerce from Memorial University and holds the professional designation of Certified Management Accountant. Mr. Daly was chief financial officer of Archean for nine years until his resignation from that position in February 2005. He is currently chief financial officer of Coordinates Capital Corporation, a venture capital company.

**Colm St. Roch Seviour**, Director. Mr. Seviour holds a Bachelor of Arts and a Bachelor of Laws, the latter from Osgoode Hall Law School. He is a senior mining law partner and a member of the Natural Resources and Environmental Law Practice groups of the St. John's office of the Atlantic Provinces firm, Stewart McKelvey Stirling Scales. He has lived and worked in Newfoundland and Labrador since 1964. Mr. Seviour was called to the bar in 1983 and became a partner in his firm in 1988. He has practiced extensively in the field of natural resources law, including mining law, since 1984. Mr. Seviour is past

Chair of the Natural Resources and Energy Law Section, and of the Environmental Law Section of the Newfoundland and Labrador Branch of the Canadian Bar Association. Mr. Seviour is listed in the Mining Law section of the International Who's Who of Business Lawyers.

**Edward L. Mercaldo**, Director. Mr. Mercaldo is a financial consultant and private investor. Following his successful career as an international commercial and investment banker for several leading companies including the Wachovia Bank, Bank of Montreal, Bankers Trust Company of New York, Gordon Capital and First Marathon Securities, Mr. Mercaldo also served as the Executive Vice-President, Chief Financial Officer and Director of Diamond Fields Resources Inc. Following the purchase of Diamond Fields by Inco in August 1996, Mr. Mercaldo continued as a Director of Inco until September 2000. He is currently a Director of Norwood Resources Inc., a Canadian company exploring for oil and gas in Nicaragua, and Quest Capital Corporation, a Vancouver based merchant bank. Mr. Mercaldo is a citizen of both Canada and the United States and resides with his family in Del Mar California where he is active in business and financial circles.

#### **Penalties or Sanctions**

Other than as described below, none of the directors, officers or other insiders of the Company has:

- (a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in making an investment decision.

An officer of the Company, Douglas J. Hurst, joined the board of directors of International Wayside Gold Mines Ltd. when it was subject to a halt trade order which was in place for longer than 30 days. Trading in the shares was halted on May 11, 2000, Mr. Hurst joined the board of directors on June 6, 2000 and the halt trade order was lifted on June 30, 2000.

#### **Potential Conflicts of Interest**

In the opinion of management of the Company, there are no existing or potential conflicts of interest among the Company, its directors, officers or other insiders of the Company, except as disclosed elsewhere in this annual information form. Various officers, directors or other insiders of the Company may be involved in other transactions within the mining industry and may develop other interests outside the Company.

The Company has entered into non-competition or non-disclosure agreements with certain directors, officers and consultants.

#### **PROMOTER**

The Company or its subsidiaries have not had a person or company act as a promoter within the three years immediately preceding the date of this annual information form other than Douglas B. Silver. For more information on Mr. Silver's share ownership, see the Company's management information circular dated March 27, 2006

#### **LEGAL PROCEEDINGS**

The Company is not involved in any legal proceedings with the exception of the proceeding with respect to the pending acquisition of the B.C. Coal Royalty Portfolio. See "Description of the Business – Pending Royalty Acquisition".

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Company, any other insider of the Company or any associate or affiliate of any of such individuals or companies has any interest in any material transactions in which the Company has participated or in which the Company intends to participate at this time, save and except as disclosed in this annual information form.

## TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Common Shares is CIBC Mellon Trust Company at its principal office in Toronto, Ontario.

## INTERESTS OF EXPERTS

Gustavson prepared a report dated October 29, 2004, revised on February 1, 2005, and entitled "Independent Technical Report, Voisey's Bay Project Royalty, Labrador, Canada" (the "Qualifying Report"). William J. Crowl, the author of the Qualifying Report, is a "Qualified Person" for the purposes of NI 43-101. To the knowledge of the Company, William J. Crowl and the partners and employees of Gustavson as a group, beneficially own, directly or indirectly, less than one percent of the outstanding Common Shares.

Certain technical information within this annual information form has been reviewed by Mr. Nick Michael of SRK Consulting, who is a qualified person within the meaning of NI 43-101. To the knowledge of the Company, Mr. Michael beneficially owns, directly or indirectly, less than one percent of the outstanding Common Shares.

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, of Vancouver, British Columbia. PricewaterhouseCoopers LLP, Chartered Accountants, report that they are independent of the Company in accordance with the Rules of Professional Conduct in British Columbia, Canada.

## MATERIAL CONTRACTS

### Particulars of Material Contracts

Except for contracts made in the ordinary course of the Company's business, the following are the material contracts entered into by the Company since May 7, 2003 (date of incorporation):

1. purchase and sale agreement dated June, 2003 and amended July 31, 2003 between the Company, Jean-Claude Bonhomme and Bonhomme Enterprises, with respect to the purchase of the Williams Royalty (referred to under "General Development of the Business - Acquisition of Williams Royalty" and "Description of the Business - Williams Royalty");
2. the share purchase agreement dated February 18, 2005 between Albert Chislett and the Company referred to under "Description of the Business - Archean and the Voisey's Bay Royalty Interest";
3. the share purchase agreement dated February 18, 2005 between Christopher Verbiski and the Company referred to under "Description of the Business - Archean and the Voisey's Bay Royalty Interest";
4. the letter agreement dated October 8, 2004 between John S. Livermore and the Company, referred to under "Description of the Business - Other Royalty Interests - Livermore Royalty Portfolio";
5. the royalty purchase agreement dated February 22, 2005 between Hecla and the Company referred to under "Description of the Business - Other Royalty Interests - Hecla Mining Company Royalty Portfolio";

6. the royalty purchase agreement dated as of March 18, 2005 between BHP Billiton and the Company referred to under "Description of the Business - Other Royalty Interests - BHP Billiton Royalty Portfolio";
7. the Dirty Shovel royalty purchase agreement dated February 22, 2005 between 524520 BC Ltd., 344967 BC Ltd., Adam Vary, Bill Whitehead, Peter Robson, Stuart Angus, Graham Scott, John Robbins and the Company referred to under "Description of the Business - Other Royalty Interests - Hunter Exploration Group Royalty Portfolio";
8. the Aviat One royalty purchase agreement dated February 22, 2005 between Stuart Angus, Henry Awmack, Bernice Kosiur, Donald McInnes, Catherine McLeod-Seltzer, Peter Robson, Kelly Taylor, John S. Brock Limited, Lawrence Barry, John Robins, Adam Vary, 344967 BC Ltd., 524520 BC Ltd. and the Company referred to under "Description of the Business - Other Royalty Interests - Hunter Exploration Group Royalty Portfolio", and the addendum thereto, dated February 22, 2005, between Adam Vary 344967 Bc Ltd., 524520 BC Ltd. and the Company.
9. the Melville royalty purchase agreement dated February 22, 2005 between 524520 BC Ltd., 344967 BC Ltd., Adam Vary and the Company referred to under "Description of the Business - Other Royalty Interests - Hunter Exploration Group Royalty Portfolio";
10. the Coronation royalty purchase agreement dated February 22, 2005 between 524520 BC Ltd., 344967 BC Ltd., Adam Vary and the Company referred to under "Description of the Business - Other Royalty Interests - Hunter Exploration Group Royalty Portfolio";
11. the royalty purchase agreement dated February 22, 2005 between David Fawcett and the Company referred to under "Description of the Business – Pending Royalty Acquisitions - B.C. Coal Royalty Portfolio";
12. the escrow agreement dated February 22, 2005, and the amendments dated March 31, 2005, between David Fawcett and the Company referred to under "Description of the Business – Pending Royalty Acquisitions - B.C. Coal Royalty Portfolio";
13. the IPO agency agreement between Haywood Securities Inc., GMP Securities Ltd., Canaccord Capital Corporation, Raymond James Ltd., Salman Partners Inc. and Bolder Investment Partners, Ltd. " dated February 3, 2005;
14. the unit agency agreement between Haywood Securities Inc. and GMP Securities Ltd. dated February 3, 2005;
15. the transfer agency agreement dated February 22, 2005, between CIBC Mellon Trust Company and the Company;
16. the trust indenture made as of February 22, 2005 among the Company and Archean Resources Ltd. and CIBC Mellon Trust Company.

#### **AUDIT COMMITTEE**

##### **Audit Committee Charter**

The Audit Committee Charter is attached hereto as Appendix A.

### Composition of the Audit Committee

The members of the audit committee and their relevant education and experience are as follows:

**Rene G. Carrier**, Director. Mr. Carrier is a former Vice-President of Pacific International Securities Inc. where he had worked for 10 years until 1991. Since that time Mr. Carrier has been President of Euro American Capital Corporation, a private company which specializes in restructuring and raising venture capital funds for junior companies. Mr. Carrier is an officer and/or director of various public companies involved in the mining sector and is a director of Chartwell Technologies Inc., a software company.

**Christopher Daly**, Director. Mr. Daly holds a Bachelor of Commerce from Memorial University and holds the professional designation of Certified Management Accountant. Mr. Daly was chief financial officer of Archean for nine years until his resignation from that position in February 2005. He is currently chief financial officer of Coordinates Capital Corporation, a venture capital company.

**Robert W. Schafer**, Director. Mr. Schafer has a Bachelor of Science and a Masters of Science in geology from Miami University and a Masters of Science in Mineral Economics from the University of Arizona. Mr. Schafer has acknowledged expertise in mineral exploration, managing and supervising exploration budgets and has more than a decade of senior management experience working with some of the world's largest base and precious metal companies. From 1992 to 1996 Mr. Schafer was the U.S. Regional Manager for BHP Minerals Internationals Inc. and from 1996 to 2002 Mr. Schafer was vice-president of Kinross Gold Corporation. From 2002 to 2004 Mr. Schafer was president and chief executive officer of Coniagas Resources Ltd. Since 2005, Mr Schafer has held the position of Vice President, Business Development of Hunter Dickinson, Inc.

### Pre-Approval Policies and Procedures

The audit committee has established a policy for the engagement of non-audit services that requires approval by the audit committee in the event that the estimated cost of those services is expected to exceed CA\$25,000.

### External Auditor Service Fees

The following table sets out the fees billed by our external auditors during 2005 and 2004:

Description of fees	Year ended	Year ended
	December 31, 2005	December 31, 2004
	(CA\$)	(CA\$)
Audit Services	77,000	25,000
Audit Related Services - Prospectus	178,520	66,900
Taxation Services	69,435	25,000

### ADDITIONAL INFORMATION

Additional information relating to International Royalty Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information is provided in the consolidated financial statements of the Company as of December 31, 2005 and 2004, and in Management's Discussion and Analysis. Copies of these documents are available upon request from the Corporate Secretary of the Company.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, will be contained in the Company's information circular for its next annual meeting of shareholders that involves the election of directors.

## APPENDIX A – AUDIT COMMITTEE CHARTER

### AUDIT COMMITTEE CHARTER

#### INTERNATIONAL ROYALTY CORPORATION

There shall be a committee of the board of directors (the “Board”) of International Royalty Corporation (the “Company”) known as the Audit Committee.

#### PURPOSE OF AUDIT COMMITTEE

The Audit Committee has been established to assist the Board in fulfilling its oversight responsibilities with respect to the following principal areas:

- (a) the Company’s external audit function; including the qualifications, independence, appointment and oversight of the work of the external auditors;
- (b) the Company’s accounting and financial reporting requirements;
- (c) the Company’s reporting of financial information to the public;
- (d) the Company’s compliance with law and regulatory requirements;
- (e) the Company’s risks and risk management policies;
- (f) the Company’s system of internal controls and management information systems; and
- (g) such other functions as are delegated to it by the Board.

Specifically, with respect to the Company’s external audit function, the Audit Committee assists the Board in fulfilling its oversight responsibilities relating to: the quality and integrity of the Company’s financial statements; the independent auditors’ qualifications; and the performance of the Company’s independent auditors.

#### MEMBERSHIP

The Audit Committee shall consist of as many members as the Board shall determine but, in any event not fewer than three directors appointed by the Board as provided for in the By-laws of the Company. Each member of the Audit Committee shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director of the Company. The Board, following consideration of the recommendation of the Compensation Committee, may fill a vacancy which occurs in the Audit Committee at any time.

Members of the Audit Committee shall be selected based upon the following and in accordance with applicable laws, rules and regulations:

- (a) **Independence.** Each member shall be independent in accordance with applicable legal and regulatory requirements and in such regard shall have no direct or indirect material relationship with the Company which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgment.
- (b) **Financially Literate.** Each member shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Audit Committee. For these purposes, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

## **CHAIR AND SECRETARY**

The Chair of the Audit Committee shall be designated by the Board. If the Chair is not present at a meeting of the Audit Committee, the members of the Audit Committee may designate an interim Chair for the meeting by majority vote of the members present. The Secretary of the Company shall be the Secretary of the Audit Committee, provided that if the Secretary is not present, the Chair of the meeting may appoint a secretary for the meeting with the consent of the Audit Committee members who are present. A member of the Audit Committee may be designated as the liaison member to report on the deliberations of the Audit Committees of affiliated companies (if applicable).

## **MEETINGS**

The Chairman of the Audit Committee, in consultation with the Audit Committee members, shall determine the schedule and frequency of the Audit Committee meetings provided that the Audit Committee will meet at least four times in each fiscal year and at least once in every fiscal quarter. The Audit Committee shall have the authority to convene additional meetings as circumstances require.

Notice of every meeting shall be given to the external auditors of the Company, and meetings shall be convened whenever requested by the external auditors or any member of the Audit Committee in accordance with applicable law. The Audit Committee shall meet separately and periodically with management, legal counsel and the external auditors. The Audit Committee shall meet separately with the external auditors at every meeting of the Audit Committee at which external auditors are present.

## **MEETING AGENDAS**

Agendas for meetings of the Audit Committee shall be developed by the Chair of the Audit Committee in consultation with the management and the corporate secretary, and shall be circulated to Audit Committee members as far in advance of each Audit Committee meeting as is reasonable.

## **RESOURCES AND AUTHORITY**

The Audit Committee shall have the resources and the authority to discharge its responsibilities, including the authority, in its sole discretion, to engage, at the expense of the Company, outside consultants, independent legal counsel and other advisors and experts as it determines necessary to carry out its duties, without seeking approval of the Board or management.

The Audit Committee shall have the authority to conduct any investigation necessary and appropriate to fulfilling its responsibilities, and has direct access to and the authority to communicate directly with the internal and external auditors, the general counsel of the Company and other officers and employees of the Company.

The members of the Audit Committee shall have the right for the purpose of performing their duties to inspect all the books and records of the Company and its subsidiaries and to discuss such accounts and records and any matters relating to the financial position, risk management and internal controls of the Company with the officers and external auditors of the Company and its subsidiaries. Any member of the Audit Committee may require the external auditors to attend any or every meeting of the Audit Committee.

## **RESPONSIBILITIES**

The Company's management is responsible for preparing the Company's financial statements and the external auditors are responsible for auditing those financial statements. The Audit Committee is responsible for overseeing the conduct of those activities by the Company's management and external auditors.

The specific responsibilities of the Audit Committee shall include those listed below. The enumerated responsibilities are not meant to restrict the Audit Committee from examining any matters related to its purpose.

## 1. Financial Reporting Process and Financial Statements

The Audit Committee shall:

- (a) in consultation with the external auditors, review the integrity of the Company's financial reporting process, both internal and external, and any major issues as to the adequacy of the internal controls and any special audit steps adopted in light of material control deficiencies;
- (b) review all material transactions and material contracts entered into between (i) the Company or any subsidiary of the Company, and (ii) any subsidiary, director, officer, insider or related party of the Company, other than officer or employee compensation arrangements approved or recommended by the Management Compensation Committee, or director remuneration approved or recommended by the Compensation Committee, or transactions in the ordinary course of business;
- (c) review and discuss with management and the external auditors: (i) the preparation of Company's annual audited consolidated financial statements and its interim unaudited consolidated financial statements; (ii) whether the financial statements present fairly (in accordance with Canadian generally accepted accounting principles) in all material respects the financial condition, results of operations and cash flows of the Company as of and for the periods presented; (iii) any matters required to be discussed with the external auditors according to Canadian generally accepted auditing standards; (iv) an annual report by the external auditors describing: (A) all critical accounting policies and practices used by the Company; (B) all material alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, including the ramifications of the use such alternative treatments and disclosures and the treatment preferred by the external auditors; and (C) other material written communications between the external auditors and management;
- (d) following completion of the annual audit, review with each of: (i) management; and (ii) the external auditors, any significant issues, concerns or difficulties encountered during the course of the audit;
- (e) resolve disagreements between management and the external auditors regarding financial reporting;
- (f) review the interim quarterly and annual financial statements and annual and interim press releases prior to the release of earnings information; and
- (g) review and be satisfied that adequate procedures are in place for the review of the public disclosure of financial information by the Company extracted or derived from the Company's financial statements, other than the disclosure referred to in (f), and periodically assess the adequacy of those procedures.

## 2. External auditors

The Audit Committee shall:

- (a) require the external auditors to report directly to the Audit Committee;

- (b) be directly responsible for the selection, nomination, compensation, retention, termination and oversight of the work of the Company's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, and in such regard recommend to the Board the external auditors to be nominated for approval by the shareholders;
- (c) approve all audit engagements and must pre-approve the provision by the external auditors of all non-audit services, including fees and terms for all audit engagements and non-audit engagements, and in such regard the Audit Committee may establish the types of non-audit services the external auditors shall be prohibited from providing and shall establish the types of audit, audit related and non-audit services for which the Audit Committee will retain the external auditors. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services, provided that any such delegated pre-approval shall be exercised in accordance with the types of particular non-audit services authorized by the Audit Committee to be provided by the external auditor and the exercise of such delegated pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting following such pre-approval;
- (d) review and approve the Company's policies for the hiring of partners and employees and former partners and employees of the external auditors;
- (e) consider, assess and report to the Board with regard to the independence and performance of the external auditors; and
- (f) request and review the audit plan of the external auditors as well as a report by the external auditors to be submitted at least annually regarding: (i) the external auditing firm's internal quality-control procedures; (ii) any material issues raised by the external auditor's own most recent internal quality-control review or peer review of the auditing firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues.

### **3. Accounting Systems and Internal Controls**

The Audit Committee shall:

- (a) oversee management's design and implementation of and reporting on internal controls. The Audit Committee shall also receive and review reports from management and the external auditors on an annual basis with regard to the reliability and effective operation of the Company's accounting system and internal controls;
- (b) review annually the Company's Code of Business Conduct and its effectiveness and enforcement.

### **4. Legal and Regulatory Requirements**

The Audit Committee shall:

- (a) receive and review timely analysis by management of significant issues relating to public disclosure and reporting;
- (b) review, prior to finalization, periodic public disclosure documents containing financial information, including the Management's Discussion and Analysis and Annual Information Form;
- (c) prepare the report of the Audit Committee required to be included in the Company's periodic filings;

- (d) review with the Company's General Counsel legal compliance matters, significant litigation and other legal matters that could have a significant impact on the Company's financial statements; and
- (e) assist the Board in the oversight of compliance with legal and regulatory requirements and review with legal counsel the adequacy and effectiveness of the Company's procedures to ensure compliance with legal and regulatory responsibilities.

#### **5. Additional Responsibilities**

The Audit Committee shall:

- (a) discuss policies with the external auditor, internal auditor and management with respect to risk assessment and risk management;
- (b) establish procedures and policies for the following
  - (i) the receipt, retention, treatment and resolution of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
  - (ii) the confidential, anonymous submission by directors or employees of the Company of concerns regarding questionable accounting or auditing matters or any potential violations of legal or regulatory provisions;
- (c) prepare and review with the Board an annual performance evaluation of the Audit Committee;
- (d) report regularly to the Board, including with regard to matters such as the quality or integrity of the Company's financial statements, compliance with legal or regulatory requirements, the performance of the internal audit function, and the performance and independence of the external auditors; and
- (e) review and reassess the adequacy of the Audit Committee's Charter on an annual basis.

#### **6. Limitation on the Oversight Role of the Audit Committee**

Nothing in this Charter is intended, or may be construed, to impose on any member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

Each member of the Audit Committee shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Company from whom he or she receives financial and other information, and the accuracy of the information provided to the Company by such persons or organizations.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles in Canada and applicable rules and regulations. These are the responsibility of management and the external auditors.

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# **International Royalty Corporation**

Consolidated Financial Statements  
**December 31, 2005 and 2004**  
(expressed in thousands of U.S. dollars)

**Independent Auditors' Report**

**To the Shareholders of  
International Royalty Corporation**

We have audited the consolidated balance sheets of **International Royalty Corporation** as at December 31, 2005 and 2004 and the consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2005 and 2004, and the period from May 7, 2003 to December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, and the period from May 7, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

**Chartered Accountants**

Vancouver, B.C.

February 10, 2006

(except for note 11, which is as at February 24, 2006)

# International Royalty Corporation

## Consolidated Balance Sheets

As at December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 \$	2004 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	12,735	811
Short-term investments	1,716	-
Restricted cash (note 5)	1,807	-
Royalty receivable	114	97
Prepaid expenses and other current assets	260	1
	<hr/> 16,632	<hr/> 909
<b>Royalty interests in mineral properties</b> (note 3)	235,962	1,747
<b>Furniture and equipment - net</b>	122	6
<b>Other long-term assets</b> (note 4)	2,449	840
	<hr/> 255,165	<hr/> 3,502
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	751	744
<b>Senior secured debentures</b> (note 5)	21,368	-
<b>Future income taxes</b> (note 6)	73,152	-
	<hr/> 95,271	<hr/> 744
<b>Shareholders' Equity</b> (note 7)		
<b>Common shares</b>		
Authorized		
Unlimited common shares without par value		
Issued		
57,027,568 (2004 - 5,849,433) common shares	164,176	2,058
<b>Special warrants</b>	-	1,478
<b>Contributed surplus</b>	5,071	80
<b>Deficit</b>	(9,353)	(858)
	<hr/> 159,894	<hr/> 2,758
	<hr/> 255,165	<hr/> 3,502
<b>Nature of operations</b> (note 1)		
<b>Subsequent event</b> (note 11)		

Approved by the Board of Directors

(signed) Douglas B. Silver Director

(signed) Rene G. Carrier Director

See accompanying notes to the consolidated financial statements.

# International Royalty Corporation

## Consolidated Statements of Operations

(expressed in U.S. dollars, except number of shares amounts)

	Year ended December 31,		Period from
	2005	2004	May 7, 2003 to December 31, 2003
	\$	\$	\$
<b>Royalty revenues</b>	425	357	178
<b>Expenses</b>			
Amortization	363	277	143
Business development	263	-	-
General and administrative	2,280	636	254
Impairment of royalty interests in mineral properties	64	-	-
Stock-based compensation expense (note 7)	4,992	92	-
	7,962	1,005	397
<b>Loss from operations</b>	(7,537)	(648)	(219)
<b>Other income (expense)</b>			
Foreign currency (loss) gain	(85)	3	6
Interest expense	(1,826)	-	-
Interest income	374	-	-
	(1,537)	3	6
<b>Loss before income taxes</b>	(9,074)	(645)	(213)
Current tax expense (note 6)	(7)	-	-
Future tax benefit (note 6)	586	-	-
	579	-	-
<b>Loss for the year</b>	(8,495)	(645)	(213)
<b>Basic and diluted loss per share</b>	(0.17)	(0.08)	(0.03)
<b>Basic and diluted weighted average shares outstanding</b>	49,903,355	8,334,089	6,389,193

See accompanying notes to the consolidated financial statements.

# International Royalty Corporation

## Consolidated Statements of Shareholders' Equity

(expressed in thousands of U.S. dollars)

	Common shares		Special warrant		Contributed surplus		Deficit	Total shareholders' equity
	Number	Amount \$	Number	Amount \$	Number	Amount \$		
Founders' special warrants	1	-	3,600,000	-	-	-	-	-
Williams Mine warrants (note 3)	-	-	-	-	950,000	28	-	28
Private placement - Initial financing special warrants and financing warrants - net of issuance costs of \$238	-	-	4,400,000	2,275	950,000	28	-	2,303
Compensation special warrants	-	-	308,000	159	-	-	-	159
Compensation warrants	-	-	-	-	440,000	36	-	36
Loss	-	-	-	-	-	-	(213)	(213)
<b>Balance at December 31, 2003</b>	1	-	8,308,000	2,434	2,340,000	92	(213)	2,313
Cancellation of founders' special warrants	-	-	(150,000)	-	-	-	-	-
Consultants' special warrants granted	-	-	150,000	92	-	-	-	92
Exercise of founders' special warrants	3,450,000	-	(3,450,000)	-	-	-	-	-
Exercise of consultants' special warrants	150,000	92	(150,000)	(92)	-	-	-	-
Exercise of initial financing special warrants	1,850,000	956	(1,850,000)	(956)	-	-	-	-
Exercise of financing warrants	399,432	1,010	-	-	(399,432)	(12)	-	998
Loss	-	-	-	-	-	-	(645)	(645)
<b>Balance at December 31, 2004</b>	5,849,433	2,058	2,858,000	1,478	1,940,568	80	(858)	2,758
Shares issued in connection with the IPO (net of issuance costs)	37,790,698	124,253	-	-	-	-	-	124,253
Shares issued in connection with the Unit Offering (net of issuance costs) (note 7)	1,395,360	4,588	-	-	-	-	-	4,588
Shares issued for the purchase of royalty interests in mineral properties (note 3)	8,896,895	31,015	-	-	-	-	-	31,015
Exercise of initial financing special warrants	2,550,000	1,319	(2,550,000)	(1,319)	-	-	-	-
Exercise of compensation special warrants	308,000	159	(308,000)	(159)	-	-	-	-
Shares issued for services	2,249	8	-	-	-	-	-	8
Shares issued into escrow (note 5)	218,023	760	-	-	-	-	-	760
Stock options issued	-	-	-	-	3,978,000	4,992	-	4,992
Warrants exercised	16,910	16	-	-	(16,910)	(1)	-	15
Loss	-	-	-	-	-	-	(8,495)	(8,495)
<b>Balance at December 31, 2005</b>	57,027,568	164,176	-	-	5,901,658	5,071	(9,353)	159,894

See accompanying notes to the consolidated financial statements.

# International Royalty Corporation

## Consolidated Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Year ended December 31,		Period from
	2005	2004	May 7, 2003 to December 31, 2003
	\$	\$	\$
<b>Cash flows used in operating activities</b>			
Loss for the year	(8,495)	(645)	(213)
Items not affecting cash			
Depreciation and amortization	380	281	144
Impairment of royalty interests in mineral properties	64	-	-
Amortization of deferred debenture costs	166	-	-
Accretion of debenture discount	492	-	-
Future income tax	(586)	-	-
Non-cash foreign currency loss (gain)	970	(5)	(4)
Stock-based compensation	4,992	92	-
	(2,017)	(277)	(73)
(Increase) decrease in royalty receivable	(17)	16	(104)
(Increase) decrease in prepaid expenses and other current assets	(254)	12	(13)
Increase in other long-term assets	(111)	-	-
Increase in accounts payable and accrued liabilities	610	88	47
	(1,789)	(161)	(143)
<b>Cash flows used in investing activities</b>			
Acquisition of royalty interest in mineral property	(125,567)	-	(2,140)
Purchases of furniture and equipment	(132)	-	(11)
Deferred charges relating to royalty acquisition	(75)	(99)	-
Investment in short-term investments	(1,708)	-	-
Restricted cash	(1,713)	-	-
	(129,195)	(99)	(2,151)
<b>Cash flows from financing activities</b>			
Net proceeds from issuance of common shares	120,475	-	-
Net proceeds from unit offering	22,418	-	-
Deferred charges relating to the initial public offering and unit offering	-	(131)	-
Proceeds from issuance of warrants	-	-	2,498
Proceeds from exercise of warrants	15	998	-
	142,908	867	2,498
<b>Increase in cash and cash equivalents</b>	11,924	607	204
<b>Cash and cash equivalents - Beginning of year</b>	811	204	-
<b>Cash and cash equivalents - End of year</b>	12,735	811	204

Supplemental cash flow information (note 9)

See accompanying notes to the consolidated financial statements.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## 1 Nature of operations

International Royalty Corporation ("IRC" or the "Company") was incorporated under the laws of Yukon, Canada on May 7, 2003 and was continued under the *Canada Business Corporations Act* on November 12, 2004. It was formed for the purpose of acquiring and creating natural resource royalties with a specific emphasis on mineral royalties. Operating activities commenced on July 1, 2003.

During the reporting periods, IRC received substantially all of its revenue from the same operation. During 2006, the Company anticipates that the majority of its revenues will be generated from the Voisey's Bay Royalty (note 3). The Company is economically dependent upon the operator of the Voisey's Bay property and the expected revenues there from.

## 2 Summary of significant accounting policies

### Basis of consolidation and presentation

The consolidated financial statements include the accounts of IRC and all of its wholly-owned subsidiaries. The material subsidiaries include IRC (U.S.) Management Inc., Archean Resources Ltd. and IRC Nevada Inc. All intercompany balances and transactions have been eliminated on consolidation. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and are expressed in United States dollars.

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's most significant estimates include the carrying value of royalty interests in mineral properties and the calculation of the fair value of stock-based compensation and warrants. Actual results could differ from those estimates by a material amount.

### Revenue

Royalty revenue is recognized when management can estimate the payable production from mine operations, when the underlying price is determinable, when collection is reasonably assured and pursuant to the terms of the royalty agreements. In some instances, the Company will not have access to sufficient information regarding payable production to make a reasonable estimate of revenue. In these instances, revenue recognition is deferred until the Company can make a reasonable estimate. Differences between estimates of royalty revenue and the actual amounts are adjusted and recorded in the period that the actual amounts are known. For the years ended December 31, 2005 and 2004, and the period from May 7, 2003 to December 31, 2003, IRC recorded revenue based on actual amounts received.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## **Translation of foreign currencies**

The United States dollar is the functional currency of IRC and its subsidiaries.

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. Exchange gains or losses arising on translation are included in income or loss for the year.

## **Income taxes**

Income taxes are accounted for using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Future income tax assets are evaluated and, if realization is not considered more likely than not, a valuation allowance is provided.

## **Loss per share**

Basic loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during each period. Diluted loss per share reflects the effect of all potentially dilutive common stock equivalents. The weighted average number of shares for the year ended December 31, 2004 and the period ended December 31, 2003, includes the weighted average effect of common shares that were issuable under the Founders' Special Warrants, the Initial Financing Special Warrants and the Compensation Special Warrants (note 7). These common shares were issuable for no cash consideration and were not considered contingently issuable for the purpose of the loss per share calculation.

The effect of the outstanding Williams Mine Warrants, the Financing Warrants, the Compensation Warrants and stock options (notes 3 and 7) are not included in the computation of diluted loss per share during the reporting period as their inclusion would be anti-dilutive.

## **Cash and cash equivalents**

Cash and cash equivalents consist of cash on deposit and highly liquid money market securities and investment deposits, with maturity dates less than three months at the time of acquisition and which are readily convertible into cash.

## **Short-term investments**

Short-term investments, which are liquid investments that are readily convertible to known amounts of cash, are carried at the lower of amortized cost plus accrued interest and market value. Gains and losses on disposal of short-term investments are included in investment income in the period of realization. Premiums or discounts are amortized over the remaining maturity of the instrument and reported in interest income in the consolidated statement of operations.

The quoted fair market value of the short-term investments at December 31, 2005 was \$1,716,000.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## **Royalty interests in mineral properties**

Royalty interests in mineral properties include acquired royalty interests in production stage, development stage and exploration stage properties. The royalty interests in mineral properties are recorded at cost and capitalized as tangible assets, unless such interests are considered to be a financial asset or a derivative instrument. At December 31, 2005, all royalty interests in mineral properties are classified as tangible assets.

Acquisition costs of production and development stage royalty interests are amortized using the units of production method over the life of the mineral property, which is determined using available estimates of proven and probable reserves. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no proven and probable reserves, are not amortized. At such time as the associated exploration stage mineral interests are converted to proven and probable reserves, the cost basis is amortized using the units of production method over available estimates of proven and probable reserves.

## **Furniture and equipment**

The Company initially records furniture and equipment at cost and provides for depreciation over their estimated useful lives ranging from three to seven years, using the straight-line method. Upon retirement or disposition of furniture and equipment, related gains or losses are recorded in operations.

## **Impairment of long-lived assets**

The Company evaluates long-lived assets for impairment when events or circumstances indicate that the related carrying amounts may not be recoverable. The recoverability of the carrying value of royalty interests in production and development stage mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty interest property using available estimates of proven and probable reserves.

The Company evaluates the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in the price of the underlying mineral, and whenever new information regarding the mineral property is obtained from the operator that could affect the future recoverability of the royalty interest.

Impairments in the carrying value of each royalty interest are measured and recorded to the extent that the carrying value in each royalty interest exceeds its estimated fair value, which is calculated using future discounted cash flows.

## **Measurement uncertainty**

Management's estimate of mineral prices, operators' estimates of proven and probable reserves related to royalty properties and operators' estimates of operating, capital and reclamation costs upon which the Company relies, are subject to significant risks and uncertainties. These estimates affect revenue recognition, amortization of royalty interest in mineral properties and the assessment of the recoverability of the royalty interest in mineral properties. Although management has made its best assessment of these factors based upon current conditions, it is possible that changes could occur, which could materially affect the amounts contained in these consolidated financial statements.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## **Deferred financing charges**

Financing costs related to the issuance of the Senior Secured Debentures have been deferred (included in other long-term assets) and amortized to interest expense over the six year term of the related debt using the effective yield method.

## **Senior Secured Debentures**

Proceeds from the Unit Offering were allocated into debt and equity components based upon their respective fair market values. The carrying value of the Senior Secured Debentures are being accreted to their maturity value through charges to interest expense over the term of the Debentures based on the effective yield method.

## **Stock options and warrants**

The Company determines the fair value of awards to both employees and non-employees, and these amounts are recognized as an expense over the vesting period of the related option. Compensation expense for options and warrants granted is determined based on estimated fair values of the options and the warrants at the time of grant.

## **Variable Interest Entities**

The Company has adopted Accounting Guideline 15 (AcG-15) "Consolidation of Variable Interest Entities (VIE)" effective January 1, 2005, whereby the guideline establishes when a company should consolidate a variable interest entity in its financial statements. AcG-15 provides the definition of a VIE and requires a VIE to be consolidated if a company is at risk of absorbing the VIE's expected losses, or is entitled to receive the majority of the VIE's expected residual returns, or both. The adoption of Accounting Guideline 15 has not had a material impact on the Company.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## 3 Royalty interests in mineral properties

	Cost \$	Accumulated amortization \$	Net \$
December 31, 2005			
Production stage			
Voisey's Bay Royalty	225,726	-	225,726
Williams Mine	2,168	(782)	1,386
Other	32	(2)	30
	227,926	(784)	227,142
Development stage			
Belahouro	817	-	817
Exploration stage			
Aviat One	2,211	-	2,211
Pinson	512	-	512
Other	5,280	-	5,280
	8,003	-	8,003
	236,746	(784)	235,962
December 31, 2004			
Production stage			
Williams Mine	2,168	(421)	1,747

On February 22, 2005, IRC completed separate agreements with two individuals for the purchase of 100% of the common shares of Archean Resources Ltd. ("Archean"), which owns 90% of a 3% net smelter return royalty on the Voisey's Bay property, located in northern Labrador, Canada. Total consideration paid was \$149.4 million (CA\$184.3 million), consisting of CA\$152.5 million in cash and 7,395,349 common shares of the Company ("Common Shares"), valued at the Company's initial public offering ("IPO") price of CA\$4.30 per Common Share, for a total value of CA\$31.8 million. In accordance with EIC-124, "Definition of a Business", the transaction has been accounted for as the acquisition of an asset and the full cost of the transaction, including the related future income tax adjustment of \$75.9 million, has been allocated to the Voisey's Bay Royalty. See note 6 regarding future income tax adjustments.

On August 12, 2003, effective August 1, 2003, IRC completed the purchase of a 0.25% net smelter return royalty in the Williams Mine from a private individual. Consideration for the purchase was CA\$2,877,000 (\$2,139,000) and purchase warrants (the "Williams Mine Warrants"). The Williams Mine Warrants are exercisable for 950,000 of IRC's Common Shares for CA\$3.00 per Common Share. The Williams Mine Warrants are exercisable beginning on February 22, 2005, the closing date of the IPO, until the second anniversary thereof. The Williams Mine Warrants have been valued at \$28,000, and are included in royalty interest in mineral properties in the December 31, 2005 and 2004 balance sheets.

# International Royalty Corporation

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

On November 15, 2004, the Company signed a letter agreement with BHP Billiton Worldwide Exploration Inc. ("BHPB") (as superseded by a definitive agreement dated March 18, 2005) to acquire a mineral portfolio of 22 royalty interests for total consideration of \$605,000 to be paid in cash and \$625,000 in Common Shares valued at the offering price of the IPO of CA\$4.30, equal to 180,189 Common Shares. On April 19, 2005, the Company completed the purchase of 14 royalty interests from BHPB for all of the Common Shares and \$65,000. The purchase of a further 5 royalty interests were closed on May 2, 2005 for consideration of \$510,000. The acquisition of the three remaining royalty interests for \$30,000 is expected to be completed during 2006.

On February 22, 2005, the Company acquired from the Hunter Exploration Group a portfolio of 17 gross overriding royalty interests in approximately 20 million acres of lands located in Nunavut Territory in Canada that are presently the subject of diamond exploration activities (the "Hunter Portfolio"). Total consideration paid was 1,162,791 in Common Shares valued at \$4,053,000 (CA\$5,000,000). See note 6 regarding future income tax adjustment.

On January 10, 2005, the Company acquired royalty interests on the Pinson gold and the Hasbrouck Mountain gold-silver deposits, both in Nevada, United States, from John Livermore for cash consideration of \$520,000.

On February 22, 2005, the Company acquired from Hecla Mining Company a portfolio of 14 mineral royalty interests. Total consideration paid was 158,566 in Common Shares valued at \$553,000.

During the year ended December 31, 2005, the Company recorded \$363,000 (\$277,000 in 2004 and \$143,000, inception to December 31, 2003) in amortization expense.

### **Pending royalty acquisition**

On December 7, 2004, the Company signed a letter agreement with David Fawcett (superseded by a royalty purchase agreement dated February 22, 2005) to acquire 20.3% of a 1% royalty interest on four coal licenses in British Columbia for total consideration of CA\$312,500 in cash and CA\$937,500 in Common Shares valued at the offering price of the IPO of CA\$4.30. Pursuant to an agreement dated February 22, 2005, the cash and 218,023 Common Shares were placed in escrow pending receipt of executed royalty assignment agreements from the property owner, Western Canadian Coal Corp. ("Western"). The value of the Common Shares has been included in other long-term assets at December 31, 2005 and will be transferred to royalty interests in mineral properties upon closing of the transaction.

On March 21, 2005, Western filed a petition with the Supreme Court of British Columbia to have the underlying royalty sharing agreement set aside. Subsequent to year-end, the Supreme Court of British Columbia ruled on this matter. See note 11.

# International Royalty Corporation

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

### 4 Other long-term assets

	December 31, 2005 \$	December 31, 2004 \$
Deferred charges relating to pending royalty acquisitions (note 3)	835	201
Financing costs related to issuance of the Debentures, net of amortization of \$166 (note 5)	1,479	-
Deferred charges relating to the IPO and Unit Offering	-	639
Other	135	-
	<u>2,449</u>	<u>840</u>

### 5 Senior secured debentures

On February 22, 2005, the Company completed a "Unit Offering" for gross proceeds of CA\$30 million. The Unit Offering consisted of CA\$30 million of 5.5% Senior Secured Debentures (the "Debentures") due February 22, 2011 and 1,395,360 Common Shares. The obligations of the Company under the Debentures are collateralized by a general security agreement over all of the assets of the Company relating to the Voisey's Bay Royalty.

Interest on the Debentures is payable semi-annually, on February 28 and August 31, with the principal of CA\$30 million due at maturity in 2011. Under the terms of the Debentures, the first three semi-annual interest payments were withheld and placed into an escrow account and the first interest payment was paid from this account on August 31, 2005. The remaining balance of \$1,413,000 in escrow is included in restricted cash on the balance sheet.

The proceeds received from the Debentures have been reduced by the fair value of the Common Shares issued of \$4.9 million. Details of the balance at December 31, 2005 are as follows:

	CAS	US\$
Senior Secured Debentures payable	30,000	25,740
Unaccreted discount	(5,096)	(4,372)
	<u>24,904</u>	<u>21,368</u>

The Company's contractual obligation for future principal payments is one lump sum payment of \$25,740,000 to be made on February 22, 2011. The obligation is denominated in CA\$. All amounts were converted to US\$ equivalents using an exchange rate of US\$1.00 to CA\$1.1655.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## 6 Income taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial income tax rate of 33.62% (35.62% in 2004 and 2003) to loss before income taxes as follows:

	Year ended December 31,		Period from
	2005	2004	May 7, 2003 to December 31, 2003
	\$	\$	\$
Loss before income taxes	(9,074)	(645)	(213)
Expected income tax benefit	(3,051)	(229)	(76)
Tax effect of:			
Change in valuation allowance	(305)	229	76
Stock-based compensation	1,678	-	-
Debenture discount	818	-	-
Resource adjustment	199	-	-
Other	82	-	-
Actual income tax benefit	(579)	-	-

At December 31, 2005 and 2004, IRC has unused Canadian net operating losses of \$7,389,000 and \$1,526,000 respectively, which expire as follows.

	\$
2010	592
2011	934
2012	5,863

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

The Company has recorded a future income tax liability as a component of the cost of the Archean acquisition (Voisey's Bay Royalty) and the Hunter Portfolio to reflect the fact that the Company has no amortizable basis in these assets for Canadian income tax purposes. Recording of the future income tax liability has resulted in the recognition of tax benefits related to the Company's tax net operating losses, and certain expenses of the IPO and the Unit Offering. Future tax (assets) liabilities include the following components:

	December 31, 2005 \$	December 31, 2004 \$
Royalty interests in mineral properties	78,239	189
Share issue costs	(3,112)	-
Net operating loss carry-forward	(2,484)	(502)
Debenture discount	641	-
Other	(132)	8
	73,152	(305)
Less: Valuation allowance	-	305
	73,152	-

# International Royalty Corporation

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

### 7 Shareholders' equity

Activity in Common Shares was as follows:

	2005		2004		2003	
	Shares	Amount \$	Shares	Amount \$	Shares	Amount \$
<b>Outstanding, beginning of year</b>	5,849,433	2,058	1	-	1	-
Shares issued in connection with the IPO (net of issuance costs)	37,790,698	124,253	-	-	-	-
Shares issued in connection with the Unit Offering (net of issuance costs) (note 5)	1,395,360	4,588	-	-	-	-
Shares issued for the purchase of royalty interests in mineral properties (note 3)	8,896,895	31,015	-	-	-	-
Exercise of founders special warrants	-	-	3,450,000	-	-	-
Exercise of financing warrants	-	-	399,432	1,010	-	-
Exercise of initial financing special warrants	2,550,000	1,319	1,850,000	956	-	-
Exercise of compensation special warrants	308,000	159	-	-	-	-
Shares issued into escrow (note 5)	218,023	760	-	-	-	-
Other activity	19,159	24	150,000	92	-	-
<b>Balance, end of year</b>	<b>57,027,568</b>	<b>164,176</b>	<b>5,849,433</b>	<b>2,058</b>	<b>1</b>	<b>-</b>

### Initial public offering

On February 22, 2005, the Company completed its IPO of 37,790,698 Common Shares at CA\$4.30 per Common Share for gross proceeds of CA\$162.5 million. Proceeds received from the IPO and the Unit Offering are summarized as follows:

	CAS	US\$
Gross proceeds from the IPO	162,500	131,659
Gross proceeds from the Unit Offering	30,000	24,321
Agents' commission and expenses of offering	(16,336)	(13,218)
	<b>176,164</b>	<b>142,762</b>

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## **Initial Financing Special Warrants and Financing Warrants**

In August 2003, IRC completed a private placement (the "Private Placement") whereby IRC issued 4,400,000 special warrants ("Initial Financing Special Warrants") at CA\$0.80 each, for gross proceeds of \$2,541,000 (CA\$3,520,000). Each Initial Financing Special Warrant allows the holder to acquire one Common Share for no additional consideration, and approximately 0.216 of a "Financing Warrant". The Financing Warrant components of the Initial Financing Special Warrants have the same terms and conditions as the Williams Mine Warrants (described below) and were valued in total at \$28,000. The Common Share component of the Initial Financing Special Warrants was valued at \$2,275,000.

During November and December of 2004, 1,850,000 of the Initial Financing Special Warrants were exercised for 1,850,000 Common Shares and 399,432 Financing Warrants. All 399,432 Financing Warrants were exercised for 399,432 Common Shares, at an exercise price of CA\$3.00 per Common Share for aggregate proceeds to the Company of \$998,000 (CA\$1,198,000). The remaining 2,550,000 Initial Financing Special Warrants were exercised upon the completion of the IPO, discussed above, for 2,550,000 Common Shares and 550,568 Financing Warrants.

## **Compensation Special Warrants and Compensation Warrants**

As compensation for the Private Placement, IRC issued 308,000 Compensation Special Warrants and 440,000 Compensation Warrants to IRC's agent for the Private Placement. Each Compensation Special Warrant allowed the holder to acquire one Common Share for no additional consideration and, were recorded at a total value of \$159,000. The Compensation Special Warrants were automatically exercised five business days after completion of the Company's IPO in February 2005 for 308,000 Common Shares. Each Compensation Warrant allows the holder to acquire one Common Share at a price of CA\$0.80, for a period of two years from February 22, 2005. The Compensation Warrants were valued at \$36,000.

## **Founders' Special Warrants and Consultant's Special Warrants**

Effective August 1, 2003, IRC issued 3,600,000 founders' special warrants ("Founders' Special Warrants") to the founding members of IRC. Each Founders' Special Warrant allowed the holder to acquire one Common Share for no additional consideration. In November 2004, all of the Founders' Special Warrants were exercised for 3,600,000 Common Shares.

## **Williams Mine Warrants**

In August 2003, IRC issued the Williams Mine Warrants as partial consideration for the acquisition of the Williams Mine royalty interest (note 3). The Williams Mine Warrants were valued at \$28,000.

# International Royalty Corporation

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

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(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

## Stock options

On June 8, 2004, the Board of Directors of the Company adopted a stock option plan (the "Plan") pursuant to which the Company may grant incentive stock options to directors, officers, employees of and consultants to the Company and any affiliate of the Company, at the Board of Director's discretion. The exercise price of any option granted is fixed by the Board of Directors of the Company when such option is granted.

All options will be non-transferable (except that in the case of an optionee's death, the option may be exercised by the optionee's personal representative until the earlier of the option's expiry date or the first anniversary of the optionee's death). The term of the options is at the discretion of the Board of Directors, but may not exceed 10 years from the grant date. The options expire on the earlier of the expiry date or the date which is 90 days following the day on which the optionee ceases to be a director, officer, employee of or consultant to the Company and any affiliate of the Company. The options will be adjusted in the event of a share consolidation or subdivision or other similar change to the Company's share capital. The aggregate number of Common Shares in respect of which options have been granted and remain outstanding under the Plan shall not at any time exceed 10% of the then issued and outstanding Common Shares, or exceed 5% of such amount to any one optionee.

During the year ended December 31, 2005, the Company issued 3,978,000 stock options to its directors, officers and employees. The stock options were at a weighted average exercise price of CA\$4.19 per share and vested over periods ranging from 0 to 3 years at the time of issuance.

The Company uses the fair value based method of accounting for all stock-based compensation awards. The fair value of the stock options granted during 2005 has been determined to be \$6,314,000 (of which \$4,992,000 was recognized as expense during 2005) using the Black-Scholes Option Pricing Model with the following assumptions:

Risk free interest rate	3.6% to 4.0%
Expected dividend yield	Nil
Expected price volatility of the Company's common shares	60%
Expected life of the option	3.5 years
Weighted average fair value per stock option	\$1.59

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

# International Royalty Corporation

Notes to Consolidated Financial Statements  
December 31, 2005 and 2004

(expressed in U.S. dollars)  
(figures in tables in thousands of dollars)

The following summarizes stock options outstanding at December 31, 2005:

Exercise price CA\$	Number outstanding	Remaining contractual life	Number exercisable
3.67	50,000	4.5 years	50,000
3.75	978,000	4.9 years	-
3.97	100,000	4.3 years	100,000
4.30	2,500,000	4.1 years	2,500,000
4.80	300,000	4.2 years	300,000
	3,928,000		2,950,000

## 8 Related party transactions

IRC subleased its corporate headquarters office space in Denver, Colorado from a company controlled by the chairman and chief executive officer of the Company through May 2005. The terms of the sublease were the same as the original underlying lease. Rent expense under the sublease during 2005, 2004 and 2003 was \$10,000, \$24,000, and \$12,000, respectively.

During the years ended December 31, 2005 and 2004, and the period ended December 31, 2003, IRC incurred legal fees of CA\$12,000, CA\$42,000 and CA\$35,000, respectively, from a law corporation related to one of its directors.

These amounts are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These expenses are included in general and administrative expenses on the statement of operations.

There were no amounts due from or to related parties at December 31, 2005 and 2004.

# International Royalty Corporation

## Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(expressed in U.S. dollars)

(figures in tables in thousands of dollars)

### 9 Supplemental cash flow information

	Year ended December 31,		Period from May 7, 2003 to December 31, 2003
	2005	2004	
	\$	\$	\$
Deferred charges relating to the IPO and Unit Offering included in accounts payable	-	512	-
Deferred charges relating to royalty acquisition included in accounts payable	-	97	-

### 10 Financial instruments

#### Fair value

The fair values of the Company's cash and cash equivalents, short-term investments, restricted cash, royalty receivable and accounts payable and accrued liabilities approximate the carrying amounts due to the short maturities of these instruments. The fair value of the Debentures approximates carrying value.

### 11 Subsequent event

On February 24, 2006, the Supreme Court of British Columbia upheld the underlying royalty sharing agreement between David Fawcett and Western, discussed in note 3. Subject to Western's right to appeal the decision (30 days from February 24, 2006), it is anticipated that the acquisition will be able to proceed to completion.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") of financial position and results of operations of International Royalty Corporation (the "Company" or "IRC") has been prepared based on information available to the Company as of February 28, 2006 and should be read in conjunction with the Company's consolidated financial statements and related notes thereto as of and for the year ended December 31, 2005. All amounts are in U.S. dollars unless specifically stated otherwise.

Additional information relating to the Company, including the Company's annual information form is available on SEDAR at [www.sedar.com](http://www.sedar.com), or at the Company's website at [www.internationalroyalty.com](http://www.internationalroyalty.com)

### CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION

Some of the statements contained in this document are forward-looking statements, such as statements that describe IRC's future plans, intentions, objectives or goals, including words to the effect that IRC or management expects a stated condition or result to occur and specifically IRC's anticipation that its first payment from the Voisey's Bay royalty will be received during 2006. Since forward-looking statements are not statements of historical fact and address future events, conditions and expectations, forward-looking statements by their nature inherently involve unknown risks, uncertainties, assumptions and other factors well beyond the Company's ability to control or predict. Actual results and developments may differ materially from those contemplated by such forward-looking statements depending on, among others, such key factors as the timing of Voisey's Bay Nickel Company's booking of proceeds under applicable sales agreements. The forward-looking statements included in this document represent IRC's views as of the date of this document. While IRC anticipates that subsequent events and developments may cause IRC's views to change, IRC specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing IRC's views as of any date subsequent to the date of this document. Although IRC has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on any forward-looking statements.

#### Material Assumptions

IRC's statement in this document regarding its anticipated timing of a royalty payment is based on certain assumptions. Such assumptions include, but are not limited to, the validity of statements made by Inco to IRC directly, Inco's statements in the public domain and that the terms of the applicable sales agreements for the concentrate will be consistent with statements made by Inco to IRC.

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## SUMMARY OF FINANCIAL INFORMATION:

<i>(\$ thousands, except per share data)</i>	Year ended		Period from
	December 31,		May 7, 2003
	2005	2004	to December 31, 2003
<b>Statement of Operations</b>			
Royalty revenues	\$ 425	\$ 357	\$ 178
Amortization of royalty interest in mineral properties	363	277	143
General and administrative	2,280	636	254
Net loss	(8,495)	(645)	(213)
Basic and diluted loss per share	(0.17)	(0.08)	(0.03)
<b>Statement of Cash Flows</b>			
Cash used in operating activities	(1,789)	(161)	(143)
	December 31,		
	2005	2004	2003
<b>Balance Sheet</b>			
Total assets	255,165	3,502	2,359
Senior Secured Debentures	21,368	-	-
Shareholders' equity	159,894	2,758	231

## FINANCIAL PERFORMANCE

### *Financial overview*

The Company's profile changed dramatically on February 22, 2005 with the successful completion of its initial public offering ("IPO"), raising gross proceeds of CA\$162,500,000 on the sale of 37,790,698 common shares of the Company ("Common Shares"). The Company also raised an additional CA\$30,000,000 in gross proceeds through the sale of units (the "Unit Offering"), consisting of 1,395,360 Common Shares and CA\$30,000,000 in senior secured debentures. The proceeds were used for the indirect acquisition of the Voisey's Bay royalty interest and other royalty interests as further described in the Company's consolidated financial statements as of and for the years ended December 31, 2005 and 2004.

During 2004, all of IRC's executives and employees were on a part-time basis and/or were paid reduced salaries in order to preserve our cash resources. In addition, IRC's directors were paid no fees during 2004 and professional fees were kept to a minimum. With the completion of the IPO, all employees are now being paid their stated salaries, and additional employees have been hired to accommodate the increased demands of a public company, and to assist the Company in the identification, assessment and acquisition of new royalty interest opportunities. We have added new directors, and have begun to pay our outside directors fees comparable to those of companies similar to IRC. Professional fees, filing and listing fees, printing and mailing costs, insurance, and other costs associated with being a public company have increased as a result of our IPO. In addition, the Company's larger cash position and senior secured debentures have resulted in an increase in interest income and interest expense during 2005 compared to prior periods.

Loss before income taxes for the year ended December 31, 2005 was \$9,074,000 or \$0.18 per share compared to a loss of \$645,000 or \$0.08 per share for the year ended December 31, 2004. During 2005, the Company issued 3,978,000 stock options to its directors, officers and employees, resulting in a charge of \$4,992,000 to stock-based compensation expense during the year, compared to \$92,000 for the year ended December 31, 2004. General and administrative expenses increased from \$636,000 for the year ended December 31, 2004 to \$2,280,000 during the year ended December 31, 2005. Legal, accounting and other professional fees accounted for \$380,000 of the increase, as the company required assistance with its ongoing filing and compliance requirements, tax preparation and planning issues, and also with the implementation of its shareholders' rights plan. Salaries and benefits increased by \$520,000 due to the transition to full time salaries and the increase in the number of employees described above. The increase in personnel also contributed to an increase in travel and entertainment costs during 2005 of \$116,000. Investor relations costs increased by \$186,000 during the year to \$208,000 compared to \$22,000 during the same period of 2004. The Company had its first annual meeting during 2005, contributing to an increase in printing costs of \$41,000. Other increases included directors' fees, \$66,000; insurance expense, \$114,000; listing, filing and transfer fees of \$60,000 and; general office costs of approximately \$79,000. Business development expenses were \$263,000 during the year ended December 31, 2005 compared to \$nil in 2004 and impairment of royalty interests in mineral properties was \$64,000, compared to \$nil in 2004. The Company incurred \$1,826,000 of interest expense during the year related to the senior secured debentures, and also earned \$374,000 of interest income from investment of excess cash, short-term investments and restricted cash compared to \$nil in the previous year. The Company also incurred a foreign currency loss of \$85,000 during the year ended December 31, 2005, due to a stronger Canadian dollar, consisting primarily of a loss of \$1,419,000 on the senior secured debentures, partially offset by a gain of approximately \$1,015,000 from cash, short-term investments, and restricted cash held in Canadian dollar denominated accounts and also by a change in the value of the Company's future income tax assets of \$325,000.

#### *Revenue and operations*

During the year ended December 31, 2005, royalty revenues increased to \$425,000 from \$357,000 during the previous year, partially due to an increase in the ounces of gold produced at the Williams mine during the period and also due to an increase in the average price of gold from \$409 during 2004 to \$445 during 2005.

Amortization is computed based upon the units of production method over the life of the mineral reserves of the underlying property. At December 31, 2004, the Williams mine operator adjusted the estimated reserves of the mine downward by approximately 18% from its previous estimate. This has resulted in an increased rate of amortization over the remaining life of the Williams mine royalty interest and a corresponding reduction in gross profit from royalty interests. Amortization on mineral properties increased from \$277,000 in the year ended December 31, 2004, to \$363,000 during 2005. The increase can be attributed to the increased rate of amortization described above and also due to the increase in ounces produced at the Williams mine during 2005.

### **FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

#### *Operating Cash Flow*

Cash used in operating activities, before changes to non-cash working capital items, was \$2,017,000 during the year ended December 31, 2005 compared to \$277,000 during the year ended in 2004. General and administrative expenses excluding non-cash items increased by \$1,632,000 during 2005, due to the increased costs previously described. Interest expense excluding non-cash items was \$1,168,000 during 2005 and \$nil in 2004. Business development expenses were \$263,000 during the year ended December 31, 2005, compared to \$nil in the same period a year ago. These decreases were

offset by interest income of \$374,000, a currency gain on cash balances of \$885,000 compared to a loss of \$2,000 in 2004, and increased royalty revenues of \$68,000.

#### *Investing Activities*

During the year ended December 31, 2005, IRC acquired the Voisey's Bay royalty interest for cash consideration of \$124.1 million, and additional royalty portfolios from John Livermore, Hecla Mining Company, the Hunter Exploration Group and BHP Billiton Worldwide Exploration Inc. for total cash consideration of \$1.5 million. IRC also has invested a total of \$1.7 million in restricted cash during the period, including \$1.4 million into an interest escrow account for the senior secured debentures and \$300,000 in escrow for the completion of a pending royalty interest acquisition. The Company also invested approximately \$1.7 million in short-term investments during 2005.

#### *Financing Activities*

On February 22, 2005, the Company completed its IPO of 37,790,698 Common Shares at CA\$4.30 per Common Share for gross proceeds of CA\$162,500,000. Coinciding with the IPO, the Company also completed a "Unit Offering" for gross proceeds of CA\$30,000,000. The Unit Offering consisted of CA\$30,000,000 of 5.5% senior secured debentures (the "Debentures") due February 22, 2011 and 1,395,360 Common Shares. Proceeds received during 2005 are summarized as follows:

<i>(\$ in thousands)</i>	<b>CAS</b>	<b>US\$</b>
Gross proceeds from the IPO	162,500	131,659
Gross proceeds from the Unit Offering	30,000	24,321
Agents' commission and expenses of offering	(16,220)	(13,087)
<b>Net proceeds</b>	<b><u>176,280</u></b>	<b><u>142,893</u></b>

#### *Cash Resources and Liquidity*

The Company had a cash and short-term investment position of \$14.5 million at December 31, 2005 and working capital of \$15.9 million, an increase of \$13.6 million and \$14.9 million, respectively, from December 31, 2004. The large increase during the year is a result of the Company's completion of its IPO and the Unit Offering during the period, reduced by expenditures for the acquisition of the royalty interests and administrative costs as described above.

The Company's near-term cash requirements are limited to general and administrative, and business development expenses. As a royalty company, there are no requirements for exploration, feasibility, development or capital expenditures. Royalty acquisitions are discretionary in nature and will be consummated through the use of cash, as available, or through the issuance of Common Shares.

The Company believes that cash and short-term investments available at December 31, 2005 will be sufficient to cover the cost of general and administrative and business development expenses at least through 2006. With the commencement of production at the Voisey's Bay mine and the corresponding revenue to be received from the Voisey's Bay Royalty, anticipated in 2006, the Company expects to have sufficient cash flow to meet all of its cash needs into the foreseeable future.

The Company's contractual obligations for future payments are summarized as follows.

<i>(\$ in thousands )</i>	<b>Debenture Principal Obligations <sup>(1)</sup></b>
<b>Year</b>	
2006	\$ -
2007	-
2008	-
2009	-
2010	-
2011	25,740
Total	<u>\$25,740</u>

<sup>(1)</sup> The obligation is denominated in CA\$. All amounts were converted to US\$ equivalents using an exchange rate of US\$1.00 to CA\$1.1655.

#### *Financial Position*

The Company has recorded an adjustment to the purchase price of the Archean acquisition (Voisey's Bay Royalty) and its Hunter Royalty Portfolio to reflect the fact that the Company has no amortizable basis in these assets for Canadian income tax purposes. The effect of the adjustments is to increase the value of the respective royalty interests and to record an offsetting adjustment to future income taxes. This adjustment will have no impact on either past or future cash flows of the Company. Recording of the future income tax liability has also resulted in the recognition of tax benefits related to the Company's tax net operating losses, and certain expenses of the IPO and the Unit Offering. Details of the balance in future income taxes at December 31, 2005 are as follows:

<i>(in thousands of \$)</i>	
Adjustment to royalty interests in mineral properties	\$78,239
Adjustment to share issue costs	(3,112)
Net operating losses	(2,484)
Discount on senior secured debentures	641
Other, net	(132)
	<u>\$73,152</u>

During the year ended December 31, 2005, the Company issued 3,978,000 stock options to its directors, officers and employees. The stock options were at a weighted average exercise price of CA\$4.19 per share and vested over periods ranging from 0 to 3 years at the time of issuance.

#### **Related Party Transactions**

IRC subleased its corporate headquarters office space in Denver, Colorado from a company controlled by the chairman and chief executive officer of the Company through May 2005. The terms of the sublease were the same as the original underlying lease. Rent expense under the sublease during 2005, 2004 and 2003 was \$10,000, \$24,000, and \$12,000, respectively.

During the years ended December 31, 2005 and 2004, and the period ended December 31, 2003, IRC incurred legal fees of CA\$12,000, CA\$42,000 and CA\$35,000, respectively, from a law corporation related to one of its directors.

These amounts are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These expenses are included in general and administrative expenses on the statement of operations.

There were no amounts due from or to related parties at December 31, 2005 and 2004.

### **Quarterly information**

Loss before income taxes for the quarter ended December 31, 2005 was \$956,000 or \$0.02 per share compared to a loss of \$229,000 or \$0.03 per share for the quarter ended December 31, 2004. General and administrative expenses increased by \$378,000 to \$633,000 during the quarter ended December 31, 2005, compared to the quarter ended December 31, 2004. Salaries and benefits increased by \$144,000 to \$234,000 due to the transition to full time salaries and the increase in the number of employees described above. Stock-based compensation was \$125,000 during the fourth quarter of 2005 compared to nil during 2004. Investor relations costs were \$62,000 during the quarter compared to \$22,000 during the same period of 2004. Legal, accounting and other professional fees accounted for \$35,000 of the increase, as the company required assistance with its ongoing filing and compliance requirements, and also with tax preparation and planning issues. Other general and administrative increases during the period included directors' fees, \$13,000; insurance expense, \$32,000; listing, filing and transfer fees of \$24,000; printing and reproduction, \$9,000; travel and entertainment costs, \$25,000 and; general office costs of approximately \$18,000. During the quarter ended December 31, 2005, business development expense was \$58,000 compared to \$nil for the same period in 2004. In 2005, IRC incurred \$553,000 of interest expense during the quarter related to the senior secured debentures, and also earned \$113,000 of interest income from investment of excess cash and restricted cash compared to \$nil in the previous year. The Company also realized a foreign currency gain of \$276,000 during the quarter due to the strengthening of the Canadian dollar.

During the quarter ended December 31, 2005, royalty revenues increased to \$113,000 from \$96,000 in the same quarter of 2004, due primarily to an increase in the average price of gold from \$434 in 2004 to \$485 in 2005.

Cash used in operating activities, before changes to non-cash working capital items was \$758,000 during the quarter ended December 31, 2005 compared to \$161,000 during the quarter ended December 31, 2004. Cash general and administrative expenses increased by \$372,000 during 2005, due to the increases previously described. Cash interest expense was \$354,000 and business development expenses were \$58,000 during the quarter ended December 31, 2005, compared to \$nil in the same period a year ago. These decreases were offset by interest income of \$113,000, a cash foreign currency gain of \$53,000 compared to a loss of \$3,000 in the 2004 period, and an increase in royalty revenues of \$17,000.

The following table provides selected financial data derived from the Company's eight most recently completed quarters.

<i>(\$ in thousands, except per share data)</i>	<b>2005</b>				<b>2004</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
<b>Statement of Operations</b>								
Royalty revenues	\$113	\$107	\$107	\$98	\$96	\$73	\$102	\$86
Net loss	(761)	(1,128)	(989)	(5,617)	(229)	(104)	(110)	(202)
Basic and diluted loss per share	(0.01)	(0.02)	(0.02)	(0.20)	(0.03)	(0.01)	(0.01)	(0.02)

The large increase in the net loss in the first quarter of 2005 is due primarily to a charge to stock-based compensation of \$4,651,000 related to the initial issuance of stock options upon completion of the Company's IPO in February 2005. In addition, all of the quarters of 2005 were impacted by the increased administrative burden resulting from the Company's IPO, as discussed above.

The higher net loss in the third quarter of 2005 was primarily a result of a foreign currency loss of \$409,000 during the quarter.

#### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements of the Company, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates by a material amount.

Management's estimate of mineral prices, operators' estimates of proven and probable reserves related to the underlying royalty properties and operators' estimates of operating, capital and reclamation costs upon which the Company relies, are subject to certain risks and uncertainties. These estimates affect revenue recognition, amortization of royalty interests in mineral properties and the assessment of recoverability of the royalty interests in mineral properties. The estimated fair values of stock options require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate of the stock options. Although management has made its best assessment of these factors based upon current conditions, it is possible that changes could occur, which could materially affect the amounts contained in the consolidated financial statements of the Company.

#### **Royalty Revenue**

Royalty revenue is recognized when management can estimate the payable production from mine operations, when the underlying price is determinable, when collection is reasonably assured and pursuant to the terms of the royalty agreements. In practice, management has used a rolling average of royalty receipts to estimate future receipts. Differences between estimates of royalty revenue and the actual amounts are adjusted and recorded in the period in which the amounts of the differences are known. In some instances (i.e. a new operation), the Company will not have access to sufficient current or historical information regarding payable production to make a reasonable estimate of revenue. In these instances, revenue recognition is deferred until the Company can make a reasonable estimate and will generally be recorded on a cash basis until sufficient history is available to make a reasonable estimate.

## **Amortization of Royalty Interests in Mineral Properties**

Acquisition costs of production and development stage royalty interests are amortized using the units of production method over the life of the mineral property, which is determined using available estimates of proven and probable reserves. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no proven and probable reserves, are not amortized. At such time as the associated exploration stage mineral interests are converted to proven and probable reserves, the cost basis is amortized using the units of production method over available estimates of proven and probable reserves. Adjustments to payable production from mine operations, as discussed in the paragraph above, would result in a corresponding adjustment to the amortization of the acquisition costs.

## **Asset Impairment**

The Company evaluates long-lived assets for impairment when events or circumstances indicate that the related carrying amounts may not be recoverable. The recoverability of the carrying value of royalty interests in production and development stage mineral properties is evaluated based upon estimated future undiscounted net cash flows from each royalty interest using available estimates of proven and probable reserves.

The Company evaluates the recoverability of the carrying value of royalty interests in exploration stage mineral properties in the event of significant decreases in the price of the underlying mineral, and whenever new information regarding the mineral property is obtained from the operator that could affect the future recoverability of the royalty interest.

Impairments in the carrying value of each royalty interest are measured and recorded to the extent that the carrying value in each royalty interest exceeds its estimated fair value, which is calculated using future discounted cash flows.

## **Stock options and warrants**

The Company determines the fair value of awards to both employees and non-employees, and these amounts are recognized as an expense over the vesting period of the related option. Compensation expense for options and warrants granted are determined based on estimated fair values of the options and the warrants at the time of grant.

## **NEW ACCOUNTING GUIDANCE AND SIGNIFICANT ACCOUNTING POLICIES**

### **Short-term Investments**

Short-term investments, which are liquid investments that are readily convertible to known amounts of cash, are carried at the lower of amortized cost plus accrued interest and market value. Gains and losses on disposal of short-term investments are included in investment income in the period of realization. Premiums or discounts are amortized over the remaining maturity of the instrument and reported in interest income in the consolidated statement of operations.

### **Variable Interest Entities**

The Company has adopted Accounting Guideline 15 (AcG-15) "Consolidation of Variable Interest Entities (VIE)" effective January 1, 2005, whereby the guideline establishes when a company should consolidate a variable interest entity in its financial statements. AcG-15 provides the definition of a VIE and requires a VIE to be consolidated if a company is at risk of absorbing the VIE's expected losses, or

is entitled to receive the majority of the VIE's expected residual returns, or both. The adoption of Accounting Guideline 15 has not had a material impact on the Company.

#### **Deferred financing charges**

Financing costs related to the issuance of the Debentures are deferred and amortized over the six year term of the related debt using the effective yield method.

#### **Senior Secured Debentures**

Proceeds from the Unit Offering were allocated into debt and equity components based upon their respective fair market values. The carrying value of the Debentures is being accreted to their maturity value through charges to interest expense over the term of the Debentures based on the effective yield method.

### **NEW ACCOUNTING PRONOUNCEMENTS**

#### *Comprehensive Income*

CICA Handbook Section 1530 – Comprehensive Income introduces new standards for reporting and display of comprehensive income. Comprehensive income is the change in equity (new assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company has not yet determined when it will adopt this standard. Financial statements of prior periods are required to be restated for certain comprehensive income items. In addition, an enterprise is encouraged, but not required to present reclassification adjustments, in comparative financial statements provided for earlier periods.

The Company has not yet assessed what impact, if any, adoption of this statement will have on the Company's financial statements.

#### *Equity*

CICA Handbook Section 3251 – Equity, replaces Section 3250 – Surplus. It establishes standards for the presentation of equity and changes in equity during a reporting period.

Section 3251 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Company has not yet determined when it will adopt this standard. Financial statements of prior periods are required to be restated for certain specified items. For all other items, comparative financial statements presented are not restated, but an adjustment to the opening balance of accumulated other comprehensive income may be required.

The Company has not yet assessed what impact, if any, adoption of this statement will have on the Company's financial statements. The Company does not expect the adoption of this statement to have a significant impact on the operations of the Company.

## **OUTLOOK**

During November 2005, Inco Limited announced its first shipment of nickel concentrate from the Voisey's Bay mine and subsequently announced production of its first finished nickel product from the Voisey's Bay mine in early January 2006. This schedule should result in the recognition of the Company's first royalty revenue from Voisey's Bay during 2006 and a corresponding increase in amortization of the royalty interest. In addition, the Company will incur a full year of post- IPO general and administrative expenses, interest expense and interest income during 2006, compared to 10 months during 2005.

Because the Company acquired the shares of Archean instead of a direct interest in the Voisey's Bay Royalty, the Company will have no amortizable basis for Canadian income tax purposes, which may have an adverse impact on the Company's current tax liability once payments from the Voisey's Bay Royalty begin.

The Company's Debentures are denominated in Canadian dollars. In order to partially offset the foreign currency risk associated therewith, the Board of Directors has instructed management to maintain all cash balances in Canadian dollar accounts. All excess cash is invested in short-term, interest bearing securities until they can be utilized for the acquisition of other royalty interests. The interest income from those investments will be offset by interest expense on the Debentures.

## **OUTSTANDING SHARE DATA**

As of February 28, 2006, there were 57,030,268 Common Shares outstanding. In addition there were 3,978,000 director and employee stock options with exercise prices ranging between CA\$3.67 and CA\$4.80 per share. There were also 1,496,248 warrants outstanding, allowing the holders to purchase Common Shares at CA\$3.00 per share and 24,710 warrants outstanding which allow the holders to purchase Common Shares at CA\$0.80 per share. All warrants expire on February 22, 2007.

## **DISCLOSURE CONTROLS AND PROCEDURES**

In accordance with National Instrument 52-109 respecting certification of disclosure in issuers' annual and interim filings, the Chief Executive Officer and the Chief Financial Officer (the "Disclosure Committee") have evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended December 31, 2005. Generally, the Disclosure Committee has concluded that the Company's disclosure controls and procedures provide reasonable assurance that (i) information required to be disclosed by the Company in its annual filings, interim filings or any other report filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information required to be disclosed in the foregoing filings or reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and the Chief Financial Officer to allow timely decisions regarding required disclosure.

## **FACTORS AFFECTING OPERATING RESULTS**

The following discussion pertains to the outlook and conditions currently known to management which could have a material impact on the financial condition and results of the operations of the Company. This discussion, by its nature, is not all-inclusive. It is not a guarantee that other factors will or will not affect the Company in the future.

### **Fluctuation in Mineral Prices**

Mineral prices have fluctuated widely in recent years. The marketability and price of metals, minerals and gems on properties for which the Company holds royalty interests will be influenced by numerous factors beyond the control of the Company.

### **Foreign Currency Fluctuations**

The Company's royalty interests are subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position and results. There can be no assurance that the steps taken by management to address foreign currency fluctuations will eliminate all adverse effects and, accordingly, the Company may suffer losses due to adverse foreign currency fluctuations.

### **Company Valuation Heavily Dependent on Voisey's Bay Royalty**

The Company's valuation is presently heavily weighted with the value of the Voisey's Bay Royalty. The Voisey's Bay Royalty is very material to the Company's ability to generate revenue. Therefore, the risk associated with the Company's valuation is heightened in the event that the Voisey's Bay operation does not perform as expected.

### **Recoverability of Resources and Reserves**

The figures provided in connection with reserves and resources in respect of the properties in which the Company has acquired royalty interests are estimates and no assurance can be given that full recovery of the anticipated tonnages and grades will be achieved or that any indicated level of recovery will be realized. The ore actually recovered may differ from the estimated grades of the reserves and resources. Future production could differ from reserve and resources estimates for, among others, the following reasons:

- (a) mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- (b) increases in operating mining costs and processing costs could adversely affect whether the mineralization remains as a reserve or resource;
- (c) the grade of the reserves or resources may vary significantly from time to time and there is no assurance that any particular level of mineralization will be recovered from the reserves or resources;
- (d) declines in the market prices of metals may render the mining of some or all of the reserves uneconomic;
- (e) unexpected penalties may be imposed by smelters or refiners; and
- (f) the metallurgy may turn out differently than that anticipated.

**Form 52-109FT1 – Certification of Annual Filings during Transition Period**

I, David R. Hammond, Chief Financial Officer of International Royalty Corporation, certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of International Royalty Corporation (the issuer) for the period ending December 31, 2004;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings; and
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings.

DATED March 31, 2005.

"David R. Hammond"

David R. Hammond  
Chief Financial Officer

**Form 52-109FT1 – Certification of Annual Filings during Transition Period**

I, Douglas B. Silver, Chief Executive Officer of International Royalty Corporation, certify that:

1. I have reviewed the annual filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of International Royalty Corporation (the issuer) for the period ending December 31, 2004;
2. Based on my knowledge, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual filings; and
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the annual filings.

DATED March 31, 2005.

"Douglas B. Silver"

Douglas B. Silver  
Chief Executive Officer

FEE RULE

FORM 13-502F1  
ANNUAL PARTICIPATION FEE FOR REPORTING ISSUERS

Reporting Issuer Name: International Royalty Corporation

Financial Year Ending, used in calculating the participation fee: December 31, 2005

Complete Only One of 1, 2 or 3:

1. Class 1 Reporting Issuers (Canadian Issuers – Listed in Canada and/or the U.S.)

Market value of equity securities:

Total number of equity securities of a class or series outstanding at the end of the issuer's most recent financial year		<u>57,027,568</u>	
Simple average of the closing price of that class or series as of the last trading day of each of the months of the financial year (under paragraph 2.5(a)(ii)(A) or (B) of the Rule)	X	<u>\$3.864</u>	
Market value of class or series	=	<u>\$220,333,785.000</u>	(A)

(Repeat the above calculation for each class or series of equity securities of the reporting issuer that are listed and posted for trading, or quoted on a marketplace in Canada or the United States of America at the end of the financial year) \_\_\_\_\_ (A)

Market value of corporate debt or preferred shares of Reporting Issuer or Subsidiary Entity referred to in Paragraph 2.5(b)(ii): \_\_\_\_\_ (B)  
**[Provide details of how determination was made.]**

(Repeat for each class or series of corporate debt or preferred shares) \_\_\_\_\_ (B)

**Total Capitalization (add market value of all classes and series of equity securities and market value of debt and preferred shares) (A) + (B) =** \$220,333,785.00

**Total fee payable in accordance with Appendix A of the Rule** \$15,000.00

Reduced fee for new Reporting Issuers (see section 2.8 of the Rule) \_\_\_\_\_

Total Fee Payable x Number of entire months remaining in the issuer's financial year  
12

Late Fee, if applicable  
(please include the calculation pursuant to section 2.9 of the Rule)

\_\_\_\_\_

**2. Class 2 Reporting Issuers (Other Canadian Issuers)**

Financial Statement Values (use stated values from the audited financial statements of the reporting issuer as at its most recent audited year end):

Retained earnings or deficit \_\_\_\_\_

Contributed surplus \_\_\_\_\_

Share capital or owners' equity, options, warrants and preferred shares (whether such shares are classified as debt or equity for financial reporting purposes) \_\_\_\_\_

Long term debt (including the current portion) \_\_\_\_\_

Capital leases (including the current portion) \_\_\_\_\_

Minority or non-controlling interest \_\_\_\_\_

Items classified on the balance sheet between current liabilities and shareholders' equity (and not otherwise listed above) \_\_\_\_\_

Any other item forming part of shareholders' equity and not set out specifically above \_\_\_\_\_

**Total Capitalization** \_\_\_\_\_

**Total Fee payable pursuant to Appendix A of the Rule** \_\_\_\_\_

Reduced fee for new Reporting Issuers (see section 2.8 of the Rule)

Total Fee Payable x Number of entire months remaining  
in the issuer's financial year \_\_\_\_\_

12

Late Fee, if applicable (please include the calculation pursuant to section 2.9 of the Rule) \_\_\_\_\_