

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. These consolidated financial statements have been prepared by management in accordance with the accounting policies described in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

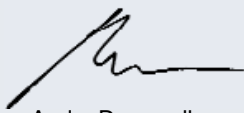
Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements. Deloitte & Touche LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent Annual General Meeting, to audit the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee, which is comprised of a majority of non-management Directors, meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



J. Brian Kynoch
President

March 16, 2007



Andre Deepwell
Chief Financial Officer

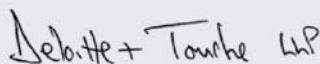
Auditors' Report

To the Shareholders of Imperial Metals Corporation

We have audited the consolidated balance sheets of Imperial Metals Corporation as at December 31, 2006 and 2005 and the consolidated statements of income, shareholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, British Columbia

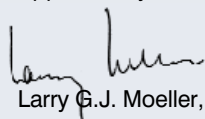
March 16, 2007

Consolidated Balance Sheets

December 31, 2006 and 2005	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,047,782	\$ 339,450
Marketable securities [Market value \$502,764 (2005 - \$355,174)]	333,802	309,914
Accounts receivable	20,548,495	24,026,147
Inventory (Note 3)	13,176,567	5,158,103
Derivative instrument assets and margin deposits (Note 13)	11,699,327	8,250,018
Future income taxes (Note 12)	-	2,674,874
	67,805,973	40,758,506
Investment in Huckleberry Mines Ltd. (Note 4)	45,438,272	11,746,326
Investment in bcMetals Corporation (Note 5)	7,109,668	-
Mineral Properties (Note 6)	88,844,515	79,141,191
Future Site Reclamation Deposits	2,579,231	2,231,962
Deferred Financing Costs (Note 9)	261,998	1,409,261
Other Assets	109,198	146,261
Future Income Taxes (Note 12)	1,947,500	-
	\$ 214,096,355	\$ 135,433,507
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 16,033,437	\$ 14,563,066
Short term debt (Note 7)	1,869,133	30,337,983
Current portion of long term debt (Note 8)	6,061,322	5,581,964
Derivative instrument liabilities (Note 13)	3,792,972	9,161,024
Future income taxes (Note 12)	2,956,498	-
	30,713,362	59,644,037
Long Term Debt (Note 8)	9,510,257	13,216,146
Debt Component of Convertible Debentures (Note 9)	10,512,478	13,719,982
Future Site Reclamation Costs (Note 10)	3,415,057	3,649,434
Future Income Taxes (Note 12)	18,749,254	3,025,122
	72,900,408	93,254,721
SHAREHOLDERS' EQUITY		
Share Capital (Note 11)	47,682,123	29,724,618
Contributed Surplus	4,048,542	2,942,699
Equity Component of Convertible Debentures (Note 9)	4,808,215	6,861,510
Retained Earnings	84,657,067	2,649,959
	141,195,947	42,178,786
	\$ 214,096,355	\$ 135,433,507

See accompanying notes to these financial statements.

Approved by the Board:



Larry G.J. Moeller, Director



J. Brian Kynoch, Director

Commitments and guarantees (Note 16)
Subsequent events (Notes 4, 5 and 13)

Consolidated Statements of Income

Years Ended December 31, 2006 and 2005	2006	2005
REVENUES		
Mineral sales	\$ 210,354,564	\$ 70,708,711
Interest income	694,273	183,412
Other	397,915	184,927
	<u>211,446,752</u>	<u>71,077,050</u>
EXPENSES		
Mineral production and transportation costs	90,218,127	53,270,341
Mineral property holding costs (Note 6)	757,024	1,062,737
Accretion of future site restoration costs	260,869	216,982
Depletion, depreciation and amortization	12,940,952	7,879,623
General and administration	2,001,129	1,368,717
Share based compensation	2,058,503	770,162
Interest on long term debt	1,890,602	1,572,232
Other interest	2,354,304	1,061,382
Interest accretion on short and long term debt	1,332,878	1,100,532
Amortization of deferred financing costs	1,028,581	1,123,713
Foreign exchange gain on long term debt	(20,341)	(42,962)
Foreign exchange loss	64,416	189,440
	<u>114,887,044</u>	<u>69,572,899</u>
INCOME BEFORE THE UNDERNOTED	<u>96,559,708</u>	<u>1,504,151</u>
Add (Deduct)		
Equity income in Huckleberry Mines Ltd. (Note 4)	33,691,946	29,927,250
Losses on derivative instruments (Note 13)	(26,596,252)	(11,598,669)
Other	187,710	176,960
	<u>7,283,404</u>	<u>18,505,541</u>
INCOME BEFORE TAXES	<u>103,843,112</u>	<u>20,009,692</u>
Income and mining taxes (recovery) (Note 12)	21,836,004	(1,559,059)
NET INCOME	<u>\$ 82,007,108</u>	<u>\$ 21,568,751</u>
Income Per Share (Note 14)		
Basic	\$ 2.75	\$ 0.77
Diluted	\$ 2.69	\$ 0.74
Weighted Average Number of Common Shares Outstanding (Note 14)		
Basic	29,801,115	28,146,219
Diluted	31,248,536	28,999,245

See accompanying notes to these financial statements.

Consolidated Statements of Shareholders' Equity

	Number of Shares	Share Capital	Contributed Surplus	Equity Component of Convertible Debentures	Retained Earnings (Deficit)	Total
		Amount				
Balance, December 31, 2004	27,950,939	\$ 31,424,753	\$ 250,869	\$ –	\$ (18,918,792)	\$ 12,756,830
Convertible debenture issue, net of financing costs of \$331,080	–	–	–	6,878,707	–	6,878,707
Issued for cash on exercise of options	114,700	57,350	–	–	–	57,350
Issued for cash on exercise of share purchase warrants	74,800	411,400	–	–	–	411,400
Issued on conversion of convertible debentures	5,780	49,941	–	(17,197)	–	32,744
Transfer of contributed surplus on exercise of options	–	25,234	(25,234)	–	–	–
Warrants issued for Line of Credit facility	–	–	1,946,902	–	–	1,946,902
Future income tax affect of flow through share expenditures	–	(2,244,060)	–	–	–	(2,244,060)
Share based compensation	–	–	770,162	–	–	770,162
Net income	–	–	–	–	21,568,751	21,568,751
Balance, December 31, 2005	28,146,219	29,724,618	2,942,699	6,861,510	2,649,959	42,178,786
Issued for cash, net of issue costs of \$150,914	1,000,000	6,349,086	–	–	–	6,349,086
Issued for cash on exercise of options	290,667	704,502	–	–	–	704,502
Issued for cash on exercise of share purchase warrants	600,750	3,604,500	–	–	–	3,604,500
Issued on conversion of convertible debentures	690,162	6,346,757	–	(2,053,295)	–	4,293,462
Transfer of contributed surplus on exercise of options and warrants	–	952,660	(952,660)	–	–	–
Share based compensation	–	–	2,058,503	–	–	2,058,503
Net income	–	–	–	–	82,007,108	82,007,108
Balance, December 31, 2006	30,727,798	\$ 47,682,123	\$ 4,048,542	\$ 4,808,215	\$ 84,657,067	\$ 141,195,947

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2006 and 2005	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 82,007,108	\$ 21,568,751
Items not affecting cash flows		
Depletion, depreciation and amortization	12,940,952	7,879,623
Share based compensation	2,058,503	770,162
Accretion of debt and future site restoration costs	1,593,747	1,317,514
Amortization of deferred financing costs	1,028,581	1,123,713
Equity income in Huckleberry Mines Ltd.	(33,691,946)	(29,927,250)
Foreign exchange gain on short and long term debt	(833,717)	(339,722)
Future income taxes	19,408,004	(1,893,812)
Unrealized (gains) losses on derivative instruments	(13,960,945)	7,856,472
Other	(186,776)	(155,258)
	70,363,511	8,200,193
Net change in non-cash operating working capital balances (Note 18)	2,674,337	(22,923,594)
Cash provided by (used in) operating activities	73,037,848	(14,723,401)
FINANCING ACTIVITIES		
Proceeds of short term debt	112,371,054	70,404,508
Repayment of short term debt	(140,092,467)	(40,069,765)
Proceeds of long term debt	2,409,397	12,940,000
Repayment of long term debt	(5,677,886)	(2,858,738)
Proceeds of convertible debentures	–	19,081,582
Issue of share capital, net of share issue costs	10,658,088	468,750
Cash (used in) provided by financing activities	(20,331,814)	59,966,337
INVESTMENT ACTIVITIES		
Acquisition and development of mineral properties	(23,727,559)	(49,473,640)
Purchase of marketable securities	–	(80,000)
Proceeds on sale of marketable securities	–	116,815
Purchase of investment in bcMetals Corporation	(7,109,668)	–
Proceeds on sale of mineral properties	231,810	547,653
Increase in future site reclamation deposits	(344,067)	(50,259)
Other	(48,218)	(182,750)
Cash used in investment activities	(30,997,702)	(49,619,575)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,708,332	(4,376,639)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	339,450	4,716,089
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 22,047,782	\$ 339,450

Consolidated Statements of Cash Flows (continued)

Years Ended December 31, 2006 and 2005	2006	2005
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:		
Cash in bank	\$ 4,250,685	\$ 339,450
Short term money market investments	17,797,097	-
	<u>\$ 22,047,782</u>	<u>\$ 339,450</u>
OPERATING ACTIVITIES		
Interest expense paid	\$ 4,292,921	\$ 2,573,025
Income and mining taxes paid	\$ 1,681,707	\$ 40,753

SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING ACTIVITIES

During the year ended December 31, 2006

- (a) the Company reclassified \$952,660 of contributed surplus arising from stock based compensation and warrants to share capital on the exercise of options and warrants.
- (b) holders of convertible debentures with a face value of \$5,970,000 converted their convertible debentures into common shares.
- (c) the Company received marketable securities with a fair value of \$23,889 as an option payment on a mineral property.

During the year ended December 31, 2005

- (a) the Company reclassified \$25,234 of contributed surplus arising from stock based compensation to share capital on the exercise of options.
- (b) holders of convertible debentures with a face value of \$50,000 converted their convertible debentures into common shares.
- (c) the Company sold surplus mineral properties and took back a \$375,000 mortgage on the properties sold.
- (d) the Company received marketable securities with a fair value of \$11,000 as an option payment on a mineral property.

See accompanying notes to these financial statements.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

Basis of Presentation

These consolidated financial statements include the accounts of the Company and those entities which are controlled by the Company through voting equity interests, referred to as subsidiaries. Entities which are jointly controlled, referred to as joint ventures, are proportionately consolidated. Variable Interest Entities ("VIEs"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline ("AcG") 15, "Consolidation of Variable Interest Entities" ("AcG 15"), are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. All inter-company balances and transactions have been eliminated upon consolidation.

Investments in shares of investee companies in which the Company's ownership and rights arising therefrom provide the Company with the ability to exercise significant influence are accounted for using the equity method. The Company's investment in Huckleberry Mines Ltd., which holds the Huckleberry Mine (Note 4) has been accounted for using the equity method whereby the investment has been initially recorded at cost and the carrying value adjusted thereafter to include the Company's share of earnings since the acquisition date. Cash distributions received are credited to the investment account.

Other investments are accounted for using the cost method.

Investments are written down to fair value when an other than temporary decline in their carrying value has occurred.

Cash and Cash Equivalents

Cash equivalents include money market instruments that are readily convertible to cash and have maturities at the date of purchase of less than ninety days.

Marketable Securities

Marketable securities are carried at the lower of cost and market value.

Inventory

Copper concentrates, inclusive of contained gold and silver, are valued at the lower of production cost to produce saleable metal and net realizable value. Stores and supplies inventories are valued at the lower of cost and replacement cost.

Mineral Properties

Mining Property, Plant and Equipment

Mining property, plant and equipment are carried at cost less accumulated depletion, depreciation and writedowns. Depletion and depreciation are computed primarily by property using the unit-of-production method based upon estimated recoverable reserves excluding certain assets at a cost of \$28,976,258 (2005-\$23,889,881) which are depreciated on a straight line basis as follows:

Mobile mine equipment and vehicles	4 -12 years
Office, computer and communications equipment	4 - 5 years

Maintenance and repairs are charged to operations when incurred. Renewals and betterments, which extend the useful life of the assets, are capitalized.

Pre-production and Exploration Properties

The Company follows the method of accounting for these mineral properties whereby all costs related to acquisition, exploration and development are capitalized by property. Capitalized costs include interest and financing costs for amounts borrowed for initial mine development and plant construction, and operating costs, net of revenues, incurred prior to the commencement of commercial production. On the commencement of commercial production, net costs are charged to operations using the unit-of-production method by property based upon estimated recoverable reserves.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof.

Stripping Costs

Costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations are included in the cost of the inventory produced in the period in which they are incurred, except when the charges represent a betterment to the mineral property. Charges represent a betterment to the mineral property when the stripping activity provides access to reserves that will be produced in future periods that would not have been accessible without the stripping activity. When charges are deferred in relation to a betterment, the charges are amortized over the reserve accessed by the stripping activity using the unit-of-production method.

Assessment of Impairment

Management reviews the carrying value of mineral exploration properties at least quarterly for evidence of impairment. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest and, in the case of producing mining property, plant and equipment estimates of future cash flows to be realized from production. When the results of this review indicate that an impairment exists, the Company estimates the net recoverable amount of pre feasibility study exploration properties by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of rights. The net recoverable amount of post feasibility study exploration properties and producing mining property, plant and equipment is determined based on undiscounted estimates of future cash flows. When the carrying values of mineral properties are estimated to exceed their net recoverable amounts, a provision is made to write down these assets to estimated fair value.

Convertible Debenture

The convertible debenture is a compound financial instrument. Accordingly, the fair value of the conversion right forming part of the convertible debenture has been classified as part of the shareholders' equity with the balance of the proceeds classified as a financial liability. The carrying value of the financial liability is being accreted to the principal amount as additional interest expense over the term of the convertible debenture.

Future Site Reclamation Costs

Future costs to retire an asset including dismantling, remediation and on going treatment and monitoring of the site are recognized and recorded as a liability at fair value at the date the liability is incurred. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. In addition, future site restoration costs are capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the mineral properties useful life based using a unit-of-production method.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such assets will be ultimately realized. These future income tax assets and liabilities are measured using substantively enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

The tax deduction for the expenditures incurred related to flow through share financings has been assigned to the related shareholders, resulting in a future income tax liability which has been recorded as a charge to share capital when the expenditures are renounced. Any recognition of a portion of previously unrecognized future income tax assets is recorded as a future income tax recovery in the statement of income.

Revenue Recognition

Estimated mineral revenue, based upon prevailing metal prices, is recorded in the financial statements when title to the concentrate transfers to the customer which generally occurs on date of shipment. Revenue is recorded in the statement of income net of treatment and refining costs paid to counter parties under terms of the off take arrangements. The estimated revenue is recorded based on metal prices and exchange rates on the date of shipment and is adjusted at each balance sheet date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which is usually four to five months after the date of shipment. These adjustments reflect changes in metal prices and changes in quantities arising from final weight and assay calculations.

Financial Derivatives

The Company uses derivative financial instruments to manage its exposure to metal prices and foreign exchange rates. Derivative financial instruments are measured at fair value and reflected on the balance sheet. If a derivative financial instrument qualifies for hedge accounting then the gains or losses from it are linked with the underlying asset, liability or cash flow stream being hedged. Gains or losses resulting from changes in the fair value of hedged items are included in income or expense on the date the related hedged item is settled. Hedge accounting conditions include formal documentation of the hedge transaction and tests to ensure the effectiveness of the hedge. If all the required conditions are not met at the inception of the hedge and over its life, then hedge accounting is not allowed, and any gains or losses resulting from the changes in the fair value of the derivative financial instrument are included in income at each balance sheet date.

Foreign Currency Translation

The Company uses the temporal method to translate transactions and balances denominated in foreign currencies. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in the month they occur except for depletion, depreciation and amortization of assets which are translated using the same rates as the related assets. Gains and losses on translation are recorded in the statement of income.

Segmented Information

The Company's operations are primarily directed towards the exploration, development and commercial production of mineral properties in Canada. These mining activities represent a single reportable segment.

Stock Based Compensation

The Company uses a fair value based method to account for stock based compensation. Compensation expense is determined when stock options are issued and is recognized in operations over the vesting period of the option. The compensation expense is determined as the fair value of the option at the date of grant using an option pricing model. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are credited to share capital.

Forfeitures of options are accounted for in the period of forfeiture.

Share Purchase Warrants

Share purchase warrants issued are recorded at fair value in contributed surplus. If and when the warrants are ultimately exercised, the applicable amounts of contributed surplus are credited to share capital.

Deferred Financing Costs

Financing costs are amortized to operations on a straight line basis over the initial term of the related debt.

Earnings Per Common Share

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed in accordance with the treasury stock method and "if converted" method, as applicable, which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common shares from outstanding stock options, warrants and convertible debt. In addition, the related interest, accretion, and amortization of deferred financing fees on convertible debt, when dilutive, (net of tax) are added back to income, since these would not be paid or incurred if the convertible debentures were converted into common shares.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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. Significant estimates used in the preparation of these consolidated financial statements include, among others, the expected economic lives of and the future operating results and net cash flows expected to result from exploitation of resource properties, the estimated amount of related future site reclamation costs, estimated revenues, income tax provisions and assets and the estimated fair values of stock based compensation, warrants, the debt and equity components of the convertible debentures and derivatives. Actual results may differ from those estimates.

Comparative Figures

Certain of the prior year figures have been reclassified to conform with the current year's presentation.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2006, the Company adopted, on a retroactive basis, the new recommendations of the Canadian Institute of Chartered Accountants with respect to stripping costs, EIC 160 Stripping Costs Incurred in the Production Phase of a Mining Operation. The new recommendations require the costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations included in the cost of the inventory produced, except when the charges represent a betterment to the mineral property. Charges represent a betterment to the mineral property when the stripping activity provided access to reserves that will be produced in future periods that would not have been accessible without the stripping activity. When charges are deferred in relation to a betterment, the charges are amortized over the reserve accessed by the stripping activity using the unit-of-production method.

The standard has been applied retroactively and there is no adjustment to prior years' financial statements as the Company's accounting for stripping costs in prior years was in accordance with the new standard.

At December 31, 2006, the balance of deferred stripping charges was \$4,250,235 (Note 6). In accordance with EIC 160, the carrying value of the deferred stripping charges as at December 31, 2006 will continue to be amortized over the life of the related mining assets on a unit-of-production basis.

3. INVENTORY

	2006	2005
Concentrate	\$ 8,978,174	\$ 2,955,299
Supplies	4,198,393	2,202,804
	\$ 13,176,567	\$ 5,158,103

4. INVESTMENT IN HUCKLEBERRY MINES LTD.

The Company has a 50% interest in Huckleberry Mines Ltd. ("Huckleberry") which is engaged in copper and molybdenum mining operations in British Columbia and which is recorded on the equity basis. The Company's investment in (share of deficit of) Huckleberry is comprised of the following:

	2006	2005
Balance, beginning of year	\$ 11,746,326	\$ (18,180,924)
Equity income for the year	33,691,946	29,927,250
Balance, end of year	\$ 45,438,272	\$ 11,746,326

Summarized financial information for Huckleberry is as follows⁽¹⁾:

	2006	2005
Balance Sheet		
Current Assets		
Cash and cash equivalents	\$ 9,584,152	\$ 48,119,977
Short term investments	23,623,250	18,188,600
Other current assets	32,811,216	28,535,225
	66,018,618	94,843,802
Mineral property	42,290,369	60,867,639
Future site restoration deposits and future income taxes	3,209,432	13,160,318
	\$ 111,518,419	\$ 168,871,759
Current Liabilities		
Accounts payable and other current liabilities	\$ 8,004,768	\$ 6,809,466
Current portion of long term debt, accrued interest and capital lease obligations	-	45,482,813
	8,004,768	52,292,279
Long term debt, accrued interest and capital lease obligations	-	78,883,674
Future income taxes	514,970	-
Future site restoration costs	13,570,406	15,486,292
	22,090,144	146,662,245
Share Capital	57,595,611	57,595,611
Retained Earnings (Deficit)	31,832,664	(35,386,097)
	89,428,275	22,209,514
	\$ 111,518,419	\$ 168,871,759
Statement of Income		
Revenues	\$ 192,986,682	\$ 143,060,617
Expenses	125,767,921	83,387,158
Net Income	\$ 67,218,761	\$ 59,673,459
Statement of Cash Flows		
Operating activities	\$ 96,941,525	\$ 67,419,740
Financing activities	(121,434,432)	(3,449,027)
Investment activities	(14,042,918)	(30,969,279)
(Decrease) increase in cash and cash equivalents	\$ (38,535,825)	\$ 33,001,434

⁽¹⁾ Certain of the financial information of Huckleberry disclosed above has been reclassified to be consistent with the classifications used by the Company. In addition, the Company's equity share of earnings of Huckleberry includes certain adjustments to ensure consistency of accounting policies with those of the Company. These adjustments are not reflected in the above figures.

Effective January 1, 2007 the Company regained joint control of Huckleberry and therefore, in accordance with generally accepted accounting principles, the Company will account for Huckleberry on the proportionate consolidation basis commencing January 1, 2007.

5. INVESTMENT IN bcMETALS CORPORATION

The Company has a 19% interest in bcMetals Corporation ("bcMetals") which is developing a copper/gold mine in British Columbia and which is recorded on the cost basis.

The Company's investment in bcMetals is comprised of the following:

	2006	
Purchase of common shares (market value \$8,054,766)	\$	6,732,098
Acquisition costs		377,570
	\$	7,109,668

Pursuant to a Support Agreement between the Company and bcMetals, the Company has advanced bcMetals \$2 million in January 2007 in unsecured advances bearing interest at Bank Prime Rate and due June 30, 2007.

From January 1, 2007 to March 16, 2007 the Company purchased, in conjunction with its takeover bid of bcMetals, additional shares of bcMetals at a cost of approximately \$59.9 million inclusive of related fees and expenses. This acquisition was funded from existing cash resources, cash generated from operations and a \$40 million credit facility from Edco Capital Corporation, a party related to a significant shareholder (Note 15). As of March 16, 2007 the Company holds approximately 97.8% of the issued and outstanding shares of bcMetals.

Acquisition of the remaining 2.2% interest in bcMetals is expected to cost approximately \$1.7 million and will be paid from existing cash resources.

This business combination will be accounted for as a purchase transaction with the Company being identified as the acquirer and bcMetals as the acquiree. The consolidated financial statements of the Company will include the operating results of bcMetals commencing on the dates of acquisition of the share interests in 2007. The preliminary allocation of the purchase price of bcMetals is summarized in the following table and is subject to adjustment:

Purchase price, subject to final adjustments		
Cash	\$	67,930,000
Acquisition costs		770,000
	\$	68,700,000
Net assets acquired		
Current assets	\$	3,060,000
Other assets		519,000
Mineral property		84,485,000
Future income taxes		(14,233,000)
Current liabilities		(5,131,000)
	\$	68,700,000

6. MINERAL PROPERTIES

	2006		
	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value
Producing Mining Property, Plant and Equipment			
Mineral properties	\$ 64,521,242	\$ 33,017,959	\$ 31,503,283
Buildings, machinery and equipment	95,502,846	52,659,128	42,843,718
Tailings and reclamation facilities	25,036,924	15,145,118	9,891,806
Construction in progress	1,366,800	–	1,366,800
Land	745,157	–	745,157
	187,172,969	100,822,205	86,350,764
Mineral Exploration Properties			
Acquisition and exploration costs	4,040,617	1,546,866	2,493,751
	\$ 191,213,586	\$ 102,369,071	\$ 88,844,515
			2005
	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value
Producing Mining Property, Plant and Equipment			
Mineral properties	\$ 61,710,604	\$ 26,502,103	\$ 35,208,501
Buildings, machinery and equipment	79,913,206	47,203,168	32,710,038
Tailings and reclamation facilities	19,824,154	13,700,083	6,124,071
Construction in progress	2,702,768	–	2,702,768
Land	678,206	–	678,206
	164,828,938	87,405,354	77,423,584
Mineral Exploration Properties			
Acquisition and exploration costs	3,264,473	1,546,866	1,717,607
	\$ 168,093,411	\$ 88,952,220	\$ 79,141,191

The net book value of buildings, machinery and equipment includes \$3,288,162 (2005 – \$4,077,338) under capital leases.

Details of the changes in the Company's mineral properties during the years ended December 31, 2006 and 2005 are as follows:

	December 31 2005	Additions	Depletion, Depreciation & Amortization	Disposals & Other	December 31 2006
Mount Polley	\$ 74,986,101	\$ 21,981,513	\$ (13,437,220)	\$ (45,255)	\$ 83,485,139
Sterling	2,365,935	444,534	(19,645)	–	2,790,824
Other properties	1,789,155	779,397	–	–	2,568,552
	\$ 79,141,191	\$ 23,205,444	\$ (13,456,865)	\$ (45,255)	\$ 88,844,515
	December 31 2004	Additions	Depletion, Depreciation & Amortization	December 31 2005	
Mount Polley	\$ 32,984,672	\$ 50,051,778	\$ (8,050,349)	\$ 74,986,101	
Sterling	2,265,864	207,995	(107,924)	2,365,935	
Other properties	1,749,060	40,095	–	1,789,155	
	\$ 36,999,596	\$ 50,299,868	\$ (8,158,273)	\$ 79,141,191	

Mount Polley

The Company owns 100% of the Mount Polley open pit copper-gold mine located 56 kilometres northeast of Williams Lake in central British Columbia. The Mount Polley mine was on standby from September 2001 when mining and milling operations were suspended until resumption of operations in March 2005. The Mount Polley property consists of three mining leases and 48 mineral claims.

Sterling

The Company owns 100% of the Sterling gold mine near Beatty, Nevada. The Sterling mine operated as both an underground and open pit mine from 1980 to suspension of mining operations in 1997. Certain parts of the Sterling property have been reclaimed. The Sterling property consists of 193 lode mining claims plus one water well site. Net smelter royalties of 2.25% are payable on production with minimum advance royalties on a small portion of this total.

During 2003 the Company optioned via a lease agreement 29 additional claims adjacent to the Sterling property. Advance royalty payments of US\$1,000 are payable monthly and the property is subject to a 2% net smelter royalty. A portion of the property is also subject to advance royalty payments of US\$400 per month and a 5% royalty to a maximum of US\$250,000. The previously noted 2% royalty is not payable on these claims until after the royalty cap has been reached.

Other Exploration Properties

The Company has interests in various other early stage exploration properties located primarily in Canada. These properties have been acquired primarily by staking and therefore the cost to maintain ownership of these properties is not significant.

7. SHORT TERM DEBT

	2006	2005
(a) Equipment finance contracts aggregating \$1,869,133 (2005-\$nil) repayable in monthly installments of \$240,479 until August 2007 secured by certain mobile mining equipment at the Mount Polley mine. This obligation has been recorded on a present value basis with deemed interest at 8% per annum as the finance contracts are interest free.	\$ 1,869,133	\$ –
(b) Line of Credit Facility Working capital facility of up to \$nil (2005-\$14,500,000) with a syndicate of lenders (Note 15)	–	14,500,000
(c) Concentrate Advances Cash advances of US\$nil (2005-US\$8,166,838)	–	9,510,283
(d) Credit facilities from a related party (Note 15)		
(i) Advances of \$nil (2005-\$3,000,000) due to a company controlled by a significant shareholder (Note 15)	–	3,000,000
(ii) Advances of US\$nil (2005-US\$2,600,000) due to a company controlled by a significant shareholder	–	3,027,700
(e) Mortgages payable	–	300,000
	<u>\$ 1,869,133</u>	<u>\$ 30,337,983</u>

8. LONG TERM DEBT

	Note	2006	2005
Mount Polley Mine Construction Loan	(a)	\$ 4,081,335	\$ 5,535,581
Mount Polley Finance Contract	(b)	2,348,966	–
Mount Polley Finance Contracts	(c)	603,660	1,444,685
Mount Polley Finance Contracts	(d)	73,013	138,463
Mount Polley Bank Term Loan	(e)	8,464,605	11,679,381
		15,571,579	18,798,110
Less portion due within one year		(6,061,322)	(5,581,964)
		\$ 9,510,257	\$ 13,216,146
Repayments are due as follows:			
Year ending December 31, 2007		\$ 6,061,322	
Year ending December 31, 2008		\$ 4,846,907	
Year ending December 31, 2009		\$ 2,948,153	
Year ending December 31, 2010		\$ 1,049,052	
Year ending December 31, 2011		\$ 666,145	

(a) *Mount Polley Mine Construction Loan*

Loan from a company related to the former joint venture partner of the Mount Polley mine in the amount of \$4,083,335 (2005 - \$5,600,000) secured solely by and limited in recourse to the Company's interest in the mining lease and other assets of the Mount Polley mine.

	2006	2005
Payments due in sixty monthly installments of \$116,667 limited to a maximum of ten installments per year commencing April 1, 2001. Monthly installments are payable only if the mine and mill are in operation during the month. If the Company has not paid the sum of \$7,000,000 by December 31, 2010 as a result of postponements of monthly payments on the basis described above, the obligation to make payments will cease on that date.	\$ 4,083,333	\$ 5,600,000
Less portion representing deemed interest at 7%	(1,998)	(64,419)
	4,081,335	5,535,581
Less portion due within one year	(1,164,669)	(1,454,246)
	\$ 2,916,666	\$ 4,081,335

The obligation was originally recorded on a present value basis with deemed interest calculated at 7% per annum under the original repayment terms. The Mount Polley mine commenced operations in March 2005 and therefore monthly payments were to resume in April 2005 but were deferred with payments commencing in the fourth quarter of 2005 at an accelerated rate until the deferred amounts were paid in early 2006.

- (b) Finance contract aggregating \$2,348,966 (2005-\$nil) repayable in monthly installments of \$44,183 until August 2011 including interest at Bank Prime Rate plus 1% (7% at December 31, 2006) and secured by mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.
- (c) Finance contracts aggregating \$603,660 (US\$518,030) [2005-\$1,444,685 (US\$1,240,605)] repayable in blended monthly installments of \$77,630 (US\$66,618) including interest at one month Libor plus 3.5% and secured by certain mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.
- (d) Finance contracts aggregating \$73,013 (2005-\$138,463) repayable in monthly installments of \$5,760 until September 2007 and \$2,509 thereafter, and secured by certain vehicles at the Mount Polley mine. The obligation has been recorded on a present value basis with deemed interest at 6% per annum as the finance contracts are interest free.
- (e) Bank term loans aggregating \$8,464,605 (2005-\$11,679,381) repayable in blended monthly installments of \$368,000 until May 2007 and varying monthly amounts thereafter until July 2009 including interest at 6.15%, and secured by certain mobile mining equipment at the Mount Polley mine.

9. CONVERTIBLE DEBENTURES

On March 9, 2005, the Company issued subordinated secured convertible debentures with a face value of \$20,000,000 that mature on March 10, 2010, \$9,750,000 of which were issued to a significant shareholder and directors. The net proceeds, after deduction of issue expenses of \$918,418, totalled \$19,081,582. The debentures are subordinated to all senior security holders and bear interest at 6% per year with interest payable semi-annually on June 30 and December 31, and are convertible into common shares of the Company at the option of the holder at any time prior to maturity at a conversion price of \$8.65 per common share.

The net proceeds of the debentures have been allocated between the debt and equity components based on the prorata allocation of the estimated fair values of each component on the date the convertible debentures were issued. The estimated fair value of the debt component was calculated as the present value of the future payments of principal and interest on the debentures, discounted at the prevailing rate for similar obligations without a conversion right. The estimated fair value of the equity component, the conversion right, was calculated based on a Black-Scholes Model. The financial liability component, representing the value allocated to the liability at inception, is recorded as a long term liability. The remaining component, representing the value ascribed to the holders' option to convert the principal balance into common shares of the Company, is classified as "Equity Component of Convertible Debentures" in shareholders' equity.

At the date of issue on March 9, 2005, the components of the convertible debentures were as follows:

Debt component	\$ 12,790,213
Equity component (net of financing costs of \$331,080)	\$ 6,878,707

The debt component of the convertible debenture will be accreted to the face value of \$20,000,000 through the recording of additional interest expense over the term of the convertible debenture.

During the year ended December 31, 2006, convertible debentures with a face value of \$5,970,000 were converted into common shares leaving a face value of \$13,980,000 in convertible debentures outstanding at December 31, 2006.

During the year ended December 31, 2005, convertible debentures with a face value of \$50,000 were converted into common shares leaving a face value of \$19,950,000 in convertible debentures outstanding at December 31, 2005.

10. FUTURE SITE RECLAMATION COSTS

	2006	2005
Balance, beginning of year	\$ 3,649,434	\$ 3,118,573
Accretion	260,869	216,982
Costs incurred during the year	-	(224,858)
Additions to future costs	43,438	57,438
Change in estimates of future costs	(541,664)	511,548
Effect of translation of foreign currencies	2,980	(30,249)
Balance, end of year	\$ 3,415,057	\$ 3,649,434

The total undiscounted amount of estimated cash flows required to settle the obligations is \$3,569,884 (2005 - \$3,476,990) and US\$1,382,085 (2005 - US\$1,281,992) which has been discounted using a credit adjusted risk free rate of 7%. The reclamation obligations for the Mount Polley mine is expected to be paid during the years 2008 to 2014. The reclamation obligation for the Sterling mine is expected to be paid in 2012. The amounts and timing of mine closure plans for both the Sterling mine and the Mount Polley mine will vary depending on a number of factors including exploration success and alternative mining plans.

Assets with a fair value of \$3,853,513 (2005-\$3,559,830) are legally restricted for the purposes of settling asset retirement obligations (Note 16).

11. SHARE CAPITAL

Share Capital

Authorized

- 50,000,000 First Preferred shares without par value with special rights and restrictions to be determined by the directors.
- 50,000,000 Second Preferred shares without par value with rights and restrictions to be determined by the directors.
- Unlimited number of Common Shares without par value

Share Option Plans

Under the Share Option Plans, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At December 31, 2006, 1,074,447 common shares remain available for grant under the plans. Under the plans, the exercise price of each option equals the market price of the Company's shares on the date of grant and an option's maximum term is 10 years. Options are granted from time to time by the Board of Directors and vest over a three year period.

In 2006 and 2005, the Company granted its directors, officers and employees options to purchase 260,000 common shares and 1,300,000 common shares, respectively, of the Company. The fair value of the share options issued on the dates noted below were estimated at the date of grant using the Black-Scholes option pricing model, based on the following terms and assumptions:

Date options issued	May 25, 2006	January 6, 2006	August 11, 2005
Number of options	60,000	200,000	1,300,000
Exercise price	\$9.10	\$5.30	\$6.60
Estimated fair value per share	\$4.66	\$2.55	\$3.32
Dividend yield	0%	0%	0%
Risk free interest rate	4.22%	3.92%	3.32%
Expected life	3.55 years	3.55 years	3.44 years
Expected volatility	68%	66%	66%

The determination of expected volatility contained in the option pricing model is based on subjective assumptions which can materially affect the fair value estimate of the options at the date of grant.

A summary of the status of the Company's Share Option Plan as of December 31, 2006 and changes during the years is presented below:

	2006		2005	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,072,000	\$ 4.46	886,700	\$ 0.82
Granted	260,000	\$ 6.18	1,300,000	\$ 6.60
Exercised	(290,667)	\$ 2.42	(114,700)	\$ 0.50
Lapsed	(45,000)	\$ 6.60	–	\$ –
Outstanding at end of year	1,996,333	\$ 4.94	2,072,000	\$ 4.46
Options exercisable at end of year	904,666	\$ 3.05	752,000	\$ 0.71

The following table summarizes information about the share options outstanding at December 31, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Exercise Price	Number Exercisable	Exercise Price
\$0.50	528,000	0.6 years	\$ 0.50	528,000	\$ 0.50
\$5.30	200,000	5.0 years	\$ 5.30	–	\$ 5.30
\$6.60	1,163,333	3.6 years	\$ 6.60	336,666	\$ 6.60
\$6.80	45,000	3.0 years	\$ 6.80	40,000	\$ 6.80
\$9.10	60,000	5.0 years	\$ 9.10	–	\$ 9.10
	1,996,333	3.0 years	\$ 4.94	904,666	\$ 3.05

Share Purchase Warrants

	Number of Warrants	
	2006	2005
Balance, beginning of year	1,935,750	958,625
Issued pursuant to Line of Credit facility (Note 7(b))	–	1,935,750
Exercised	(600,750)	(74,800)
Expired	–	(883,825)
Balance, end of year	1,335,000	1,935,750

Each of the 1,935,750 warrants issued in connection with the Line of Credit facility (Note 7(b)) entitles the holder to acquire one common share of the Company at a price of \$6.00 per share. The warrants expire as follows: 690,517 on May 19, 2007; 276,207 on June 15, 2007; 184,138 on June 22, 2007; and 184,138 on July 20, 2007.

The Company recorded the estimated financing costs and contributed surplus for the fair value of the warrants issued in connection with the Line of Credit at the date of grant using the Black-Scholes option pricing model, based on the following terms and assumptions:

Date warrants issued	May 19 through July 20, 2005
Number of warrants	1,935,750
Exercise price	\$6.00
Estimated fair value per share	\$1.01
Dividend yield	0%
Risk free interest rate	2.83%
Expected life	1.5 years
Expected volatility	40%

12. INCOME AND MINING TAXES (RECOVERY)

The reported income tax provision differs from the amounts computed by applying the Canadian federal and provincial statutory rates to the income before income taxes due to the following reasons:

	2006		2005	
	Amount	%	Amount	%
Income before taxes	\$ 103,843,112	100.0	\$ 20,009,692	100.0
Income taxes thereon at the basic statutory rates	\$ 35,431,270	34.1	\$ 6,977,380	34.9
Increase (decrease) resulting from:				
Tax benefits not recognized in the period loss was incurred	(666,000)	(0.6)	(1,851,111)	(9.3)
Resource allowance	(1,028,000)	(1.0)	411,000	2.1
Change in valuation allowance	(2,495,000)	(2.4)	91,000	0.5
Non taxable equity income from Huckleberry	(11,496,000)	(11.1)	–	–
Use of capital gains rate on equity income from Huckleberry	–	–	(5,218,000)	(26.1)
Recognition of previously unrecognized future income tax assets upon renunciation relating to flow through shares	–	–	(2,244,060)	(11.2)
B.C. mineral taxes	1,890,000	1.8	130,000	0.6
Large corporation taxes	–	–	135,000	0.7
Effect of rate change	(32,000)	(0.0)	–	–
Other	231,734	0.2	9,732	0.0
Income and mining taxes (recovery)	\$ 21,836,004	21.0	\$ (1,559,059)	(7.8)
Current taxes	\$ 2,428,000		\$ 334,753	
Future income taxes	19,408,004		(1,893,812)	
	\$ 21,836,004		\$ (1,559,059)	

Future income tax assets and future income tax liabilities are as follows:

	2006	2005
Future income tax assets		
Mineral properties	\$ 19,409,500	\$ 24,543,000
Net operating tax losses carried forward	2,802,000	9,041,000
Investment in Huckleberry	–	617,000
Other	1,649,000	4,497,000
Future tax assets	23,860,500	38,698,000
Less valuation allowance	(21,913,000)	(36,023,126)
	1,947,500	2,674,874
Future income tax liabilities		
Mineral properties	18,749,254	3,025,122
Other	2,956,498	–
	21,705,752	3,025,122
Net future income tax liabilities	\$ (19,758,252)	\$ (350,248)
Net Future Income Tax Assets (Liabilities)		
Current portion	\$ (2,956,498)	\$ 2,674,874
Non-current portion	(16,801,754)	(3,025,122)
	\$ (19,758,252)	\$ (350,248)

As at December 31, 2006 the Company had net operating tax loss carry forwards in Canada of approximately \$1.4 million, which can be applied to reduce future Canadian taxable income and will expire in 2007 to 2026. In addition, the Company had net operating tax loss carry forwards in the United States of approximately US\$6.0 million, which can be applied to reduce future US taxable income and will expire in 2009 to 2026. A valuation allowance has been applied to the tax benefit of \$nil million of net operating tax loss carry forwards in Canada and to US\$6.0 million of net operating tax loss carry forwards in the United States. The tax benefit of these amounts has not been recognized in these financial statements.

13. DERIVATIVE INSTRUMENTS AND MARGIN DEPOSITS

	2006	2005
Assets		
Security deposits with dealers [US\$1,125,261 (2005-US\$7,061,358)]	\$ 1,311,268	\$ 8,222,951
Put options purchased [US\$8,914,493 (2005-US\$23,244)]	10,388,059	27,067
	\$ 11,699,327	\$ 8,250,018
Liabilities		
Call options sold [US\$3,254,932 (2005-US\$7,866,917)]	\$ 3,792,972	\$ 9,161,024

Security deposits required to be paid by the Company to dealers are calculated based on the fair value of the derivative instrument on each trading date, net of the credit facility provided by the dealers.

At December 31, 2006 the Company had entered into various contracts to protect the Company's cash flow against a decline in the price of copper. These contracts do not qualify for hedge accounting and therefore the Company accounts for these contracts as investments and records changes in the unrealized gains or losses on these contracts in the statement of income each period and records the fair value of these derivative instruments as a current asset or current liability at each balance sheet date. The fair value of these financial instruments has been recorded as either an asset or a liability as of December 31, 2006 depending on the attributes of the contracts.

From time to time the Company purchases put options, sells call options, and enters into forward sales contracts to manage its exposure to changes in copper prices. Contracts outstanding at December 31, 2006 are as follows:

	Weighted Average		Put Options Purchased	Call Options Sold
	Minimum Price US\$/lb	Maximum Price US\$/lb		
Contract Period			Equivalent notional lbs of copper	
January to December 2007	\$ 2.95	\$ 3.45	30,644,000	30,644,000

These put and call option contracts ensure that the Company will receive a price per pound of copper sold that is within the minimum/maximum price range noted above for the net notional pounds of copper specified in the contract.

	Price US\$/lb	Forward Sales
Contract Period		Equivalent notional lbs of copper
January 2007	\$ 3.02	1,543,000

These forward contracts ensure that the Company will receive a price per pound of copper sold that is equal to the price noted above for the net notional pounds of copper specified in the contract.

From January 1, 2007 to March 16, 2007 the Company purchased put options and sold call options to manage its exposure to changes in copper prices. The next notional pounds of copper and the exercise price under these contracts is as follows:

	Weighted Average		Put Options Purchased	Call Options Sold
	Minimum Price US\$/lb	Maximum Price US\$/lb		
Contract Period			Equivalent notional lbs of copper	
April to December 2007	\$ 2.50	\$ 3.06	14,881,000	14,881,000
January to March 2008	\$ 2.50	\$ 3.06	4,960,000	4,960,000

These put and call option contracts ensure that the Company will receive a price per pound of copper sold that is within the minimum/maximum price range noted above for the next notional pounds of copper specified in the contract.

14. INCOME PER SHARE

The following table sets out the computation of basic and diluted net income, net of tax per common share:

	2006	2005
Numerator:		
Net Income	\$ 82,007,108	\$ 21,568,751
Effect of dilutive securities:		
Convertible debentures – interest, accretion and deferred financing costs, net of income tax effect	2,019,407	–
Adjusted net income	\$ 84,026,515	\$ 21,568,751
Denominator:		
Basic weighted-average number of common shares outstanding	29,801,115	28,146,219
Effect of dilutive securities:		
Stock options	913,250	774,407
Warrants	454,587	78,619
Convertible debentures	79,584	–
Diluted potential common shares	1,447,421	853,026
Diluted weighted-average number of common shares outstanding	31,248,536	28,999,245
Basic net income per common share	\$ 2.75	\$ 0.77
Diluted net income per common share	\$ 2.69	\$ 0.74

Excluded from the calculation of diluted net income per common share for the year ended December 31, 2006 were nil shares (2005 - 2,306,358 shares) related to the conversion of the 6% convertible debentures and 60,000 shares (2005 – 1,345,000 shares) related to stock options because their effect was anti-dilutive.

15. RELATED PARTY TRANSACTIONS

Related party transactions and balances with a company controlled by a significant shareholder and directors are as follows:

	2006	2005
Line of Credit facility (Note 7(b))	\$ –	\$ 10,000,000
Short term debt (Note 7(d))	\$ –	\$ 6,027,700
Convertible debentures (at face value) (Note 9)	\$ 9,750,000	\$ 9,750,000
Interest expense on long term debt	\$ 585,000	\$ 477,616
Other interest expense	\$ 1,283,983	\$ 571,524

16. COMMITMENTS AND GUARANTEES

At December 31, 2006 the Company is committed to future minimum operating lease payments as follows:

2007	\$ 195,000
2008	120,000
2009	79,000
2010	16,000
2011	4,000
	\$ 414,000

At December 31, 2002 the Company had secured the reclamation bond of \$1,900,000 for the Mount Polley mine with a cash deposit. During 2003 the cash deposit was reduced by \$1,370,567 as a result of the Company pledging to the Province of British Columbia certain mining equipment and supplies inventory at the Mount Polley mine as substitute security for the cash released from the reclamation bond.

17. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

At December 31, 2006 the carrying value of cash and cash equivalents, accounts receivable, derivative instrument assets, future site reclamation deposits, and accounts payable and accrued liabilities, derivative instrument liabilities, short term and long term debt, and the debt component of the convertible debenture approximates their respective fair values. Management believes that the carrying value of short term and long term debt and the debt component of the convertible debentures approximates fair value as interest rates and credit spreads have not changed materially since the instruments were issued.

Interest rate risk is the risk to the Company's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Company does not use derivatives to manage this risk.

The Company's Canadian mineral revenues have historically been dependent on selling concentrates to four or five smelters or traders. However, as these customers are large, well capitalized and diversified multinationals, credit risk is considered to be minimal.

The Company is exposed to fluctuations in commodity prices and exchange rates and from time to time enters into contracts to manage its exposure and is subject to risk of default by counter parties in connection with these arrangements (Note 13).

18. NET CHANGE IN NON CASH OPERATING WORKING CAPITAL BALANCES AND SUPPLEMENTARY CASH FLOW INFORMATION

The net change in non cash operating working capital balances consists of the following:

	2006	2005
Accounts receivable	\$ 3,477,652	\$ (20,462,379)
Inventory	(7,417,270)	(4,010,986)
Derivative instrument assets and margin deposits	(3,449,309)	(8,250,018)
Accounts payable and accrued liabilities	1,470,371	8,495,237
Derivative instrument liabilities	8,592,893	1,304,552
	<u>\$ 2,674,337</u>	<u>\$ (22,923,594)</u>

19. SEGMENTED INFORMATION

	2006	2005
Revenue by geographic area		
Canada	\$ 1,048,060	\$ 329,059
United States	66,037,035	28,676,852
Japan	114,902,963	-
Europe	29,458,694	42,071,140
	<u>\$ 211,446,752</u>	<u>\$ 71,077,050</u>

In 2006, four customers (2005-three customers) each accounted for more than 10% of revenues with the largest customer accounting for approximately 31% (2005-41%) of revenue.