

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Consolidated Financial Condition and Results of Operations

for the Financial Year Ended December 31, 2006

(All figures in Canadian Dollars unless otherwise stated)

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The following is management's discussion and analysis ("MD&A") of the consolidated financial condition and results of operations of Dundee Precious Metals Inc. ("DPM" or the "Company") for the financial year ended December 31, 2006. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto.

This information is provided as at February 20, 2007.

HIGHLIGHTS

- DPM had net earnings of \$18.4 million or \$0.34 per share (\$0.33 per share on a diluted basis) for the three months ended December 31, 2006, compared with net earnings of \$6.2 million or \$0.11 per share for the three months ended December 31, 2005. In 2006, DPM had net earnings of \$69.7 million or \$1.29 per share (\$1.26 on a diluted basis) in comparison to the prior year's net earnings of \$19.9 million or \$0.37 per share.
- As at December 31, 2006, the Company had working capital of \$40.7 million and an investment portfolio with a market value of \$189.5 million, which in the aggregate equated to \$4.26 per share, down from \$5.12 per share at December 31, 2005.
- The Chelopech gold/copper mine reported revenue of \$29.5 million on sales of 25,366 tonnes of gold/copper concentrate for the three months ended December 31, 2006, as a result of high commodity prices. For the year ended December 31, 2006, Chelopech had revenues of \$106.2 million on sales of 64,939 tonnes of gold/copper concentrate. Kapan had revenues of \$4.7 million for the four months ended December 31, 2006 on sales of 1,300 tonnes of gold/copper concentrate and 1,702 tonnes of zinc concentrate.
- Investment activities generated investment income of \$23.1 million and \$68.7 million for the three and twelve months ended December 31, 2006, respectively.

SIGNIFICANT CURRENT EVENTS

- On October 24, 2006, the Bulgarian Court ruled in favour of the Company's claim that the Minister of Environment and Waters ("MoEW") failure to issue a final resolution on the Chelopech Environmental Impact Assessment ("EIA") was unlawful and should be interpreted as a silent refusal and has ordered the Minister to issue a final resolution on the project. The MoEW has appealed the decision and a hearing is scheduled for February 22, 2007.
- The MoEW continues to withhold approval of the Chelopech EIA. It has been reported in the press that the MoEW wants additional State participation in the project. DPM's position is that the royalty rate is globally competitive and that the existing concession agreement, which is with the Ministry of Economy and Energy on behalf of the Republic of Bulgaria, cannot be unilaterally altered.
- On February 13, 2007, the Supreme Administrative Court of Bulgaria ("the Court") revoked the silent refusal of the MoEW on the Krumovgrad EIA. The Environmental Protection Act ("EPA") does not provide for a silent refusal and therefore, the MoEW has been required to issue a pronouncement on the EIA. This decision is open to appeal to the five member panel Court of Appeal in Bulgaria for fourteen days from receipt of official notification by the parties.

- As the market for high arsenic bearing concentrate weakens, and the final approval of the Chelopech EIA is further delayed, the Company continues assessing alternative locations for its proposed metal processing facilities. This situation will likely result in a slowing down or suspension of operations at Chelopech in 2008 until facilities capable of processing the Chelopech material can be constructed and commissioned or alternative markets for the Chelopech concentrate can be found.

CORPORATE OVERVIEW

DPM is a Canadian based, international mining company engaged in the acquisition, exploration, development and mining of precious metal properties. Its common shares (symbol DPM) are traded on the Toronto Stock Exchange ("TSX").

Effective April 1, 2004, DPM changed from a closed-end investment company to an operating mining company. For periods prior to the effective date of conversion, investments were marked-to-market and the operations related only to the investment activities carried on by the Company. As at April 1, 2004, the mining operations previously acquired were consolidated with the accounts of the Company and the basis of accounting for investments was changed to the cost method.

In Bulgaria, the Company currently owns an operating underground gold/copper mine ("Chelopech") which is being expanded and is in the process of obtaining regulatory approval for the expansion and conversion from concentrate to metal production; and a feasibility stage gold project ("Krumovgrad Gold Project") which is awaiting regulatory approval for construction and operation. In addition, DPM holds a number of active exploration properties in the Central and Eastern Rhodope regions of the Balkans. In February 2005, the Company acquired an option to earn an interest in certain exploration properties located in Nunavut in the Canadian Arctic (the "Back River Project"). On July 25, 2006, DPM announced it had completed the purchase of a 100% interest in the Back River Project. On April 26, 2006, DPM announced that it had signed three significant exploration and exploitation concessions in one of the larger gold-copper-silver mining regions in Serbia making the Company the largest concession holder in the country. On August 23, 2006, DPM acquired 80% of Vatrín Investment Limited ("Vatrín"), a private entity which holds 100% of Deno Gold Mining Company ("Deno Gold"), its principal asset being the Kapan Mining Project ("Kapan"), a gold, copper, zinc concentrates producer in Southern Armenia.

DPM's business objectives are to identify, acquire, finance, develop and operate low cost, long life gold mining properties; and to provide support to selected mining companies by providing required capital through strategic investments. The Company intends to create shareholder value through its disciplined but opportunistic business model. The Company is assembling a pipeline of mining projects at various stages of development. The Company currently has projects in: (1) the operating and redevelopment stage; (2) the feasibility and development stage; (3) the scoping and advanced exploration stage; and (4) the early exploration stage. DPM intends to maximize the potential of and realize value through the exploration, development and operation of its existing properties. The Company is also actively evaluating acquisition opportunities of mining properties to fill and expand its project pipeline as well as continuing to make strategic market purchases of mining securities where synergistic opportunities exist in order to balance its pipeline for continued growth.

DPM had working capital aggregating \$40.7 million and an investment portfolio with a market value of \$189.5 million, which in the aggregate equates to \$4.26 per share as at December 31, 2006. These funds are available to: (1) fund the working capital requirements of the Company's mining, exploration and corporate activities; (2) provide funding to support the planned development activities at its mining properties; and (3) finance DPM's strategic investment and corporate development initiatives. The Company's strategy is to sell certain non-strategic portfolio investments at appropriate times and use the proceeds to make strategic investments and to fund exploration and development activities, as required. One of the Company's key business strategies is to add to its mining pipeline through corporate and property acquisitions. This is achieved by: (1) providing early stage financing to exploration companies and establishing a relationship in order to be able to participate when a development partner is required; or (2) monitoring mining activities in targeted jurisdictions worldwide to identify and evaluate properties which could fill DPM's project pipeline and then initiating discussions with the owners of these prospective assets. The Company continues to be active on both fronts.

2006 RESULTS

Mining Activities

Chelopech Gold/Copper Mine, Bulgaria

Operations

In August 2006, Chelopech was chosen as a winner in the International Green Apple Environment Awards of The Green Organization for its mining rehabilitation program and was invited to become one of their Green Heroes 2007. This is the first time an organization in Bulgaria has won the gold prize. The Green Organization is an independent, non-profit environmental group, based in the United Kingdom, dedicated to promoting the positive side of environmental endeavour. The Green Apple Awards are awarded annually to those who recognize, reward and promote environmental best practice around the world.

The Company continues to operate the Chelopech Mine during the period of permitting and redevelopment. The following is a brief summary of the operating performance of mining and concentrate production.

Production, Costs and Sales

<i>(in thousands of US\$ except as otherwise stated)</i>	Three Months		Twelve Months	
As at December 31,	2006	2005	2006	2005
Ore mined (mt)	252,201	248,408	920,150	911,179
Ore processed (mt)	249,838	227,320	952,753	851,964
Head grade (ore milled)				
Copper (%)	1.70	1.65	1.41	1.59
Gold (g/mt)	4.83	4.17	3.99	4.21
Concentrate produced (mt)	22,389	19,323	70,108	67,755
Metals contained in concentrate produced				
Copper (lbs)	8,141,122	7,044,752	25,361,802	24,621,274
Copper (% recovered)	86.78	85.2	85.36	82.5
Gold (ounces)	23,878	17,205	70,781	56,879
Gold (% recovered)	61.6	56.5	58.0	49.3
Cash cost per tonne of ore processed	\$ 33.03	\$ 38.32	\$ 31.22	\$ 34.91
Cash cost per pound of copper in concentrate ⁽¹⁾	\$ 0.63	\$ 0.70	\$ 0.72	\$ 0.67
Cash cost per ounce of gold in concentrate ⁽¹⁾	\$ 112	\$ 178	\$ 143	\$ 183
Value of Copper and Gold in Concentrate Sold (US\$000) ⁽²⁾	\$ 44,261	\$ 34,167	\$ 100,420	\$ 68,918
Sales				
Sales (US\$000) ⁽³⁾	\$ 25,662	\$ 28,336	\$ 93,476	\$ 52,285
Sales (Cdn\$000)	\$ 29,492	\$ 32,328	\$ 106,233	\$ 63,234
Concentrate (dmt)	25,366	32,580	64,939	71,799
Copper in concentrate (lbs)	8,643,471	11,726,376	22,673,114	25,787,681
Gold in concentrate (ounces)	24,402	27,896	58,569	60,355

(1) Gold and copper are accounted for as co-products. Copper units are converted into gold units using the ratio of the average gold value to the average copper value for the period. Total cash costs per ounce are net of by-product silver sales revenue.

(2) Deductions from gross metal values are made for treatment charges, penalties, transportation and other selling costs to arrive at the value received for concentrate sold.

(3) Included in sales is a reduction of US\$6.0 million and an increase of US\$18.5 million (2005 - US\$5.5 million and US\$8.5 million) for the three and twelve months ended December 31, 2006, respectively, related to the change in metal prices on the settlement date from the provisional sales amounts reported at the end of the prior period. The large increase in 2006 related to the significant increases in metal prices realized.

Production

Ore hoisted in the fourth quarter of 2006 was 2% more than the fourth quarter of 2005 totalling 252,000 tonnes at 1.72% Cu and 4.81 g/t Au (2005 - 248,000 tonnes at 1.66% Cu and 4.16 g/t Au). Ore processed was 250,000 tonnes at 1.70% Cu and 4.83 g/t Au, up 10% from comparable period production in 2005 of 227,000 tonnes.

Concentrate production for the fourth quarter of 2006 was 22,389 tonnes, 16% more than the 19,323 tonnes produced in the comparable period of the prior year. Copper metal contained in concentrate was 8.1 million pounds, which was more than production for the comparable period of the previous year by 16%.

Higher concentrate production and copper metal contained is attributable to the higher tonnage through the process plant, higher copper grade of the ore being mined during the fourth quarter of 2006 and improved metal recoveries as compared to 2005. Gold metal contained in concentrate produced was 23,878 ounces, which exceeded the comparable period of the previous year's production by 39%.

Ongoing operational improvements at the process plant have continued to demonstrate significant benefit, with up to 3% improvement in metal recoveries over the regression algorithm model used to predict recovery for copper over the last quarter, and an improvement of 2% recovery for gold.

Ore hoisted in 2006 was 1% more than 2005 totalling 920,000 tonnes at 1.41% Cu and 3.97 g/t Au (2005 - 911,000 tonnes at 1.59% Cu and 4.21 g/t Au). Ore processed was 953,000 tonnes at 1.41% Cu and 3.99 g/t Au, up 12% from production in 2005 of 852,000 tonnes. The unprocessed ore stock pile at surface has been reduced to 27,612 tonnes at December 31, 2006.

Concentrate production for 2006 was 70,108 tonnes, 4% more than the 67,755 tonnes produced in the prior year. Copper metal contained in concentrate was 25.4 million lbs, which was higher than production for the previous year by 3%. Gold metal contained in concentrate produced was 70,781 oz, which exceeded the previous year's production by 24%.

Sales

Sales of gold/copper concentrate totalled 25,366 tonnes for the fourth quarter of 2006, down by 22% from the fourth quarter of 2005 sales of 32,580 tonnes due to a delay of sales in December. Sales yielded revenue, net of freight, treatment charges, penalties and other selling costs, of US\$25.7 million (2005 - US\$28.3 million). The Company benefited from the robust increase in metal prices, realizing average prices for the quarter of US\$610 (2005 - US\$437) per oz of gold and US\$3.40 (2005 - US\$1.71) per lb of copper.

Sales of gold/copper concentrate totalled 64,939 tonnes for 2006, down 10% from 2005 sales of 71,799 tonnes. Sales yielded revenue, net of freight, treatment charges, penalties and other selling costs, of US\$93.5 million (2005 - US\$52.3 million). The Company benefited from the robust increase in metal prices, realizing average prices for 2006 of US\$584 (2005 - US\$449) per oz of gold and US\$2.92 (2005 - US\$1.69) per lb of copper. The continued decline in copper prices has reduced the value of shipments with open quotational periods by US\$6.2 million for the fourth quarter of 2006 (2005 - increase by US\$5.5 million).

Expansion and Redevelopment

On December 8, 2005, DPM's Board of Directors approved an investment of US\$175 million to undertake the mine expansion and construction of a Metal Production Facility ("MPF") at Chelopech. This investment is based on the results to date of its Definitive Feasibility Study ("DFS") undertaken by GRD Minproc Ltd. The continuing delay of the permitting process will cause a revision of the DFS to take place once approval of the EIA has been given.

As a result of the delay in the approval of the EIA, the schedule for ramp-up in production and completion of the facilities by the end of 2007 will not be possible, and is therefore postponed to the second half of 2008. Any further delay in the approval of the EIA may lead to further extension of the schedule and this will likely result in the suspension of operations for at least some part of 2008. The Company is hopeful that this dispute will be resolved.

The Project

DPM proposes to increase mine production and construct a facility to produce gold and copper metals. The process will also convert the arsenic present in the concentrate into an environmentally stable form suitable for safe disposal into a Tailings Management Facility ("TMF"). The scope of the DFS incorporates the current operation, upgrade of the existing mine and flotation plant, upgrade of existing infrastructure and facilities and the new MPF.

The Chelopech expansion project includes the expansion of mine production capacity to 2.0 million tonnes per year, including the completion of a decline from surface to underground, and modernization of the existing flotation concentrator to handle the capacity, including the introduction of a new semi-autogenous grinding mill. Based on present measured and indicated resources and other DFS results, the life of mine for the operation is expected to be a minimum of 9.3 years from commissioning of the new facilities.

An EIA was completed by the Balkan Science and Education Centre of Ecology and Environment and submitted to the Bulgarian MoEW on November 3, 2005. On March 10, 2006, the Supreme Expert Environmental Council ("SEEC") voted in favour of the resolution to approve the EIA, with the exception of the Chairman (Deputy Minister of MoEW). As a result of the Deputy Minister's dissenting vote, the Minister of MoEW called for another SEEC hearing on March 28, 2006. At this hearing, the vote was in favour of approving the EIA however the Minister of MoEW has failed to ratify the approval of the EIA, even after positive opinions were received from the Ministry of Economy and Energy. Following the expiry of the legislative deadline for a decision on March 29, 2006, the Company lodged an appeal with the Bulgarian Court against the Minister of MoEW and his failure to issue a final resolution on the Chelopech EIA. On October 24, 2006, the Bulgarian Court ruled in favour of the Company's claim that the MoEW's failure to issue a final resolution on the Chelopech EIA was unlawful and should be interpreted as a silent refusal and has ordered the Minister to issue a final resolution on the project. The decision was appealed by the MoEW and a hearing has been scheduled for February 22, 2007.

It has been reported in the press that the MoEW has publicly stated that the current royalty paid by Chelopech is insufficient and additional State participation in the project is required. DPM's position is that the royalty rate is globally competitive, and there is no precedent in the European Union for state ownership of mining assets once privatized. Furthermore, the Chelopech concession agreement is between the Minister of Economy and Energy, on behalf of the Republic of Bulgaria, and the Company and cannot be altered without DPM's consent. The reported position of the MoEW, therefore, may not represent the official position of the Government of Bulgaria and the Company is endeavouring to demonstrate that the existing arrangements are in the best interests of the State. As a result of the continuing delays with the EIA approvals, the Chelopech Mine will likely suspend operations for at least part of 2008 with the attendant loss of employment, which the Company finds regrettable.

Current Development Activities

The mining method has changed from sublevel caving to long hole open stoping and improvements in equipment and workforce skill training are ongoing in order to increase mine production to a rate of 2.0 million tonnes per year.

Construction of a 2,500 metre decline, including ancillary development, from surface to the underground mine workings began in April 2004 from both the surface portal and the underground exit point. Actual metres advanced were below target due to poor ground conditions. A new "road header" tunnelling machine was brought in to service in mid 2005; however, stabilizing the ground conditions behind the advancing road header has continued to present challenges. As of December 31, 2006, 62% of the decline had been completed.

Development of the project requires the acquisition of land from a variety of stakeholders in the Chelopech and Chavdar Municipalities. The land is required for the new TMF; and a buffer zone around the existing and new TMF's. The land purchase program is well advanced.

Deno Gold/Copper-Zinc Mine, Armenia

On August 23, 2006, DPM announced that it had acquired 80% of Vatrin, effective August 31, 2006. Vatrin holds 100% of Deno Gold, with its principal asset being Kapan, a gold, copper, zinc mine, located in Southern Armenia. The transaction amounted to US\$22 million, plus an additional US\$10 million investment commitment for mine expansion and transaction costs of \$1.2 million.

Kapan has annual production of approximately 300,000 tonnes of ore from its current underground operations, where precious metals contribute approximately 50% of its revenues. DPM intends to expand the underground operations and introduce open pit mining to maximize the present mine milling capacity to over 1 million tonnes/year. The concentrate produced at Kapan is readily saleable due to the lack of impurities or deleterious elements.

As part of Deno Gold's plan for the development of Kapan, a loan was sought and approved by the European Bank for Reconstruction and Development for US\$4.5 million. The proceeds have been used for capital equipment and environmental improvements.

The mining operation is based on two deposits, a copper, minor gold-silver underground mine, known as Central, and a polymetallic deposit of gold, copper, silver, zinc and minor lead, known as Shahumyan, which remains open at depth, to the North and possibly to the South. It is located approximately 1.5km from the town of Kapan and some 320km south of the Armenian capital of Yerevan. Concentrates from the project are transported by road to the town of Ararat (60km south of Yerevan) where they are offloaded onto the rail system for transport to the Black Sea via Georgia.

Production, Costs and Sales

<i>(in thousands of US\$ except as otherwise stated)</i>	Three Months December 31, 2006	Four Months December 31, 2006
Ore mined (mt)	77,291	111,875
Ore processed (mt)	77,291	111,875
Head grade (ore milled)		
Copper (%)	0.28	0.29
Gold (g/mt)	0.98	1.16
Zinc (%)	1.07	1.40
Concentrate produced (mt)	1,632	2,956
Metals contained in concentrate produced		
Copper (lbs)	349,379	519,570
Copper (% recovered)	72.1	72.1
Gold (ounces)	1,288	2,409
Gold (% recovered)	52.9	57.6
Zinc (lbs)	1,076,834	2,154,391
Zinc (% recovered)	58.8	62.5
Cash cost per tonne of ore processed (US\$)	\$ 38.24	\$ 34.19
Cash cost per pound of Copper in Concentrate (US\$) ⁽¹⁾	\$ 2.21	\$ 1.56
Cash cost per ounce of Gold in Concentrate (US\$) ⁽¹⁾	\$ 418	\$ 293
Cash cost per pound of Zinc in Concentrate (US\$)	\$ 1.18	\$ 0.76
Value of Copper and Gold in Concentrate Sold (US\$000) ⁽²⁾	\$ 1,867	\$ 2,723
Sales		
Sales (US\$000)	\$ 2,949	\$ 4,149
Sales (Cdn\$000)	\$ 3,360	\$ 4,702
Concentrate (dmt)	2,223	3,002
Copper in concentrate (lbs)	337,828	493,037
Gold in concentrate (ounces)	1,240	1,737
Zinc in concentrate (lbs)	1,167,524	1,457,302

(1) Gold and copper are accounted for as co-products. Copper units are converted into gold units using the ratio of the average gold value to the average copper value for the period. Total cash costs per ounce are net of by-product silver sales revenue.

(2) Deductions from gross metal values are made for treatment charges, penalties, transportation and other selling costs to arrive at the value received for concentrate sold.

Production

The current mining method of narrow vein mining will result in significant variances in grade on a month-to-month basis as evidenced by the historical performance of the mine. DPM anticipates these variances to continue until the mining method is supplemented by open pit mining.

Ore hoisted in the fourth quarter of 2006 totaled 77,000 tonnes and 112,000 tonnes since acquisition. Ore processed for the quarter was 77,000 tonnes at 0.28% Cu, 1.07% Zn and 0.98 g/t Au and for the last four months was 112,000 tonnes at 0.29% Cu, 1.40% Zn and 1.16 g/t Au.

Concentrate production for the fourth quarter of 2006 was 1,632 tonnes and for the last four months was 2,956 tonnes. Copper metal contained in concentrate for the quarter was 0.3 million pounds and for the four months ended December 31, 2006 was 0.5 million pounds. Gold metal contained in concentrate produced for the quarter was 1,288 ounces and since acquisition was 2,409 ounces. Zinc metal contained in concentrate for the quarter was 1.1 million pounds and since acquisition was 2.2 million pounds.

Concentrate sales for the fourth quarter of 2006 were 2,223 tonnes and for the four months ended December 31, 2006 was 3,002 tonnes. Sales yielded revenue, net of freight, treatment charges, penalties and other selling costs, of US\$2.9 million during the fourth quarter and US\$4.1 million for the last four months. Average realized metal prices for the fourth quarter were US\$617 per oz of gold, US\$3.26 per lb of copper, and US\$1.74 per lb of zinc. For the four months ended December 31, 2006, the Company had average realized prices of US\$621 per oz of gold, US\$3.33 per lb of copper and US\$1.69 per lb of zinc.

Resources

As part of standard Soviet era practice, extensive diamond drilling and underground development was undertaken at both the Shahumyan and Central deposits. For example, databases compiled by Deno Gold based on Soviet era records, indicate that over 290,000m of surface and underground diamond drilling and 32,000m of underground channel sampling was completed to assess the Shahumyan deposit. No drill core remains from the Soviet era exploration programs. Based on information compiled by Deno Gold, Soviet era reports prepared for, and reportedly approved by, the Armenian government listed the following combined C1 and C2 resources for the Shahumyan and Central deposits.

Deposit	Date of Report	Tonnes (million)	Cu%	Au g/t	Zn%	Ag g/t	Pb%
Shahumyan	1989	12.4	0.56	2.5	2.5	50	0.2
Central	1979	2.9	0.99	-	-	-	-

It is understood that the resources were compiled using a sectional, polygonal estimation method; however, the exact estimation parameters are not known. As part of its due diligence process, DPM staff independently collected over 700kg of samples throughout the accessible sections of the Shahumyan deposit for assay, mineralogical studies and metallurgical testwork. Assaying of the DPM samples confirmed the overall tenor of the mineralization. In addition, mining and processing of the deposit since Deno Gold's acquisition of the project in 2003 has confirmed the tenor of the deposit. DPM has also independently sampled the mill feed and tails from the processing plant, including reference samples from previous years of production.

DPM plans to undertake an extensive drilling programme as part of its proposed activities in order to confirm the scale of the deposit and to enable a National Instrument 43-101 ("NI 43-101") compliant resource to be estimated and to be used as the source for mine scheduling as part of a DFS.

All resource estimates quoted herein are based on prior data and reports obtained and prepared by previous operators and information provided by the State. The Company has not completed the work necessary to verify the classification of the mineral resource estimates. The Company is not treating the mineral resource estimates as NI 43-101 defined resources verified by a qualified person. The historical

estimates should not be relied upon. These properties will require considerable further evaluation which DPM's management and consultants intend to carry out in due course.

Geology and Mineralization

The prolific Tethyan Mineralized Belt extends from east to west through the Mediterranean, Eastern Europe, Asia and passes through Southern Armenia. This belt is host to numerous world class porphyry copper-gold, polymetallic vein arrays and epithermal gold-silver deposits. The same belt is the host to DPM's Chelopech deposit and the deposits of the Bor area in Serbia.

At Shahumyan, mineralization is hosted in strongly altered dacite, andesite and basaltic host rocks. The vein arrays at Shahumyan cover an area of over 2.5km by 1.5km and are known to extend for at least 400m vertical depth. The main ore minerals are chalcopyrite, sphalerite, pyrite and minor galena. The Central deposit is a quartz-carbonate-sulphide (chalcopyrite and pyrite) vein array with strong similarity to porphyry related mineralization.

None of the deposits contain material quantities of deleterious elements which would incur penalties in the treatment of concentrate.

Processing

A crushing and flotation plant has been developed at Shahumyan using typical Soviet era construction and layouts. After primary and secondary crushing, material is transported to a storage area by conveyor to supply the concentrator. The current Shahumyan and Central ore (crusher product size of 20-30mm) passes through a rod-mill, followed by a ball mill and a small re-grind mill. The primary cyclone overflow feeds the flotation circuit comprising conventional Russian Denver style flotation cells to differentially float a gold rich copper concentrate and a zinc concentrate. There are three main thickeners, each 24m diameter, one for each type of concentrate produced (Central mine copper, Shahumyan copper-gold and Shahumyan zinc) and one small 8m diameter thickener serving the uncommissioned lead concentrate circuit. Thickened concentrates are then dried using vacuum filters producing a copper (high gold and high silver) concentrate and a separate high zinc (gold – silver) concentrate. DPM's assessment of the plant suggests that it is capable of 1 million to 1.25 million tonnes per year throughput, and capital has been budgeted to improve current metal recoveries.

Krumovgrad Gold Project, Bulgaria

The Krumovgrad Gold Project, which is held under an Exploration License expiring in June 2007, has a proven and probable mineral reserve of approximately 4.86 million tonnes of ore grading 5.08 grams of gold per tonne (794,000 contained ounces of gold). A DFS completed in 2005 was prepared by Ausenco Limited of Perth, Australia. On July 5, 2005, the Board of Directors approved the DFS for the construction and operation of the project situated in southeastern Bulgaria. The DFS estimated construction costs for the proposed open pit mine and related facilities of US\$75 million, with low unit cash operating costs, after tax payback in less than two years and annual gold production of 150,000 ounces per year for the first four years.

The method selected is a conventional open pit, drill, blast, load and haul operation, using a hydraulic excavator to carry out selective mining, similar to many small tonnage open pit gold mining operations throughout the world. The mining equipment will be owner operated and will be maintained by the equipment supplier.

A three stage pit design has been optimized based on practical push back dimensions and ore requirements, minimizing stripping requirements early in the mine life and the mining rates.

The mine is expected to produce a total of 4.9 million tonnes of ore (including the low grade stockpile) over its operating life, which will be processed at an average rate of 850,000 tonnes of ore per year for the Upper Zone material, reducing to 750,000 tonnes for the Wall Zone material. The schedule envisages blending the two material types.

Permitting

With strong support at the central bureaucratic level and a public acknowledgement by the MoEW that the project was designed to exceed key European Union ("EU") environmental guidelines, the Corporation has conducted a comprehensive lobbying effort in an attempt to move the project forward.

In addition, to address the principal concerns expressed by local politicians, DPM has offered to provide financial guarantees to cover the cost of closure and rehabilitation, and to establish a sustainable development fund specifically designed to replace job loss upon mine closure.

An EIA, filed with the Bulgarian MoEW in April 2005, incorporating best available techniques designed to meet or exceed Bulgarian and EU guidelines, is being held in abeyance by the MoEW without explanation. To protect the Corporation's interests, a legal appeal was filed December 2005 with the Court against the MoEW for failure to rule on DPM's EIA submission within the timeframe allowed by Bulgarian legislation.

The Company claimed that the non-rendering of a resolution by the MoEW on the Krumovgrad EIA within three months of the public hearings is a silent refusal that directly infringes on the rights of the Company. The essence of the presumption is that in a case where an administrative body is authorized to issue an individual administrative act, including a decision, and it fails to do so within the statutory time limits, the non-issuance of the act is considered a silent refusal. The Company requested the Court to revoke the silent refusal of the MoEW and approve the EIA or, alternatively, to instruct the MoEW to address the matter appropriately in compliance with Bulgarian law.

After a public hearing of the case on May 15, 2006, the Court, consisting of a panel of three judges, issued its Ruling on July 10, 2006 for the termination of the court proceedings on the grounds of the inadmissibility of the claim. DPM appealed the Court's Ruling. On November 1, 2006, a five member panel of the Court of Appeal in Bulgaria agreed with the Company's arguments and revoked the Ruling passed by the Court on July 10, 2006 that the Company's claim regarding the silent refusal of the MoEW on the Krumovgrad EIA was inadmissible. The Ruling by the Court of Appeal confirms that the EPA obliges the Minister to render a decision on the EIA within a three month period, as specified in the legislation, and confirms that DPM's case is admissible. Consequently, the case was returned to the Court with instructions to decide on the merits of DPM's claim.

The MoEW has recently proposed that the Krumovgrad project be included in lands designated as part of Natura 2000, a European Union directive of setting aside areas of conservation designed to protect the most seriously threatened habitats and species. It is unclear at this time whether this property meets EU criteria.

The Company's case was heard again by the three member panel on January 15, 2007. The MoEW offered into evidence a letter and map indicating Ada Tepe was situated within the proposed Natura 2000 territories. While DPM had no new evidence to submit, the Company's lawyers restated the basis of the original appeal and challenged the validity of the new evidence presented by the MoEW. The Court accepted the new evidence as admissible. On February 13, 2007, the Court revoked the silent refusal of the MoEW on the Krumovgrad EIA. The Court ruled that by failing to issue a pronouncement on the EIA within the statutory timeframe the MoEW has breached the procedural rules under the EPA. This Act does not provide for a silent refusal and therefore the MoEW has been required to issue a pronouncement on the Krumovgrad EIA. This decision is open to appeal to a full five member panel for fourteen days from receipt of official notification by the parties.

As previously announced, all engineering and procurement activities were suspended in May 2006. This is in addition to the suspension of the resettlement program which occurred at the end of February 2006. Consequently, the Krumovgrad Gold Project will be delayed until such time as the MoEW meets its legal obligations and approves the EIA which has been deemed to be fully compliant by independent international and licensed Bulgarian environmental experts.

Exploration

Back River Project, Canada

As of December 31, 2006, a total of 79 drill holes totalling approximately 24,000m of diamond drilling were completed on the Back River Project mineral claims. The 2006 diamond drill program focused on both discovery level targets located on the George Lake, Boot Lake and Boulder Pond properties and also consisted of resource expansion drill programs at the Goose Lake and George Lake deposits. The objective of the resource drill program was to test the strike and depth projections of the Goose Lake and George Lake resource footprints.

An exploration budget of up to \$18.4 million is proposed for the Back River Project in 2007. A diamond drill program is aimed at expanding the resource base of both the deposits at George Lake. Additional diamond drilling is planned to test the strike and depth extensions associated with the Lone Cow Pond mineralized zone.

In addition, a systematic geochemical survey is planned that will consist of collecting soil and rock chip samples over the Goose Lake, George Lake, Boot Lake and Boulder Pond claim groups. The geochemical survey results will be incorporated with the recently completed geophysical survey data, the district structural interpretation and the geological mapping to generate additional diamond drill targets.

The update of the Back River resource estimate is awaiting completion by RSG Global, and will include all drilling up to the end of the 2006 field season.

Serbia

DPM is currently the largest concession holder in Serbia with title to 14 exploration license agreements located within both the Cretaceous age Timok Magmatic Complex in Eastern Serbia and the Tertiary age Volcanic Complex that passes through Western and Southern Serbia. The geology of Serbia represents a continuation of the Cretaceous and Tertiary Arc systems that are found in Greece, Macedonia, Romania, Bulgaria, Ukraine, Turkey and Armenia and hosts significant copper and gold deposits and mining operations in the Bor region. The Company can maximize the value of its Serbian investments by capitalizing on synergies with its projects in Bulgaria through the use of modern and systematic exploration methodology.

In April 2006, DPM and the Government of Serbia signed exploration and mining concession contracts for the Coka Kuruga, Coka Kupjatra and Tilva Njagra exploration and exploitation concessions (collectively known as the Crni Vrh concessions). These concessions are contiguous and are located approximately 10 km west and northwest of the town of Bor, representing an area of 153 km². The exploration concessions are granted for a three year period, renewable for an additional two years, and include mining rights which have been granted for 25 years.

DPM has budgeted \$16.1 million for the 2007 exploration program in Serbia. The exploration program will focus on further understanding the geological context of the Timok Magmatic Complex with the aim to define a gold/copper resource within the next two years. Exploration activities in the reporting period have focused on evaluating the Crni Vrh concessions and the Company's exploration licenses in the Timok region of northeast Serbia. Work completed to date has included flying a detailed aeromagnetic and TEM heliborne geophysical survey over the Timok licenses. Further data processing and interpretation of this data is required.

In addition, detailed geological mapping, trenching and surface geochemical surveys have been undertaken. A structural interpretation and synthesis of the Timok region is currently being carried out and the environmental baseline study has commenced.

Drilling continues on the Crni Vrh concessions, initially targeting the multiple zones of hydrothermal alteration and testing previously reported mineralized intercepts generated by historical State-funded exploration programs. Further targets are expected to be generated as additional data becomes available

from geological mapping, prospecting, geochemical and geophysical surveys. Surface geophysical surveys commenced targeting zones of hydrothermal alteration during the period.

Additionally, geological mapping, stream sediment sampling and follow-up surface geochemical surveys are ongoing on regional licenses located elsewhere in Serbia.

Investment Activities

As at December 31, 2006, the portfolio had a market value of approximately \$189.5 million. The top three positions as at December 31, 2006, at market are: Goldbelt Resources Limited (“Goldbelt”) - \$37.6 million; IAMGOLD Corporation - \$32.1 million; and Tahera Diamond Corporation - \$19.7 million. The Company currently holds equity positions in excess of 10% in the following companies.

- Adamus Resources Limited (“Adamus”) is a Perth-based emerging gold producer. Adamus’ main focus is on realizing the economic potential of the 90% owned Southern Ashanti Gold Project in Ghana, West Africa.
- Cassidy Gold Corp. (“Cassidy”) is a gold exploration and development company with its principal asset being the 100% owned interest, subject to a 15% state participation, in the Kouroussa, Tambiko, and Siguri gold concessions in Guinea, West Africa. Aggressive exploration is adding new zones of gold mineralization into the Kouroussa resource picture.
- Crescent Gold Limited (“Crescent”) is an emerging Australian gold producer with its primary operation being Laverton Gold Project located in Western Australia. Crescent Gold is also exploring in Xinjiang and Inner Mongolia Provinces of Western China.
- Frontier Pacific Mining Corporation (“Frontier Pacific”) is a mineral exploration and development company based in Vancouver, B.C. Frontier Pacific is focused on gold and uranium projects in Europe and the Americas with its primary asset being the Perama Hill gold project in Northeastern Greece which is in the advanced permitting stage.
- Goldbelt is committed to becoming a significant and profitable mining company in West Africa by exploring and developing known gold prospects that will create long-life mines. Goldbelt is actively pursuing other mining opportunities in West Africa while continuing work on the Inata Project in the Belahouro License in Burkina Faso.

DPM disposed of investments for gross proceeds of \$38.2 million on which it realized a gain of \$23.1 million for the three months ended December 31, 2006, and invested \$47.4 million in strategic investments. In 2006, DPM disposed of investments for gross proceeds of \$111.1 million on which it realized a gain of \$68.7 million and invested \$61.3 million in strategic investments. During the year, \$0.1 million in investments were written down as management determined that the decline in value was other than temporary.

FINANCIAL RESULTS

RESULTS OF OPERATIONS

The Company reported net earnings of \$18.4 million or \$0.34 per share (\$0.33 per share on a diluted basis) and for the three and twelve months ended December 31, 2006 compared to net earnings of \$6.2 million or \$0.11 per share from sales of investments for the three months ended December 31, 2005. For the year ended December 31, 2006, the Company reported net earnings of \$69.7 million or \$1.29 per share (\$1.26 per share on a diluted basis) compared to net earnings reported in 2005 of \$19.9 million or \$0.37 per share. The increase in net income was attributed to increases in operating income from mine operations, primarily as a result of increased metal prices and significant gains on the sale of investments.

Condensed Income Statement

<i>Cdn\$ millions, except per share amounts</i>	Three Months Ended		Twelve Months Ended	
	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
Revenue from mining operations				
Gold/copper concentrate	\$ 32.9	\$ 33.1	\$ 110.9	\$ 63.2
Cost of sales	20.4	18.2	50.7	45.6
Gross profit from mining operations	\$ 12.5	\$ 14.9	\$ 60.2	\$ 17.6
Net investment income (loss)	22.8	(3.2)	64.9	23.9
Net earnings before undernoted	\$ 35.3	\$ 11.7	\$ 125.1	\$ 41.5
Expenses	13.4	7.5	41.4	20.0
Income tax expense (recovery)	3.5	(2.0)	14.0	1.6
Net earnings	\$ 18.4	\$ 6.2	\$ 69.7	\$ 19.9
Net earnings per share				
- basic	\$ 0.34	\$ 0.11	\$ 1.29	\$ 0.37
- fully diluted	\$ 0.33	\$ 0.11	\$ 1.26	\$ 0.37

Net Earnings Before Expenses, Non-controlling Interest and Income Tax

Net earnings before expenses, non-controlling interest and income tax of \$35.3 million for the three months ended December 31, 2006, compared with \$11.7 million for the three months ended December 31, 2005. On an annual basis, net earnings before expenses, non-controlling interests and income taxes were \$125.1 million compared to \$41.5 million in 2005 resulted from the following:

- (1) mining operations for the three months ending December 31, 2006 had a gross operating profit of \$12.5 million on the sale of 25,602 dry tonnes of gold/copper concentrate, compared with a profit of \$14.9 million on the sale of 32,580 dry tonnes, reported during the same period in 2005. Mining operations in 2006, had a gross operating profit of \$60.2 million on the sale of 66,239 dry tonnes of gold/copper concentrate, in comparison to the prior year's gross operating profit of \$17.6 million on the sale of 71,799 dry tonnes. Included in the operating profit is the sale of 1,300 dry tonnes of gold/copper concentrate and 1,702 dry tonnes of zinc concentrate from the recently acquired Kapan mine. There is no comparative amount for the prior year. The dramatic increase in profitability was primarily a result of the significantly higher metal prices as illustrated by the average prices for gold and copper in 2006 of US\$584/oz (2005 - US\$449/oz) and US\$2.92/lb (2005 - US\$1.69/lb), respectively; and
- (2) the financial results of the investment activities for the three months ending December 31, 2006 contributed \$22.8 million compared with a loss of \$3.2 million in the same period last year. In 2006, investment activities contributed \$64.9 million in comparison to \$23.9 million in the prior year.

Expenses

Administrative and Other Expenses

Administrative costs were \$4.7 million for the three months ended December 31, 2006, compared to \$3.2 million for the three month period ending on the same day last year. In 2006, administrative costs were \$15.1 million compared to \$8.3 million in the prior year. The increase over the prior year is due to continued systems and personnel development to support a new and rapidly growing international mining company, and an increase in business development activities undertaken during the period. Professional fees relating to the further development of internal controls, various permitting matters, and licensing and tender issues in Bulgaria have also contributed to this increase.

Exploration Expense

Exploration costs incurred for the three months ended December 31, 2006 were \$6.0 million, compared to \$1.5 million in the comparative period of 2005. Exploration costs incurred during 2006 were \$14.9 million compared to \$4.5 million during the prior year. Exploration costs during the last quarter of \$4.9 million were incurred in Serbia (\$11.2 million on a year-to-date basis) and \$1.2 million in Bulgaria (\$3.7 million on a year-to-date basis). DPM expenses all early stage exploration costs until the date it can be established that a property has mineral resources which have the potential of being economically recoverable. The level of exploration activity during the third and fourth quarters of 2006 has increased significantly in Serbia and is in line with the Company's expectations.

Stock Based Compensation Expense

Stock based compensation expense includes costs associated with granting stock options and costs related to the Company's Employee and Director Deferred Share Unit ("DSU") Plans. The value of the stock options granted was \$1.0 million for the three months ended December 31, 2006, calculated using a Black-Scholes model. The value of stock options granted in 2006 was \$2.9 million, calculated using a Black-Scholes model. These costs are charged to operations over their three year vesting period. During the three months ended December 31, 2006, stock option expense was \$1.9 million. Stock option expense for 2006 was \$5.4 million. The DSU's vest immediately and compensation expense is recognized at the time of grant. The outstanding liability is marked-to-market each quarter. During the quarter, \$0.1 million was charged to compensation expense for the issuance of DSU's and \$0.3 million was charged to compensation expense representing the increase in the Company's stock price over the quarter. For the twelve months ended December 31, 2006, \$0.3 million relating to the issue of DSU's and \$0.6 million relating to the mark-to-market of the DSU's were charged to compensation expense.

Foreign Exchange

Expenses include a charge relating to fluctuations in foreign currency rates against the Canadian dollar. The majority of monetary assets and liabilities related to the mining operations are not in Canadian dollars, hence fluctuations in the exchange rates result in gains and losses when translated to Canadian currency. The strengthening of the Canadian dollar against both the US dollar and the Euro in recent months has resulted in a \$0.8 million foreign exchange loss in 2006.

Cash Flow Summary

<i>Cdn\$ millions</i> Ended December 31,	Three Months		Twelve Months	
	2006	2005	2006	2005
Cash provided by (used in)				
Operating activities	\$ (6.1)	\$ 27.0	\$ 23.1	\$ 18.8
Property, plant and equipment	(17.3)	(12.7)	(120.3)	(64.9)
Investment transactions, net	(9.3)	(1.5)	49.8	46.2
Financing activities	0.4	0.2	1.9	7.6
Increase (decrease) in cash	\$ (32.3)	\$ 13.0	\$ (45.5)	\$ 7.7

Operating Activities

For the three months ended December 31, 2006, the Company's operating activities used cash of \$6.1 million compared to providing \$27.0 million during the same period in the prior year. The Company's operating activities provided cash of \$23.1 million in 2006, compared to providing cash of \$18.8 million in the prior year.

The following is a breakdown of the major components affecting operating activities:

Ended December 31,	Three Months		Twelve Months	
	2006	2005	2006	2005
Net earnings	\$ 18.4	\$ 6.2	\$ 69.7	\$ 19.9
Gain on sale of investments	(23.1)	1.0	(68.7)	(33.8)
Amortization	3.2	1.6	9.1	5.9
Stock-based compensation	1.9	1.3	5.4	4.5
Writedown of investments to market value	-	6.0	0.1	13.7
Other non-cash charges	4.0	(4.3)	7.7	1.7
Increase (decrease) in accounts receivable	(5.0)	2.7	(22.1)	(4.7)
Increase (decrease) in accounts payable	(7.5)	(2.2)	26.1	1.2
Other non-cash working capital	2.0	14.7	(4.2)	10.4
Net cash provided by (used in) operating activities	\$ (6.1)	\$ 27.0	\$ 23.1	\$ 18.8

Investing Activities

Investing activities used \$26.6 million in cash during the three months ending December 31, 2006. Net changes in investment portfolio activities used cash of \$9.3 million during the three months ended December 31, 2006, compared with consuming \$1.5 million for the same period of 2005. Investing activities used \$70.6 million in cash during the twelve months ended December 31, 2006. Net changes in investment portfolio activities provided cash of \$49.8 million in 2006 compared with providing \$46.2 million in 2005.

Capital expenditures on property, plant and equipment for the three months ended December 31, 2006 totalled \$17.3 million. Expenditures for the three months ended December 31, 2006 were comprised of: a) exploration and mine development (\$4.5 million); b) property, plant and equipment (\$12.7 million); and c) acquisition of Deno Gold (\$0.1 million). In the three month periods ended December 31, 2005, the Company expended \$12.7 million on plant and equipment. Capital expenses on property, plant and equipment for the year ended December 31, 2006 totalled \$120.3 million and was comprised of : a) exploration and mine development of \$44.7 million; b) property, plant and equipment of \$41.7 million; c) property acquisition of \$9.0 million; and d) acquisition of Deno Gold for \$24.9 million. This is in comparison to \$64.9 million expended on plant and equipment in 2005. The following tables provide details of the amounts:

Chelopech

At Chelopech, \$14.9 million (**US\$13.1 million**) and \$58.4 million (**US\$51.6 million**) was spent during the three and twelve months ended December 31, 2006, respectively, and \$114.5 million (**US\$97.8 million**) has been spent on the property from the date of acquisition as follows:

Chelopech Project Costs

<i>US\$ millions</i>	Current Quarter Cost	Year- to-Date Cost	Total Cost from Date of Acquisition
Project:			
Establishing reserves	\$ 0.5	\$ 1.5	\$ 6.1
Decline	1.2	3.7	10.2
Mine development	2.2	12.9	31.4
Mill development	0.3	2.5	5.0
Definitive feasibility study	-	0.3	10.0
Oxygen plant	0.9	11.7	11.7
EPCM contractor	2.8	8.8	8.8
Other	5.2	10.2	14.6
Total	\$ 13.1	\$ 51.6	\$ 97.8

Kapan

At Kapan, \$2.6 million (**US\$2.3 million**) and \$3.2 million (**US\$2.9 million**) was spent on the property during the three and four months ended December 31, 2006, respectively, as follows:

Kapan Project Costs

<i>US\$ millions</i>	Current Quarter Cost	Year- to-Date Cost	Total Cost from Date of Acquisition
Project:			
Mine development	\$ 0.1	\$ 0.3	\$ 0.3
Geghanush TMF	1.5	1.8	1.8
Other	0.7	0.8	0.8
Total	\$ 2.3	\$ 2.9	\$ 2.9

Back River

DPM acquired the option to earn a 60% interest in this advanced stage exploration property early in 2005 for \$9.1 million and, subsequently, a further \$28.9 million was expended on exploration activities. On July 25, 2006, DPM acquired a 100% interest in the Back River Project resulting in an additional \$8.9 million in acquisition costs.

Total

As at December 31, 2006, the Company has capitalized the following costs:

Property, Plant and Equipment

<i>Cdn\$ millions</i>	Acquisition Cost	Project Cost	Total Cost
Back River (<i>Nunavut, Canada</i>)	\$ 18.0	\$ 28.9	\$ 46.9
Chelopech (<i>Bulgaria</i>)	20.3	114.5	134.8
Krumovgrad (<i>Bulgaria</i>)	30.1	20.1	50.2
Serbia	0.1	6.8	6.9
Kapan (<i>Armenia</i>)	31.7	3.2	34.9
Corporate	-	1.6	1.6
Total	\$ 100.2	\$ 175.1	\$ 275.3

Financing Activities

In the three months ended December 31, 2006, the exercise of stock options provided \$0.4 million. During the comparative period of 2005, financing activities provided \$7.4 million from the exercise of stock options and debt financing proceeds offset by payments for the retirement of debt. For the year ended December 31, 2006, the exercise of stock options provided \$1.9 million. During 2005, financing activities provided \$7.6 million from the exercise of stock options and debt financing proceeds offset by payments for the retirement of debt.

LIQUIDITY

The Company has aggregate working capital of \$40.7 million and marketable securities with a market value in excess of \$189 million as at December 31, 2006.

The Company has board approval to proceed with two development projects once the necessary regulatory approvals are received. The Chelopech expansion and redevelopment is expected to cost US\$175 million and the Krumovgrad Gold Project is estimated to cost US\$75 million. The ability to complete both development projects is dependent on the Company's ability to raise sufficient funding. Preliminary discussions have been held with international financial institutions regarding debt financing of between US\$150 - \$175 million for both projects. The equity markets are also available for providing new funds for superior projects and are especially active in strong commodity cycles.

The Company is planning an exploration program which is budgeted at \$72.5 million for 2007, of which approximately \$32.7 million is allocated for in mine or near mine exploration. It should be noted that the budget assumes that all of the various programs will be successful and require immediate follow up. Furthermore, a significant portion of expenditures are temporarily discretionary and can be deferred, if necessary, for a period of time.

It is anticipated that these funds, in addition to funds generated from operations, will be sufficient to finance current mining and investment activities as well as the Company's committed obligations in 2007.

The Company has contractual obligations due within the next five years as follows:

Contractual Obligations

<i>Cdn\$ thousands</i>	Payments Due by Period				
	Total	Up to 1 Year	1 - 3 Years	4 - 5 Years	Over 5 years
Long-term debt	\$ 16,897	\$ 4,225	\$ 8,447	\$ 4,225	\$ -
Operating lease obligations	2,706	795	1,453	458	-
Purchase obligations	31,799	26,215	5,461	123	-
Other long-term obligations	2,253	37	2,150	31	35
Total contractual obligations	\$ 53,655	\$ 31,272	\$ 17,511	\$ 4,837	\$ 35

Included in the purchase obligations are \$3.2 million in contracts relating to Kapan's construction of a new TMF, \$17.3 million relating to Chelopech's engineering, procurement, and construction management purchase commitments, \$7.4 million for site capital projects and \$1.4 million relating to the oxygen plant.

QUARTERLY INFORMATION

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Gold/copper concentrate sales	\$32.9	\$ 17.2	\$ 41.1	\$ 19.8	\$ 33.1	\$ 7.7	\$ 10.8	\$ 11.6
Cost of sales	20.4	8.1	12.5	9.7	18.2	6.2	9.4	11.7
Gross profit (loss)	12.5	9.1	28.6	10.1	14.9	1.5	1.4	(0.1)
Net investment income (loss)	22.8	16.0	25.7	0.4	(3.2)	25.9	0.3	0.8
Net earnings before the undernoted	35.3	25.1	54.3	10.5	11.7	27.4	1.7	0.7
Expenses	(13.4)	(9.1)	(12.1)	(6.7)	(7.5)	(4.3)	(5.8)	(2.3)
Non-controlling interest	-	(0.1)	-	-	-	-	-	-
Income tax recovery (expense)	(3.5)	(2.5)	(7.9)	(0.1)	2.0	(4.1)	0.3	0.1
Net earnings (loss)	\$ 18.4	\$ 13.4	\$ 34.3	\$ 3.7	\$ 6.2	\$ 19.0	\$ (3.8)	\$ (1.5)
Net earnings (loss) per share								
- basic	\$ 0.34	\$ 0.25	\$ 0.64	\$ 0.07	\$ 0.11	\$ 0.35	\$ (0.07)	\$ (0.03)
- fully diluted	\$ 0.33	\$ 0.24	\$ 0.61	\$ 0.07	\$ 0.11	\$ 0.35	\$ (0.07)	\$ (0.03)

OUTLOOK AND CHALLENGES

Outlook

The Company continues to focus on filling the mining project pipeline. The critical objectives for the immediate future are to:

- successfully complete the permitting processes in Bulgaria for both the Chelopech expansion and conversion to metal production, and for the development and operation of the Krumovgrad gold property,
- prepare for orderly transition to metal production once permitting issues are resolved at Chelopech,
- integrate and modernize the Kapan mine in Armenia and initiate a comprehensive exploration program to thoroughly evaluate the potential of this property,
- continue the aggressive exploration of the Serbian concessions and the Back River property in Nunavut,
- continue to pursue additional mining opportunities, either through corporate investments or direct property interests, and
- secure the necessary funding for these activities, as required.

Challenges

There are a number of significant challenges and uncertainties to be addressed:

Political

The majority of the Company's operations are carried out in eastern Europe and Eurasia and, as such, the Company's operations are exposed to various levels of political risks and uncertainties.

Changes, if any, in mining or investment policies or shifts in political attitude in eastern Europe and Eurasia may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Project Approval, Development and Commissioning

The Company's operations and development activities are subject to receiving and maintaining permits from appropriate governmental authorities. Although the Company currently has all required permits for its operations, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations or additional permits for planned future changes to operations. Prior to any redevelopment of any of its properties, the Company must receive new permits from appropriate governmental authorities.

Operating and Capital Costs

As commodity prices continue to strengthen, mine exploration and development costs continue to increase and the availability of reliable sources of supply of qualified personnel and supplies at reasonable prices becomes more difficult. The Company used the most current pricing available in its DFS's; however, continued delays will likely have a negative impact on the estimates of total costs.

In addition, the cost of projects available for acquisition is increasing as the number of companies looking to expand through acquisition increases and the underlying commodity prices continue to strengthen.

Concentrate Market

Chelopech's high arsenic content continues to restrict opportunities to take advantage of smelter demand resulting in mine production having to be restrained until metal production becomes part of the mine's operations. The tightening market for Chelopech concentrate together with a continued delay in the approval of the Chelopech EIA and construction of the MPF will likely result in a temporary interruption in operations in 2008.

Exploration

Exploration is highly speculative in nature and exploration projects involve many risks that even a combination of careful evaluation, experience and knowledge may not eliminate. Once a site with gold or other precious metal mineralization is discovered, it may take several years from the initial phases of drilling until production is possible. Substantial expenditures are normally required to locate and establish mineral reserves and to construct mining and processing facilities. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.

Financing

The mining, processing, development and exploration of the Company's properties may require substantial additional financing. Failure to obtain sufficient financing may result in delay or indefinite postponement of development on any or all of the Company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. A decline in gold, copper or zinc prices could adversely affect the Company's ability to obtain financing in the future.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates in preparation of its financial statements conforming with Canadian generally accepted accounting principles ("GAAP"). Critical accounting estimates represent estimates that are highly uncertain and could materially impact the financial statements. These estimates affect the reported amount of assets and liabilities as well as the revenues and expenses. Changes to these estimates may result in material changes to these line items. The critical accounting estimates made by the Company relate to the following items:

Capitalization of Exploration Expenses

Exploration expenses incurred to the date of establishing that a property has mineral resources, with the potential of being economically recoverable, are charged to operations. All subsequent exploration and development expenses are capitalized and amortization is deferred until the commencement of commercial production. The estimate of mineral resources is a complex process and requires significant assumptions and estimates regarding economic and geological data. Any revision to any of these estimates could result in the impairment of the capitalized exploration expenses. As a result, there could be a material impact on the asset balance.

Asset Retirement Obligations

Mining, development and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company has recorded a liability for future costs related to these regulations with a corresponding adjustment to the carrying amount of the related assets.

Significant judgments and estimates are made when determining the nature and costs associated with asset retirement obligations. Changes in the underlying assumptions used to estimate the obligation as well as changes to environmental laws and regulations could cause material changes in the expected cost and the fair value of asset retirement obligations.

Property, Plant and Equipment

Property, plant and equipment represent 56% of total assets at December 31, 2006. As such, the application of the Company's accounting policies for these assets has a material impact on the Company's financial results. Property, plant and equipment and related capitalized expenditures are recorded at cost. Amortization expense is based on the estimated useful lives of these assets. The carrying values of mining properties and property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment assessments are based on estimates of future cash flows, which include: the quantity of mineral reserves; future metal prices and future operating and capital costs to mine and process the Company's reserves. The variability of these factors depends on a number of conditions, including the uncertainty of future events, and as a result, accounting estimates may change from one period to another. Asset balances could be materially impacted if other assumptions and estimates had been used. In addition, future operating results could be impacted if different assumptions and estimates are applied in future periods.

Income Taxes

In determining both the current and future components of income taxes, the Company interprets tax legislation in a variety of jurisdictions as well as makes assumptions as to the expected time of the reversal of future tax assets and liabilities. If the interpretations or assumptions differ from the tax authorities or if the timing of the reversal is not properly anticipated, the provision for or relief of taxes could increase or decrease in future periods.

Investments

Investments represent 24% of total assets at December 31, 2006. As such, the application of the Company's accounting policies for these assets has a material effect on the Company's financial results. Investments are recorded at cost. Investments in which the Company has significant influence, but does not control, are accounted for using the equity method. Investments are reviewed for impairment based on the market values of the securities. When the loss on investment is considered other than temporary, the investment is written down to recognize the loss. The volatility of the market values can cause accounting estimates to change from one period to the next. As a result, balances could be materially impacted.

ACCOUNTING DEVELOPMENTS

Financial Instruments, Comprehensive Income and Hedges

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company will adopt these new standards effective January 1, 2007.

Other comprehensive income, a new location for recognizing certain gains and losses, has been introduced. This will allow for certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement, but in a transparent manner. Existing requirements for hedge accounting have been expanded, and in most cases, all financial instruments are to be recorded on the balance sheet at fair value. The Company is currently assessing the impact of these new standards, however, the impact is not yet determinable as it is highly dependent on fair values at the time of adoption.

RISK MANAGEMENT

In addition to the challenges mentioned above, there are several other risks the Company must face.

Metal Prices and Currencies

Gold, zinc and copper prices have continued to remain at levels well above historic averages. With the strengthening of commodity prices, there is continuing concern about inflationary pressure leading to increases in interest rates, which may lead to a slowing of economic growth. It is currently the Company's policy not to hedge gold prices. There were no hedges in place at December 31, 2006. However, in the second quarter of 2006, the Company acquired copper put options on 11,825 mt covering the period from October 2006 to December 2007. These financial instruments represent an option, but not an obligation, to sell copper at US\$2.50 per pound. The put options were purchased in an effort to protect the Company against the potential decline in the value of copper. As the price of copper declines, the value of the unexpired put options increases.

Revenue from mine production of gold, copper and zinc is priced in US dollars. The majority of operating and capital expenditures are Euro based or US dollar based. Both the US dollar and the Euro continue to depreciate against the Canadian currency as commodity prices increase.

The Company's investment income is denominated primarily in Canadian dollars as most of the investments trade on the TSX and the majority of cash balances are in Canadian currency.

The demand for copper and zinc metals continues to be strong. A combination of consumer demand, particularly from Asia, low inventories, a number of producer technical and grade difficulties and continued institutional buying has caused both the copper and zinc prices to continue to trade at a significant premium to historic average levels. Short term buyer interest has resulted in continued volatilities in the forward markets.

In the copper concentrate market, smelters are actively looking for additional supply of clean concentrate, as a result of having completed openings and expansions of their facilities. Smelters, particularly those in Asia, were reluctant to accept lower spot treatment and refining charges demanded by the suppliers (mines and traders). However, towards the end of 2006, spot prices started to fall in line with contract settlement negotiations for 2007 sales. The market settlement terms for 2007 that have been reported show a significant swing in favour of the supply side with treatment and refining charges reduced by roughly 30% and in many instances the removal of copper price participation clauses which provide additional earnings for the smelters. Chelovech's unique high arsenic content and fixed terms for the majority of 2007 contracted sales results in limited opportunity to benefit from the downward trend in smelter deductions.

Declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

The price of the common shares, the Company's financial results and exploration, development and mining activities could be significantly and adversely affected by declines in the price of gold, silver and copper. Gold, silver and copper prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of gold and silver by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold, silver and copper-producing countries throughout the world. Depending on the price of gold, silver and copper, cash flow from mining operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's mining properties is dependent on gold, silver and copper prices that are adequate to make these properties economic.

Political

The majority of the Company's operations are currently conducted in Eastern Europe and Eurasia and as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions; currency controls; and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Eastern Europe and Eurasia may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Foreign Currency

Exchange rate fluctuations may affect the capital costs that the Company incurs in its operations. Gold, silver and copper are sold in US dollars and the Company's costs are incurred principally in Canadian dollars and Bulgarian leva, which is currently fixed to the Euro. The appreciation of non-US dollar currencies against the US dollar can increase the cost of gold, silver and copper production in US dollar terms. The Company monitors these currencies but has not entered into derivative instruments to hedge against this risk.

Credit

The Company is subject to credit risk from its customers; however, it receives a provisional payment on all sales at the time title of the concentrate transfers from many of its customers. For the majority of contracted sales, provisional payments are between 90% and 95% of the contract based on provisional metal prices and assay results. The Company monitors this risk and does not consider the likelihood of a material loss to be significant.

Operations

Mining operations generally involve a high degree of risk. The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold, silver and copper, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

Success of the Company's operations also depends on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Insurance

The Company's business is subject to a number of other risks and hazards, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment, and natural phenomena such as inclement weather conditions, floods, hurricanes and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the

Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Diversification

The business activities of issuers in the resource industry (“Resource Issuers”) are speculative and may be adversely affected by factors outside the control of those issuers. Resource Issuers may not hold or discover commercial quantities of precious metals or minerals and their profitability may be affected by adverse fluctuations in commodity prices, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other taxes and government regulation, as applicable. Because the Company has and may continue to invest primarily in securities issued by Resource Issuers engaged in the mining industry or related resource businesses (including junior issuers), the value of the Company’s investment portfolio of securities may be more volatile than portfolios with a more diversified investment focus. Also, the value of the Company’s investment portfolio of securities may fluctuate with underlying market prices for commodities produced by those sectors of the economy.

Government Laws and Regulations

The activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although the Company currently carries out its operations in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could cause costs and delays that would have a substantial adverse impact on the Company.

Development Projects

The Company’s ability to sustain or increase the present levels of production is dependent in part on the successful development of new ore bodies and/or expansion of existing mining operations. The commercial viability of development projects is based on many factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices, which are highly cyclical; government regulations; capital and operating costs of such projects; and foreign currency exchange rates. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits and the acquisition of satisfactory surface or other land rights. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Production and Operating Costs

The Company prepares estimates of future production and total cash costs of production for its operations. Many unforeseen factors both related and unrelated to the project such as the raw cost of inputs, regulatory factors, foreign exchange fluctuations, adverse environmental conditions, natural phenomena, and industrial accidents, can impact the accuracy of these projections. As such, no assurance can be given that production cost estimates will be achieved. Failure to achieve production or total cash cost estimates could have an adverse impact on future cash flows, earnings and financial condition.

Reserves

The figures for mineral resources contained herein are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. There are numerous uncertainties inherent in estimating mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold, silver or copper recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Fluctuation in gold, silver or copper prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral resources could have a material adverse effect on the Company's results of operations and financial condition.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

DISCLOSURE CONTROLS AND PROCEDURES

Requirements of MI 52-109 include conducting an evaluation of the effectiveness of disclosure controls and procedures. Management conducted an assessment of the effectiveness of the disclosure controls and procedures in place as of December 31, 2006 and concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in annual filings. The Board of Directors assesses the integrity of the public financial disclosures through the oversight of the Audit Committee.

Internal Control Changes

During 2006, the Company completed a detailed evaluation of the design effectiveness of Internal Controls over Financial Reporting using the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) framework. This exercise resulted in improvements being made to strengthen the portfolio of internal controls in all significant locations. Additional improvements will be made in 2007 to further enhance Internal Controls over Financial Reporting.

GLOSSARY OF KEY TERMS

Units of Measure Abbreviations		Abbreviations	
a	annum	CIL	carbon in leach
Ag	silver	DFS	definitive feasibility study
Au	gold	DSU	deferred share unit
Cu	copper	EBRD	European Bank for Reconstruction and Development
dmt	dry metric tonnes	EIA	environmental impact assessment
Eq	equivalent	LME	London Metal Exchange
g	grams	MoEW	Ministry of the Environment and Waters
g/t	grams per tonne	MPF	metals production facility
km	kilometres	POX	pressure oxidation technology
kt	thousands of tonnes	SAG	semi autogenous grinding
lbs	pounds	SX/EW	solvent extraction and electrowinning
m	metres	TMF	tailings management facility
mt	millions of tonnes		
oz	ounces		
t	tonnes		

OTHER

The financial information has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars. Additional Company information, including the Company’s most recent Annual Report and Annual Information Form, can be accessed through the System for Electronic Document Analysis and Retrieval (“SEDAR”) website at www.sedar.com and the Company website at www.dundeeprecious.com. Certain non-GAAP measures are discussed in this MD&A which are clearly disclosed as such.

Certain statements included in this MD&A and the accompanying financial statements are forward-looking statements. Forward-looking statements are frequently characterized by words such as “plan,” “expect,” “project,” “intend,” “believe,” “anticipate” and other similar words, or statements that certain events or conditions “may” or “will” occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices and other factors described above and in the Company’s most recent Annual Information Form under the heading “Risk Factors” which has been filed electronically by means of the Canadian Securities Administrators’ website located at www.sedar.com. The Company disclaims any obligation to update or revise any forward-looking statements if circumstances or management’s estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

CONSOLIDATED BALANCE SHEETS

As at December 31, 2006 and December 31, 2005

(in thousands of Canadian dollars)

As at December 31,	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 31,993	\$ 77,541
Accounts receivable and other assets (note 4)	37,210	15,143
Inventories (note 5)	17,097	12,051
Total current assets	86,300	104,735
Investments (market value-\$189,527; December 2005-\$184,690) (note 6)	109,355	91,467
Other long-term assets (note 7)	2,221	1,204
Property, plant & equipment (note 8)	251,962	134,241
Future income tax asset (note 12)	5,016	6,262
Total assets	\$ 454,854	\$ 337,909
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 35,129	\$ 13,320
Deferred revenue	6,246	-
Current portion of long-term debt (note 9)	4,225	-
Current portion of other long-term liabilities (note 10)	21	448
Total current liabilities	45,621	13,768
Long-Term Liabilities		
Long-term debt (note 9)	12,672	11,630
Reclamation and other long-term liabilities (note 10)	12,567	9,649
Long-term compensation (note 13)	5,034	4,109
Future income tax liability (note 12)	11,647	6,572
Total long-term liabilities	41,920	31,960
SHAREHOLDERS' EQUITY		
Share capital (note 14a)	193,307	190,666
Contributed surplus (note 14b)	7,019	4,260
Retained earnings	166,987	97,255
Total shareholders' equity	367,313	292,181
Total liabilities and shareholders' equity	\$ 454,854	\$ 337,909

Contingent liabilities and commitments (note 11)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2006 and December 31, 2005

(in thousands of Canadian dollars)

For the years ended December 31,	2006	2005
Mining operations		
Gold/copper/zinc concentrate revenue	\$ 110,935	\$ 63,234
Cost of sales	50,689	45,583
Gross profit	60,246	17,651
Investment income		
Dividends, interest and other income	479	3,821
Net realized gain on sale of investments	68,682	33,751
Loss on copper puts	(4,229)	-
Impaired investments written down to market	(73)	(13,720)
Gross investment income	64,859	23,852
Earnings before undernoted items	125,105	41,503
Expenses		
Administrative and other expenses	15,115	8,260
Stock based compensation expense	5,395	4,492
Exploration expense	14,864	4,460
Amortization of property, plant and equipment	2,329	694
Financing and other costs	2,869	2,167
Foreign exchange loss (gain)	793	(109)
Total expenses	41,365	19,964
Earnings before income taxes	83,740	21,539
Provision for (recovery of) income taxes <i>(note 12)</i>		
Current	11,292	(1,064)
Future	2,716	2,713
Total provision for income taxes	14,008	1,649
Net earnings for the period	\$ 69,732	\$ 19,890
Basic net earnings per share <i>(note 15)</i>	\$ 1.29	\$ 0.37
Diluted net earnings per share <i>(note 15)</i>	\$ 1.26	\$ 0.37

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 2006 and December 31, 2005

(in thousands of Canadian dollars)

For the years ended December 31,	2006	2005
Balance at beginning of period	\$ 97,255	\$ 77,365
Net earnings	69,732	19,890
Balance at end of period	\$ 166,987	\$ 97,255

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 2006 and December 31, 2005

(in thousands of Canadian dollars)

For the years ended December 31,	2006	2005
OPERATING ACTIVITIES		
Net earnings for the period	\$ 69,732	\$ 19,890
Non-cash charges (credits) to earnings		
Amortization of property, plant and equipment	9,127	5,901
Stock based compensation expense	5,395	4,492
Repurchase of stock options	(950)	-
Gain on sale of investments	(68,682)	(33,751)
Write down of investments to market value	73	13,720
Future income taxes	2,716	2,713
Loss on copper puts	4,229	-
Other non-cash charges (credits)	1,706	(1,009)
Changes in non-cash working capital		
Increase in accounts receivable and other assets	(22,062)	(4,719)
Increase in inventories	(2,982)	(283)
Decrease (increase) in other long-term assets	(1,017)	11,262
Increase in accounts payable	26,056	1,152
Decrease in other liabilities	(202)	(566)
Net cash provided by operating activities	23,139	18,802
INVESTING ACTIVITIES		
Purchase of investments	(61,313)	(22,778)
Proceeds on sale of investments	111,118	68,982
Acquisition of company, net of cash acquired of \$523 (note 3)	(24,950)	-
Acquisition of mineral properties	(8,950)	(16,819)
Exploration and development costs capitalized	(44,758)	(28,179)
Acquisition of plant and equipment	(41,714)	(19,926)
Net cash used in investing activities	(70,567)	(18,720)
FINANCING ACTIVITIES		
Issue of common shares	1,880	695
Proceeds of debt financing	-	11,706
Debt retired	-	(4,770)
Net cash provided by financing activities	1,880	7,631
Increase (decrease) in cash and equivalents	(45,548)	7,713
Cash and equivalents at beginning of period	77,541	69,828
Cash and equivalents at end of period	\$ 31,993	\$ 77,541
Supplemental Disclosures		
Interest paid (received)	\$ 1,351	\$ (1,846)
Taxes paid (received)	\$ 1,447	\$ (15,284)

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**For the year ended December 31, 2006***(in thousands of Canadian dollars, unless otherwise indicated)*

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Dundee Precious Metals Inc. ("DPM" or the "Company") is a Canadian based international mining company engaged in the acquisition, exploration, development and mining of precious metals. In Bulgaria, the Company currently owns an operating underground gold/copper mine ("Chelopech") which is being expanded and is in the process of obtaining regulatory approval for the expansion and conversion of its processing facilities from concentrate to metal production; and a feasibility stage gold project ("Krumovgrad Gold Project") which is awaiting regulatory approval for construction and operation. In the Company's view, these approvals have been unreasonably withheld and DPM has applied to the Bulgarian Courts to insist that the requisite approvals be granted. Failure to secure the approvals would delay the planned mine expansion activities at Chelopech and likely lead to a temporary suspension of production for at least part of 2008. Failure to receive required permits for the development of the Krumovgrad Gold Project would cancel all development of the property and the Company would be forced to seek compensation from the government of Bulgaria. DPM continues to believe it will be successful in obtaining the required permits.

In addition, DPM holds a number of active exploration properties in the Central and Eastern Rhodope regions of the Balkans and in Nunavut in the Canadian Arctic (the "Back River Project"). The Company also owns 80% of VatrIn Investment Limited ("VatrIn"), a private company which holds 100% of Deno Gold Mining Company ("Deno"), its principal asset being the Kapan Mining Project ("Kapan"), a gold, copper, and zinc concentrate producer in Southern Armenia.

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The principal accounting policies followed by the Company are summarized hereunder.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements are presented in Canadian dollars and are prepared in accordance with Canadian GAAP. The consolidated financial statements consolidate the assets, liabilities and results of all entities in which the Company holds a controlling financial interest. The Company defines a controlling financial interest as ownership of a majority voting interest of the entity. The effects of all transactions between controlled entities are eliminated. Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of loss and deficit from the date on which control commences. Where control of an entity ceases during a financial year, its results are only included for the portion of the year over which control exists.

b) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. The most significant estimates relate to the carrying values of inventories, receivables, investments, capital assets, amortization and depletion rates, asset retirement obligations, future income tax assets and liabilities, and the valuation of copper puts and stock based compensation. Actual results could differ from these estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**For the year ended December 31, 2006***(in thousands of Canadian dollars, unless otherwise indicated)*

c) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period end exchange rates, whereas non-monetary assets and liabilities and related expenses denominated in foreign currencies are translated at the exchange rate in effect at the transaction date. Income and expense items are translated at the exchange rate in effect on the date of the transaction. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statement of earnings.

d) Accounting Developments*Financial Instruments, Comprehensive Income and Hedges*

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company will adopt these new standards effective January 1, 2007.

The Company is currently assessing the impact of these new standards on its consolidated financial statements, however, the impact is not yet determinable as it is highly dependent on fair values at the time of adoption.

e) Cash and Cash Equivalents

Cash and cash equivalents include bank balances and short-term investments in money market instruments with original maturities of less than three months and are carried at the lower of cost and fair market value.

f) Financial Instruments and Commodities Contracts

The Company uses put option contracts to manage the effect of price changes on a portion of the metals sold by the Company. These derivative contracts, which represent a right but not an obligation to sell, are not designated as hedges and are initially recorded on the balance sheet at cost. Subsequent gains and losses arising from changes in market value on these contracts are charged or credited to earnings in the period in which they occur.

g) Inventories

Inventories of gold/copper/zinc concentrate are valued at the lower of average production cost and net realizable value. Production costs include the costs directly related to bringing the inventory to its current condition and location, such as materials, labour, mine site overheads and related amortization and depreciation of the mining and processing facilities. Costs also include the royalty payable on the value of the ore extracted from the mine.

Supplies inventories are valued at the lower of cost and net replacement cost.

h) Valuation of Investments

Investments are recorded at historical cost and are evaluated for impairment based on the market values and consideration of the current circumstances affecting the companies in DPM's investment portfolio. Market values are determined based on the period end closing prices reported on recognized securities exchanges and over-the-counter markets. When there has been a loss in value of an investment that is determined to be other than a temporary decline, the investment is written down to recognize the loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

(in thousands of Canadian dollars, unless otherwise indicated)

The average cost basis is used to determine the gain or loss on sales of investments. Gains and losses realized on sales are recorded in the statement of earnings in the period in which they occur.

Dividend income is recognized on the ex-dividend date. Interest income and expenses are recognized on an accrual basis.

Investments in which the Company exercises significant influence but does not control are accounted for using the equity method. All other investments are stated at cost.

i) Property, Plant and Equipment

Mining interests, exploration and development costs

Payments made for the acquisition of land and mineral rights are capitalized. Exploration expenses incurred to the date of establishing that a property has mineral resources, which have the potential of being economically recoverable, are charged to earnings; exploration and development expenses incurred subsequent to this date are allocated to mining properties. Upon commencement of commercial production, all related capital expenditures for any given mineral interest are amortized over the estimated economic life of the property. If a property is abandoned, or deemed economically unfeasible, the related project balances are written off.

Amortization rates for these assets are as follows:

- Deferred exploration and development – life of mine; and
- Licenses and other mining rights – lesser of life of mine and economic life.

Property, plant and mine equipment

Property, plant and equipment used in the mining business are recorded at cost. The amortization of mine infrastructure is based on the units-of-production method over the estimated economic life of the related deposit. Where the anticipated useful lives of the buildings, machinery and equipment related to mines are less than the life of the deposit, amortization is based on their remaining anticipated useful lives. Reviews for impairment of the producing property and properties under development are conducted annually. The carrying values of property, plant and equipment, which are not assessed as economically viable, are written down to their estimated fair value.

j) Asset Retirement Obligations

Obligations associated with site restoration on the retirement of assets with determinable useful lives are recognized when they are incurred, which is typically at the time the assets are installed. These obligations are measured at fair value, based on the net present value of the estimated future costs, and a corresponding amount equal to that of the obligation is added to the capitalized cost of the related asset. The amount of liability will be subject to periodic re-measurements. Any adjustment to this liability will impact the related asset. Over time, the discounted asset retirement obligation amount will be accreted for the change in its present value, and the accretion is expensed in the related period. The capitalized costs are amortized over the useful lives of the related assets. Other environmental and ongoing site reclamation costs incurred at the operating sites are charged to earnings when the costs are incurred.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimate of the total liability for future site restoration costs is subject to change due to amendments to applicable laws and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**For the year ended December 31, 2006***(in thousands of Canadian dollars, unless otherwise indicated)*

regulations and as new information concerning the Company's operations becomes available. The Company is not able to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form and substance that these laws and regulations may take.

k) Revenue Recognition

Revenue from the sale of gold/copper/zinc concentrate is recognized when significant risks and ownership title are transferred to the buyer. Under the terms of certain sales contracts the final gold, copper, zinc and silver prices are set based on spot market metal prices on a specified future date after the shipment date. Revenue is recorded based on forward market prices prevailing at the time of shipment ("provisional price"). The terms of the contracts result in non-hedge derivatives that do not qualify for hedge accounting treatment because of the difference between the provisional price and the final settlement price. These embedded derivatives, if material, are adjusted to fair value through revenue each period until the date of final price determination.

Any adjustments to the amount receivable for each shipment at the settlement date, caused by final assay results, are adjusted through revenue at the time of determination.

l) Stock Based Compensation

The Company accounts for stock options using the fair value method. For option awards, fair value is measured at the grant date using a Black-Scholes valuation model and is recognized as a charge to compensation expense and an increase in contributed surplus over the vesting period of the options granted. Consideration paid by employees on exercise of stock options is recorded as share capital.

Grants of stock for services rendered are valued at fair value at the time of the grant, which equals the closing stock price as of that date.

Grants of Deferred Share Units ("DSU's") are valued at fair value at the time of grant, which equals the closing stock price as of that date. The DSU's that are to be settled for cash are marked to the current market price at each balance sheet date.

m) Income Taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax bases resulting in "temporary differences". Future income tax assets and liabilities are measured using the enacted or substantially enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

n) Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method, whereby any "in the money" option proceeds would be used to purchase common shares of the Company at the average market price during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**For the year ended December 31, 2006***(in thousands of Canadian dollars, unless otherwise indicated)***o) Comparative Amounts**

Certain comparative amounts have been reclassified to conform to the current presentation.

3. BUSINESS COMBINATION

On August 23, 2006, the Company acquired 80% of Vatrín which holds 100% of Deno, its principal asset being the Kapan Mining Project in Southern Armenia.

The Company has accounted for this acquisition as a business combination with the Company as the accounting acquirer. Vatrín's results of operations have been consolidated for the period subsequent to the acquisition. The purchase price was \$25.5 million and was composed of payments of \$24.3 million (US\$22.0 million) and transaction costs of \$1.2 million.

In accordance with the purchase method of accounting, the purchase cost will be allocated to the underlying assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Any excess of the purchase price over the net identifiable tangible assets acquired will be allocated to goodwill.

The table below sets out the preliminary allocation of the purchase price to the assets acquired and liabilities assumed, based on preliminary estimates of fair value. Final valuations of the assets and liabilities listed below as well as asset retirement obligations and deferred income tax assets/liabilities are not yet complete due to the inherent complexity associated with these valuations. The purchase price allocation is only preliminary and is subject to adjustment over the course of the next twelve months based on the completion of the valuations and the associated tax effects.

Preliminary Purchase Price Allocation

Cash	\$ 523
Accounts receivable and other assets	4,234
Inventories	2,064
Future income tax asset	60
Mineral properties	24,586
Buildings, plant and equipment	6,654
Total assets acquired	\$ 38,121
Accounts payable	\$ 1,999
Other long-term liabilities	1,890
Future income tax liabilities	3,785
Long-term debt	4,974
Total liabilities assumed	\$ 12,648
Net assets acquired	\$ 25,473

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***4. ACCOUNTS RECEIVABLE AND OTHER ASSETS**

As at December 31,	2006	2005
Accounts receivable	\$ 21,866	\$ 11,316
Copper puts <i>(note 16)</i>	3,175	-
Prepaid expenses	8,041	3,543
Restricted cash <i>(a)</i>	3,844	-
Restricted guaranteed investment certificate (GIC) <i>(b)</i>	284	284
	\$ 37,210	\$ 15,143

(a) The cash is restricted as a bank guarantee until July 2007 and is held for concession licenses in Serbia.

(b) The GIC is restricted and held as collateral for several suppliers until its maturity on May 4, 2007.

5. INVENTORIES

As at December 31,	2006	2005
Gold/copper ore and concentrate	\$ 8,984	\$ 5,848
Spare parts and supplies	8,113	6,203
	\$ 17,097	\$ 12,051

6. INVESTMENTS

The following are the details of the net changes in investments for the periods indicated.

As at December 31,	2006	2005
Investments at cost, beginning of period	\$ 91,467	\$ 117,640
Cost of investments purchased during the period	61,313	22,778
Cost of investments sold during the period		
Proceeds from sales	(111,118)	(68,982)
Net realized gain on sale of investments	68,682	33,801
Impaired investments written down to market	(73)	(13,720)
Loss on equity investments	(916)	(50)
Investments at cost, end of period	\$ 109,355	\$ 91,467

Included in investments at cost is \$30.6 million representing investments that are accounted for by the equity method. The Company's share of the loss on equity investments was \$916 and was charged to investment income.

7. OTHER LONG-TERM ASSETS

As at December 31,	2006	2005
Escrow deposit for asset retirement obligation <i>(note 11a)</i>	\$ 1,935	\$ 810
Deferred financing charges	268	318
Other	18	76
	\$ 2,221	\$ 1,204

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***8. PROPERTY, PLANT AND EQUIPMENT**

	December 31, 2006			December 31, 2005		
	Cost	Accumulated Depreciation & Depletion	Net Book Value	Cost	Accumulated Depreciation & Depletion	Net Book Value
Mineral properties						
Chelopech	\$ 50,371	\$ 4,972	\$ 45,399	\$ 23,463	\$ 3,053	\$ 20,410
Krumovgrad	47,723	94	47,629	45,244	61	45,183
Serbia	4,880	55	4,825	106	20	86
Kapan	25,111	104	25,007	-	-	-
Back River	46,885	-	46,885	20,931	-	20,931
	174,970	5,225	169,745	89,744	3,134	86,610
Buildings, plant and equipment						
Chelopech	84,461	15,658	68,803	53,587	9,707	43,880
Krumovgrad	2,439	256	2,183	2,294	143	2,151
Serbia	2,050	252	1,798	538	58	480
Kapan	8,885	252	8,633	-	-	-
Corporate	1,594	794	800	1,384	264	1,120
	99,429	17,212	82,217	57,803	10,172	47,631
	\$ 274,399	\$ 22,437	\$ 251,962	\$ 147,547	\$ 13,306	\$ 134,241

9. LONG-TERM DEBT

As at December 31,	2006	2005
Long-term debt	\$ 16,897	\$ 11,630
Less: current portion	4,225	-
	\$ 12,672	\$ 11,630

On April 6, 2005, Chelopech Mining EAD, a wholly-owned subsidiary of the Company, obtained a US\$10.0 million (Cdn\$11.7 million) loan from the European Bank for Reconstruction and Development ("EBRD"). The loan is secured by the Chelopech mine assets and is guaranteed by the Company. It bears interest at LIBOR plus 1.9% and is repayable in eight equal semi-annual installments commencing in June 2007.

On December 22, 2005, Deno obtained a US\$4.5 million (Cdn\$5.2 million) loan from the EBRD. The loan is secured by a first ranking pledge of the accounts receivable and shares of Deno, and is guaranteed by Vatrín. It bears interest at LIBOR plus 5.5% and is repayable in eight equal semi-annual installments commencing in March 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***10. RECLAMATION AND OTHER LONG-TERM LIABILITIES**

As at December 31,	2006	2005
Asset retirement obligations	\$ 10,335	\$ 9,524
Note payable (a)	2,083	-
Long-term leases	21	448
Other	149	125
	12,588	10,097
Less: current portion	21	448
	\$ 12,567	\$ 9,649

(a) Vatrín holds the note payable owing to the minority shareholder. The note bears interest at LIBOR plus 8% per annum.

Asset retirement obligations as at December 31, 2006 were \$10.3 million (2005 - \$9.5 million), which reflects the net present value of the Chelopech mine site closure obligations. During the year ended December 31, 2006, accretion expense of \$1 million (2005 - \$0.7 million) was recognized. The anticipated future cash flows have been estimated using current prices at the time the obligation was recognized and discounted using a real interest rate of 8% after inflation growth of 3% per annum.

11. CONTINGENT LIABILITIES AND COMMITMENTS**(a) Concession Obligations**

The Company has committed to make capital investments of US\$6.2 million in the underground facilities of the Chelopech mine. As at December 31, 2006, the Company has spent US\$44.7 million in satisfaction of the above concession obligation.

In addition, a concession fee of 1.5% of the current value of the ore extracted is payable to the Republic of Bulgaria. During the period from January 1, 2004 to December 31, 2010, this fee is reduced by 50%, subject to a minimum payment of US\$0.6 million per annum. The balance of the concession fee is to be deposited into an escrow account which will be used to fund environmental risk management and remediation costs. The accumulated balance in the environmental escrow account of US\$1.7 million (Cdn\$1.9 million) is included in other long-term assets (see note 7).

(b) Gold/Copper Concentrate Sales

The Company has signed contracts with the commitment to ship 60,000 tonnes of gold/copper concentrate in 2007. At the end of 2006, 11,000 tonnes were rolled over for delivery in January 2007.

In 2006, the Company had sales contracts with four customers. The basis of mining operations as a concentrate producer at Chelopech, at the planned levels of production, are dependent on these sales contracts.

Additional sales may be contracted if the Company receives acceptable terms for its high arsenic bearing concentrate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***(c) Purchase Commitments**

In order to secure the materials and equipment required in the planned expansion and redevelopment of the Chelopech mine, the Company has entered into certain purchase commitments which, as at December 31, 2006, amounted to US\$22.4 million. These obligations are not provided for in the financial statements.

12. INCOME TAXES

The reconciliation of the expected combined federal and provincial statutory income tax rates to the effective tax rate on earnings is as follows:

As at December 31,	2006	2005
Combined federal and provincial statutory income tax rates	36.12%	36.12%
Income tax at statutory rates	\$ 30,247	\$ 7,780
Adjusted for the effect of:		
Change in future tax rates	(2,613)	-
Non-taxable portion of capital gains	(11,333)	(5,811)
Lower rate on foreign earnings	(3,603)	(1,504)
Non-deductible stock compensation expenses	1,705	1,151
Other, net	(395)	33
Provision for income taxes	\$ 14,008	\$ 1,649

Significant components of the Company's future income taxes as at December 31, 2006 and December 31, 2005 are as follows:

As at December 31,	2006	2005
Future Income Tax Assets		
Loss on copper puts	\$ 311	\$ -
Decommissioning provision	519	393
Depreciable property, plant and equipment	351	-
Deferred exploration	-	535
Stock compensation	1,661	1,486
Investment write-downs	2,174	3,848
Total	\$ 5,016	\$ 6,262
Future Income Tax Liabilities		
Depreciable property, plant and equipment	\$ (1,311)	\$ (1,391)
Deferred exploration	(10,336)	(5,181)
Total	(11,647)	(6,572)
Net future income tax liability	\$ (6,631)	\$ (310)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***13. LONG-TERM COMPENSATION**

In 2004, the Company established a DSU Plan for directors and employees. The DSU's are phantom shares which mirror the value of the Company's publicly-traded common shares.

Under the Employee DSU Plan, grants to employees of the Company will be determined by the Board of Directors or the Compensation Committee in lieu of a cash bonus. The DSU's vest immediately and are redeemable in cash on the date the employee ceases to be employed by the Company. During the year, no DSU's were granted (2005 – 9,090) under the Employee DSU Plan and there was no stock based compensation expense recognized (2005 - \$75). The outstanding DSU's were marked to market at December 31, 2006, and \$592 (2005 - \$980) was charged to earnings during the year.

Under the Director DSU Plan, effective January 1, 2005, directors receive a portion of their annual compensation in the form of DSU's. The DSU's vest immediately and are redeemable in cash on the date the director ceases to be a director of the Company. During the year, 25,542 DSU's were granted (2005 – 22,326) under the Director DSU Plan and \$301 (2005 - \$219) was recognized as stock based compensation expense. The outstanding DSU's were marked to market at December 31, 2006, and, as a result, \$34 (2005 - \$30) was charged to earnings during the year.

The following is a continuity of the DSU for the periods indicated:

As at December 31,	2006		2005	
	Number	Amount	Number	Amount
Balance at beginning of period	408,816	\$ 4,109	375,000	\$ 2,805
Issued during the period	25,542	300	33,816	294
Marked to market	-	625	-	1,010
Balance at end of period	434,358	\$ 5,034	408,816	\$ 4,109

14. SHAREHOLDER'S EQUITY**a) Common shares***Authorized*

Unlimited common shares without par value

Issued

	December 31, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Balance at beginning of period	53,739,007	\$ 190,666	53,639,675	\$ 189,971
Shares issued on exercise of stock options	246,831	1,880	99,332	695
Transferred from contributed surplus on exercise of stock options (b)	-	761	-	-
Balance at end of period	53,985,838	\$ 193,307	53,739,007	\$ 190,666

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***b) Contributed Surplus**

The following are the details of the net changes for the periods indicated:

As at December 31,	2006	2005
Balance at beginning of period	\$ 4,260	\$ 1,072
Stock based compensation expense	3,892	3,188
Stock options repurchased	(372)	-
Transferred to capital stock on exercise of stock options (a)	(761)	-
Balance at end of period	\$ 7,019	\$ 4,260

c) Stock Based Compensation

During the period ended December 31, 2004, the Company established an incentive stock option plan for the directors and selected employees. Pursuant to the plan, the exercise price of the option cannot be less than the market price of the common stock on the trading date preceding the day the option is granted. Under the plan, an aggregate of 6,500,000 shares from treasury were made available. Options vest over a three year period and expire five years after the date of grant.

Total stock options outstanding for the years ending December 31, 2006 and December 31, 2005 were:

	Twelve Months Ended December 31, 2006		Twelve Months Ended December 31, 2005	
	Options (number)	Weighted Average Exercise Price	Options (number)	Weighted Average Exercise Price
Balance at beginning of period	5,096,667	\$ 7.35	4,460,000	\$ 7.00
Granted	560,000	11.74	1,010,000	8.42
Exercised	(246,831)	7.60	(99,332)	7.00
Cancelled or expired	(341,668)	7.45	(274,001)	7.44
Balance at end of period	5,068,168	\$ 7.80	5,096,667	\$ 7.35

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding as at December 31, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable as at December 31, 2006	Weighted average exercise price
\$7.00	3,804,834	2.17	\$7.00	2,464,823	\$7.00
\$7.70-\$9.59	703,334	3.68	\$9.01	196,654	\$9.07
\$10.50-\$14.35	560,000	4.55	\$11.74	-	-
\$7.00-\$14.35	5,068,168	2.65	\$7.80	2,661,477	\$7.15

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

(in thousands of Canadian dollars, unless otherwise indicated)

The fair value of options granted during the twelve months ended December 31, 2006 was estimated using a Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	3.98%-4.21%
Expected life in years	4.75
Expected volatility	42.4%-52.2%
Dividends per share	-

During the twelve months ended December 31, 2006, the Company granted 560,000 stock options with a value of \$2.9 million. The total number of shares issued pursuant to outstanding stock options exercised for the twelve months ended December 31, 2006 was 246,831.

The estimated value of the options granted will be recognized over the vesting period. As at December 31, 2006, there is \$4.1 million (2005 - \$5.4 million) remaining to be charged to income in future periods relating to stock option grants.

15. EARNINGS PER SHARE

For the years ended December 31,	2006	2005
Basic net income per share		
Net income available to shareholders	\$ 69,732	\$ 19,890
Weighted average number of common shares outstanding	53,879,686	53,662,061
Basic net income per share	\$ 1.29	\$ 0.37

For the years ended December 31,	2006	2005
Diluted net income per share		
Net income available to shareholders	\$ 69,732	\$ 19,890
Weighted average number of common shares outstanding	53,879,686	53,662,061
Dilutive effect of stock options	1,677,083	828,272
Weighted average number of diluted common shares outstanding	55,556,769	54,490,333
Diluted net income per share	\$ 1.26	\$ 0.37

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share is determined using the treasury stock method, whereby stock options, whose exercise price is less than the average market price of our common shares, are assumed to be exercised and the proceeds are used to purchase common shares at the average market price for the period. The incremental number of common shares issued under stock options and repurchased from proceeds is included in the calculation of diluted earnings per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

(in thousands of Canadian dollars, unless otherwise indicated)

16. FINANCIAL INSTRUMENTS

The carrying value of the Company's short-term financial instruments, comprised of cash and cash equivalents, accounts receivable, prepaid expenses, copper puts, accounts payable, and accrued liabilities, approximate their fair values due to their short-term nature. The fair value of the Company's debt is \$12.3 million. The fair value of the note payable is \$1.8 million.

During the second quarter of 2006, the Company purchased copper put options in the aggregate amount of US\$6.5 million (Cdn\$7.2 million) giving the Company the right, but not the obligation, to sell up to 11,825 mt of copper concentrate at US\$2.50/lb. These options are in place over the period October 2006 – December 2007 and mature evenly by month over this time period. These instruments allow the Company to protect itself, in the short term, against a decline in the value of copper. These financial instruments can be sold at any time prior to their maturity. The Company has not applied hedge accounting for these financial instruments and, accordingly, adjustments to the fair value of these puts, amounting to a loss of US\$3.4 million (Cdn\$3.8 million), has been recorded on the statement of earnings. A portion of the options expired during the year and the fair value of the expired options was recorded as a loss of US\$0.3 million (Cdn\$0.4 million) on the statement of earnings for the year ended December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2006

*(in thousands of Canadian dollars, unless otherwise indicated)***17. SEGMENT INFORMATION**

The Company has two basic segments, a Canadian based corporate and investment business, and Bulgarian, Canadian, Serbian and Armenian based mining and exploration operations.

The following table summarizes the relative information for the following periods and as at the dates disclosed.

For the years ended December 31,	2006	2005
Net revenue		
Mining operations	\$ 60,246	\$ 17,651
Investments	64,859	23,852
	\$ 125,105	\$ 41,503
Net income		
Mining operations	\$ 45,382	\$ 13,192
Investments	64,859	23,852
Net income of combined segments	110,241	37,044
Corporate and administration	(25,708)	(15,614)
Foreign exchange gain (loss)	(793)	109
Income tax provision	(14,008)	(1,649)
Net income	\$ 69,732	\$ 19,890
Capital expenditures		
Mining	\$ 95,422	\$ 64,924
As at December 31,	2006	2005
Assets		
Cash	\$ 31,993	\$ 77,541
Mining operations	308,269	161,572
Investments	114,592	98,796
	\$ 454,854	\$ 337,909
As at December 31,	2006	2005
Assets		
Canada	\$ 170,630	\$ 185,260
Europe and Eurasia	284,224	152,649
	\$ 454,854	\$ 337,909

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.