

**IMPACT OF SOX ON THE MINING INDUSTRY
Adverse Section 404 Reports
For Companies with Years Ended in 2006
As of July 6, 2007**

The following is a copy of the nine adverse reports that were issued from companies in the Mining industry with years ended in 2006. These were all of the accelerated filers in the Mining industry with adverse Sarbanes-Oxley Section 404 management self assessments. This information was gathered using the online research tool called Audit Analytics an Ives Group, Inc company.

The following is a summary of the **material internal control weaknesses** reported in the nine adverse Section 404 Self Assessments:

Internal Controls - Accounting documentation, policy and/or procedures	9
Internal Controls - Accounting personnel resources, competency/training	6
Internal Controls - Material and/or numerous auditor /YE adjustments	6
Internal Controls - Restatement or nonreliance of company filings	3
Internal Controls - Ethical or compliance issues with personnel	1
Internal Controls - Ineffective or understaffed audit committee	1
Internal Controls - Information technology, software, security & access issues	1
Internal Controls - Journal entry control issues	1
Internal Controls - Segregations of duties/ design of controls (personnel)	1
Internal Controls - Senior management competency, tone, reliability issues	1

The following is a summary of the **material accounting weaknesses** reported in the nine adverse Section 404 Self Assessments. Section 404 is not just about internal control issues, but also about misapplication of financial accounting and reporting issues:

Accounting - Debt ,quasi-debt, warrants & equity (BCF) security issues	3
Accounting - Consolidation, (Fin46r/Off BS) & foreign curr transl issues	2
Accounting - Debt and/or equity classification issues	2
Accounting - Deferred, stock-based or executive comp issues	2
Accounting - Fin Stmt, footnote, US GAAP , segment disclosure issues	2
Accounting - Foreign, related party, affiliated and/or subsid issues	2
Accounting - Liabilities, payables, reserves and accrual est failures	2
Accounting - PPE , intangible or fixed asset (value/diminution) issues	2
Accounting - Revenue recognition issues	2
Accounting - Tax expense/benefit/deferral/other (FAS 109) issues	2
Accounting - Accounts/loans receivable, investments & cash issues	1
Accounting - Balance sheet classification of asset issues	1
Accounting - Capitalization of expenditures issues	1
Accounting - Financial derivatives/hedging (FAS 133) acctg issues	1
Accounting - Inventory, vendor and cost of sales issues	1
Accounting - Lease, FAS 5, legal, contingency & commit issues	1
Accounting - Unspecified/unidentified/inapplicable FASB/GAAP issues	1



CRYSTALLEX INTERNATIONAL CORP

40-F 2006 Management - Internal Control Assessment

Management's Annual Report on Internal Control Over Financial Reporting

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in PCAOB Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. Management's assessment identified the following material weaknesses in the Company's internal control over financial reporting. The material weaknesses identified by management did not result (either individually or collectively) in any adjustments to the Company's annual or interim consolidated financial statements for the 2006 fiscal year or any prior period.

1. **Override and Monitoring of Established Controls.** During the process of review and evaluation, it was determined that certain weaknesses existed which resulted in local management of the Company's Venezuelan branch having the ability to override established internal controls relating to the granting of service contracts and approval of completion of contractual service work. This weakness has the potential to result in material misstatements in the Company's consolidated financial statements.

To address this weakness, management has implemented additional controls around the granting of service contracts and the required approvals of completion of contractual service work performed to ensure the completeness and appropriateness of all amounts recorded in the Company's consolidated financial statements.

2. **Tax Obligations.** During the process of review and evaluation, management concluded that, as of December 31, 2006, a weakness existed in the Company's internal controls over financial reporting caused by a lack of competent staff in place at its Venezuelan subsidiaries to ensure the Company appropriately recorded and disclosed taxation related matters in preparing its consolidated financial statements with respect to various types of tax obligations in Venezuela. This weakness has the potential to result in material misstatements of the Company's recorded tax liabilities.

Management has since taken steps to remediate this problem. In January 2007, the Company hired a qualified tax manager in Venezuela to ensure the Company's Venezuelan tax obligations are appropriately recorded and disclosed in the Company's consolidated financial statements.

3. Complex Accounting Issues - US GAAP. Management has concluded that, as of December 31, 2006, the Company did not have adequate levels of expertise with respect to US GAAP complex accounting issues. This weakness has the potential to result in material misstatements in the Company's US GAAP reconciliation note in its financial statements.

Management has concluded and the Board of Directors has agreed that, taking into account the present stage of the Company's development, the present competency of the finance personnel charged with the preparation of the annual financial statements, the findings of the results from the annual audit, and the best interests of its shareholders, the Company is not currently of a sufficient size and scale to warrant the hiring of additional professional staff to fully respond to this weakness. Management intends to minimize the potential impact of this weakness on a going forward basis by engaging external advisors to review all US GAAP accounting matters relating to the Company's consolidated financial statements.

4. Segregation of Duties. During the process of review and evaluation management concluded that, as of December 31, 2006, a weakness existed in the Company's internal controls over financial reporting caused by a lack of adequate segregation of duties in the preparation, review and approval of subsidiary operating results which are included in the Company's consolidated financial statements. This weakness has the potential to result in material misstatements in the Company's consolidated financial statements.

To address this weakness, Management is in the process of hiring additional staff at appropriate levels within the Company to ensure that an adequate segregation of duties can be achieved in the preparation of the Company's consolidated financial statements. Management has also performed additional procedures relating to subsidiary operating results that are included in the Company's consolidated financial statements.

In making the above assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Because of the material weaknesses described above, management believes that, as of December 31, 2006, the company's internal control over financial reporting was not effective.

C. Attestation Report of the Registered Public Accounting Firm

This Annual Report on Form 40-F does not include an attestation report of the Registrant's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Registrant's registered public accounting firm pursuant to temporary rules of the Commission that permit the Registrant to provide only management's report in this Annual Report on Form 40-F.

MIRAMAR MINING CORP

[40-F](#) 2006 Management - Internal Control Assessment

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Management's Report on Internal Controls

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR"). The Company's internal control system was designed to provide reasonable assurance that all transactions are accurately recorded, that transactions are recorded as necessary to permit preparation of financial statements in accordance with Canadian GAAP, and that the Company's assets are safeguarded.

Management has assessed the effectiveness of the Company's ICFR reporting as at December 31, 2006. In making its assessment, management used the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework in Internal Control - Integrated Framework to evaluate the effectiveness of the Company's ICFR. The Company determined that changes to the Company's internal control over financial reporting were required related to the process of recording stock-based compensation expenses and the calculation of the number of common shares reserved for the exercise of stock options. The changes in the Company's ICFR are described in "Changes in Internal Control Over Financial Reporting" below. With the changes implemented and except as disclosed in "Changes in Internal Control Over Financial Reporting" below, no material weaknesses in the Company's ICFR were identified by management.

In August 2006, the SEC announced a one year postponement for the auditor attestation on ICFR for small companies (under US \$700M market capitalization as at June 30, 2006). As a result, the Company elected not to have an external audit of its ICFR, however, all necessary work to allow an external audit to occur was completed by the Company had it proceeded with the auditor attestation.

YANZHOU COAL MINING CO LTD

20-F 2006 Management - Internal Control Assessment

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act and have designed internal control over financial reporting or caused internal control over financial reporting to be designed under its supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, as applicable.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. In addition, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of our General Manager and our Chief Financial Officer, our management conducted its evaluation of the effectiveness of our Company's internal control over financial reporting as of December 31, 2006 using the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring



Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that, as of December 31, 2006, our Company's internal control over financial reporting was not effective due to the material weakness described below.

We have excluded Yankuang Shanxi Power Chemical Co., Ltd. ("Shanxi Nenghua") from our assessment of internal control over financial reporting as of December 31, 2006 because the entity was acquired in November 2006 and qualified under the current United States Securities and Exchange Commission regulations for exclusion from our assessment of internal control over financial reporting. The entity is a subsidiary of our Company and its financials statements constitute 3.1% and 5.1% of net and total assets, respectively, 0.2% of revenues, and -0.3% of net income of our consolidated financial statements amounts as of and for the year ended December 31, 2006.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, our management identified the following material weakness:

A number of audit adjustments and additional disclosures have been made to our Company's 2006 consolidated financial statements, principally including the adjustment to property, plant and equipment from construction in progress, for timely transfer of completed construction projects in two subsidiaries and one of our Company's coal mines, the adjustment to construction in progress for the unqualified expenditures being capitalised and recorded in two subsidiaries, the adjustment to income tax expense for the provision of tax liabilities for the year, and the reclassifications between certain short-term and long-term assets and liabilities. Management has determined that these adjustments and reclassifications have resulted from the control deficiency that there are inadequate accounting and finance personnel or consultants sufficiently trained to address certain of the major transactions and complex accounting and financial reporting matters that arise from time-to-time and this control deficiency constitutes a material weakness.

Our independent registered public accounting firm, Deloitte Touche Tohmatsu, has audited the financial statements included in this Annual Report and has issued an attestation report on pages F-2 to F-3 of this Annual Report on management's assessment of our Company's internal control over financial reporting as of December 31, 2006.

CLEVELAND CLIFFS INC

10-K 2006 Management - Internal Control Assessment

Management Report on Internal Controls Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable

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assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on its assessment, management believes that, as of December 31, 2006, the Company's internal control over financial reporting were not effective, based on those criteria.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in there being a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In our assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, we determined that there was a control deficiency that constituted a material weakness.

The Company did not maintain a sufficient complement of personnel with an appropriate level of technical accounting knowledge, experience and training to consistently perform independent secondary reviews and to appropriately interpret and apply complex accounting standards. This was evidenced by the number of adjustments noted during the year-end closing process including the assessment that the Company's previous interpretation and related documentation of the revenue recognition criteria for collect and hold transactions was not appropriate. This material weakness, if not remediated, has the potential to cause a material misstatement in the future.

URANIUM RESOURCES INC /DE/

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Securities and Exchange Act of 1934 defines internal control over financial reporting in Rule 13a-15(f) and 15d-15(f) as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the

consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting in connection with preparation of the annual report on Form 10-K for the year ended December 31, 2006. As a result of these assessments, a material weakness was identified. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The following material weakness is the basis for our conclusion at December 31, 2006:

Our financial and accounting organization lacked an adequate amount of resources throughout the year to support our financial reporting requirements. As a result, certain review procedures were not consistently performed on a timely basis to ensure that financial reporting and fraud risk controls are operating in the manner they are designed.

Hein & Associates LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an audit report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. The report, dated March 27, 2007, which expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an opinion that the Company had not maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is included below.

WESTMORELAND COAL CO

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting refers to a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management and other personnel to

provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that: • pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; • provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our board of directors; and • provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2006 using the framework set forth in the report of the Treadway Commission's Committee of Sponsoring Organizations (COSO), Internal Control — Integrated Framework. The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a material weakness as a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In conducting the aforementioned evaluation, we determined that a deficiency in our internal control over financial reporting at December 31, 2005, which we had determined was a material weakness in our internal controls at December 31, 2005, also existed and was a material weakness in our internal control over financial reporting at December 31, 2006. That material weakness related to our controls over accounting for capitalized asset retirement costs and asset retirement obligations. Management's procedures over accounting for the estimated cost of future reclamation of the Company's mines were not designed effectively. Specifically, the Company did not maintain adequate controls to review the assumptions used and the data input into the electronic spreadsheets used to calculate the Company's capitalized asset retirement costs and asset retirement obligations resulting in more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. This material weakness in internal control over financial reporting resulted in an overstatement of capitalized asset retirement costs and asset retirement obligations. The Company corrected these errors in accounting prior to the issuance of the Company's 2006 consolidated financial statements.

As a result of this material weakness in internal control over financial reporting, management concluded that the Company's internal control over financial reporting was not effective as of December 31, 2006. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, independent registered public accounting firm, as stated in their report which appears herein.

BIOSTEM, INC.

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control Over Financial Reporting — Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and the oversight of the board of directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision of our CEO and CFO, management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, using the criteria set forth in the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of a company's annual or interim financial statements will not be prevented or detected. Management identified the following material weaknesses in our internal control over financial reporting as of December 31, 2006:

(1) Our financial and accounting organization was not adequate to support our financial accounting and reporting needs. Specifically, we did not maintain a sufficient number of personnel with an appropriate level of accounting knowledge commensurate with our financial reporting requirements and in fact, none of our personnel have significant technical and reporting experience. The lack of a sufficient number of personnel with an appropriate level of accounting knowledge contributed to the control deficiencies noted in items 2 through 5 below. (2) We do not maintain an Audit Committee, Compensation Committee, Code of Conduct or Ethics and/or a "whistle-blower" hotline. We do not currently have an independent Audit Committee to provide oversight of our financial statements. Additionally, we do not currently have an independent Compensation Committee to provide oversight of executive compensation, a Code of Conduct and Ethics for our senior management or employees, or a "whistle-blower" hotline to anonymously report suspicious activity. (3) We do not maintain effective controls against the risk of fraud. Specifically, an inadequate number of controls exist to ensure that safeguarding of our assets and to address potential fraud; we have not completed a fraud risk assessment; neither a Code of Conduct or Ethics has been implemented for our senior management; we do not have an internal control department; and as stated above, no "whistle-blower" policy or hotline is in effect. (4) We place an

overwhelming amount of reliance on manual controls. In connection with our management's review of accounting procedures as of December 31, 2006, it was determined that 94% of our controls were manual and that those manual controls were conducted infrequently, i.e. either monthly, quarterly, annually or on an unscheduled basis. (5) Additional material weaknesses are present in our control framework, including that: · Cash is not adequately secured prior to depositing such cash in the bank; · Contracts are not properly executed before work under such contracts begin; · No controls exist to ensure that all revenue, accounts receivable and cash receipt transactions have been posted to the correct account or recorded in the prior period; · No controls exist to ensure that all expense, accounts payable and cash disbursement transactions have been posted to the correct account or recorded in the proper period; · No controls exist to ensure that fixed assets accounted for physically exist; · No controls exist to ensure that purchases have been properly approved or goods/services rendered; and · An inadequate number of employees has created issues regarding those employees separation of duties and job functions

The control deficiencies in item (1) above, and to a lesser extent, the control deficiencies listed in items (2) through (5) above resulted in us filing our Annual Report on Form 10-KSB for the period ended December 31, 2005, past such deadline as required by the Securities and Exchange Commission, and caused us to file several other of our Quarterly Reports on Form 10-QSB on the extended deadline such reports are required to be filed with the Commission. Additionally, each of the control deficiencies described in items (1) through (5) above could result in a misstatement in our annual or interim consolidated financial statements that would not be prevented or detected. Management has determined that each of the control deficiencies described in Items (1) through (5) constitutes a material weakness to our controls over financial reporting.

As a result of these material weaknesses, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the COSO. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006, has been audited by Meyler & Company, LLC, our independent registered public accounting firm, as stated in its report, which appears in Item 8 of this Annual Report on Form 10-K.

GOLDEN STAR RESOURCES LTD

10-K 2006 Management - Internal Control Assessment

Management's Report on Consolidated Financial Statements Management has concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP as stated in their report which expressed an unqualified opinion thereon. Management's Report on Internal Control Over Financial Reporting: Management of Golden Star is responsible for establishing and maintaining adequate internal control over financial reporting. Golden Star's internal control over financial reporting is a process designed under the supervision of Golden Star's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with Canadian GAAP. As of December 31, 2006, management conducted an assessment of the effectiveness of the Company's internal control

over financial reporting based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This assessment identified control deficiencies in the Company's internal control over financial reporting that constitute material weaknesses, as defined by the Public Company Accounting Oversight Board's Auditing Standard No. 2, that existed as of December 31, 2006. Specifically, management did not maintain effective controls over the accounting for warrants denominated in Canadian dollars using accounting principles generally accepted in the United States ("US GAAP"). As a result, warrants denominated in Canadian dollars were treated as equity instruments rather than as derivative instruments. This control deficiency resulted in the requirement to restate the Company's US GAAP balance sheets and US GAAP statements of operation for the quarters ended March 31, June 30 and September 30, 2006 and for the two years ended December 31, 2005 and 2004 and an audit adjustment to the 2006 annual consolidated financial statements. Also a control deficiency was discovered which resulted in a material misstatement of In-Process inventory balances. Specifically, we did not maintain effective controls over the computation and review of our In-Process inventory calculation to ensure that appropriate components were properly reflected in the calculations. In addition, management's assessment found deficiencies in controls over vendor payments which resulted in unauthorized payments and which could have resulted in material amounts of unauthorized disbursements. These control deficiencies could result in the misstatement of warrants, in improper inventory balances and operating costs and in unauthorized payments that would result in a misstatement of the interim or annual consolidated financial statements that would not be prevented or detected. Because of the material weaknesses at year-end, management has concluded that the Company's internal control over financial reporting was ineffective as of December 31, 2006. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on pages 66 - 67 of the consolidated financial statements, which expresses an unqualified opinion on management's assessment and, due to the material weakness described above, an adverse opinion with respect to the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In December 2005 it was determined that our application of hedge accounting was incorrect and a material weakness was noted at that time. Since we have not utilized hedge accounting for our derivatives during 2006, the material weakness identified during 2005 has effectively been remediated.

APEX SILVER MINES LTD

10-K 2006 Management - Internal Control Assessment

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets,

- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness as to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making its assessment, management used the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Based on its evaluation, management has concluded that the following material weaknesses in internal control over financial reporting existed as of December 31, 2006:

- The Company did not maintain effective controls over the valuation of the metals derivatives positions related to its project finance facility. Specifically, effective internal controls were not designed and operating to accurately assess available market data in the valuation of its metals derivatives. This control deficiency resulted in the restatement of the Company's 2005 annual consolidated financial statements; interim consolidated financial statements for the quarter ended September 30, 2005 and for each of the first three quarters of 2006; and an audit adjustment to the Company's 2006 annual consolidated financial statements. Additionally, this control deficiency could result in a material misstatement of the Company's derivatives liabilities, gain on sale of interest in subsidiaries, minority interest in subsidiaries, minority interest in loss of consolidated subsidiaries, and in the accumulated deficit accounts, that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.
- The Company did not maintain effective controls over the monitoring of its compliance with certain covenants related to its project finance facility. Specifically, effective internal controls, including monitoring by management with the requisite level of experience commensurate with our loan compliance requirements, were not designed and operating to enable the identification of covenant violations which affect certain of the Company's financial statement disclosures and presentations. This control deficiency could result in the misclassification of the amount outstanding under the project finance facility, as well as the derivatives liabilities as non-current liabilities, that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.



Because of these material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2006 based on the criteria set forth in the COSO framework.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, an independent registered accounting firm, as stated in their report which appears herein.

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