

# **Inmet Mining Corporation**

## **Annual information form**

March 15, 2006



## What's inside

About this annual information form.....	3
About Inmet .....	4
Our business structure .....	4
Our strategic priorities .....	6
Three year history .....	6
Our capital structure.....	8
Our dividend policy.....	8
Ratings.....	9
Market for securities.....	9
Transfer agent and registrar.....	9
Material contracts.....	9
Experts.....	11
Interests of Experts.....	11
About our business.....	12
<i>Our mining operations</i> .....	12
Çayeli .....	12
Cerattepe .....	13
Phyhäsalmi.....	15
Troilus.....	17
Ok Tedi.....	19
Las Cruces .....	21
<i>Mineral reserves and resources</i> .....	24
<i>Exploration activity</i> .....	27
<i>Risk factors in our business</i> .....	30
<i>Promoting a safe and healthy environment</i> .....	33
Our directors and officers .....	35
About the audit committee.....	39
Management's discussion and analysis .....	41
Other information .....	41

Schedule 1-- *Audit Committee Charter*

## **About this annual information form**

This annual information form (AIF) contains important information that will help you make an informed decision about investing in Inmet Mining Corporation. It describes our company, our mineral reserves and resources, our exploration activity, risks and other factors that affect our business.

In this AIF, the terms *we*, *us*, *our* and *Inmet* refer to Inmet Mining Corporation and its subsidiaries and joint ventures. The term *Company* refers only to Inmet Mining Corporation.

All information contained in this AIF is as of March 15, 2006, unless otherwise indicated. All currency amounts are in Canadian dollars, unless otherwise indicated.

### **Information incorporated by reference**

The information that appears on pages 8 to 76 of our 2005 annual report under *Management's discussion and analysis* is incorporated by reference in this AIF under *Management's discussion and analysis* on page 41.

Information in our consolidated financial statements for the year ended as at December 31, 2005 has been audited by KPMG LLP and is incorporated by reference in this AIF. These consolidated financial statements are included in our 2005 annual report, and have been filed on SEDAR at [www.sedar.com](http://www.sedar.com) in accordance with *National Instrument 51-102 - Continuous Disclosure*.

### **About forward-looking information**

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This AIF contains statements about our future financial condition, results of operations and business.

These statements are "forward-looking" because we have used what we know and expect today to make a statement about the future. Forward-looking statements usually include words like *may*, *expect*, *anticipate*, *believe* or other similar words. We believe the expectations reflected in these forward-looking statements are reasonable. However, actual events and results could be substantially different because of the risks and uncertainties associated with our business or events that happen after the date of this AIF (see *Risk factors in our business* at page 30). You should not place undue reliance on forward-looking statements. As a general policy, we do not update forward-looking statements except in connection with an offering document or where securities legislation requires a periodic updating of such information.

## About Inmet

### Our business structure

Inmet Mining Corporation is a Canadian-based global mining company that produces copper, zinc and gold. We have interests in four mining operations around the world:

- Çayeli — an underground copper and zinc mine located on the Black Sea coast of northeastern Turkey
- Pyhäsalmi — an underground copper and zinc mine located in central Finland
- Troilus — an open pit gold and copper mine located in northwestern Quebec, Canada
- Ok Tedi — an open pit copper and gold mine located in the Star Mountains region of Papua New Guinea.

We own 100 percent of Troilus which operates as a division of the Company. The table below shows our ownership interests in our principal subsidiaries and associated companies.

	<b>Jurisdiction</b>	<b>Ownership (%)</b>
Çayeli Bakir Isletmeleri A.S. (ÇBI)	Turkey	100
Pyhäsalmi Mine Oy (PMO)	Finland	100
Ok Tedi Mining Limited (OTML)	Papua New Guinea	18
Cobre Las Cruces (CLC)	Spain	70

The Company also owns a 48 percent interest in the Petaquilla copper property in Panama and a 100 percent interest in the Izok zinc property in Nunavut, Canada.

We sell all of our copper as copper concentrate and sell it almost exclusively to international copper smelters, refineries and merchants who process it into refined copper. Zinc is sold as zinc concentrate to international zinc smelting companies and to merchants. Our Troilus mine has its gold doré production refined and we sell the refined gold in the market. We sell approximately 70 percent of the gold produced at Troilus as an element in copper concentrate.

#### *Market outlook*

The most significant factor affecting our performance is the price of the metals we produce. Copper and zinc prices are mainly affected by the fundamentals of supply and demand. They are also affected to some extent by exchange rates and demand from the investment community. Copper prices increased significantly in 2005, mainly because of economic growth in China and because world demand exceeded supply. This was the result of a lack of new production capacity, technical problems at a number of smelters and refineries, strikes, and strong speculative demand. Zinc prices were higher for many of the same reasons. Gold prices increased mainly because of the weak US dollar, but also later in the year because of an increase in investment demand.

World demand for copper continues to rise, and we believe this will continue for the foreseeable future, particularly due to increased demand from China and other developing countries. At the same time, copper production in the past few years has not kept up with the growth in demand, which means the shorter-term prospects for copper production should be excellent.

Commodity prices generally continue to be driven up by strong demand from the investment community, including speculative hedge funds. We expect metal prices to moderate later in 2006 but still remain significantly higher than they have been historically.

### *Market dynamics*

We pay smelters a fee for treating and refining our concentrate. This fee varies based on metal supply and price. We also pay smelters a fee for content losses, which are deductions the smelter makes to handle its own metal losses in the smelting and refining process.

These deductions are generally:

- 3.5 percent of gross copper revenue
- 15 percent for zinc.

Most contracts also contain a price participation clause where the smelter participates to some extent in the upward and downward movement in metal prices. The treatment and refining charge is usually negotiated annually and is dependent on the forecasted balance between mine supply and smelter demand.

We sell most of our copper and zinc concentrates under long-term contracts. We also sell on the spot market where the economic return is more volatile than in the long-term market.

Copper treatment and refining costs increased by 110 percent in 2005. We expect processing charges to increase moderately again in 2006, primarily due to higher metal prices leading to higher smelter price participation. We expect zinc processing charges to be lower in 2006 because of a growing shortage of zinc concentrates and strong demand from the smelting community.

The table below shows our gross sales by metal for the years ending December 31, 2005 and 2004.

<b>Gross sales<sup>(1)</sup> (thousands)</b>		
<b>Metal</b>	<b>2005</b>	<b>2004</b>
Copper	\$388,505	\$295,781
Zinc	143,772	93,044
Gold	137,428	116,491
Other	39,020	40,990
<b>Total</b>	<b>\$708,725</b>	<b>\$546,306</b>

<sup>(1)</sup> Includes 100 percent of sales from Çayeli, Pyhäsalmi and Troilus and 18 percent of sales from Ok Tedi.

See *About our business* for more information about each of the operations and our mineral reserves and resources.

### *Our corporate structure*

Inmet Mining Corporation was continued under the laws of Canada by certificate and articles of continuance dated June 1, 1987. It was subsequently amalgamated with two wholly-owned subsidiaries by certificate and articles of amalgamation dated January 1, 1988. The amalgamated corporation was then amalgamated with a wholly-owned subsidiary by certificate and articles of amalgamation dated December 31, 1990.

On May 4, 1995, the articles of the Company were amended to change its name from Metall Mining Corporation/Corporation Minière Metall to Inmet Mining Corporation/Corporation Minière Inmet. Inmet Mining Corporation was amalgamated again with a wholly-owned subsidiary by articles of amalgamation dated January 1, 1999. The Company's registered and head office is at 330 Bay Street, Suite 1000, Toronto, Ontario Canada M5H 2S8.

As of December 31, 2005, Inmet had approximately 3,000 employees.

## **Our strategic priorities**

Our strategy is to grow as a base metal mining company, providing superior returns to shareholders. Our five-year strategy has three components to ensure we continue to grow in a disciplined way:

- acquire current production
- advance a significant development project
- explore with a focus on world-class development opportunities.

Since 2000 when we introduced this strategy, we have grown through a number of acquisitions and internal initiatives, taken steps to further our development activities and positioned ourselves to financially support future growth.

## **Three-year history of the general development of the business**

### *Mergers and acquisitions*

In August 2005, we purchased a 70 percent indirect interest in CLC, which owns the Las Cruces copper development project located in southern Spain, 20 kilometres to the northwest of Sevilla. As exchange for the purchase, we issued 5.6 million common shares to MK Resources Company (MK Resources), a wholly-owned subsidiary of Leucadia National Corporation (Leucadia). Leucadia retains an indirect 30 percent participating interest in CLC. For more information, see *About our business — Our mining operations — Las Cruces* on page 21.

In September 2004, we increased our interest in the Çayeli mine, from 55 percent to 100 percent, by acquiring the remaining 45 percent interest from the Republic of Turkey's Prime Ministry Privatization Administration for US \$49.25 million. During 2003 and 2004, we also increased our exploration and development activities in Turkey by acquiring certain properties near the Çayeli mine as well as the Cerattepe property near Artvin, Turkey, see also *Cerattepe* at page 13.

In February 2006, the Company agreed to sell its interest in the Izok property to Wolfden Resources Inc. (Wolfden) in exchange for 13.5 million Wolfden common shares.

### *New dividend policy*

In November 2005, our board of directors approved the adoption of a dividend policy that would pay annual dividends of \$0.20 per share to common shareholders. We paid our first semi-annual dividend of \$0.10 per share on December 15, 2005, to shareholders of record as at November 30, 2005. See *Our dividend policy* at page 8.

### *Further development of Çayeli*

During 2005, ÇBI completed its shaft extension project and continued the related development of the deeper part of the Çayeli mine. When completed, we expect these initiatives will enable ÇBI to address the mine production challenges we identified in 2004. We anticipate the essential components of the newly developed infrastructure in the lower mine will be commissioned by the third quarter of 2006.

### *Redemption of convertible debentures*

In January 2005, we redeemed our \$64,052,000 aggregate principal amount convertible subordinated debentures due September 30, 2007. The debentures were redeemed for cash at par, together with accrued and unpaid interest.

### *Troilus mill expansion*

At the end of 2004, we completed a mill expansion at Troilus. The expansion increased mill capacity by approximately 15 percent.

### *Settlement with Homestake Canada, Inc.*

In December 2003, we received approximately \$111 million from Homestake Canada, Inc. (Homestake) as payment of an amount we were entitled to receive under a January 2002 judgment of

the British Columbia Court of Appeal relating to the failure of Homestake to complete a purchase of the Troilus mine in 1997.

*Sale of interest in Antamina*

In July 2003, we crystallised the value of our 3.3 percent net profit interest in the Antamina zinc-copper mine in Peru by selling it for US \$22.5 million.

*Increase in gold reserves at Troilus*

In March 2003, we announced an increase in gold reserves at our Troilus mine from approximately 550,000 ounces to 1 million ounces of recoverable gold, leading to an extension of the mine's expected life.

*Shareholder arrangements for OTML*

We participate in revised shareholder arrangements for OTML with our fellow shareholders. Under these arrangements with PNG Sustainable Development Program Limited and the Government of Papua New Guinea that were entered into in 2002, all shareholders of OTML have joint control over OTML's strategic decisions. As a result, we changed our method of accounting for our 18 percent investment in OTML from cost accounting to proportionate consolidation, as of July 1, 2003.

## **Our capital structure**

### **Share capital**

The Company's articles of provide for three classes of shares:

- common shares
- preferred shares
- subordinate voting participating shares.

Each class has an unlimited number of shares. The Company has 48,097,482 issued and outstanding common shares.

#### *Common shares*

Each common share gives the holder the right to receive notice of and attend all meetings of shareholders. Each common share entitles the holder to five votes at a meeting of shareholders.

Each common share also gives the holder the right to participate equally with the holders of subordinate voting participating shares in any dividends declared by the directors and any distribution of assets if the company is liquidated, dissolved or wound up, after payments are made to holders of preferred shares.

Common shares cannot be subdivided, consolidated or otherwise changed unless all of the common shares and subordinate voting participating shares are also subdivided, consolidated or otherwise changed at the same time, in the same proportion and in the same manner.

#### *Preferred shares*

Preferred shares may be issued in series. The directors are authorized to fix the number, designation, rights, privileges, restrictions and conditions of the preferred shares of each series before the shares are issued.

Preferred shares rank ahead of subordinate voting participating shares and common shares when dividends are paid, and when assets are distributed if the company is liquidated, dissolved or wound up. Unless the share conditions state otherwise when preferred shares are issued, holders of preferred shares do not have the right to receive notices of any meetings of shareholders, or to attend them or to vote at them. Preferred shares may carry other rights that are specified in the share conditions when the shares are issued. The holders of the preferred shares may also be entitled by law to vote as a class on certain matters.

#### *Subordinate voting participating shares*

Each subordinate voting participating share gives the holder the right to receive notice of and attend all meetings of shareholders, and one vote at a meeting of shareholders.

Each subordinate voting participating share also gives the holder the right to participate equally with the holders of common shares in any dividends declared by the directors, and any distribution of assets if the company is liquidated, dissolved or wound up, after payments are made to holders of preferred shares.

Subordinate voting participating shares cannot be subdivided, consolidated or otherwise changed unless all of the subordinate voting participating shares and common shares are subdivided, consolidated or otherwise changed at the same time, in the same proportion and in the same manner.

### **Our dividend policy**

The board of directors can declare dividends at its discretion. In November 2005, our board of directors approved the adoption of a dividend policy that would pay annual dividends of \$0.20 per share to common shareholders. Under the policy, dividends will be paid semi-annually, \$0.10 per common share on June 15 and \$0.10 per common share on December 15 of each year. We paid our first dividend on December 15, 2005, to shareholders of record as at November 30, 2005. The Company had not previously paid dividends on its common shares.

We believe this dividend appropriately rewards shareholders and is at a level we can maintain as copper prices fluctuate.

The Company's ability to pay dividends would be restricted if an event of default occurs under a guarantee that it has entered into (see *Material Contracts – Inmet sponsor guarantee* at page 4).

### **Ratings**

Credit ratings address the ability, willingness and likelihood of a company to meet its financial commitment on an obligation and are an independent measure of credit quality.

None of our securities are currently rated by a rating agency. If our securities are rated in the future, there is no assurance that any rating will remain in effect for any given period of time, or that any rating will not be revised or withdrawn by a rating agency if it believes the circumstances warrant.

### **Market for securities**

#### *Trading price and volume*

Our common shares trade on the Toronto Stock Exchange (TSX) under the symbol *IMN*. The table below shows the range in share price per month and volume traded on the TSX in 2005.

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume traded</b>
January	\$ 21.54	\$ 18.01	3,942,973
February	19.20	16.50	6,212,398
March	19.85	18.01	2,621,100
April	18.76	15.95	3,789,768
May	16.93	15.00	4,360,170
June	17.08	15.40	5,195,261
July	18.58	15.60	3,946,952
August	19.35	18.00	2,620,675
September	21.61	19.25	3,885,460
October	21.70	19.00	3,484,701
November	23.57	21.25	4,050,902
December	29.66	25.05	4,224,445

On January 20, 2005, the Company redeemed its \$64,052,000 aggregate principal amount of convertible subordinated debentures due September 30, 2007 for cash at par, together with accrued and unpaid interest. Holders of approximately \$65,000 of the debentures elected to convert their debentures into common shares of the Company and 3,058 common shares were issued from treasury.

### **Transfer agent and registrar**

The Company's transfer agent and registrar is CIBC Mellon Trust Company. It maintains the register of transfers of our common shares at its principal office in Toronto, Ontario.

### **Material contracts**

#### *Shareholders' rights plan*

The Company has entered into an amended and restated shareholders' rights plan agreement between it and CIBC Mellon Trust Company as of March 1, 2004.

The rights plan is designed to provide:

- our board of directors with sufficient time to pursue other options to enhance or protect shareholder value in the event of a public takeover bid for our common shares
- the Company with adequate time to assess the merits of competing take-over bids
- shareholders with full information for them to make their own assessments.

It is also designed to encourage anyone who is seeking to acquire control of the Company to do so through a takeover bid that is available to all shareholders. This gives all shareholders the opportunity to share in any premium that an acquirer is likely to pay to gain control of the Company.

*CLC share purchase agreement*

The Company, Leucadia and its subsidiary MK Resources Company entered into a share purchase agreement dated May 2, 2005 under which the Company indirectly acquired a 70 percent in CLC in exchange for the issuance by the Company of 5.6 million common shares to MK Resources. The share purchase agreement contains terms and conditions that are customary for a transaction of this type. The transaction closed on August 22, 2005.

*Amended and restated Las Cruces project shareholders agreement*

The Company and certain of its subsidiaries, together with Leucadia and MR Resources entered into an amended and restated Las Cruces project shareholders agreement dated February 16, 2006 that gives the Company the authority to oversee the development and operation of the Las Cruces project, subject to certain protective minority rights of Leucadia. In addition, under the agreement, the Company and Leucadia have committed to the development costs for the Las Cruces project and agreed to provide several guarantees of CLC's obligations under a credit agreement with certain lenders (see *CLC credit agreement* and *Inmet sponsor guarantee* below). Once the guarantees are terminated in accordance with their terms, Leucadia has the right to put its interest in CLC to the Company or to sell its interest to a third party, reasonably acceptable to the Company, subject to the Company's right of first refusal. The Company will also have the right to call for Leucadia to sell its interest to the Company if Leucadia holds less than a 15% interest in CLC.

*CLC credit agreement*

CLC as borrower has entered into a credit agreement (the *CLC Credit Agreement*) dated December 15, 2005 with Canadian Imperial Bank of Commerce as sole lead arranger, The Bank of Nova Scotia, Societe Generale and Banco Bilbao Vizcaya Argentaria, S.A. as co-arrangers and co-syndication agents, and certain other banks and financial institutions, to finance the development of the Las Cruces mine. The *CLC Credit Agreement* facility consists of two tranches:

- Tranche A is a US \$240 million senior secured facility that matures on December 15, 2015 and contains a US \$25 million letter of credit facility,
- Tranche B is a €69 million senior secured bridge financing facility that provides financing until the receipt of government subsidies and value added taxes (VAT) for the project and that expires on December 31, 2009.

Borrowing under Tranche A will be repaid in US dollars, in semi-annual payments over seven years. Repayments will begin on the earlier of June 30, 2009 or six months after project completion (as defined under the *CLC Credit Agreement*). Repayments for Tranche B are due no later than 30 days after Las Cruces receives VAT refunds and subsidy payments. Tranche B must be fully repaid by December 31, 2009. The *CLC Credit Agreement* contains terms and provisions that are customary for a project financing, including an obligation on the part of CLC to comply with certain financial ratios and other financial tests and specified positive and negative covenants.

CLC has not yet drawn down on the credit facility. We expect that it will do this during the second quarter of 2006.

*Inmet sponsor guarantee*

The Company has entered into a sponsor guarantee (the *Sponsor Guarantee*) dated December 15, 2006 with Canadian Imperial Bank of Commerce on behalf of the lenders under the *CLC Credit Agreement*. Under the *Sponsor Guarantee*, the Company has guaranteed CLC's obligations under the *CLC Credit Agreement* in proportion to the Company's indirect holding in CLC, until project completion is achieved (as defined under the *CLC Credit Agreement*) and until Tranche B of the *CLC Credit Agreement* is repaid, after which the project financing will be non-recourse to the Company. The *Sponsor Guarantee* contains customary terms and conditions including a requirement to maintain

certain financial ratios. It is secured by a pledge of the Company's assets and the shares of certain subsidiaries. These assets and shares have also been pledged to secure the Company's existing hedging facilities and will continue to be pledged, after project completion (as defined under the *CLC Credit Agreement*) is achieved and Tranche B of the *CLC Credit Agreement* is repaid, to secure any remaining obligations under the Company's hedging facilities.

Leucadia has also provided a sponsor guarantee for CLC's obligations under the *CLC Credit Agreement* in proportion to its indirect holding in CLC.

### **Experts**

Our consolidated financial statements for the year ended December 31, 2005 are incorporated by reference in this AIF, and have been audited by KPMG LLP. In connection with the Company's annual financial statements for the year ended December 31, 2005, the auditors confirmed that they are independent within the meaning of the Rules of Professional Conduct of Ontario.

The qualified persons, as defined by *National Instrument 43-101-- Standards of Disclosure for Mineral Projects*, or competent persons as defined by the *Australasian Code for Reporting of Identified Mineral and Ore Reserves* (the Australasian Code) who have prepared or supervised the preparation of our mineral reserve and mineral resource estimates as at December 31, 2005, are identified in the *Notes to mineral reserves and resources* starting on page 24.

### **Interests of experts**

No person or company named under *Experts* above, beneficially owns, directly or indirectly, or exercises control or direction over more than one percent of the Company's issued and outstanding common shares.

## **About our business**

### **Our mining operations**

The following section describes our mining operations and other properties. For more information about our mineral reserves and resources estimates for these operations, see *Mineral reserves and resources* starting on page 24.

#### **Çayeli**

ÇBI is a wholly-owned subsidiary and is incorporated under the laws of the Republic of Turkey.

Its main asset is the Çayeli copper and zinc mine located in northeastern Turkey. On September 23, 2004, we acquired through a wholly-owned subsidiary the remaining 45 percent interest of ÇBI from the Republic of Turkey's Prime Ministry Privatization Administration for US \$49.25 million.

#### **Property interests and location**

The Çayeli ore body is an area of 203.1 hectares, located within the boundaries of a mining operating licence granted by the Government of Turkey. Eti Holding A.S. is the holder of the operating licence and has leased it to ÇBI, for a term that expires on July 29, 2044.

The Çayeli mine is located in the province of Rize near the Black Sea coast of northeastern Turkey. Situated at an elevation of about 100 metres, the plant site is located on the western flood plain of the Büyükdere River directly across from the town of Madenli, about seven kilometres from the Black Sea coast. The town of Çayeli is located where the Büyükdere River enters the Black Sea, about 18 kilometres east of the city of Rize.

#### **Geology**

Çayeli is a Cretaceous age volcanogenic massive sulphide deposit. The deposit has a known strike length of over 600 metres, extends to a depth of at least 600 metres and varies in thickness from a few metres to 80 metres, averaging about 20 metres. The average dip is 65 degrees to the north-northwest and the deposit is open down dip and to the north. The deposit occurs at the contact between altered footwall felsic volcanic flows and pyroclastic and hanging wall mafic volcanics.

The deposit consists of massive and stockwork sulphides. The mineralization includes pyrite, chalcopyrite and sphalerite and smaller amounts of galena and tetrahedrite. The massive sulphide ore is classified into Yellow Ore, which is zinc poor, Black Ore that is zinc rich and Clastic Ore, which contains copper, zinc and precious metals. In the Clastic Ore, the sphalerite contains inter-growths and inclusions of chalcopyrite and requires batch processing through the mill. Stockwork ore containing pyrite and chalcopyrite in veins occurs stratigraphically below the massive sulphides.

#### **Operations**

In 2005, ÇBI produced 29,600 tonnes of copper and 42,300 tonnes of zinc in concentrates at a cash cost per pound of copper of US \$0.68. Copper recoveries averaged 83 percent and zinc recoveries averaged 75 percent in 2005. ÇBI achieved mill throughput of 834,000 tonnes, an increase of nine percent over 2004 when the mine suffered from an inability to access sufficient working areas.

ÇBI's production highly depends on its ability to mine the budgeted number of underground mining stopes. In 2004, ÇBI mined approximately 100 stopes, which were relatively small and required meticulous planning to minimize turnaround time and ensure sufficient mining. We changed the stoping sequence of the lower levels of the mine to form a pyramid shaped mining front advancing out from the central pillar to the boundaries of the ore body to provide access to larger stopes and reduce the hauling distance to the ore pass. As a result, ÇBI mined 110 stopes in 2005 and plans to mine 130 stopes in 2006.

A substantial portion of Çayeli's proven and probable mineral reserves are located below the bottom of the old shaft. In the third quarter of 2005, ÇBI completed its shaft deepening project that extended the existing shaft by 286 metres to provide it with access to deeper ore and to improve the efficiency of its ore transport below the 900 metre level. During 2005, ÇBI also focused on the lateral and ramp development of the lower part of the deposit. By the third quarter of 2006, ÇBI expects to commission essential components of the newly developed infrastructure for the lower mine. The first ore pass connecting the new loading station with the lower mine levels should be commissioned by then, which should greatly reduce trucking along the main ramp. In 2005, ÇBI spent US \$16.8 million on the lower mine development project including development of the footwall ramp, ore passes, ventilation raise, lateral development and other shaft-related work as well as replacement of mine mobile equipment. In 2006, ÇBI expects to spend US \$21 million, or an additional 25 percent, on the continuation of the lower mine development project, development of the footwall ramp, ore passes, the ventilation raise, lateral development and other shaft-related work, as well as mine mobile equipment and sustaining capital.

Ground conditions at Çayeli have improved but they still continue to pose a significant challenge. ÇBI has installed a rock-mechanical management system to monitor and model ground events. These are all elements of how ground conditions at Çayeli are managed, a critical factor in restoring Çayeli's productivity levels. The mine's rock-mechanical staff have been actively managing ground conditions by designing and sequencing the working areas to minimize the impact of difficult ground conditions, and by monitoring and modeling ground events so information may be used as a predictive tool.

As part of an operational improvement program that was implemented in the second quarter of 2005, ÇBI hired Proudfoot Consultants to help improve operating efficiencies in areas such as shift scheduling and equipment utilization and to assist in launching an operational improvement project in the second quarter of 2005. ÇBI also restructured its organization to create a more efficient management structure to address the mine's increased complexity and coordinate the development of the Cerattepe project.

As a result of these developments, ÇBI expects to increase ore milled to 980,000 tonnes in 2006. This would be a record amount for the mine and is in line with the operation's current five year plan for production of 1 million tonnes annually. Efforts continue to reach a annual production target of 1.2 million tonnes per year but the achievement of this objective will depend on successful completion of the lower mine development project and Çayeli's ability to efficiently manage its ground conditions.

The current three-year labour agreement will expire in May 2006, and negotiations with the labour unions will begin in April of this year.

Approximately 80 percent of Çayeli's copper and zinc concentrates are sold under long-term contracts to a number of international smelters, traders and local Turkish customers. The balance is sold in the spot market at prevailing market prices. ÇBI's concentrates are shipped out from the port at Rize, located on the Black Sea coast near the operation.

As at the end of 2005, ÇBI had approximately 480 employees. We expect Çayeli to continue operations until 2016.

### **Cerattepe**

The Cerattepe deposit is located in Artvin Province, in northeastern Turkey, approximately 100 kilometres due east of ÇBI's Çayeli mine, and 60 kilometres south of the Black Sea port of Hopa. It is located in a mountainous region, 3.5 kilometres southwest of the town of Artvin at an elevation of approximately 1,700 metres.

Two switchback gravel roads provide access to the site. The deposit is owned by Artvin Bakir Maden Isletmeleri, A.S. (ABMI), a wholly-owned subsidiary of ÇBI.

In March 2004, ÇBI acquired ABMI from an associated entity of Teck Cominco Limited for US \$11 million. ÇBI paid US \$2 million at closing and has two optional instalments of US \$4.5 million each for

the remainder of the purchase price. The second optional instalment on the purchase price for Cerattepe was payable by ÇBI on September 30, 2005. Local non-governmental organizations, based in Artvin, have made two related applications to the local administrative court to cancel the operating licenses relating to the Cerattepe property issued in the early 1990s. We believe the applications are without merit, and are vigorously defending against them. We expect the administrative court to rule on the applications later in 2006. During the third quarter of 2005, Çayeli reached agreement with the vendor to defer the second instalment until the earlier of three months after the local court renders its decision on the applications or June 30, 2006. If ÇBI does not pay the second instalment, it must transfer the shares of ABMI back to the vendor.

The Cerattepe deposit is a volcanogenic massive sulphide deposit, and is host to significant concentrations of copper and zinc with minor lead, silver and gold. It also has a formation of a gold and silver rich gossan above and adjacent to the massive sulphide body. The Cerattepe deposit consists of three distinct deposits:

- a massive sulphide zone that is rich in copper near the base
- a copper poor sulphide (low-grade) zone above the base
- an overlying oxidized gossan zone, which is rich in gold.

ÇBI started technical feasibility work and environmental studies on the Cerattepe project in late 2003 and it continued through 2004. A feasibility study was completed by mid-2004 by SRK Consulting Inc. This study recommended mining only the higher grade portion of the copper ore body.

Our development plan for the Cerattepe property calls for ramping down to the deposit, mining the high-grade copper ore from underground, bringing it to surface in trucks and transporting the ore five kilometres by aerial tramway to an existing highway in the valley below. From there the ore will be transferred onto trucks for the 135 kilometre trip to the Çayeli mill. Mining would be carried out at a rate of approximately 250,000 tonnes per year. We currently estimate the initial capital costs for the development of the mine will be US \$36 million with sustaining capital costs over the life of the mine of US\$ 3 million. This capital estimate excludes costs associated with any expansion of the Çayeli mill that may be required to process ore from Cerattepe.

At the end of 2005, the Cerattepe project had 13 employees. We expect Cerattepe will have about 90 employees engaged in mining activities during the life of the mine which we expect will be seven years. We estimate overall operating costs, including mining, processing, transportation of the ore to Çayeli, general and administration costs and royalties will be US \$57 per tonne of ore milled. We also estimate cash costs will be US \$0.60 per pound of paid copper and total costs to be US \$0.75 per pound of paid copper over the life of the mine.

Permitting has been the most significant factor impacting the project, and delays in obtaining the operating permits could delay the project schedule. ABMI has been working diligently with the regulatory agencies to obtain all necessary permits. Once ABMI receives the required permits, it will build a ramp and other development totalling some 1,800 metres to access the ore body for trial mining. The results of this program will be used to optimize full scale production. In parallel with this work, applications will be made for all additional permits required for full scale production. Permitting for a trial mining program was essentially complete in the third quarter of 2005, when a court injunction was granted to a local environmental group temporarily preventing further work on the property. This injunction was lifted in December 2005 and work is expected to begin on the project as soon as winter conditions permit.

Rehabilitation of the existing ramp is expected to begin during the second quarter of 2006, followed by the extension of the ramp towards the ore body. This work will be accompanied by the construction of temporary waste management facilities and a water treatment facility along with continued engineering on key infrastructure such as a power line and the aerial tramway. Trial mining should take place during 2007, with a bulk sample anticipated to be shipped during the spring and summer of 2007. In parallel with this work, we will work towards obtaining the permits required for full-

scale production and continue community consultation. Barring unforeseen delays, production should begin in 2008.

In 2006 we expect to spend US \$13 million on the development of Cerattepe, excluding option payments.

### **Pyhäsalmi**

On March 19, 2002, we acquired all of the issued and outstanding shares of PMO, the owner of the Pyhäsalmi mine, from a subsidiary of Outokumpu Oyj. We also acquired associated mining concessions and over 3,000 hectares of other exploration claims located in Finland.

#### ***Property interests and location***

The Pyhäsalmi mine is located in central Finland, four kilometres southeast of the town of Pyhäjärvi, on Lake Pyhäjärvi. The cities of Oulu, Jyväskylä and Kuopio are served by airports within a two-hour drive from the mine. A rail spur joins the mine to the national network and to the port of Kokkola, located 170 kilometres to the west on the Gulf of Bothnia.

Pyhäsalmi's mining concession consists of two leases:

- a mining lease totaling 59.2 hectares, covering all the mineralization and the mine itself
- an auxiliary lease totaling 352.4 hectares, covering all other areas used for mining purposes.

PMO holds both mining concession leases.

#### ***Geology***

The Pyhäsalmi deposit is a copper zinc volcanogenic massive sulphide deposit of Proterozoic age. The mineralization is hosted by altered felsic and mafic volcanics. The enveloping alteration zone is at least four kilometres long and one kilometre at its widest point. Alteration in the felsic volcanics includes sericite and cordierite dominated mineralogies. In the altered mafic volcanics, cordierite, anthophyllite and garnet dominate. The metamorphic grade is upper amphibolite facies.

The upper part of the Pyhäsalmi deposit was mined between 1962 and 2001 and has now been depleted. Deep drilling in 1996 by Outokumpu Oyj, the previous owner, led to the discovery of an extension to the deposit below the +1050 metre level.

The newer deep deposit is located between the +1050 metre level (from surface) and the +1416 metre level. Its maximum length is 420 metres and maximum width is 200 metres. The inner part of the lens consists of massive pyrite with low copper and zinc values. This core is surrounded by massive chalcopyrite-pyrite and the outer rim consists of massive sphalerite-pyrite. The main sulphide minerals are:

- pyrite (65 percent)
- chalcopyrite (three percent)
- sphalerite (four percent)
- pyrrhotite (three percent).

The ore is very coarse grained.

#### ***Operations***

We expect Pyhäsalmi to operate until 2016. The operation includes a 1,450 metre deep, fully automated hoisting shaft and uses the latest technology. The mill is capable of processing at a rate of approximately 1.4 million tonnes of ore per year. The copper and zinc concentrates are of high quality, with grades of approximately 30 percent copper and 55 percent zinc, respectively. Pyhäsalmi benefits from low transportation costs to customer smelters located in Finland operated by Boliden AB. The mine is also Europe's leading producer of high purity pyrite concentrate, used in fertilizer production and to generate electricity and produce sulphuric acid. Pyhäsalmi has approximately 215 employees. We expect Pyhäsalmi to operate until 2016.

In 2005, Pyhäsalmi mined 15 stopes and achieved a production rate of 1.4 million tonnes, four percent higher than in 2004. Zinc production of 40,500 tonnes was higher than last year's 37,200 tonnes because of an increase in zinc rich stopes in the overall mine production sequence. Copper production of 15,000 tonnes was approximately the same as for 2004. Pyrite production of 461,000 tonnes in 2005 was below the level in 2004 because of an expected reduction in pyrite sales. Pyhäsalmi's average cash cost per pound of copper was negative US \$0.10.

In 2005, Pyhäsalmi continued its process of moving towards compliance with a new environmental regulatory framework introduced in Finland under European Union regulations that will result in it receiving a new environmental permit. We expect the new permit will require monitoring to detect potential impacts to air, water and the biosphere. The new permit will also cover mine closure and financial assurance requirements. The permit application made by Pyhäsalmi proposes emission limits for discharges to water and air that we believe are appropriate and protective. It also includes an estimate of closure costs that is consistent with Pyhäsalmi's previous estimates. We do not expect the new environmental permit to be issued until mid-2006 at the earliest.

Pyhäsalmi should mine approximately 1.4 million tonnes in 2006 from 14 stopes. We anticipate that pyrite production will increase by almost 100,000 tonnes in 2006 because we expect to sell additional tonnage to an existing customer. We expect slightly lower copper and zinc production due to expected lower grades. However, cash costs should continue to be low because of metal credits from higher pyrite production and continuing high zinc prices.

In 2005, Pyhäsalmi spent €3.3 million on mill improvements to replace the pyrite concentrate dryer and for sustaining capital. The capital spent was less than expected because the installation of a zinc pressure filter was moved into 2006. In 2006, Pyhäsalmi expects to spend €5 million on replacement of mine mobile equipment and the zinc pressure filter for the mill as well as for sustaining capital.

As is the case with most underground mining operations, Pyhäsalmi's ground conditions should become increasingly challenging as the mine matures. In anticipation, the operation has developed a sophisticated management system for ground control that includes seismic sensors throughout the mine and modeling programs to analyze the data. In addition, to reduce the exposure of workers to the underground areas, Pyhäsalmi introduced a fully automated loading system on several levels in 2005. This system will be expanded to all levels in 2006.

Pyrite contributed 10 percent to the mine's revenues in 2005. Pyhäsalmi's major customer for pyrite is the Finnish fertilizer producer Kemira Grow-How. Kemira operates a phosphate plant within 145 kilometres of the Pyhäsalmi mine and the two operations are linked via railway. The synergy between the operations provides the platform for a long-term relationship. Kemira purchases approximately 80 percent of Pyhäsalmi's pyrite production. The remaining production is sold to a number of European companies.

As anticipated, Pyhäsalmi lost one of its pyrite customers in 2005, which reduced its pyrite sales by 30 percent from 2004. If the operation were to lose another pyrite customer or if one of its customers reduces its pyrite purchases, Pyhäsalmi's operating results could be negatively impacted.

We expect to receive the equivalent of lost profit, if any, caused by the cancellation of a pyrite purchase agreement by a customer in 2005; this would occur under a compensation agreement with Outokumpu Oyj entered into when we acquired PMO. Any compensation received would be reflected as a reduction in the 2002 purchase price for PMO. PMO is in the process of evaluating the option of increasing copper and zinc concentrate production to compensate for the reduction in pyrite revenue.

In 2005, Pyhäsalmi replaced the pyrite drum dryer and started the process of replacing its zinc concentrate filter. Both of these replacements will improve the reliability of the filters used to dewater the pyrite and zinc concentrates. The replacements are part of a mill upgrade program to ensure that we can sustain our excellent mill availability in the future.

Exploration work at Pyhäsalmi in 2006 will focus on regional surface and generative exploration in close proximity to the mine site. In addition, 4,000 metres of underground drilling will be completed from the 850 metre level towards the north east as well as 200 metres of lateral drift on the 1,425 metre level. Downhole geophysical surveys will be carried out to widen the search areas from each underground hole.

## **Troilus**

We own a 100 percent interest in the Troilus gold and copper mine in northern Quebec, Canada. It operates as a division of the Company.

### ***Property interests and location***

The Troilus property encompasses one mining lease covering an area of 840 hectares. It also covers 481 unpatented claims covering a total area of 7,511 hectares surrounding and adjacent to the mining lease. The property also includes five surface leases over an area of 1,502 hectares, which includes the tailings lease, camp site, solid waste disposal site and access road.

The Troilus property is located about 175 kilometres north of Chibougamau at an elevation of 400 metres. It can be reached by following the Route 167 paved road for 23 kilometres, the Route du Nord gravel road for 108 kilometres and an all-weather dirt road extension from the Route du Nord for the final 44 kilometres. The site is located on Category III lands under the James Bay and Northern Quebec Agreement.

### ***Geology***

The Troilus disseminated gold and copper deposit is located in the eastern section of the Archean Frotet-Evans greenstone belt. The host rocks consist predominately of mafic lavas and intrusives with lesser intermediate to felsic volcanoclastic metasediments intruded by numerous sills and dykes of felsic porphyries.

Gold generally occurs as electrum and native gold. The gold occurs as discrete grains, from 20 to 4,000 microns in diameter, along sulphide grain boundaries, along fractures within the sulphides and along grain boundaries in small quartz veinlets. The mineralization contains two to three percent sulphides. Sulphides are pyrite, chalcopyrite, pyrrhotite, and rare sphalerite. The sulphides form disseminations, tiny veinlets, and narrow semi-massive seams that are controlled by both foliation and fractures. The mineralization occurs within a zone of potassic altered in-situ brecciation at the margin of a mafic intrusive. Mineralization also occurs in felsic dykes cutting the zone.

Reserves are reported from two zones:

- the principal ore body, the 87 Zone, which ranges in width from 10 metres to 100 metres and has a strike length of 1,000 metres
- one satellite ore body, the J-4 Zone.

The mineralized zone strikes in a northeast-southwest direction, dips at approximately 55 degrees to 65 degrees to the northwest.

### ***Operations***

We expect Troilus to continue to operate through 2009.

In 2004, Troilus expanded its mill capacity, which allowed it to increase ore milled in 2005 by seven percent compared to 2004 to an average mill throughput rate of 17,800 tonnes per day. However, a damaged SAG mill gear pinion reduced production for 14 weeks during the third and fourth quarters as mill throughput fell to 80 percent of capacity. The pinion was replaced in December 2005.

Gold production increased from 149,000 ounces in 2004 to 159,500 ounces in 2005 at a cash cost per ounce of gold of US \$313, compared to US \$263 per ounce in 2004. Production increased because the mill expansion increased throughput. Cash costs in 2005 were higher than in 2004 mainly because of significantly higher prices for consumables such as grinding media, fuel, and

explosives, higher smelter processing charges and a weaker US dollar. Maintenance costs were also higher in 2005 because of repairs to the SAG mill pinion.

Despite higher gold grades in 2005, our target for 2005 was not achieved because of lower than expected throughput and recoveries. We had expected a two percent improvement in recoveries as part of the mill improvements but this was not achieved. We are continuing to look for ways to improve recoveries, including fine tuning the grinding and flotation circuits and increasing throughput.

In 2006, Troilus plans to continue to improve the mill and increase ore milled by another five percent to 20,000 tonnes per day. This is expected to increase gold production and lower the mine's cash unit costs in 2006 due to expected lower metal credits because of expected lower copper prices.

Troilus has been and is expected to continue to be affected by the high costs of its major consumables. The mine is reviewing its operating structure to reduce operating costs in light of its current remaining life of three years.

In 2005, Troilus spent \$9.2 million on mine equipment, a tailings dam lift and a pumping system. In 2004, Troilus completed the mill expansion, acquired mine mobile equipment, and continued development of the J-4 pit. Continued development of the J-4 pit required continued waste mining and this kept capitalized stripping costs high in 2004. In 2006, Troilus will reduce its capital spending and pay only for sustaining capital because of its limited life.

Since January 1, 2004, all copper concentrate production from Troilus has been sold under a three-year agreement with an international metals merchant. Contracts for the refining of gold doré are negotiated on an annual basis. We sell the refined gold in the open market.

The Company is a party to an impact and benefits agreement with the Mistissini Band of the Cree, according to the provisions of the James Bay and Northern Quebec Agreement that apply for employing the local Cree community of Mistissini. The agreement formalizes the relationship between Troilus and the Cree community and sets out, among other things, an employment objective that 25 percent of the workforce at Troilus will be Cree.

Troilus currently has 280 employees. We currently expect Troilus will continue to operate until 2009.

A drilling program completed in 2005 confirmed a mineral resource at Troilus and indicated that part of the deposit is a relatively higher grade and has a consistent horizontal thickness of more than 20 metres (see also *Mineral reserves and resources* at page 24).

A scoping study looked at various options for accessing and extracting a portion of the indicated resources outlined in the table below and concluded that the project could be commercially attractive. The degree of economic viability of extracting the indicated resources will depend on mining large stopes at a high extraction rate. Further review of this project will take place in 2006.

**Troilus mineral resource beneath the pit (to -300 metres below pit)**

<b>Mineral resources<sup>(1)</sup></b>	<b>Tonnes (millions)</b>	<b>Gold grade</b>	<b>Copper grade</b>	<b>Gold (ounces)</b>
Indicated	29.4	1.5 grams per tonne	0.2%	1,400,000
Inferred	7.9	1.2 grams per tonne	0.1%	300,000

(1) Mineral resources do not have demonstrated economic viability

## **Ok Tedi**

OTML, the owner of the Ok Tedi mine, has operated as an independent company since BHP Billiton Limited transferred its equity interest in OTML to PNG Sustainable Development Program Limited (SDPL) in February 2002. SDPL is independent of the Government of Papua New Guinea and BHP Billiton Limited and has a mandate to fund sustainable development in Papua New Guinea.

The shareholder arrangements that came into effect in 2002 as part of the transfer were passed into law by the National Parliament of Papua New Guinea in December 2001. The Company has an 18 percent interest in OTML, with SDPL holding a 52 percent interest and the Government of Papua New Guinea holding the other 30 percent. The OTML board structure provides for six directors:

- one nominee representing each shareholder
- three independent directors, each with international mining experience who are appointed by mutual agreement of the shareholders.

The revised shareholders' agreement does not require the Company to fund any of Ok Tedi's cash requirements.

Since February 2002, a new environmental regime and long-term planning process for mine closure has been in effect for the Ok Tedi mine. As part of the new environmental regime, OTML submitted a change notice to convert the test dredging operation into a permanent one to mitigate the future impact of aggradation build-up in the Ok Tedi and Fly River systems. The annual dredging cost is included in OTML's cash operating costs. In addition, OTML established a tax-deductible fund for reclamation of the mine site, which is currently estimated at US \$100 million. OTML will contribute cash to the fund over the remaining life of the mine.

SDPL is mandated to use future dividend payments from OTML to fund current and long-term sustainable development projects in Papua New Guinea and in particular, the Western Province. Almost all communities affected by the operation of the Ok Tedi mine provided their consent to its continued operation under community mine continuation agreements (CMCAs) between each of these communities and OTML. Under the CMCAs, OTML and its shareholders are released from claims relating to future environmental impacts and OTML will provide the equivalent of approximately US \$23 million in compensation to affected communities over the remaining life of the mine.

### ***Property interests and location***

The Ok Tedi mine is located on Mount Fubilan in the remote Star Mountains region of Papua New Guinea, approximately 18 kilometres east of the international border with the Indonesian province of Papua, at an elevation of 1,800 metres above sea level. The ore body consists of a massive copper and gold porphyry deposit. Ore treatment facilities are 1.6 kilometres away at Folomian, 420 metres below the mine. The mine and the nearby processing plant are situated on the upper reaches of the Ok Tedi River, a major tributary of the Fly River. The Fly River is the primary mine supply and copper concentrate transport route. Use of the river is in part governed by "Arrangements for the Use of the Fly River for the Ok Tedi project", a 1981 agreement between Papua New Guinea and Indonesia. The town of Tabubil, 22 kilometres from the mine, currently houses the operating personnel and their families.

OTML owns and operates the Ok Tedi mine by virtue of the Mining (Ok Tedi Agreement) Act of 1976 (as amended) and under various mining leases under grant from the Government of Papua New Guinea.

### ***Geology***

Copper and gold mineralization at Ok Tedi is typical of many gold-rich porphyry-related copper deposits in the circum-Pacific Island Arc Terranes. The main body of mineralization at Ok Tedi is related to the intrusion and alteration of a monzonite porphyry stock. Subsequent leaching and re-deposition of copper minerals produced a leached cap and an enriched copper zone, which overlies protore sulphide mineralization. Significant residual gold mineralization was dominant in the leach cap where copper was removed in the weathering process. Similar gold values extended downwards into

the copper mineralization in an annulus about a barren quartz stockwork core roughly centred in the Fubilian monzonite porphyry intrusive. The gold values correlate well with copper in the primary sulphide mineralization. Skarn ore is developed where flat lying and sub-vertical faults locally controlled hydrothermal fluids and subsequent metasomatic alteration of the sedimentary rocks surround the intrusions.

### **Operations**

Ok Tedi is an open-cut operation where about 80,000 tonnes of ore and 152,000 tonnes of overburden are mined each day.

Steady rainfall throughout the year meant the mine was able to ship its concentrates without interruption and with a reliable supply of hydro power that minimized the use of more expensive diesel fuel generators. Copper production in 2005 was 11 percent higher and gold production was 10 percent higher than in 2004. In 2005, Ok Tedi produced 193,000 tonnes of copper and 574,000 ounces of gold at a cash cost of US \$0.65 per pound of copper. Mill throughput totalled 25.4 million tonnes and was lower than in 2004 because of the harder ores mined.

We expect Ok Tedi to mine 27 million tonnes of ore in 2006 at an average grade of 0.9 grams per tonne gold and 0.8 percent copper. It should also mine 48 million tonnes of waste, including 13 million tonnes of additional limestone to compensate for the increasing amount of sulphur in the ore and remaining waste. The amount of limestone is based on environmental targets to achieve a neutralizing capacity in the mine's waste dumps. The waste to ore strip ratio is forecast to be 1.8:1. Ok Tedi plans to upgrade its in-pit crushing station to gain access to the higher grade ore body along the north-east pitwall. The total cost of this project is estimated at US \$19 million. Work on the in-pit crusher began in 2005 and the major construction phase has begun. The mine should have unrestricted access to the ore body by September 2006.

Water in the Ok Tedi pit currently drains freely to the south. However, the pit design shows that starting in 2008, the water will no longer drain freely, so Ok Tedi must build either a drainage tunnel or a pumping system. The preferred option is a drainage tunnel if it can be constructed at a reasonable cost. This is a simpler solution than a pumping system, which would involve a complex series of pumps, sumps and pipelines. Ok Tedi has begun a feasibility study to determine the technical and economic feasibility of the tunnel option. The study is expected to cost US \$2.3 million, most of which will be used for diamond drilling, which is necessary to determine the geotechnical and hydrological conditions along the tunnel.

Ok Tedi spent US \$20.1 million in 2005 on new trucks, a gravity gold circuit to improve gold recovery by 10,000 to 20,000 ounces per year and sustaining capital. This was less than expected because certain projects were carried over into 2006. In 2006, over half of Ok Tedi's expected capital spending will be for projects that have been carried over from 2005, including the upgrade of its in-pit crusher and new trucks and drills. Other spending will include the pit drainage study and sustaining capital.

At Ok Tedi, concentrate is transported as a slurry through a 157 kilometre pipeline from the mine to the river port of Kiunga, the concentrate is filtered, dried and stockpiled. Dried concentrate is loaded onto barges and sent 800 kilometres down the Fly River to a silo vessel in the Gulf of Papua for export. When rainfall levels are low, sand banks in the river prevent the barges from passing and concentrates are stockpiled at the river port. Low water levels can also potentially delay shipments of supplies of fuel and explosives to the mine. Ok Tedi's ability to generate electrical power also depends on the amount of rainfall in the area. If prolonged dry weather conditions occur, the mine may have to cut back or suspend production, which would have an impact on operating results. During the fourth quarter of 2005, rainfall levels were good, confirming previous meteorological forecasts indicating that the risk of prolonged dry weather conditions was low. Ok Tedi continues, however, to prepare itself for dry weather in the future by increasing storage capacity for concentrate and supplies.

Ok Tedi discharges both tailings and waste rock into the Ok Tedi River. These discharges have led to adverse effects on the environment in and around the Ok Tedi and Fly Rivers. This includes sediment build-up in the river beds, resulting in overbank flooding, forest die-back and reduced navigability. There has also been the potential for acid rock drainage (ARD) resulting from oxidation of sulphur from the mine-related sediments deposited in the Ok Tedi and Fly Rivers. These sulphide-bearing sediments may be prone to oxidation if they are exposed to air during prolonged periods of dry weather. Then if they are exposed to water, they may form dilute sulphuric acid.

Dredging the sediments in the Ok Tedi River at Bige has reduced the river bed aggradation and overbank flooding, but riverine waste disposal at Ok Tedi has had, and continues to have, two significant impacts on the Ok Tedi and Fly River systems: sedimentation of the river beds resulting in overbank flooding and ARD. Ok Tedi maintains a program to detect the presence of these sediments and monitor their impact as part of its effort to better understand the potential for future ARD and how this can be managed if it does occur.

While there have been ongoing studies to assess the environmental impact, Ok Tedi believes, based on current findings from its monitoring program that these effects will likely be greater and last longer than previously thought. Ok Tedi is undertaking feasibility studies to assess options to prevent ARD in the future, which could include removing and storing sulphide minerals from the tailings stream or changing the current mine plan to reduce the rate of sulphidic discharge from the mine. Ok Tedi has also launched a program to fully inform the affected communities about the recent findings of the mine's anticipated environmental impact.

Effective community relations are critical to Ok Tedi's success. In 2006, Ok Tedi will begin its mid-term review of the Community Mine Continuation Agreements (CMCAs). This review is part of the current agreements and is aimed at addressing any material changes that may have taken place since the documents were executed in 2002. The outcome of the negotiations is pending, but we expect they may result in increased payments to the affected communities.

Over the next few years, Ok Tedi should mine ores that have higher copper and gold grades but also contain higher amounts of sulphide minerals. This would increase the amount of sulphides in the tailings that are discharged to the river unless preventative measures are put in place. Ok Tedi is currently conducting a feasibility study for a plant to remove and store sulphide minerals from the tailings, which could increase capital and operating costs. If the construction and operation of this plant is not be feasible, Ok Tedi may look at ways for revising its mine plan to reduce the amount of sulphide minerals in the ore mined. Revising the mine plan could lower the amount of metal mined over the rest of Ok Tedi's life. Ok Tedi believes that reducing sulphide minerals in the tailings discharge will substantially mitigate concerns of future acid rock drainage and ensure that Ok Tedi can fully exhaust the potential of the Mount Fubilan ore deposit.

We expect that Ok Tedi will continue to operate until at least 2013. Ok Tedi currently has 1,990 employees.

## **Las Cruces**

### ***Property interests and location***

The Las Cruces project is located in the Sevilla Province of southern Spain, about 20 kilometres northwest of the city of Sevilla. This province is part of the Andalusia region. Access to the project site is excellent by well-maintained all-weather paved roads. Rail service is available in Sevilla as is an international airport with connections throughout Europe. Port facilities are available in Huelva approximately 80 kilometres to the southwest. The regional climate of the area is characterized as Mediterranean, with gently rolling hills of arable land.

The Las Cruces deposit was original discovered by a subsidiary of Rio Tinto plc in 1994. It sold the project in 1999 to MK Resources, who established CLC as its local Spanish subsidiary, completed a second feasibility study in 2003 and undertook environmental studies and permitting work.

On August 22, 2005, Inmet acquired a 70 percent indirect interest in CLC from MK Resources. Leucadia, through MK Resources, retained the other 30 percent. The project is subject to a royalty of 1.5 percent of the copper prices greater than or equal to US \$0.80 per pound, payable to Rio Tinto plc as part of the original purchase agreement entered into by MK Resources.

CLC has been granted mining rights for subsurface minerals through Mining Concession No. 7532, granted by the Regional Ministry for Employment and Technological Development of the Province of Andalusia. The Mining Concession was granted in August 2003, following the issuance of a positive Declaration of Environmental Impact by the Andalusian Regional Ministry of the Environment in May 2002. CLC has purchased the surface rights to the land above the deposit and to the adjacent lands needed for infrastructure and is in the process of finalizing all of the rights of ways that are necessary to construct and develop the project. The project also covers land in the public domain for which appropriate permits have been obtained.

### ***Geology***

The Las Cruces deposit occurs near the eastern end of the Iberian Pyrite Belt, a 250-kilometer long and 40-kilometer wide geologic belt that extends eastward from southern Portugal into southern Spain. The belt is host to more than 100 mineral deposits, some of which were exploited for metals as long ago as pre-Roman times. Mineralization at Las Cruces, as in most other Iberian Pyrite Belt deposits, consists of syngenetic massive sulphides containing polymetallic mineralization. The massive sulphide is hosted by late Devonian to early Carboniferous Period volcanic and sedimentary rocks, deposited in a submarine setting within a narrow and relatively shallow intra-continental sea, characterized by bimodal volcanism and sedimentation. Post depositional secondary copper enrichment occurred in the upper part of the massive sulphide deposit, forming the mineralization of interest. Subsequently the deposit was buried under 100 to 150 metres of sandstone and calcareous mudstone (marl).

The Las Cruces deposit is a blind deposit that does not outcrop, due to the 100 to 150 metres of marl that was deposited on top of the deposit. No other deposits have been found in the immediate area but exploration is difficult given the thickness of the overburden. The nearest deposits are Aznalcollar and Los Frailes, both occurring approximately 10 kilometers to the west in the area where the host rock assemblage outcrops at the surface. The Aznalcollar and Los Frailes deposits consist of zinc-lead massive sulphides that were in production over the last 10 to 20 years.

### ***Development***

Las Cruces will be mined using conventional open-pit mining methods, based upon hydraulic shovels and trucks, with drilling and blasting in the lower marls and ore zones. The project has a relatively high stripping ratio supported by the high grade ore. CLC plans to use contract miners for both prestripping and production over the life of the mine.

Basic engineering of the project began in 2005, with SNC-Lavalin Group Inc. as lead engineer, and was completed during the first quarter of 2006. The project is now in the final detailed engineering, procurement and construction stage. A life-of-mine mining contract has been awarded to AOMSA, a subsidiary of EPSA International S.A., a Spanish contractor. This contract sets rates for all mining activities during pre-stripping and production, and provides CLC with firm mining costs for the duration of the operation, assuming estimated quantities and subject to fluctuations in fuel prices and adjustments for inflation.

The ore body at Las Cruces is located below a regional aquifer. CLC has developed a program to pump the water out around the future pit, transport it in closed pipelines to prevent contamination and then re-inject it into the same aquifer to ensure that the water is preserved. Mine restoration will begin during construction with the site being progressively reclaimed and re-vegetated throughout the life of the mine. Once mining at the site is finished, some of the overburden material will be put back into the open pit to seal the aquifer.

It should take about 18 months to remove the approximately 52 million tonnes of marl sitting above the ore body. The marl will be used to encapsulate all of the tailings and waste products from the mine as well as for the required pit reclamation. We expect pre-stripping to commence by mid-2006.

We expect that Las Cruces will mine an average of approximately 1.3 million tonnes of ore and 15 million tonnes of waste each year – a strip ratio of 12.7:1. While this ratio is unusually high, it will be offset by the very high ore grade.

The mine will produce copper cathode on site, using a technology developed by Outokumpu Technology Oy. The process involves crushing and grinding the ore and then leaching it in the presence of ferric sulphate, sulphuric acid and oxygen in agitated tanks at atmospheric pressure. Once in solution, the copper is recovered by standard solvent extraction and electrowinning technology. Recoveries of copper are expected to exceed 90 percent and the plant is designed for a production rate of 66,000 tonnes of copper cathode per year. The production of cathode sheets rather than concentrate will diversify Inmet's copper production, which has been historically in the form of concentrate, and reduce our exposure to smelter and refining treatment charges, which can be volatile. Because cathode copper can be transported by truck, train and ocean-going vessels to plants in Europe that produce wire rod and other copper products, it also lowers freight risk.

We plan to significantly advance the development of Las Cruces in 2006 and expect to spend €123 million largely on detailed engineering, procurement and construction. Construction activities are scheduled to commence in April 2006. We expect the first copper to be produced at Los Cruces in early 2008.

CLC has entered into a credit agreement with a syndicate of Canadian and international lenders to finance development of the project (see *Material Contracts—CLC credit agreement* at page 10). In addition, the central and regional governments in Spain have agreed to provide subsidies amounting to approximately €53 million, subject to the completion of construction and reaching certain levels of employment at the project.

As of the date of this annual information form, we estimate that the Las Cruces project will have the following capital and operating costs:

- total capital to build Las Cruces: €290 million. Because basic engineering was nearing completion at the date of this annual information form, this capital figure is likely to be revised
- interest, reclamation, bonding requirements and other financing costs: €46 million
- sustaining capital over the life of the mine: €24 million, but this is subject to change once basic engineering is completed
- operating costs: €0.33 per pound of copper, which is well within the lower quartile of global producers.

Las Cruces is a development stage project. While we are confident that the overall value impact of the project as outlined in the feasibility study completed by MK Resources will be achieved, there is still significant uncertainty. Once basic engineering is completed, our expectations will be better refined. Risks associated with detailed engineering, mine and processing facilities construction, permitting and relations with local communities will continue to exist. In addition, a local non-governmental group has initiated several legal proceedings claiming that various governmental approvals for the project were not granted in accordance with regulatory requirements. We believe these claims are without merit and we are vigorously defending against them. While one of these proceedings has been dismissed at the initial trial level, both it and the other proceedings have not been finally determined. As such, there remains a risk that completion of the project may be impeded or delayed.

## Mineral reserves and resources

The table below shows our mineral reserves and resources estimated as at December 31, 2005<sup>(1)(2)</sup>:

This data has either been prepared or supervised by:

- a qualified person under *National Instrument 43-101*, or
- competent persons under the *Australasian Code* (see *Experts* at page 11).

These qualified persons or competent persons are identified in the *Additional notes to mineral reserves and resources table* on page 25.

### Mineral reserves and resources As at December 31, 2005

#### Operating properties

Category	Tonnes (x 1000)	Cu %	Zn %	Au g/t	Ag g/t	S %	Contained Metal (x 1000)				Inmet's Interest	
							Cu tonnes	Zn tonnes	Au ounces	Ag ounces		
<b>Mineral reserves</b>												
<b>Çayeli<sup>(5)</sup></b>	Proven	4,700	3.8	5.9	0.6	44	-	177	275	89	6,668	100%
	Probable	6,900	3.6	5.9	0.5	52	-	246	405	119	11,949	100%
	<b>Total</b>	<b>11,600</b>	<b>3.7</b>	<b>5.9</b>	<b>0.6</b>	<b>49</b>	<b>-</b>	<b>423</b>	<b>680</b>	<b>208</b>	<b>18,617</b>	<b>100%</b>
<b>Pyhäsalmi</b>	Proven	15,560	1.2	2.5	-	-	41	179	389	-	-	100%
	Probable	-	-	-	-	-	-	-	-	-	-	100%
	<b>Total</b>	<b>15,560</b>	<b>1.2</b>	<b>2.5</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>179</b>	<b>389</b>	<b>-</b>	<b>-</b>	<b>100%</b>
<b>Troilus</b>	Proven	5,835	0.1	-	0.6	1.1	-	4	-	109	-	100%
	Probable	21,740	0.1	-	0.9	1.1	-	17	-	627	-	100%
	<b>Total</b>	<b>27,575</b>	<b>0.1</b>	<b>-</b>	<b>0.8</b>	<b>1.1</b>	<b>-</b>	<b>21</b>	<b>-</b>	<b>736</b>	<b>-</b>	<b>100%</b>
<b>Ok Tedi</b>	Proven	192,000	0.9	-	1.1	-	-	1,651	-	6,667	-	18%
	Probable	22,200	0.8	-	1.3	-	-	178	-	942	-	18%
	<b>Total</b>	<b>214,200</b>	<b>0.9</b>	<b>-</b>	<b>1.1</b>	<b>-</b>	<b>-</b>	<b>1,829</b>	<b>-</b>	<b>7,609</b>	<b>-</b>	<b>18%</b>
<b>Inmet's share</b>								<b>952</b>	<b>1,069</b>	<b>2,314</b>	<b>18,617</b>	
<b>Mineral resources<sup>(3)</sup></b>												
Çayeli	Measured	1,905	3.1	3.1	0.5	22	-	59	59	31	1,318	100%
	Indicated	2,645	3.1	2.6	0.4	20	-	81	68	37	1,727	100%
	Inferred	1,070	3.3	6.3	-	-	-	36	67	-	-	100%
Pyhäsalmi	Measured	14,345	0.7	0.6	-	-	44	100	86	-	-	100%
Troilus	Indicated	29,400	0.2	-	1.5	-	-	47	-	1,400	-	100%
	Inferred	7,900	0.1	-	1.2	-	-	11	-	300	-	100%
<b>Inmet's share</b>								<b>287</b>	<b>213</b>	<b>1,468</b>	<b>3,045</b>	
(not including contained metal from inferred mineral resources)												

#### Development properties

Category	Tonnes (x 1000)	Cu %	Zn %	Au g/t	Ag g/t	S %	Contained Metal (x 1000)				Inmet's Interest	
							Cu tonnes	Zn tonnes	Au ounces	Ag ounces		
<b>Mineral reserves</b>												
Las	Proven	9,790	6.4	-	-	-	-	629	-	-	-	70%
Cruces	Probable	7,835	6.0	-	-	-	-	469	-	-	-	70%
	<b>Total</b>	<b>17,625</b>	<b>6.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,098</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70%</b>
Cerratepe	Probable	1,560	8.8	1.1	1.4	33	-	138	17	68	1,655	100%
<b>Inmet's share</b>								<b>907</b>	<b>17</b>	<b>68</b>	<b>1,655</b>	
<b>Mineral resources<sup>(3)(4)</sup></b>												
Petaquilla	Indicated	1,096,500	0.5	-	0.1	-	-	5,263	-	3,173	-	48%
Izok	Indicated	16,500	2.2	11.4	-	60	-	363	1,881	-	31,829	100%
<b>Inmet's share</b>								<b>2,889</b>	<b>1,881</b>	<b>1,523</b>	<b>31,829</b>	

- (1) There are no known environmental, permitting, legal, taxation, political or other relevant issues that would materially affect the estimates of mineral reserves.
- (2) Mineral reserves and mineral resources are shown on a 100 percent basis for each property.
- (3) Mineral resources do not have demonstrated economic viability.
- (4) Mineral resources for Petaquilla and Izok have been calculated using appropriate dilution and mining recovery factors.
- (5) Excludes inferred resources that had previously been included as reserves. The inferred resource removed from reserves represented approximately three percent of contained copper metal in Çayeli's reserves and its removal resulted from a review of reserves and resources by Roscoe Postle Associates Inc. (RPA). The inferred resource was historically included in reserves because of its location in small islands within the areas to be mined and was not considered to be material.

#### **Additional notes to mineral reserves and resources table**

Mineral resources are reported as exclusive of mineral reserves.

The mineral reserve and resource estimates are prepared according to the *CIM Definition Standards On Mineral Resources and Mineral Reserves*, adopted by Canadian Institute of Mining, Metallurgy and Petroleum, (*CIM definitions*) and the *CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines*, geostatistical and/or classical methods, plus economic and mining parameters appropriate to each project.

Estimates for all operations except Ok Tedi are prepared by or under the supervision of a qualified person as defined in *National Instrument 43-101* (usually an engineer or geologist). Ok Tedi's estimates are prepared by competent persons as defined in the *Australasian Code*.

#### **Çayeli**

Resource and reserve estimates prepared at December 31, 2005, under the supervision of Joseph Boaro, P.Eng. (Technical Manager, Çayeli).

Reserve estimates are based on the following assumptions:

- copper price: US \$1.10 per pound
- zinc price: US \$0.55 per pound
- net smelter return cut-off: US \$46 per tonne.

Resource estimates include only material in addition to those used to generate reserves and are based on the same metal prices and a lower net smelter return cut-off of US \$35 per tonne.

The Çayeli resource and reserve estimate at December 31, 2005, has been independently verified by RPA and is the subject of a technical report prepared in accordance with *National Instrument 43-101*. The qualified persons for this report include: Graham G. Clow, P.Eng. (Principal Mining Engineer, RPA), Andrew Hara, P.Eng. (Associate Mining Engineer, RPA) and Bernard Salmon, Eng. (Consulting Geological Engineer, RPA).

#### **Pyhäsalmi**

Estimates prepared at December 31, 2005, under the supervision of Timo Maki, Geologist, European Federation of Geologists (Chief Geologist, Pyhäsalmi).

Reserve estimates are based on the following assumptions:

- copper price: US \$1.10 per pound
- exchange rate: €1.00 = US \$1.20
- net smelter return cut-off: €22.00 per tonne.

Resource estimates are based on the geological limits of the massive sulphides.

#### **Troilus**

Resource and reserve estimates prepared at December 31, 2005, under the supervision of Eric Lamontagne, P.Eng. (Chief Engineer, Troilus).

Reserve estimates are based on the following assumptions:

- gold price: US \$420 per ounce
- a cut-off grade of 0.45 grams of gold per tonne
- exchange rate: C \$1.20 = US \$1.00.

Underground resource estimates are based on the following assumptions:

- gold price: US \$450 per ounce
- copper price of US \$1.10 per pound
- a cut-off grade of 0.80 grams of gold per tonne
- net smelter return cut-off: US \$13.50 per tonne
- exchange rate: C \$1.20 = US \$1.00.

### **Ok Tedi**

Estimates prepared at December 31, 2005, by Ok Tedi Mining Limited (OTML) according to the *Australasian Code*. The competent persons responsible for the estimate were Karl Smith (Manager Mine Planning Services, OTML) and Michael J. Humphreys (Senior Resource Analyst, OTML). The estimate as reported by OTML has been prepared based on the December 31, 2004 resource model with 2005 production removed and adjustments made to incorporate changes to the life of mine plan.

The estimate at December 31, 2004, has been independently verified by RPA and is the subject of a technical report filed on SEDAR on August 10, 2005 under *National Instrument 43-101*.

Estimates are based on the following assumptions:

- copper price: US \$0.90 per pound
- gold price: US \$350 per ounce

### **Las Cruces**

Reserve estimates prepared at December 31, 2005, under the supervision of Michael Doyle, FIMM, FAIMM (Technical Manager, Cobre Las Cruces).

Reserve estimates are based on the following assumptions:

- copper price: US \$1.10 per pound
- exchange rate: €1.00 = US \$1.20
- open pit cut-off: 1 percent copper (95.3 percent of copper in reserve)
- underground cut-off: 3 percent copper (4.7 percent of copper in reserve).

### **Cerattepe**

Estimates were prepared during the 2004 feasibility study under the joint supervision of:

- Ken Reipas, P.Eng. (SRK Consulting)
  - Michael Michaud, P.Geol. (SRK Consulting)
- and in consultation with:
- Ian Pirie, P.Geol. (Vice-President, Inmet Mining Corporation).

Estimates are based on a copper price of US \$0.90 per pound.

### **Petaquilla**

Estimates were prepared in 1998 by H.A. Simons, an independent engineering firm, before the adoption of *National Instrument 43-101*. We believe the estimates are still relevant and reliable, and use categories that are consistent with the *CIM definitions*.

Estimates include appropriate mining dilution and recovery factors and are based on the following assumptions:

- an open pit mine plan with an overall strip ratio of 1.1 to 1
- net smelter return cut-off: US \$3.10 per tonne of ore
- copper price: US \$1.10 per pound.

### **Izok**

Estimates were prepared in March 1994 by Strathcona Mineral Services Limited, an independent consulting firm, before we adopted *National Instrument 43-101*. We believe the estimates continue to be relevant and reliable and use categories that are consistent with the *CIM definitions*.

Estimates include appropriate mining dilution and recovery factors, and are based on the following assumptions:

- 90 percent of the resource can be mined from an open pit with an overall strip ratio of 3.2 to 1, and the remainder can be mined from underground
- net smelter return cut-off: US\$30 per tonne of ore
- zinc price: US \$0.59 per pound
- copper price: US \$0.90 per pound.

## **Exploration activity**

### **Izok, Nunavut**

We own a 100 percent interest in the Izok property in Nunavut and we completed a feasibility study in 1994.

### ***Property interests and location***

The zinc, copper and lead ore deposits are located approximately 360 kilometres north of Yellowknife, in the west Kitikmeot region of the territory of Nunavut. The project is located in a severe climate, in deep permafrost in an isolated and uninhabited area north of the treeline. The only access to the property is by air from Yellowknife and Edmonton. There are no roads or communities within the project area and we would need to build all of the required infrastructure.

### ***Geology***

The Izok deposit is situated in the Archean age Slave Geological territory of Nunavut. It is a volcanogenic massive sulphide deposit consisting of five separate lenses of sulphides. Host rocks consist of a variety of felsic volcanic rocks (rhyolites), mafic intrusive rocks (gabbro), felsic intrusive rocks (dacite, granite) and minor sediments. The volcanic rocks are strongly altered in response to the hydrothermal processes which produced the sulphides.

Four of the five known sulphide lenses (Central, Northwest, North and South deposits) are ideally suited for open pit mining while the fifth lens (Inukshuk) is a rod shaped body plunging to the east that will require underground mining.

There are three distinct types of massive sulphides and all of them have been subject to metamorphic processes, which have led to the coarsening of the original grain size. Polymetallic sulphides containing zinc, copper and lead are dominant with lesser zinc-rich sulphides (high zinc, some copper, minor lead) and copper-rich sulphides (high copper, some zinc, low lead). These three types occur in distinct zones, which influence the calculation of the reserves and planning of the mine.

### ***The project***

Substantial infrastructure costs associated with the property's remote location have been an impediment to development of this project. In August 2001, the Canadian Federal Department of Indian Affairs and Northern Affairs (now Indian and Northern Affairs Canada) announced that the federal government would provide \$3 million towards funding to determine the feasibility of constructing a road and port in the Kitikmeot region of Nunavut with the government of Nunavut and a private sector contribution of \$3 million.

The proposed road would extend approximately 368 kilometres from the proposed port site on Bathurst Inlet to the Izok property. The feasibility study was completed before the end of the first quarter of 2002 and a project description was filed in April 2002 with the regulatory authorities. The Nunavut Impact Review Board (NIRB) subsequently recommended that the project be sent for environmental review under Part 5 of Article 12 of the Nunavut Land Claims Agreement. The federal Minister for Indian Affairs and Northern Development approved this recommendation in mid-2004, and guidelines for the completion of an environmental impact assessment report were issued by NIRB in November 2004.

On February 14, 2006, the Company announced that it had entered into an agreement to sell the Izok property and related assets to Wolfden Resources Inc. in exchange for 13.5 million common shares of Wolfden issued from treasury. The transaction is expected to close by the end of the first quarter of 2006.

## **Petaquilla, Panama**

### *Ownership interest*

We have a 48 percent equity interest in Minera Petaquilla S.A. (MPSA), a Panamanian corporation that owns the Petaquilla property located in the province of Colon, Republic of Panama. Petaquilla Minerals Ltd. (formerly Adrian Resources Ltd.) (PML) has a 52 percent interest in MPSA. Teck Cominco Limited can earn a 26 percent interest in MPSA from PML by funding a feasibility study on the property and carrying PML's remaining 26 interest through to production.

### **Property interests and location**

The Petaquilla property consists of 136 square kilometres and is located 120 kilometres west of Panama City and 10 kilometres from the Caribbean coast.

MPSA was incorporated in January 1997 under the laws of the Republic of Panama. By virtue of Contract-Law No. 9 of February 26, 1997 promulgated by the Government of Panama (*Ley Petaquilla*), MPSA has a mineral concession to explore and exploit the Petaquilla property.

### **Geology**

Copper, gold and molybdenum porphyry mineralization was discovered in the Petaquilla River region of central Panama during a regional survey by a United Nations Development Program team in 1968. Subsequent exploration outlined the Botija and Petaquilla porphyry deposits, which developed around granodioritic stocks within and peripheral to the Oligocene Petaquilla batholith. Significant epithermal mineralization has been identified in a more distal setting to the batholith, as well as several mineralized prospects and deposits.

### **Project**

In January 1998, Teck Cominco Limited completed a final feasibility study, which evaluated the Petaquilla porphyry deposits at daily ore throughput rates of 90,000 and 120,000 tonnes per day. The study concluded that Petaquilla needs infrastructure to provide power, a port and access which add to the capital cost, which the study projected to be US\$1 billion for a 90,000 tonne per day operation. We therefore cannot anticipate making a decision on production until the capital costs can be more definitively determined.

In addition, we need to clarify Panamanian legislation introduced in August 1999 that puts part of the property within a projected Panama Canal watershed area before we can make a decision on production. Activities within the watershed area are governed by regulations implemented by the Panama Canal Authority (PCA). To date, the PCA has not implemented any regulations affecting the property.

The PCA subsequently announced plans to use the Caimito and Cocolé del Norte river systems, among others, as reservoirs for increased water and power supply for the Canal. These plans contemplated flooding of certain areas to 100 metres above sea level, which would significantly impact any mine development on the property.

As a result, MPSA served notice in August 2000 to the Panamanian Minister of Commerce and Industry that a force majeure situation exists under *Ley Petaquilla* that extends the period for meeting MPSA's obligations to preserve title to the concession, which was set to expire in May 2006, and the term of the concession on the property itself. The Minister indicated in response at that time that he did not believe that a force majeure situation exists. In January 2003, MPSA advised the General Director of Mineral Resources of the Ministry of Commerce and Industry (*MIC*) of MPSA's decision to not incur further exploration costs until the uncertainty of the PCA decision on the use of the expanded watershed of the Panama Canal is resolved. Inmet understands that in subsequent discussions, the Ministry has indicated that it would continue to deny the force majeure claim of MPSA and to date MPSA has not pursued the matter although it is entitled to submit the issue to arbitration.

In June 2005, Inmet, PML and Teck Cominco Limited entered into an agreement for a phased development of the Petaquilla project, subject to approval by the Government of Panama. The first phase comprises PML assuming full risk to develop the Molejon gold deposit, situated within the Petaquilla property, as a stand-alone gold mine. The phased mine development and associated petition to notify *MICI* of the transfer of the portion of the Petaquilla concession comprising the Molejon gold deposit to a subsidiary of PML were subsequently submitted to *MICI*. Concurrently, a request that the new development plan be approved on the basis that it would be considered as the start of the development of the copper project and related infrastructure under Ley Petaquilla was also submitted. In December 2005, *MICI* issued a resolution declaring that for the purposes of *Ley Petaquilla*, the start of development of the Molejon gold deposit would constitute the start of the development of the copper project and related infrastructure and if completed within the required time, would also constitute compliance with MPSA's obligations under *Ley Petaquilla* to commence construction of the copper project.

The agreement concerning the Molejon gold deposit amongst Inmet, PML and Teck Cominco Limited, however, does not confirm a decision by the shareholders of MPSA to proceed with a larger scale development of the Petaquilla project.

**Other exploration**

We continue to carry out exploration activity that is:

- oriented towards base metals
- focused geographically on areas that are located close to our wholly-owned operations and Sweden.

We spent \$6.4 million on exploration spending in 2004, compared to \$4.4 million in 2004.

## **Risk factors in our business**

There are risks in every business and the mining industry has its own inherent risks. Few properties that are explored are ultimately developed into producing mines, often for reasons that cannot be anticipated in advance.

Even after mining operations begin, there may be risks and hazards such as environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding. Any of these developments could damage or destroy mineral properties or the environment, or result in personal injuries, production delays or interruptions, higher production costs, financial losses, legal liability and adverse government action.

We maintain insurance coverage that we believe is reasonable to cover risks we typically face in the mining industry. There is a risk, however, that like any other mining company, we may not be able to obtain insurance to cover all risks, for example certain kinds of liabilities for environmental pollution.

Because the life of a mine is limited by its mineral reserves, we continually look for opportunities to replace and expand our reserves by exploring existing properties and looking for potential acquisitions of new properties or companies that own new properties. There is no assurance, however, that we will be successful in our efforts.

### ***Metal prices and exchange rates***

Our earnings are derived from the sale of the metals in concentrates we produce. Our earnings also fluctuate with changes in the market prices for the refined metals. These prices are affected by many factors beyond our control, including:

- global supply and demand
- regional supply and demand
- political and economic conditions
- exchange rates relative to the US dollar
- inflation expectations
- speculative activities
- production costs in major producing regions.

We do not hedge the prices of the base metals that we produce. Any decrease in the market price of one or more of these metals could materially adversely affect the value and amount of our reserves, our business, financial condition, liquidity and results of operations.

To manage the risks associated with hedging, we have a metal price hedging policy that, among other restrictions:

- limits the amount of production we can hedge to 50 percent of recoverable reserves
- restricts the amount of hedging that we can transact with any one counterparty. Any counterparty we deal with must be highly rated.

Because of the high cost nature of our Troilus mine, we use hedging instruments such as forward sales contracts to manage changes in the gold price. Ok Tedi also uses forward sales contracts for about 10 percent of its annual production for the next three years. Although we enter into hedging transactions, there can be no assurance that we will not be adversely affected by fluctuating metal prices.

Almost all of the revenue we earn is in US dollars, but because we operate in countries around the world, our costs are in several different currencies. We are most affected by changes in the various exchange rates between the Canadian dollar, the US dollar and the euro.

We use option contracts to hedge against changes in the US dollar. While we use these contracts to limit our exposure to currency rate changes, there is still the potential for any changes in currency exchange rates to have an adverse effect on us.

### ***Reserve and production estimates***

The mineral reserves we have reported as of December 31, 2005 are estimated quantities of proven and probable mineral reserves that can be mined legally and economically, and processed by extracting their mineral content under current conditions and conditions anticipated in the future. We determine the amount of our mineral reserves according to the regulatory requirements that apply and established mining standards.

The volume and grade of reserves actually recovered and rates of production from our current mineral reserves may be less than geological measurements of the reserves. Fluctuations in the market price of copper, gold, zinc and other metals, fluctuations in exchange rates and changes in operating and capital costs may cause certain mineral reserves to be uneconomic to mine in the future.

Short-term operating factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different ore grades, may also prompt us to modify mineral reserves or cause our operations to be unprofitable in any particular fiscal period. There is no assurance that the indicated amount of ore will be recovered or that it will be recovered at prices that we have assumed in determining the mineral reserves.

Mineral reserve estimates may be uncertain because they are based on limited sampling and not the entire ore body. As we gain more knowledge and understanding of the ore body, the reserve estimates may change significantly, either positively or negatively.

Inmet prepares estimates of future production for that are based on, among other things:

- reserve estimates
- assumptions about ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics
- estimated rates and costs for mining and processing.

Inmet's actual production may vary from estimates for a variety of reasons, including:

- actual ore mined varying from estimates of grade
- tonnage
- dilution
- metallurgical and other characteristics
- short-term operating factors relating to the mineral reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades
- risks and hazards associated with mining
- natural phenomena, such as inclement weather conditions, floods and earthquakes
- unexpected labour shortages or strikes.

There is no assurance that we will achieve our production estimates. Failing to achieve production estimates could have a material adverse effect on our future cash flows, earnings, results of operations and financial condition.

### ***Environmental Risk***

Our operations and investments are subject to environmental laws and regulations in Canada and other countries. This controls the mining and exploration of mineral properties and the possible effects that these activities could have on the environment. We require permits from a variety of regulatory authorities for many aspects of mine operation and reclamation.

If new legislation and regulations are introduced in the future, they could lead to additional costs, capital expenditures, restrictions and delays at existing operations or developing properties, and it is impossible to predict the extent of any of these possible changes.

When we receive environmental permits, including the approval of reclamation plans, we must comply with standards that have been established and existing laws and regulations. This can increase or lower costs or cause delays or both, depending on the activity and how rigorously permitting authorities enforce regulations.

There is also the potential for laws and regulations to change which would create significant uncertainty around the actual environmental and reclamation costs that we could incur in the future. Environmental and regulatory review has also become a long, complex and uncertain process which can delay the opening of a new mine or extend decommissioning activities at closed mines. Regulatory developments or changes in the assessment of conditions at closed sites can vary substantially, positively or negatively, from prior estimates of reclamation liabilities.

### ***Competitive risk***

Our primary focus is on copper and gold, and zinc to a lesser extent. We sell these products at world market prices that we do not and cannot influence. However, we reduce our exposure somewhat to cyclical swings in individual metal prices and foreign currencies because of the diverse geographical locations of our operations and the different products they produce.

Our competitive position depends on our ability to control operating costs. The cost structure of each operation is based on the location, grade and nature of the ore body, and the management skills at each site.

Our competitive position also depends on our ability to expand our mineral reserves through exploration and acquisitions of other mining companies or properties. We may experience strong competition from other mining companies as we look for acquisition opportunities.

### ***Energy and power supply and prices***

Our operations, by their nature, use large amounts of power and energy. Our ability to obtain a secure supply of energy and power at a reasonable cost depends on many factors, including:

- global and regional supply and demand
- political and economic conditions
- problems that can affect local production
- delivery and relevant regulatory regimes.

Even a temporary interruption of power could adversely affect an operation. An increase in power and energy prices could negatively affect our business, financial condition, liquidity and results of operations.

### ***Access to markets***

Regulatory and voluntary initiatives that restrict or eliminate the use of certain metals or specific products or applications can affect the supply of and demand for metals as well as lower metal prices.

### ***Political risk***

We have operations in Papua New Guinea and Turkey but do not regard the nature of these countries as a significant deterrent to our operations or investments.

Our operations and investments outside Canada could be adversely affected by war, civil disturbances and activities of foreign governments that limit or disrupt markets, restrict the movement of funds or supplies, or restrict contractual rights or take property without fair compensation.

These operations and investments could also be negatively affected by changes in Canadian laws and regulations relating to foreign trade, investment and taxation. From time to time, we have entered

into joint venture arrangements with local partners and international financing agencies to mitigate political risk. We do not currently have political risk insurance.

### ***Legal risk***

Because of the nature of our business, we are subject to numerous regulatory investigations, claims, lawsuits and other proceedings in the ordinary course of business. We cannot predict the outcome of these legal proceedings with any certainty. There is also no assurance that these matters will not have a material adverse effect on us.

## **Promoting a safe and healthy environment**

Our success in developing a sustainable business also depends on how successful we are at making our operations safe and rewarding places to work and on how well we manage the economic, environmental and social impacts we have on the communities we operate in.

We expect that all of our employees will:

- ensure a safe and healthy working environment and demonstrate safe working practices
- demonstrate social and environmental responsibility in what they do
- consult and listen to others
- treat others fairly and with respect.

These values apply to all of our interactions with other employees, our shareholders, the communities where we operate and all other stakeholders.

### ***Health and safety***

We are strongly committed to the safety of everyone in our operations. We expect our employees and contractors to work safely and to respond immediately to correct any unsafe behaviour. We invest considerable time and resources to develop risk-based behaviour among our employees and management tools that foster a culture that promotes safety.

Our safety and health management systems cover:

- occupational health
- reporting and investigation any accidents or incidents
- safety meetings
- workplace inspections
- job safety analysis
- personal protective equipment
- training.

We also benchmark our safety performance against statistics of the Mines and Aggregates Safety and Health Association, an Ontario workplace organization for safe mining.

### ***Environment***

Mining, by its nature, has an impact on the environment. Our environmental management systems cover:

- reporting and investigation of any incidents
- tailings management
- environmental protection and management
- emergency preparedness and response
- closure plans and closure cost estimates.

Our biggest concern is how we manage mine waste, specifically waste rock and tailings, to mitigate the potential effects on the environment.

We have adopted the principles contained in the Mining Association of Canada (MAC) guides *Management of Tailings Facilities* and *Developing an Operations, Maintenance and Surveillance Manual for Tailing and Waste Management Facilities* to ensure we manage tailings responsibly at our wholly-owned and subsidiary operations.

We continue to make improvements to our systems. Senior management's review of our 2004 tailings performance led to a decision to expand our existing tailings management policy at wholly-owned sites to include all mine waste. This change means that the standards that currently apply to tailings management will also apply to waste rock and other forms of mine waste.

#### ***Closed properties and reclamation***

Çayeli has an expected mine life until 2016. When the mine is closed, Çayeli's infrastructure will be dismantled and any remaining waste rock will be placed underground in the mine. Our current estimate of the closure cost is US\$6.6 million.

Pyhäsalmi has an expected mine life until 2016. When the mine is closed, the major activity will be rehabilitating the surface area, including covering and re-vegetating the tailings impoundments. Our current estimate of the closure cost is €1.2 million.

Troilus has an expected mine life until 2009. When the mine is closed, the major activities will be re-vegetating the waste rock dumps and tailings impoundment and stabilizing the open pit. Our current estimate of the closure cost is \$4.1 million.

Ok Tedi has an expected mine life until 2013. When the mine is closed, the major activities will be removal of the mine infrastructure. The current closure cost estimate is US \$100 million.

We also have a number of reclamation projects involving closed mining properties, including:

- Copper Range in the Upper Peninsula, Michigan, USA
- Winston Lake, near Schreiber, Ontario, Canada
- Sturgeon Lake, near Ignace, Ontario, Canada
- Norbec, in northern Quebec, Canada
- Samatosum, near Barriere, British Columbia, Canada.

Reclamation spending in 2005 was \$3 million, compared to \$3.8 million in 2004. In 2006, we expect reclamation spending to be approximately \$4 million. Reclamation activities at Inmet's closed properties progressed according to plan during 2005. Most of the discreet reclamation projects at the closed properties have been completed with long-term treatment of mine-impacted water being performed at several sites.

#### ***Community affairs***

Ok Tedi is the only operation where we have had formal engagement and dialogue plans in place, and this has been substantial, long-term community engagement. We have had informal engagement and dialogue with the communities at our three wholly-owned operations and plan to implement formal plans at all wholly-owned operations over the next few years.

All of our active operations have formal procedures for addressing concerns and complaints.

We have developed and implemented formal engagement and dialogue plans at Samatosum and Winston Lake, two of our closed properties. We handle any concerns and complaints that are raised at our closed properties under active management on a case-by-case basis.

## Our directors and officers

### Directors

Each of the following directors holds office until the our next annual meeting of shareholders, or until a successor is appointed.

<p>Dr. Yilmaz Argüden, Ph.D. Istanbul, Turkey</p> <p>Independent Director since 2005</p> <p>Member of</p> <ul style="list-style-type: none"><li>• Compensation committee</li><li>• Corporate governance and nominating committee</li></ul> <p>Nil common shares 1,814 deferred share units</p>	<p>Dr. Argüden is Chairman of ARGE Consulting A.S., a management consulting firm based in Istanbul, Turkey. He is also an Adjunct Professor of Business Strategy at the Bosphorus University and the Masters of Business Administration programme at Koç University.</p> <p>He is the former Chairman of Erdemir, the largest Turkish steel company, and is also a board member of various Anadolu, Borusan, and Koç Group companies in Turkey.</p> <p>Dr. Argüden is also Chairman of the Canadian Turkish Business Council</p>
<p>David R. Beatty, O.B.E. <sup>(1)</sup> Toronto, Ontario</p> <p>Independent Lead director Director since 2003</p> <p>Member of</p> <ul style="list-style-type: none"><li>• Compensation committee</li><li>• Corporate governance and nominating committee (chair)</li></ul> <p>10,000 common shares 2,487 deferred share units</p>	<p>Mr. Beatty is Professor of Strategic Management and director of the Clarkson Centre for Business Ethics and Board Effectiveness at the University of Toronto's Rotman School of Management. He is also the Managing Director of the Canadian Coalition for Good Governance.</p> <p>He is also Honorary Consul to Canada for the Government of Papua New Guinea.</p> <p>Mr. Beatty is also a director of:</p> <ul style="list-style-type: none"><li>• Bank of Montreal</li><li>• First Service Corporation</li><li>• Garbell Holdings Limited</li><li>• Goldcorp Inc.</li><li>• Husky Injection Molding Systems Ltd.</li></ul>
<p>John C. Eby Toronto, Ontario</p> <p>Independent Director since 2005</p> <p>Member of</p> <ul style="list-style-type: none"><li>• Audit committee</li><li>• Safety, environmental and community affairs committee</li></ul> <p>3,000 common shares 907 deferred share units</p>	<p>Mr. Eby is Vice-Chairman, Scotia Capital Inc. where he is responsible for overseeing the firm's mining practice.</p> <p>He has over 29 years of experience with Scotiabank and its affiliates, covering corporate banking, capital markets and investment banking in a variety of sectors.</p> <p>Mr. Eby is also a director of Jaguar Nickel Inc.</p>

<p>Paul E. Gagné Senneville, Quebec</p> <p>Independent Director since 1996</p> <p>Member of</p> <ul style="list-style-type: none"> <li>• Audit committee (chair)</li> <li>• Safety, environmental and community affairs committee (chair)</li> </ul> <p>5,300 common shares 27,772 deferred share units</p>	<p>Mr. Gagné is a corporate director. From 1998 to 2002, he was a consultant to Kruger Inc. and prior to that, he was Chief Executive Officer of Avenor Inc., a pulp, paper and wood products company.</p> <p>Mr. Gagné is a Canadian chartered accountant.</p> <p>Mr. Gagné is also a director of:</p> <ul style="list-style-type: none"> <li>• CAE Inc.</li> <li>• Fraser Papers Inc.</li> <li>• Textron Inc.</li> <li>• Wajax Income Fund</li> </ul>
<p>W. Warren Holmes Timmins, Ontario</p> <p>Independent Director since 2004</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>• Safety, environmental and community affairs committee</li> </ul> <p>3,000 common shares 2,487 deferred share units</p>	<p>Mr. Holmes is President and Chief Executive Officer and a director of Nuinsco Resources Limited. He is the past President of the Canadian Institute of Mining, Metallurgy and Petroleum.</p> <p>Prior to July 2002, he was Senior Vice-President, Canadian Mining Operations at Falconbridge Limited.</p> <p>Mr. Holmes is a professional engineer.</p> <p>He is also a director of:</p> <ul style="list-style-type: none"> <li>• Canadian Arrow Mines Limited</li> <li>• Jaguar Nickel Inc.</li> <li>• Twin Mining Corporation</li> <li>• Wallbridge Mining Company Limited</li> <li>• Norcast Income Fund</li> </ul>
<p>Oyvind Hushovd Kristiansand, Norway</p> <p>Independent Director since 2002</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>• Audit committee</li> <li>• Safety, environmental and community affairs committee</li> </ul> <p>Nil common shares 5,895 deferred share units</p>	<p>Mr. Hushovd is a corporate director. Prior to February 2006 he was the non-executive Chairman, and prior to July 2005, the Chief Executive Officer, of Gabriel Resources Ltd.</p> <p>From 1996 to 2002, he was President and Chief Executive Officer of Falconbridge Limited and prior to that held senior positions within that company.</p> <p>Mr. Hushovd is also a director of:</p> <ul style="list-style-type: none"> <li>• Cameco Corporation</li> <li>• Gabriel Resources Ltd.</li> <li>• LionOre Mining International Ltd.</li> <li>• Western Oil Sands Inc.</li> </ul>
<p>Jyrki Juusela, Ph.D. Helsinki, Finland</p> <p>Independent Director since 2002</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>• Compensation committee</li> <li>• Corporate governance and nominating committee</li> </ul> <p>Nil common shares 5,513 deferred share units</p>	<p>Dr. Juusela is a corporate director. He retired as President and Chief Executive Officer of Outokumpu Oyj in December 2004.</p> <p>Dr. Juusela received his Doctorate of Technology from the Helsinki University of Technology.</p> <p>He is also a director of:</p> <ul style="list-style-type: none"> <li>• Sampo Plc</li> <li>• Varma Mutual Pension Insurance Company</li> <li>• Technology Industries Finland</li> <li>• Association of Finnish Steel and Metal Producers</li> </ul>

<p>Thomas E. Mara New York, USA</p> <p>Independent Director since August 2005</p> <p>Nil common shares 320 deferred share units</p>	<p>Mr. Mara is Executive Vice-President and Treasurer of Leucadia National Corporation.</p> <p>He is also Chief Executive Officer and a director of The FINOVA Group Inc.</p>
<p>Richard A. Ross Nobleton, Ontario</p> <p>Director since 1999</p> <p>30,000 common shares Nil deferred share units</p>	<p>Mr. Ross is Inmet's Chairman and Chief Executive Officer. He is a Canadian chartered accountant.</p> <p>Mr. Ross is also:</p> <ul style="list-style-type: none"> <li>• Chairman of the Mining Association of Canada</li> <li>• President of the Canadian-Turkish Business Council</li> <li>• a director of St. Joseph's Health Centre, Toronto</li> </ul>
<p>James M. Tory, Q.C. Toronto, Ontario</p> <p>Independent Director since 1987</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>• Audit committee</li> <li>• Compensation committee (chair)</li> <li>• Corporate governance and nominating committee</li> </ul> <p>68,125 common shares 26,426 deferred share units</p>	<p>Mr. Tory is a corporate director. Prior to 2006, he was Chair Emeritus of Torgs LLP and prior to that, a partner in the firm.</p> <p>He is also a director of Canadian General Tower Ltd. and Cognos Inc.</p> <p>Mr. Tory is also the chair and a trustee of Canadian Real Estate Investment Trust</p>

(1) Mr. Beatty was a director of Thistle Mining Inc. (Thistle) on December 21, 2004 when Thistle announced its plans to restructure under the *Companies' Creditors Arrangement Act* (CCAA). Thistle completed its restructuring on June 30, 2005. Its common shares have been suspended from trading on the Toronto Stock Exchange since December 31, 2004 due to the restructuring. Mr. Beatty is no longer a director of Thistle.

## Officers

<b>Name &amp; municipality of residence</b>	<b>Office</b>	<b>Principal occupation in previous five years</b>
<p>Steven Astritis Toronto, Ontario</p> <p>• holds 12,500 shares</p>	<p>Vice-President, General Counsel and Secretary</p>	<ul style="list-style-type: none"> <li>• Vice-President, General Counsel and Secretary</li> <li>• prior to July 2001, Associate General Counsel and Assistant Secretary, Noranda Inc.</li> </ul>
<p>Frank Balint Toronto, Ontario</p> <p>• holds 14,500 shares</p>	<p>Vice-President, Corporate Development</p>	<ul style="list-style-type: none"> <li>• Vice-President, Corporate Development</li> </ul>
<p>Craig Ford Oakville, Ontario</p> <p>• holds 2,000 shares</p>	<p>Vice-President, Safety, Environmental and Community Affairs</p>	<ul style="list-style-type: none"> <li>• Vice-President, Safety, Environmental and Community Affairs</li> <li>• prior to January 2005, Director, Safety, Environmental and Community Affairs</li> </ul>
<p>Wendy Kaufman Oakville, Ontario</p> <p>• holds 3,000 shares</p>	<p>Vice-President, Controller</p>	<ul style="list-style-type: none"> <li>• Vice-President, Controller</li> <li>• prior to February 2005, Controller</li> </ul>

<b>Name &amp; municipality of residence</b>	<b>Office</b>	<b>Principal occupation in previous five years</b>
Oliver R.E. Merton Oakville, Ontario • holds 13,100 shares	Vice-President, Corporate Finance & Commercial	<ul style="list-style-type: none"> <li>• Vice-President, Corporate Finance &amp; Commercial</li> <li>• Prior to November 2005, Vice-President, Commercial</li> </ul>
Ian Pirie Oakville, Ontario • holds 2,700 shares	Vice-President, Projects	<ul style="list-style-type: none"> <li>• Vice-President, Projects</li> <li>• prior to May, 2005, Director, Corporate Development</li> </ul>
Richard Ross Nobleton, Ontario • holds 30,000 shares	Chairman and Chief Executive Officer	<ul style="list-style-type: none"> <li>• Chairman and Chief Executive Officer</li> <li>• prior to February 2005, President and Chief Executive Officer</li> </ul>
James E. Slattery Oakville Ontario • holds no shares	Vice-President, Finance and Chief Financial Officer	<ul style="list-style-type: none"> <li>• Vice-President, Finance and Chief Financial Officer</li> <li>• prior to June 2005, Chief Financial Officer, Canadian General – Tower Limited</li> <li>• prior to May 2003, Vice President and Chief Financial Officer, Westcast Industries Inc.</li> <li>• prior to December 2002, President, Progressive Molded Products Ltd.</li> </ul>
Stuart Tevendale Whitby, Ontario • holds no shares	Director, Operations Finance	<ul style="list-style-type: none"> <li>• Director, Operations Finance since September 2005</li> <li>• prior to September 2005, Treasurer</li> <li>• prior to August 2003, Commercial and Finance Manager, ÇB1</li> </ul>
Jochen Tilk Toronto, Ontario • holds 35,000 shares	President and Chief Operating Officer	<ul style="list-style-type: none"> <li>• President and Chief Operating Officer prior to February 2005, Executive Vice-President and Chief Operating Officer</li> <li>• prior to August 2003, Executive Vice-President</li> <li>• prior to August 2002, Vice-President, Operations</li> </ul>

Our directors and officers as a group beneficially own, directly or indirectly, or exercise control or direction over, less than one percent of the Company's issued and outstanding common shares. Mr. Mara is an officer of Leucadia which, through its wholly-owned subsidiary, MK Resources owns approximately 11.6 percent of the Company's issued and outstanding common shares.

## About the audit committee

The audit committee consists of three directors:

- Paul E. Gagné (chair). Mr. Gagné is a Canadian chartered accountant and is a former Chief Executive Officer of Avenor Inc., a pulp, paper and wood products company.
- John C. Eby. Mr. Eby is Vice-Chairman, Scotia Capital Inc. where he is in charge of the firm's mining practice.
- Oyvind Hushovd. Mr. Hushovd is a former Chairman and Chief Executive Officer of Gabriel Resources Ltd. From 1996 to 2002, he was President and Chief Executive Officer of Falconbridge Limited and prior to that held senior positions within that company, including Chief Financial Officer.
- James M. Tory. Mr. Tory is a corporate director. During a lengthy legal career with Torys LLP, he focused on general corporate law, acting for many of Canada's leading corporations, banks and investment dealers.

Each member is independent and financially literate according to the terms of Multilateral Instrument 52-110, *Audit committees*.

The committee's main function is to assist the board by overseeing:

- the quality, integrity and appropriateness of our financial reporting
- the quality, integrity and performance of our systems of internal control for finance, accounting and ethics
- the quality, performance and independence of our external auditors
- our compliance with legal and regulatory requirements.

In order to fulfill its mandate, the audit committee receives regular reports on:

- significant accounting transactions and financial matters that required professional judgment in arriving at the financial statements
- financial risk management
- exploration and capital spending in relation to approved budgets
- our system of internal controls.

The audit committee and the corporate governance and nominating committee review this committee's charter once a year to make sure it meets regulatory requirements and reflects best practices.

### *Financial reporting*

The audit committee is also responsible for:

- reviewing our financial reporting procedures, internal controls and risk management practices as they relate to financial reporting
- reviewing the terms of engagement and performance of the external auditors
- reviewing our interim financial statements and annual financial statements, management's discussion and analysis of financial condition and results, and the annual report before they are reviewed and approved by the board.

The audit committee meets regularly with our external auditors without management present. It also has direct access to management in order to review specific issues.

### *External auditors*

KPMG LLP (KPMG) is Inmet's current auditor. From time to time, KPMG and/or its affiliates also provide advisory and other non-audit services to Inmet and some of its subsidiaries.

These professional services break down into different types of fees:

- *audit fees* for services for reviewing the annual financial statements and notes and for conducting the annual audit
- *audit-related fees* for services relating to KPMG's role as auditor. The fees for fiscal 2005 and 2004 relate to the audit of our pension plan and in 2004, for due diligence as well.
- *tax fees* for services relating to tax compliance, tax advice and tax planning, including expatriate tax services.

The table below shows the fees that were paid to KPMG for the fiscal years ended December 31, 2005 and 2004.

<b>Fee (thousands)</b>	<b>2005</b>	<b>2004</b>
Audit fees	\$ 431	\$ 364
Audit-related fees	15	135
Tax fees	94	299
<b>Total</b>	<b>\$ 540</b>	<b>\$ 798</b>

#### *Auditor independence*

The audit committee has reviewed this list of services and determined that these services were in keeping with KPMG maintaining auditor independence.

The audit committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and has direct access to the external auditors, our financial management, any other of our officers or employees and all of our books and records. Any member of the committee may request that it retains accounting, legal or other consultants or experts it deems necessary to perform its duties, and these expenses would be paid by Inmet.

#### *Approving services*

The audit committee has a policy that requires any services to be performed by the external auditors to be pre-approved.

The policy covers specific terms that the audit committee must pre-approve:

- audit and non-audit services by the external auditors and the range of fees for specific services annually
- services that were not part of the annual process
- services that were previously pre-approved but their fees are higher than the pre-approved range of fees.

As part of the annual process for pre-approving services and fees, management must submit a report each year to the audit committee describing in detail the total services it expects the external auditors to provide the following fiscal year. The report must also include a range of fees for each of the three categories of fees described above.

The audit committee pre-approves services and fees by taking into account the ratio of fees for audit and audit-related services to non-audit services. It has delegated limited authority to the committee chair to pre-approve audit, audit-related and non-audit services and fees. Any services and fees that he approves must be reported to and ratified by the audit committee at its next meeting.

Inmet also has a policy of not engaging external auditors to provide services relating to internal audit and design and implementation of financial information systems.

The committee met five times in 2005.

## **Management's discussion and analysis**

The information that appears on pages 8 to 76 of our 2005 annual report under *Management's discussion and analysis* is incorporated by reference in this AIF under *Management's discussion and analysis*.

You can access our 2005 annual report on our website at [www.inmetmining.com](http://www.inmetmining.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Other information**

### **Documents you can request**

You can ask us for the following documents at no charge:

- our most recent annual report, which includes our consolidated annual financial statements, auditors' report and management's discussion and analysis (MD&A)
- interim consolidated financial statements and MD&A
- our most recent annual information form
- our most recent management proxy circular.

The management proxy circular contains information about the nominated directors, compensation of our directors and executive officers, loans to our directors and executive officers, principal holders of our securities and securities authorized for issuance under equity compensation plans.

If you held shares of the Company on March 21, 2006, we have mailed you a copy of our 2005 annual report containing the annual consolidated financial statements, the auditors' report and MD&A, together with the 2006 notice of the annual meeting of shareholders and 2006 management proxy circular.

You can write to the Vice-President, General Counsel and Secretary, Inmet Mining Corporation, 330 Bay Street, Suite 1000, Toronto, Ontario, Canada M5H 2S8 to request a copy of our documents. You can also call us at 1.416.361.6400 or send a fax to 1.416.368.4692.

### **Accessing documents online**

These documents are also available on our website at [www.inmetmining.com](http://www.inmetmining.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Schedule 1**

### **AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF INMET MINING CORPORATION**

#### **CHARTER**

##### **I. PURPOSE**

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to: (1) the quality, integrity and appropriateness of the Corporation's financial reporting; (2) the quality, integrity and performance of the Corporation's systems of internal controls over financial reporting and disclosure controls and procedures including financing, accounting and ethics; (3) the quality, performance and independence of the Corporation's external auditors; and (4) the Corporation's compliance with legal and regulatory requirements. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures and practices at all levels. The Audit Committee shall review management's assessment of the financial reporting of, and principal risks relating to the financial condition, results of operations and cash flows of reporting of the Corporation.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and will have direct access to the independent auditors, any officer or employee of the Corporation, and all books and records of the Corporation. At the request of any Audit Committee member, the Audit Committee may retain, at the Corporation's expense, accounting, legal or other consultants or experts it deems necessary in the performance of its duties.

##### **II. COMPOSITION**

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be unrelated, and free from any direct or indirect material relationship with the Corporation which could, in the view of the Board of Directors, be reasonably expected to interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall meet the requirements of the *Canada Business Corporations Act* and other applicable laws. Each member shall be financially literate. For the purposes of this Charter, "financially literate" has the meaning attributed to it under Multilateral Instrument 52-110 "Audit Committees" as amended from time to time.

The members of the Committee shall be appointed annually by the Board of Directors and will hold office until the next annual meeting of shareholders of the Corporation. If an Audit Committee Chair is not designated by the Board, the members of the Committee may designate a Chair by majority vote of the Committee membership.

##### **III. MEETINGS**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. In addition to private sessions amongst members only, as part of its job to foster open communication, the Committee shall also meet privately with management and the external auditors in separate executive sessions to discuss any matters that the Committee or any of these groups believes should be discussed privately.

The Audit Committee Chair will approve an agenda in advance of each meeting and will cause minutes of meetings to be maintained. The Chairman will regularly report to the Board of Directors on the results of the Committee's deliberations. The Committee may establish procedures and practices for its meetings, not inconsistent with this Charter, as it sees fit.

#### **IV. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties the Audit Committee shall:

##### **Review Procedures**

1. Review and reassess the adequacy of this Charter at least annually and make recommendations to the Board of Directors for approval.
2. Review the Corporation's annual audited financial statements and the notes thereto, management's discussion and analysis of financial condition and results of operations, and related documents prior to filing or distribution and make recommendations to the Board with respect to their approval. Review should include a discussion with management and the external auditors of items 15, 16, 17, 20, 26 and 29 below.
3. Review with management and the independent auditors the Corporation's interim financial statements and interim management's discussion and analysis prior to filing or release of earnings. Review should include a discussion with management and the independent auditors of the items 17, 20, 26 and 29 below.
4. Review the draft Annual Report and Annual Information Form of the Corporation and make recommendations to the Board with respect to their approval.
5. Review with management prior to distribution, press releases or other disclosures containing material financial information that has not been previously reviewed in accordance with this Charter.
6. Periodically and in any event at least annually review the process that management has in place to fulfill the role of the internal audit function.
7. Ensure that management has in place a process to ensure adherence to the Corporation's Policy on Hiring Employees from the Company's External Auditor and Company Management Exchanges.
8. Review, at least quarterly or more frequently as circumstances dictate, capital and exploration expenditures in relation to approved budgets. Where any such expenditure constitutes a subsequent variance to previously approved capital expenditures or contracts that exceeds or will exceed the variance thresholds under the Corporation's Authorization Policy, the Committee will review such variance, and if thought appropriate, recommend such variance to the Board of Directors for approval.
9. Review the Corporation's annual audited pension financial statements and the notes thereto, prior to filing or distribution and make recommendations to the Board with respect to their approval.

##### **Independent Auditors**

10. The external auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the shareholders. The Audit Committee shall review the independence and performance of the external auditors and annually: recommend to the Board of Directors that the Board of Directors propose to the Corporation's shareholders the re-appointment of the external auditors; or approve any discharge of the external auditors when circumstances warrant. Subject to the continuing evolution of regulatory initiatives, the Committee shall, at least annually, request a report by the external auditors describing: its internal quality-control procedure; any material issues raised by the most recent internal quality-control review of the external auditors or by any inquiry or investigation by governmental or professional authorities, including the Canadian Public Accountability Board, within the preceding five years respecting one or more independent audits carried out by the audit firm, and any steps taken to deal with any such issues; and all relationships between the independent auditors and the Corporation.

11. On a periodic basis and at least annually, the Committee should review and discuss with the external auditors all significant relationships the auditors have with the Corporation that could impair the external auditors' independence. The Committee should identify and review the types of non-audit services or mandates that it considers incompatible with the principles underlying the independence of the external auditors. It should approve and provide for disclosure of any material non-audit services provided to the Corporation by the external auditors.
12. Review and approve the external auditors' audit plan and engagement letter. Discuss and approve audit scope, staffing, locations, reliance upon management, and internal audit and general audit approach.
13. Approve the audit fees and other significant compensation to be paid to the external auditors.
14. Periodically consult with the external auditors out of the presence of management about internal controls and the fullness and accuracy of the Corporation's financial statements.
15. Prior to releasing the year-end earnings, discuss the results of the audit with the external auditors and discuss certain matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
16. Following completion of the annual audit, review separately with each of management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information, or significant disagreements with management and the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies.
17. Review any significant disagreement among management and the external auditors in connection with the preparation of the interim financial statements of the Corporation.
18. Pre-approve all engagements for permitted non-audit services provided by the external auditors to the Corporation and any consolidated subsidiary and to this effect may establish policies and procedures for the engagement of the external auditors to provide to the Corporation and any consolidated subsidiary permitted non-audit services, which shall include approval in advance by the Committee of all audit/review and permitted non-audit services to be provided by the external auditor to the Corporation and any consolidated subsidiary.
19. Delegate, if deemed appropriate, authority to the Chairman of the Committee to grant pre-approvals of audit and permitted non-audit services, provided that any such approvals shall be presented to the Committee at its next scheduled meeting.

#### **Financial Reporting Processes/ Process Improvement**

20. In consultation with the external auditors and management, review the quality, integrity and appropriateness of the Corporation's accounting policies and financial reporting processes and internal controls, including a review of the independent auditors' written comments to management regarding these matters, if any, and management's responses to comments, both internal and external.
21. Oversee the Corporation's processes for identifying, assessing and managing financial risks and receive reports concerning and review the Corporation's major financial risk exposures and the steps the Corporation has taken to monitor and control such exposures.

22. Review the principal risks associated with financial reporting of and the financial risks relating to the businesses of the Corporation and of its subsidiaries, associates and joint ventures, as they may affect the Corporation's financial reporting and application of this Charter.
23. Establish and maintain regular and separate systems of reporting to the Audit Committee by each of management and the external auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
24. Periodically review and discuss with management and the external auditors the significance of emerging regulatory and accounting standards and initiatives for the financial reporting of the Corporation.
25. Review with the external auditors and management the extent to which proposed changes or improvements in financial or accounting practices as implemented by the Corporation have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)

### **Internal Controls and Legal Compliance**

26. Periodically review and discuss with management and the external auditors, monitor and when appropriate, report to the Board of Directors on the Corporation's internal controls.
27. Review and assess any reports prepared or caused to be prepared by management regarding internal controls and discuss with management its response, including the status of previous reviews.
28. Review and discuss with the Chief Executive Officer and Chief Financial Officer of the Corporation and other management the process for the certifications to be provided in the Corporation's public disclosure documents.
29. Establish and maintain procedures, for the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, including procedures for confidential, anonymous submission by employees regarding questionable accounting or auditing matters.
30. Establish or cause to be established procedures for the receipt, retention and treatment of complaint received by the Corporation of concerns regarding questionable accounting or audit matters.
31. Receive and review, and where appropriate, investigate, reports of complaints relating to accounting, internal accounting controls or audit matters.
32. Receive and review reports from management concerning adherence to the Corporation's Corporate Disclosure Policy.
33. On at least a quarterly basis, review with the Corporation's General Counsel any legal matters that could have a significant impact on the Corporation's financial statements, the Corporation's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
34. Review management's reports on directors' and officers' related party transactions and potential conflicts of interest, if any.
35. Review at least annually management's report on executive travel and other expenses.
36. Review at least annually management's report on the Corporation's source deduction and other remittances required under applicable tax legislation.

### **Other Audit Committee Responsibilities**

37. Annually assess the effectiveness of the Committee against its Charter and report the results of the assessment to the Board.
38. Review disclosure of a summary of this Charter to shareholders.
39. Perform any other activities consistent with this Charter, the Corporation's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.
40. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
41. Periodically review financial and accounting personnel succession planning within the Corporation and its major subsidiaries.

\* \* \* \* \*

*The Committee's role, as described in this Charter, is an important part of monitoring the quality and integrity of the Corporation's financial reporting. This role does not replace the responsibility of the Corporation's management for the preparation and presentation of financial statements in accordance with generally accepted accounting principles, for significant accounting estimates and judgements, or for ensuring compliance by the Corporation with applicable laws relating to financial reporting. Nor does the role of the Committee detract from the responsibility of the auditors to plan and conduct an audit in accordance with Canadian generally accepted auditing standards or from the fact that the independent auditors are ultimately accountable to the Board of Directors and the Committee, as representatives of the shareholders of the Corporation.*

*This Charter establishes guidelines, rather than inflexible rules, and the Committee will adopt such additional procedures and standards from time to time as it deems appropriate to help fulfill its responsibilities. Nothing in this Charter is intended to expand applicable standards of liability under statutory or regulatory requirements for directors of the Corporation.*

*Approved as of February 14, 2006.*