

Inmet Mining Corporation

Annual information form

March 21, 2007



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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 21, 2007, unless otherwise indicated. All currency amounts are in Canadian dollars, unless otherwise indicated.

Information incorporated by reference

The information that appears on pages 14 to 80 of our 2006 annual report under *Management's discussion and analysis* is incorporated by reference in this AIF under *Management's discussion and analysis* on page 40.

Information in our consolidated financial statements for the year ended as at December 31, 2006 has been audited by KPMG LLP and is incorporated by reference in this AIF. These consolidated financial statements are included in our 2006 annual report, and have been filed on SEDAR at www.sedar.com.

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 28). 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.

	Jurisdiction	Ownership (%)
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

CLC is the owner of the Las Cruces copper project located near Seville, Spain that is currently under development. The Company also owns a 48 percent interest in Minera Petaquilla, S.A., the owner of the concession for the Petaquilla copper property, a pre-development project located in the Republic of Panama.

We sell all of our copper as copper concentrate and sell it 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. Gold doré produced at our Troilus mine is refined and the refined gold is sold in the spot market. We sell approximately 70 percent of the gold produced at Troilus as a metal credit in copper concentrate.

Markets

The most significant factor affecting our financial performance is the price of the metals we produce and sell. This has an impact on our sales revenues, smelter processing charges and certain variable costs.

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, in particular hedge funds.

Copper prices increased significantly in 2006 reaching a high of US \$3.99 per pound in May, mainly because of increasing demand supported by global economic growth, particularly China and insufficient supply. The U.S. economy consumed less copper in 2006, but strong growth in Asia and Europe kept demand for copper high. Zinc prices were higher for many of the same reasons, but were also affected by declining inventory levels. Gold prices increased mainly because of the weak US dollar.

Our primary focus is copper, but we also produce zinc and gold and as a by-product, pyrite. This diversifies our revenue stream so we are not solely dependent on demand for a single metal.

Market dynamics

We sell concentrate mainly to smelters, which process it into refined metal. Smelter processing charges are made up of the contracted price for treatment and refining charges, and costs to cover metal losses in the smelting process (referred to as content losses). In 2006 most contracts also included a price participation clause under which the mines and smelters participate to some extent in the upward and downward movement in metal prices.

We sell most of our concentrate under long-term contracts. We also sell in the spot market where the economic return is typically more volatile. Contract terms dealing with processing fees are normally negotiated once a year and depend on forecasted supply of concentrate and smelter demand. Industry leaders set global benchmarks for contract terms and conditions. Smaller producers, including Inmet, generally follow these benchmarks with modifications that reflect their specific circumstances.

Contract terms for copper treatment and refining costs were slightly higher in 2006 compared to 2005, but because of higher copper prices and price participation fees, overall smelter processing charges were significantly higher. We expect treatment and refining charges in 2007 to be over 30 percent lower than they were in 2006 mainly because price participation charges should be significantly lower as recent negotiations with smelters have resulted in more favourable contract terms.

Contract zinc treatment charges were down by 17 percent this year compared to 2005. Overall smelter processing charges for zinc were higher because of price participation fees. In 2007, we expect base treatment charges for zinc to slightly increase over 2006, but because we also expect lower price participation overall smelter processing charges will be about a 30 percent lower.

When production at Las Cruces begins in 2008, we will produce cathode copper, bypassing the smelting and refining processes. Cathode copper generally receives a premium above market prices, and can be sold to buyers closer to the operation, thereby reducing freight costs.

Most of our concentrates are transported to smelters by ship or train. Shipping costs are affected by demand for cargo space, new vessel construction and oil prices. The supply of new vessels has been on the rise across all product categories. This, combined with logistical discipline and less congestion, lowered our freight costs in 2006 compared to 2005. We expect freight costs in 2007 to be similar to this year.

The table below shows our gross sales by metal for the years ending December 31, 2006 and 2005.

Gross sales⁽¹⁾ (thousands)		
Metal	2006	2005
Copper	\$638,200	\$388,500
Zinc	266,100	143,800
Gold	141,400	137,400
Other	42,200	39,000
Total	\$1,087,900	\$708,700

⁽¹⁾ 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, 2006, Inmet had approximately 3,100 employees (including employees of Ok Tedi).

Our strategic priorities

Our strategy is to grow responsibly as a base metal mining company, providing superior returns to shareholders. Our strategy has three growth components:

- 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 financially to support future growth.

Three-year history of the general development of the business

Las Cruces acquisition

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, LLC (MK Resources), a wholly-owned subsidiary of Leucadia National Corporation (Leucadia). Leucadia retains an indirect 30 percent participating interest in CLC. In the fourth quarter of 2005, we completed a US \$240 million credit facility and €69 million bridge facility for development of the project. The first drawdown was made under the credit facility during the second quarter of 2006.

In May 2006, we announced an increase in the planned production capacity of the Las Cruces project from 66,000 tonnes per year to 72,000 tonnes per year. We also updated our capital and operating costs for the project following the completion of basic engineering in April. For more information, see *About our business — Our mining operations — Las Cruces* on page 21.

Çayeli acquisition

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 12.

Sale of Izok property

In April 2006, we sold our interest in the Izok development property in Nunavut, Canada to Wolfden Resources Inc. (Wolfden). As consideration for the sale, Wolfden issued 13.5 million common shares to Inmet, representing approximately 18 percent of its issued and outstanding common shares following completion of the transaction. On August 18, 2006, Wolfden completed an arrangement under the *Business Corporations Act* (Ontario) involving a new company, Premier Gold Mines Limited

(Premier). Pursuant to the arrangement, each shareholder of Wolfden received one new common share of Wolfden and 0.70 of a common share of Premier for each common share of Wolfden held by such shareholder. As a result of the arrangement, we own 13.5 million common shares of Wolfden and 9.45 million common shares of Premier.

On March 16, 2007, the Company entered into a lock-up agreement with Zinifex Limited (Zinifex) under which it agreed to tender its Wolfden common shares to Zinifex's offer to acquire all of the outstanding common shares of Wolfden at a cash price of \$3.81 per share.

Dividend policy

In November 2005, our board of directors approved the adoption of a dividend policy that pays annual dividends of \$0.20 per share to common shareholders. Under the policy, dividends of \$0.10 per common share are paid on a semi-annual basis on June 15 and December 15 of each year. See *Our dividend policy* at page 8.

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.

Petaquilla project cost update

In January 2007, we announced, jointly with Petaquilla Minerals Ltd., Petaquilla Copper Ltd. and Teck Cominco Limited, the results of a cost update to the 1998 feasibility study completed by AMEC Americas Limited for the Petaquilla copper project in Panama. The companies are in the process of formulating a strategy for advancing the project.

Our capital structure

Share capital

The Company's articles of amalgamation 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 48,277,933 issued and outstanding common shares. No preferred shares or subordinate voting participating shares have been issued.

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 Company's board of directors can declare dividends at its discretion. In November 2005, the 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, semi-annual dividends of \$0.10 per common share are paid on June 15 and December 15 of each year.

We believe this dividend 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 10).

Ratings

Credit ratings address the ability 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 2006.

Month	High	Low	Volume traded
January	34.75	28.83	4,183,692
February	37.36	30.73	6,723,103
March	36.66	28.66	7,100,686
April	43.15	35.00	5,681,932
May	48.90	34.52	8,857,490
June	42.23	32.25	1,072,157

Month	High	Low	Volume traded
July	44.75	38.50	6,025,853
August	49.55	43.06	3,871,956
September	49.95	40.13	6,252,112
October	56.65	39.19	5,456,984
November	64.05	49.35	7,780,070
December	68.99	57.94	4,889,204

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

Shareholders will be asked at our 2007 annual and special shareholders meeting to reconfirm the amended and restated shareholder rights plan (rights plan) dated as of March 1, 2007 between Inmet and CIBC Mellon Trust Company.

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 and respond to the merits of competing take-over bids.

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.

Amended and restated Las Cruces project shareholders agreement

The Company and certain of its subsidiaries, together with Leucadia and MK 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 offer its interest in CLC to the Company or to sell its interest to a third party, that is 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 in CLC to the Company if Leucadia holds less than a 15 percent interest.

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.

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, 2006 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, 2006, 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, 2006, 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.

ÇBI's 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 45 percent interest of ÇBI held by 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 2006, ÇBI produced 30,400 tonnes of copper and 38,700 tonnes of zinc in concentrates at a cash cost per pound of copper of US \$0.27. Copper recoveries averaged 84 percent and zinc recoveries averaged 73 percent in 2006. ÇBI achieved total mill throughput of 933,000 tonnes, an increase of 12 percent over 2005. While copper grades, metal recoveries and tonnes of copper produced in 2006 were higher than in 2005, zinc grades and recoveries were lower as the mine deferred mining certain zinc-rich stopes into 2007 and experienced challenges in recovering zinc from a complex ore mined in the far north zone of the ore body.

ÇBI's production depends on its ability to mine the budgeted number of underground mining stopes. In recent years, we have 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. Ongoing effort has also been directed towards eliminating bottlenecks and delays in the mine.

In August 2006, Çayeli commissioned its new ore handling system with new skips, a feed conveyor and the first of three new ore passes that connect the lower mine with a new loading station, to reduce ramp traffic and shorter overall truck haulage distances. Initial problems with blockages in the new ore pass were resolved although flow problems with sticky ore remain. Design improvements will be incorporated into the second ore pass to be completed in 2007 to resolve this issue.

We expect the mine infrastructure project to be completed by the end of the second quarter 2007 with the final commissioning of the remaining two ore passes and the completion of a permanent pumping station on the 570 level. A cemented waste rock raise and chute will allow for the disposal of mine waste as a quality cemented backfill and reduce the need for more expensive cemented backfill. We expect almost two-thirds of total 2007 production to come from production stopes with the balance from ore development.

Çayeli has completed its long-term mine plan reviews and as a result now expects to increase ore milled to 1.1 million tonnes in each of 2007 and 2008, and by 2009 to 1.2 million tonnes of ore per year.

The three-year labour agreement at Çayeli expired in May 2006. We successfully negotiated a new three-year collective agreement in December. Basic terms of the new agreement include a four percent increase plus inflation adjustment of six percent. Workers will receive annual inflation adjustments thereafter.

In 2006, Çayeli spent US \$13.2 million on capital projects, including the shaft development project and development of the footwall ramp, ore passes, ventilation raise, lateral development and other shaft-related work. There were also capital expenditures to replace mine mobile equipment. In 2007, Çayeli expects to spend US \$4.6 million to complete the shaft project. It also plans to spend US \$5.2 million on mine development and the footwall ramp, US \$1.3 million for a spare hoist motor and US \$4.1 million in sustaining capital.

Ground conditions at Çayeli have improved but they continue to pose a challenge. 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. They have also been monitoring and modeling ground events to use the information gathered as a predictive tool.

Approximately 80 percent of Çayeli's copper and zinc concentrates are sold under long-term contracts to a number of international smelters and traders. 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.

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.

As at the end of 2006, ÇBI had approximately 460 employees.

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 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.

ABMI started technical feasibility work and environmental studies on the Cerattepe project in late 2003 and continued it 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.

In the third quarter of 2005, local non-governmental organizations, based in Artvin, made two related applications to the local administrative court to cancel the operating licenses relating to the Cerattepe property. In August 2006, the local administrative court ruled in favour of the applicants and determined that the relevant government authorities incorrectly exempted the operating licences from environmental assessment regulations. The Ministry of Energy and Natural Resources has appealed the local administrative court decision to the Danistay (Turkish Administrative Supreme Court) and we have joined the appeal as intervener. The Ministry is also seeking an interim ruling from the Danistay that would negate the effect of the lower court decision until the Danistay renders its decision on the appeal. A decision on the appeal is expected by or shortly after the end of 2007 while a decision on the application for the interim ruling could be rendered during the second quarter of 2007. In light of the lower court decision, we had to suspend on-site work.

Because of the delay caused by the court proceedings, we do not expect production start-up for Cerattepe to begin in 2008, as we had originally projected. Assuming an interim ruling is obtained that negates the local administrative court decision during the appeal period, we would be able to recommence on-site work to position Cerattepe to begin production in 2009. This on-site work would begin in the second half of 2007 and include rehabilitation of the existing ramp towards the ore body. It would be accompanied by construction of temporary waste management facilities and a water treatment facility as well as continuing engineering on key infrastructure such as a power line and aerial tramway.

Notwithstanding the lower court decision, we were able to continue to move the project ahead in 2006 by advancing engineering work and by making progress on environmental impact assessments for the aerial tramway. We also received land use leases and permits to construct on the aerial tramway land (to be used as an ore transfer station) and have begun construction there.

Subject to the outcome of the current legal proceedings, we expect to spend US \$13 million on the development of Cerattepe in 2007. In addition, there are option payments to be paid in two instalments totalling US \$9 million for the purchase of Cerattepe. The next option payment of US \$4.5

million was extended by mutual agreement with the vendor from September 30, 2006 to the earlier of March 31, 2008, or upon 30 days after the receipt of the Danistay's decision on the appeal. If ÇBI does not pay the instalment, it must transfer the shares of ABMI back to the vendor

At the end of 2007, 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 a significant factor impacting the project and delays in obtaining operating and construction permits could hinder the project schedule. ABMI has been working diligently with the regulatory agencies to obtain all necessary permits. An active campaign of community dialogue and engagement is also underway to solidify support for the project.

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

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 had 210 employees at December 31, 2006.

Pyhäsalmi mined 13 stopes in 2006, achieving an annual production rate of 1.4 million tonnes, which was slightly lower than in 2005. 13,000 tonnes of copper and 35,700 tonnes of zinc were produced in 2006, compared to 15,000 tonnes and 40,500 tonnes, respectively, in 2005, with the difference being because of lower grades mined. These lower grades for copper and zinc were the result of timing in reaching certain targeted stopes in the ore body. We expect to recover these grades in the first half of 2007.

Pyrite production of 512,000 tonnes in 2006 was above the 461,000 tonnes produced in 2005. Pyhäsalmi's average cash cost per pound of copper was negative US \$2.74 because of significant metal credits.

Pyhäsalmi has applied for an environmental permit under the environmental regulatory framework introduced in Finland under European Union directives. 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 expect the new environmental permit to be issued in 2007.

Pyhäsalmi should mine approximately 1.4 million tonnes in 2007 from 14 stopes ranging in size from 70,000 tonnes to 230,000 tonnes per stope, yielding on average 100,000 tonnes per stope — essentially the same as 2006. We expect copper grades to be lower than the average grade by approximately 10 percent, and zinc grades to be approximately 30 percent higher than the average grade. This difference is the result of a change in the mining sequence of a high grade zinc stope that will be mined in 2007 rather than in 2006 as originally planned.

In 2006, Pyhäsalmi spent €3.9 million on mill improvements that included replacing the zinc pressure filter, pyrite concentrate conveyor and mobile equipment and for sustaining capital. In 2007, Pyhäsalmi expects to spend €7 million to develop an ore pass, replace mine mobile equipment, mill equipment such as a copper rougher and scavenger circuits, and for other 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. Stope sizes and ground support requirements are evaluated on a case-by-case basis to address local ground conditions and the stability of the stopes. In addition, to reduce the exposure of workers to the underground areas, Pyhäsalmi introduced a fully automated loading system in 2005 and expanded it to all levels in 2006.

Pyhäsalmi is addressing concerns of ore pass stability by developing a new ore pass to replace the number one ore pass system. The number two ore pass system continues to operate reliably.

Pyrite contributed seven percent to the mine's revenues in 2006. One customer has historically purchased approximately 80 percent of Pyhäsalmi's pyrite production. The remaining production is sold to a number of European companies. Pyhäsalmi is also working to develop new markets outside Europe for its pyrite.

Exploration work at Pyhäsalmi in 2006 will focus on regional surface and generative exploration in close proximity to the mine site. We expect to spend \$2.1 million on exploration at Pyhäsalmi in 2007. Most of the spending will be on regional exploration, with the balance allocated to exploration at the mine and to greenfield exploration.

Closed properties and reclamation

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

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. 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, a gold-silver alloy 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

In 2006, Troilus focused on maximizing the mill's grinding throughput. This required changes to the SAG mill screens and the discharge grate, which in turn limited the pump capacity and cyclone performance, limiting the capacity of the primary ball mill. The mine will continue to make incremental changes to the cyclone/pump configuration and the SAG mill liners to improve overall throughput in 2007.

In 2006, Troilus mined and milled 6.5 million tonnes of ore, the same as in 2005. Gold production decreased to 147,900 ounces in 2006 from 159,500 ounces in 2005 because of

lower grades. Troilus' cash cost per ounce of gold was US \$365 in 2006, compared to US \$324 per ounce in 2005. Both gold and copper production were lower than 2005 because of lower throughput and lower grades.

As of January 2007, all copper concentrate production from Troilus is sold to Xstrata Canada Ltd. Contracts for the refining of gold doré are negotiated on an annual basis. We sell the refined gold in the open market.

Cash costs in 2006 were higher than in 2005 mainly because of higher prices for consumables such as grinding media, fuel, and explosives. Maintenance costs were higher in 2005 than in 2006 because of repairs to the SAG mill pinion.

In April, 2006, we began a process to consider strategic alternatives for Troilus, including a possible sale or business combination with a third party. As part of the process, we proceeded with a feasibility study to assess the economic viability of an underground mine project. We received the final feasibility study in February 2007 and subsequently, determined not to proceed with the project.

The mine is reviewing its operating structure to reduce operating costs in light of its current remaining life of two years. Troilus should complete the J4 pit in November of 2007 and plans to mine from only the 87 pit for the remainder of the mine's life. The average gold grade estimated for 2007 is 0.88 grams per tonne, which is only marginally higher than 2006.

Troilus spent \$2.2 million in 2006 on capital for a tailings dam lift and a pumping station. Because of the mine's short remaining life, capital expenditures in 2007 should be minimal and limited to sustaining capital. Troilus expects to spend \$3 million for copper cleaner cells in the mill, a continuation of the tailings dam lift and embankment enforcements and for other sustaining capital expenditures.

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 250 employees.

Closed properties and reclamation

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

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.

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 provides compensation to affected communities over the remaining life of the mine. Current payments under the CMCAs approximate US \$4 million annually (Company's share – US \$1 million).

OTML began its mid-term review of the CMCAs during the second quarter of 2006. The review is part of the current CMCAs standard process, and is designed to address any material changes that may have taken place since 2002 when the initial agreements were signed. Negotiations are currently underway and OTML expects to complete negotiations in the second quarter of 2007.

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 up to 80,000 tonnes of ore and 152,000 tonnes of overburden are mined each day.

In 2006, mill throughput was back up to an average of 75,600 tonnes per day because ore mined was softer than the ore mined in 2005. Copper production was similar to that of 2005. Gold production was lower than last year because of lower grades. In 2006, Ok Tedi produced 194,400 tonnes of copper and 550,100 ounces of gold at a cash cost of US \$0.80 per pound of copper. Ok Tedi expects copper production in 2007 to be similar to 2006; gold production is expected to be lower because of lower gold grades.

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. Ok Tedi has taken the necessary steps to minimize the impact on the operation, by keeping concentrate stockpiles at the lowest possible levels and increasing its inventory of diesel fuel and other consumables. This should allow the mine to operate for 45 days without interruption during a complete drought, and for 90 days during a drought where there is intermittent rainfall.

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 periods of dry weather. Then if they are exposed to water, they may form dilute sulphuric acid.

In February 2002, a new environmental regime and long-term planning process for mine closure was put into effect for Ok Tedi. As part of that 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.

While dredging the sediments in the Ok Tedi River has reduced the river bed aggradation and overbank flooding, 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 has also launched a program to fully inform the affected communities about the recent findings of the mine's anticipated environmental impact.

Over the next few years, Ok Tedi plans to 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.

As part of its objective to improve its environmental performance, during the second quarter of 2006, Ok Tedi began to implement a comprehensive mine waste management program to substantially reduce the risk of future ARD from the mine waste. This new program, together with ongoing dredging and the addition of limestone to the waste rock, should significantly mitigate the environmental impact of Ok Tedi's operations. The existing dredging operation, which was introduced in 1998, removes approximately 10 million cubic metres of mine-derived sediments a year from the Ok Tedi River, and these are stored in permanent containment areas. Dredging has also reduced vegetation die-back along the Fly and Ok Tedi River systems. Limestone is added to the waste rock to provide the river system with neutralizing capacity to prevent acid drainage from forming. The new program will significantly reduce the amount of sulphides in the mill tailings that are currently discharged into the Ok Tedi River system. Using conventional flotation technology, this

process will reduce sulphides in the tailings stream to less than one percent sulphur, and produce a sulphide concentrate containing 45 percent sulphur. The sulphide concentrate will then be transported through a 130 kilometre pipeline and stored in specially prepared containment areas in the dredge sands. The containment areas will remain under permanently saturated conditions, preventing the sulphides in the concentrate from oxidizing and forming acid drainage. At the end of the mine's life, the containment areas will be covered with an engineered layer of non-acid-forming sand to ensure the safe storage of the sulphide concentrates and the dredge sands.

The capital cost of the new waste management program, which includes the sulphide flotation removal plant, the sulphide concentrate pipeline and the containment areas, is estimated to be US \$150 million (Company's share – US \$27 million). Incremental annual operating costs should be approximately US \$0.05 per pound of copper. Construction is expected to commence in 2007 with start-up of the sulphide removal plant scheduled during the first half of 2008. The required change notice to Ok Tedi's operating permit has been approved by the relevant authorities. In 2006, Ok Tedi placed orders for items with long lead-times for the sulphide removal plant and awarded contracts to various engineering firms for the flotation upgrade, tailings pipeline and tailings storage project

Water in the Ok Tedi pit currently drains freely to the south. Starting in 2008, the water will no longer drain freely from the pit, 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 is in the process of completing a US \$2.4 million drilling program and feasibility on the drainage tunnel option. Initial results indicate that it would cost more than US \$50 million to install a drainage tunnel, so the pumping system is still a possibility. Ok Tedi expects to make a decision on how to proceed by the middle of 2007.

Ok Tedi is also upgrading its in-pit crushing station to gain access to the higher grade ore body along the north-east pit wall.

Ok Tedi spent US \$54 million in 2006 mainly on the upgrade of the in-pit crusher, work on the mine waste management program, the pit drainage study, mobile equipment and other sustaining capital. This was less than expected because some of the costs related to the in-pit crusher upgrade have been moved to 2007.

Ok Tedi plans to spend US \$140 million in 2007 on the mine waste management program, US \$10 million to complete the upgrade for the in-pit crusher, US \$20 million for the capital required for pit drainage, and the rest for mine equipment and other sustaining capital.

Ok Tedi currently has 2,050 employees.

Legal proceedings

OTML, its shareholders, including the Company, and a subsidiary of BHP Billiton Limited that formerly provided management services to the mine, have been named as defendants in a legal proceeding filed with the Papua New Guinea National Court of Justice. The proceeding concerns a claim for damages for environmental harm allegedly caused by the operation of the Ok Tedi mine. The aggregate amount of damages sought is not specified in the claim. The plaintiffs are members of the Ningerum and West Ningerum clans, some of whom are participants in the CMCA process. OTML and the Company have each filed with the Court notice of their intention to defend against the action. While particulars of the claim have yet to be delivered by the plaintiffs, both OTML and the Company believe the claim is without merit and that they each have good defences to the action. In addition to substantive defences, OTML is a limited liability corporation. Accordingly the Company, in its capacity as a holder of fully paid shares, is not exposed directly or derivatively to liabilities that may attach to OTML itself.

The Fly River Provincial Government has filed a reference with the Papua New Guinea Supreme Court challenging the constitutional validity of certain aspects of the Mining (Ok Tedi Mine

Continuation (Ninth Supplemental) Agreement) Act 2001 (the Act) passed by the National Parliament. Among other things, that Act gives the force of law to the CMCAs under which local communities affected by the Ok Tedi mine have consented to its continued operation. OTML has intervened in the proceedings. OTML and the Government of Papua New Guinea have brought motions asking for particulars in order to enable them to respond to the reference. This motion has not yet been heard. In addition, it is not clear when certain procedural aspects of the reference will be addressed and when (or if) the reference will be ultimately heard by the Court.

Closed properties and reclamation

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.

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 Andalucia 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 originally 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 price 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.

Las Cruces is one of the highest grade unmined copper deposits. Its excellent location provides access to all necessary infrastructure to develop a state-of-the-art mining project adhering to the highest environmental standards. High grades and modern leach extraction technology should assist Las Cruces in becoming one of the lowest cost copper producers in the world. All of the required national, regional and municipal permits are in hand with the exception of a small number of municipal construction licences and rights-of-way. All of the land required to begin production has been acquired.

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 Andalucia. The Mining Concession was granted in August 2003, following the issuance of a positive Declaration of Environmental Impact by the Andalucian 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 applicable permits have been obtained.

Geology

The Las Cruces deposit occurs near the eastern end of the Iberian Pyrite Belt, a 250-kilometre long and 40-kilometre 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 kilometres 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.

We adjusted the original mine plan from the May 2004 feasibility study for the project to include some underground mining, which will be accessible beginning in 2012 from a ramp in the pit. The underground mine should provide significant benefits because it will reduce waste material by approximately 21 million tonnes, and gives us access to approximately 40,000 additional tonnes of contained copper. The adjusted mine plan calls for 738,000 tonnes of ore to be extracted from underground, mainly by drift and fill methods, over a period of four years from 2013 to 2016.

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 and its quality 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 marl will be put back into the open pit to seal the aquifer. The marl will also be used to encapsulate all of the tailings and waste products from the mine.

Pre-stripping commenced in March 2006 and by the end of the year, one-third or nine million cubic metres of the overburden had been removed. We will continue to remove overburden in 2007, and expect to reach ore in the fourth quarter. We expect Las Cruces to mine between 0.6 and 1.3 million tonnes of ore and up to 30 million tonnes of waste each year at an overall strip ratio of 12.7:1. While this ratio is unusually high, it is offset by the very high ore grade. During years 5 through 9 of production (2012 – 2016), we plan to supplement ore from a small underground operation which will mine approximately 740,000 tonnes of high grade ore not accessible from the open pit.

The mine will produce copper cathode on site, using 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 will be 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 72,000 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 completed basic engineering in April 2006, and a project budget of €380 million was approved at that time to complete the engineering design, procurement, construction and commissioning of the mine and a hydrometallurgical plant capable of annually producing 72,000 tonnes of copper as cathodes. A subsidiary of SNC Lavalin Group Inc. has been appointed as lead engineer for the engineering, procurement and construction management of the plant and associated infrastructure. Outokumpu Technology Oy has been contracted to provide grinding, leaching, solvent extraction and electrowinning technology.

By the end of December 2006, we had completed 55 percent of the detailed engineering and made commitments to procure €124 million of equipment and services. Total expenditures in 2006 were €65 million. Physical construction of facilities commenced in November 2006 with the building of temporary offices. Civil works on the plant itself began in January 2007.

In December 2005, CLC 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 9). It completed an initial drawdown under the facility in June 2006. The central and regional governments in Spain have agreed to provide subsidies amounting to approximately €53 million. We will receive advanced subsidy payments totalling €5.5 million by the end of 2007. The balance of subsidy payments is not expected until after construction is complete and CLC has fulfilled conditions related to investment and job creation. The Company and Leucadia, are responsible for the remaining funding for the project, estimated at €155 million, on a 70 percent/30 percent basis. This is being advanced on a pro rata basis over the construction period.

We estimate that the Las Cruces project will have the following capital and operating costs:

- total capital to build Las Cruces: €380 million
- interest, reclamation, bonding requirements and other financing costs: €46 million
- sustaining capital over the life of the mine: €24 million
- cash costs of €0.39 per pound of copper
- operating costs: €0.39 per pound of copper, which is within the lower quartile of global producers

Las Cruces is a development project, and while we are confident that the project will add value as planned, there is still significant uncertainty. Risks associated with detailed engineering, mine and processing facilities construction, inflationary cost increases, permitting, legal proceedings and relations with local communities will continue to exist and could adversely affect the project. 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 are vigorously defending against them. Two of the proceedings were dismissed in 2006. The other two proceedings remain outstanding.

Mineral reserves and resources

The table below shows our mineral reserves and resources estimated as at December 31, 2006.

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		
Mineral reserves												
Çayeli	Proven	4,550	3.9	5.8	0.6	46	-	175	265	85	6,725	100%
	Probable	6,530	3.6	5.8	0.5	52	-	234	378	113	10,922	100%
	Total	11,080	3.7	5.8	0.6	50	-	409	643	198	17,647	100%
Pyhäsalmi	Proven	14,680	1.2	2.5	-	-	42	170	360	-	-	100%
	Probable	-	-	-	-	-	-	-	-	-	-	100%
	Total	14,680	1.2	2.5	-	-	42	170	360	-	-	100%
Troilus	Proven	5,950	0.1	-	0.6	1.1	-	4	-	109	-	100%
	Probable	15,210	0.1	-	0.9	1.1	-	15	-	455	-	100%
	Total	21,160	0.1	-	0.8	1.1	-	19	-	564	-	100%
Ok Tedi	Proven	157,000	0.9	-	1.1	-	-	1,382	-	5,755	-	18%
	Probable	21,400	0.8	-	1.3	-	-	163	-	888	-	18%
	Total	178,400	0.9	-	1.2	-	-	1,545	-	6,643	-	18%
Inmet's share								876	1,003	1,958	17,647	

Mineral Resources

Çayeli	Measured	1,800	3.1	3.0	0.5	21	-	56	54	27	1,215	100%
	Indicated	2,363	3.2	2.8	0.5	23	-	75	67	36	1,748	100%
	Inferred	980	3.3	6.6	-	-	-	32	65	-	-	100%
Pyhäsalmi	Measured	12,410	0.7	0.7	-	-	43	87	87	-	-	100%
Troilus	Indicated	29,400	0.2	-	1.5	-	-	47	-	1,400	-	100%
	Inferred	7,900	0.1	-	1.2	-	-	11	-	300	-	100%
Inmet's share								265	208	1,463	2,963	
(not including inferred resources)												

Development and pre-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		
Mineral reserves												
Las Cruces	Proven	9,790	6.4	-	-	-	-	629	-	-	-	70%
	Probable	7,835	6.0	-	-	-	-	469	-	-	-	70%
	Total	17,625	6.2	-	-	-	-	1,098	-	-	-	70%
Cerattepe	Probable	1,560	8.8	1.1	1.4	33	-	138	17	68	1,655	100%
Inmet's share								907	17	68	1,655	
Mineral resources												
Petaquilla	Indicated	1,096,500	0.5	-	0.1	-	-	5,263	-	3,173	-	48%
Inmet's share								2,526	-	1,523	-	

Notes to mineral reserves and resources table

Mineral reserves and resources are shown on a 100 percent basis for each property. Mineral resources are exclusive of mineral reserves.

The mineral reserve and resource estimates are prepared in accordance with the *CIM Definition Standards On Mineral Resources and Mineral Reserves*, adopted by CIM Council on November 14, 2004, and the *CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines*, adopted by CIM Council on November 23, 2003, using geostatistical and/or classical methods, plus economic and mining parameters appropriate to each project. You will find the definitions and guidelines at www.cim.org.

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 for Reporting of Identified Mineral and Ore Reserves* (the Australasian Code).

There are no known environmental, permitting, legal, taxation, political or other relevant issues that would materially affect the estimates of the mineral reserves except in the case of Cerattepe.

Mineral resources do not have demonstrated economic viability.

Çayeli

Resource and reserve estimates prepared at December 31, 2006 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: US \$35 per tonne.

Pyhäsalmi

Estimates prepared at December 31, 2006 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
- zinc price: US \$0.55 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, 2006 under the supervision of Eric Lamontagne, P.Eng. (Chief Engineer, Troilus).

Reserve estimates are based on the following assumptions:

- gold price: US \$450 per ounce
- cut-off grade: 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: US \$1.10 per pound
- cut-off grade: 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, 2006 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 Ian Sheppard (Executive Manager Technical Services, OTML).

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, 2006 under the supervision of Michael Doyle, FIMM, FAIMM (Technical Manager, Cobres 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).

Ceratepe

Estimates were prepared during a 2004 feasibility study and are valid as of December 31, 2006 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. (Project Manager, Ceratepe).

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 continue to be relevant and reliable, and use categories that are consistent with the CIM definitions.

Estimates include an assessment for mining dilution and recovery 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.

Pre-development and exploration activity

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 (Teck Cominco) 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 Sea 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 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.

In April 2006, Inmet, PML and Teck Cominco engaged Amec Americas Limited (formerly H.A. Simons) to update the 1998 feasibility study by re-estimating the capital and operating costs for the project and to review opportunities for optimization. The cost update of the feasibility study was completed in January 2007. Inmet, PML and Teck Cominco are in the process of formulating a strategy to advance the project. Additional engineering, environmental, permitting and financing work needs to be completed before a development decision can be made.

In June 2005, Inmet, PML and Teck Cominco 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 the Panamanian Ministry of Commerce and Industry (*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, however, does not confirm a decision by the shareholders of MPSA to proceed with a larger scale development of the Petaquilla project.

Other exploration

In the last five years, the Company and its subsidiaries have focused on areas where we already operate, to maximize the value of our existing investments by extending the life of a mine or increasing mill output. At Çayeli and Pyhäsalmi, our exploration team has targeted volcanogenic massive sulphide (VMS) deposits within trucking distance of our mills. These deposits tend to be smaller and provide good growth opportunities in the vicinity of existing operations but have limited potential to become a large scale producer.

We have set an objective to look for opportunities that have the potential of adding 100,000 tonnes of annual copper production to our portfolio.

We have been gradually directing our activities into new areas where we believe the probability of achieving this growth objective is highest. This has meant revisiting both the type of copper deposit we look for, and the geographical areas we explore in. We believe that copper-gold and copper-molybdenum porphyries, sedimentary-hosted copper, skarns and iron oxide copper gold (IOCG) deposits are most likely to help us meet our growth objectives.

We have ranked countries that have the potential to host these types of deposits by geological favourability, quality of their existing database, political risk, infrastructure, and level of competition and chosen to focus on Peru, Sweden, Finland, Mexico, northern Chile and the porphyry belts of Turkey for the near term. Our exploration efforts include the following:

- In Sweden, we continue to explore in the Bergslagen district which has demonstrated skarn and IOCG potential.
- In the Lapland region of Finland, we have assessed a number of properties for the potential of hosting IOCG type and sedimentary-hosted copper deposits and expect to carry out drilling to test a number of geophysical targets within favourable geology.
- In Mexico, we will commence work in the porphyry district of Sonora.
- In Peru, two properties featuring large-scale polymetallic skarn mineralization will be covered with geophysical surveys in anticipation of a late 2007 drill program.

In 2006, the Company and its subsidiaries spent \$9.8 million on exploration and corporate development, compared to \$8.1 million in 2005.

We expect that the Company and its subsidiaries will spend about the same amount in 2007 on corporate development and exploration as we did in 2006.

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 our 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 gold forward sales contracts for about 10 percent of its annual production for the next two 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 may 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, 2006 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 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.

Regulatory 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 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 depends in part 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

We 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 2006 was \$2.5 million, compared to \$3 million in 2005. In 2007, we expect reclamation spending to be approximately \$3.9 million. Reclamation activities at Inmet's closed properties progressed according to plan during 2006. Most of the individual reclamation projects at

the closed properties have been completed with long-term treatment of mine-impacted water being performed at several sites.

Community affairs

The Company and its subsidiaries are in the process of developing and implementing formal community engagement and dialogue plans at operations and closed properties. Ok Tedi has formal engagement and dialogue plans with a record of substantial, long-term community engagement. All of our active operations have formal procedures for addressing concerns and complaints.

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. Yılmaz Argüden, Ph.D. Age: 49 Istanbul, Turkey</p> <p>Independent Director since 2005</p> <p>Member of</p> <ul style="list-style-type: none">• Compensation committee• Corporate governance and nominating committee <p>Nil common shares 3,002 deferred share units</p>	<p>Dr. Argüden is Chairman of ARGE Consulting A.S., a management consulting firm based in Istanbul, Turkey. He is a senior advisor and Representative of Rothschild investment bank in Turkey. He is also an Adjunct Professor of Business Strategy at the Bosphorus University and the Masters of Business Administration programme at Koç University. He is the former Chairman of Erdemir, the largest Turkish steel company, and was also a board member of various Anadolu, Borusan, and Vestel Group companies in Turkey. Dr. Argüden was selected as a “Global Leader of Tomorrow” by the World Economic Forum in 1999. He received his Ph.D. in policy analysis from the RAND Graduate Institute. Dr. Argüden is also Chairman of the Turkish Canadian Business Council.</p> <p>Mr. Argüden is also a director of:</p> <ul style="list-style-type: none">• Coca-Cola İçecek• Vestel Electronics Corp.• Vestel White Goods Trade and Industry A.Ş.• Yazicilar Holding A.Ş.
<p>David R. Beatty, O.B.E. ⁽¹⁾ Age: 65 Toronto, Ontario</p> <p>Independent Lead director Director since 2003</p> <p>Member of</p> <ul style="list-style-type: none">• Compensation committee• Corporate governance and nominating committee (chair) <p>4,000 common shares 3,678 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">• Bank of Montreal• FirstService Corporation• Husky Injection Molding Systems Ltd.
<p>John C. Eby Age: 55 Toronto, Ontario</p> <p>Independent Director since 2005</p> <p>Member of</p> <ul style="list-style-type: none">• Audit committee• Safety, environmental and community affairs committee• Compensation committee <p>3,000 common shares 1,501 deferred share units</p>	<p>Mr. Eby is a former Vice-Chairman, Scotia Capital Inc. where he was 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:</p> <ul style="list-style-type: none">• Wajax Income Fund

<p>Paul E. Gagné Age: 60 Senneville, Quebec</p> <p>Independent Director since 1996</p> <p>Member of</p> <ul style="list-style-type: none"> • Audit committee (chair) • Safety, environmental and community affairs committee (chair) <p>5,300 common shares 28,475 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"> • CAE Inc. • Fraser Papers Inc. • Textron Inc. • Wajax Income Fund
<p>W. Warren Holmes Age: 64 Timmins, Ontario</p> <p>Independent Director since 2004</p> <p>Member of:</p> <ul style="list-style-type: none"> • Safety, environmental and community affairs committee <p>5,000 common shares 3,678 deferred share units</p>	<p>Mr. Holmes is Chairman and a director of Nuinsco Resources Limited and Victory Nickel Inc. 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"> • Campbell Resources Inc. • Wallbridge Mining Company Limited • Norcast Income Fund
<p>Oyvind Hushovd Age: 57 Kristiansand, Norway</p> <p>Independent Director since 2002</p> <p>Member of:</p> <ul style="list-style-type: none"> • Audit committee • Safety, environmental and community affairs committee <p>Nil common shares 7,100 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"> • Cameco Corporation • LionOre Mining International Ltd. • Western Oil Sands Inc.

<p>Thomas E. Mara Age: 61 New York, USA</p> <p>Independent Director since August 2005</p> <p>Nil common shares 911 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 Age: 49 Nobleton, Ontario</p> <p>Director since 1999</p> <p>35,583 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"> • Past Chairman of the Mining Association of Canada • President of the Canadian-Turkish Business Council • a director of St. Joseph's Health Centre, Toronto
<p>James M. Tory, Q.C. Age: 77 Toronto, Ontario</p> <p>Independent Director since 1987</p> <p>Member of:</p> <ul style="list-style-type: none"> • Audit committee • Compensation committee (chair) • Corporate governance and nominating committee <p>42,100 common shares 27,123 deferred share units</p>	<p>Mr. Tory is a corporate director. Prior to 2006, he was Chair Emeritus of Torys LLP and prior to that, a partner in the firm.</p> <p>He is also a director of Cognos Inc.</p> <p>Mr. Tory is also the chair and a trustee of Canadian Real Estate Investment Trust</p>

Officers

Name & municipality of residence	Office	Principal occupation in previous five years
<p>Steven Astritis Toronto, Ontario</p> <ul style="list-style-type: none"> • holds 6,956 common shares 	<p>Vice-President, General Counsel and Secretary</p>	<ul style="list-style-type: none"> • Vice-President, General Counsel and Secretary
<p>Frank Balint Toronto, Ontario</p> <ul style="list-style-type: none"> • holds 5,061 common shares 	<p>Vice-President, Corporate Development</p>	<ul style="list-style-type: none"> • Vice-President, Corporate Development
<p>Lynda Beesley Toronto, Ontario</p> <ul style="list-style-type: none"> • holds Nil shares 	<p>Assistant Corporate Secretary</p>	<ul style="list-style-type: none"> • Assistant Corporate Secretary prior to September 2006, Assistant Corporate Secretary of Falconbridge Limited and Noranda Inc. • prior to November 2004, law clerk, Ogilvy Renault LLP • prior to June 2003, law clerk, Aird & Berlis LLP
<p>Craig Ford Oakville, Ontario</p> <ul style="list-style-type: none"> • holds 5,689 common shares 	<p>Vice-President, Safety, Environmental and Community Affairs</p>	<ul style="list-style-type: none"> • Vice-President, Safety, Environmental and Community Affairs • prior to January 2005, Director, Safety, Environmental and Community Affairs

Name & municipality of residence	Office	Principal occupation in previous five years
Scott Herr Oakville, Ontario • holds 596 common shares	Vice-President, Mining	<ul style="list-style-type: none"> • Vice-President, Mining prior to January 2007, Director, Mining prior to January 2006, Consultant, McIntosh Engineering Ltd. • prior to January 2004, self-employed consultant • prior to August 2003, Operations Superintendent, Barrick Gold Corporation
Wendy Kaufman Oakville, Ontario • holds 4,185 common shares	Vice-President, Controller	<ul style="list-style-type: none"> • Vice-President, Controller prior to February 2005, Controller
Ian Pirie Oakville, Ontario • holds 4,315 common shares	Vice-President, Projects	<ul style="list-style-type: none"> • Vice-President, Projects prior to May, 2005, Director, Corporate Development
Richard Ross Nobleton, Ontario • holds 35,583 common shares	Chairman and Chief Executive Officer	<ul style="list-style-type: none"> • Chairman and Chief Executive Officer prior to February 2005, President and Chief Executive Officer
D. James Slattery Oakville Ontario • holds 4,330 common shares	Vice-President, Finance and Chief Financial Officer	<ul style="list-style-type: none"> • Vice-President, Finance and Chief Financial Officer prior to June 2005, Chief Financial Officer, Canadian General – Tower Limited prior to December 2002, President, Progressive Molded Products Ltd. • prior to May 2002, Vice President and Chief Financial Officer, Westcast Industries Inc.
Stuart Tevendale Whitby, Ontario • holds 1,039 common shares	Director, Operations Finance	<ul style="list-style-type: none"> • Director, Operations Finance since September 2005 • prior to September 2005, Treasurer • prior to August 2003, Commercial and Finance Manager, ÇBI
Jochen Tilk Toronto, Ontario • holds 16,799 common shares	President and Chief Operating Officer	<ul style="list-style-type: none"> • President and Chief Operating Officer prior to February 2005, Executive Vice-President and Chief Operating Officer prior to August 2003, Executive Vice-President prior to August 2002, Vice-President, Operations

Security holdings as a group

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. Leucadia, through its wholly-owned subsidiary, MK Resources owns approximately 11.6 percent of the Company's issued and outstanding common shares.

Cease trade or similar orders, bankruptcies, penalties or sanctions

Mr. Gagné resigned as a director of Gemofor Inc. (Gemofor) in November 2006. Gemofor is a small, privately held manufacturer of sawmilling equipment that has since filed for bankruptcy.

Mr. Tory is a director of Cognos Incorporated (Cognos) which was the subject of cease trade orders issued by the Ontario Securities Commission and the Autorité des Marchés Financiers in June 2006 for failing to file its audited financial statements and management's discussion and analysis for the year ended February 28, 2006. The missed filing resulted from questions raised by the U.S. Securities and Exchange Commission (SEC) about certain accounting practices related to the recognition of income. When the SEC accepted Cognos' treatment, it made its filings and the cease trade orders were revoked.

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.

About the audit committee

The audit committee consists of four 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 a corporate director. He is a former Vice-Chairman, Scotia Capital Inc. where he was 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 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 our current auditor. From time to time, KPMG and/or its affiliates also provide us and some of our subsidiaries with advisory and other non-audit services.

These professional services break down into different types of fees:

- *audit fees* for services for reviewing annual and interim 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 2006 and 2005 relate to due diligence and the audit of our pension plan.
- *tax fees* for services relating to tax compliance, tax advice and tax planning.

The table below shows the fees that were paid to KPMG for the fiscal years ended December 31, 2006 and 2005.

Fee (thousands)	2006	2005
Audit fees	\$ 494	\$ 431
Audit-related fees	15	15
Tax fees	705	94
Total	\$ 1,214	\$ 540

During the fiscal year ended December 31, 2006, KPMG's tax fees exceeded the audit fees as a result of services relating to a corporate restructuring of some of our subsidiaries outside of Canada.

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 for the audit committee to 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 under *External auditors*.

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 2006.

Management's discussion and analysis

The information that appears on pages 14 to 80 of our 2006 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 2006 annual report on our website at www.inmetmining.com or on SEDAR at 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.

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 or on SEDAR at www.sedar.com.

Schedule 1

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF INMET MINING CORPORATION

CHARTER

I. PURPOSE

The function of the Audit Committee is to assist the Board of Directors in its oversight of the quality of the Corporation's financial reporting and public disclosure of financial information, the performance and integrity of the related systems of internal and disclosure controls, compliance with legal and regulatory reporting requirements applicable to financial reporting and public disclosure of financial information and the performance and independence of the external auditors.

The Audit Committee may conduct any investigation appropriate to fulfilling its function and 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 advisors or experts it deems necessary to perform its duties.

II. COMPOSITION

The Audit Committee shall have a minimum of three members. All of its members shall be "independent" as determined under the Board's annual assessment of the independence of its members and "financially literate", in each case as defined under any requirements of the Canadian Securities Administrators or other securities regulatory authorities to which the Corporation is subject.

III. MEETINGS

The Committee shall meet at least five times annually, or more frequently as circumstances dictate.

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.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Audit Committee shall:

Financial Reporting

1. Review the principal risks affecting the Corporation's financial reporting and oversee appropriate systems to identify, evaluate and manage such risks.
2. Review the Corporation's public disclosure of financial information, including annual and interim financial statements, management's discussion and analysis (MD&A) and annual and interim earnings releases, prior to filing with regulatory authorities or public dissemination and make recommendations to the Board for approval of same. Such review shall address:
 - a) Appropriate application of GAAP as well as the underlying estimates, judgments and consideration of alternative treatment and presentation.

- b) Clarity, accuracy and completeness of public disclosure.
 - c) Application of the Disclosure Committee process.
3. Verify that the Corporation has appropriate procedures and policies in the areas of financial reporting, disclosure and internal controls, including for the review of the Corporation's public disclosure of financial information derived from the Corporation's financial statements and periodically assess the adequacy of such procedures and policies.
 4. Review the annual audited financial statements of the Corporation's employee pension plans prior to filing with regulatory authorities and make recommendations to the Board for approval of same.

Independent Auditors

5. The Audit Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting.
6. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors and their compensation or approve any discharge of auditors where circumstances warrant.
7. Review and approve the independent auditors' audit plan and engagement letter. Discuss and approve audit scope, staffing, locations, reliance upon management and general audit approach. Ensure the auditor's assessment of risks associated with financial reporting is consistent with that prepared by management.
8. Review the results of the audit with the auditors.
9. Review quarterly earnings reports with the auditor prior to public release.
10. Approve the audit fees and other significant compensation to be paid to the independent auditors.
11. At each Audit Committee meeting, consult with the independent auditors in the absence of management on internal controls and the fullness, appropriateness and accuracy of the Corporation's annual financial statements including any disagreements.
12. The Audit Committee shall pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditors. In this regard, the Chairman is authorized to pre-approve non-audit services provided such pre-approval is presented to the Audit Committee at its first scheduled meeting thereafter.

Internal Controls and Legal Compliance

13. Review and assess reports prepared or caused to be prepared by management regarding internal controls, financial risk management and insurance programs.
14. On at least a quarterly basis, review with the Corporation's counsel any legal matters that could have a significant impact on the Corporation's annual financial statements, the Corporation's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
15. Establish procedures for:

- a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting or auditing matters: and
- b) the confidential, anonymous submission by employees of the Corporation or its subsidiaries of concerns regarding questionable accounting or auditing matters.

- 16. Review management's reports on related party transactions.
- 17. Review annually the framework of internal controls, how these align with the objective of preventing and detecting fraud as well as management's assessment of the continued effectiveness and application of those internal controls.
- 18. Review at least annually management's report on executive travel and other expenses.
- 19. Review at least annually management's report on the Corporation's source deductions and other remittances required under applicable tax legislation.

Other Responsibilities

- 20. Periodically review and discuss with management and the independent auditors the significance of emerging regulatory and accounting standards and initiatives for the financial reporting of the Corporation.
- 21. Review and reassess the adequacy of this Charter at least annually and make recommendations to the Corporate Governance and Nominating Committee as well as to the Board of Directors for approval.
- 22. Annually assess the effectiveness of the Committee against its Charter and report the results of the assessment to the Corporate Governance and Nominating Committee as well as to the Board.
- 23. Review disclosure of a summary of this Charter to shareholders.
- 24. 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.
- 25. At each audit committee meeting, meet with management in the absence of the independent auditors.
- 26. Periodically review financial and accounting personnel succession planning within the Corporation and its major subsidiaries.
- 27. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditors of the Corporation.

* * * * *

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.

This Charter has been adopted by the Audit Committee of the Corporation, and approved by the Board, with effect as of December 4, 2006.