

INMET MINING CORPORATION

**Consolidated Financial Statements
(In Canadian Dollars)**

**For the Years Ended
December 31, 2010 and 2009**

Management's report

Inmet management is responsible for these financial statements and for the information in the Management's Discussion and Analysis (MD&A).

The MD&A was prepared in accordance with the requirements of the Canadian Securities Administrators and the consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP). In interpreting these requirements, management made decisions about the relevancy of information to be included and made estimates and assumptions that affect reported information, including estimates about the expected impact of current or anticipated events and transactions. Actual results could differ from these estimates. Information in the MD&A and financial statements is consistent.

Management has a system of internal controls over financial reporting that ensures that financial information is reliable and that the consolidated financial statements are prepared in accordance with Canadian GAAP. Management believes that these controls give reasonable assurance that Inmet's financial records provide a proper basis for preparing the financial statements and other financial information, that Inmet's assets are safeguarded, its liabilities are properly accounted for and that Inmet is in compliance with all of the legal and regulatory requirements that apply to it.

Role of the Board of Directors

The board of directors reviews and approves our annual MD&A and annual consolidated financial statements and is responsible for ensuring that management fulfills its financial reporting responsibilities. The board fulfills these oversight responsibilities directly and through its audit committee, whose members are all independent directors. You can find a copy of the audit committee's mandate in our Management Proxy Circular.

Role of the auditors

KPMG LLP, the shareholders' auditors, have audited the consolidated financial statements. They have full and free access to the audit committee, the board of directors and management to discuss audit, financial reporting and related matters.



Jochen Tilk
President and
Chief Executive Officer



D. James Slattery
Vice-President and
Chief Financial Officer

March 23, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Inmet Mining Corporation

We have audited the accompanying consolidated financial statements of Inmet Mining Corporation, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of earnings, retained earnings, cash flows and comprehensive income for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

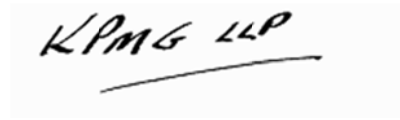
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inmet Mining Corporation as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that extends across the width of the signature.

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

March 23, 2011

Consolidated financial statements

Consolidated balance sheets

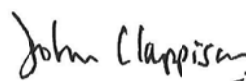
As at December 31 (thousands of Canadian dollars)	Note reference	2010	2009
Assets			
Current assets:			
Cash and short-term investments	3	\$326,425	\$533,913
Restricted cash	5	617	15,130
Accounts receivable	6	91,893	129,987
Inventories	7	84,077	103,108
Current portion of held to maturity investments	11	53,915	9,993
Future income tax asset	12	27,614	8,466
Assets held for sale	8	282,255	-
		866,796	800,597
Restricted cash	5	70,059	101,589
Property, plant and equipment	9	1,921,843	1,860,616
Investments in equity securities	10	2,694	42,411
Held to maturity investments	11	318,615	89,891
Future income tax asset	12	1,336	6,151
Goodwill	2	76,368	-
Other assets		4,865	2,894
		\$3,262,576	\$2,904,149
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	13	\$153,111	\$185,145
Derivatives	29	-	1,543
Future income tax liability	12	-	4,612
Liabilities associated with assets held for sale	8	102,447	-
		255,558	191,300
Long-term debt	14	16,619	200,026
Asset retirement obligations	15	108,592	145,038
Derivatives	29	-	3,165
Other liabilities	16	28,123	32,113
Future income tax liability	12	95,200	16,357
Non-controlling interest	17	-	78,005
		504,092	666,004
Commitments and contingencies	9 and 19		
Shareholders' equity			
Share capital	20	1,015,698	669,952
Contributed surplus	21	64,972	63,296
Stock based compensation	22	6,542	5,170
Retained earnings		1,889,491	1,541,803
Accumulated other comprehensive loss	24	(218,219)	(42,076)
		2,758,484	2,238,145
		\$3,262,576	\$2,904,149

(See accompanying notes)

On behalf of the Board:



Jochen Tilk
Director



John Clappison
Director

Segmented balance sheets

As at December 31, 2010
(thousands of Canadian dollars)

	Corporate	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Cobre Panama (Panama)	Total
Assets								
Cash and short-term investments	\$53,184	\$107,750	\$59,866	\$97,056	\$ -	\$ -	\$8,569	\$326,425
Other current assets	59,956	52,215	81,214	63,268	890	282,142	686	540,371
Restricted cash	16,906	-	51,521	1,632	-	-	-	70,059
Property, plant and equipment	779	114,277	1,171,800	60,772	-	-	574,215	1,921,843
Investments in equity securities	2,694	-	-	-	-	-	-	2,694
Held to maturity investments	253,749	64,866	-	-	-	-	-	318,615
Goodwill	-	-	76,368	-	-	-	-	76,368
Other non-current assets	3,482	2,719	-	-	-	-	-	6,201
	\$390,750	\$341,827	\$1,440,769	\$222,728	\$890	\$282,142	\$583,470	\$3,262,576
Liabilities								
Current liabilities	\$15,788	\$38,981	\$47,220	\$28,684	\$14,498	\$102,447	\$7,940	\$255,558
Long-term debt	16,619	-	-	-	-	-	-	16,619
Asset retirement obligations	27,368	8,807	47,129	19,907	5,381	-	-	108,592
Other liabilities	4,478	6,204	17,441	-	-	-	-	28,123
Future income tax liabilities	-	-	84,376	10,824	-	-	-	95,200
	\$64,253	\$53,992	\$196,166	\$59,415	\$19,879	\$102,447	\$7,940	\$504,092

As at December 31, 2009
(thousands of Canadian dollars)

	Corporate	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Cobre Panama (Panama)	Total
Assets								
Cash and short-term investments	\$251,570	\$158,631	\$10,039	\$66,314	\$ -	\$36,631	\$10,728	\$533,913
Other current assets	14,504	42,356	73,501	49,882	24,030	61,943	468	266,684
Restricted cash	16,492	-	56,878	1,854	-	26,365	-	101,589
Property, plant and equipment	920	119,669	1,013,490	66,217	19,376	103,693	537,251	1,860,616
Investments in equity securities	42,411	-	-	-	-	-	-	42,411
Held to maturity investments	89,891	-	-	-	-	-	-	89,891
Other non-current assets	1,720	248	3,554	-	-	3,523	-	9,045
	\$417,508	\$320,904	\$1,157,462	\$184,267	\$43,406	\$232,155	\$548,447	\$2,904,149
Liabilities								
Current liabilities	\$22,416	\$32,348	\$29,173	\$27,665	\$19,862	\$48,981	\$10,855	\$191,300
Long-term debt	18,094	-	181,932	-	-	-	-	200,026
Asset retirement obligations	28,606	8,805	44,291	15,293	8,497	39,546	-	145,038
Derivatives	-	-	-	-	-	3,165	-	3,165
Other liabilities	4,714	5,541	20,019	-	-	1,839	-	32,113
Future income tax liabilities	4,240	2,024	196	9,897	-	-	-	16,357
Non-controlling interest	-	-	78,005	-	-	-	-	78,005
	\$78,070	\$48,718	\$353,616	\$52,855	\$28,359	\$93,531	\$10,855	\$666,004

Consolidated statements of earnings

For the years ended December 31 (thousands of Canadian dollars except per share amounts)	Note reference	2010	2009
Gross sales		\$1,098,087	\$983,885
Smelter processing charges and freight		(166,754)	(176,432)
Cost of sales		(345,764)	(311,432)
Depreciation		(81,844)	(61,752)
Earnings from operations		503,725	434,269
Corporate development and exploration		(12,036)	(10,837)
General and administration		(20,638)	(23,892)
Investment and other income	25	35,416	9,131
Stand-by costs		(6,753)	-
Interest expense	26	(6,873)	(1,977)
Asset impairment	27	-	(9,915)
Capital tax expense		(373)	(925)
Income tax expense	28	(134,682)	(120,854)
Non-controlling interest		1,112	(5,831)
Net income		\$358,898	\$269,169
Basic net income per common share	23	\$6.37	\$5.14
Diluted net income per common share	23	\$6.35	\$5.13

(See accompanying notes)

Consolidated statements of retained earnings

For the years ended December 31 (thousands of Canadian dollars)	2010	2009
Retained earnings, beginning of year	\$1,541,803	\$1,283,074
Net income	358,898	269,169
Dividends on common shares	(11,210)	(10,440)
Retained earnings, end of year	\$1,889,491	\$1,541,803

(See accompanying notes)

Segmented statements of earnings

For the year ended
December 31, 2010
(thousands of Canadian
dollars)

	Corporate	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Cobre Panama (Panama)	Total
Gross sales	\$ -	\$312,723	\$128,643	\$233,481	\$73,826	\$349,414	\$ -	\$1,098,087
Smelter processing charges and freight	-	(71,810)	(298)	(53,685)	(4,526)	(36,435)	-	(166,754)
Cost of sales	(2,018)	(86,249)	(63,113)	(55,831)	(42,849)	(95,704)	-	(345,764)
Depreciation	-	(12,212)	(22,613)	(7,678)	(10,850)	(28,491)	-	(81,844)
Earnings from operations	(2,018)	142,452	42,619	116,287	15,601	188,784	-	503,725
Corporate development and exploration	(7,340)	(700)	-	(3,996)	-	-	-	(12,036)
General and administration	(20,638)	-	-	-	-	-	-	(20,638)
Investment and other income	36,815	(385)	(423)	-	(514)	(77)	-	35,416
Stand-by costs	-	-	(6,753)	-	-	-	-	(6,753)
Interest expense	(1,766)	-	(5,107)	-	-	-	-	(6,873)
Capital tax expense	(373)	-	-	-	-	-	-	(373)
Income tax expense	(7,522)	(32,379)	3,894	(27,868)	-	(70,807)	-	(134,682)
Non-controlling interest	-	-	1,112	-	-	-	-	1,112
Net income (loss)	\$(2,842)	\$108,988	\$35,342	\$84,423	\$15,087	\$117,900	\$ -	\$358,898

For the year ended
December 31, 2009
(thousands of Canadian
dollars)

	Corporate	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Cobre Panama (Panama)	Total
Gross sales	\$ -	\$305,091	\$ -	\$184,991	\$199,879	\$293,924	\$ -	\$983,885
Smelter processing charges and freight	-	(82,126)	-	(50,896)	(13,740)	(29,670)	-	(176,432)
Cost of sales	(7,594)	(85,888)	-	(62,643)	(64,852)	(90,455)	-	(311,432)
Depreciation	-	(13,348)	-	(8,220)	(16,642)	(23,542)	-	(61,752)
Earnings from operations	(7,594)	123,729	-	63,232	104,645	150,257	-	434,269
Corporate development and exploration	(6,131)	(1,458)	-	(3,248)	-	-	-	(10,837)
General and administration	(23,892)	-	-	-	-	-	-	(23,892)
Investment and other income	(9,229)	631	20,861	(420)	677	(3,389)	-	9,131
Interest expense	(1,977)	-	-	-	-	-	-	(1,977)
Asset impairment	-	(9,915)	-	-	-	-	-	(9,915)
Capital tax expense	(925)	-	-	-	-	-	-	(925)
Income tax expense	(27,042)	(19,788)	(5,595)	(12,016)	-	(56,413)	-	(120,854)
Non-controlling interest	-	-	(5,831)	-	-	-	-	(5,831)
Net income (loss)	\$(76,790)	\$93,199	\$9,435	\$47,548	\$105,322	\$90,455	\$ -	\$269,169

Consolidated statements of cash flows

For the years ended December 31 (thousands of Canadian dollars)	Note reference	2010	2009
Cash provided by (used in) operating activities			
Net income		\$358,898	\$269,169
Add (deduct) items not affecting cash:			
Depreciation		81,844	61,752
Future income tax	28	(7,087)	14,353
Asset impairment	27	-	9,915
Foreign exchange loss (gain)		22,421	(1,023)
Accretion expense on asset retirement obligations and capital leases	15	7,128	4,544
Increase in asset retirement obligation at closed sites	15	7,803	5,672
Non-controlling interest		(1,112)	5,831
Gain on recognition of foreign currency forward contract settlement	25	-	(35,615)
Loss on recognition of interest rate swap contract settlement	25	-	14,823
Gain on disposition of equity securities	25	(50,280)	-
Other		9,448	10,339
Settlement of asset retirement obligations	15	(9,719)	(6,414)
Net change in non-cash working capital	4	(10,011)	(30,595)
		409,333	322,751
Cash provided by (used in) investing activities			
Purchase of property, plant and equipment		(143,963)	(268,264)
Acquisition of non-controlling interest in Las Cruces	2	(150,600)	-
Funding received under Cobre Panama option agreement	19	14,427	3,425
Purchase of held to maturity investments	11	(295,846)	(100,000)
Maturing of held to maturity investments	11	26,097	-
Sale of equity securities	25	61,827	-
Sale of short-term investments	3	19,700	8,678
Sale of assets - Troilus		5,850	-
Other		(842)	-
		(463,350)	(356,161)
Cash provided by (used in) financing activities			
Long-term debt repayment	14	-	(314,603)
Issuance of common shares	20	-	334,284
Funding by non-controlling shareholder		2,835	51,015
Financial assurance deposits	5	944	(63,357)
Settlement of interest rate swap contract	29(c)	-	(15,982)
Dividends paid on common shares		(11,210)	(10,440)
Subsidies received	19	938	70,939
Other		(2,779)	(1,882)
		(9,272)	49,974
Foreign exchange change on cash held in foreign currency		(31,646)	(46,706)
Reclassification of our share of Ok Tedi cash to <i>assets held for sale</i>	8	(92,853)	-
Decrease in cash:		(187,788)	(30,142)
Cash:			
Beginning of year		506,917	537,059
End of year		319,129	506,917
Short-term investments		7,296	26,996
Cash and short-term investments		\$326,425	\$533,913
(See accompanying notes)			

Segmented statements of cash flows

For the year ended
December 31, 2010
(thousands of Canadian
dollars)

	Corporate	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Cobre Panama (Panama)	Total
Cash provided by (used in) operating activities								
Before net change in non-cash working capital	\$(33,475)	\$118,705	\$60,636	\$94,656	\$30,614	\$148,208	\$ -	\$419,344
Net change in non-cash working capital	(11,585)	(1,867)	(1,157)	(14,550)	12,941	6,207	-	(10,011)
	(45,060)	116,838	59,479	80,106	43,555	154,415	-	409,333
Cash provided by (used in) investing activities								
Purchase of property, plant and equipment	(222)	(14,911)	(23,978)	(3,974)	-	(16,344)	(84,534)	(143,963)
Acquisition of non-controlling interest in Las Cruces	(150,600)	-	-	-	-	-	-	(150,600)
Funding received under Cobre Panama option agreement	-	-	-	-	-	-	14,427	14,427
Purchase of held to maturity investments	(228,500)	(67,346)	-	-	-	-	-	(295,846)
Maturing of held to maturity investments	26,097	-	-	-	-	-	-	26,097
Sale of equity securities	61,827	-	-	-	-	-	-	61,827
Sale (purchase) of short term investments	26,996	-	(7,296)	-	-	-	-	19,700
Sale of assets – Troilus	-	-	-	-	5,850	-	-	5,850
Other	(842)	-	-	-	-	-	-	(842)
	(265,244)	(82,257)	(31,274)	(3,974)	5,850	(16,344)	(70,107)	(463,350)
Cash provided by (used in) financing activities								
Funding by non-controlling shareholder	-	-	2,835	-	-	-	-	2,835
Other	(11,919)	-	10,366	-	-	(10,554)	-	(12,107)
	(11,919)	-	13,201	-	-	(10,554)	-	(9,272)
Foreign exchange change on cash held in foreign currency	-	(9,954)	(2,768)	(14,388)	-	(4,177)	(359)	(31,646)
Intergroup funding (distributions)	150,833	(75,508)	3,893	(31,002)	(49,405)	(67,118)	68,307	-
Reclassification of our share of Ok Tedi cash to assets held for sale	-	-	-	-	-	(92,853)	-	(92,853)
Increase (decrease) in cash	(171,390)	(50,881)	42,531	30,742	-	(36,631)	(2,159)	(187,788)
Cash:								
Beginning of year	224,574	158,631	10,039	66,314	-	36,631	10,728	506,917
End of year	53,184	107,750	52,570	97,056	-	-	8,569	319,129
Short-term investments	-	-	7,296	-	-	-	-	7,296
Cash and short-term investments	\$53,184	\$107,750	\$59,866	\$97,056	\$ -	\$ -	\$8,569	\$326,425

For the year ended
December 31, 2009
(thousands of Canadian
dollars)

	Corporate	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Troilus (Canada)	Ok Tedi (Papua New Guinea)	Cobre Panama (Panama)	Total
Cash provided by (used in) operating activities								
Before net change in non-cash working capital	\$(58,561)	\$109,148	\$ -	\$59,423	\$119,404	\$123,932	\$ -	\$353,346
Net change in non-cash working capital	1,634	(12,846)	-	2,017	(830)	(20,570)	-	(30,595)
	(56,927)	96,302	-	61,440	118,574	103,362	-	322,751
Cash provided by (used in) investing activities								
Purchase of property, plant and equipment	(304)	(14,855)	(138,769)	(7,870)	-	(21,236)	(85,230)	(268,264)
Funding for Cobre Panama option agreement	-	-	-	-	-	-	3,425	3,425
Purchase of held to maturity investments	(100,000)	-	-	-	-	-	-	(100,000)
Sale of short-term investments	8,678	-	-	-	-	-	-	8,678
	(91,626)	(14,855)	(138,769)	(7,870)	-	(21,236)	(81,805)	(356,161)
Cash provided by (used in) financing activities								
Long-term debt repayments	-	-	(314,603)	-	-	-	-	(314,603)
Issuance of common shares	334,284	-	-	-	-	-	-	334,284
Funding by non-controlling shareholder	-	-	51,015	-	-	-	-	51,015
Other	(10,760)	-	1,714	-	-	(11,676)	-	(20,722)
	323,524	-	(261,874)	-	-	(11,676)	-	49,974
Foreign exchange change on cash held in foreign currency	-	(25,418)	(1,219)	(8,757)	-	(10,270)	(1,042)	(46,706)
Intergroup funding (distributions)	(155,961)	(90,279)	377,920	(44,475)	(118,574)	(61,096)	92,465	-
Increase (decrease) in cash	19,010	(34,250)	(23,942)	338	-	(916)	9,618	(30,142)
Cash:								
Beginning of year	205,564	192,881	33,981	65,976	-	37,547	1,110	537,059
End of year	224,574	158,631	10,039	66,314	-	36,631	10,728	506,917
Short-term investments	26,996	-	-	-	-	-	-	26,996
Cash and short-term investments	\$251,570	\$158,631	\$10,039	\$66,314	\$ -	\$36,631	\$10,728	\$533,913

Consolidated statement of comprehensive income

For the years ended December 31 (thousands of Canadian dollars)	Note reference	2010	2009
Net income		\$358,898	\$269,169
Other comprehensive income for the year:			
Changes in fair value of gold forward sales contracts		(1,372)	(3,284)
Changes in fair value of interest rate swap contracts		-	3,903
Changes in fair value of investments		21,168	24,601
Currency translation adjustments		(173,593)	(233,004)
Reclassification to net income of gains/losses realized on:			
Gain on disposition of equity investments	25	(50,280)	-
Amortization of gain on foreign exchange forward contract		-	(5,657)
Recognition of gain on foreign exchange forward contract ⁽¹⁾	25	-	(28,158)
Recognition of loss on interest rate swap contract ⁽²⁾	25	-	11,711
Foreign exchange loss on reduction of net investment in self-sustaining foreign operations	25	22,656	1,176
Income tax recovery related to comprehensive income	30	5,278	3,725
		(176,143)	(224,987)
Comprehensive income		\$182,755	\$44,182

(See accompanying notes)

⁽¹⁾ Gain of \$35,615 net of non-controlling interest of \$7,457

⁽²⁾ Loss of \$14,823 net of non-controlling interest of \$3,112

1. Significant accounting policies

Basis of presentation and consolidation

We have prepared our consolidated financial statements according to Canadian generally accepted accounting principles (GAAP).

We consolidate the financial statements of all of the companies we control. We proportionally consolidate our share of the financial statements of our joint venture interests. We equity account for investments in companies when we have significant influence. All significant intercompany balances and transactions are eliminated on consolidation.

Investments in companies that we do not control or have a significant influence in are carried at cost.

Basis of segmented disclosure

The segmented statements reflect the management structure of our company. Operations are managed independently mainly because of their geographical diversity. Each operation retains its own management team and compiles its own financial information, following the accounting policies outlined here.

Operation	Description	Treatment	Functional currency
Çayeli	A mine in Turkey that produces copper and zinc concentrates. Çayeli is a wholly owned subsidiary.	Consolidated	US dollar
Pyhäsalmi	A mine in Finland that produces copper and zinc concentrates. Pyhäsalmi is a wholly-owned subsidiary.	Consolidated	euro
Troilus	A mine in Canada that produced gold until operations were concluded in June 2010. Troilus is a division of Inmet Mining.	Consolidated	Canadian dollar
Ok Tedi	A company in Papua New Guinea that owns a copper and gold mine. We had an 18 percent joint venture interest in Ok Tedi (note 8).	Proportionately consolidated	US dollar
Las Cruces	A high grade copper operation in Spain that produces copper cathode. At December 31, 2010, Las Cruces is a wholly owned subsidiary. Prior to December 15, 2010, we had a 70 percent interest (note 2).	Consolidated	euro
Cobre Panama	A copper, gold and molybdenum deposit currently under development in Panama. Cobre Panama is a wholly owned subsidiary.	Consolidated	US dollar

Using estimates

When preparing financial statements according to GAAP, we make estimates and assumptions about the:

- reported amounts of revenues and expenses
- reported amounts of assets and liabilities
- disclosure of contingent assets and liabilities.

Management regularly reviews these estimates and assumptions, but actual results could be different.

Recognizing revenues

We recognize revenue when title is legally transferred to the purchaser. The timing of title transfer varies depending on the terms of the sales contracts with smelters, but is usually transferred when the material is delivered or, in some cases, when it is shipped.

Revenue includes the sale of all concentrate and gold doré. Most sales contracts set the sales price at the commodities market price on a specified future date. To calculate the revenue from the sale of our products, we use the forward price of the commodity for the day we expect the contract to settle. When the contract is settled, we adjust revenue to account for the actual market price we received (note 29(a)).

Other significant accounting policies

Cash and short-term investments	see note 3
Restricted cash	see note 5
Inventories	see note 7
Property, plant and equipment	see note 9
Investments	see notes 10 and 11
Income taxes	see note 12
Asset retirement obligations	see note 15
Employee future benefits	see note 18
Stock based compensation	see note 22
Net income per share	see note 23
Translation of foreign currencies	see note 24
Financial instruments	see note 29

Recently issued accounting pronouncements**International Financial Reporting Standards (IFRS)**

IFRS has been incorporated into the CICA handbook effective for interim and annual financial statements relating to fiscal years that begin on or after January 1, 2011. At this time, publicly accountable enterprises, including Inmet, will be required to prepare financial statements in accordance with IFRS. We have put in place a comprehensive IFRS convergence plan that addresses the change in accounting policy, restatement of comparative periods and other related matters and are currently determining the impact on our consolidated financial statements.

2. Acquisition

Las Cruces

On December 15, 2010, we acquired Leucadia National Corporation's (Leucadia's) 30 percent indirect equity interest and subordinated sponsor loans in Las Cruces for total value of \$496.9 million. The purchase consideration comprised \$150.6 million cash and the issuance of 5.4 million Inmet common shares. In addition, Leucadia was released from its guarantee of US \$72 million debt owed by Las Cruces to an affiliate of Inmet as a result of the re-financing of its project facility in 2009 (note 14).

The tables below show the fair value of the assets we acquired and the liabilities we assumed on the date of acquisition based on the consideration paid.

Consideration:

Common shares issued ⁽¹⁾	\$345,916
Cash	150,600
Transaction costs	384

Cost of acquisition

Consideration for sponsor loans (note 14)	\$173,662
Consideration for 30 percent of Las Cruces	\$323,238

⁽¹⁾ Based on the average closing Inmet share price for the three days before and after announcement.

Assets acquired:

Cash	\$20,911
Other current assets	21,303
Property, plant and equipment	546,276
Other assets	17,606
Goodwill	76,368
	682,464

Liabilities assumed:

Other current liabilities	(17,651)
Loans to affiliates	(247,664)
Future income tax liability	(74,490)
Other liabilities	(19,421)
	(359,226)

Net assets acquired

	\$323,238
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We recognized goodwill of \$76.4 million as a result of the requirement to record future income tax liabilities calculated as the tax effect of the difference between the fair value of the assets and liabilities acquired and their tax bases. This goodwill will not be deductible for tax purposes and has been allocated to the Las Cruces segment.

We have included 70 percent of Las Cruces' net earnings in our consolidated statement of earnings to December 15, 2010 and 100 percent thereafter.

3. Cash and short-term investments

Cash includes cash and money market instruments that mature in 90 days or less from the date of acquisition. Short-term investments mature in 91 days to a year. At December 31, our cash and short-term investments are held in:

	2010	2009
Cash:		
Liquidity funds	\$194,603	\$205,190
Bankers acceptances	-	92,200
Money market funds	40,048	19,951
Term deposits	52,991	40,140
Overnight deposits	4,319	54,435
Bank deposits	27,168	95,001
	319,129	506,917
Short-term investments:		
Corporate	-	26,996
Term deposits	7,296	-
	7,296	26,996
Total cash and short-term investments	\$326,425	\$533,913

In the consolidated statements of cash flows, we disclose:

- short-term investments we buy with cash during the year as cash used in investing activities
- short-term investments we sell to generate cash as a source of cash from investing activities.

4. Statements of cash flows

The tables below show the components of our net change in non-cash working capital by segment for the years ended December 31, 2010 and 2009.

2010

(thousands)	Corporate	Çayeli	Las Cruces	Pyhäsalmi	Troilus	Ok Tedi	Total
Accounts receivable	\$(2,281)	\$2,151	\$(1,290)	\$(18,318)	\$12,570	\$(5,377)	\$(12,545)
Inventories	-	(8,657)	(11,232)	(537)	9,881	530	(10,015)
Accounts payable and accrued liabilities	(281)	(2,291)	11,802	(1,442)	(9,510)	2,440	718
Taxes payable	(8,853)	8,118	(222)	5,747	-	10,560	15,350
Other	(170)	(1,188)	(215)	-	-	(1,946)	(3,519)
	\$(11,585)	\$(1,867)	\$(1,157)	\$(14,550)	\$12,941	\$6,207	\$(10,011)

2009

(thousands)	Corporate	Çayeli	Las Cruces	Pyhäsalmi	Troilus	Ok Tedi	Total
Accounts receivable	\$(554)	\$(19,217)	\$ -	\$(24,839)	\$(3,644)	\$(47,400)	\$(95,654)
Inventories	-	(75)	-	(604)	7,871	(9,531)	(2,339)
Accounts payable and accrued liabilities	(718)	(3,903)	-	10,948	(5,057)	5,401	6,671
Taxes	6,551	10,193	-	16,512	-	29,971	63,227
Other	(3,645)	156	-	-	-	989	(2,500)
	\$1,634	\$(12,846)	\$ -	\$2,017	\$(830)	\$(20,570)	\$(30,595)

We paid \$130 million in taxes in 2010 and \$38 million in 2009. We paid \$1 million in interest on long-term debt in 2010 and \$11 million in 2009.

5. Restricted cash

Restricted cash includes cash we have pledged for other uses and is not available for immediate use. The table below shows our restricted cash balances at December 31.

	2010	2009
Collateralized cash for letter of credit facility - Inmet Mining (note 19)	\$16,906	\$16,492
In trust for Ok Tedi reclamation (note 8)	-	26,365
Collateralized cash for letters of credit - Las Cruces (note 19)	52,138	72,008
Collateralized cash for Pyhäsalmi reclamation (note 19)	1,632	1,854
	70,676	116,719
Less current portion:		
Collateralized cash for letters of credit – Las Cruces	(617)	(15,130)
	\$70,059	\$101,589

6. Accounts receivable

	2010	2009
Accounts receivable from sale of metal (note 29(a))	\$58,046	\$86,661
Value-added and other taxes receivable	9,619	22,132
Advances and prepaid expenses	17,278	13,948
Other amounts receivable	6,950	7,246
	\$91,893	\$129,987

7. Inventories

	2010	2009
Stockpiled ore	\$27,660	\$16,812
Work in progress	8,057	14,253
Finished goods inventory	29,017	33,452
Materials and supplies	19,343	38,591
	\$84,077	\$103,108

Inventories include:

- stockpiled ore, materials and supplies: ore, goods and supplies that will be consumed directly or indirectly in the production process
- work in process: inventory in an intermediate state in the Las Cruces plant that has not yet been processed into cathode copper
- finished goods: concentrate, cathode copper and gold doré that are ready for sale.

We measure inventory at the lower of cost or net realizable value, as follows:

- cost: a weighted average that includes all costs directly related to bringing the inventory to its current condition, such as mining and milling costs and depreciation
- net realizable value: the estimated selling price less any additional costs we expect to incur for completion and sale of the related inventory.

A reversal of a previous write down may occur if the circumstances that caused the write down no longer exist.

In 2009, Troilus determined it would process certain stockpiled ore in 2010 with associated costs of \$4.3 million that were previously written down due to the uncertainty regarding its net realizable value. During that year due to the strong gold price environment, we reversed the \$4.3 million write down as a reduction to cost of sales.

8. Sale of our interest in Ok Tedi

In 2010, we reached an agreement with Ok Tedi for Ok Tedi to repurchase our 18 percent equity interest in this operation for gross proceeds of US \$335 million. This transaction closed on January 28, 2011. At December 31, 2010, we have recognized our interest in Ok Tedi as *held for sale*.

The table below shows the components of our *assets held for sale* relating to Ok Tedi at December 31, 2010:

Cash and short term investments	\$92,853
Accounts receivable	29,413
Inventories	34,934
Restricted cash	36,556
Property, plant and equipment	85,200
Future income tax asset	1,693
Other assets	1,493
	<u>\$282,142</u>

The table below shows the components of our *liabilities associated with assets held for sale* relating to Ok Tedi at December 31, 2010:

Accounts payable and accrued liabilities	\$53,003
Future income tax liability	4,102
Asset retirement obligations	38,505
Derivative liabilities	5,656
Other liabilities	1,181
	<u>\$102,447</u>

9. Property, plant and equipment

	Property	Plant and equipment	Development expenditures	Total
December 31, 2009				
Cost	\$127,533	\$479,507	\$1,550,741	\$2,157,781
Accumulated depreciation	(62,270)	(234,895)	-	(297,165)
Net carrying value	\$65,263	\$244,612	\$1,550,741	\$1,860,616
December 31, 2010				
Cost	\$578,278	\$1,179,963	\$574,215	\$2,332,456
Accumulated depreciation	(82,813)	(327,800)	-	(410,613)
Net carrying value	\$495,465	\$852,163	\$574,215	\$1,921,843

Property

We record property at cost and start depreciating it using the unit-of-production method, where the value of the property is reduced as reserves are depleted.

Capitalized stripping

We capitalize the costs of stripping, such as the removal of overburden and mine waste materials, when the stripping provides access to reserves that would not otherwise have been accessible and that will be

mined in the future. Stripping costs are amortized over the reserves that are directly affected by the stripping activity using the units-of-production method.

Plant and equipment

We record plant and equipment at cost and depreciate it using the straight-line method over its estimated useful life, which ranges from 5 to 15 years. We review useful lives every year and adjust, if necessary. Plant and equipment includes assets held under finance leases at December 31, 2010 of \$19.5 million (2009 – \$22.9 million) (note 16).

Deferred development and exploration

We charge exploration costs to earnings in the year we incur them. When we can reasonably foresee that the development of a property will have future economic benefit, supported by feasibility studies, we defer costs associated with its development. This includes capitalizing interest costs on funds we borrow, and transaction costs related to issuing debt specifically for the development of the property while construction is in progress. Once construction of an asset is substantially complete and it is ready for its intended use, we stop deferring all costs and reclassify them to property, plant and equipment.

The table below shows the carrying amount for development projects at December 31. Capitalized costs for a project while in development are not depreciated.

	2010	2009
Las Cruces	\$ -	\$1,013,490
Cobre Panama	574,215	537,251
	\$574,215	\$1,550,741

On July 1, 2010, we reclassified Las Cruces’ assets of \$891.0 million from deferred development, increasing property by \$259.2 million and plant and equipment by \$631.8 million and began depreciating them.

At Las Cruces, we capitalized \$5.8 million of interest to deferred development in the first half of 2010 and \$22.4 million in 2009. We also capitalized \$15.7 million of stripping costs in 2010 and \$22.0 million in 2009 to provide future access to future phases of the mine.

Impairment evaluations – operating mines and development projects

We test for impairment when an event or a change in circumstances suggests that we may not recover the carrying value of our property, plant and equipment. Refer to note 27 for asset impairment recognized for Cerattepe in 2009.

We calculate the amount of a potential impairment by deducting the estimated undiscounted future cash flows of an operation or development property from its carrying value. When the carrying value of an asset exceeds its undiscounted cash flows, we reduce its carrying value to its fair value and record a loss.

Our estimate of future undiscounted cash flows includes our estimates of:

- recoverable mineral reserves
- value beyond proven and probable reserves
- future metal prices
- future foreign exchange rates
- future operating, capital and reclamation costs.

In assessing the impairment of a property, we may also look at:

- our ability to obtain financing for a project
- recovery of costs by selling the property.

Capital commitments

Our operations had the following capital commitments as at December 31, 2010:

- Las Cruces committed \$5.1 million for the purchase of plant equipment.
- Cobre Panama committed \$136.5 million for the design and supply of two SAG mills, four ball mills and the related gearless drives, and for basic engineering.

10. Investments in equity securities

	December 31, 2010 (fair value)	December 31, 2009 (fair value)
Available for sale equity securities:		
Premier Gold Mines Ltd. (note 25)	\$ -	\$39,501
Other	2,694	2,910
	\$2,694	\$42,411

We calculate fair value using the bid price of the investment as quoted in an active market. We record changes in the fair value of our investments net of tax in *Other comprehensive income* (note 24). The change in fair value of an investment appears in net income only when it is sold or impaired.

We capitalize transaction costs related to investments we make and include these in the investment's initial carrying value. We review our investments for impairment based on both quantitative and qualitative criteria, including the extent that cost exceeds market value, the length of a market decline, our plans and ability to hold the investment until forecasted recovery and the financial health of the issuer.

11. Held to maturity investments

In 2010, we purchased \$229 million (2009 – \$100 million) of long-term Canadian and Provincial government bonds, Çayeli purchased \$67 million (2009 – nil) of US Treasury bonds and bonds with a face value of \$26.1 million matured and were converted to cash (2009 – nil). The bonds, with credit ratings of A to AAA, mature between February 2011 and December 2015 and have a weighted average annual yield to maturity of 2.0 percent. We have designated these bonds as *held to maturity*, measuring them initially at fair value and subsequently at amortized cost.

	December 31, 2010	December 31, 2009
Government of Canada	\$28,114	\$29,924
Provincial government	240,740	51,907
Corporate	38,810	18,053
US Treasury	64,866	-
	372,530	99,884
Less current portion	(53,915)	(9,993)
	\$318,615	\$89,891

We capitalize transaction costs related to investments we make and include these in the investment's initial carrying value. We review our investments for impairment based on both quantitative and qualitative criteria, including the extent that cost exceeds market value, the length of a market decline, our plans and ability to hold the investment until forecasted recovery and the financial health of the issuer.

12. Future income taxes

The table below shows the significant components of our future income tax asset.

	2010	2009
Capital losses	\$14,442	\$11,759
Capital assets	32,825	16,576
Canadian resource deductions	10,742	10,974
Non-capital losses ⁽¹⁾	16,646	13,231
Reclamation liabilities	9,687	8,891
Other	10,680	18,665
Future income tax asset before valuation allowance	95,022	80,096
Valuation allowance	(66,072)	(65,479)
Future income tax asset	28,950	14,617
Less: current portion	(27,614)	(8,466)
Long term future income tax asset	\$1,336	\$6,151

⁽¹⁾ Expire from 2014 to 2025.

The future income tax asset (before a valuation allowance) of \$95 million includes \$66 million from Canadian sources (tax effected using a 25% tax rate) and \$29 million from foreign sources. Our ability to realize this asset depends on future taxable income and taxable capital gains. We assess the chances for recovery of these losses, and when it seems more likely than not that we will use part of the losses, we establish a future tax asset. At December 31, 2010, we recognized a future income tax asset of \$29 million (2009 – \$15 million) and have therefore provided a valuation allowance of \$66 million (2009 – \$65 million) against the \$95 million asset.

The table below shows the significant components of our future income tax liabilities at our foreign operations.

	2010	2009
Capital	\$95,656	\$22,730
Reclamation liabilities	(456)	(1,761)
Future income tax liability	95,200	20,969
Less: current portion	-	(4,612)
Long term future income tax liability	\$95,200	\$16,357

Calculating future income taxes

We calculate future income tax assets and liabilities based on temporary differences between the carrying amounts in our balance sheet and their tax bases, using income tax rates expected to be in effect when the temporary differences are likely to be settled. We include the effects of changes in tax rates in income when the change is enacted or substantially enacted. We reduce future income tax assets by a valuation allowance if we decide it is more likely than not that the assets will not be realized.

We operate in a number of countries around the world and accordingly are subject to, and pay annual income taxes under the various regimes in countries in which we operate. These tax regimes are determined under general corporate tax laws of the country. We have historically filed, and continue to file, all required income tax returns and to pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are complex and subject to interpretation. From time to time we will undergo a review of our historic tax returns and in connection with such reviews, disputes can arise with the taxing authorities over our interpretation of the country's income tax rules.

13. Accounts payable and accrued liabilities

The table below shows the significant components of our accounts payable and accrued liabilities balance at December 31.

	2010	2009
Accounts payables and accrued liabilities	\$95,141	\$110,192
Amounts payable related to metal sales (note 29(a))	592	103
Income taxes payable	40,961	61,350
Current portion of asset retirement obligations	16,417	13,500
	\$153,111	\$185,145

14. Long-term debt

	2010	2009
Promissory note	\$16,619	\$18,094
Loans from non-controlling shareholder	-	181,932
	\$16,619	\$200,026

Las Cruces credit facility

In 2005, Las Cruces entered into a credit agreement with a syndicate of Canadian and international lending institutions to finance the development of the mine.

The credit facility consisted of two tranches:

- Tranche A – US \$240 million senior secured facility maturing December 15, 2015 and contained a US \$25 million letter of credit facility. Interest was at US LIBOR plus a margin of 1.5 percent and 2.0 percent for funds drawn in EURIBOR plus the same margins for funds drawn in euros.
- Tranche B – €69 million senior secured bridge financing facility that expired on December 31, 2009. It provided financing until the government subsidies and value added taxes (VAT) for the project had been received. Interest was at EURIBOR plus 1.0 percent.

On June 30, 2008, Tranche A was fully drawn and was converted from a euro denominated loan to a US \$215 million loan. Beginning July 1, 2008 until repayment on July 31, 2009, we revalued the loan to euros (the functional currency of Las Cruces). Foreign exchange gains and losses on revaluations were reflected in *Investment and other income* (note 25).

Las Cruces made its first scheduled repayment of US \$12 million in June 2009. It also repaid \$42 million under Tranche B (the amount of the subsidies it received).

On July 31, 2009, Las Cruces repaid the remaining US \$203 million under Tranche A, €5 million under Tranche B and cash collateralized \$32 million in letters of credit that had been secured under the credit facility, and eliminated the credit facility. We funded 100 percent of the repayment through an intercompany loan. Leucadia guaranteed 30 percent of this loan.

On December 15, 2010, Leucadia was released from its guarantee as part of our acquisition of their interest in Las Cruces (note 2).

Promissory note

As part of the purchase of Pyhäsalmi, we issued a €14 million unsecured promissory note. The note was for a 10-year term at an interest rate of 6 percent. We recorded the note at €9 million (\$12.7 million), which was its fair value on the date of issue (in March 2002). In October 2003, we amended our note payable agreement, extending the note's maturity date to October 3, 2013. We received a payment of

\$0.9 million, which we are recognizing in income over the term of loan. We are not required to repay any of the principal until the note matures.

Loans from non-controlling shareholder

Las Cruces has intercompany loans with an affiliate. Up to December 15, 2010, seventy percent of these loans were owed to Inmet and have not appeared on the consolidated balance sheet. Intergroup promissory note agreements bear interest at EURIBOR plus 6.1 percent and are due to be repaid on February 25, 2020. Interest payments are due quarterly.

Under the agreements, we advanced €4.5 million to Las Cruces in 2010 and €52.6 million in 2009. Leucadia advanced €1.9 million in 2010 and €22.6 million in 2009. On December 15, 2010 we acquired Leucadia's portion of these loans for \$173.7 million, eliminating these loans from our consolidated balance sheet (note 2). Prior to this, we classified Leucadia's portion of the advances as long-term debt.

15. Asset retirement obligations

The table below shows our total asset retirement obligations at December 31.

	2010	2009
Present value of future water treatment costs	\$17,000	\$17,000
Obligations at closed properties	32,166	15,606
Obligations at operating and developing mines	75,843	125,932
	125,009	158,538
Less current portion, included in accounts payable (note 13)	(16,417)	(13,500)
	\$108,592	\$145,038

The table below shows how our reclamation liability changed during the year.

2010

	Çayeli	Las Cruces	Pyhäsalmi	Troilus	Ok Tedi	Cobre Panama	Closed sites	Total
Opening balance at January 1, 2010	\$8,805	\$44,291	\$15,293	\$17,997	\$39,546	\$ -	\$32,606	\$158,538
Liabilities settled	-	-	-	(6,474)	-	-	(3,245)	(9,719)
Accretion expense charged through cost of sales or deferred development	492	2,414	834	683	1,120	-	2,017	7,560
Revisions in timing and amount of estimated cash flows	-	-	5,703	7,803	-	-	-	13,506
Liabilities incurred	-	5,717	-	-	-	-	-	5,717
Reclassification to held for sale (note 8)	-	-	-	-	(38,505)	-	-	(38,505)
Foreign exchange and other	(490)	(5,293)	(1,923)	(2,211)	(2,161)	-	(10)	(12,088)
Closing balance at December 31, 2010	\$8,807	\$47,129	\$19,907	\$17,798	\$ -	\$ -	\$31,368	\$125,009
Undiscounted cash flows	\$13,584	\$100,653	\$39,791	\$19,108	\$ -	\$ -	\$40,067	\$213,203
Letters of credit and reclamation bonds (note 19)	\$ -	\$32,654	\$1,632	\$4,043	\$ -	\$5,222	\$9,397	\$52,948

2009

	Çayeli	Las Cruces	Pyhäsalmi	Troilus	Ok Tedi	Cobre Panama	Closed sites	Total
Opening balance at January 1, 2009	\$9,654	\$39,678	\$16,307	\$12,626	\$25,016	\$ -	\$27,501	\$130,782
Liabilities settled	-	-	-	(3,419)	-	-	(2,995)	(6,414)
Accretion expense charged through cost of sales or deferred development	517	2,221	899	419	776	-	1,933	6,765
Revisions in timing and amount of estimated cash flows	-	-	-	8,371	-	-	5,672	14,043
Liabilities incurred	-	7,426	-	-	17,246	-	-	24,672
Foreign exchange	(1,366)	(5,034)	(1,913)	-	(3,492)	-	495	(11,310)
Closing balance at December 31, 2009	\$8,805	\$44,291	\$15,293	\$17,997	\$39,546	\$ -	\$32,606	\$158,538
Undiscounted cash flows	\$14,355	\$100,291	\$23,670	\$19,204	\$43,511	\$ -	\$39,014	\$240,045
Letters of credit and reclamation bonds (note 19)	\$ -	\$35,143	\$1,854	\$3,533	\$26,365	\$5,518	\$9,403	\$81,816

Our closed mines, operations and joint ventures are subject to environmental laws and regulations in Canada and the other countries we operate in.

Mining companies are legally obligated to reclaim land or other property that is damaged or contaminated in the course of their business activities. While reclamation activities usually happen after the site has been closed, companies are required to estimate reclamation costs for operating sites as well as closed sites.

Our obligations for reclamation and restoration costs at our mines include:

- materials generated from mining and milling such as mine waste tailings;
- land reclamation and revegetation;
- decommissioning of underground and above ground operating facilities;
- post-closure monitoring, care and maintenance;
- general clean-up activities to restore areas to an environmentally acceptable condition.

Operating sites

We incur asset retirement obligations through the construction and normal operation of our mines. We recognize the fair value of a liability for an asset retirement obligation when we incur it. When we record the liability, we record a corresponding increase in the carrying amount of the related asset (where we can identify one). We increase the amount of the liability every year by the interest factor that was applied when we initially determined fair value, and we amortize the asset over its estimated life. We also reassess the amount of the liability at each reporting period and make adjustments, if any, to both the liability and its related asset.

In 2010, we recorded additional liabilities at Las Cruces of \$5.7 million (\$7.4 million in 2009) mainly as a result of mining and pit development activities during the year. We also recognized additional liabilities at Pyhäsalmi of \$5.7 million mainly as a result of a change in our mine waste and tailings reclamation approach. In 2009, we recognized additional liabilities at Ok Tedi of \$17.2 million for river system monitoring, dredging and other closure activities and \$8.4 million at Troilus mainly for environmental monitoring and dismantling costs. In 2010, we concluded operations at Troilus and this operation is now accounted for as a closed site.

Closed sites

For closed properties, we record any change in fair value over the course of the year in cost of sales. In 2010, we recognized additional liabilities of \$7.8 million at Troilus mainly for environmental monitoring, owner and other closure costs. In 2009, we recognized liabilities of \$5.7 million for additional site monitoring and cost escalation at our closed sites.

Estimated reclamation liabilities

At December 31, 2010, we estimate that we need \$213 million (2009 – \$240 million) in undiscounted cash flows to settle these liabilities, payable over approximately 15 years. We discount cash flows at interest rates that range from two percent to seven percent, depending on a number of factors, including the duration of the obligation and the jurisdiction where the obligation is owed. If we increase undiscounted cash flows, we discount the additional cash flows using a current credit adjusted risk free rate. If we lower our estimate of undiscounted cash flows, we discount future cash flows at the discount rates we used when we initially established the liability.

Funding

At most of our properties, reclamation activities are funded when they are incurred. For several other sites, we are required to provide collateralized cash to support future reclamation activities. The details of cash supporting future reclamation activities are disclosed in note 19.

Using estimates

Due to uncertainties around environmental remediation, the actual cost of site restoration could be different from the amounts estimated. Our estimates will change if the laws and regulations that govern them change, and if new information about the operations becomes available. We also cannot predict the impact that environmental laws and regulations that may be enacted in the future could have on our financial position. We will record these changes, if there are any, as a change in accounting estimates, and apply them prospectively.

16. Other liabilities

	2010	2009
Las Cruces capital lease obligation	\$17,441	20,019
Compensation obligations	10,010	8,475
Other	672	3,619
	\$28,123	\$32,113

Las Cruces capital lease obligation

Effective during 2009, Las Cruces has a contract for the supply of oxygen from a plant owned and operated by a third party and located at the mine site. This arrangement includes a capital lease with minimum lease payments of:

2011	\$2,412
2012	2,412
2013	2,412
2014	2,253
2015	2,222
Thereafter	18,513
Total	\$30,224

In 2009, we recognized the oxygen plant in deferred development at \$23 million and associated capital lease obligations in *other liabilities* based on the total minimum future lease payments discounted at Las Cruces' incremental borrowing rate at contract inception of 8.2 percent.

Compensation obligations

Compensation obligations include:

- payments to employees whose employment is terminated
- payments for long service leave available to employees who have met certain requirements, including length of employment
- obligations related to a supplementary executive retirement plan for a former executive that are secured by a letter of credit.

17. Non-controlling interest

The table below shows the change in non-controlling interest related to Las Cruces for the years ended December 31.

	2010	2009
Opening balance	\$78,005	\$71,449
Changes in fair values of derivatives	-	1,038
Non-controlling interest share of net income	(1,112)	5,831
Non-controlling interest share of capital funding	-	14,961
Foreign exchange and other	(8,867)	(9,430)
Reclassification from <i>Accumulated other comprehensive income</i> to net income:		
Recognition of gain on foreign exchange forward contract	-	(7,457)
Recognition of loss on interest rate swap contract	-	3,112
Amortization of foreign exchange forward contract	-	(1,499)
Acquisition of non-controlling interest (note 2)	(68,026)	-
Closing balance at December 31	\$ -	\$78,005

18. Pension plans

We provide a defined contribution retirement benefit for employees in Canada.

The other jurisdictions we operate in either have state pension arrangements or receive no pension benefits.

Defined contribution plans

Certain employees take part in the defined contribution employee benefit plans. The costs of these plans represent the contributions we are required to make, based on employee salaries.

For certain executives, our total contribution to the defined contribution component of the registered plan including the annual cash payment in lieu of a supplementary pension plan is equivalent to 9 to 12 percent of their salary and bonus.

Our service costs for these plans were \$1.3 million in 2010 and \$1.9 million in 2009.

We expense these amounts as they come due.

19. Commitments and contingencies

Çayeli – Purchase of Teck Cominco Madencilik Sanayi A. Ş.

In 2004, Çayeli purchased all of the shares of Teck Cominco Madencilik Sanayi A.S., now Artvin Bakir Madencilik Isletmeleri A.S. (ABMI), for US \$11 million from an associated entity of Teck Cominco Limited. ABMI owns the Cerattepe copper property. Çayeli paid US \$2 million at closing and has two optional installments of US \$4.5 million each for the remainder of the purchase price. The payment of the first optional installment was deferred with the agreement of the seller as local non-governmental organizations made two related applications to cancel the operating licences for the Cerattepe property (note 27).

Under an agreement with the seller, the first optional installment is due 30 days after the Supreme Administrative Court's decision on the appeal. If Çayeli elects not to pay this installment, it must transfer the ABMI shares back to the seller.

Las Cruces – royalty payment

Las Cruces is responsible for payment of a royalty associated with the sale of its copper production if the average price for copper is higher than US \$0.80 per pound in the month the sale is completed. It is calculated as 1.5 percent of copper sold at US \$0.80 or more, multiplied by the number of pounds sold.

Freight, insurance and other costs associated with the sale are deducted from the royalty to be paid. When partially processed copper is sold, smelting and refining charges and other similar charges are also deducted in calculating the royalty.

Financial assurance

At December 31, 2010, we provided \$75.6 million in financial assurance to meet our obligations related to environment and other matters. The following table shows the security we are providing assurance for and how it has been secured.

Obligation requiring security	Secured by cash (restricted cash - note 5)	Secured by bank facility	Total
Reclamation and restoration (note 15)			
Inmet Mining	\$9,397	\$ -	\$9,397
Pyhäsalmi	1,632	-	1,632
Troilus	4,043	-	4,043
Las Cruces	32,654	-	32,654
Cobre Panama	-	5,222	5,222
	47,726	5,222	52,948
Executive pension obligation at Inmet Mining	3,174	-	3,174
Labour bond at Las Cruces	6,660	-	6,660
Water treatment at Las Cruces	12,059	-	12,059
Other at Las Cruces	765	-	765
Total	\$70,384	\$ 5,222	\$ 75,606

Las Cruces was required to post a restoration bond and a labour bond before mining activity could begin.

The restoration bond is based on the amount of money it would take to restore the site to its post-mining land use at any point in the mine's life. The initial amount of the restoration bond was set at €14.8 million. This takes into consideration the mine's expected life, the corresponding land disturbance and estimated closure costs. In 2010, the bond was increased by €1.2 million (2009 – €5.4 million) because of mining and development activity at the property, and is fully cash collateralized.

The labour bond is fixed at €5 million for the life of the mine and is secured with a cash collateralized letter of credit.

Las Cruces has provided letters of credit of €9.1 million to the local Spanish water authority related to water treatment. These letters of credit are fully cash-collateralized.

Las Cruces – Subsidies

In previous years, Las Cruces received €53.1 million in subsidy grants under government assistance programs in the European Union. Las Cruces must meet certain minimum employment investment and share capital requirements for a five year period ending September 30, 2014, or it must repay the subsidies it has received. It expects to meet these conditions and recognized the €53.1 million in subsidies as a reduction of the cost of the related property, plant and equipment. In 2009, these subsidies were partially secured with cash collateral of €8.4 million. In 2010, this requirement for cash collateral was removed (note 5).

Option Agreement with LS Nikko – Cobre Panama

In 2009, we entered into an agreement with LS-Nikko Copper Inc. (LS-Nikko), which gives it the option to acquire a 20 percent interest in Cobre Panama. LS-Nikko is holding the option through a wholly owned subsidiary, Korea Panama Mining Corp (KPMC).

During the option period, we and KPMC will fund our proportionate share of Cobre Panama's development costs up to US \$150 million. We will fund 100% of development costs that exceed US \$150 million during this period.

Following a public announcement of a decision in respect of the construction and development of the project as described in the final FEED study, KPMC will have 60 days to exercise its option. If it chooses to exercise the option, KPMC will invest in Cobre Panama its proportionate share of our US \$501 million investment or approximately US \$125.5 million for a 20 percent interest.

We are recognizing KPMC's funding during the option period as a reduction of Cobre Panama's deferred development, and recognized an additional US \$14 million in 2010 (2009 – US \$3 million).

Subscription Agreement with Temasek

On March 31, 2010, we entered into a subscription agreement with a subsidiary of Temasek Holdings (Private) Limited (Temasek), under which Temasek agreed to buy 9.26 million subscription receipts at a price of \$54.0049 each, exchangeable on a one-for-one basis for Inmet common shares, for total proceeds of \$500 million.

On December 23, 2010, the agreement was amended such that each subscription receipt will now be exchangeable for 0.840283 of an Inmet common share, representing a subscription price per Inmet common share of \$64.2699, or a 15 percent discount to the five day volume-weighted average price of Inmet common shares on the Toronto Stock Exchange as at December 22, 2010. The subscription receipts will now be automatically exchanged no later than 150 days after the coming into effect of legislation to amend the Code as described below. Upon exchange of the subscription receipts, Inmet's issued and outstanding shares will increase to 69.3 million common shares. Temasek will receive 7.78 million Inmet common shares, that would represent approximately 11.2 percent of Inmet's issued and outstanding common shares at that time, on a non-diluted basis.

The subscription receipts are exchangeable into Inmet common shares, subject to the satisfaction of certain conditions, including the coming into effect of legislation passed by the legislative assembly of the Republic of Panama amending Panama's Mineral Resources Code (the "Code") to permit entities in which foreign governmental bodies or authorities have an interest to hold direct or indirect interests in mining concessions in Panama.

Inmet and Temasek have also amended the investor rights agreement previously executed between them that will take effect upon exchange of the subscription receipts for common shares. Under the amended investor rights agreements, subject to certain conditions and exceptions, Temasek and members of its group will now be permitted to divest their Inmet common shares (or economic interest therein), or increase their ownership of Inmet common shares, after a period of four months following the exchange of the subscription receipts for Inmet common shares.

The subscription receipt proceeds will remain in escrow pending exchange of the subscription receipts for common shares. On completion of the exchange, the escrowed funds will be released to Inmet and the proceeds will be used by Inmet for the development of its Cobre Panama project and for general corporate purposes.

The legislation to amend the Code passed final reading in the Panamanian Assembly and came into effect in February 2011. However, these modifications were subsequently repealed by the National Assembly of Panama and given legal effect on March 18.

Law 9, the legal regime that establishes the Cobre Panama mineral concession, was not affected by the repeal of the modified Code. In addition, under operation of Panamanian law, the repeal of the modified Code did not reinstate certain provisions of the Code that contained impediments to the ability of foreign state-owned entities from owning interests in mining concessions.

20. Share capital

Our articles of incorporation provide for an unlimited number of preferred shares, subordinate voting participating shares and common shares.

The table below lists the shares that have been issued.

	2010		2009	
	Common shares	Amount	Common shares	Amount
Balance, beginning of year	56,107	\$669,952	48,282	\$337,464
Acquisition of Las Cruces (note 2)	5,442	345,746	-	-
Equity offering (net of transaction costs)	-	-	7,825	332,488
Balance, end of year	61,549	\$1,015,698	56,107	\$669,952

In 2010, we issued 5.4 million common shares as part of the acquisition of the non-controlling interest in Las Cruces (note 2). In 2009, we closed a bought deal offering of 7.8 million common shares at an offering price of \$44.50 per share, for gross proceeds of \$348 million (\$332 net of transaction costs).

Capital management

Our objectives when managing capital are to:

- ensure we have the financial capacity to support our operations throughout the metals and materials cycles with sufficient capability to manage unforeseen operational or industry developments
- ensure we have the capital and capacity to support our long-term growth strategy
- provide investors with superior returns over time.

Our capital structure reflects the requirements of a company focused on significant growth in a capital intensive industry. We face lengthy development lead times, as well as risks associated with rising capital costs and timing of project completion because of the availability of resources, permits and other factors beyond our control. Our operations are also affected by potentially significant volatility of the metals and materials cycles.

We continually assess the adequacy of our capital structure and make adjustments within the context of our strategy, the base metal mining industry, economic conditions and the risk characteristics of our assets. To adjust or maintain our capital structure, we may adjust the amount of our long-term debt, enter into new credit facilities and adjust the amount of dividends paid to our shareholders or issue new shares.

We have several key policy guidelines for managing our capital structure:

- maintain a liquidity cushion that allows us to address operational and/or industry disruptions or downturns
- make sure we have enough funding to complete our development programs at or around the time we make a definitive decision to move forward with a project
- maintain a conservative level of debt relative to total capital and earnings within the context of our financial forecasts for pricing, costs and production
- outperform the TSX/S&P Mining Index over time, thereby providing superior returns to our shareholders

We monitor our capital using the following measures:

	2010	2009	Target requirement
Gross debt to total capitalization	1%	1%	< 25%
Interest coverage ratio	508	42	>3
Total debt service ratio	508	4.5	>1.5

Gross debt to total capitalization		2010	2009
Long-term debt		\$16,619	\$200,026
Less: loans from non-controlling shareholder		-	(181,932)
Total long-term debt	(A)	\$16,619	\$18,094
Total shareholders' equity	(B)	\$2,758,484	\$2,238,145
Gross debt to total capitalization	(A) / (B)	1%	1%

Interest coverage ratio		2010	2009
Earnings before interest, taxes, depreciation, amortization (EBITDA):			
Net income		\$358,898	\$269,169
Add back:			
Interest expense		6,873	1,977
Income tax expense		134,682	120,854
Depreciation		81,844	61,752
EBITDA	(A)	\$582,297	\$453,752
Interest paid on long-term debt	(B)	\$1,146	\$10,811
Interest coverage ratio	(A) / (B)	508	42

Total debt service ratio		2010	2009
EBITDA	(A)	\$582,297	\$453,752
Debt service:			
Interest paid on long-term debt		\$1,146	\$10,811
Principal repayments of long-term debt		-	314,604
Less: early repayment of Las Cruces credit facility – Tranche A ⁽¹⁾		-	(224,272)
Total debt service	(B)	\$1,146	\$101,143
Total debt service ratio	(A) / (B)	508	4.5

⁽¹⁾ This has been added back as the repayment was elected to be made in advance of contractual obligations in order to increase our financing capacity for the development of Cobre Panama.

21. Contributed surplus

The table below summarizes the changes in contributed surplus during the year ended December 31:

	2010	2009
Contributed surplus, beginning of year	\$63,296	\$61,925
Share award for 2008 performance (note 22(c))	-	(1,060)
Share award for 2009 performance (note 22(c))	-	(857)
Compensation expense	1,676	3,288
Contributed surplus, end of year	\$64,972	\$63,296

22. Stock based compensation

The table below shows the change in the stock based compensation equity during the year.

	2010	2009
Balance, beginning of year	\$5,170	\$2,688
Stock based compensation expense		
– Deferred share units (a)	990	368
– Long-term incentive plan (b)	382	2,114
Balance, end of year	\$6,542	\$5,170

We include stock based compensation expense in *general and administration*. Inmet Mining has the following stock based compensation plans:

(a) Deferred share unit program for non-employee directors

Inmet Mining has a deferred share unit (DSU) program that allows directors to receive director fees in the form of deferred share units rather than cash. Directors can only redeem their DSUs for Inmet common shares when they retire.

The table below shows the changes to the deferred share units during the year.

Deferred share units	2010		2009	
	Units (thousands)	Amount	Units (thousands)	Amount
Balance, beginning of year	91	\$1,756	83	\$1,388
Granted during the year	17	990	8	368
Balance, end of year	108	\$2,746	91	\$1,756

The deferred share units are recorded in equity at an average price of \$25.43 per unit in 2010 and \$19.30 per unit in 2009.

(b) Long-term incentive plan for employees

Inmet Mining has a long-term incentive plan (LTIP) that ties a portion of incentive compensation for our Canadian based executive officers to the completion of specific development projects as defined under the plan.

A maximum of 500,000 performance units (each exchangeable for one common share of Inmet Mining) can be issued under the LTIP. During 2009, the performance units of 43,000 related to Cerattepe granted previously were cancelled due to the status of the project (note 27).

The Board of Directors (Board) uses its discretion to determine the vesting date for an award, but vesting is generally when the development project is determined to be substantially complete and has operated for enough time to be able to assess its ongoing operating parameters.

The Board determines the number of units that vest by assessing senior management's performance against the expectations underlying the Board's original decision to develop the project. We calculate the stock based compensation expense using the estimated vesting date for the project associated with an award, and an estimate of senior management's ultimate performance for an award based on performance to date (estimated performance).

The table below shows the changes to the LTIP units during the year.

LTIP units	2010		2009	
	Units (thousands)	Amount	Units (thousands)	Amount
Balance, beginning of year	251	\$3,415	344	\$1,300
Cancelled during the year	-	-	(93)	-
Stock based compensation expense	-	382	-	2,115
Balance, end of year	251	\$3,797	251	\$3,415

The table below provides the details of the outstanding LTIP awards by project at December 31.

2010					
Project	Number of units (thousands)	Grant date fair value	Estimated performance	Estimated vesting date	Cumulative expense
Cobre					
Panama	165	\$7,337	-%	December 31, 2015	\$ -
Las Cruces	86	7,594	50%	March 31, 2011	3,797
Total	251	\$14,931	-%	-	\$3,797

2009					
Project	Number of units (thousands)	Grant date fair value	Estimated performance	Estimated vesting date	Cumulative expense
Cobre					
Panama	165	\$7,337	-%	December 31, 2015	\$ -
Las Cruces	86	7,594	50%	March 31, 2010	3,415
Total	251	\$14,931	-%	-	\$3,415

(c) Share award plan for employees

A share award plan (SAP) forms part of senior management's performance-based compensation. At the time a share award is made, an equivalent number of Inmet common shares is purchased on the open market and recorded against contributed surplus. The share awards vest evenly over a period of four years.

We recognized a stock based compensation expense for the SAP of \$1.7 million in 2010 and \$3.3 million in 2009.

The table below is a breakdown of unrecognized share awards under the plan by year of award.

Year	Amount
2007	\$726
2008	651
2009	649
	\$2,026

23. Net income per share

The tables below show our calculation of basic and diluted net income per share.

(thousands)	2010	2009
Income available to common shareholders	\$358,898	\$269,169

(thousands)	2010	2009
Weighted average common shares outstanding	56,345	52,334
Plus incremental shares from assumed conversions:		
Deferred share units	108	91
Long-term incentive plan units	43	43
Diluted weighted average common shares outstanding	56,496	52,468

(Canadian dollars per share)	2010	2009
Basic net income per common share	\$6.37	\$5.14
Dilutive effect from assumed conversions of deferred share units and long-term incentive plan units per common share	(0.02)	(0.01)
Diluted net income per common share	\$6.35	\$5.13

We calculate basic net income per share by dividing income available to common shareholders by the weighted average number of shares.

We calculate diluted net income per share by taking into consideration the dilutive effects of DSUs and LTIP units using the treasury stock method. We adjust the weighted average number of common shares by the number of DSU's outstanding and the number of LTIP units that are expected to vest.

24. Accumulated other comprehensive loss

At December 31	2010	2009
Unrealized losses on gold forward sales contracts (net of tax of \$2,427 (2009 - \$2,015))	\$(5,661)	\$(4,701)
Unrealized losses on investments (net of tax of \$78 (2009 - \$4,788))	(452)	23,794
Currency translation adjustment	(212,106)	(61,169)
Accumulated other comprehensive loss	\$(218,219)	\$(42,076)

Our accounting policies for financial instruments are in notes 10, 11 and 29. In 2011, we expect to reclassify an estimated loss of \$27.7 million at December 31, 2010 from *Accumulated other comprehensive loss* to net income as a result of the sale of our interest in Ok Tedi (note 8).

Currency translation adjustments

The table below shows the breakdown of the accumulated currency translated adjustments at December 31.

	2010	2009
Pyhäsalmi (euro functional currency)	\$(24,413)	\$(5,308)
Las Cruces (euro functional currency)	(100,247)	(8,793)
Çayeli (US dollar functional currency)	(23,277)	(20,901)
Ok Tedi (US dollar functional currency)	(22,053)	(13,751)
Cobre Panama (US dollar functional currency)	(42,116)	(12,416)
	\$(212,106)	\$(61,169)

Çayeli, Ok Tedi, Pyhäsalmi, Las Cruces and Cobre Panama are self-sustaining foreign operations. For these operations, we translate to Canadian dollars using:

- the exchange rates in effect at year-end for assets and liabilities
- the average exchange rates during the year for income and expenses.

The Canadian dollar to US dollar exchange rate was \$0.99 at December 31, 2010 and \$1.05 at December 31, 2009. The Canadian dollar to euro exchange rate was \$1.33 at December 31, 2010 and \$1.50 at December 31, 2009.

We defer translation exchange gains and losses and record them in *Other comprehensive income*. When there is a return on our foreign investment through either a dividend or a repayment of intercompany debt, we recognize the portion of the deferred foreign exchange gains or losses through income.

We include exchange gains and losses on these amounts in *Investment and other income* (note 25) in the consolidated statements of earnings.

25. Investment and other income

	2010	2009
Interest income	\$8,234	\$4,706
Dividend and royalty income	3,173	1,335
Foreign exchange losses	(23,896)	(14,155)
Mark to market on Ok Tedi copper forward contracts (note 29(c))	-	(3,353)
Loss on recognition of settlement of Las Cruces interest rate swap contract (note 29(c))	-	(14,823)
Gain on recognition of settlement of Las Cruces foreign exchange forward contract (note 29(c))	-	35,615
Sale of investment in Premier Gold Mines Ltd.	50,505	-
Other	(2,600)	(194)
	\$35,416	\$9,131

Gain on sale of investment in Premier Gold Mines Ltd (Premier Gold)

We sold our 9.45 million common shares of Premier Gold Mines Limited this year for \$61.4 million in cash, or \$6.50 per share, and recognized a gain of \$50.5 million.

Foreign exchange

For transactions with foreign currencies we use:

- the exchange rates in effect at year-end for monetary assets and liabilities
- the exchange rates in effect on the date of the transaction for non-monetary assets and liabilities
- the exchange rates in effect on the date of the transaction for income and expenses

Foreign exchange gain (loss) is a result of:

	2010	2009
Translation of Las Cruces' US dollar-denominated debt (note 14)	\$ -	\$2,460
Translation of US dollar-denominated cash	(47)	(15,086)
Translation of other-monetary assets and liabilities	(1,193)	(353)
Reduction in our net investments	(22,656)	(1,176)
	\$(23,896)	\$(14,155)

26. Interest expense

	2010	2009
Promissory note:		
Interest paid at 6% face value	\$1,148	\$1,331
Amortization to fair value	618	646
Loans from non-controlling shareholder	5,107	-
	\$6,873	\$1,977

27. Asset impairment

On October 24, 2008 we received notice from the Rize Administrative Court in Turkey of its decision to cancel our operating licences for the Cerattepe property. We have appealed the decision to the Supreme Administrative Court and we are awaiting a final decision on the status of the licences from the court. We have decided that we will not proceed with the project, and all work has ceased. In 2009, we recognized an asset impairment charge of \$10 million to write down the assets to their fair value. We calculated the impairment charges using expected discount cash flows.

28. Income taxes

The table below is a reconciliation of income tax expense at Canadian statutory rates and the amount of pre-tax income and income tax expense reported in the statements of earnings.

	2010	2009
Income before income taxes and non-controlling interest	\$492,468	\$395,854
Canadian combined federal and provincial income tax rate	29.6%	31.0%
Expected income taxes	\$145,623	\$122,517
Tax effect of:		
Difference between Canadian rate and rates applicable to entities in other countries	(16,565)	(16,177)
Utilization of losses	(6,641)	(13,298)
Non taxable income	(26,087)	(15,200)
Non deductible expenses	15,092	20,087
Foreign exchange differences	(1,272)	(2,310)
Mining taxes	5,342	14,162
Withholding taxes	20,048	16,692
Other	(858)	(5,619)
Income tax expense	\$134,682	\$120,854

The tables below show our current and future income tax expenses.

2010

	Corporate	Çayeli	Las Cruces	Pyhäsalmi	Ok Tedi	Cobre Panama	Total
Current income taxes	\$6,013	\$38,706	\$(223)	\$26,765	\$70,508	\$ -	\$141,769
Future income taxes	1,509	(6,327)	(3,671)	1,103	299	-	(7,087)
Income tax expense	\$7,522	\$32,379	\$(3,894)	\$27,868	\$70,807	\$ -	\$134,682

2009

	Corporate	Çayeli	Las Cruces	Pyhäsalmi	Ok Tedi	Cobre Panama	Total
Current income taxes	\$14,591	\$30,745	\$ -	\$10,186	\$50,979	\$ -	\$106,501
Future income taxes	12,451	(10,957)	5,595	1,830	5,434	-	14,353
Income tax expense	\$27,042	\$19,788	\$5,595	\$12,016	\$56,413	\$ -	\$120,854

29. Financial instruments

Financial instruments include cash and any contracts that give rise to a financial asset to one party and a financial liability or equity instrument to another party. See the notes listed below for information about financial instruments:

- cash and short-term investments – note 3
- restricted cash – note 5
- accounts receivable – note 6
- investments in equity securities – note 10
- held to maturity investments – note 11
- accounts payable and accrued liabilities – note 13
- long-term debt – note 14

(a) Fair value

The table below shows the carrying values and fair values of our financial instruments at December 31:

	2010		2009	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Financial assets				
Cash and short-term investments	\$326,425	\$326,425	\$ 533,913	\$ 533,913
Restricted cash	70,676	70,676	116,719	116,719
Accounts receivable from metal sales	58,046	58,046	86,661	86,661
Held to maturity investments	372,530	373,893	99,884	100,882
Investments in equity securities	2,694	2,694	42,411	42,411
	\$830,371	\$831,734	\$879,588	\$880,586
Financial liabilities				
Accounts payable and accrued liabilities	\$112,150	\$112,150	\$123,795	\$123,795
Long-term debt	16,619	19,744	200,026	204,857
Derivative liabilities (note 29(c))	-	-	4,708	4,708
	\$128,769	\$131,894	\$328,529	\$333,360

Fair value is the value a financial instrument can be closed out or sold at, in a transaction with a willing and knowledgeable counterparty. This is usually the instrument's quoted market price. If a quoted market

price is not available, we determine fair value using models we have developed that use market-based or independent information.

We classify fair value measurements based on a three-level hierarchy that prioritizes the inputs to valuation techniques as follows:

- Level 1 – quoted prices in active markets for the same instrument;
- Level 2 – quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
- Level 3 – valuation techniques for which any significant input is not based on observable market data.

The table below discloses the classification level for financial instruments we measured at fair value in the balance sheet at December 31.

	2010	2009
Financial assets		
Cash and short-term investments	Level 1	Level 1
Restricted cash	Level 1	Level 1
Accounts receivable from metal sales	Level 2	Level 2
Investments in equity securities	Level 1	Level 1
Financial liabilities		
Derivative liabilities (note 29(c))	Level 2	Level 2

Cash and short-term investments, restricted cash, accounts receivable from metal sales, accounts payable and accrued liabilities

These have been designated as held for trading and are recorded at fair value. We record any changes in their fair value in net income. We record interest and dividends earned on cash and short-term investments, restricted cash and investments in *Investment and other income*.

For cash, we calculate fair value using published price quotations in an active market, where there is one. Otherwise fair value represents cost plus accrued interest, which is reasonable given its short-term nature. We record accounts receivable related to metal sales at fair value based on forward market metal prices on the date of the balance sheet. We record accounts payable at cost, which approximates fair value because of its short-term nature.

Most of our sales contracts set prices on a specified future date based on market commodity prices. Variations between the prices recorded on the date of revenue recognition and the actual final price due to changes in market prices result in the existence of an embedded derivative in accounts receivable. We adjust revenue and accounts receivable every period to reflect the change in the value of the contract based on the period end forward price and then record the change in fair value in revenue once the contract has settled.

At December 31, 2010, we had recorded \$28 million (December 31, 2009 – \$115 million) in revenues that were waiting for final settlement, representing shipments at Çayeli and Pyhäsalmi. This included:

- 3 million pounds of copper valued using an average forward rate of US \$4.37 per pound (2009 – 25 million pounds at US \$3.34 per pound)
- 15 million pounds of zinc valued using an average forward rate of US \$1.11 per pound (2009 – 23 million pounds at US \$1.15 per pound)

Investments

We designate our investments in equity securities as *available for sale* and record them at fair value (note 10). We designate our investments in long-term bonds as *held to maturity*, initially record them at fair value and later measure them at amortized cost (note 11).

Long-term debt

We designate all of our long-term debt as *other liabilities* and account for it at amortized cost (note 14). We record interest expense on long-term debt in *Interest expense* in the income statement unless it relates specifically to a development project and is capitalized as deferred development.

We calculate the fair value of the promissory note by discounting future cash flows by 3.7 percent, a factor that is based on market rates that have been adjusted for our credit quality. We determined that the fair values of the credit facility loans and loans to non-controlling shareholders approximated their carrying value because they accrued interest at prevailing market rates.

Derivatives and other contracts

We designate non-financial derivative contracts as *held for trading* and record them at fair value on the balance sheet. We include mark-to-market adjustments on these instruments in net income, unless the instruments are designated as part of a hedge relationship. We identify and separately account for embedded derivatives in contracts that were entered into or substantively modified on or after January 1, 2003. We use settlement date accounting for all contracts to buy or sell financial assets.

(b) Risks associated with financial instruments

Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument.

For cash, short-term investments, accounts receivable, and held to maturity investments, our credit risk is limited to the carrying amount on the balance sheet. Based on our cash and short-term investment profile at December 31, 2010, we do not anticipate any losses.

For derivatives, we have a credit risk when its fair value is positive but assume no credit risk when its fair value is negative.

We manage credit risk by:

- entering into transactions with high credit-quality counterparties
- limiting the amount of exposure to each counterparty where possible
- monitoring the financial condition of counterparties.

The table below shows the credit quality of our financial assets, not including accounts receivable, as at December 31, 2010:

	Standard & Poor's (S&P) credit rating				
	AA- or higher	A- or higher	B to BBB	Unrated ⁽¹⁾	Total
Cash and short-term investments	\$195,300	\$89,782	\$1,294	\$40,049	\$326,425
Restricted cash	-	70,676	-	-	70,676
Held to maturity investments	241,437	131,093	-	-	372,530
Balance, end of year	\$436,737	\$291,551	\$1,294	\$40,049	\$769,631
Number of counterparties	18	9	3	1	31
Largest counterparty (percent)	17%	38%	97%	100%	14%

⁽¹⁾ represents our investment in a Canadian money market fund that is unrated as is common in the Canadian fund marketplace. The underlying securities of the fund are with counterparties with S&P ratings of A- or higher at December 31, 2010.

Accounts receivable

We only sell the metal we produce to counterparties that are considered credit-worthy and are experienced in the base metals industry. We carry out counterparty credit checks following our authorization policy and do not expect any losses. Counterparties we contract with must have an S&P rating of at least B or its equivalent, if they receive a rating. Companies without a credit rating must have a

good credit history based on a credit search. Some companies are required to pay cash in advance of delivery.

For the year ended December 31, 2010, one customer accounted for 22 percent of total sales and 54 percent of accounts receivable. In 2009, one customer accounted for 17 percent of total sales and 44 percent of accounts receivable at year-end.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet the obligations associated with our financial liabilities. Our objectives and key guidelines for capital management, including our management of long-term debt, are described in note 20. We also have a liquidity policy to help us manage this risk that requires us to:

- invest only in highly liquid instruments with high quality counterparties
- ensure adequate liquidity lines are in place to support our investments
- ensure our investments are aligned with our liquidity requirements
- limit the amount of our investment exposure to individual counterparties.

The table below shows our liquidity risk profile at December 31, 2010:

	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due more than 5 years	2010
Cash and short-term investments (see also credit quality table on previous page)	\$326,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$326,425
Accounts receivable	91,893	-	-	-	-	-	91,893
Restricted cash	617	-	-	-	-	70,059	70,676
Held to maturity investments	53,915	90,979	74,728	68,436	84,472	-	372,530
Accounts payable and accrued liabilities	(153,111)	-	-	-	-	-	(153,111)
Promissory note	-	-	(16,619)	-	-	-	(16,619)
	\$319,739	\$90,979	\$58,109	\$68,436	\$84,472	\$70,059	\$691,794

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change. These include changes in metal prices, foreign exchange rates and interest rates.

Metal prices

The most significant factor affecting our earnings is the price of the metals we produce and sell. This has an impact on our sales revenues. Copper, zinc and gold prices are affected by factors beyond our control and mainly 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.

Metal prices also have a significant impact on smelter processing charges. 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. Some contracts also include a price participation clause where the smelter participates to some extent in the upward and downward movement in metal prices.

Foreign exchange rates

Some of our operations can have financial instruments that are denominated in a currency that is not their functional currency, creating foreign exchange risk. Pyhäsalmi has accounts receivable denominated in US dollars, but its functional currency is the euro. Changes in the exchange rates between the Canadian dollar and the US dollar and between the US dollar and the euro can therefore have a significant effect on revenues and net income.

Interest rates

Interest rate risk is the risk that the value of our assets and liabilities will change when the related interest rates change. We consider interest rate risk related to our cash, short-term investments and restricted cash to be low, because of the short-term nature of these securities. Changes in interest rates related to our held to maturity investments do not affect net income and *Other comprehensive income* because we measure these assets at amortized cost. Changes in interest rates do not currently have a significant impact on our interest expense because interest on our promissory note payable is fixed and we acquired Leucadia's interest in Las Cruces' sponsor loans in December 2010 (note 2).

The table below is an analysis of our sensitivity to significant unsettled market risk exposures, based on the financial instruments we held as at December 31, 2010, assuming all other variables remain constant.

It shows how net income and other comprehensive income would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

Sensitivity analysis

	A change of:	Would have changed our 2010 after-tax net income by:	Would have changed our 2010 other comprehensive income by:
Metal prices			
Copper (per pound)	US \$0.30	\$2 million ⁽¹⁾	\$ -
Zinc (per pound)	US \$0.10	\$1 million ⁽¹⁾	\$ -
Exchange rates ⁽³⁾			
US dollar per euro	US \$0.10	\$5 million ⁽²⁾	\$ -

⁽¹⁾ impact on gross sales awaiting final settlement and related smelter processing charges.

⁽²⁾ impact on US dollar-denominated accounts receivable at Pyhäsalmi and long-term debt at Las Cruces.

⁽³⁾ excludes foreign currency risk arising from the translation of our self-sustaining foreign subsidiaries to Canadian dollars because this exposure is limited to our net investment in these operations, which is not a financial instrument.

(c) Derivatives and hedging

We use three kinds of derivatives to manage our exposure to market risks:

- *forward sales contracts* to hedge against changes in commodity prices for a portion of our forecasted gold production
- *foreign exchange forward contracts* to hedge against changes in the value of the US dollar relative to the euro
- *interest rate swap contracts* to hedge against the impact of changes to interest rates on our floating rate interest payments

Our risk management policy is designed to help us mitigate the impact of these market risks, to provide certainty for a portion of our revenues, to control costs and to allow us to plan our business with greater control. We believe that derivatives are an effective means of managing these risks. The primary objective of the hedging elements of our derivative positions is to offset changes in the values of hedged items. Most of the derivatives we used are designated in a hedge accounting relationship. Ok Tedi's copper forward sales contracts, which concluded in 2009, were designated as non-hedge derivatives.

Our use of derivatives is based on established practices and parameters, which are subject to the oversight of the Board of Directors. We do not use derivatives for speculative or trading purposes.

The table below shows the fair value of our derivatives at December 31:

	2010	2009
Gold forward sales contracts – Ok Tedi	\$5,656⁽¹⁾	\$4,499
Copper forward sales contracts – Ok Tedi	-	209
Derivative liabilities	\$5,656	\$4,708

⁽¹⁾ In 2010, our 18 percent share portion of the fair value of Ok Tedi's gold forward sales contracts has been classified as *liabilities associated with assets held for sale* (note 8).

Accounting policy for derivatives

We record derivatives on the balance sheet at fair value. On the date we enter into a derivative that is accounted for under CICA 3855, we designate it as a hedging instrument or a non-hedge derivative. A hedging instrument is designated in either:

- a fair value hedge relationship with a recognized asset or liability, or
- a cash flow hedge relationship with either a forecasted transaction, the variable future cash flows arising from a recognized asset or liability, or a foreign currency risk in an unrecognized firm commitment.

We currently only have gold forward sales contracts in Ok Tedi as part of cash flow hedge relationships.

We designated Ok Tedi's copper forward sales contracts as non-hedge derivatives. Changes in the fair value of these contracts were recorded in *Investment and other income*. This hedge program concluded in 2009.

At the inception of a hedge, we formally document all relationships between hedging instruments and hedged items, including the related risk-management strategy. This documentation includes linking all hedging instruments to specific assets and liabilities, specific forecasted transactions, firm commitments or variable future cash flows. It also includes the method of assessing retrospective and prospective hedge effectiveness. We assess at the end of every quarter whether hedging instruments are expected to be highly effective in offsetting risk in the future. If a hedging instrument is not expected to be highly effective, we stop hedge accounting prospectively. In this case, accumulated gains or losses remain in *other comprehensive income* until the hedged item affects earnings.

We also stop hedge accounting prospectively if:

- a derivative is settled
- it is no longer highly probable that a forecasted transaction will occur
- we de-designate a hedging relationship.

If we conclude that it is probable that a forecasted transaction will not occur in the originally specified time frame, or within a further two-month period, we immediately transfer all gains and losses accumulated in *other comprehensive income* to earnings. When hedge accounting stops, the derivative is reclassified as a non-hedge derivative prospectively.

We classify cash flows from a derivative in the same category as the cash flows from the item it hedges. We record cash flows from non-hedge derivatives as operating cash flows.

We record derivatives on the balance sheet at fair value and record changes in the fair value of derivatives at the end of every period.

- Fair value hedges: we record the change in the fair value of the derivative and the item it hedges in earnings.

- Cash flow hedges: we record the change in the fair value of the derivative in *other comprehensive income* until earnings are affected by the item it hedges, except for any hedge ineffectiveness which we immediately record in earnings.
- Non-hedge derivatives: we record the change in the fair value of the derivative in *investment and other income*.

Gold and copper forward sales contracts

Ok Tedi used gold and copper forward sales contracts for a small portion of its life-of-mine production to equalize future payments under the negotiated Community Mine Continuation Agreements. The remaining copper forward sales contracts concluded during 2009.

The gold contracts have been designated against future gold sales as a cash flow hedge of the variability in market prices on those future sales. The hedged item is the first stated number of ounces of forecasted sales in a future month.

We use the dollar offset method to assess the prospective and retrospective effectiveness of a hedging relationship.

- To assess the effectiveness of a derivative prospectively, we compare the effect of theoretical shifts in forward gold prices on the fair value of the actual derivative and a hypothetical derivative.
- To assess its effectiveness retrospectively, we compare the effect of historical changes in gold prices each period on the fair value of the actual and the hypothetical derivative.

We record the effective portion of a change in a gold contract's fair value in *Other comprehensive income* until forecasted gold sales affect earnings.

The table below shows our share of Ok Tedi's gold forward sales contracts at December 31, 2010.

Type of contract	Expiry	Quantity	Price	Recognized fair value at December 31, 2010
Gold forward sales				
	2011	3,600 ounces	US \$775 per oz.	
	2012	3,600 ounces	US \$803 per oz.	
	2013	1,800 ounces	US \$825 per oz.	
		9,000 ounces	US \$796 per oz.	\$(5.7 million) ⁽¹⁾

⁽¹⁾ Hedge derivatives valued using an average forward gold price of US \$1,421 per ounce

Foreign exchange forward contract

Las Cruces borrowed against its credit facility (note 14) in euros, but the credit facility was set to ultimately convert to a US dollar denominated loan with a maximum limit of US \$215 million. On June 30, 2008, we converted the loan to US dollars. To fix the amount of euros under the facility, Las Cruces had entered into a forward contract to exchange US \$215 million for €171.1 million on June 30, 2008.

We designated the forward contract as a cash flow hedge against changes in the US dollar and euro currency exchange rates until the loan was converted to a US dollar loan, and identified the hedged item as the first US \$215 million of loan converted.

We assessed the effectiveness of this hedge using linear regression. This involved comparing changes in the present value of the expected value of the forward contract with changes in the present value of the anticipated borrowings in US dollars. We recorded the effective portion of the changes in fair value of the instrument in *Other comprehensive income*.

On June 30, 2008, Las Cruces' currency forward sale settled and Las Cruces received €32.6 million. Because this hedge was highly effective from inception to the date of settlement, we continued to apply hedge accounting for this contract. We continued to defer the gain on settlement in *Accumulated other*

comprehensive income, recognizing it in income as a reduction of interest costs over the life of Las Cruces' credit facility – Tranche A. In 2009, Las Cruces capitalized interest on long-term debt as a cost of deferred development, and recognized the \$7.6 million of amortized gains as a reduction of this interest. We realized the remaining deferred gain of \$36 million in *investment and other income* when we repaid the Las Cruces credit facility in 2009.

Interest rate swap contract

In 2008, Las Cruces was required to start making floating rate interest payments on its credit facility. To hedge its exposure to changes in US LIBOR, Las Cruces entered into an interest rate swap contract to fix the interest rate at 5.2 percent plus a loan margin of between 1.75 and 2.0 percent.

We designated this forward contract as a cash flow hedge of the variability in the forecasted interest payments to be made on Las Cruces' credit facility. The table below shows the notional amounts of debt hedged by period.

	Notional amount of debt
July 1, 2008 to June 30, 2009	US \$179 million
July 1, 2009 to December 31, 2009	US \$167 million
January 1, 2010 to June 30, 2010	US \$155 million
July 1, 2010 to December 31, 2010	US \$137 million
January 1, 2011 to June 30, 2011	US \$119 million
July 1, 2011 to December 30, 2011	US \$101 million
January 1, 2012 to June 29, 2012	US \$83 million
June 30, 2012 to December 31, 2012	US \$65 million
January 1, 2013 to June 28, 2013	US \$47 million
June 29, 2013 to December 31, 2013	US \$29 million
January 1, 2014 to June 30, 2014	US \$11 million

Because we capitalize interest on long-term debt as a cost of deferred development, we recognized the interest payable or receivable under the interest rate swap contract at each balance sheet date, making a corresponding adjustment to *Interest expense* or *Property, plant and equipment*.

We assessed the effectiveness of the hedge using linear regression. This involved comparing changes in the present value of the expected value on the interest rate swap contract with changes in the present value of the anticipated interest rate payments. We recorded the effective portion of changes in fair value of the instrument in *Other comprehensive income*.

In 2009, in connection with the decision to repay its credit facility (note 14), Las Cruces paid \$16 million to terminate its interest rate swap contract. We recognized the \$15 million loss that we had been deferring in *Accumulated other comprehensive income*, in *Investment and other income*.

30. Income taxes included in other comprehensive income

The table below shows the breakdown by component of the income tax recovery (expense) included in other comprehensive income:

	2010	2009
Changes in the fair value of gold forward sales contract	\$412	\$985
Changes in the fair value of interest rate swap contracts	-	(1,482)
Recognition of gain on foreign exchange forward contract	-	10,652
Recognition of loss on interest rate swap contract	-	(4,449)
Amortization of gain on foreign exchange forward contract	-	2,140
Recognition of gain on sale of investments	7,313	-
Changes in fair value of investments	(2,447)	(4,121)
	\$5,278	\$3,725

31. Subsequent events

Merger with Lundin Mining Corporate to create Symterra Corporation

On January 12, 2011, we entered into an arrangement with Lundin Mining Corporation (Lundin) to merge, and create Symterra Corporation (Symterra), a leading international copper producer with a significantly increased market value.

Under the terms of the arrangement, Inmet Mining shareholders will receive 3.4918 shares of Symterra for every Inmet share they hold, and Lundin shareholders will receive 0.3333 shares of Symterra for every Lundin share they hold.

Inmet and Lundin shareholders must both approve the proposed merger by two thirds of the votes cast at special shareholder meetings held to consider it. The shareholder meetings are expected to be held on April 4, 2011.

Each company has agreed to pay the other a break fee of \$120 million in the event the merger is not completed for certain reasons.