

# **INMET MINING CORPORATION**

Management's Discussion and Analysis of Results of  
Operations and Financial Condition

For the Year Ended  
December 31, 2010

## MANAGEMENT'S DISCUSSION & ANALYSIS

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*The management's discussion and analysis (MD&A) contains important information that can help you make an informed decision about Inmet Mining Corporation. It describes our business, our risks, our performance and prospects, our financial condition and other factors that affect us.*

## ABOUT THIS DOCUMENT

Throughout this MD&A, the terms we, us, our and Inmet mean Inmet Mining Corporation and its subsidiaries and joint ventures. Inmet Mining means Inmet Mining Corporation only. All information in this MD&A is as of March 23, 2011 unless otherwise indicated. All currency amounts are in Canadian dollars unless otherwise indicated.

At December 31, 2010, our principal subsidiaries and joint ventures included:

|  | Ownership (%) | Jurisdiction     |
|--|---------------|------------------|
| Çayeli Bakir Isletmeleri A.S. (Çayeli) | 100           | Turkey           |
| Cobre Las Cruces S.A. (Las Cruces)     | 100           | Spain            |
| Pyhäsalmi Mine Oy (Pyhäsalmi)          | 100           | Finland          |
| Ok Tedi Mining Limited (Ok Tedi)       | 18            | Papua New Guinea |
| Minera Panama S.A. (Cobre Panama)      | 100           | Panama           |

### Forward-looking information

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

These statements are "forward-looking" because we have used what we know and expect today to make a statement about the future. Forward-looking statements usually include words like may, expect, anticipate, believe or other similar words. Our objectives and outlook have been prepared based on our existing operations, expectations and circumstances. If the proposed merger with Lundin occurs, actual results would be substantially different. We believe the expectations reflected in these forward-looking statements are reasonable. Actual events and results could be substantially different, however, because of the risks and uncertainties associated with our business or events that happen after the date of this MD&A.

You should not place undue reliance on forward-looking statements. As a general policy, we do not update forward-looking statements except if there is an offering document or where securities legislation requires us to do so.

## Controls and procedures

### DISCLOSURE

We have controls and procedures designed to make sure all important information about Inmet, including our operating and financial activities, is communicated fully, accurately and in a timely way. We believe these controls are effective, which gives us reasonable assurance that all material information is included in this report.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Our internal controls and procedures give us reasonable assurance that our financial reporting is accurate and that our financial statements have been prepared in accordance with Canadian generally accepted accounting principles. We did not make any material changes to our controls over financial reporting during 2010, and believe the controls over financial reporting we have in place were effective for the periods we are reporting on.

## **OUR BUSINESS**

Inmet is a Canadian-based global mining company that produces base metals with a focus on copper. Our strategy is to grow responsibly as a base metal mining company, providing superior returns to shareholders. We offer investors a unique value proposition: stable, low cost operations, significant near term growth with Las Cruces, a strong financial position and, over the medium term, a significant increase in exposure to copper through the Cobre Panama development opportunity. We have global expertise: we have been in the base metal mining business since 1986 and operate and develop underground and open pit mines safely, responsibly and cost effectively.

At December 31, 2010, we had four operating properties and one development property around the world, all in politically stable, low risk jurisdictions:

### **ÇAYELI**

Çayeli is an underground mine on the Black Sea coast of northeastern Turkey. It produces copper and zinc concentrates, which are sold to international and domestic smelters and traders.

### **LAS CRUCES**

Las Cruces is an open pit mine in southern Spain. Las Cruces uses leaching and electrowinning technology to produce copper cathode. The plant is designed to produce approximately 72,000 tonnes of copper cathode per year which are sold to buyers in the Spanish and Mediterranean markets.

### **PYHASÄLMI**

Pyhäsalmi is an underground copper and zinc mine in central Finland. It produces copper, zinc and pyrite concentrates. Copper and zinc concentrates are sold under long-term contracts to smelters in Finland. Pyrite is sold under contract to customers in Europe and Asia as well as in the spot market.

### **OK TEDI**

Ok Tedi is an open pit copper and gold mine in the Star Mountains Region, Papua New Guinea. It produces a gold rich copper concentrate and gold recovered from the gravity circuit. The copper concentrate is shipped to several international smelters, largely by ocean going vessels. On December 2, 2010, we announced an agreement with Ok Tedi Mining Limited for it to repurchase our 18 percent equity interest in Ok Tedi for US \$335 million. This transaction closed on January 28, 2011.

### **COBRE PANAMA**

Cobre Panama is an open pit copper development project in Panama that has the potential to significantly increase our copper production by 2016.

### **CLOSED OPERATION**

In mid-2010, we concluded operations at Troilus, an open pit gold and copper mine in northern Quebec, Canada. It produced a high gold, low copper-containing copper concentrate, and gold doré (bullion).

## SELECTED ANNUAL INFORMATION

| Financial highlights   | 2010     | 2009    | 2008    | Change<br>(2009 to 2010) |
|--|----------|---------|---------|--------------------------|
| <i>(millions, except per share amounts, and in Canadian dollars)</i> |          |         |         |                          |
| <b>Sales</b>   |          |         |         |                          |
| Gross sales  | \$ 1,098 | \$ 984  | \$ 945  | +12%                     |
| <b>Net income</b>  |          |         |         |                          |
| Net income   | \$ 359   | \$ 269  | \$ 217  | +33%                     |
| Basic net income per share   | \$ 6.37  | \$ 5.14 | \$ 4.49 | +24%                     |
| Diluted net income per share   | \$ 6.35  | \$ 5.13 | \$ 4.48 | +24%                     |
| <b>Cash flow</b>   |          |         |         |                          |
| Cash flow provided by operating activities                           | \$ 409   | \$ 323  | \$ 325  | +27%                     |
| Cash flow provided by operating activities per share <sup>(1)</sup>  | \$ 7.26  | \$ 6.17 | \$ 6.72 | +18%                     |
| <b>Capital spending</b>  | \$ 144   | \$ 268  | \$ 461  | -46%                     |
| <b>Dividends per share declared and paid</b>                         | \$ 0.20  | \$ 0.20 | \$ 0.20 | -                        |

| Financial condition                               | Dec 31<br>2010 | Dec 31<br>2009 | Dec 31<br>2008 | Change<br>(2009 to 2010) |
|---|----------------|----------------|----------------|--------------------------|
| Current ratio                                     | 3.4 to 1       | 4.2 to 1       | 2.4 to 1       | -19%                     |
| Gross debt to total equity <sup>(2)</sup>         | 1%             | 1%             | 19%            | -                        |
| Net working capital balance (millions)            | \$ 611         | \$ 609         | \$ 475         | -                        |
| Cash balance including long-term bonds (millions) | \$ 699         | \$ 634         | \$ 573         | +10%                     |
| Total assets                                      | \$ 3,263       | \$ 2,904       | \$ 2,841       | +12%                     |
| Gross debt (millions) <sup>(2)</sup>              | \$ 17          | \$ 17          | \$ 363         | -                        |
| Shareholders' equity (millions)                   | \$ 2,758       | \$ 2,238       | \$ 1,868       | +23%                     |

| Operating highlights            | 2010    | 2009    | 2008    | Change<br>(2009 to 2010) |
|---------------------------------|---------|---------|---------|--------------------------|
| <b>Production<sup>(3)</sup></b> |         |         |         |                          |
| Copper (tonnes)                 | 94,300  | 83,600  | 80,500  | +13%                     |
| Zinc (tonnes)                   | 81,400  | 78,000  | 75,400  | +4%                      |
| Gold (ounces)                   | 125,400 | 228,400 | 244,100 | -45%                     |
| <b>Cash costs<sup>(4)</sup></b> |         |         |         |                          |
| Copper (US\$ per pound)         | \$ 0.49 | \$ 0.44 | \$ 0.52 | +11%                     |

(1) Cash flow provided by operating activities divided by average shares outstanding for the period.

(2) Gross debt includes long-term debt and the current portion of long-term debt. For comparative purposes, the 2009 balance excludes the non-recourse note that was owed from Las Cruces to its non-controlling shareholder.

(3) Inmet's share.

(4) Cash cost per pound of copper is a non-GAAP measure – see *Supplementary information* on pages 52 and 53.

## Corporate developments

### **MERGER WITH LUNDIN MINING CORPORATION TO CREATE SYMTERRA CORPORATION**

On January 12, 2011, we entered into an arrangement agreement with Lundin Mining Corporation (Lundin) to merge, and create Symterra Corporation (Symterra), an international copper producer.

The proposed merger will be effected by way of a Plan of Arrangement completed under the Canada Business Corporations Act. It will feature a common share exchange through which Inmet common shareholders will receive 3.4918 common shares of the merged company for each common share of Inmet they own and Lundin common shareholders will receive 0.3333 common shares of the merged company for each common share of Lundin they own. The exchange ratio represents no premium to either party based on the 30 day volume weighted average price on the Toronto Stock Exchange for each of Inmet and Lundin to January 11, 2011.

Inmet and Lundin shareholders must both approve the proposed merger by two thirds of the votes cast at special shareholder meetings held to consider the transaction. The joint information circular was mailed to shareholders on February 18, 2011. The shareholder meetings will be held on March 14, 2011.

The arrangement agreement includes customary reciprocal deal protections. Each party has agreed not to solicit any alternative transactions and has furthermore agreed to pay the other a break fee of \$120 million in certain circumstances. In addition, each company has granted the other a right to match any competing offer.

Both Boards of Directors have determined that the proposed merger is in the best interest of their respective companies based on a number of factors, including fairness opinions received from their financial advisors, and have unanimously approved the terms of the proposed merger and recommend that their respective shareholders vote in favour of the proposed merger.

The largest shareholder of each of Inmet (Leucadia, representing 17.94% of Inmet) and Lundin (Lukas Lundin and Lundin family trusts, representing 12.32% of Lundin) has executed an agreement to vote their shares in favour of the proposed merger subject to customary fiduciary waivers in the case of a superior offer. The directors of each company have agreed to vote their shares in favour of the merger.

On February 28, 2011, Equinox Minerals Limited announced that it would make an unsolicited offer to acquire Lundin. Under the offer, each Lundin shareholder will be able to elect to receive consideration per Lundin common share of either \$8.10 in cash or 1.2903 shares of Equinox plus \$0.01 for each Lundin common share, subject to a pro-rata based on a maximum cash consideration of approximately \$2.4 billion and maximum number of shares of Equinox issued of approximately 380 million. The offer was formally made on March 7, 2011.

On March 20, 2011, Lundin announced that its board of directors unanimously recommended that Lundin shareholders reject the Equinox offer.

There is a risk that we may not realize the anticipated benefits of the arrangement and statements regarding the merger of Inmet and Lundin are subject to various risks and assumptions. See *Forward-looking information* on page 3.

### **ADVANCING COBRE PANAMA**

On March 31, 2010, we announced the results of the front end engineering and design (FEED) study for Cobre Panama. The study showed a significant increase in mineral reserves and resources making Cobre Panama one of the largest undeveloped copper porphyry deposits in the world. Design parameters of the project have also improved considerably due to extensive environmental, social and engineering work, and the project's output and size have been expanded by 25 percent.

In October 2010, an environmental and social impact assessment (ESIA) for the project was submitted to the Autoridad Nacional del Ambiente (ANAM), the Panamanian environmental regulatory authority.

Also in October, we awarded the Engineering, Procurement and Construction Management (EP+CM) contract to Joint Venture Panama Inc. (JVP), a joint venture led by SNC-Lavalin Group Inc. (70%) with partners GyM S.A. (a member of Grana y Montero Group) (15%) and Techint International Construction Corp. (15%). Basic engineering commenced in November and should take approximately 12 months to complete.

Substantial progress has also been made in advancing our financing strategy. We have a large un-tapped debt capacity to use as a source of financing because of our strong cash balance (see below) and minimal debt.

### **CONSOLIDATION OF OWNERSHIP INTEREST IN LAS CRUCES TO 100 PERCENT**

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 \$497 million, consolidating our ownership interest in Las Cruces to 100 percent, significantly increasing our exposure to copper. The consideration we paid included US \$150 million in cash and 5.44 million Inmet common shares. At the same time, Leucadia was released from its guarantee of US \$72 million of the debt Las Cruces took on in 2009 to re-finance its project facility. The debt is owed to an Inmet affiliate.

### **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, exchangeable on a one-for-one basis for Inmet common shares, for total proceeds of \$500 million.

On December 23, 2010, the subscription agreement with Temasek was amended such that the subscription receipts purchased will now be exchangeable for 7.78 million Inmet common shares (formerly 9.26 million Inmet common shares), representing a subscription price per Inmet common share of approximately \$64. The subscription receipts will now be automatically exchanged no later than 150 days after the coming into effect of legislation to amend Panama's Mineral Resources Code (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. 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. The repeal recognized concerns from indigenous communities over mining within areas known as Comarcas that are recognized under Panamanian law. The Cobre Panama project is neither situated on nor adjacent to any Comarcas. As part of the repeal, the Government of Panama appointed a special commission to consider and recommend to the National Assembly of Panama future modifications to the Code in consultation with affected parties. This consultation process is currently ongoing.

We have received written confirmation from the Government of Panama that our ability to continue with development of the Cobre Panama project under Law 9, the legal regime that establishes the Cobre Panama mineral concession, remains unaffected by the repeal. 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. Accordingly, we believe that foreign state-owned entities are permitted to own interests in mining concessions in Panama, and that such interests remain a viable option for the Cobre Panama project.

#### **SALE OF OUR INTEREST IN OK TEDI**

On December 2, 2010, we announced an agreement with Ok Tedi Mining Limited for it to repurchase our 18 percent equity interest in Ok Tedi for US \$335 million. Our net proceeds after withholding taxes in Papua New Guinea were US \$307 million. The transaction closed on January 28, 2011.

## **Operational and financial highlights**

#### **STRONG CASH BALANCE**

On December 31, 2010 our cash balance (including long-term bonds) was \$0.7 billion. With the sale of Ok Tedi and assuming the Temasek transaction closes, we expect our cash balance to exceed \$1.5 billion. Our cash and long-term bonds increased in 2010 by \$65 million, but our current ratio decreased to 3.4 from 4.2 because we held more of our cash in long-term bonds to yield higher returns.

#### **HIGHER NET INCOME AND OPERATING CASH FLOW IN 2010 COMPARED TO 2009 AND 2008**

Net income and operating cash flow was higher in 2010 mainly as a result of:

- higher metals prices, especially copper, which increased to an average realized price of US \$3.55 per pound in 2010 from an average of US \$2.63 per pound in 2009 and US \$2.70 per pound in 2008. In comparison to 2009, this increased operating earnings by \$92 million (see page 25).
- earnings from Las Cruces, which commenced commercial production effective July 1, 2010. This increased operating earnings by \$43 million and increased operating cash flows by \$59 million in 2010 (see page 14).
- the sale of Premier Gold Mines Limited (a non-core asset). This resulted in a gain on sale after tax of \$45 million and cash proceeds of \$61 million.

Offset by:

- the conclusion of Troilus operations at the end of June 2010. This decreased net income by \$89 million and decreased operating cash flows by \$75 million (see page 19).

## **Global economy and metal markets**

#### **2010**

During 2010, the global economic recovery proceeded broadly as expected but at two speeds. In many advanced economies, activity moderated less than expected. Growth was largely supported by inventory restocking and ongoing government measures including stimulus spending, extended tax cuts and quantitative easing. However, growth remained subdued with unemployment still high and renewed stresses in the Euro area periphery. By contrast, emerging economies continued to record very strong growth rates, most notably China and India (each approximately 10 percent for the year).

2010 was a remarkable year for commodity prices, with base metals prices rising higher than many other commodities. Copper was one of the top-performing metals, averaging US \$3.42 per pound in 2010, 44 percent higher than in 2009, and reached a record high of US \$4.42 per pound on December 31. Zinc prices averaged US \$0.98 per pound this year, an increase of 34 percent from 2009.

#### **OUTLOOK FOR 2011**

Looking ahead, there are indications of modest acceleration in growth in the US economy, despite continued weakness in the housing and construction sectors, and expansion in the manufacturing and services industries in Europe, led by Germany. Furthermore, Chinese growth is increasingly supported by growing domestic consumption and continued urbanization and significant infrastructure investment. Despite these encouraging signs, economic growth could be negatively impacted by high unemployment, persistent sovereign debt concerns in Europe, counter-inflationary measures in China and possible austerity measures. The recent earthquake and tsunami in Japan have already negatively impacted the Japanese economy, and could have economic effects around the world. Additionally, political upheaval continues in North Africa and the Middle East. Unrest and instability in that region could destabilize the world oil market and dampen growth in both the world's developed and emerging economies. A sustained, healthy recovery will rest

on internal balancing, with a strengthening of private demand in advanced economies, and external rebalancing with an increase in net exports in deficit countries, such as the United States, and a decrease in net exports in surplus countries, notably in Asia.

We expect global copper supply to grow modestly in 2011. New production should be mostly offset by declining production at large existing copper mines and possible labour disruptions. We expect continued strong demand in China, increasing economic recovery in Europe and the United States, and continued interest from investors. Increasing demand, combined with tighter supply, should mean copper prices will remain close to all time highs during 2011.

For zinc, we expect modest increases in both market supply and demand, and a small market deficit, which should support prices in 2011 at levels consistent with those of 2010.

## FINANCIAL REVIEW

### A. OVERVIEW OF OUR 2010 EARNINGS

The table below is a summary of our consolidated earnings.

|   | 2010     | 2009    | Change |
|---|----------|---------|--------|
| <small>(millions, except per share amounts)</small>           |          |         |        |
| <b>EARNINGS FROM OPERATIONS</b>                               |          |         |        |
| Gross sales   | \$ 1,098 | \$ 984  | +12%   |
| Smelter processing charges and freight                        | (167)    | (176)   | -5%    |
| Cost of sales:  |          |         |        |
| Direct production costs                                       | (331)    | (297)   | +11%   |
| Finished goods inventory changes                              | 9        | 7       | +29%   |
| Provisions for mine rehabilitation and other non-cash charges | (23)     | (21)    | +10%   |
| Depreciation  | (82)     | (62)    | +32%   |
|   | 504      | 434     | +16%   |
| <b>SPENDING ON DEVELOPMENT AND EXPLORATION</b>                |          |         |        |
| Corporate development and exploration                         | (12)     | (11)    | +9%    |
| <b>CORPORATE COSTS</b>  |          |         |        |
| General and administration                                    | (21)     | (24)    | -13%   |
| Investment and other income                                   | 35       | 10      | +250%  |
| Asset impairment charges                                      | -        | (10)    | -100%  |
| Stand-by costs  | (6)      | -       | +100%  |
| Interest expense  | (7)      | (2)     | +250%  |
| Income and capital taxes                                      | (135)    | (122)   | +11%   |
| Non-controlling interest                                      | 1        | (6)     | -117%  |
|   | (133)    | (154)   | -14%   |
| Net income  | \$ 359   | \$ 269  | +33%   |
| Basic net income per common share                             | \$ 6.37  | \$ 5.14 | +24%   |
| Diluted net income per common share                           | \$ 6.35  | \$ 5.13 | +24%   |

The table below shows the year over year impact major economic and business factors had on our net income. The table further below shows the realized unit price or realized unit cost in 2010 and 2009 for most of these factors.

|  | Change       | See page |
|--|--------------|----------|
| <i>(millions)</i>  |              |          |
| <b>MARKET FACTORS</b>  |              |          |
| • Base metal prices – higher copper and zinc prices denominated in Canadian dollars                    | \$ 103       | 25       |
| • Other metal prices – higher gold and other prices denominated in Canadian dollars                    | 16           | 25       |
| • Higher smelter processing charges  | (1)          | 27       |
| • Foreign exchange – decreased costs   | 28           | 29       |
| • Higher operating costs denominated in local currencies   | (26)         | 29       |
| <b>OPERATIONAL FACTORS</b>   |              |          |
| • Lower sales volumes  | (8)          | 26       |
| • New operating earnings at Las Cruces   | 43           | 14       |
| • Lower operating earnings at Troilus due to conclusion of operations                                  | (89)         | 19       |
| • Other  | 3            |          |
| <b>Increase in operating earnings, compared to 2009</b>  | <b>69</b>    |          |
| Higher taxes from higher income  | (13)         | 32       |
| Settlement and foreign exchange forward and interest rate swap contracts related to Las Cruces in 2009 | (9)          | 31       |
| Other foreign exchange changes   | (22)         | 32       |
| Gain on sale of investment in Premier Gold Mines Ltd.  | 51           | 31       |
| Asset impairment in 2009   | 10           | 32       |
| Other  | 4            |          |
| <b>Increase in net income, compared to 2009</b>  | <b>\$ 90</b> |          |

The table below shows the critical business factors that had a significant impact on our earnings per unit of production.

|   | 2010        | 2009      |
|---|-------------|-----------|
| <b>METAL PRICES (average sales prices as realized by Inmet)</b> |             |           |
| Copper (per pound)  | US \$3.55   | US \$2.63 |
| Zinc (per pound)  | US \$0.96   | US \$0.81 |
| Gold (per ounce)  | US \$1,194  | US \$980  |
| <b>AVERAGE ANNUAL EXCHANGE RATES</b>                            |             |           |
| 1 US\$ to C\$   | \$ 1.03     | \$ 1.14   |
| 1 € to C\$  | \$ 1.37     | \$ 1.59   |
| <b>TREATMENT CHARGES</b>  |             |           |
| Copper (per dry metric tonne of concentrate)                    | US \$48     | US \$64   |
| Zinc (per dry metric tonne of concentrate)                      | US \$248    | US \$189  |
| <b>PRICE PARTICIPATION</b>                                      |             |           |
| Copper (per pound)  | US \$0.01   | US \$0.02 |
| Zinc (per pound)  | US (\$0.01) | US \$0.06 |
| <b>FREIGHT CHARGES</b>  |             |           |
| Copper (per dry metric tonne of concentrate)                    | US \$71     | US \$37   |
| Zinc (per dry metric tonne of concentrate)                      | US \$28     | US \$21   |
| <b>STATUTORY TAX RATES</b>                                      |             |           |
| Çayeli  | 24%         | 24%       |
| Las Cruces  | 30%         | 30%       |
| Pyhäsalmi   | 26%         | 26%       |
| Ok Tedi   | 37%         | 37%       |

## B. FINANCIAL REVIEW BY OPERATION

We analyze our earnings from operations to understand:

- the impact of metal prices on our performance (determined by the price in Canadian dollars we received on the sale of metal)
- how we are growing (determined by sales volumes, a direct result of production)
- how well we are managing costs (determined by looking at how much is driven by external factors such as foreign exchange and demand, and how much is driven by internal factors where we have more control).

We do this on a consolidated and segmented basis. We report our results from our operations by business segment, which in our case is by operation, consistent with the way we manage our business. When we analyze and review our financial results, we look at our segmented results and then look at our consolidated results.

The table below shows our earnings from operations on a segmented basis.

|  | 2010   | 2009   | Change | See page |
|--|--------|--------|--------|----------|
| (millions)   |        |        |        |          |
| <b>Earnings from operations</b>                    |        |        |        |          |
| Çayeli   | \$ 142 | \$ 124 | +15%   | 11       |
| Las Cruces   | 43     | –      | +100%  | 14       |
| Pyhäsalmi  | 116    | 63     | +84%   | 17       |
| Troilus  | 16     | 105    | -85%   | 19       |
| Ok Tedi  | 189    | 150    | +26%   | 21       |
| Provisions for mine rehabilitation at closed sites | (2)    | (8)    | -75%   | 29       |
|  | \$ 504 | \$ 434 | +16%   |          |

Over the next several pages we will discuss by operation:

- production performance at the mine comparing 2010 to targets and 2009
- earnings and cash flow
- an outlook of 2011 performance using the following assumptions:
  - copper price: US \$4.30 per pound
  - zinc price: US \$1.00 per pound
  - treatment cost for copper: US \$56 per tonne for contracts and US \$20 per tonne for spot sales
  - treatment cost for zinc: US \$210 per tonne for contracts (basis US \$2,000 per tonne) and US \$170 per tonne for spot sales
  - US\$ to C\$ foreign exchange rate: \$1.05
  - € to C\$ foreign exchange rate: \$1.37
  - no working capital changes.

We discuss our financial results on a consolidated basis starting on page 25.

# Çayeli

|                        |  |
|------------------------|--|
| Location               | Turkey   |
| Ownership              | 100%   |
| Type of mine           | underground  |
| Primary metal          | copper   |
| Secondary metal        | zinc   |
| End product            | copper and zinc concentrate                            |
| Expected mine life     | 2018   |
| Average reserve grades | copper – 3.2%<br>zinc – 4.3%                           |
| Infrastructure         | close to roads and 18 kilometres from the port at Rize |
| Employees              | 451  |
| Contractors            | 159  |

Çayeli is an underground mine located on the Black Sea coast of northeastern Turkey.

## Key data

| Production                         |        | 2010<br>results | 2010<br>target | 2009<br>results | Change<br>(target to 2010) | Change<br>(2009 to 2010) | 2011<br>objective |
|------------------------------------|--------|-----------------|----------------|-----------------|----------------------------|--------------------------|-------------------|
| Tonnes of ore milled (thousands)   |        | 1,147           | 1,200          | 1,151           | -4%                        | –                        | 1,200             |
| Tonnes of ore milled per day       |        | 3,150           | 3,300          | 3,150           | -4%                        | –                        | 3,300             |
| Grades (percent)                   | copper | 3.2             | 3.3            | 3.3             | -3%                        | -3%                      | 3.2               |
|                                    | zinc   | 6.3             | 6.1            | 6.3             | +3%                        | –                        | 5.6               |
| Mill recoveries (percent)          | copper | 76              | 78             | 77              | -3%                        | -1%                      | 80                |
|                                    | zinc   | 71              | 70             | 71              | +1%                        | –                        | 73                |
| Metal production (tonnes)          | copper | 28,200          | 30,500         | 29,200          | -8%                        | -3%                      | 30,900            |
|                                    | zinc   | 51,300          | 51,700         | 50,900          | -1%                        | +1%                      | 48,600            |
| Cost per tonne of ore milled (C\$) |        | \$ 79           | \$ 72          | \$ 72           | +10%                       | +10%                     | \$ 81             |
| Capital expenditures (C\$)         |        | \$ 15           | \$ 21          | \$ 15           | -29%                       | –                        | \$ 19             |

## Operating earnings and cash flow

|  | 2010          | 2009          | Objective 2011 |
|--|---------------|---------------|----------------|
| <small>(millions of Canadian dollars, unless otherwise stated)</small> |               |               |                |
| <b>SALES ANALYSIS</b>  |               |               |                |
| Copper sales (tonnes)  | 25,400        | 29,000        | 30,900         |
| Zinc sales (tonnes)  | 47,900        | 52,400        | 48,600         |
| Gross copper sales   | \$ 194        | \$ 185        | \$ 308         |
| Gross zinc sales   | 101           | 102           | 113            |
| Other metal sales  | 18            | 18            | 14             |
| Gross sales  | 313           | 305           | 435            |
| Smelter processing charges and freight                                 | (72)          | (82)          | (79)           |
| Net sales  | \$ 241        | \$ 223        | \$ 356         |
| <b>COST ANALYSIS</b>   |               |               |                |
| Tonnes of ore milled (thousands)                                       | 1,147         | 1,151         | 1,200          |
| Direct production costs (per tonne)                                    | \$ 79         | \$ 72         | \$ 81          |
| Direct costs of production   | \$ 91         | \$ 83         | \$ 97          |
| Change in inventory  | (8)           | –             | –              |
| Depreciation and other non-cash costs                                  | 16            | 16            | 18             |
| Operating costs  | \$ 99         | \$ 99         | \$ 115         |
| <b>Operating earnings</b>  | <b>\$ 142</b> | <b>\$ 124</b> | <b>\$ 241</b>  |
| <b>Operating cash flow</b>   | <b>\$ 117</b> | <b>\$ 96</b>  | <b>\$ 200</b>  |

# Çayeli

## Operating earnings and cash flow

The table below shows what contributed to the change in operating earnings and operating cash flow between 2010 and 2009.

|   | Change       |
|---|--------------|
| <hr/>   |              |
| (Millions)  |              |
| Higher metal prices, denominated in Canadian dollars    | \$ 40        |
| Lower sales volumes from timing of shipments            | (17)         |
| Lower smelter processing charges and freight            | 3            |
| Higher operating costs                                  | (8)          |
| <b>Higher operating earnings, compared to 2009</b>      | <b>18</b>    |
| Higher tax expense because taxable earnings were higher | (8)          |
| Changes in working capital                              | 11           |
| <b>Higher operating cash flow, compared to 2009</b>     | <b>\$ 21</b> |

## Financial and operations review

### FINANCIAL REVIEW

Operating earnings were higher this year because we received higher prices for copper and zinc in 2010, somewhat offset by lower sales volume due to the timing of shipments. Cost per tonne of ore milled was higher than 2009 mainly because royalties were higher from higher realized metals prices and labour costs increased.

### OPERATIONS REVIEW

Çayeli's mine production reached a record 1.16 million tonnes this year, and set several new records in the fourth quarter of 2010 for milling, including best daily tonnage of 3,850 tonnes, and best weekly tonnage of 26,600 tonnes. The mine also placed a record amount of pastefill and shotcrete during the year.

Despite this, mill production was slightly lower than 2009 production as well as our objective for 2010 of 1.2 million tonnes. This was due to higher rehabilitation requirements in the highest producing areas during July, and two lesser ground falls late in the year.

Copper grades were consistent with our 2010 target and zinc grades were slightly above our 2010 target despite the mine plan changes incurred due to the July rehabilitation requirements.

Copper recoveries for 2010 were below our target and last year's recoveries due to more difficult metallurgy from the increased presence of secondary copper minerals and less than optimal blending conditions from low blending stockpile volumes during several periods over the course of the year.

Copper production was therefore below 2009 and our target this year, while zinc production was essentially on target.

Over the year, we conducted a thorough ground control audit evaluating all aspects of the mine's ground control program. We also completed a shotcrete ground support audit, continued developing a life of mine sequence stress model and commissioned a microseismic event analysis, all to reduce the geotechnical risks associated with a maturing ore body.

We completed the second and final phase to correct the misalignment of the Çayeli headframe this year (the result of local ground movement over the years). The headframe is now aligned with the concrete collar and under normal stresses. A formal program has been established to monitor the facility in the future and adjust it, if necessary.

We spent \$15 million to upgrade underground mobile equipment, remediate the head frame, install a new double deck screen for the crusher and a copper column flotation cell and thickener in the mill and add to our mine development. In 2009, we spent \$15 million to upgrade underground mobile equipment, remediation costs for the head frame and mine development.

## Outlook for 2011

In 2011, production levels should remain at approximately 1.2 million tonnes, and the copper grades should remain essentially unchanged at 3.2 percent. We expect zinc grades to decrease to 5.6 percent, reflecting lower zinc grades in the deeper areas of the mine.

With the commissioning of the new copper column flotation cell and high quality copper concentrate thickener, we expect improvements in copper and zinc recoveries as well as improved zinc depression in the copper concentrate. We therefore expect recoveries to increase to 80 percent for copper and 73 percent for zinc.

We expect operating earnings and cash flows to increase in line with higher expected metal prices. Copper smelter processing charges and freight should remain similar while zinc processing charges are likely to fall.

We expect to spend \$19 million on capital in 2011 for underground development, ore pass rehabilitation, mobile equipment, a shotcrete delivery line extension, a new concrete batch plant and additional mill improvements.

# Çayeli

## Planning for the future

Underground infrastructure additions and improvements such as the concrete delivery line extension, an additional internal exhaust raise, and the ore pass rehabilitation should enhance Çayeli's ability to sustain production at a level of 1.2 million tonnes per year.

Ground conditions remain an important challenge as the mine matures and we access deeper ore. Using a stress model and seismic system data, the planners will be able to more effectively predict areas of increased stress and apply proactive ground support.

The installation of a new Pitram mine control system, complete with a manned surface control centre, will greatly assist with underground resource logistics optimization to ensure high productivity is sustained.

Çayeli has met all the requirements of the integrated environmental permit, of which the deep sea tailings deposition permit is now a part, and expects to be granted the environmental permit by mid-2011.

We will continue our efforts to overcome challenging metallurgical conditions at the mill. We will perform grinding circuit simulations, study ultrafine grinding, and investigate improved grinding media in order to improve copper and zinc recoveries and increase the production of high quality copper concentrate. We will also continue to refine the newly installed real time froth surface analysis technology, in order to increase recoveries and reduce reagent consumption.

# Las Cruces

|                        |  |
|------------------------|--|
| Location               | Spain  |
| Ownership              | 100%   |
| Type of mine           | open pit   |
| Primary metal          | copper   |
| End product            | copper cathode   |
| Expected mine life     | 2023   |
| Average reserve grades | copper – 6.2%  |
| Infrastructure         | well maintained all-weather paved roads provide excellent access to the site |
| Employees              | 250  |
| Contractors            | 787  |

Las Cruces is an open pit mine located in southern Spain.

## Key data

| Production (100%)                     | 2010<br>results       | 2010<br>target | 2009<br>results | Change<br>(target to 2010) | Change<br>(2009 to 2010) | 2011<br>objective |
|---------------------------------------|-----------------------|----------------|-----------------|----------------------------|--------------------------|-------------------|
| Tonnes of ore processed (thousands)   | 495                   | 930            | 107             | -47%                       | +363%                    | 750               |
| Tonnes of unprocessed ore (thousands) | –                     | 129            | 4               | -100%                      | -100%                    | –                 |
| Copper grades (percent)               |                       |                |                 |                            |                          |                   |
| cathode                               | 7.0                   | 6.6            | 6.3             | +6%                        | +11%                     | 7.5               |
| unprocessed ore                       | –                     | 13.9           | –               | -100%                      | –                        | –                 |
| Plant recoveries (percent)            | 83                    | 92             | 82              | -10%                       | +1%                      | 89                |
| Copper production (tonnes)            |                       |                |                 |                            |                          |                   |
| cathode                               | 28,500                | 55,000         | 5,600           | -48%                       | +409%                    | 50,200            |
| unprocessed ore                       | –                     | 18,000         | –               | -100%                      | –                        | –                 |
| Cost per tonne of ore processed(C\$)  | \$ 217 <sup>(1)</sup> | \$ 122         | n/a             | +78%                       | +100%                    | \$ 168            |
| Capital expenditures (C\$)            | \$ 24                 | \$ 75          | \$ 139          | -68%                       | -83%                     | \$ 52             |

(1) Subsequent to July 1, 2010

## Operating earnings and cash flow

2010<sup>(1)</sup>      Objective 2011

(Millions of Canadian dollars, unless otherwise stated)

### SALES ANALYSIS

|  |        |        |
|--|--------|--------|
| Copper sales (tonnes)                  | 15,600 | 50,200 |
| Gross copper sales                     | \$ 129 | \$ 505 |
| Smelter processing charges and freight | –      | (2)    |
| Net sales                              | \$ 129 | \$ 503 |

### COST ANALYSIS

|                                       |        |        |
|---------------------------------------|--------|--------|
| Tonnes of ore milled (thousands)      | 307    | 750    |
| Direct production costs (per tonne)   | \$ 217 | \$ 168 |
| Direct production costs               | \$ 68  | \$ 126 |
| Change in inventory                   | (11)   | –      |
| Depreciation and other non-cash costs | 29     | 64     |
| Operating costs                       | \$ 86  | \$ 190 |
| <b>Operating earnings</b>             | \$ 43  | \$ 313 |
| <b>Operating cash flow</b>            | \$ 59  | \$ 378 |

(1) Subsequent to July 1, 2010

# Las Cruces

## Operations review

### 2010 PRODUCTION RAMP-UP

#### Mining

We mined a total of 12.9 million bank cubic metres of material this year, including 700,000 tonnes of ore grading 6.9 percent copper. Of the ore mined, more than 480,000 tonnes remained in the run of mine stockpile at the end of the year. This will be blended and fed to the plant if mining is interrupted during the rainy season.

#### Production

Significant progress has been made to date with the production process. Initially, our efforts were directed at correcting equipment deficiencies and materials selection for the plant. During this "1st Phase" of commissioning, frequent breakdowns prevented the ramp up and stable operation of the plant until April 2010. Plant reliability has since greatly improved and no substantial mechanical downtime was experienced in the second half of the year. In a "2nd Phase", we addressed bottlenecks in the plant design and shifted our main focus to increasing throughput while working to balance plant runtime with the process chemistry. In July and August 2010, throughput rose to 50 percent of design capacity.

In mid-September, we entered the "3rd Phase" dedicated to metallurgical optimization. We made a strategic decision to lower plant throughput to implement measures to reach and maintain our design recovery rates (above 90 percent). This was a necessary step to achieve the proper leaching conditions before further increasing the copper feed and potentially sacrificing copper recoveries. In the fourth quarter, we reached recovery levels of over 86 percent and we plan to continue to raise throughput in step with maintaining recovery levels. We are now focused on two key remaining issues:

- copper recovery through sulphide leaching is dependent on achieving and maintaining the correct chemical and physical conditions to effectively leach the copper from the ore during the leach cycle. Late in the year, we succeeded in improving oxygen distribution with new distributors in the bottom of two of the eight leach reactors. We plan to install distributors in the remaining six leach reactors in 2011 and we anticipate maintaining the required iron levels as we increase the copper feed rate into the plant.
- to reach maximum throughput, Las Cruces must also operate the grinding thickener reliably at the design underflow density. Design work is underway to modify the thickener in mid-2011. This modification will triple the available torque in the thickener and improve the rake geometry to prevent the temporary blockages that have hampered operating at high solids density. To improve near-term thickener performance, we have adjusted the slope of the rakes and put in place a new distribution system which has had encouraging results with minimal process interruptions, which were common before the change.

We produced 28,500 tonnes of copper cathode this year. Cathode quality remains excellent and we are working towards our LME Grade A certification. Notwithstanding the significant improvements achieved this year, production fell short of our target.

#### Capital update

| (100 percent and millions of Canadian dollars)                           | 2010        | 2009         | change      | Objective<br>2011 |
|--|-------------|--------------|-------------|-------------------|
| Capital  | \$80        | \$133        | -40%        | \$52              |
| Pre-operating costs capitalized, net of sales, working capital and other | (56)        | 6            | -1,033%     | -                 |
| <b>Capital spending</b>  | <b>\$24</b> | <b>\$139</b> | <b>-83%</b> | <b>\$52</b>       |

#### Consolidation of ownership interest in Las Cruces to 100 percent

On December 15, 2010, we acquired Leucadia National Corporation's 30 percent indirect equity interest and subordinated sponsor loans in Las Cruces for value of \$497 million. This included US \$150 million in cash and US \$330 million in Inmet common shares (5.4 million shares). At the same time, Leucadia was released from its guarantee of US \$72 million of the debt Las Cruces took on in 2009 to re-finance its project facility. The debt is owed to an Inmet affiliate. Beginning December 15, 2010, we have included 100 percent of Las Cruces' results in our consolidated statement of earnings.

#### Outlook for 2011

We expect throughput and recoveries to continue to improve in 2011 and that production will follow a "saw-toothed" pattern. Through the first two months of 2011, Las Cruces produced at approximately 50 percent of nominal capacity due largely to an interruption of oxygen supply as a result of a compressor failure, low recoveries in the leach circuit from solid accumulation in the system and poor oxygen distribution. Repairs have been made and recoveries have increased to design levels in March 2011. By the end of the year, we expect to be producing at a rate of 6,000 tonnes per month – full plant production capacity – and we expect to produce a total of 50,200 tonnes of copper cathode in 2011. A number of process improvements are underway and will be completed in 2011 including:

- adding a large surge tank between leaching and filtration to further smooth out the leaching operation
- adding a clarifier to remove solids from the leach solution, greatly reducing maintenance requirements
- redesigning and installing grinding thickener components to improve underflow density to the leaching process
- improved filtration performance through the removal of fines prior to grinding
- improved reactor reliability with the addition of 8 stainless steel agitators.

Las Cruces has mined and stockpiled high grade ore to ship directly to smelters. We have not received the permit we need to move the material offsite and, therefore, have not included any direct ore shipments in our objectives. We will use this high grade ore for blending with lower grade ore to optimize feed grades processed through the plant during the first half of 2011. We anticipate mining additional high grade ore in 2011, which could be utilized for direct ore shipments if a permit is received.

We expect to spend \$52 million on capital projects in 2011 including \$22 million for mine development and \$25 million for plant improvements.

# Pyhäsalmi

|                    |  |
|--------------------|--|
| Location           | Finland  |
| Ownership          | 100%   |
| Type of mine       | underground                                    |
| Primary metal      | copper   |
| Secondary metal    | zinc   |
| End product        | copper and zinc concentrate                    |
| Expected mine life | 2018   |
| Average reserve    | copper – 1.1%<br>zinc – 2.1%                   |
| Infrastructure     | close to roads and rail connection at property |
| Employees          | 225  |
| Contractors        | 64   |

*Pyhäsalmi is an underground mine located in central Finland.*

## Key data

| Production                         |         | 2010<br>results | 2010<br>target | 2009<br>results | Change<br>(target to 2010) | Change<br>(2009 to 2010) | 2011<br>objective |
|------------------------------------|---------|-----------------|----------------|-----------------|----------------------------|--------------------------|-------------------|
| Tonnes of ore milled (thousands)   |         | 1,401           | 1,370          | 1,396           | +2%                        | –                        | 1,370             |
| Tonnes of ore milled per day       |         | 3,800           | 3,750          | 3,820           | +1%                        | -1%                      | 3,750             |
| Grades (percent)                   | copper  | 1.1             | 1.0            | 1.1             | +10%                       | –                        | 1.0               |
|                                    | zinc    | 2.4             | 2.5            | 2.2             | -4%                        | +9%                      | 2.6               |
|                                    | sulphur | 43              | 42             | 41              | +2%                        | +5%                      | 43                |
| Mill recoveries (percent)          | copper  | 96              | 94             | 96              | +2%                        | –                        | 95                |
|                                    | zinc    | 90              | 90             | 90              | –                          | –                        | 90                |
| Metal production (tonnes)          | copper  | 14,700          | 13,400         | 14,600          | +10%                       | +1%                      | 13,300            |
|                                    | zinc    | 30,100          | 31,300         | 27,100          | -4%                        | +11%                     | 31,900            |
|                                    | pyrite  | 584,100         | 420,000        | 383,900         | +39%                       | +52%                     | 600,000           |
| Cost per tonne of ore milled (C\$) |         | \$ 39           | \$ 43          | \$ 44           | -9%                        | -11%                     | \$ 40             |
| Capital expenditures (C\$)         |         | \$ 4            | \$ 9           | \$ 8            | -56%                       | -50%                     | \$ 8              |

# Pyhäsalmi

## Operating earnings and cash flow

2010

2009

Objective 2011

(Millions of Canadian dollars unless otherwise stated)

### SALES ANALYSIS

|  |         |         |         |
|--|---------|---------|---------|
| Copper sales (tonnes)                  | 14,800  | 14,200  | 13,300  |
| Zinc sales (tonnes)                    | 29,500  | 27,000  | 31,900  |
| Pyrite sales (tonnes)                  | 485,300 | 413,000 | 600,000 |
| Gross copper sales                     | \$ 121  | \$ 89   | \$ 133  |
| Gross zinc sales                       | 67      | 58      | 74      |
| Other metal sales                      | 45      | 38      | 44      |
| Gross sales                            | 233     | 185     | 251     |
| Smelter processing charges and freight | (54)    | (51)    | (49)    |
| Net sales                              | \$ 179  | \$ 134  | \$ 202  |

### COST ANALYSIS

|                                       |               |              |               |
|---------------------------------------|---------------|--------------|---------------|
| Tonnes of ore milled (thousands)      | 1,401         | 1,396        | 1,370         |
| Direct production costs (per tonne)   | \$ 39         | \$ 44        | \$ 40         |
| Direct costs of production            | \$ 55         | \$ 62        | \$ 54         |
| Change in inventory                   | (1)           | (1)          | –             |
| Depreciation and other non-cash costs | 9             | 10           | 8             |
| Operating costs                       | \$ 63         | \$ 71        | \$ 62         |
| <b>Operating earnings</b>             | <b>\$ 116</b> | <b>\$ 63</b> | <b>\$ 140</b> |
| <b>Operating cash flows</b>           | <b>\$ 80</b>  | <b>\$ 61</b> | <b>\$ 112</b> |

## Operating earnings and cash flow

The table below shows what contributed to the change in operating earnings and operating cash flow between 2010 and 2009.

|   | Change       |
|---|--------------|
| (Millions)  |              |
| Higher metal prices, denominated in Canadian dollars  | \$ 35        |
| Higher sales volumes                                  | 12           |
| Higher smelter processing prices                      | (1)          |
| Lower operating costs                                 | 7            |
| <b>Higher operating earnings, compared to 2009</b>    | <b>53</b>    |
| Higher tax expense because of higher taxable earnings | (16)         |
| Change in working capital                             | (17)         |
| Other   | (1)          |
| <b>Higher operating cash flow, compared to 2009</b>   | <b>\$ 19</b> |

# Pyhäsalmi

## Financial and operations review

### FINANCIAL REVIEW

The increase in operating earnings between years is mainly due to higher copper and zinc prices and higher sales volumes. The increase in operating cash flows is not as high because of cash taxes and timing of payments from higher valued accounts receivable. Cost per tonne of ore milled was lower than last year mainly because of Canadian dollar appreciation against the euro.

### OPERATIONS REVIEW

Throughput continued at record levels in 2010 – Pyhäsalmi processed 1.4 million tonnes of ore through the mill, and had an excellent 96 percent availability with copper recoveries of 96 percent and zinc recoveries of 90 percent. It also successfully reduced the amount of open void by 10 percent year over year, improving geotechnical stability. Additionally, we improved the reliability of the backfill supply by keeping the fill raise system full, increasing stability and minimizing raise failures and blockages.

Copper production in 2010 was higher than target and higher than 2009 because grades were higher. Zinc production was higher than 2009 but lower than target because we moved some higher zinc grade stopes that were due to be mined late in the year into 2011. We produced 40 percent more pyrite this year than planned to meet increasing demand.

### Outlook for 2011

Pyhäsalmi expects to mine 1.4 million tonnes of 1 percent copper and 2.6 percent zinc in 2011, and produce 13,300 tonnes of copper and 31,900 tonnes of zinc. Zinc production will increasingly come from fewer higher grade zinc stopes on the periphery of the orebody and this may result in zinc grade fluctuations if mine plans are modified during the year to respond to operational factors.

Pyrite sales enhance Pyhäsalmi's financial performance, so we will continue our efforts to enter new markets in Europe and Asia. Combined with a long term agreement reached with a Finnish customer this year, we are well positioned for ongoing pyrite sales for the longer term.

Capital spending in 2011 is mainly to replace underground mobile equipment.

### Planning for the future

Pyhäsalmi will continue an accelerated ground support rehabilitation program in critical areas of the mine in light of increasing seismic activity as the mine matures. In 2011, work will continue on stress modeling and geotechnical reviews to optimize the mining sequence and mitigate this concern. As a low grade operation, Pyhäsalmi sees new technology as an excellent way to stay ahead of the competition. In 2011 and beyond the mine will continue to refine its tele-remote mining capabilities, and look at automated longhole drilling and electronic detonators for blasting. The electronic detonators should help achieve better fragmentation and reduce dilution from adjacent backfilled stopes.

# Troilus

|                    |                                  |
|--------------------|----------------------------------|
| Location           | Canada                           |
| Ownership          | 100%                             |
| Type of mine       | open pit                         |
| Primary metal      | gold                             |
| Secondary metal    | copper                           |
| End product        | gold doré and copper concentrate |
| Expected mine life | –                                |

Troilus was an open pit mine located in northern Quebec, Canada that concluded operations in June 2010.

## Key data

| Production                         |        |               | 2010<br>results | 2010<br>target | 2009<br>results | Change<br>(target to 2010) | Change<br>(2009 to 2010) |
|------------------------------------|--------|---------------|-----------------|----------------|-----------------|----------------------------|--------------------------|
| Tonnes of ore milled (thousands)   |        |               | 2,783           | 3,000          | 6,000           | -7%                        | -54%                     |
| Tonnes of ore milled per day       |        |               | 15,500          | 16,700         | 16,400          | -7%                        | -54%                     |
| Strip ratio                        |        |               | –               | –              | 0.1             | –                          | -100%                    |
| Grades                             | gold   | (grams/tonne) | 0.52            | 0.49           | 0.83            | +6%                        | -37%                     |
|                                    | copper | (percent)     | 0.08            | 0.08           | 0.11            | –                          | -27%                     |
| Mill recoveries                    | gold   | (percent)     | 81              | 77             | 84              | +5%                        | -4%                      |
|                                    | copper | (percent)     | 89              | 91             | 92              | -2%                        | -3%                      |
| Metal production                   | gold   | (ounces)      | 37,900          | 36,400         | 135,200         | +4%                        | -72%                     |
|                                    | copper | (tonnes)      | 2,000           | 2,100          | 5,900           | -5%                        | -66%                     |
| Cost per tonne of ore milled (C\$) |        |               | \$ 9            | \$ 9           | \$ 9            | –                          | –                        |

## Operating earnings and cash flow

2010                      2009

(millions of Canadian dollars unless otherwise stated)

### SALES ANALYSIS

|  |        |         |
|--|--------|---------|
| Gold sales (ounces)                    | 47,300 | 140,000 |
| Copper sales (tonnes)                  | 2,200  | 6,100   |
| Gross gold sales                       | \$ 57  | \$ 157  |
| Gross copper sales                     | 16     | 40      |
| Other metal sales                      | 1      | 3       |
| Gross sales                            | 74     | 200     |
| Smelter processing charges and freight | (4)    | (14)    |
| Net sales                              | \$ 70  | \$ 186  |

### COST ANALYSIS

|                                       |              |               |
|---------------------------------------|--------------|---------------|
| Tonnes of ore milled (thousands)      | 2,783        | 6,000         |
| Direct production costs (per tonne)   | \$ 9         | \$ 9          |
| Direct costs of production            | \$ 24        | \$ 57         |
| Change in inventory                   | 9            | 2             |
| Depreciation and other non-cash costs | 21           | 22            |
| Operating costs                       | \$ 54        | \$ 81         |
| <b>Operating earnings</b>             | <b>\$ 16</b> | <b>\$ 105</b> |
| <b>Operating cash flows</b>           | <b>\$ 44</b> | <b>\$ 119</b> |

# Troilus

## Operating earnings and cash flow

The table below shows what contributed to the change in operating earnings and operating cash flow between 2010 and 2009.

|   | Change         |
|---|----------------|
| (Millions)  |                |
| Higher gold and copper price, denominated in Canadian dollars | \$ 5           |
| Lower sales volumes   | (121)          |
| Lower smelter processing charges                              | 1              |
| Lower operating costs   | 21             |
| Lower depreciation and other                                  | 5              |
| <b>Lower operating earnings, compared to 2009</b>             | <b>(89)</b>    |
| Change in working capital                                     | 14             |
| <b>Lower operating cash flow, compared to 2009</b>            | <b>\$ (75)</b> |

## Financial and operations review

### FINANCIAL REVIEW

Operating earnings and operating cash flows decreased substantially from 2009 because operations were concluded mid-year.

### OPERATIONS REVIEW

Troilus continued to process ore from its low-grade stockpile after it finished mining the 87 pit in April 2009. This lowered gold grades and production compared to 2009, and reduced the cost per tonne of ore milled.

Troilus reached the milestone of producing 2 million ounces of gold on June 16 and ceased milling operations at the end of June due to the depletion of all surface ore stockpiles.

Production was at a record high in the first two months of 2009 because of the high grade of the ore mined from the bottom of the main 87 pit.

A small group of workers remain onsite to oversee closure activities which advanced during the remainder of the year. We also proceeded with asset sales, realizing proceeds of \$6 million this year. Late in the year, we recognized an \$8 million increase in asset retirement obligations mainly for environmental monitoring, owner and other closure costs. At December 31, 2010, we had recorded a total asset retirement obligation of \$18 million for Troilus.

# Ok Tedi

|                    |  |
|--------------------|--|
| Location           | Papua New Guinea                       |
| Ownership          | 18%                                    |
| Type of mine       | open pit                               |
| Primary metal      | copper                                 |
| Secondary metal    | gold                                   |
| End product        | copper concentrate                     |
| Expected mine life | 2014                                   |
| Infrastructure     | concentrate pipeline and river barging |
| Employees          | 2,162                                  |
| Contractors        | 2,000                                  |

Ok Tedi is an open pit mine located in Papua New Guinea.

## Key data

| Production (100%)                  |                    | 2010<br>results | 2010<br>target | 2009<br>results | Change<br>(target to 2010) | Change<br>(2009 to 2010) |
|------------------------------------|--------------------|-----------------|----------------|-----------------|----------------------------|--------------------------|
| Tonnes of ore milled (thousands)   |                    | 22,200          | 23,900         | 22,600          | -7%                        | -2%                      |
| Tonnes of ore milled per day       |                    | 61,000          | 65,000         | 62,000          | -6%                        | -2%                      |
| Strip ratio                        |                    | 1.2             | 1.2            | 1.8             | —                          | -33%                     |
| Grades                             | copper (percent)   | 0.9             | 0.8            | 0.9             | +13%                       | —                        |
|                                    | gold (grams/tonne) | 1.0             | 1.2            | 1.0             | -17%                       | —                        |
| Mill recoveries                    | copper (percent)   | 86              | 85             | 86              | +1%                        | —                        |
|                                    | gold (percent)     | 71              | 66             | 69              | +8%                        | +3%                      |
| Metal production                   | copper (tonnes)    | 159,800         | 163,000        | 166,700         | -2%                        | -4%                      |
|                                    | gold (ounces)      | 486,400         | 607,000        | 517,800         | -20%                       | -6%                      |
| Cost per tonne of ore milled (C\$) |                    | \$ 23           | \$ 23          | \$ 24           | —                          | -4%                      |
| Capital expenditures (C\$)         |                    | \$ 16           | \$ 21          | \$ 21           | -24%                       | -24%                     |

## Operating earnings and cash flow

|   | 2010   | 2009   |
|---|--------|--------|
| <i>(Millions of Canadian dollars unless otherwise stated)</i> |        |        |
| <b>SALES ANALYSIS AT 18%</b>                                  |        |        |
| Copper sales (tonnes)   | 28,500 | 26,600 |
| Gold sales (ounces)   | 86,300 | 88,900 |
| Gross copper sales  | \$ 234 | \$ 189 |
| Gross gold sales  | 110    | 101    |
| Other metal sales   | 5      | 4      |
| Gross sales   | 349    | 294    |
| Smelter processing charges and freight                        | (36)   | (30)   |
| Net sales   | \$ 313 | \$ 264 |
| <b>COST ANALYSIS AT 18%</b>                                   |        |        |
| Tonnes of ore milled  | 4,000  | 4,100  |
| Direct production costs (per tonne)                           | \$ 23  | \$ 24  |
| Direct costs of production                                    | \$ 93  | \$ 96  |
| Change in inventory   | 1      | (9)    |
| Depreciation and other non-cash costs                         | 30     | 27     |
| Operating costs   | \$ 124 | \$ 114 |
| <b>Operating earnings</b>                                     | \$ 189 | \$ 150 |
| <b>Operating cash flows</b>                                   | \$ 154 | \$ 103 |

# Ok Tedi

## Operating earnings and cash flow

The table below shows what contributed to the change in operating earnings and operating cash flow between 2010 and 2009.

|  |    | Change    |
|--|----|-----------|
| (Millions)   |    |           |
| Higher copper price, denominated in Canadian dollars     | \$ | 32        |
| Higher gold price, denominated in Canadian dollars       |    | 12        |
| Lower sales volumes                                      |    | (3)       |
| Higher smelter processing charges and freight            |    | (4)       |
| Lower operating costs                                    |    | 5         |
| Other  |    | (3)       |
| <b>Higher operating earnings, compared to 2009</b>       |    | <b>39</b> |
| Increased tax expense because of higher taxable earnings |    | (20)      |
| Change in working capital                                |    | 27        |
| Add back higher depreciation and other                   |    | 5         |
| <b>Higher operating cash flow, compared to 2009</b>      | \$ | <b>51</b> |

## Financial and operations review

### FINANCIAL REVIEW

Operating earnings and cash flows increased in 2010 due to higher copper and gold prices realized.

### OPERATIONS REVIEW

Mill throughput, grades and production volumes were relatively consistent with 2009. However, gold grades and production in 2010 continued to be lower than plan because of deferrals made in the mine plan to avoid processing high sulphur, high gold areas of the mine. Although the mine waste management plant has been significantly redesigned and modified, its performance continues to be challenged. To control sulphur, the ore is blended in the mine before it goes to the mill. Ok Tedi mined lower benches that contain more copper and less sulphur and gold. The higher grade gold ore can be mined but will not be processed until after the mine waste management plant is performing to expectations. A team of in-house and consulting specialists are working on the plant's technical and operational issues. Ok Tedi is also exploring other alternatives for neutralizing the impact of sulphur.

Capital spending in 2010 of \$91 million (our share \$16 million) was for the limestone mining fleet and to construct storage pits for sulphur concentrate produced by the tailings management plant. In 2009 capital spending was for a mine drainage tunnel and other projects.

### Our involvement in Ok Tedi

On December 2, 2010, we announced an agreement with Ok Tedi Mining Limited for it to repurchase our 18 percent equity interest in Ok Tedi for US \$335 million. Our net proceeds after withholding taxes in Papua New Guinea were US \$307 million. The transaction closed on January 28, 2011. At December 31, 2010, our interest in Ok Tedi was classified as *held for sale* on our consolidated balance sheet.

## C. STATUS OF OUR DEVELOPMENT PROJECT

### Cobre Panama

#### FEED PROGRAM

On March 31, 2010, we announced the results of the front end engineering and design (FEED) study for Cobre Panama, including updated capital cost estimates, operating cost estimates, mineral reserves, and other information.

This resulted in a significant increase in mineral reserves and resources, making Cobre Panama one of the largest undeveloped copper porphyry deposits in the world (see *Supplementary information – mineral reserves and resources* on page 56).

The current mine plan defines mining operations until 2045, or for 30 years after production begins, and has expanded the project's output and size by 25 percent. Because of the size of the mineral resource, there is potential to extend the mine life beyond 2045. The table below provides a production and cost summary:

|  | annual average:<br>years 2-16 | annual average:<br>life of mine | total:<br>life of mine |
|--|-------------------------------|---------------------------------|------------------------|
| <b>Metal production (in thousands):</b>  |                               |                                 |                        |
| Copper (tonnes)                          | 289                           | 255                             | 7,641                  |
| Gold (ounces)                            | 108                           | 90                              | 2,690                  |
| Silver (ounces)                          | 1,544                         | 1,508                           | 45,228                 |
| Molybdenum (tonnes)                      | 3.6                           | 3.2                             | 96.5                   |
| <b>Grades:</b>                           |                               |                                 |                        |
| Copper (%)                               | 0.47                          | 0.41                            |                        |
| Gold (grams/tonne)                       | 0.09                          | 0.07                            |                        |
| Silver (grams/tonne)                     | 1.48                          | 1.43                            |                        |
| Molybdenum (%)                           | 0.008                         | 0.008                           |                        |
| <b>Mill recoveries:</b>                  |                               |                                 |                        |
| Copper (%)                               | 88.6                          | 85.9                            |                        |
| Gold (%)                                 | 57.5                          | 54.3                            |                        |
| Silver (%)                               | 47.3                          | 45.8                            |                        |
| Molybdenum (%)                           | 61.9                          | 59.0                            |                        |
| <b>Copper cash cost (US\$ per pound)</b> | <b>0.78</b>                   | <b>0.90</b>                     |                        |

The total capital cost is estimated to be US \$4.3 billion, not including escalation, interest, and working capital.

Copper cash cost is a non-GAAP measure. It is the sum of operating costs, concentrate freight, treatment and refining charges, net smelter return royalty, non-income taxes, net of by-product credits per pound of recovered copper.

#### ENVIRONMENTAL AND COMMUNITY AFFAIRS

In September 2010, Minera Panama submitted the project environmental and social impact assessment (ESIA) to the Autoridad Nacional del Ambiente (ANAM), the Panamanian environmental regulatory authority. This is a significant milestone in the development of the project. The ESIA describes the existing socio-environmental conditions in the project area, the likely impacts and benefits that will result from the project and the commitments that Minera Panama will undertake to minimize the impacts and enhance the benefits.

We are working closely with the Panamanian authorities to facilitate a timely review process. ANAM has hired external experts to assist in their review and they are fully activated. We received the first formal request from ANAM for additional information in early February as expected, and we are preparing responses.

While the Panamanian authorities review the ESIA, we expect that it will also be reviewed by external financing agencies to ensure compliance with the International Finance Corporation Performance Standards and the Equator Principles. We estimate that approval for the ESIA and permitting to begin construction could take as long as 15 months from the time the ESIA report was submitted. After we receive the approvals, site capture, preparation and construction should take approximately 48 months.

We continued our intensive on-going stakeholder engagement and community development activities to continue to build social license for the project.

#### ENGINEERING

In October, Minera Panama awarded a contract for engineering, procurement and construction management (EP+CM) procurement process to Joint Venture Panama Inc. (JVP), a joint venture led by SNC-Lavalin Group Inc. (70%) with partners GyM S.A. (a member of Grana y Montero Group) (15%) and Techint International Construction Corp. (15%). The initial phase of the EP+CM contract will involve basic engineering for all facilities except the

power plant, and should take approximately 12 months. The power plant, as previously announced, is to be developed under a separate agreement with GDF Suez Central America.

The initial phase of the EP+CM contract involves basic engineering for all facilities except the power plant. This work began in November 2010 and should take approximately one year to complete.

Work also continued to upgrade and improve access roads to the site. We completed two new bridges by year end, over rivers that are prone to flooding, and continued routine road maintenance. The bridges will benefit both the project and local communities. Additional improvements to access roads are in the engineering and permitting stage.

## **DRILLING**

We drilled a total of 20,000 metres this year in 119 holes. More than half of these holes were for geotechnical purposes, while most of the remaining holes focused on further defining existing resources. We have also begun testing additional exploration targets on the property.

## **2011 outlook for development**

We plan to:

- continue our dialogue with stakeholders at the community, regional and national levels, to enhance understanding of the project and its benefits to Panama, and the concerns of stakeholders
- continue to work with ANAM to ensure a thorough ESIA review process
- continue to improve site access and infrastructure
- complete additional drilling for geotechnical and hydrological purposes and to improve our understanding of mineralization not currently included in the project base case
- complete basic engineering and prepare to initiate site capture upon receipt of the main permits
- continue to work with GDF Suez Energy Central America to select an EPC contractor for the development of a 300 megawatt coal fired power plant to supply power for the project. As a result of recent discussions with the Panamanian government, we are also revisiting alternative options to a coal-fired plant. We do not anticipate any delay in the development of Cobre Panama even if we determine that an alternative power solution will be optimal on a long term basis as we anticipate that the development of an alternative power model can be aligned with the development of the project. Should there be additional time required, we would draw the required power from the Panamanian power grid. Independent studies support that there is sufficient capacity from the Panamanian power grid. Use of power from the grid would likely result in increased power costs to the project for the period it is used. In addition, an alternative source of power supply to the project could result in an increase in annual operating costs – though the detailed studies are underway and will be included in the ultimate project development decision. We do not believe that the impact of any change to the source of power for the project would be material. Based on current information, we continue to believe that a coal plant is the best option; however, we will pursue other options in parallel.
- spend \$224 million to carry out the work described.

## D. CONSOLIDATED FINANCIAL REVIEW – DETAILED INCOME STATEMENT ANALYSIS AND OUTLOOK

Gross sales up 12% from 2009

Higher metal prices and new sales at Las Cruces somewhat offset by lower sales volumes at Troilus.

|                                 | 2010     | 2009   | Change |
|---------------------------------|----------|--------|--------|
| (Millions)                      |          |        |        |
| <b>GROSS SALES BY OPERATION</b> |          |        |        |
| Çayeli                          | \$ 313   | \$ 305 | +3%    |
| Las Cruces                      | 129      | –      | +100%  |
| Pyhäsalmi                       | 233      | 185    | +26%   |
| Troilus                         | 74       | 200    | -63%   |
| Ok Tedi <sup>(1)</sup>          | 349      | 294    | +19%   |
|                                 | \$ 1,098 | \$ 984 | +12%   |

### GROSS SALES BY METAL

|        |          |        |      |
|--------|----------|--------|------|
| Copper | \$ 693   | \$ 503 | +38% |
| Zinc   | 168      | 160    | +5%  |
| Gold   | 167      | 258    | -35% |
| Other  | 70       | 63     | +11% |
|        | \$ 1,098 | \$ 984 | +12% |

<sup>(1)</sup> Our 18 percent share of Ok Tedi's sales.

The table below shows the effect metal prices and sales volumes had on gross sales.

|  | Change |
|--|--------|
| (Millions)   |        |
| <b>METAL PRICES</b>                                  |        |
| Higher copper price, denominated in Canadian dollars | \$ 92  |
| Higher zinc price, denominated in Canadian dollars   | 11     |
| Higher gold price, denominated in Canadian dollars   | 12     |
| <b>SALES VOLUMES</b>                                 |        |
| Sales at Las Cruces                                  | 129    |
| Lower sales at Troilus                               | (126)  |
| Lower sales at our other operations                  | (8)    |
| <b>OTHER</b>   |        |
| <b>Higher gross sales, compared to 2009</b>          | \$ 114 |

### METAL PRICES

The table below shows the average metal prices, in US dollars and Canadian dollars, and the average foreign exchange rates we realized in 2010 and 2009.

|                    | 2010       | 2009      | 2010      | 2009      | C \$ change |
|--------------------|------------|-----------|-----------|-----------|-------------|
| Copper (per pound) | US \$3.55  | US \$2.63 | C \$3.66  | C \$3.00  | +22%        |
| Zinc (per pound)   | US \$0.96  | US \$0.81 | C \$0.99  | C \$0.92  | +8%         |
| Gold (per ounce)   | US \$1,194 | US \$980  | C \$1,230 | C \$1,117 | +10%        |
| 1 US\$ to C\$      | \$1.03     | \$1.14    |           |           |             |

Copper was one of the strongest performing base metals this year, with prices steadily rising from US \$3.33 per pound at the beginning of the year, to a record high price of US \$4.42 per pound on December 31 and averaging US \$3.42 per pound. At the same time, London Metals Exchange (LME) inventories fell to 378,000 tonnes from 502,000 tonnes.

Zinc prices averaged US \$0.98 per pound this year, an increase of 28 percent from 2009, despite an increase in LME inventories to approximately 700,000 tonnes on December 31 from 490,000 tonnes.

Gold prices averaged 28 percent higher this year, and reached an all-time high of US \$1,423 per ounce early in December.

We record sales that settle during the reporting period using the metal price on the day they settle. For sales that have not settled, we use an estimate based on the month we expect the sale to settle and the forward price of the metal at the end of the reporting period. We recognize the difference between our estimate and the final price by adjusting our gross sales in the period when we settle the sale (finalization adjustment).

At December 31, 2010, unsettled sales included 3 million pounds of copper provisionally priced (before finalization adjustments) at US \$4.37 per pound, and 15 million pounds of zinc provisionally priced at US \$1.11 per pound. The finalization adjustment we record in the first quarter of 2011 will depend on the actual price we receive on final settlement.

We expect all 3 million pounds of copper and 15 million pounds of zinc to settle in January 2011.

## SALES VOLUMES

We record sales using the volume of contained metal we sell to smelters. Smelters charge us for the metal content they lose during the smelting and refining process by including it in smelter processing charges and freight.

The table below shows our 2010 sales volumes by metal compared to 2009.

|                                | 2010    | 2009    | Change |
|--------------------------------|---------|---------|--------|
| <b>SALES VOLUMES</b>           |         |         |        |
| Copper (tonnes) <sup>(1)</sup> | 90,100  | 79,300  | +14%   |
| Zinc (tonnes)                  | 77,400  | 79,400  | -3%    |
| Gold (ounces) <sup>(1)</sup>   | 133,600 | 228,900 | -42%   |
| Pyrite (tonnes)                | 485,300 | 412,500 | +18%   |

(1) Includes our 18 percent share of Ok Tedi's sales volumes. Our share of Las Cruces is 70 percent until December 15, 2010 and 100 percent thereafter.

Our sales volumes are directly affected by the amount of ore our mines produce and their ability to ship to our customers. In 2010, copper and zinc sales volumes were lower than production volumes mainly because of the timing of shipments at Çayeli. Pyhäsalmi increased pyrite production to meet higher demand from China.

| <b>Production</b>      | 2011<br>objective | 2010<br>results | 2010<br>target | 2009<br>results | Change<br>(target to 2010) | Change<br>(2009 to 2010) |
|------------------------|-------------------|-----------------|----------------|-----------------|----------------------------|--------------------------|
| <b>COPPER (TONNES)</b> |                   |                 |                |                 |                            |                          |
| Çayeli                 | 30,900            | 28,200          | 30,500         | 29,200          |                            |                          |
| Las Cruces             | 50,200            | 20,600          | 51,100         | 3,900           |                            |                          |
| Pyhäsalmi              | 13,300            | 14,700          | 13,400         | 14,600          |                            |                          |
| Troilus                | -                 | 2,000           | 2,100          | 5,900           |                            |                          |
| Ok Tedi                | -                 | 28,800          | 29,300         | 30,000          |                            |                          |
|                        | 94,400            | 94,300          | 126,400        | 83,600          | -25%                       | +13%                     |
| <b>ZINC (TONNES)</b>   |                   |                 |                |                 |                            |                          |
| Çayeli                 | 48,600            | 51,300          | 51,700         | 50,900          |                            |                          |
| Pyhäsalmi              | 31,900            | 30,100          | 31,300         | 27,100          |                            |                          |
|                        | 80,500            | 81,400          | 83,000         | 78,000          | -2%                        | +4%                      |
| <b>GOLD (OUNCES)</b>   |                   |                 |                |                 |                            |                          |
| Troilus                | -                 | 37,900          | 36,400         | 135,200         |                            |                          |
| Ok Tedi                | -                 | 87,500          | 109,300        | 93,200          |                            |                          |
|                        | -                 | 125,400         | 145,700        | 228,400         | -14%                       | -45%                     |
| <b>PYRITE (TONNES)</b> |                   |                 |                |                 |                            |                          |
| Pyhäsalmi              | 600,000           | 584,100         | 420,000        | 383,900         | +39%                       | +52%                     |

### 2010 production compared to target

Copper production was below target mainly because there were delays in the ramp-up at Las Cruces and because of lower grades and mill throughput at Çayeli. Zinc production was on target. Gold production was below target because we mined lower grades at Ok Tedi. We produced more pyrite than our target because of the increase in demand.

### 2010 production compared to 2009

Copper production was significantly higher mainly from Las Cruces. Zinc production was slightly higher this year because we mined higher grades at Pyhäsalmi. Gold production at Troilus was down because operations were concluded mid-year.

## 2011 outlook for sales

We use our production objectives to estimate our sales target.

We expect copper production in 2011 to be slightly higher than it was this year. Our share of copper production at Las Cruces should more than double as the operation ramps up to its nameplate capacity of 72,000 tonnes of copper cathode, and because we increased our ownership in Las Cruces from 70 percent to 100 percent in December 2010. Higher production at Las Cruces should be mostly offset, however, by the divestment of our 18 percent equity interest in Ok Tedi in January 2011.

We expect 2011 zinc sales volumes to be similar to this year because zinc production should be approximately the same as it was in 2010.

With production ceasing at Troilus in 2010 and the sale of our 18 percent equity investment in Ok Tedi in January 2011, no gold sales are expected for 2011.

Our Canadian dollar sales revenues are affected by the US dollar denominated metal price we receive, and the exchange rate between the US dollar and Canadian dollar.

We expect global copper supply to grow modestly in 2011. New production should be mostly offset by declining production at large existing copper mines and possible labour disruptions. We expect continued strong demand in China, increasing economic recovery in Europe and the United States, and continued interest from investors. Increasing demand, combined with tighter supply, should mean copper prices will remain close to all time highs during 2011.

For zinc, we expect modest increases in both market supply and demand, and a small market deficit, which should support prices in 2011 at levels consistent with those of 2010.

## Lower smelter processing charges, higher freight

Smelter processing charges include treatment and refining charges, content losses and price participation. The table below shows our smelter processing charges and freight by operation, by metal and by type.

|  | 2010   | 2009   | Change |
|--|--------|--------|--------|
| <b>SMELTER PROCESSING CHARGES AND FREIGHT BY OPERATION</b> |        |        |        |
| Çayeli   | \$ 72  | \$ 82  | -12%   |
| Pyhäsalmi  | 54     | 51     | +6%    |
| Troilus  | 5      | 14     | -64%   |
| Ok Tedi <sup>(1)</sup>                                     | 36     | 29     | +24%   |
|  | \$ 167 | \$ 176 | -5%    |
| <b>SMELTER PROCESSING CHARGES AND FREIGHT BY METAL</b>     |        |        |        |
| Copper   | \$ 71  | \$ 76  | -7%    |
| Zinc   | 68     | 74     | -8%    |
| Other  | 28     | 26     | +8%    |
|  | \$ 167 | \$ 176 | -5%    |
| <b>SMELTER PROCESSING CHARGES BY TYPE AND FREIGHT</b>      |        |        |        |
| Treatment and refining charges                             | \$ 62  | \$ 69  | -10%   |
| Price participation/escalation clauses                     | –      | 15     | -100%  |
| Content losses   | 55     | 54     | +2%    |
| Other  | 6      | 6      | –      |
| Freight  | 44     | 32     | +38%   |
|  | \$ 167 | \$ 176 | -5%    |

<sup>(1)</sup> Our 18 percent share of Ok Tedi's smelter processing charges and freight.

### 2010 smelter processing charges and freight compared to 2009

The \$9 million decrease in smelter processing charges and freight is the result of three things:

| (Millions)  |               |
|---|---------------|
| Lower copper smelter processing charges                               | \$ (14)       |
| Lower zinc smelter processing charges                                 | (7)           |
| Higher freight charges  | 12            |
| <b>Lower smelter processing charges and freight, compared to 2009</b> | <b>\$ (9)</b> |

We sell concentrate mainly to smelters, which process it into refined metal. Smelter processing charges are made up of the contracted price for treatment and refining charges, and costs to cover metal losses in the smelting process (referred to as content losses). Some contracts also include a price participation clause where the smelter participates to some extent in the upward and downward movement in metal prices. Contract terms dealing with processing fees are normally negotiated once a year and depend on forecasted supply of concentrate, and smelter demand.

Close to 90 percent of our copper concentrates are sold under long-term contracts and therefore are not subject to the volatile spot market. Our contracts with the smelters for 2010 were lower than 2009. Our 2009 rates were negotiated at the end of 2008, amidst the global market downturn. Contract terms for zinc treatment charges were higher in 2010; however lower price participation charges decreased total zinc charges compared to 2009. Freight costs were higher this year mainly because pyrite shipments were higher.

The table below shows treatment charges, concentrate sold and cost per tonne of concentrate sold.

|                          | 2010<br>costs<br>(millions) | 2010<br>tonnes of<br>concentrate<br>sold<br>(thousands) | 2010<br>cost per tonne<br>of concentrate<br>sold | 2009<br>costs<br>(millions) | 2009<br>tonnes of<br>concentrate<br>sold<br>(thousands) | 2009<br>cost per tonne<br>of concentrate<br>sold |
|--------------------------|-----------------------------|---|--|-----------------------------|---|--|
| Copper treatment charges | \$ 15                       | 301   | \$ 50  | \$ 24                       | 325   | \$ 73  |
| Zinc treatment charges   | \$ 39                       | 152   | \$ 257   | \$ 34                       | 157   | \$ 215   |

The table below shows copper refining charges, price participation charges and content losses in total for each year, and per pound of metal sold.

|                              | 2010<br>costs<br>(millions) | 2010<br>pounds of<br>production<br>sold (millions) | cost<br>per pound<br>of metal sold | 2009<br>costs<br>(millions) | 2009<br>pounds of<br>production<br>sold (millions) | 2009<br>cost<br>per pound<br>of metal sold |
|------------------------------|-----------------------------|--|------------------------------------|-----------------------------|--|--|
| Copper refining charges      | \$ 8                        | 158  | \$0.05                             | \$ 11                       | 168  | \$ 0.07                                    |
| Price participation – copper | \$ 2                        | 158  | \$0.01                             | \$ 5                        | 168  | \$ 0.03                                    |
| Price participation – zinc   | \$ (2)                      | 171  | (\$0.01)                           | \$ 11                       | 175  | \$ 0.06                                    |
| Content losses – copper      | \$ 24                       | 158  | \$0.15                             | \$ 23                       | 168  | \$ 0.13                                    |
| Content losses – zinc        | \$ 27                       | 171  | \$0.16                             | \$ 26                       | 175  | \$ 0.15                                    |

#### 2011 outlook for smelter processing charges and freight

We expect our costs for copper treatment and refining to remain low in 2011. A tight concentrate supply should keep the copper market in a deficit position in 2011, and treatment costs close to this year's level. We expect copper price participation to be minimal.

We expect total zinc smelter processing charges, including price participation, to be lower than in 2010, and a small deficit to evolve in the zinc concentrate market.

Las Cruces sells its copper cathode production directly to buyers in the Spanish and Mediterranean markets and therefore does not incur smelting processing charges and has relatively low freight costs.

We expect our ocean freight costs to be similar to rates realized in 2010.

## Direct production costs and cost of sales higher than 2009

We measure cost performance at our operations by tracking costs per tonne of ore milled (see *Financial review by operation* starting on page 10 for more information). Most of the costs at our operations are fixed, so the quantity of ore produced has a significant impact on per tonne costs.

Costs are affected by the type of mine and the country it operates in. For example, an open pit mine uses more fuel than an underground mine. Labour costs are determined by factors that vary by country, like general wage levels, inflation and foreign exchange rates.

The table below shows direct production costs by operation.

|  | 2010          | 2009          | Change      |
|--|---------------|---------------|-------------|
| (Millions)   |               |               |             |
| <b>DIRECT PRODUCTION COSTS BY OPERATION</b>                |               |               |             |
| Çayeli   | \$ 91         | \$ 82         | +11%        |
| Las Cruces   | 68            | –             | +100%       |
| Pyhäsalmi  | 55            | 62            | -11%        |
| Troilus  | 24            | 57            | -58%        |
| Ok Tedi <sup>(1)</sup>                                     | 93            | 96            | -3%         |
| <b>Total direct production costs</b>                       | <b>331</b>    | <b>297</b>    | <b>+11%</b> |
| Inventory change   | (9)           | (7)           | +29%        |
| Charges for mine rehabilitation and other non-cash charges | 23            | 21            | +10%        |
|  | <b>\$ 345</b> | <b>\$ 311</b> | <b>+11%</b> |

<sup>(1)</sup> Includes our 18 percent share of Ok Tedi's direct production costs.

### 2010 direct production costs compared to 2009

Direct production costs were \$34 million (or 11 percent) higher in 2010 than they were in 2009 mainly because we began recognizing operating results at Las Cruces in the income statement effective July 1, 2010, and because of higher labour, consumable, royalty and variable compensation costs at Çayeli and Ok Tedi. This was partly offset by the closure of Troilus, and lower costs at Pyhäsalmi, Çayeli and Ok Tedi because of a stronger Canadian dollar relative to the euro and the US dollar.

|  | Change       |
|--|--------------|
| (Millions)   |              |
| New production costs at Las Cruces   | \$ 68        |
| Lower production costs at Troilus  | (33)         |
| Higher labour (in local currency)  | 10           |
| Higher consumable and energy costs (in local currency)                     | 10           |
| Higher royalties and other costs that vary with income (in local currency) | 6            |
| Foreign exchange   | (27)         |
| <b>Higher direct production costs, compared to 2009</b>                    | <b>\$ 34</b> |

### 2010 charges for mine rehabilitation and other non-cash charges compared to 2009

These charges include an accrual for asset retirement obligations, provisions for severance and retirement and other non-cash expenses. We recorded an additional \$8 million this year for closure liabilities at Troilus to reflect the longer time we expect will be required for post-closure monitoring, as well as higher owner and other costs. In 2009, we recorded an additional \$6 million for closure liabilities at our closed sites to reflect the longer time we expected to treat water at certain sites, and because of escalating costs.

### 2011 outlook for costs

We expect consolidated direct production costs to be lower in 2011 because of the closure of Troilus mid-year in 2010 and the disposition of our 18 percent interest in Ok Tedi. These lower costs will be somewhat offset by production costs at Las Cruces that will be recognized in the income statement for the entire year.

Our budget for 2011 assumes our costs at Çayeli and Pyhäsalmi will be similar to 2010.

Certain variable costs may continue to affect our earnings, depending on metal prices:

- royalties at Çayeli are affected by its net income
- royalties at Las Cruces are affected by its net sales.

The total amount we spend in Canadian dollars will also be affected by the value of the US dollar and euro relative to the Canadian dollar.

## Depreciation was higher

We depreciate most of the cost of our capital investments for each operation over the life of the mine as reserves are depleted. Other capital items are depreciated over their useful lives, which range from five to 15 years.

|                                  | 2011<br>objective | 2010  | 2009  | Change |
|----------------------------------|-------------------|-------|-------|--------|
| (Millions)                       |                   |       |       |        |
| <b>DEPRECIATION BY OPERATION</b> |                   |       |       |        |
| Çayeli                           | \$ 18             | \$ 12 | \$ 13 | -8%    |
| Las Cruces                       | 64                | 23    | –     | +100%  |
| Pyhäsalmi                        | 8                 | 8     | 8     | –      |
| Troilus                          | –                 | 11    | 17    | -35%   |
| Ok Tedi <sup>(1)</sup>           | –                 | 28    | 24    | +17%   |
|                                  | \$ 90             | \$ 82 | \$ 62 | +32%   |

(1) Includes our 18 percent share of Ok Tedi's depreciation.

### 2010 depreciation compared to 2009

Depreciation was higher this year mainly because Las Cruces began to depreciate its operating assets in the income statement on July 1, 2010. Depreciation decreased at Troilus because the mine concluded operations in June 2010. Depreciation at Ok Tedi was higher this year because it increased the assets related to asset retirement obligations at the end of 2009 and began amortizing the cost of storage pits it constructed to store the sulphur concentrate the tailings management plant produces.

### 2011 outlook for depreciation

We expect depreciation to be higher in 2011 mainly because we will recognize Las Cruces' operating results in earnings for the entire year. Depreciation will be higher at Çayeli as a result of the impact of adoption of IFRS (see *Plan on transition to International Financial Reporting Standards – Impairment of assets* on page 47). This will be offset somewhat by the closure of Troilus and the sale of our 18 percent share of Ok Tedi.

## Spending on development and exploration

We divided our exploration efforts in 2010 and 2009 between world class copper opportunities that meet our growth objectives – specifically copper dominant polymetallic systems that will generate a minimum of 100,000 tonnes of copper production per year over a minimum 20 year mine life, and the areas around our existing properties to add to the reserve base at our existing mines. Other exploration includes expenditures related to finding base metal deposits in North and South America.

The table below shows our spending on corporate development and exploration in the past two years and our target for 2011.

|  | 2011<br>target | 2010  | 2009  | Change |
|--|----------------|-------|-------|--------|
| (Millions)   |                |       |       |        |
| Exploration at operations                          | \$ 4           | \$ 4  | \$ 5  | -20%   |
| Other exploration                                  | 12             | 5     | 3     | +67%   |
| Mergers and acquisitions, and development projects | 5              | 3     | 3     | -      |
|  | \$ 21          | \$ 12 | \$ 11 | +9%    |

### 2011 outlook for corporate development and exploration

We expect to spend more on exploration in 2011, focusing on Mexico, Chile and Peru, where we have established field offices. We will continue exploring in areas around our existing operations, and for world class deposits. Our costs for mergers and acquisitions could be higher under IFRS as transaction costs previously capitalized as a cost of the acquired entity under Canadian GAAP must be expensed under IFRS.

## Corporate costs

The table below shows what we include as corporate costs.

|                             | 2010     | 2009     | Change |
|-----------------------------|----------|----------|--------|
| (Millions)                  |          |          |        |
| General and administration  | \$ (21)  | \$ (24)  | -13%   |
| Investment and other income | 35       | 9        | +289%  |
| Asset impairment charges    | –        | (10)     | -100%  |
| Stand-by costs              | (6)      | –        | +100%  |
| Interest expense            | (7)      | (2)      | +250%  |
| Income and capital taxes    | (135)    | (122)    | +11%   |
| Non-controlling interest    | 1        | (6)      | -117%  |
|                             | \$ (133) | \$ (155) | -14%   |

### GENERAL AND ADMINISTRATION

General and administration costs are largely for management remuneration, governance and strategy. Costs in 2010 were \$3 million lower than 2009 mainly because of the costs associated with the changes to the board and executive management in 2009. This was somewhat offset by higher human resource and other costs in 2010 in preparation for moving forward with Cobre Panama.

### 2011 outlook for general and administration

We expect general and administration costs to be higher than 2010 as we expect to continue to increase our human resources as we move forward with Cobre Panama.

### INVESTMENT AND OTHER INCOME

The table below shows our income from investments and other transactions.

|  | 2010  | 2009 |
|--|-------|------|
| (Millions)   |       |      |
| Interest income from cash and long-term investments                                  | \$ 8  | \$ 5 |
| Dividend and royalty income  | 3     | 1    |
| Sale of investment in Premier Gold   | 51    | –    |
| Loss on recognition on settlement of interest rate swap contract at Las Cruces       | –     | (15) |
| Gain on recognition on settlement of foreign currency forward contract at Las Cruces | –     | 36   |
| Foreign exchange loss related to Las Cruces credit facility                          | –     | (12) |
| Other foreign exchange loss  | (24)  | (2)  |
| Mark to market on Ok Tedi copper forward contracts                                   | –     | (4)  |
| Other  | (3)   | –    |
|  | \$ 35 | \$ 9 |

### 2010 investment and other income compared to 2009

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

We sold 9.45 million common shares of Premier Gold Mines Ltd. this quarter for \$61 million in cash and recognized a gain of \$51 million, taking advantage of favourable market conditions.

#### Recognition on settlement of interest rate swap contract and foreign currency forward contract – 2009

On July 31, 2009, we repaid 100 percent of Las Cruces' US dollar denominated bank credit facility and replaced it with intergroup debt using the proceeds from our equity offering. Las Cruces terminated its interest rate swap contracts on July 20, 2009, paying out \$16 million for early termination. This had the following effects on investment and other income:

- When we converted the Las Cruces debt from euro to US dollars in 2008, Las Cruces settled a foreign exchange forward contract and received proceeds of \$52 million. We deferred the proceeds in accumulated other comprehensive income, and had been amortizing it against interest costs over the term of the debt. When we repaid the debt, we realized the remaining deferred gain of \$36 million in investment and other income.
- When we repaid the debt, we recorded the \$15 million interest rate swap loss we had deferred in accumulated other comprehensive income in investment and other income.
- We revalued the US dollar credit facility into euros (Las Cruces' functional currency) and recorded foreign exchange gains or losses on translation. We incurred foreign exchange losses of \$12 million in 2009 before the debt was repaid. The \$12 million loss in 2009 includes a \$2 million foreign exchange gain from translation and a \$14 million foreign exchange loss from a devaluation of US dollar cash we were holding to repay the credit facility.

## OTHER FOREIGN EXCHANGE

We have a foreign exchange gain or loss when:

- we revalue certain foreign denominated assets and liabilities
- we distribute funds from our self-sustaining operations and recognize the foreign exchange we previously deferred.

Other foreign exchange losses in 2010 and 2009 are a result of the following:

|   | 2010    | 2009   |
|---|---------|--------|
| <small>(Millions)</small>                                 |         |        |
| Translation of foreign denominated cash held at corporate | \$ –    | \$ (5) |
| Translation of other monetary assets and liabilities      | (1)     | 4      |
| Distribution of funds from our operations                 | (23)    | (1)    |
|   | \$ (24) | \$ (2) |

## 2011 outlook for investment and other income

Investment and other income is affected by our cash and held to maturity investment balances, and by interest rates and exchange rates.

In 2011, we will stop recognizing foreign exchange gains and losses when we repatriate funds that represent the accumulation of earnings at our operations. See *Plans on transition to International Financial Reporting Standards* on page 47 for more information.

We also expect to recognize a significant gain from the disposition of our 18 percent investment in Ok Tedi in January, 2011.

## Stand-by costs

We could not mine ore at Las Cruces early in 2010 because of the water levels in the pit. We expensed \$7 million in operating and maintenance costs for the water purification plant because they did not relate to production activities.

## Asset impairment charges

We made a decision in 2008 not to proceed with the Cerattepe project. All work ceased on the project and we took a \$34 million charge to write down the assets to its net realizable value. In 2009, we took an additional impairment charge of \$10 million, as well as a \$6 million tax recovery (reflected in income taxes), to adjust to current net realizable value.

## Income and capital taxes

Our operations pay tax every year based on their income before taxes in their local currency (the currency they use to prepare their annual tax returns). They expense tax based on their income before taxes in the currency they report in. These can be different because of differences between the time an operation incurs an expense and when we record it for accounting purposes. Timing differences should not result in a change in the effective tax rate of an operation.

Differences can also arise from changes in foreign exchange rates. The foreign exchange gains or losses that affect local currency financial statements, which are used as the basis for taxes paid, may be different from the foreign exchange gains or losses that affect the reporting currency financial statements. These are permanent differences and will change the effective tax rate of an operation.

The tables below show the taxes we expensed (recovered) in 2010 and 2009.

| 2010                      | Çayeli | Pyhäsalmi | Ok Tedi | Las Cruces | Troilus and Corporate | Total  |
|---------------------------|--------|-----------|---------|------------|-----------------------|--------|
| <small>(Millions)</small> |        |           |         |            |                       |        |
| Corporate taxes           | \$ 32  | \$ 27     | \$ 57   | \$ –       | \$ 6                  | \$ 122 |
| Withholding taxes         | 6      | –         | 14      | –          | –                     | 20     |
| Future taxes              | (6)    | 1         | –       | (4)        | 2                     | (7)    |
|                           | \$ 32  | \$ 28     | \$ 71   | \$ (4)     | \$ 8                  | \$ 135 |

| 2009                      | Çayeli | Pyhäsalmi | Ok Tedi | Las Cruces | Troilus and Corporate | Total  |
|---------------------------|--------|-----------|---------|------------|-----------------------|--------|
| <small>(Millions)</small> |        |           |         |            |                       |        |
| Corporate taxes           | \$ 26  | \$ 10     | \$ 39   | \$ –       | \$ 16                 | \$ 91  |
| Withholding taxes         | 5      | –         | 12      | –          | –                     | 17     |
| Future taxes              | (11)   | 2         | 5       | 6          | 12                    | 14     |
|                           | \$ 20  | \$ 12     | \$ 56   | \$ 6       | \$ 28                 | \$ 122 |

## 2010 income taxes compared to 2009

For corporate (and Troilus prior to the conclusion of operations), we have sufficient tax losses in Canada to offset any taxes payable on our earnings.

The current corporate tax expense is for:

- taxes owing from Canadian subsidiaries (separate legal entities) that do not have prior year tax losses to offset taxable income
- mining duties payable on Troilus' earnings.

We have \$66 million in Canadian tax losses (tax effected using a 25% tax rate) that we can use to offset future taxable income and taxable capital gains in Canada. Of this amount, \$8 million relates to taxable capital losses, which can only be used to offset future taxable capital gains.

We assess the chances for recovery of these tax losses and when it seems more likely than not that we will use part of the losses, we establish a future tax asset. As of December 31, 2010, we calculated that it was more likely than not the future taxes payable on future taxable income would be nominal in Canada, and therefore we recognized a valuation allowance against our remaining Canadian tax pools. Our Canadian taxable income includes earnings from interest income offset by general and administration costs, among other things.

The table below shows the statutory and effective tax rates for each of our operations.

|                                | 2011<br>statutory rate | 2010<br>statutory rate | 2010<br>effective rate | 2009<br>statutory rate | 2009<br>effective rate |
|--------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Çayeli (Turkey)                | 24%                    | 24%                    | 23%                    | 24%                    | 18%                    |
| Las Cruces (Spain)             | 30%                    | 30%                    | (13)%                  | 30%                    | 27%                    |
| Pyhäsalmi (Finland)            | 26%                    | 26%                    | 25%                    | 26%                    | 20%                    |
| Ok Tedi (Papua New Guinea)     | 37%                    | 37%                    | 38%                    | 37%                    | 38%                    |
| Troilus and corporate (Canada) | 28%                    | 30%                    | –                      | 31%                    | –                      |

The differences between the statutory and effective tax rates at Çayeli, Pyhäsalmi and Las Cruces are explained below:

| <b>Çayeli taxes</b>                                      | 2010 | 2009 |
|--|------|------|
| Statutory tax rate                                       | 24%  | 24%  |
| Foreign exchange losses in Turkish lira tax accounts     | (1)% | (1)% |
| Future tax recovery from loss of investment in Cerattepe | –    | (5)% |
| Effective tax rate                                       | 23%  | 18%  |

| <b>Pyhäsalmi taxes</b>                                | 2010 | 2009 |
|---|------|------|
| Statutory tax rate                                    | 26%  | 26%  |
| Tax recovery from intergroup loans                    | (3)% | (6)% |
| Non-deductible expense – asset retirement obligations | 2%   | –    |
| Effective tax rate                                    | 25%  | 20%  |

| <b>Las Cruces taxes</b>                                     | 2010  | 2009 |
|---|-------|------|
| Statutory tax rate  | 30%   | 30%  |
| Tax recovery from interest expense on intergroup loans      | (23)% | -    |
| Tax recovery from foreign exchange loss on intergroup loans | (18)% | -    |
| Other permanent differences                                 | (2)%  | (3)% |
| Effective tax rate  | (13)% | 27%  |

## 2011 outlook for income tax expense

We expect statutory tax rates at our operations in 2011 to remain the same as they were in 2010 unless a statutory tax rate change is enacted.

## FOURTH QUARTER IMPACTS

You will find detailed quarterly statements of earnings in *Supplementary information – quarterly review* on page 54.

### 2010 quarterly highlights

|   | First quarter | Second quarter | Third quarter | Fourth quarter | Year 2010  |
|---|---------------|----------------|---------------|----------------|------------|
| <b>FINANCIAL HIGHLIGHTS (MILLIONS OF CANADIAN DOLLARS)</b>                |               |                |               |                |            |
| Gross sales   | \$ 252        | \$ 215         | \$ 313        | \$ 318         | \$ 1,098   |
| Earnings from operations  | \$ 111        | \$ 87          | \$ 148        | \$ 158         | \$ 504     |
| Net income  | \$ 80         | \$ 48          | \$ 86         | \$ 145         | \$ 359     |
| Cash flow provided by operating activities                                | \$ 92         | \$ 80          | \$ 102        | \$ 135         | \$ 409     |
| <b>METAL PRICE HIGHLIGHTS (AVERAGE SALES PRICES AS REALIZED BY INMET)</b> |               |                |               |                |            |
| Copper (US\$ per pound)   | US \$3.38     | US \$2.86      | US \$3.46     | US \$4.17      | US \$3.55  |
| Copper (C\$ per pound)  | \$ 3.52       | \$ 2.94        | \$ 3.60       | \$ 4.23        | \$ 3.66    |
| Zinc (US\$ per pound)   | US \$1.03     | US \$0.81      | US \$0.95     | US \$1.06      | US \$0.96  |
| Zinc (C\$ per pound)  | \$ 1.07       | \$ 0.83        | \$ 0.99       | \$ 1.07        | \$ 0.99    |
| Gold (US\$ per ounce)   | US \$1,076    | US \$1,208     | US \$1,216    | US \$1,355     | US \$1,194 |
| Gold (C\$ per ounce)  | \$ 1,120      | \$ 1,242       | \$ 1,263      | \$ 1,373       | \$ 1,230   |
| <b>FOREIGN EXCHANGE HIGHLIGHTS (AVERAGE RATES)</b>                        |               |                |               |                |            |
| 1 US\$ to C\$   | \$ 1.04       | \$ 1.03        | \$ 1.04       | \$ 1.01        | \$ 1.03    |
| 1 e to C\$  | \$ 1.44       | \$ 1.31        | \$ 1.34       | \$ 1.38        | \$ 1.37    |
| <b>SALES VOLUME HIGHLIGHTS</b>  |               |                |               |                |            |
| Copper (tonnes)   | 21,500        | 21,800         | 24,600        | 22,200         | 90,100     |
| Zinc (tonnes)   | 19,700        | 21,600         | 18,400        | 17,700         | 77,400     |
| Gold (ounces)   | 43,400        | 40,000         | 26,700        | 23,500         | 133,600    |

**Gross sales** – the increase in gross sales in the fourth quarter is the result of higher metal prices, which increased the prices we recorded for sales we made in the fourth quarter.

**Earnings from operations and cash flow provided by operating activities** – the increase in the fourth quarter is a result of the increase in gross sales reduced by increased smelter processing charges. Cash flow provided by operating activities further increased mainly due to the timing of payments received from our customers at Çayeli.

**Net income** – the increase in net income is a result of higher earnings from operations and the \$50.5 million gain we recognized when we sold our 9.45 million common shares of Premier Gold Mines Limited, offset by higher income taxes.

**Sales volumes** – copper and zinc sales volumes are lower in the fourth quarter due to the timing of shipments at Çayeli.

# FINANCIAL STRENGTH

Our growth strategy is focused on the development of Cobre Panama. Our key financial objective is to make sure we have the cash and debt capacity to fund its development in a responsible way, while still providing superior returns to shareholders.

Our strategy is to make sure we have the liquidity (in cash and committed credit facilities) to finance our operating requirements as well as our growth projects. We manage our debt levels by ensuring that, even at the low point in the metal price cycle, our operations can provide adequate cash flow.

## Financial condition

High metal prices over the past few years have allowed us to strengthen our balance sheet while also making significant capital investments to support our growth strategy. At the same time, our liquidity allowed us to continue pursuing growth opportunities – in particular completing the Front End Engineering and Design study and beginning basic engineering at Cobre Panama and the consolidation of our ownership in Las Cruces to 100 percent.

## Key financial measures

We use the following key financial measures to assess our financial condition and liquidity:

|   | Inmet guidelines | 2011 estimate | 2010     | 2009     |
|---|------------------|---------------|----------|----------|
| Current ratio   | >2 to 1          | 9 to 1        | 3.4 to 1 | 4.2 to 1 |
| Gross debt to total equity                              | <25%             | 1%            | 1%       | 1%       |
| Long-term debt to EBITDA                                | <4 times         | 0.02          | 0.03     | 0.04     |
| EBITDA to total debt service (total debt service ratio) | >1.5 times       | 786           | 508      | 4.5      |
| EBITDA to interest paid (interest coverage ratio)       | >3 times         | 786           | 508      | 42       |

Gross debt includes the current portion of long-term debt, plus total long-term debt less the non-recourse note that was owed from Las Cruces to its non-controlling shareholder before we acquired it in December 2010. EBITDA is *earnings before interest, taxes, depreciation and amortization*. The total debt service ratio includes interest paid plus scheduled loan repayments. These are non-GAAP measures. The calculations for these are included in note 20 to our consolidated financial statements as part of our discussion on *Capital management*.

We use these measures when we assess new growth opportunities, to determine how much debt we can take on. Our vision is to manage financial risk by maintaining conservative leverage and coverage ratios, as noted in the table above.

The measures above indicate where we are today, and what the risk thresholds would be in 2011 if we decided to proceed with construction of Cobre Panama. The difference from 2009 reflects the repayment of the Las Cruces credit facility and higher cash from operations.

## FREE CASH FLOW

Our cash comes mainly from free cash flow from our operations, which is the net cash generated by our operations from the sale of metals, less spending on capital equipment and financing activities.

The table below shows how our consolidated cash changed in 2010 and in 2009.

|  | 2010            | 2009           |
|--|-----------------|----------------|
| (Millions)   |                 |                |
| Free cash flow from operations                                     | \$ 366          | \$ 279         |
| Spending on development and exploration not incurred by operations | (7)             | (6)            |
| Corporate costs and other  | (29)            | 11             |
| Transfer cash to long-term investments, net of maturities          | (270)           | (100)          |
| Acquisition of non-controlling interest in Las Cruces              | (151)           | -              |
| Development of Cobre Panama  | (85)            | (85)           |
| Development of Las Cruces (less debt repayment made in July 2009)  | -               | (138)          |
| Sale of investment in Premier Gold                                 | 61              | -              |
| Reclassification of Ok Tedi cash to assets held for sale           | (93)            | -              |
| <b>Decrease in consolidated cash</b>                               | <b>\$ (208)</b> | <b>\$ (39)</b> |

Free cash flow is a non-GAAP measure. For Çayeli, Las Cruces, Pyhäsalmi, Troilus and Ok Tedi, we include cash flow from the operations, less cash used in investing (capital expenditures) and financing (debt borrowings, debt repayments), adjusted for foreign exchange changes on cash held in foreign currency. A reconciliation of the 2010 and 2009 non-GAAP measures to our GAAP measures is found on page 52 under the title *Supplementary information, Free cash flow*.

In 2010, we used some of our free cash flow to acquire the non-controlling interest in Las Cruces and to fund the development work at Cobre Panama.

Additionally, we transferred a significant amount of cash to long-term investments to realize better yields on funds we have set aside for the construction of Cobre Panama. In 2009, we used some of our free cash flow to fund the development work at Cobre Panama in 2009, and for part of the construction at Las Cruces.

#### 2011 outlook on financial condition

The table below shows our estimated free cash flow from operations for 2011 using the assumptions and objectives in *Financial review by operation*, which starts on page 10.

|   | 2011 |     |
|---|------|-----|
| (Millions)                              |      |     |
| Çayeli                                  | \$   | 181 |
| Las Cruces                              |      | 326 |
| Pyhäsalmi                               |      | 104 |
| Expected free cash flow from operations | \$   | 611 |

Mining is an extremely capital intensive business. Mining companies need significant ongoing capital to maintain and improve existing operations, invest in large scale capital projects with long lead times, and manage uncertain development and permitting timelines and the volatility associated with fluctuating metals and input prices. Financial markets – banking, debt and equity – can also be extremely volatile, and can prevent us from gaining access to the capital required to maintain and grow our business.

To manage this risk, we closely manage the cost of our operations to ensure they will be profitable throughout the metal price cycle. We also maintain a conservative capital structure – we are in a strong net cash position – and maintain enough cash, liquid investments and committed debt financing to complete the projects we have underway. The objective is that once a development decision is made, we will be able to finance its completion without relying on future operating cash flows from our current operations, or on the condition of the financial market.

For this reason we aim to retain significant cash balances for future development expenditures. Volatility in the financial markets can have an impact on the market value of financial investments, on the returns earned from those investments, and on our ability to access that capital due to disruptions in market liquidity.

To manage this risk, we invest in high quality, highly liquid investments – typically government backed investments or AAA rated liquidity funds. To enhance yield, we also invest a portion of our excess liquidity in longer dated maturities to take advantage of the available yield enhancement without sacrificing credit quality or accessibility. We continually monitor the financial markets, interacting closely with our investment advisors and leading market participants, to make sure we can anticipate and react to changing market conditions.

## MANAGING OUR LIQUIDITY

The table below shows our sources of cash and how we used it in 2010 and in 2009.

|   | 2010          | 2009          |
|---|---------------|---------------|
| <small>(Millions)</small>   |               |               |
| Cash and short-term investments, beginning of year                    | \$ 534        | \$ 573        |
| <b>CASH FROM OPERATING ACTIVITIES</b>                                 |               |               |
| Çayeli  | 117           | 96            |
| Las Cruces  | 59            | –             |
| Pyhäsalmi   | 80            | 61            |
| Troilus   | 44            | 119           |
| Ok Tedi   | 154           | 103           |
|   | 454           | 379           |
| Corporate development and exploration not incurred by operations      | (7)           | (6)           |
| General and administration  | (21)          | (24)          |
| Investment income and other   | (15)          | (23)          |
| Settlement of asset retirement obligations, excluding Troilus         | (2)           | (3)           |
|   | 409           | 323           |
| <b>CASH FROM INVESTING</b>  |               |               |
| Purchase of property, plant and equipment                             | (144)         | (268)         |
| Sale of investment in Premier Gold                                    | 61            | –             |
| Acquisition of non-controlling interest in Las Cruces                 | (151)         | –             |
| Purchase of long-term investments, net of maturities                  | (270)         | (100)         |
| Funding received – Cobre Panama option agreement                      | 14            | 3             |
| Other   | 7             | –             |
|   | (483)         | (365)         |
| <b>CASH FROM FINANCING</b>  |               |               |
| Proceeds from issuance of common shares                               | –             | 334           |
| Long-term debt repayments   | –             | (315)         |
| Subsidies received  | 1             | 71            |
| Funding by non-controlling shareholder                                | 3             | 51            |
| Settlement of interest rate swap contract                             | –             | (16)          |
| Financial assurance receipts (payments)                               | 1             | (63)          |
| Dividends on common shares  | (11)          | (10)          |
| Other financing   | (3)           | (2)           |
|   | (9)           | 50            |
| Foreign exchange on cash balances and other                           | (32)          | (47)          |
| Reclassification of our share of Ok Tedi cash to assets held for sale | (93)          | –             |
| <b>Cash and short-term investments, end of year</b>                   | <b>\$ 326</b> | <b>\$ 534</b> |

### Cash from operating

#### 2010 operating cash flows compared to 2009

Operating cash flows this year are higher compared to 2009. Our mining operations contributed more to our cash flows in 2010 than in 2009 and we realized a foreign exchange loss on cash held at corporate in 2009. These changes were offset by higher cash taxes.

The table below shows in more detail what contributed to the increase in operating cash flow in 2010.

|  | Change       |
|--|--------------|
| <i>(Millions)</i>  |              |
| Higher earnings from operations  | \$ 69        |
| Add back higher non-cash charges included in earnings from operations  | 20           |
| Higher income tax expense because of higher taxable earnings           | (35)         |
| Higher settlement of asset retirement obligations                      | (3)          |
| Realized foreign exchange loss on cash held by Inmet corporate in 2009 | 19           |
| Change in working capital  | 21           |
| Other  | (5)          |
| <b>Increase in operating cash flow, compared to 2009</b>               | <b>\$ 86</b> |

Working capital changes reduced our operating cash flows in 2009 mainly because metal prices and therefore accounts receivable balances were higher at the end of the year. We started that year with a payable owing to smelters from Çayeli and Ok Tedi, because of the large drop in metal prices in the fourth quarter of 2008.

#### 2011 outlook for cash from operating

The table below shows expected operating cash at our operations, based on our outlook for metal prices and production, and on the assumptions in *Financial review by operation*, which starts on page 10.

|  | 2011          |
|--|---------------|
| <i>(Millions)</i>                                    |               |
| Çayeli   | \$ 200        |
| Las Cruces   | 378           |
| Pyhäsalmi  | 112           |
| <b>Estimated operating cash flow from operations</b> | <b>\$ 690</b> |

### Cash from investing

Cash flows from investing activities include:

- capital spending
- the acquisition of assets
- the sale of assets.

#### 2010 investing cash flows compared to 2009

In 2010, we spent about half of the amount we spent in 2009 mainly at Las Cruces as construction was completed during 2009.

#### CAPITAL SPENDING

The table below shows capital spending by operation.

|                   | 2011<br>objective | 2010<br>actual | 2009<br>actual |
|-------------------|-------------------|----------------|----------------|
| <i>(Millions)</i> |                   |                |                |
| Çayeli            | \$ 19             | \$ 15          | \$ 15          |
| Las Cruces (100%) | 52                | 24             | 139            |
| Pyhäsalmi         | 8                 | 4              | 8              |
| Ok Tedi (18%)     | –                 | 16             | 21             |
| Cobre Panama      | 224               | 85             | 85             |
|                   | <b>\$ 303</b>     | <b>\$ 144</b>  | <b>\$ 268</b>  |

Capital spending in 2010 was for work to advance Cobre Panama and for the permanent water purification plant, plant improvements and mine development at Las Cruces. Details on capital spending by operation are included in *financial review by operation* starting on page 10.

#### ACQUISITION OF LONG-TERM INVESTMENTS

We bought \$229 million in medium-term Canadian government and corporate bonds with credit ratings of A to AAA this year. The bonds mature between February 2011 and December 2015 and have a weighted average annual yield of 1.8 percent. Çayeli also bought \$67 million in US Treasury bonds with credit ratings of AAA, for a higher return on cash that we believe will not be repatriated within the next 5 years. The bonds mature in 2015

and have a weighted average annual yield to maturity of 1.24 percent.

In 2009, we bought \$100 million in medium-term Canadian government and corporate bonds with credit ratings of A to AAA, and a weighted average term to maturity of approximately three years.

#### **ACQUISITION OF NON-CONTROLLING INTEREST IN LAS CRUCES**

We paid \$151 million in cash this year as part of our acquisition of Leucadia's 30 percent indirect equity interest and subordinated sponsor loans in Las Cruces.

#### **2011 outlook for cash from investing**

We expect capital spending to be \$303 million in 2011. The more significant items include:

- \$52 million at Las Cruces, including \$22 million for mine development and \$25 million for sustaining capital spending
- \$224 million for work on the development at Cobre Panama, including basic engineering, advance payments for mill equipment and other costs to advance development.

## **Cash from financing**

Cash flows from financing include borrowing and repaying debt and other financial transactions, such as paying dividends, receiving subsidies and making financial assurance fund payments.

#### **PROCEEDS FROM ISSUING COMMON SHARES – 2009**

We completed a public offering of 7.825 million common shares of Inmet Mining, on a bought deal basis, at a price of \$44.50 per share, for total gross proceeds of \$348 million (\$334 million net of transaction costs).

We used US \$240 million of this to repay the debt under Las Cruces' project financing facility in 2009.

#### **LONG-TERM DEBT REPAYMENTS AND SETTLEMENT OF INTEREST RATE SWAP CONTRACT – 2009**

In the first half of 2009, Las Cruces made its first scheduled repayment of US \$12 million under Tranche A of its credit facility. It also repaid €42 million under Tranche B (an amount equal to the subsidies received).

In July 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. This eliminated the Las Cruces project credit facility. We funded 100 percent of the repayment through an intercompany loan.

Las Cruces also paid \$16 million in July 2009 to terminate its interest rate swap contract, in connection with the decision to repay the credit facility.

#### **GOVERNMENT SUBSIDIES – 2009**

Las Cruces received \$71 million in subsidy grants in 2009 to build the mine and process plant, under government assistance programs in the European Union.

#### **PROVIDING FINANCIAL ASSURANCE**

For some of our properties, we are required to provide financial assurance to regulators that we can meet our reclamation and restoration liabilities. We are also required to provide financial assurance for a former executive's pension benefit, and at Las Cruces we are required to provide financial assurance for subsidies received, a labour bond and to various suppliers.

At December 31, 2010, we provided \$76 million in financial assurance as security for the following:

|   | Total secured | Portion secured by cash (restricted cash) | Portion secured by bank facility |
|---|---------------|---|----------------------------------|
| (Millions)                              |               |   |                                  |
| <b>CORPORATE AND TROILUS</b>            |               |   |                                  |
| Reclamation and restoration liabilities | \$ 13         | \$ 13                                     | \$ –                             |
| Pension                                 | 3             | 3   | –                                |
| <b>PYHÄSALMI</b>                        |               |   |                                  |
| Reclamation and restoration liability   | 2             | 2   | –                                |
| <b>LAS CRUCES</b>                       |               |   |                                  |
| Reclamation and restoration liability   | 33            | 33  | –                                |
| Water treatment                         | 12            | 12  | –                                |
| Labour bond                             | 7             | 7   | –                                |
| Suppliers and others                    | 1             | 1   | –                                |
| <b>COBRE PANAMA</b>                     |               |   |                                  |
| Environment                             | 5             | –   | 5                                |
|   | \$ 76         | \$ 71                                     | \$5                              |

Regulatory authorities in jurisdictions where we operate may also, from time to time, ask us to provide financial assurance against future reclamation and restoration obligations. This can happen as regulations or our circumstances evolve, if a regulatory authority chooses to no longer accept other forms of assurance, or when an operation is nearing the end of its life. Although providing financial assurance does not increase our future reclamation and restoration obligations, it can reduce our available credit capacity or restrict cash reserves, which can affect our liquidity.

Under the conditions attached to the Las Cruces Mining Concession, we were required to post two bonds before we could begin mining at Las Cruces: a restoration (closure) bond and a labour bond. We posted these bonds in 2005. The labour bond is fixed at €5 million for the life of the mine. The closure bond is based on what 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 closure bond was set at €14.8 million and by the end of 2010 increased to €25 million. This takes into consideration the mine's expected life, the corresponding land disturbance and estimated closure costs. In 2009 we were required to cash collateralize a bond in relation to Las Cruces' global plan for water treatment.

#### 2011 outlook for cash from financing

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. The repeal recognized concerns from indigenous communities over mining within areas known as Comarcas that are recognized under Panamanian law. The Cobre Panama project is neither situated on nor adjacent to any Comarcas. As part of the repeal, the Government of Panama appointed a special commission to consider and recommend to the National Assembly of Panama future modifications to the Code in consultation with affected parties. This consultation process is currently ongoing.

We have received written confirmation from the Government of Panama that our ability to continue with development of the Cobre Panama project under Law 9, the legal regime that establishes the Cobre Panama mineral concession, remains unaffected by the repeal. 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. Accordingly, we believe that foreign state-owned entities are permitted to own interests in mining concessions in Panama, and that such interests remain a viable option for the Cobre Panama project.

The table below shows contractual obligations existing at December 31, 2010, including principal payments and interest.

|  | 2011          | 2012<br>and 2013 | 2014<br>and 2015 | 2016<br>and beyond | Total         |
|--|---------------|------------------|------------------|--------------------|---------------|
| (Millions)                               |               |                  |                  |                    |               |
| <b>FINANCING</b>                         |               |                  |                  |                    |               |
| Long-term debt – promissory note         | 1             | 20               | –                | –                  | 21            |
| Capital leases                           | 2             | 5                | 5                | 18                 | 30            |
| <b>OPERATING OR INVESTING</b>            |               |                  |                  |                    |               |
| Accounts payable and accrued liabilities | 137           | –                | –                | –                  | 137           |
| Royalties                                | 23            | 34               | 26               | 77                 | 160           |
| Asset retirement obligations             | 16            | 13               | 7                | 177                | 213           |
| Purchase commitments                     | 58            | 65               | 19               | –                  | 142           |
| <b>Total</b>                             | <b>\$ 237</b> | <b>\$ 137</b>    | <b>\$ 57</b>     | <b>\$ 272</b>      | <b>\$ 703</b> |

#### LONG-TERM DEBT – PROMISSORY NOTE

This is a €14 million unsecured promissory note that we issued to Outokumpu Oyj in March 2002, as part of the purchase of Pyhäsalmi. The note is payable in October 2013.

#### CAPITAL LEASES

Las Cruces has capital leases for the supply of oxygen from a plant owned and operated by a third party and located at the mine site.

#### ROYALTIES

We have two royalty commitments. One is based on sales of copper at Las Cruces and the other based on net income at Çayeli. There is no royalty obligation if we do not sell copper at Las Cruces, but a minimum royalty of US \$0.7 million must be paid regardless of Çayeli's net income. The royalty payments in the contractual obligation table above are based on a long-term copper price of US \$2.25 per pound and zinc of US \$0.85 per pound. Based on 2011 estimated production, an increase of 10 percent in copper and zinc prices would result in an increase in royalty payments of approximately \$3 million.

#### ASSET RETIREMENT OBLIGATIONS

These are mostly for the closure of Troilus, closed mines and long-term water treatment. Costs payable after five years include estimated closure costs for our operating mines and ongoing long-term water treatment.

#### PURCHASE COMMITMENTS

Çayeli has two remaining contingent payments relating to the acquisition of Cerattepe. These payments, which total US \$9 million, are not mandatory, so we have not included them in the table above.

The first payment, for US \$4.5 million, was originally due on September 30, 2005. This installment was extended by mutual agreement after the local administrative court ruled that the original operating licences relating to the Cerattepe property were incorrectly exempted from environmental assessment requirements. The Ministry of Energy and Natural Resources has appealed the decision to the Turkish Administrative Supreme Court and we are awaiting a final decision on the status of the licences from the court.

Under an agreement with the seller, the first of the remaining two payments will be due 30 days after the receipt of the Court's decision. If we return the shares to the seller we will not be obligated to make either payment.

Cobre Panama committed \$137 million for the design and supply of certain mill equipment and for basic engineering.

Las Cruces committed \$5 million primarily for plant improvements.

## **SHARE CAPITAL**

Inmet Mining has 61,549,172 common shares outstanding as at December 31, 2010 and February 23, 2011.

## **ACCESS TO CAPITAL**

Mining is an extremely capital intensive business. Mining companies need significant ongoing capital to maintain and improve existing operations, invest in large scale capital projects with long lead times, and manage uncertain development and permitting timelines and the volatility associated with fluctuating metals and input prices. Financial markets – banking, debt and equity – can also be extremely volatile, and can prevent us from gaining access to the capital required to maintain and grow our business.

To manage this risk, we closely manage the cost of our operations to ensure they will be profitable throughout the metal price cycle. We also maintain a conservative capital structure – we are in a strong net cash position – and maintain enough cash, liquid investments and committed debt financing to complete the projects we have underway. The objective is that once a development decision is made, we will be able to finance its completion without relying on future operating cash flows from our current operations, or on the condition of the financial market.

## **PRESERVATION OF CAPITAL**

For this reason we aim to retain significant cash balances for future development expenditures. Volatility in the financial markets can have an impact on the market value of financial investments, on the returns earned from those investments, and on our ability to access that capital due to disruptions in market liquidity.

To manage this risk, we invest in high quality, highly liquid investments – typically government backed investments or AAA rated liquidity funds. To enhance yield, we will also invest a portion of our excess liquidity in longer dated maturities to take advantage of the available yield enhancement without sacrificing credit quality or accessibility. We continually monitor the financial markets, interacting closely with our investment advisors and leading market participants, to make sure we can anticipate and react to changing market conditions.

## FINANCIAL INSTRUMENTS

The following is a summary of our financial instruments at December 31, 2010:

| Financial instrument                             | Category           | How we measure it  | Associated risks  | Fair value at December 31, 2010 | Amount recorded in earnings  | Amount not recorded in earnings <sup>(1)</sup> |
|--|--------------------|--|---|---------------------------------|--|--|
| (Millions)                                       |                    |  |   |                                 |  |  |
| Cash, short-term investments and restricted cash | Held for trading   | Fair value   | <ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul> | \$ 397                          | Interest income<br>2010 – \$1<br>2009 – \$5  | Nil  |
| Investments in equity securities                 | Available for sale | Fair value   | <ul style="list-style-type: none"> <li>• Market</li> </ul>  | \$ 3 <sup>(2)</sup>             | Investment and other income<br>2010 – \$51<br>2009 – \$–   | \$1 loss                                       |
| Held to maturity investments                     | Held to maturity   | Initially at fair value and subsequently at amortized cost | <ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul> | \$ 373 <sup>(2)</sup>           | 2010 – \$7<br>2009 – \$–   | Carrying value less than fair value by \$1     |
| Long-term debt                                   | Other liabilities  | Initially at fair value and subsequently at amortized cost | <ul style="list-style-type: none"> <li>• Market</li> <li>• Liquidity</li> </ul>                   | \$ (17) <sup>(3)</sup>          | Interest costs<br>2010 – \$7 expensed<br>(\$6 capitalized);<br>2009 – \$2 expensed<br>(\$22 capitalized) | Carrying value less than fair value by \$3     |

<sup>(1)</sup> AOCI balance before related income taxes at December 31, 2010 for instruments measured at fair value.

<sup>(2)</sup> Based on price quotations in an active market.

<sup>(3)</sup> Based on a market interest rate of 3.7 percent.

## Managing changes in metal prices, exchange rates and interest rates

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

Metal prices are affected by many factors beyond our control, including:

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

We do not typically hedge the prices of the base metals we produce. Our strategy is to provide our investors with full exposure to base metal prices. This, we believe, makes our operations easier to understand and avoids the incremental risk and complexity inherent with any hedging program. As a result, any decrease in the market price of one or more of these metals could materially adversely affect the value and amount of our reserves, our business, financial condition, liquidity and results of operations.

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

Our risk management policy is designed to mitigate the impact of changes in commodity prices and exchange rates, to give us greater control over a portion of revenues and control our costs. We believe that derivatives are an effective means of managing these risks, and that they allow us to plan with more certainty.

Our use of derivatives is based on established practices and controls, which are approved by our board. We have a metal price hedging policy that, among other things:

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

We do not use derivatives for speculative or trading purposes. Most of the derivatives we use are designated in a hedge accounting relationship. All of our hedge contracts are with highly rated banks that deal in futures and derivatives markets as part of their business. Under our current facilities, we are not subject to margin calls, regardless of spot metal prices or exchange rates.

## Foreign operations

Çayeli, Pyhäsalmi, Ok Tedi, Las Cruces and Cobre Panama are foreign operations. Çayeli, Ok Tedi and Cobre Panama report in US dollars, and Pyhäsalmi and Las Cruces report in euros. We defer translation exchange gains and losses on these investments and record them in *Accumulated other comprehensive income* included in shareholders' equity.

Our currency exposure is limited to our net investment in these operations. On translation, we will only record a foreign exchange gain or loss in income when our net investment is reduced; when a dividend is paid, for example. The balance also includes the deferral of exchange gains and losses on intergroup debt as we consider this to be part of our net investment. We recognize foreign exchange gains and losses when these loans are repaid.

The table below shows the deferred foreign exchange balance at December 31.

|  | 2010     | 2009    |
|--|----------|---------|
| <i>(Millions)</i>                            |          |         |
| Çayeli (US dollar functional currency)       | \$ (23)  | \$ (21) |
| Las Cruces (euro functional currency)        | (100)    | (9)     |
| Pyhäsalmi (euro functional currency)         | (25)     | (5)     |
| Ok Tedi (US dollar functional currency)      | (22)     | (14)    |
| Cobre Panama (US dollar functional currency) | (42)     | (12)    |
|  | \$ (212) | \$ (61) |

## ACCOUNTING POLICIES

### Critical accounting estimates

Because of the nature of our business, we are required to make estimates about the future that affect the amount of assets, liabilities, sales and expenses we report.

The following areas include estimates that are based on our past experience, our best judgment and assumptions we think are reasonable:

- property, plant and equipment
- investment impairment
- reclamation costs
- valuation allowance on future income tax asset.

We believe the estimates provide a fair presentation of our financial condition and results of operations.

Please see note 1 to the consolidated financial statements on page 68 for a full discussion of our significant accounting policies.

### Purchase price allocation

We account for acquisitions by the purchase method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is goodwill. The determination of fair value often requires us to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment, and include estimates of mineral reserves acquired, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

### Property, plant and equipment

The table shows our property, plant and equipment at December 31, 2010.

|                                | 2010 |       |
|--------------------------------|------|-------|
| (Millions of Canadian dollars) |      |       |
| Property                       | \$   | 496   |
| Plant and equipment            |      | 852   |
| Deferred development           |      | 574   |
|                                | \$   | 1,922 |

### PROPERTY

We depreciate property using the unit-of-production method where the value of the property is reduced as reserves are depleted. We base this on mining rates and our estimates of proven and probable mineral reserves. A change in our proven and probable mineral reserves would change our future depreciation expense.

Our mineral reserves are estimates of the amount of ore that can be economically and legally extracted from our mining properties. To calculate reserves, we use estimates and assumptions about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production and freight costs, metals prices and exchange rates. Changing these estimates and assumptions will change our proven and probable mineral reserves. Our reserves for all operations except Ok Tedi are estimated based on information compiled by or under the supervision of a qualified person as defined under National Instrument 43-101. Ok Tedi's estimates are prepared by competent persons as defined in the Australasian Code for Reporting of Identified Mineral and Ore Reserves.

### SENSITIVITY ANALYSIS:

The table below shows how a 25 percent change in mineral reserves at the beginning of 2010 would have affected our depreciation.

|            | Change in 2010<br>depreciation | After<br>tax impact |
|------------|--------------------------------|---------------------|
| Çayeli     | +/- \$1.2                      | +/- \$0.9           |
| Las Cruces | +/- \$5.7                      | +/- \$4.0           |
| Pyhäsalmi  | +/- \$0.9                      | +/- \$0.7           |
| Ok Tedi    | +/- \$0.7                      | +/- \$0.5           |

## Impairment of long-lived assets

We periodically review and evaluate the recoverability of property, plant and equipment based on our estimate of undiscounted future cash flows over the life of the mine from each of our properties. This includes our estimates of:

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

Our estimates of the recoverability of our operating and development properties are critical because they are based on an estimate of future cash flows and market conditions over the long-term life of our assets, and the impact of recognizing an impairment could have a significant effect on the balance sheet and statement of earnings. If any of these estimates change, future net cash flows from our properties could be lower, which would result in impairment.

Based on our estimate of mineral reserves as at December 31, 2010, and long-term metal prices of US \$2.25 per pound of copper and US \$0.85 per pound of zinc, there was no impairment in the value of any of our operating properties.

### **SENSITIVITY ANALYSIS:**

A 25 percent reduction in estimated life-of-mine cash flows would not impair the value of Çayeli, Pyhäsalmi, Ok Tedi, Las Cruces or Cobre Panama.

## Pre-production costs

The criteria we use to determine the production start date of a mining operation are critical because that is the day we stop capitalizing costs related to pre-production. The criteria used to assess the production start date are complex and depend on the complexity of each development property's plan, and its economic, political, and environmental condition. The factors we consider can include:

- producing saleable material
- completing a reasonable period of testing of the plant and equipment in the mine and mill
- achieving certain level of recoveries from the ore mined and processed
- sustaining ongoing production and the mine reaching a certain level, normally 60 percent, of production capacity.

## Asset retirement obligations

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

Technical issues involved in mine closure can make it an uncertain process. This can increase the time it takes to reclaim a closed mine, which makes it difficult to estimate reclamation costs. We also cannot predict the impact on our financial position of environmental laws and regulations that may be enacted in the future.

We estimated an asset retirement obligation of \$125 million at December 31, 2010. \$49 million of this related to closed mines and \$76 million related to operating mines and mines under development. This was based on:

- our estimate of the costs and the time it will take to rehabilitate the property
- a discount rate to estimate the fair value of the liability.

Asset retirement obligations are measured by discounting the expected cash flows at credit-adjusted risk-free interest rates ranging from two percent to seven percent. The actual rate depends on a number of factors, including how long it will take to rehabilitate the property (which can range from five to 16 years) and where the property is located.

The actual cost of site restoration could be higher than the amounts we have estimated. We recognize any changes in our estimates immediately in income for closed mines and we capitalize and amortize any change over the life of operating mines.

### **SENSITIVITY ANALYSIS:**

A 10 percent change in our estimate of reclamation costs would affect our earnings by approximately \$5 million, all of which relates to closed mines.

## Valuation allowance on future income tax asset

We have \$66 million in Canadian tax benefits from capital losses, capital cost allowances and mining resources pools. This is a significant asset to Inmet Mining.

We use estimates of future taxable income to determine how much of this benefit we will be able to use. If it is more likely than not that we will have future taxable income in Canada to deduct these losses from, we will record them as a future income tax asset. If it is more likely than not that we will not have income to deduct the losses from, we will apply a valuation allowance against them. As of December 31, 2010, we have applied a full valuation allowance against our \$66 million of Canadian tax pools. This amount is an estimate and can be affected by many factors, including: metal prices, actual costs, interest rates and foreign currency exchange rates. Also, the amount of the future income tax asset could be reduced if projected income is not achieved.

## Future changes in accounting standards

### International financial reporting standards

The Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for financial periods beginning on and after January 1, 2011. IFRS is based on a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure.

While the adoption of IFRS will not change our business activities, it will result in changes to our reported financial position and net income.

We have prepared a comprehensive IFRS convergence plan that addresses the changes in accounting policy, restatement of comparative periods, internal control over financial reporting, modification of existing systems, the training and awareness of staff, and other related items. Senior financial management, who report to and are overseen by Inmet's Audit Committee, are responsible for planning and implementing the conversion.

To date, we have determined all of our significant accounting policies, prepared sample financial statements and assessed the impacts on our systems and processes. We have put a dual reporting solution in place to maintain our accounting records according to both Canadian GAAP and IFRS for our 2010 dual reporting year. We have been working alongside our auditors while determining our accounting policies, to ensure they agree with our choices, and that we are choosing policies that are consistent with our peers in the industry. While documenting our new policies, we have documented the related internal controls.

We have prepared a reconciliation of our historical Canadian GAAP balance sheet to IFRS balance sheet as at January 1, 2010 and for our financial statements for the first, second and third quarters of 2010. We will focus next on preparing financial statements for the year ended December 31, 2010 in accordance with our expected IFRS accounting policies.

We do not expect our key controls to change during and after our transition to IFRS. We believe our training program and the preparation of reconciliations to IFRS, have given our staff an appropriate understanding of IFRS as it applies to our financial reporting.

The paragraphs that follow list the major differences between our current accounting policies under Canadian GAAP and the accounting policies we currently expect to apply when we transition to IFRS. We have also provided quantification for the most significant differences in our balance sheet as at January 1, 2010 and our statement of earnings for the nine months ended September 30, 2010. We currently expect these changes will increase the equity attributable to common shareholders of Inmet Mining on our January 1, 2010 opening balance sheet under IFRS by approximately \$50 million, or \$0.90 per common share, compared to our December 31, 2009 balance sheet under Canadian GAAP. We may choose to adopt different IFRS accounting policies, or we may choose to apply them only to certain transactions or circumstances, so our conversion to IFRS may be different from what we are currently expecting.

The standard-setting bodies that determine IFRS also have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS, and their impact on our consolidated financial statements. The impact IFRS has in future years will depend on circumstances at the time. We will continue to monitor changes to IFRS and adjust our convergence plan as necessary. The Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for financial periods beginning on and after January 1, 2011. IFRS is based on a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure.

While the adoption of IFRS will not change our business activities, it will result in changes to our reported financial position and net income.

### **IMPAIRMENT OF ASSETS**

Under Canadian GAAP, we use a two-step approach to impairment testing:

- first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists
- then measuring any impairment by comparing asset carrying values with fair values (generally assessed using a discounted cash flow valuation process).

IFRS uses a one step approach to test for and measure impairment, and compares asset carrying values directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows).

This approach will lead to write-downs when carrying values of assets supported under Canadian GAAP on an undiscounted basis are not supported on a discounted basis under IFRS. IFRS also requires a full or partial reversal of previous impairment losses when circumstances have changed and the impairments have been reduced. Impairment losses cannot be reversed under Canadian GAAP.

We expect to increase January 1, 2010 property plant and equipment at Çayeli by approximately \$50 million to reverse an impairment charge we recognized for this operation in 1996. The increase is the IFRS carrying amount we would have calculated, net of depreciation, if we had not recognized the original impairment. This will result in a higher ongoing depreciation expense for Çayeli.

### **BUSINESS COMBINATIONS**

Under Canadian GAAP, mining companies that are acquired in the early development stage often do not constitute a business, and instead are accounted for as an acquisition of assets without any goodwill. The definition of a business under IFRS is broader, and most acquisitions represent business combinations, so goodwill is recognized more frequently.

Under Canadian GAAP, companies that acquire an additional interest in an entity they already control must account for it as a step acquisition. Under IFRS, acquiring a non-controlling interest is not considered a business combination, and is instead accounted for as an equity transaction. Under IFRS, we will therefore account for our acquisition of the remaining 30 percent interest in Las Cruces, which closed in December 2010, as an equity transaction, because we already controlled it. We will recognize the difference between the non-controlling interest (as determined under IFRS) and the

fair value of the consideration paid, against retained earnings.

In addition, most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination are recorded at full fair value under IFRS. Under Canadian GAAP, only the ownership percentage acquired is recorded. Non-controlling interests are recognized at book value.

#### **ASSET RETIREMENT OBLIGATIONS**

Under Canadian GAAP, we use a credit adjusted risk free interest rate and are not required to update the rate when market rates change.

Under IFRS, we will measure asset retirement obligations using a risk free interest rate and revalue when market risk free interest rates change. We expect to increase January 1, 2010 asset retirement obligations by approximately \$40 million on transition to IFRS.

#### **REVENUE**

Under Canadian GAAP, we recognize revenue when title is legally transferred to the purchaser. For certain shipments at Çayeli, Pyhasalmi and Ok Tedi, we transfer title when we receive the first provisional payment, which is later than the transfer point for risks and rewards of ownership.

Under IFRS, we will recognize revenue when all significant risks and rewards of ownership of our products are transferred to the purchaser. We expect to increase January 1, 2010 accounts receivable by approximately \$25 million and decrease inventories by \$6 million on transition to IFRS.

#### **FOREIGN EXCHANGE GAINS AND LOSSES**

Under Canadian GAAP, dividends, including those related to the accumulation of earnings and repayment of intercompany debt, are considered a return on investment, and we recognize the deferred foreign exchange gains or losses on these amounts in investment and other income.

Under IFRS, only dividends that represent a return on capital invested in a foreign operation require recognition of previously deferred foreign exchange gains or losses. For the nine months ended September 30, 2010, we expect to reverse foreign exchange losses of \$23 million related to the repatriation of accumulated earnings from our operations as a result of our transition to IFRS.

#### **FUTURE INCOME TAXES**

We will need to recognize the corresponding tax asset or liability based on the resultant differences between the new carrying value of assets and liabilities under IFRS and their associated tax bases.

#### **FIRST TIME ADOPTION OF IFRS**

First time adoption of *International Financial Reporting Standards* (IFRS 1) lists specific exemptions that we can use when we first adopt IFRS. The most significant exemptions we expect to apply are as follows:

- **Business combinations** – for business combinations that occurred before the transition date, we can choose to restate all of them under IFRS, restate all of them after a particular date, or not restate any of them. We expect to use this exemption and not restate any business combinations under IFRS.
- **Cumulative translation adjustment** – IFRS requires an entity to determine the translation differences in accordance with IFRS from the date a subsidiary was formed or acquired. IFRS 1 allows an entity to consider the cumulative translation differences for all foreign operations to be zero at the date of transition, and to reclassify the previous amount to retained earnings. We expect to use this exemption and reset our cumulative translation adjustment (unrealized losses of \$61 million) to zero on transition to IFRS with a corresponding reduction in retained earnings.
- **Property, plant and equipment associated with asset retirement obligations** – IFRS and Canadian GAAP both require us to recognize a corresponding change in asset retirement obligations in the carrying value of the related property, plant and equipment (where we identify an asset) and depreciate this amount prospectively. The amount under IFRS will be different from the amount determined under Canadian GAAP because of the different way IFRS determines asset retirement obligations.

## ENSURING OUR SUCCESS

There are risks in every business and the mining industry has its own inherent risks. The reality is that only a few properties that are explored are ultimately developed into producing mines, and this is often for reasons that cannot be anticipated in advance.

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

We have developed a comprehensive system to manage these development and operational risks and maintain insurance to cover some risks where appropriate in view of the probability and the likely impact of an occurrence and the costs of transferring this risk to a third party. Like any other mining company, however, we may not be able to and do not obtain insurance to cover all risks, particularly those relating to the environment.

The section that follows provides a description of the most material risks that could affect our business.

### Production estimates

We base our estimates for future production on, among other things:

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

Our actual production could be different for a variety of reasons, including:

- we change our estimated mineral reserves. Mineral reserve estimates can be uncertain because they are based on limited sampling and not the entire ore body. As we gain more knowledge and understanding of an ore body, the reserve estimate may change significantly, either positively or negatively.
- actual ore mined varies from estimates of grade
- tonnage
- dilution
- metallurgical and other characteristics
- short-term operating factors relating to the mineral reserves, such as the need for sequential development of ore bodies and the processing of new or different ore grades
- risks and hazards associated with mining
- natural phenomena, such as inclement weather conditions, floods and earthquakes
- unexpected labour shortages or strikes.

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

### Human resources

People are core to our success. From time to time, the mining industry experiences a shortage of skilled or experienced personnel, especially trades people, on a global, regional or local basis. We have a comprehensive strategy in place to attract and retain people of the highest calibre. This includes maintaining a positive reputation and corporate culture, training, competitive compensation and other incentives. Our ability to achieve our objectives is dependent on maintaining good relations with our employees. Certain of our employees are employed under collective bargaining agreements. Labour unrest or disruptions at any of our operations could have a material adverse effect on our business as a whole.

### Safety, environmental and community risk

Our activities by their very nature impact the environment so our operations and investments are subject to extensive laws and regulations concerning the environment, employee health and safety, waste disposal, mine development, mine operation and mine closure and reclamation. We require permits and approvals from a variety of regulatory authorities for many aspects of mine development, operation, closure and reclamation.

Our ability to obtain permits and approvals and to successfully develop and operate mines may be adversely affected by real or perceived impacts associated with our activities that affect the environment and human health and safety at our development projects and operations and in the surrounding communities. The real or perceived impacts of the activities of other mining companies may also adversely affect our ability to obtain permits and approvals.

Compliance with applicable environmental and health and safety laws and regulations may require significant expenditures. Failure to comply may lead to fines and penalties, temporary or permanent suspension of development and operational activities, clean-up costs, damages and the loss of key permits or approvals. We are exposed to these potential liabilities through our current development projects and operations as well as operations that have been closed or sold. There can be no assurance that we have been or will be in full compliance with all of these laws and regulations, or with all permits and approvals that we are required to have.

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

Environmental and health and safety laws and regulations continue to evolve and this can create significant uncertainty around the environmental and reclamation costs we incur. If new legislation and regulations are introduced in the future, they could lead to additional costs, capital expenditures, restrictions and delays at existing operations or development properties, and it is impossible to predict the extent of any of these possible changes.

Environmental and regulatory review has also become a long, complex and uncertain process that can delay the opening of a new mine, expansion at an operating mine, or extend decommissioning activities at a closed mine.

In some jurisdictions, bonds or other forms of financial assurance are required as security for reclamation activities. The cost of our reclamation activities may materially exceed our provisions for them, or regulatory developments or changes in the assessment of conditions at closed operations may cause these costs to vary substantially, positively or negatively, from prior estimates of reclamation liabilities.

Our ability to foster and maintain the support of local communities and governments for our development projects and operations by engaging in dialogue and consulting with them about our activities and generating social and economic benefits from them is critical to the conduct and growth of our business. Even with extensive dialogue and consultation with local communities and governments, as well as the generation of social and economic benefits from a project or operation to them, there can be no assurance that this support can be fostered or maintained. Failing to foster or maintain this support would adversely affect our ability to develop a new mine or operate any of our current mines.

### **Environmental risk at Las Cruces**

Las Cruces uses a dewatering and reinjection system (DRS) to remove ground water out from the vicinity of the pit, transport it in closed pipelines around the pit and re-inject the water back into the aquifer so that the ground water does not come into contact with the open pit where it would become contaminated. This "Global Plan" includes two primary actions:

- (1) Purifying water extracted from the aquifer on a short-term and permanent basis through a reverse osmosis purification process prior to reinjection into the aquifer.
- (2) Relocating certain DRS extraction wells from above the mineralized zone to locations outside of the mineralized zones and adding additional wells to increase dewatering capacity.

Las Cruces has proceeded with the development of a permanent water management solution of improving the DRS, constructing a permanent water purification plant, and compensating for excess water taken from the water treatment plant. Full implementation of these activities requires receipt by Las Cruces of certain approvals which remain pending at this time. As a result, Las Cruces' water management capacity is currently constrained from that envisioned once the Global Plan is fully implemented. The relevant authorities and Las Cruces are working together to address remaining technical issues and we believe that such approvals will be obtained in the near future. Once the outstanding approvals are obtained, Las Cruces will complete the steps needed to implement the remaining elements of the Global Plan and will work towards full compliance. While Las Cruces has taken and will continue to take all necessary actions, it is likely that water management will remain an operational challenge at Las Cruces for the foreseeable future.

## **Exploration and development risk**

Because the life of a mine is limited by its mineral reserves, we continually look for opportunities to replace and expand our reserves by exploring existing properties and by looking for potential acquisitions of new properties or companies that own new properties.

Exploration and development of mineral properties involves significant financial risk. There is no assurance, however, that we will be successful in our efforts. Very few properties that are explored are later developed into an operating mine. Substantial spending may be made on properties that are later abandoned due to poor drilling results or an inability to define mineral reserves.

Developing a property involves many risks and unknowns. These include establishing mineral reserves by drilling, completion of feasibility studies, obtaining and maintaining various permits and approvals from governmental authorities (see *Safety, environmental, and community risk*), constructing mining and processing facilities, securing required surface or other land rights, finding or generating suitable sources of power and water, confirming the availability and suitability of appropriate local area infrastructure and developing it if needed, and obtaining adequate financing.

The capital expenditures and timeline needed to develop a new mine are considerable and the economics of a project can be affected by changes to them. Actual costs may increase significantly and economic returns may differ materially from our estimates. We may be unable to satisfactorily resolve fiscal and tax issues, or fail to obtain permits and approvals necessary to operate a project so that the project may not proceed, either on the original timeline, or at all. New mining operations may experience unexpected problems during start-up, which can cause delays and require more capital than anticipated.

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

Our operations, by their nature, use large amounts of power and energy. Our ability to obtain a secure supply of energy and power at a reasonable cost depends on many factors, including global and regional supply and demand, political and economic conditions, problems that can affect local production, delivery and relevant regulatory regimes.

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

## **Transportation**

We are dependent on third parties for rail, truck and maritime services to transport our products. We negotiate pricing for these services in circumstances where we may not have viable alternatives to using specific providers or access to regulated rate setting mechanisms. Contract disputes, demurrage charges, rail and port capacity issues, availability of vessels, weather and climate and other factors can have a material adverse impact on our ability to transport our products according to schedules and contractual commitments.

## Foreign operations

We have operations and development projects outside of Canada where there are added risks and uncertainties due to different economic, cultural, regulatory and political environments. We do not, however, regard the nature of these countries as a significant deterrent to our operations or investments.

Our operations and investments outside Canada could be adversely affected by war, civil disturbances and activities of foreign governments that limit or disrupt markets, restrict the movement of funds or supplies, or restrict contractual rights or take property without fair compensation. In addition, we may be subject to the exclusive jurisdiction of courts outside of Canada, which could affect the outcome of any dispute.

These operations and investments could also be negatively affected by changes in Canadian laws and regulations relating to foreign trade, investment and taxation. From time to time, we have entered into joint venture arrangements with local partners to mitigate political risk. We do not currently have political risk insurance.

## 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 and zinc 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 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 could significantly impact the fair value of our held to maturity investments; however, this will not affect our net income and *other comprehensive income* because we measure these assets at amortized cost since we intend to hold them until they mature.

## Sensitivity analysis

The table below shows the effect that some of key variables could have on our net income, based on our objectives for 2011.

|   | A change of:         | Would change our 2011 net income by: | Would change our 2011 earnings per share by <sup>(1)</sup> : |
|---|----------------------|--------------------------------------|--|
| <b>Metal prices</b>   |                      |                                      |  |
| Copper (per pound)  | US \$0.30            | \$45 million                         | \$0.73   |
| Zinc (per pound)  | US \$0.10            | \$9 million                          | \$0.15   |
| <b>Exchange rates</b>   |                      |                                      |  |
| Canadian dollar per US dollar   | C \$0.10             | \$48 million                         | \$0.78   |
| Canadian dollar per euro  | C \$0.10             | \$11 million                         | \$0.18   |
| <b>Treatment and refining charges</b>                                     |                      |                                      |  |
| Copper treatment charge per tonne and<br>Copper refining charge per pound | US \$10<br>US \$0.01 | \$2 million                          | \$0.03   |
| Zinc treatment charge per tonne   | US \$10              | \$1 million                          | \$0.02   |
| <b>Freight and fuel costs</b>   |                      |                                      |  |
| Concentrate freight per tonne   | 10%                  | \$1 million                          | \$0.02   |
| Electricity per kilowatt hour   | C \$0.01             | \$3 million                          | \$0.05   |

(1) Based on total outstanding common shares at December 31, 2010 of 61,549,172

## SUPPLEMENTARY INFORMATION

### Non-GAAP measures

#### Cash costs

We use unit cash cost information as a key performance indicator, both on a segment basis and consolidated basis. We have included cash costs as supplementary information because we believe our key stakeholders use it measure as a financial indicator of our profitability and cash flows before the effects of capital investment and financing costs (like interest).

Cash cost measures are supplementary information. It is not a recognized measure under Canadian generally accepted accounting principles (GAAP), and should not be considered without also considering our earnings and cash flows. There is no standard way to calculate cash costs, so they are not a reliable way to compare us to other companies.

The tables below show our copper and gold cash costs for 2010 and 2009.

#### 2010

per pound of copper

|  | Çayeli  | Las Cruces <sup>(1)</sup> | Pyhäsalmi | Ok Tedi | Total   |
|--|---------|---------------------------|-----------|---------|---------|
| (US dollars)                           |         |                           |           |         |         |
| Direct production costs                | \$ 1.28 | \$ 1.64                   | \$ 1.63   | \$ 1.32 | \$ 1.41 |
| Royalties and variable compensation    | 0.14    | 0.06                      | –         | 0.10    | 0.09    |
| Smelter processing charges and freight | 1.41    | 0.01                      | 1.11      | 0.56    | 0.86    |
| Metal credits                          | (2.19)  | –                         | (2.95)    | (1.85)  | (1.87)  |
| Cash cost                              | \$ 0.64 | \$ 1.71                   | \$ (0.21) | \$ 0.13 | \$ 0.49 |

(1) subsequent to July 1, 2010.

#### 2009

per pound of copper

|  | Çayeli  | Pyhäsalmi | Ok Tedi | Total   |
|--|---------|-----------|---------|---------|
| (US dollars)                           |         |           |         |         |
| Direct production costs                | \$ 1.02 | \$ 1.71   | \$ 1.23 | \$ 1.24 |
| Royalties and variable compensation    | 0.10    | –         | 0.05    | 0.06    |
| Smelter processing charges and freight | 1.24    | 1.08      | 0.43    | 0.88    |
| Metal credits                          | (1.73)  | (2.26)    | (1.49)  | (1.74)  |
| Cash cost                              | \$ 0.63 | \$ 0.53   | \$ 0.22 | \$ 0.44 |

Because cash costs are a non-GAAP measure, the tables below reconcile cash costs to our GAAP financial statements.

## 2010

per pound of copper

|  | Çayeli         | Las Cruces <sup>(1)</sup> | Pyhäsalmi        | Ok Tedi        | Total copper   |
|--|----------------|---------------------------|------------------|----------------|----------------|
| For the year ended December 31 (millions, except where otherwise noted)      |                |                           |                  |                |                |
| GAAP reference   | page 11        | page 14                   | page 17          | page 21        |                |
| Direct production costs  | \$ 91          | \$ 68                     | \$ 55            | \$ 93          | \$ 306         |
| Smelter processing charges and freight                                       | 72             | -                         | 54               | 36             | 162            |
| By product sales   | (119)          | -                         | (112)            | (115)          | (346)          |
| Adjust smelter processing charges and freight, and sales to production basis | (3)            | -                         | (4)              | (6)            | (13)           |
| <b>Operating costs net of metal credits</b>                                  | <b>\$ 41</b>   | <b>\$ 68</b>              | <b>\$ (7)</b>    | <b>\$ 8</b>    | <b>\$ 109</b>  |
| US\$ to C\$ exchange rate  | \$ 1.03        | \$ 1.03                   | \$ 1.03          | \$ 1.03        | \$ 1.03        |
| Inmet's share of production (thousands)                                      | 62,100         | 38,300                    | 32,400           | 63,400         | 196,200        |
| <b>Cash cost (US\$)</b>  | <b>\$ 0.64</b> | <b>\$ 1.71</b>            | <b>\$ (0.21)</b> | <b>\$ 0.13</b> | <b>\$ 0.49</b> |

## 2009

per pound of copper

|  | Çayeli         | Pyhäsalmi      | Ok Tedi        | Total          |
|--|----------------|----------------|----------------|----------------|
| For the year ended December 31 (millions, except where otherwise noted)      |                |                |                |                |
| GAAP reference   | page 11        | page 17        | page 21        |                |
| Direct production costs  | \$ 83          | \$ 62          | \$ 96          | \$ 241         |
| Smelter processing charges and freight                                       | 82             | 51             | 30             | 163            |
| By product sales   | (120)          | (96)           | (105)          | (321)          |
| Adjust smelter processing charges and freight, and sales to production basis | 1              | 3              | (4)            | -              |
| <b>Operating costs net of metal credits</b>                                  | <b>\$ 46</b>   | <b>\$ 20</b>   | <b>\$ 17</b>   | <b>\$ 83</b>   |
| US\$ to C\$ exchange rate  | \$ 1.14        | \$ 1.14        | \$ 1.14        | \$ 1.14        |
| Inmet's share of production (thousands)                                      | 63,900         | 33,100         | 66,100         | 163,100        |
| <b>Cash cost (US\$)</b>  | <b>\$ 0.63</b> | <b>\$ 0.53</b> | <b>\$ 0.22</b> | <b>\$ 0.44</b> |

(1) subsequent to July 1, 2010.

### FREE CASH FLOW

We use free cash flow from operations to demonstrate the positive cash flows our operations generate even after spending on capital additions and other investments. The tables below show how we calculate free cash flow from operations for 2010 and 2009 using our GAAP financial statements as a reference. Free cash flow is supplementary information. It is not a recognized measure under Canadian GAAP.

## 2010

|   | Çayeli       | Las Cruces | Pyhäsalmi    | Troilus      | Ok Tedi       | Total         |
|---|--------------|------------|--------------|--------------|---------------|---------------|
| For the year ended December 31 (millions)         |              |            |              |              |               |               |
| GAAP reference                                    | page 65      | page 65    | page 65      | page 65      | page 65       |               |
| Cash provided by operating activities             | \$ 117       | \$ 59      | \$ 80        | \$ 44        | \$ 154        | \$ 454        |
| Capital spending                                  | (15)         | (24)       | (4)          | -            | (16)          | (59)          |
| Cash used in financing activities                 | -            | 13         | -            | -            | (11)          | 2             |
| Foreign exchange on cash held in foreign currency | (10)         | (3)        | (14)         | -            | (4)           | (31)          |
| <b>Free cash flow</b>                             | <b>\$ 92</b> | <b>45</b>  | <b>\$ 62</b> | <b>\$ 44</b> | <b>\$ 123</b> | <b>\$ 366</b> |

## 2009

|   | Çayeli       | Pyhäsalmi    | Troilus       | Ok Tedi      | Total         |
|---|--------------|--------------|---------------|--------------|---------------|
| For the year ended December 31 (millions)         |              |              |               |              |               |
| GAAP reference                                    | page 66      | page 66      | page 66       | page 66      |               |
| Cash provided by operating activities             | \$ 96        | \$ 61        | \$ 119        | \$ 103       | \$ 379        |
| Capital spending                                  | (15)         | (8)          | -             | (21)         | (44)          |
| Cash provided by (used in) financing activities   | -            | -            | -             | (12)         | (12)          |
| Foreign exchange on cash held in foreign currency | (25)         | (9)          | -             | (10)         | (44)          |
| <b>Free cash flow</b>                             | <b>\$ 56</b> | <b>\$ 44</b> | <b>\$ 119</b> | <b>\$ 60</b> | <b>\$ 279</b> |

## Quarterly review

### 2010 statements of earnings

First quarter      Second quarter      Third quarter      Fourth quarter      Year 2010

(Thousands of Canadian dollars, except per share amounts)

#### STATEMENTS OF EARNINGS

|  |            |            |            |            |              |
|--|------------|------------|------------|------------|--------------|
| Gross sales                            | \$ 251,559 | \$ 215,051 | \$ 313,349 | \$ 318,128 | \$ 1,098,087 |
| Smelter processing charges and freight | (44,329)   | (36,794)   | (47,191)   | (38,440)   | (166,754)    |
| Cost of sales                          | (80,980)   | (72,437)   | (93,722)   | (98,625)   | (345,764)    |
| Depreciation                           | (15,224)   | (18,951)   | (24,308)   | (23,361)   | (81,844)     |
| Earnings from operations               | 111,026    | 86,869     | 148,128    | 157,702    | 503,725      |
| Corporate development and exploration  | (2,779)    | (2,524)    | (2,758)    | (3,975)    | (12,036)     |
| General and administration             | (5,510)    | (6,288)    | (4,073)    | (4,767)    | (20,638)     |
| Investment and other income            | (78)       | (18,370)   | 3,533      | 50,331     | 35,416       |
| Stand-by costs                         | (6,753)    | –          | –          | –          | (6,753)      |
| Interest expense                       | (452)      | (421)      | (3,480)    | (2,520)    | (6,873)      |
| Capital tax expense                    | (82)       | (82)       | (82)       | (127)      | (373)        |
| Income tax expense                     | (20,063)   | (15,167)   | (45,272)   | (54,180)   | (134,682)    |
| Non-controlling interest               | 4,562      | 4,419      | (9,910)    | 2,041      | 1,112        |
| Net income                             | \$ 79,871  | \$ 48,436  | \$ 86,086  | \$ 144,505 | \$ 358,898   |
| Net income per common share            | \$ 1.42    | \$ 0.86    | \$ 1.53    | \$ 2.53    | \$ 6.37      |
| Diluted net income per common share    | \$ 1.42    | \$ 0.86    | \$ 1.53    | \$ 2.53    | \$ 6.35      |

### 2009 statements of earnings

First quarter      Second quarter      Third quarter      Fourth quarter      Year 2009

(Thousands of Canadian dollars, except per share amounts)

#### STATEMENTS OF EARNINGS

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Gross sales                            | \$ 239,152 | \$ 213,042 | \$ 241,121 | \$ 290,570 | \$ 983,885 |
| Smelter processing charges and freight | (40,540)   | (40,589)   | (41,607)   | (53,696)   | (176,432)  |
| Cost of sales                          | (89,904)   | (73,827)   | (72,706)   | (74,995)   | (311,432)  |
| Depreciation                           | (15,679)   | (13,604)   | (14,558)   | (17,911)   | (61,752)   |
| Earnings from operations               | 93,029     | 85,022     | 112,250    | 143,968    | 434,269    |
| Corporate development and exploration  | (3,232)    | (2,727)    | (1,963)    | (2,915)    | (10,837)   |
| General and administration             | (4,124)    | (4,785)    | (5,147)    | (9,836)    | (23,892)   |
| Investment and other income            | (11,203)   | 16,466     | 3,588      | 280        | 9,131      |
| Asset impairment                       | (6,419)    | –          | –          | (3,496)    | (9,915)    |
| Interest expense                       | (492)      | (493)      | (496)      | (496)      | (1,977)    |
| Capital tax (expense) recovery         | (125)      | (125)      | (744)      | 69         | (925)      |
| Income tax expense                     | (18,890)   | (24,052)   | (39,244)   | (38,668)   | (120,854)  |
| Non-controlling interest               | 2,783      | (2,778)    | (6,693)    | 857        | (5,831)    |
| Net income                             | \$ 51,327  | \$ 66,528  | \$ 61,551  | \$ 89,763  | \$ 269,169 |
| Net income per common share            | \$ 1.06    | \$ 1.37    | \$ 1.10    | \$ 1.60    | \$ 5.14    |
| Diluted net income per common share    | \$ 1.06    | \$ 1.36    | \$ 1.09    | \$ 1.60    | \$ 5.13    |

## Five year information

| Year ended December 31                                  | 2010         | 2009        | 2008         | 2007         | 2006         |
|---|--------------|-------------|--------------|--------------|--------------|
| <b>STATEMENTS OF EARNINGS (THOUSANDS)</b>               |              |             |              |              |              |
| Gross sales   | \$ 1,098,087 | \$ 983,885  | \$ 944,865   | \$ 1,103,698 | \$ 1,087,869 |
| Smelter processing charges and freight                  | (166,754)    | (176,432)   | (179,738)    | (206,478)    | (240,605)    |
| Cost of sales and depreciation                          | (427,608)    | (373,184)   | (390,406)    | (344,097)    | (318,788)    |
| Corporate development and exploration                   | (12,036)     | (10,837)    | (10,620)     | (9,083)      | (9,754)      |
| General and administration                              | (20,638)     | (23,892)    | (13,138)     | (20,298)     | (13,740)     |
| Investment and other income                             | 35,416       | 9,131       | 5,986        | 36,454       | 47,757       |
| Asset impairment  | –            | (9,915)     | (36,275)     | –            | –            |
| Stand-by costs  | (6,753)      | –           | –            | –            | –            |
| Interest expense  | (6,873)      | (1,977)     | (1,884)      | (1,693)      | (1,619)      |
| Capital tax expense                                     | (373)        | (925)       | (1,679)      | (609)        | (450)        |
| Income tax expense                                      | (134,682)    | (120,854)   | (105,689)    | (140,085)    | (130,017)    |
| Non-controlling interest                                | 1,112        | (5,831)     | 5,500        | (200)        | –            |
| Net income  | \$ 358,898   | \$ 269,169  | \$ 216,922   | \$ 417,609   | \$ 420,653   |
| <b>CASH FLOW (THOUSANDS)</b>                            |              |             |              |              |              |
| Cash and short-term investments, beginning of year      | \$ 533,913   | \$ 572,733  | \$ 840,823   | \$ 640,186   | \$ 251,895   |
| Cash provided by (used in):                             |              |             |              |              |              |
| Operating activities                                    | 409,333      | 322,751     | 324,505      | 427,351      | 438,129      |
| Investing activities                                    | (483,050)    | (364,839)   | (864,446)    | (295,765)    | (129,445)    |
| Financing activities                                    | (9,272)      | 49,974      | 206,940      | 122,246      | 64,031       |
| Other   | (124,499)    | (46,706)    | 64,911       | (53,195)     | 15,576       |
| Cash and short-term investments, end of year            | \$ 326,425   | \$ 533,913  | \$ 572,733   | \$ 840,823   | \$ 640,186   |
| <b>COMMON SHARE STATISTICS</b>                          |              |             |              |              |              |
| Net income per share                                    | \$ 6.37      | \$ 5.14     | \$ 4.49      | \$ 8.65      | \$ 8.73      |
| Diluted net income per share                            | \$ 6.35      | \$ 5.13     | \$ 4.48      | \$ 8.64      | \$ 8.71      |
| Net book value per share at December 31                 | \$ 44.82     | \$ 39.89    | \$ 38.68     | \$ 28.84     | \$ 22.22     |
| Operating cash flow per share                           | \$ 7.26      | \$ 6.17     | \$ 6.72      | \$ 8.85      | \$ 9.09      |
| Number of shares outstanding (thousands) <sup>(1)</sup> | 61,549       | 56,107      | 48,282       | 48,282       | 48,278       |
| <b>BALANCE SHEETS (THOUSANDS)<sup>(1)</sup></b>         |              |             |              |              |              |
| Current assets  | \$ 866,796   | \$ 800,597  | \$ 805,459   | \$ 1,040,829 | \$ 828,721   |
| Property, plant and equipment                           | 1,921,843    | 1,860,616   | 1,950,535    | 870,965      | 548,637      |
| Investments   | 321,309      | 132,302     | 17,514       | 32,266       | 53,002       |
| Other assets  | 152,628      | 110,634     | 67,750       | 104,405      | 102,580      |
|   | \$ 3,262,576 | \$2,904,149 | \$ 2,841,258 | \$ 2,048,465 | \$ 1,532,940 |
| Current liabilities                                     | \$ 255,558   | \$ 191,300  | \$ 330,886   | \$ 185,771   | \$ 163,106   |
| Long-term debt  | 16,619       | 200,026     | 384,848      | 234,317      | 109,080      |
| Reclamation and other liabilities                       | 231,915      | 274,678     | 257,741      | 235,884      | 187,920      |
| Shareholders' equity                                    | 2,758,484    | 2,238,145   | 1,867,783    | 1,392,493    | 1,072,834    |
|   | \$ 3,262,576 | \$2,904,149 | \$ 2,841,258 | \$ 2,048,465 | \$ 1,532,940 |
| <b>CURRENT EXCHANGE RATES<sup>(1)</sup></b>             |              |             |              |              |              |
| US dollar relative to Canadian dollar                   | \$ 0.99      | \$ 1.05     | \$ 1.22      | \$ 0.99      | \$ 1.17      |
| Euro relative to Canadian dollar                        | \$ 1.33      | \$ 1.50     | \$ 1.70      | \$ 1.45      | \$ 1.54      |

(1) As at December 31.

## Mineral reserves and resources

The table below shows our operating property mineral reserves and resources estimated at December 31, 2010<sup>(1)</sup>.

### OPERATING PROPERTIES

| Category   | Tonnes<br>(x 1000) | Cu<br>%       | Zn<br>%    | Au<br>g/t  | Ag<br>g/t  | S<br>%    | Mo<br>%   | Contained Metal (x 1000) |              |              |               |              | Inmet's<br>interest |             |
|--|--------------------|---------------|------------|------------|------------|-----------|-----------|--------------------------|--------------|--------------|---------------|--------------|---------------------|-------------|
|  |                    |               |            |            |            |           |           | Cu<br>tonnes             | Zn<br>tonnes | Au<br>ounces | Ag<br>ounces  | Mo<br>tonnes |                     |             |
| <b>Mineral reserves</b>                                  |                    |               |            |            |            |           |           |                          |              |              |               |              |                     |             |
| Las Cruces   | Proven             | 7,154         | 7.2        | -          | -          | -         | -         | 518                      | -            | -            | -             | -            | -                   | 100%        |
|  | Probable           | 8,334         | 5.3        | -          | -          | -         | -         | 442                      | -            | -            | -             | -            | -                   | 100%        |
|  | <b>Total</b>       | <b>15,488</b> | <b>6.2</b> | <b>-</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>  | <b>960</b>               | <b>-</b>     | <b>-</b>     | <b>-</b>      | <b>-</b>     | <b>-</b>            | <b>100%</b> |
| Çayeli   | Proven             | 5,226         | 3.1        | 4.3        | 0.5        | 35        | -         | 164                      | 223          | 76           | 5,881         | -            | -                   | 100%        |
|  | Probable           | 3,355         | 3.3        | 4.3        | 0.4        | 40        | -         | 111                      | 145          | 46           | 4,315         | -            | -                   | 100%        |
|  | <b>Total</b>       | <b>8,581</b>  | <b>3.2</b> | <b>4.3</b> | <b>0.4</b> | <b>37</b> | <b>-</b>  | <b>275</b>               | <b>368</b>   | <b>122</b>   | <b>10,196</b> | <b>-</b>     | <b>-</b>            | <b>100%</b> |
| Pyhäsalmi  | Proven             | 10,750        | 1.1        | 2.1        | 0.4        | 14        | 41        | 118                      | 228          | 138          | 4,839         | -            | -                   | 100%        |
|  | Probable           | -             | -          | -          | -          | -         | -         | -                        | -            | -            | -             | -            | -                   | 100%        |
|  | <b>Total</b>       | <b>10,750</b> | <b>1.1</b> | <b>2.1</b> | <b>0.4</b> | <b>14</b> | <b>41</b> | <b>118</b>               | <b>228</b>   | <b>138</b>   | <b>4,839</b>  | <b>-</b>     | <b>-</b>            | <b>100%</b> |
| <b>Inmet's share</b>                                     |                    |               |            |            |            |           |           | <b>1,353</b>             | <b>596</b>   | <b>260</b>   | <b>15,035</b> | <b>-</b>     | <b>-</b>            |             |
| <b>Mineral resources (exclusive of mineral reserves)</b> |                    |               |            |            |            |           |           |                          |              |              |               |              |                     |             |
| Las Cruces   | Measured           | -             | -          | -          | -          | -         | -         | -                        | -            | -            | -             | -            | -                   | 100%        |
|  | Indicated          | 134           | 2.9        | -          | -          | -         | -         | 4                        | -            | -            | -             | -            | -                   | 100%        |
|  | Inferred           | 98            | 7.2        | -          | -          | -         | -         | 7                        | -            | -            | -             | -            | -                   | 100%        |
| Çayeli   | Measured           | 1,764         | 3.1        | 2.1        | 0.4        | 16        | -         | 54                       | 37           | 20           | 907           | -            | -                   | 100%        |
|  | Indicated          | 1,700         | 3.3        | 3.0        | 0.6        | 25        | -         | 56                       | 51           | 31           | 1,366         | -            | -                   | 100%        |
|  | Inferred           | 466           | 3.3        | 10.9       | -          | -         | -         | 15                       | 51           | -            | -             | -            | -                   | 100%        |
| Pyhäsalmi  | Measured           | 7,256         | 0.6        | 0.4        | -          | -         | 44        | 44                       | 30           | -            | -             | -            | -                   | 100%        |
| <b>Inmet's share</b>                                     |                    |               |            |            |            |           |           | <b>158</b>               | <b>118</b>   | <b>51</b>    | <b>2,273</b>  | <b>-</b>     | <b>-</b>            |             |
| (not including inferred resources)                       |                    |               |            |            |            |           |           |                          |              |              |               |              |                     |             |

The table below shows our development property mineral reserves and resources estimated at December 31, 2010<sup>(1)</sup>.

### DEVELOPMENT PROPERTY

| Category   | Tonnes<br>(x 1000) | Cu<br>%          | Zn<br>%     | Au<br>g/t | Ag<br>g/t   | S<br>%      | Mo<br>%  | Contained Metal (x 1000) |               |              |                |                | Inmet's<br>interest |             |
|--|--------------------|------------------|-------------|-----------|-------------|-------------|----------|--------------------------|---------------|--------------|----------------|----------------|---------------------|-------------|
|  |                    |                  |             |           |             |             |          | Cu<br>tonnes             | Zn<br>tonnes  | Au<br>ounces | Ag<br>ounces   | Mo<br>tonnes   |                     |             |
| <b>Mineral reserves</b>                                  |                    |                  |             |           |             |             |          |                          |               |              |                |                |                     |             |
| Cobre Panama   | Proven             | 245,000          | 0.59        | -         | 0.14        | 1.61        | -        | 0.010                    | 1,453         | -            | 1,108          | 12,697         | 24                  | 100%        |
|  | Probable           | 1,897,000        | 0.39        | -         | 0.06        | 1.41        | -        | 0.007                    | 7,438         | -            | 3,848          | 86,026         | 139                 | 100%        |
|  | <b>Total</b>       | <b>2,143,000</b> | <b>0.41</b> | <b>-</b>  | <b>0.07</b> | <b>1.43</b> | <b>-</b> | <b>0.008</b>             | <b>8,891</b>  | <b>-</b>     | <b>4,956</b>   | <b>98,723</b>  | <b>164</b>          | <b>100%</b> |
| <b>Inmet's share</b>                                     |                    |                  |             |           |             |             |          | <b>8,891</b>             | <b>-</b>      | <b>4,956</b> | <b>98,723</b>  | <b>164</b>     | <b>-</b>            |             |
| <b>Mineral resources (inclusive of mineral reserves)</b> |                    |                  |             |           |             |             |          |                          |               |              |                |                |                     |             |
| Cobre Panama   | Measured           | 261,000          | 0.56        | -         | 0.13        | 1.50        | -        | 0.009                    | 1,469         | -            | 1,112          | 12,923         | 24                  | 100%        |
|  | Indicated          | 3,010,000        | 0.34        | -         | 0.06        | 1.20        | -        | 0.006                    | 10,221        | -            | 5,420          | 120,275        | 191                 | 100%        |
|  | <b>Total</b>       | <b>3,271,000</b> | <b>0.36</b> | <b>-</b>  | <b>0.06</b> | <b>1.30</b> | <b>-</b> | <b>0.007</b>             | <b>11,688</b> | <b>-</b>     | <b>6,533</b>   | <b>133,258</b> | <b>215</b>          | <b>100%</b> |
| <b>Inmet's share</b>                                     |                    |                  |             |           |             |             |          | <b>11,688</b>            | <b>-</b>      | <b>6,533</b> | <b>133,258</b> | <b>215</b>     | <b>-</b>            |             |
| Cobre Panama   | Inferred           | 3,194,000        | 0.24        | -         | 0.04        | 1.00        | -        | 0.005                    | 7,509         | -            | 4,003          | 103,105        | 148                 | 100%        |
| <b>Inmet's share</b>                                     |                    |                  |             |           |             |             |          | <b>7,509</b>             | <b>-</b>      | <b>4,003</b> | <b>103,105</b> | <b>148</b>     | <b>-</b>            |             |

(1) Excludes Ok Tedi. Inmet disposed of its 18 percent equity interest in Ok Tedi Mining Limited, the owner and operator of the Ok Tedi mine, on January 28, 2011. As a result, Ok Tedi is no longer a material property to Inmet.

## NOTES TO MINERAL RESERVES AND RESOURCES TABLE

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

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

Estimates for all operations are prepared by or under the supervision of a qualified person as defined in National Instrument 43-101 (usually an engineer or geologist).

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

Mineral resources which do not form part of the mineral reserves do not have demonstrated economic viability.

### Çayeli

Reserve and resource estimates as at December 31, 2010 prepared under the supervision of Joseph Boaro, P. Eng. (Senior Manager, Mining, Inmet Mining).

Reserve estimates are based on the following assumptions:

- copper price: US \$2.25 per pound
- zinc price: US \$0.85 per pound
- net smelter return cut-off: US \$65 per tonne.

Resource estimates include only material in addition to those used to generate reserves and are based on the same metal prices and a lower net smelter return cut-off: US \$59 per tonne.

### Las Cruces

Resource and reserve estimates as at December 31, 2010 prepared by independent consultant Alan C. Noble, P.E.

Reserve estimates are based on the following assumptions:

- copper price: US \$2.25 per pound
- exchange rate: €1.00 = US \$1.15
- open pit cut-off: 1 percent copper (96.7 percent of copper in reserve)
- underground cut-off: 3 percent copper (3.3 percent of copper in reserve).

### Pyhäsalmi

Reserve and resource estimates as at December 31, 2010 prepared under the supervision of Timo Maki, EurGeol., European Federation of Geologists (Chief Geologist, Pyhäsalmi) and Katja Sahala, P. Geo., (Geologist, Pyhäsalmi).

Reserve estimates are based on the following assumptions:

- copper price: US \$2.25 per pound
- zinc price: US \$0.85 per pound
- exchange rate: €1.00 = US \$1.15
- net smelter return cut-off: €28.90 per tonne.

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

### Cobre Panama

Mineral reserves as at December 31, 2010 were estimated by William Rose, P.E., of WLR Consulting, Inc., a qualified person under National Instrument 43-101.

Reserve estimates are based on the following assumptions:

- copper price: US \$2.00 per pound
- gold price: US \$750 per ounce
- silver price: US \$12.50 per ounce
- molybdenum price: US \$12.00 per pound
- Mining costs : US \$ 1.33 per tonnes of material mined and
- Milling and general and administration cost: US \$ 5.37 per tonne of ore milled, average life of mine metallurgical recoveries: 86 percent for copper, 54 percent for gold, 46 percent for silver and 59 percent for molybdenum.

Mineral resources as at December 31, 2010, were estimated by Robert Sim, P. Geo., of SIM Geological Inc. and Bruce Davis, Ph.D., Fellow of the AusIMM (FAusIMM), BD Resource Consulting Inc., both qualified persons under National Instrument 43-101.

Mineral resources include mineral reserves.

Resource grades are estimated using ordinary kriging with a nominal block size of 25 metres by 25 metres by 15 metres. Resources are limited inside a pit shell defined by a copper price of US \$2.30 per pound, the same operating costs used for reserves, and are tabulated at a cut-off grade of 0.15 percent copper.