



## Quarterly Report Three Months Ended March 31, 2011

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*All amounts are in Canadian dollars, unless otherwise stated.*

### Management's Interim Discussion and Analysis

*The following is management's interim discussion and analysis of operations and consolidated financial condition and should be read in conjunction with the consolidated audited financial statements and management's discussion and analysis included in Inmet's 2010 Annual Report.*

### Highlights

- **Strong earnings from operations**

Earnings from operations were \$117 million compared to \$68 million in the first quarter of last year – a result of higher metal prices, the inclusion of earnings from Las Cruces and higher copper sales volumes at Çayeli.

- **Inmet reaffirms 2011 copper production objective**

Copper production this quarter was lower than expected during the ramp up of Las Cruces and because Çayeli deferred the processing of higher grade ore to later this year. We remain confident that we will achieve our production guidance of 94,400 tonnes of copper this year.

- **Sale of our interest in Ok Tedi**

On January 29, 2011, we sold our 18 percent equity interest in Ok Tedi for US \$335 million. Our net proceeds after Papua New Guinea withholding taxes were US \$307 million. As a result, we have reported the after-tax earnings relating to Ok Tedi of \$83 million or \$1.36 per share as discontinued operations.

- **Merger-related costs and foreign exchange losses reduce net income**

We incurred approximately \$6 million of expenses this quarter related to the agreement to merge with Lundin Mining Corporation which was terminated on March 29, 2011. Additionally, we recognized foreign exchange losses of \$10 million on US dollar proceeds we received from the sale of our equity interest in Ok Tedi.

- **Las Cruces progressing on commissioning plan**

Las Cruces produced 8,100 tonnes of copper cathode this quarter, a level affected by temporary disruptions in the supply and distribution of oxygen in the leaching process. We are in the process of installing new generation oxygen distributors that should enable a step-change increase in production. We remain confident that we will reach nameplate production rates of 6,000 tonnes of copper cathode per month by year end.

- **Temasek expected to convert subscription receipts**

Panamanian law changed this quarter to allow foreign governmental bodies or authorities to hold an interest in mining concessions in Panama. We understand that Temasek is in the course of completing its legal review and we expect Temasek to convert their \$500 million in subscriptions receipts into Inmet common shares well before June 30, 2011.

- **Pyhäsalmi signs additional long-term pyrite agreement**

In March 2011, Pyhäsalmi signed a five year sales contract with a customer in the Far East for up to 400,000 tonnes of pyrite per year. Including its current European contracts, Pyhäsalmi now has long-term agreements covering sales of up to 760,000 tonnes annually, and expects to produce and sell 800,000 tonnes pyrite in 2011, an increase of 200,000 tonnes from our initial objective. In total, we are expecting gross sales and contribution (net of smelter treatment charges and freight and variable costs that result from pyrite production) from pyrite and other metal sales of \$67 million and \$47 million respectively in 2011. For future years, prices are negotiated annually with reference to sulphur and fine iron ore prices and ocean transportation costs.

- **New higher grade Balboa discovery at Cobre Panama indicating high grade potential**

On March 8, 2011, we announced that Minera Panama S.A. (MPSA) discovered a significant new higher grade mineralized zone, the Balboa deposit, on its Cobre Panama project. MPSA drilled 10 holes on approximately 200 metre centres. Three of the drill holes have intersected sheeted quartz-bornite-chalcopyrite veins returning higher copper and gold grades than those encountered at any time previously on the Cobre Panama property in over 40 years of exploration drilling. The Balboa mineralization starts near surface and this implies that it could be mined with a low strip ratio but at generally higher copper and gold grades than the current mineral resources. Four drills continue to delineate the extents of zone on 200 metre centres. Additional drills are also being mobilized to begin infill drilling on 100 metre centres with a view to establishing resources and reserves by year-end.

## Key financial data

(thousands, except per share amounts)	three months ended March 31		
	2011	2010	change
<b>FINANCIAL HIGHLIGHTS</b>			
<b>Sales</b>			
Gross sales	\$254,277	\$161,162	+58%
<b>Net income</b>			
Net income from continuing operations	\$59,405	\$49,371	+20%
Net income from continuing operations per share	\$0.97	\$0.96	+1%
Net income from discontinued operations	\$83,439	\$30,718	+172%
Net income from discontinued operations per share	\$1.36	\$0.55	+147%
Net income attributable to Inmet shareholders	\$142,844	\$84,771	+69%
Net income per share	\$2.33	\$1.51	+54%
<b>Cash flow</b>			
Cash flow provided by operating activities	\$118,176	\$45,127	+162%
Cash flow provided by operating activities per share <sup>(1)</sup>	\$1.92	\$0.80	+140%
<b>Capital spending</b> <sup>(2)</sup>	\$40,730	\$17,541	+132%
<b>OPERATING HIGHLIGHTS</b>			
<b>Production</b> <sup>(3)</sup>			
Copper (tonnes)	17,700	14,500	+22%
Zinc (tonnes)	21,200	18,700	+13%
Gold (ounces)	-	19,300	-100%
Pyrite (tonnes)	186,100	197,500	-6%
<b>Copper cash cost (US \$ per pound)</b> <sup>(4)</sup>	\$0.95	\$0.41	+132%

FINANCIAL CONDITION	as at March 31	as at December 31
	2011	2010
Current ratio	4.4 to 1	3.4 to 1
Gross debt to total equity	1%	1%
Net working capital balance (millions)	\$535	\$626
Liquidity balance including cash and long-term bonds (millions)	\$1,083	\$699
Gross debt (millions)	\$17	\$17
Shareholders' equity (millions)	\$2,732	\$2,555

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

<sup>(2)</sup> For the three months ended March 31, 2011, this includes capital spending of \$23 million at Cobre Panama and \$15 million at Las Cruces. For the three months ended March 31, 2010, this includes capital spending of \$18 million at Cobre Panama.

<sup>(3)</sup> Inmet's share. 2010 production volumes exclude our share of Ok Tedi.

<sup>(4)</sup> Copper cash cost per pound is a non-GAAP financial measure – see *Supplementary financial information* on pages 31 to 32. Copper cash costs this quarter were higher due to the impact of Las Cruces as it ramps up to full production. In the first quarter of 2010, Las Cruces' results were not included in cash costs as it had not yet reached commercial production.

## First quarter report

We prepared this report as of April 28, 2011.

In this report, *Inmet* means Inmet Mining Corporation and *we, us* and *our* mean Inmet and/or its subsidiaries and joint ventures. *Revised objective* is as of April 28, 2011.

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

These 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 such as *may, expect, anticipate, believe* or other similar words. We believe the expectations reflected in these forward-looking statements are reasonable. However, actual events and results could be substantially different because of the risks and uncertainties associated with our business or events that happen after the date of this interim report. You should not place undue reliance on forward-looking statements. As a general policy, we do not update forward-looking statements except as required by securities laws and regulations.

### Adoption of International Financial Reporting Standards

We have prepared our first quarter 2011 consolidated financial statements and other financial information according to International Financial Reporting Standards, and restated our 2010 comparative financial statements and other financial information following our IFRS accounting policies. See *Adoption of International Financial Reporting Standards* on page 29 for more information.

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## Our financial results

(thousands, except per share amounts)	three months ended March 31		
	2011	2010	change
<b>EARNINGS FROM OPERATIONS</b> <sup>(1)</sup>			
Çayeli	\$51,473	\$31,036	+66%
Las Cruces	30,576	-	+100%
Pyhäsalmi	34,453	22,865	+51%
Other	-	14,178	-100%
	<b>116,502</b>	<b>68,079</b>	<b>+71%</b>
<b>DEVELOPMENT AND EXPLORATION</b>			
Corporate development and exploration	(13,411)	(2,779)	+383%
<b>CORPORATE COSTS</b>			
General and administration	(8,422)	(5,421)	+55%
Investment and other income	(5,773)	1,204	-579%
Stand by costs	-	(6,753)	-100%
Finance costs	(2,331)	(1,873)	+24%
Income and capital taxes	(27,160)	(3,086)	+780%
	<b>(43,686)</b>	<b>(15,929)</b>	<b>+174%</b>
Net income from continuing operations	59,405	49,371	+20%
Income from discontinued operation (net of taxes)	83,439	30,718	+172%
Non-controlling interest	-	4,682	-100%
<b>Net income attributable to Inmet shareholders</b>	<b>\$142,844</b>	<b>\$84,771</b>	<b>+69%</b>
<b>Income from continuing operations per common share</b>	<b>\$0.97</b>	<b>\$0.96</b>	<b>+1%</b>
<b>Diluted income from continuing operations per common share</b>	<b>\$0.96</b>	<b>\$0.96</b>	<b>-</b>
<b>Basic net income per common share</b>	<b>\$2.33</b>	<b>\$1.51</b>	<b>+54%</b>
<b>Diluted net income per common share</b>	<b>\$2.31</b>	<b>\$1.51</b>	<b>+53%</b>
<b>Weighted average shares outstanding</b>	<b>61,549</b>	<b>56,107</b>	<b>+10%</b>

<sup>(1)</sup> Gross sales less smelter processing charges and freight, cost of sales including depreciation and provisions for mine reclamation at closed properties.

## Key changes in 2011

(millions)	three months ended March 31	see page
<b>EARNINGS FROM OPERATIONS</b>		
<b>Sales</b>		
Higher copper prices denominated in Canadian dollars	\$15	8
Other changes in prices denominated in Canadian dollars	3	8
Higher sales volumes	14	8
<b>Costs</b>		
Higher operating costs, including costs that vary with income and cash flows	(1)	11
Operating earnings at Las Cruces	31	19
2010 earnings from Troilus	(14)	
<b>Higher earnings from operations compared to 2010</b>	<b>48</b>	
<b>CORPORATE COSTS</b>		
Costs related to proposed merger with Lundin	(6)	13
Exploration of Balboa deposit at Cobre Panama	(2)	13
Standby charges in 2010	7	13
Foreign exchange changes	(10)	13
Higher income taxes	(24)	14
Other	(3)	
<b>Higher net income from continuing operations compared to 2010</b>	<b>10</b>	
Higher income from discontinued operation – Ok Tedi	53	14
Non-controlling interest in 2010	(5)	
<b>Higher net income attributable to Inmet shareholders compared to 2010</b>	<b>\$58</b>	

## Understanding our performance

### Metal prices

The table below shows the average metal prices we realized in US dollars and Canadian dollars (the prices we realize include finalization adjustments – see *Gross sales* on page 8).

	three months ended March 31		
	2011	2010	change
<b>US dollar metal prices</b>			
Copper (per pound)	<b>US \$4.29</b>	US \$3.42	+25%
Zinc (per pound)	<b>US \$1.06</b>	US \$1.03	+3%
<b>Canadian dollar metal prices</b>			
Copper (per pound)	<b>C \$4.23</b>	C \$3.56	+19%
Zinc (per pound)	<b>C \$1.05</b>	C \$1.07	-2%

### *Copper*

Copper prices on the London Metals Exchange (LME) averaged US \$4.38 per pound this quarter, an increase of 12 percent from the fourth quarter of 2010 and a 28 percent increase over the first quarter of 2010.

### *Zinc*

Zinc prices on the LME averaged US \$1.09 per pound this quarter, slightly higher than last quarter's average price of US \$1.05 per pound.

### *Pyrite*

Prices for sulphur continued to rise this quarter. The earthquake in Japan resulted in the closure of a number of sulphur and acid producing plants and higher prices at the end of the quarter. Rising sulphur prices could have a positive impact on our pyrite prices this year.

## Exchange rates

Exchange rates affect our revenue and earnings. The table below shows the average exchange rates we realized this quarter and year to date compared to 2010.

	three months ended March 31		
	2011	2010	change
<b>Exchange rates</b>			
1 US\$ to C\$	<b>\$0.99</b>	\$1.04	-5%
1 euro to C\$	<b>\$1.35</b>	\$1.44	-6%
1 euro to US\$	<b>\$1.37</b>	\$1.39	-1%

Our sales are affected by the conversion of US dollar revenue to Canadian dollars. Compared to the same quarter last year, the value of the Canadian dollar appreciated 5 percent relative to the US dollar, and 6 percent relative to the euro.

Our earnings are affected by changes in foreign currency exchange rates when we:

- translate the results of our operations from their functional currency (US dollars or euros) to Canadian dollars
- revalue US dollars and euros that we hold in cash and long-term bonds at Corporate.

## Treatment charges down for copper

Treatment charges are one component of smelter processing charges. We also pay smelters for content losses and price participation.

The table below shows the average charges we realized this quarter. Zinc contracts for 2011 and 2010 were not finalized in the first quarter of the respective years and therefore the average charges represent the contract prices from the relevant prior year. Adjustments to contracts will be reflected in the second quarter.

(US\$)	three months ended March 31		
	2011	2010 <sup>(1)</sup>	change
<b>Treatment charges</b>			
Copper (per dry metric tonne of concentrate)	<b>US \$48</b>	US \$58	-17%
Zinc (per dry metric tonne of concentrate)	<b>US \$258</b>	US \$203	+27%
<b>Price participation</b>			
Copper (per pound)	<b>US \$0.02</b>	US \$0.02	-
Zinc (per pound)	<b>US \$0.00</b>	US \$0.09	-100%
<b>Freight charges</b>			
Copper (per dry metric tonne of concentrate)	<b>US \$50</b>	US \$47	+6%
Zinc (per dry metric tonne of concentrate)	<b>US \$25</b>	US \$29	-14%

<sup>(1)</sup> 2010 charges exclude Ok Tedi charges.

## Statutory tax rates remain consistent

The table below shows the statutory tax rates for each of our taxable operating mines.

	2011	2010	change
<b>Statutory tax rates</b>			
Çayeli	<b>24%</b>	24%	-
Las Cruces	<b>30%</b>	30%	-
Pyhäsalmi	<b>26%</b>	26%	-

## Earnings from operations

(thousands)	three months ended March 31		
	2011	2010	change
Gross sales	\$254,277	\$161,162	+58%
Smelter processing charges and freight	(31,585)	(33,101)	-5%
Cost of sales:			
Direct production costs	(71,428)	(48,805)	+46%
Inventory changes	(7,154)	(1,966)	+264%
Other non-cash expenses	(568)	(1,495)	-62%
Depreciation	(27,040)	(7,716)	+250%
<b>Earnings from operations</b>	<b>\$116,502</b>	<b>\$68,079</b>	<b>+71%</b>

### Gross sales were significantly higher

(thousands)	three months ended March 31		
	2011	2010	change
<b>Gross sales by operation</b>			
Çayeli	\$99,053	\$75,268	+32%
Las Cruces	90,826	-	+100%
Pyhäsalmi	64,398	51,440	+25%
Other (Troilus)	-	34,454	-100%
	<b>\$254,277</b>	<b>\$161,162</b>	<b>+58%</b>
<b>Gross sales by metal</b>			
Copper	\$191,704	\$79,985	+140%
Zinc	44,871	46,673	-4%
Gold	-	23,257	-100%
Other	17,702	11,247	+57%
	<b>\$254,277</b>	<b>\$161,162</b>	<b>+58%</b>

### Key components of the change in sales: gross sales at Las Cruces, no sales at Troilus due to conclusion of operations

(millions)	three months ended March 31
Higher copper prices, denominated in Canadian dollars	\$15
Lower zinc prices, denominated in Canadian dollars	(2)
Changes in other metal prices	5
Gross sales at Las Cruces	91
2010 gross sales from Troilus	(34)
Higher sales volumes at our other mines	18
<b>Higher gross sales, compared to 2010</b>	<b>\$93</b>

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).

This quarter, we recorded \$1 million in negative finalization adjustments from fourth quarter 2010 sales.

At the end of this quarter, the following sales had not been settled:

- 22 million pounds of copper provisionally priced at US \$4.28 per pound
- 19 million pounds of zinc provisionally priced at US \$1.07 per pound.

The finalization adjustment we record for these sales will depend on the actual price we receive when they settle, which can be up to five months from the time we initially record the sales. We expect these sales to settle in the following months:

(millions of pounds)	copper	zinc
April 2011	11	19
May 2011	5	-
June 2011	4	-
July 2011	2	-
<b>Unsettled sales at March 31, 2011</b>	<b>22</b>	<b>19</b>

### Significantly higher copper and pyrite sales volumes, no gold sales volumes

Our sales volumes are directly affected by the amount of production from our mines and our ability to ship to our customers.

Copper production and sales volumes were up this quarter mainly because of Las Cruces production.

Copper sales volumes were higher than production volumes mainly because of the timing of shipments at Çayeli and Las Cruces.

Zinc sales volumes were consistent with 2010.

There were no gold production and sales volumes this quarter because Troilus ceased production in June 2010 and Ok Tedi was sold in January 2011.

Pyhäsalmi realized higher pyrite sales volumes this quarter because of higher European customer demand.

### Sales volumes

	three months ended March 31		
	2011	2010 <sup>(1)</sup>	change
Copper (tonnes)	20,600	13,300	+55%
Zinc (tonnes)	19,700	19,700	-
Gold (ounces)	-	21,200	-100%
Pyrite (tonnes)	141,300	90,800	+56%

### Production

Inmet's share <sup>(2)</sup>	three months ended March 31			revised objective 2011 <sup>(3)</sup>
	2011	2010 <sup>(1)</sup>	change	
<b>Copper (tonnes)</b>				
Çayeli	6,000	7,100	-15%	30,900
Las Cruces	8,100	3,200	+153%	50,200
Pyhäsalmi	3,600	2,900	+24%	13,300
Troilus	-	1,300	-100%	-
	<b>17,700</b>	<b>14,500</b>	<b>+22%</b>	<b>94,400</b>
<b>Zinc (tonnes)</b>				
Çayeli	12,500	11,500	+9%	48,600
Pyhäsalmi	8,700	7,200	+21%	31,900
	<b>21,200</b>	<b>18,700</b>	<b>+13%</b>	<b>80,500</b>
<b>Gold (ounces)</b>				
Troilus	-	19,300	-100%	-
<b>Pyrite (tonnes)</b>				
Pyhäsalmi	186,100	197,500	-6%	800,000

<sup>(1)</sup> 2010 volumes have been revised to exclude OK Tedi.

<sup>(2)</sup> Inmet's share: 100 percent for Çayeli, Pyhäsalmi and Troilus. Our share of Las Cruces is 70 percent until December 15, 2010 and 100 percent thereafter.

<sup>(3)</sup> 2011 objective was revised from original target to increase expected pyrite production. All other production objectives remain unchanged.

### 2011 outlook for sales

We use our production objectives to estimate our sales target.

- We expect copper production in 2011 to be 94,400 tonnes. Copper production at Las Cruces should more than double compared to 2010 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.
- We expect 2011 zinc sales volumes to be similar to 2010 volumes because zinc production should be approximately the same as it was in 2010.
- With production ceasing at Troilus in 2010 and the sale of Ok Tedi in January 2011, no gold sales are expected for 2011.
- In March 2011, Pyhäsalmi signed a five year sales contract with a customer in the Far East for up to 400,000 tonnes of pyrite per year. Including its current European contracts, Pyhäsalmi now has long term agreements covering sales of up to 760,000 tonnes annually, and expects to produce and sell 800,000 tonnes of pyrite in 2011, an increase of 200,000 tonnes from our initial objective. We expect total revenues from pyrite and other metals to be approximately \$67 million and contribution (net of smelter processing charges and freight and variable costs that result from pyrite production) of \$47 million. Prices are negotiated annually with reference to sulphur and fine iron ore prices and ocean transportation costs.

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.

### Lower smelter processing charges, higher freight

(thousands)	2011	three months ended March 31 2010	change
<b>Smelter processing charges and freight by operation</b>			
Çayeli	\$17,894	\$18,838	-5%
Las Cruces	268	-	+100%
Pyhäsalmi	13,423	11,505	+17%
Other (Troilus)	-	2,758	-100%
	<b>\$31,585</b>	<b>\$33,101</b>	<b>-5%</b>
<b>Smelter processing charges and freight by metal</b>			
Copper	\$11,201	\$10,121	+11%
Zinc	17,677	20,475	-14%
Other	2,707	2,505	+8%
	<b>\$31,585</b>	<b>\$33,101</b>	<b>-5%</b>
<b>Smelter processing charges by type and freight</b>			
Copper treatment and refining charges	\$3,381	\$3,989	-15%
Zinc treatment charges	9,762	8,069	+21%
Copper price participation	386	425	-9%
Zinc price participation	(200)	3,934	-105%
Content losses	11,621	11,638	-
Freight	6,307	4,958	+27%
Other	328	88	+273%
	<b>\$31,585</b>	<b>\$33,101</b>	<b>-5%</b>

Our copper treatment and refining charges were lower than they were in 2010 because of the cessation of operations at Troilus. Zinc treatment charges were higher this quarter than they were in the same quarter of last year, but lower price participation charges decreased total zinc charges compared to the first quarter of 2010. Freight was higher this quarter mainly because of more pyrite and copper shipments.

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

We expect costs for copper treatment and refining to be higher in 2011 based on recently signed agreements with our customers. We sell approximately 90 percent of our copper concentrate under long-term contracts. In addition, we expect spot smelter processing charges to be significantly higher than 2010 because the short-term market for copper concentrates has been negatively affected by copper smelter production stoppages resulting from the earthquake in Japan in March. We expect copper price participation to be minimal.

We expect total zinc smelter processing charges, including price participation, to be lower than in 2010 because of a balanced zinc concentrate market.

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

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

### **Direct production costs and cost of sales higher**

(thousands)	three months ended March 31		
	2011	2010	change
<b>Direct production costs by operation</b>			
Çayeli	\$23,378	\$21,736	+8%
Las Cruces	33,488	-	+100%
Pyhäsalmi	14,562	14,978	-3%
Other (Troilus)	-	12,091	-100%
Total direct production costs	71,428	48,805	+46%
Inventory changes	7,154	1,966	+264%
Other non-cash expenses	568	1,495	-62%
<b>Total cost of sales</b>	<b>\$79,150</b>	<b>\$52,266</b>	<b>+51%</b>

#### *Direct production costs*

Direct production costs are higher this quarter, mainly because we began recognizing operating results at Las Cruces in our consolidated income statement effective July 1, 2010, and because of higher labour, consumables and royalty costs at Çayeli as anticipated in our guidance. This was partly offset by the closure of Troilus mid-year in 2010.

#### *Inventory changes*

Copper inventories at Çayeli and Las Cruces decreased this quarter end because of the timing of shipments.

### **2011 outlook for cost of sales**

We expect consolidated direct production costs to be higher in 2011 because we will recognize a full year of production costs in the income statement for Las Cruces. This will be somewhat offset by the planned closure of Troilus.

Our budget for 2011 assumes our costs at Çayeli and Pyhäsalmi will be similar to 2010. Costs at Las Cruces will rise to reflect increased production, but will decrease significantly per pound of copper produced as this operation continues to ramp up to full production.

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.

## Higher depreciation

(thousands)	three months ended March 31		
	2011	2010	change
<b>Depreciation by operation</b>			
Çayeli	\$5,226	\$4,710	+11%
Las Cruces	19,556	-	+100%
Pyhäsalmi	2,258	2,021	+12%
Other (Troilus)	-	985	-100%
	<b>\$27,040</b>	<b>\$7,716</b>	<b>+250%</b>

Depreciation was higher this quarter mainly because Las Cruces began to depreciate its operating assets in the income statement on July 1, 2010. There was no depreciation at Troilus this quarter because the mine concluded operations in June 2010.

### **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. This will be offset somewhat by the closure of Troilus.

## Corporate costs

Corporate costs include general and administration costs, taxes, interest and other income.

### Corporate development and exploration

Costs this quarter were \$11 million higher than the first quarter of 2010. We incurred approximately \$6 million of expenses this quarter from the work related to the arrangement agreement to merge with Lundin Mining Corporation. Inmet and Lundin Mining Corporation agreed to mutually terminate their arrangement agreement on March 29, 2011. All of the costs incurred in connection with the proposed merger have been expensed and classified as *corporate development and exploration* in the consolidated statement of earnings. In addition, we incurred \$2 million in expenditures this quarter to drill the Balboa deposit at Cobre Panama. See *Status of development project – Cobre Panama* on page 22 for more information.

### Investment and other income

(thousands)	three months ended March 31	
	2011	2010
Interest income	\$2,772	\$1,597
Foreign exchange losses	(10,826)	(1,061)
Dividend and royalty income	600	714
Other	1,681	(46)
	<b>\$(5,773)</b>	<b>\$1,204</b>

#### *Interest income*

Interest income was higher this quarter compared to the same period last year because our long-term bond portfolio provided higher yields and because our cash and long-term bond balances were higher.

#### *Foreign exchange losses*

We have foreign exchange gains or losses when we revalue certain foreign denominated assets and liabilities.

Our foreign exchange losses were from:

(thousands)	three months ended March 31	
	2011	2010
Translation of US dollar held-to-maturity investments	\$(1,452)	\$-
Translation of US dollar cash held at corporate	(8,237)	(403)
Translation of other monetary assets and liabilities	(1,137)	(658)
	<b>\$(10,826)</b>	<b>\$(1,061)</b>

We continue to hold the proceeds we received from the sale of our equity interest in Ok Tedi in US dollars, and plan to use this money to fund our US dollar denominated capital program at Cobre Panama. This quarter, we recognized total foreign exchange losses of \$9.5 million on these funds because the US dollar depreciated in value relative to the Canadian dollar.

### **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.

### **Stand-by costs**

In the first quarter of 2010, we could not mine ore at Las Cruces because of the water levels in the pit. We expensed \$6.8 million in operating and maintenance costs for the water purification plant because they did not relate to production activities. We recognized these expenses as stand-by costs because we were not yet at commercial production.

## Income tax expense

(thousands)	three months ended March 31		
	2011	2010	change
Çayeli	\$11,656	\$6,866	
Las Cruces	7,497	(7,634)	
Pyhäsalmi	7,803	4,959	
Corporate and other	204	(1,187)	
	\$27,160	\$3,004	
Consolidated effective tax rate	31%	6%	+417%

Our tax expense changes as our earnings change.

The consolidated effective tax rate increased this quarter compared to the same quarter of last year, mainly because in 2010 Las Cruces recognized a tax recovery on a foreign exchange loss from its intercompany US dollar denominated debt. The foreign exchange eliminates on consolidation, but the tax recovery does not, since there is no corresponding tax expense on the foreign exchange gain.

### **2011 outlook for income tax expense**

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

### **Discontinued operation**

As a result of the sale of our 18 percent equity interest in Ok Tedi in January 2011, we have presented our results relating to Ok Tedi as discontinued operations retroactively. In 2011, after-tax income of \$83 million from this discontinued operation includes net earnings of \$17 million in January, before the sale, and a gain on sale of \$66 million net of withholding taxes. Papua New Guinea withholding taxes of \$28 million were paid on the sale and no Canadian taxes were payable, but we expect to reduce our tax-affected Canadian tax loss pools by about \$2 million.

## Results of our operations

### 2011 estimates

Our financial review by operation includes estimates for our 2011 operating earnings and operating cash flows. We used our 2011 objectives for production and cost per tonne of ore milled to build these estimates, as well as the following assumptions for the remaining nine months of the year:

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Copper price	US \$4.30 per pound
Zinc price	US \$1.00 per pound
Copper treatment cost	US \$54 per tonne for contracts
Zinc treatment cost	US \$224 per tonne (basis US \$2,500 per tonne) for contracts
US \$ to C\$ exchange rate	\$1.00
euro to C\$ exchange rate	\$1.35
Working capital	Assume no changes for the year

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## Çayeli

		three months ended March 31			<i>revised</i>
		2011	2010	change	<i>objective</i>
					<i>2011</i>
Tonnes of ore milled (000's)		<b>293</b>	289	+1%	<b>1,200</b>
Tonnes of ore milled per day		<b>3,300</b>	3,200	+1%	<b>3,300</b>
Grades (percent)	copper	<b>2.9</b>	3.1	-6%	<b>3.2</b>
	zinc	<b>6.3</b>	5.6	+13%	<b>5.9</b>
Mill recoveries (percent)	copper	<b>71</b>	79	-10%	<b>80</b>
	zinc	<b>68</b>	72	-6%	<b>68</b>
Production (tonnes)	copper	<b>6,000</b>	7,100	-15%	<b>30,900</b>
	zinc	<b>12,500</b>	11,500	+9%	<b>48,600</b>
Cost per tonne of ore milled (C\$)		<b>\$80</b>	\$75	+7%	<b>\$81</b>

### Copper production down due to lower grades and recoveries

Copper grades this quarter were lower than 2010 and plan, while zinc grades were higher, because we produced from different areas of the mine containing high grade zinc bornite ore.

Ore containing bornite minerals posed significant challenges to the process plant, resulting in lower metallurgical recoveries this quarter for both copper and zinc. The lower grade copper ore additionally lead to lower overall copper recoveries.

The result was lower copper production compared to 2010 and compared to what we expected, and zinc production slightly ahead of expectations. Higher copper grade ore deferred this quarter should be produced in the coming months and we continue to expect to meet our original target this year.

Cost per tonne of ore milled this quarter was higher than the same quarter last year mainly because royalties were higher, pushed up by higher realized metals prices, and the cost of labour and consumables increased. This change was consistent with our expectations and the objective for the year.

### 2011 outlook

In 2011, production levels should remain at approximately 1.2 million tonnes. We expect copper grades to be 3.2 percent consistent with our original target and zinc grades to increase to 5.9 percent from 5.6 percent. Bornite containing ore is expected to continue in the mill feed; therefore we have reduced our objective for zinc recoveries from 73 percent to 68 percent. However, because we anticipate higher zinc grades than our original objective we have not revised our objective for zinc production. Copper production is also expected to remain consistent with our original objective.

## Financial review

### Higher copper sales volumes and lower zinc sales volumes due to timing of shipments

<i>(millions of Canadian dollars unless otherwise stated)</i>	<b>three months ended March 31</b>		<b>revised objective</b>
	<b>2011</b>	2010	<b>2011</b>
<b>Sales analysis</b>			
Copper sales (tonnes)	7,500	5,600	<b>30,900</b>
Zinc sales (tonnes)	10,000	12,300	<b>48,600</b>
Gross copper sales	\$70	\$43	<b>\$294</b>
Gross zinc sales	23	29	<b>109</b>
Other metal sales	6	3	<b>13</b>
Gross sales	99	75	<b>416</b>
Smelter processing charges and freight	(18)	(19)	<b>(83)</b>
Net sales	\$81	\$56	<b>\$333</b>
<b>Cost analysis</b>			
Tonnes of ore milled (thousands)	293	289	<b>1,200</b>
Direct production costs (\$ per tonne)	\$80	\$75	<b>\$81</b>
Direct production costs	\$23	\$22	<b>\$97</b>
Change in inventory	1	(2)	<b>-</b>
Depreciation and other non-cash costs	6	5	<b>18</b>
Operating costs	\$30	\$25	<b>\$115</b>
<b>Operating earnings</b>	<b>\$51</b>	<b>\$31</b>	<b>\$218</b>
<b>Operating cash flow</b>	<b>\$54</b>	<b>\$30</b>	<b>\$189</b>

The objective for 2011 uses the assumptions listed on page 15.

The table below shows what contributed to the change in operating earnings and operating cash flow between 2011 and 2010.

<i>(millions)</i>	<b>three months ended March 31</b>
Higher copper prices, denominated in Canadian dollars	\$11
Higher copper sales volumes	8
Lower zinc sales volumes	(1)
Other	2
<b>Higher operating earnings, compared to 2010</b>	<b>20</b>
Change in tax expense because of change in taxable income	(1)
Changes in working capital (see note 17 on page 71)	4
Other	1
<b>Higher operating cash flow, compared to 2010</b>	<b>\$24</b>

### Capital spending

<i>(thousands)</i>	<b>three months ended March 31</b>			<b>objective</b>
	<b>2011</b>	2010	<b>change</b>	<b>2011</b>
<b>Capital spending</b>	<b>\$2,400</b>	\$1,800	<b>+33%</b>	<b>\$19,000</b>

### 2011 outlook for capital spending

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.

## Las Cruces

(100 percent)	three months ended March 31			revised
	2011	2010	change	objective 2011
Tonnes of ore processed (000's)	173	77	+125%	<b>981</b>
Copper grades (percent)	6.1	6.9	-12%	<b>6.0</b>
Plant recoveries (percent)	77	85	-9%	<b>85</b>
Cathode copper production (tonnes)	8,100	4,500	+80%	<b>50,200</b>
Cost per pound of cathode produced (C\$)	\$1.88	n/a	n/a	<b>\$1.15</b>

### Progress update

Since October 2010, we have focused on the efficiency of oxygen distribution and its chemical reaction with the ferrous and ferric iron in solution to leach copper. Our challenge has been to keep the ferric iron level high enough to leach the copper, requiring gradual increases to throughput to avoid sacrificing recoveries. We believe that by early May 2011, we will have substantially improved this part of the leaching process to the point where we will then be able to ramp up throughput rates over the balance of the year to achieve nameplate production levels by year end.

In January 2011, there was a failure in the oxygen plant supplying oxygen to our reactors and delivery was intermittent for the two weeks that followed. During our investigation and reactor maintenance, we discovered that oxygen was only being dispersed properly in two of the eight reactors. Since early March, we have repaired broken and plugged oxygen lines, installed new generation oxygen distributors in seven of the reactors and will install the remaining distributor in early May.

The oxygen supply disruption and distribution problems caused recoveries to drop to 76 percent in January and 70 percent in February. After our repairs and replacement of the oxygen distributors, recoveries have increased and remained near the plant design level of 90 percent. Our success in leaching copper is directly related to our ability to generate ferric iron through effective oxidation in the reactors. The proper distribution and use of oxygen is critical to improving plant performance by creating and maintaining the proper level of ferric iron in the leach reactors while we increase the copper feed to the plant.

As a result of the issues with oxygen distribution, Las Cruces produced 8,100 tonnes copper cathode this quarter, lower than the 9,000 tonnes produced in the fourth quarter of 2010. Las Cruces sold 9,700 tonnes of copper cathode this quarter as it drew down its cathode copper inventory.

In March, we began mining ore in the pit again after the rainy season. Our ability to dewater the bottom of the pit was delayed this quarter while we waited for permits for the permanent water treatment plant, which have since been granted for one of the three purification trains. Pit dewatering is now on track to facilitate consistent uninterrupted feed to the plant. Mining operations this quarter focused on overburden removal in Phase 3 of the pit, and we have mined ore as it has become exposed from the pit dewatering program.

We commissioned the contact water section of the permanent water treatment plant this quarter and we also commenced operation of the first of the three sections of the Dewatering and Reinjection System (DRS) purification system. Although the construction and commissioning of these water purification systems have not directly limited our copper production, they are critical to our continued operation under our authorizations from the local and provincial regulatory authorities. The progress made this quarter on receiving the required permits and on commissioning the water treatment facilities are significant to our ongoing water management activities.

### 2011 outlook

We consider the ability to substantially improve the efficiency of oxygen dispersion to be a major breakthrough in the ramp up process, following the changes already made that have addressed mechanical bottlenecks. Now that we've taken steps that directly impact the oxygen efficiency, and its reaction with iron to leach copper, we expect throughput to continue to improve and a step-change increase in production to result. Additionally, we will take steps to monitor the status of each reactor individually so we can take quick action to address any leaching performance issues. We have decreased

our expected copper grade for 2011 to 6 percent. This should enhance stability through constant copper feed rates during ramp up, a better alignment of stockpiles and our mining plan as well as conforming to the plant design for iron-copper ratios in the feed. Consistent with lower grades, we have increased our throughput objective for 2011 from 750,000 tonnes of ore processed to 981,000 tonnes as the plant is driven by the leaching of contained copper as opposed to ore grades. Crushing and grinding has continued to function well and is not seen as limiting plant capacity. The planned modifications to the grinding thickener scheduled in June will also mitigate any potential capacity issues that we may have with feeding the ground ore to leaching. We have not revised our production objective for 2011, despite a shortfall of 2,500 tonnes this quarter as we expect to make this up with an improved production rate coming in the latter half of the year. We are back on track and estimate that production for the month of April will be 3,500 tonnes based on results to date. Second quarter production will be impacted by a scheduled 15 day shutdown in June to modify the grinding thickener which is anticipated in our projections. We will also install the remaining stainless steel agitators in the reactors as they are received with the final reactor expected in October. 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 of a total of 50,200 tonnes of copper cathode in 2011.

## Financial review

### New operating earnings and operating cash flow at Las Cruces this year

<i>(millions of Canadian dollars unless otherwise stated)</i>	<b>three months ended March 31</b>		<b>revised objective</b>
	<b>2011</b>		<b>2011</b>
<b>Sales analysis</b>			
Copper sales (tonnes)	<b>9,700</b>		<b>50,200</b>
Gross copper sales	<b>\$91</b>		<b>\$481</b>
Smelter processing charges and freight	-		<b>(1)</b>
Net sales	<b>\$91</b>		<b>\$480</b>
<b>Cost analysis</b>			
Pounds of copper produced (millions)	<b>18</b>		<b>111</b>
Direct production costs (\$ per pound)	<b>\$1.88</b>		<b>\$1.15</b>
Direct production costs	<b>\$33</b>		<b>\$127</b>
Change in inventory	<b>7</b>		-
Depreciation and other non-cash costs	<b>20</b>		<b>86</b>
Operating costs	<b>\$60</b>		<b>\$213</b>
<b>Operating earnings</b>	<b>\$31</b>		<b>\$267</b>
<b>Operating cash flow</b>	<b>\$58</b>		<b>\$354</b>

The objective for 2011 uses the assumptions listed on page 15.

### Capital spending

<i>(100 percent and millions of Canadian dollars)</i>	<b>three months ended March 31</b>			<b>objective</b>
	<b>2011</b>	2010	<b>change</b>	<b>2011</b>
Capital	<b>\$15</b>	\$10	+50%	<b>\$52</b>
Pre-operating costs capitalized, net of sales, working capital and other	-	(13)	-100%	-
<b>Capital spending</b>	<b>\$15</b>	<b>\$(3)</b>	<b>-600%</b>	<b>\$52</b>

Capital spending this year was mainly on plant improvements, the permanent water purification plant and mine development. In 2010 it was mainly for the permanent water purification plant.

### 2011 outlook for capital spending

We expect to spend \$52 million on capital projects in 2011, including \$15 million for mine development and \$37 million for plant improvements.

## Pyhäsalmi

		three months ended March 31			revised
		2011	2010	change	objective
					2011
Tonnes of ore milled (000's)		335	345	-3%	<b>1,370</b>
Tonnes of ore milled per day		3,700	3,800	-3%	<b>3,750</b>
Grades (percent)	copper	1.1	0.9	+22%	<b>1.0</b>
	zinc	2.9	2.3	+26%	<b>2.6</b>
	sulphur	42	43	-2%	<b>43</b>
Mill recoveries (percent)	copper	96	96	-	<b>95</b>
	zinc	91	91	-	<b>90</b>
Production (tonnes)	copper	3,600	2,900	+24%	<b>13,300</b>
	zinc	8,700	7,200	+21%	<b>31,900</b>
	pyrite	186,100	197,500	-6%	<b>800,000</b>
Cost per tonne of ore milled (C\$)		\$43	\$43	-	<b>\$40</b>

### Higher copper and zinc grades this quarter

Pyhäsalmi processed at an annualized rate in-line with its annual objective. The operation maintained its strong production record and achieved copper recoveries of 96 percent and zinc recoveries of 91 percent. Copper and zinc grades were significantly higher than in the first quarter of 2010 and were also higher than target as we mined in different areas of the mine than planned. Copper and zinc production this quarter were therefore higher than the comparative quarter of 2010.

The backfill raise system functioned well this quarter. The total volume of underground voids at the end of March was well below plan.

### 2011 outlook

We expect 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.

In March 2011, Pyhäsalmi signed a five year sales contract with a customer in the Far East for up to 400,000 tonnes of pyrite per year. Including its current European contracts, Pyhäsalmi now has long term agreements covering sales of up to 760,000 tonnes annually, and expects to produce and sell 800,000 tonnes pyrite in 2011, an increase of 200,000 tonnes from our initial objective. Prices are negotiated annually with reference to sulphur and fine iron ore prices and ocean transportation costs. As a result, we have increased our full year objective for other metal sales (which includes pyrite) to \$67 million from previous guidance of \$44 million.

## Financial review

Higher earnings because of higher copper prices and sales volumes

<i>(millions of Canadian dollars unless otherwise stated)</i>	<b>three months ended March 31</b>		<b>revised</b>
	<b>2011</b>	2010	<b>objective</b>
			<b>2011</b>
<b>Sales analysis</b>			
Copper sales (tonnes)	<b>3,500</b>	3,300	<b>13,300</b>
Zinc sales (tonnes)	<b>9,700</b>	7,400	<b>31,900</b>
Pyrite sales (tonnes)	<b>141,300</b>	90,800	<b>800,000</b>
Gross copper sales	<b>\$31</b>	\$26	<b>\$127</b>
Gross zinc sales	<b>22</b>	18	<b>72</b>
Other metal sales	<b>11</b>	8	<b>67</b>
Gross sales	<b>64</b>	52	<b>266</b>
Smelter processing charges and freight	<b>(13)</b>	(12)	<b>(50)</b>
Net sales	<b>\$51</b>	\$40	<b>\$216</b>
<b>Cost analysis</b>			
Tonnes of ore milled (thousands)	<b>335</b>	345	<b>1,370</b>
Direct production costs (\$ per tonne)	<b>\$43</b>	\$43	<b>\$40</b>
Direct production costs	<b>\$15</b>	\$15	<b>\$54</b>
Depreciation and other non-cash costs	<b>2</b>	2	<b>8</b>
Operating costs	<b>\$17</b>	\$17	<b>\$62</b>
<b>Operating earnings</b>	<b>\$34</b>	\$23	<b>\$154</b>
<b>Operating cash flow</b>	<b>\$40</b>	\$15	<b>\$125</b>

The objective for 2011 uses the assumptions listed on page 15.

The table below shows what contributed to the change in operating earnings and operating cash flow between 2011 and 2010.

<i>(millions)</i>	<b>three months ended</b>
	<b>March 31</b>
Higher copper prices, denominated in Canadian dollars	\$4
Lower zinc prices, denominated in Canadian dollars	(2)
Higher sales volumes	7
Other	2
<b>Higher operating earnings, compared to 2010</b>	<b>11</b>
Change in tax expense because of change in earnings	(3)
Changes in working capital (see note 17 on page 71)	16
Other	1
<b>Higher operating cash flow, compared to 2010</b>	<b>\$25</b>

## Capital spending

<i>(thousands)</i>	<b>three months ended March 31</b>			<b>objective</b>
	<b>2011</b>	2010	<b>change</b>	<b>2011</b>
<b>Capital spending</b>	<b>\$300</b>	<b>\$500</b>	-40%	<b>\$8,000</b>

### 2011 outlook for capital spending

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

## Status of our development project

### Cobre Panama

#### **Engineering, infrastructure and power**

Basic engineering progressed as scheduled this quarter. Metallurgical test work is currently underway to confirm improvements in overall process performance, including the potential to increase copper recoveries and grades, particularly in the first 10 to 15 years of mine life.

There are several projects underway that must be completed before we can begin site capture and construction (expected to begin in the first quarter of 2012). These include access road improvements, a road to access the future tailings management facility and preparation of fuel storage facilities and campsites. We need environmental permits before we can begin some of these projects which we hope to receive during the second quarter. Construction of bridges over the San Juan de Turbe and Coclecito rivers is now complete and access to the property during storm events is greatly improved. Engineering, acquisition of rights-of-way and permitting activities are progressing as planned.

We continue to work with GDF Suez Energy Central America to select an Engineering, Procurement and Construction (EPC) contractor for the development of a 300 megawatt coal-fired power plant to supply power for the project. The plant is designed to exceed IFC and Panamanian environmental standards. Based on current information, we continue to believe that a coal-fired power plant is the best option; however, we will pursue other options in parallel.

#### **Environmental and social impact assessment review and approval process**

The review of the environmental and social impact assessment (ESIA) for the project progressed as expected during the quarter. We received the first round of questions and clarifications from the Autoridad Nacional del Ambiente (ANAM) and provided our responses in early February. There was nothing unexpected in the questions from ANAM. The review process calls for one or two additional rounds of questions and we expect approval of the ESIA to be received in the third quarter. Once this is received, permitting will begin to facilitate project construction.

#### **Drilling**

We continued with resource drilling this quarter. On March 8, 2011, we announced the discovery of a significantly higher grade mineralized zone, the Balboa deposit, on the project property. We drilled 10 holes on approximately 200 metre centres. Three of the drill holes have intersected sheeted quartz-bornite-chalcocopyrite veins returning higher copper and gold grades than those encountered at any time previously on the Cobre Panama property in over 40 years of exploration drilling. The Balboa mineralization starts near surface and this implies that it could be mined with a low strip ratio but at generally higher copper and gold grades than the current mineral resources. The March 8, 2011 press release is available at [www.inmetmining.com](http://www.inmetmining.com). Four drills continue to delineate the extents of zone on 200 metre centres. Additional drills are also being mobilized to begin infill drilling on 100 metre centres with a view to establishing resources and reserves by year-end.

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## **2011 outlook for development**

We plan to:

- continue our dialogue with stakeholders at the community, regional and national levels, to increase their understanding of the project and its benefits to Panama, and our understanding of stakeholder concerns
- 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 begin site capture when we receive the main permits
- select an EPC contractor and award a contract for the development of a 300 megawatt thermal power plant to supply power for the project
- spend \$224 million to carry out the work described.

After we receive the required ESIA approval and permitting, site capture, preparation and construction should take approximately 48 months.

We are proceeding with our partnering and financing strategy for the project to reduce our interest in the project to between 40 percent and 60 percent. We also continue to advance and evaluate other financing alternatives, including project debt and corporate debt instruments.

## Managing our liquidity

We develop our financing strategy by looking at our long-term capital requirements and deciding on the optimal mix of cash, future operating cash flow, credit facilities and project financing.

Our capital structure includes a liquidity cushion that gives us the flexibility to deal with operational disruptions or general market downturns.

(millions)	three months ended March 31	
	2011	2010
<b>CASH FROM OPERATING ACTIVITIES</b>		
Çayeli	\$54	\$30
Las Cruces	58	(7)
Pyhäsalmi	40	15
Other (Troilus)	-	19
Corporate development and exploration not incurred by operations	(12)	(2)
General and administration	(8)	(6)
Foreign exchange losses on US dollar funds	(10)	-
Other	(4)	(4)
	<b>118</b>	<b>45</b>
<b>CASH FROM INVESTING AND FINANCING</b>		
Purchase of property, plant and equipment	(41)	(18)
Purchase and maturing of long-term investments, net	(267)	(102)
Foreign exchange on cash held in foreign currency	3	(14)
Other	(2)	5
	<b>(307)</b>	<b>(129)</b>
<b>CASH FROM DISCONTINUED OPERATION (OK TEDI)</b>		
Increase (decrease) in cash	118	(45)
Cash and short-term investments		
Beginning of period	326	534
End of period	<b>\$444</b>	<b>\$489</b>

Our available liquidity also includes \$639 million of held to maturity investments (\$373 million at December 31, 2010), providing a total of \$1,083 million in capital available to finance our growth strategy as at March 31, 2011.

## OPERATING ACTIVITIES

### Key components of the change in operating cash flows

(millions)	three months ended March 31
Higher earnings from operations (see page 5)	\$48
Add back higher depreciation included in earnings from operations	19
Higher tax expense	(3)
Changes in working capital (see note 17 on page 71)	21
Realized foreign exchange loss on cash	(7)
Higher corporate development and exploration	(11)
Stand-by costs in 2010	7
Other	(1)
<b>Higher operating cash flow, compared to 2010</b>	<b>\$73</b>

Operating cash flows this year were higher than 2010 because our operating earnings before depreciation was higher. The large inflow of cash related to working capital this quarter mainly reflects lower accounts receivable at Çayeli and Pyhäsalmi due to the timing of collections from customers.

#### **2011 outlook for cash from operating activities**

The table below shows expected operating cash flow from our key operations, based on our outlook for metal prices and production listed on page 15, and the assumptions in *Results of our operations*, which starts on page 15.

#### **2011 estimated operating cash flow by operation**

(millions)	
Çayeli	\$189
Las Cruces	354
Pyhäsalmi	125
	<b>\$668</b>

## INVESTING AND FINANCING

### Capital spending

(millions)	three months ended March 31		objective
	2011	2010	2011
Çayeli	\$2	\$2	\$19
Las Cruces	15	(3)	52
Pyhäsalmi	-	1	8
Cobre Panama	24	18	224
	<b>\$41</b>	<b>\$18</b>	<b>\$303</b>

Please see *Results of our operations* and *Status of our development project* for a discussion of actual results and our 2011 objective. Capital spending this quarter was mainly for Cobre Panama and for plant improvements at Las Cruces.

### Cash from discontinued operation

In January 2011, we sold our 18 percent equity interest in Ok Tedi for net proceeds of \$307 million after Papua New Guinea withholding taxes.

### Purchase of long-term investments

We used the US dollar proceeds from the sale of Ok Tedi to purchase US \$273.9 million in US Treasury bonds with AAA credit ratings. The bonds mature between March 2012 and January 2016 and have a weighted average annual yield to maturity of 1.2 percent. In the first quarter of 2010, we purchased \$102 million in medium-term Canadian government and corporate bonds.

### 2011 outlook for investing and financing

#### Capital spending

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

- \$224 million for work on the development at Cobre Panama, including basic engineering, advance payments for mill equipment and other costs to advance development
- \$52 million at Las Cruces, including \$18 million for mine development and \$25 million for plant improvements.

#### Subscription receipts

Last year, we entered into a subscription agreement with a subsidiary of Temasek Holdings (Private) Limited (Temasek), under which Temasek received 7.78 million subscription receipts for total proceeds of \$500 million. 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.

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 semi-autonomous 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. It is our view, based on the legal opinions received, that Panamanian law allows for the

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conversion of the subscription receipts. We understand that Temasek is in the course of completing its legal review and we expect Temasek to convert their subscriptions receipts well before June 30, 2011 as provided for in the relevant agreement.

## Financial condition

Our strategy is to make sure we have sufficient liquidity (including cash and committed credit facilities) to finance our operating requirements as well as our growth projects. At March 31, 2011, we had \$1,083 million in total funds, including \$444 million of cash and short-term investments and \$639 million invested in long-term bonds.

### Cash

At March 31, 2011 our cash and short-term investments of \$444 million included cash and money market instruments that mature in 90 days or less.

Our policy is to invest excess cash in highly liquid investments of the highest credit quality, and to limit our exposure to individual counterparties to minimize the risk associated with these investments. We base our decisions about the length of maturities on our cash flow requirements, rates of return and other factors.

The economic downturn appears to have reversed, but we are still monitoring the potential for a second downturn. At March 31, 2011, we held cash and short-term investments in the following:

- A to AAA rated treasury funds and money market funds managed by leading international fund managers, who are investing in money market and short-term debt securities and fixed income securities issued by leading international financial institutions and their sponsored securitization vehicles.
- Cash, term and overnight deposits with leading Canadian and international financial institutions that are benefiting directly and indirectly from support programs by various governments and central banks.

See note 7 on page 65 in the consolidated financial statements for more details about where our cash is invested.

### Medium-term bonds

We have created a bond portfolio that should provide better yields with little change to our investment risk. As at March 31, 2011, the portfolio was \$639 million (*Held to maturity investments*): 52 percent US Treasury bonds, 4 percent Government of Canada bonds, 38 percent Provincial Government bonds and 6 percent corporate bonds. The bonds mature between June 2011 and January 2016. Although our intention is to hold these investments to maturity, there is a liquid market for them and they are available at any time to us.

### Restricted cash

Our restricted cash balance of \$75 million as at March 31, 2011 included:

- \$17 million in cash collateralized letters of credit for Inmet
- \$56 million at Las Cruces related to a reclamation bond, issuing letters of credit to suppliers and the local water authority and for its labour bond to the government
- \$2 million for future reclamation at Pyhäsalmi.

## COMMON SHARES

Common shares outstanding as of March 31, 2011	61,549,172
Deferred share units outstanding as of March 31, 2011	112,285
<small>(redeemable on a one-for-one basis for common shares)</small>	

### Dividend declaration

The board of directors has declared an eligible dividend of \$0.10 per common share payable on June 15, 2011 to common shareholders of record as at May 31, 2011.

## Accounting changes

### Adoption of International Financial Reporting Standards

The Accounting Standards Board incorporated International Financial Reporting Standards (IFRS) into the Canadian Institute of Chartered Accountants Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The first quarter of 2011 is the first presentation of our results under IFRS, with an effective transition date of January 1, 2010. While the adoption of IFRS did not change our business activities, it has significantly changed our reported financial position. Our key controls over financial reporting did not change as a result of our transition to IFRS. For all changes to policies and procedures that have been identified, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any changes have been implemented. In addition, controls over the IFRS changeover process have been implemented as necessary.

A complete list of our significant accounting policies followed on adoption of IFRS is included in note 3 to our first quarter consolidated financial statements. Additionally, see note 6 to the financial statements for a detailed description of our conversion to IFRS, including a line-by-line reconciliation of our financial statements previously prepared under Canadian GAAP to those under IFRS for the three months ended March 31, 2010 and for the year ended December 31, 2010.

The table below reconciles total equity under Canadian GAAP to total equity under IFRS, and illustrates the after-tax effect of each of the most significant adjustments had on equity.

	Notes	January 1, 2010	March 31, 2010	December 31, 2010
Canadian GAAP equity		\$2,238,145	\$2,206,829	\$2,758,484
IFRS adjustments:				
Reclassification of non-controlling interest to equity		78,005	66,758	-
Revenue recognition	i	14,210	16,164	30,023
Reversal of impairment of assets – Çayeli	ii	42,395	39,357	34,005
Provision for asset retirement obligations	iii	(38,349)	(36,334)	(41,310)
Acquisition of the non-controlling interest in Las Cruces	iv	-	-	(254,056)
Property, plant and equipment associated with asset retirement obligations	v	8,304	9,853	12,175
Other		18,702	17,027	15,218
IFRS equity		\$2,361,412	\$2,319,654	\$2,554,539

#### *i) Revenue*

Under Canadian GAAP, we recognized revenue when title was legally transferred to the purchaser. For certain shipments at Çayeli, Pyhäsalmi 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 recognize revenue when all significant risks and rewards of ownership of our products are transferred to the purchaser.

#### *ii) Impairment of assets*

Under Canadian GAAP, we used 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).

Under IFRS we use a one step approach to test for and measure impairment, and compare asset carrying values directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). IFRS also requires a full or partial reversal of previous impairment losses when circumstances have changed and the impairments have been reduced. Impairment losses were not reversed under Canadian GAAP.

We increased 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 also result in a higher ongoing depreciation expense for Çayeli, including an increase of \$8 million for the year ended December 31, 2010.

*iii) Asset retirement obligations*

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

Under IFRS, we measure asset retirement obligations using a risk free interest rate and revalue when market risk free interest rates change.

*iv) Business combinations*

Under Canadian GAAP, companies that acquired an additional interest in an entity they already controlled accounted 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 have accounted for our acquisition of the remaining 30 percent interest in Las Cruces in December 2010 as an equity transaction, because we already controlled it. We recognized the difference between the non-controlling interest (as determined under IFRS) and the fair value of the consideration paid, in retained earnings.

*v) First time adoption of IFRS: property, plant and equipment associated with asset retirement obligations*  
*First time adoption of International Financial Reporting Standards (IFRS 1) provides specific exemptions that we used when we adopted IFRS.*

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 was different from the amount determined under Canadian GAAP because of the different way IFRS determines asset retirement obligations.

We used an optional transitional calculation to determine the property, plant and equipment associated with our provision for asset retirement obligations. Under the transitional calculation, we measured the provision at the transition date and discounted it to the date the liability first arose. The result became the initial asset value. Depreciation was applied to this value. We applied this exemption to certain mines instead of determining property, plant and equipment associated with asset retirement obligations retrospectively.

## Supplementary financial information

Page 32 includes supplementary financial information about cash costs. These measures do not fall into the category of International Financial Reporting Standards.

We use unit cash cost information as a key performance indicator, both on a segmented and consolidated basis. We have included cash costs as supplementary information because we believe our key stakeholders use these measures as a financial indicator of our profitability and cash flows before the effects of capital investment and financing costs, such as interest.

Since cash costs are not recognized financial measures under International Financial Reporting Standards, they should not be considered in isolation of earnings or cash flows. There is also no standard way to calculate cash costs, so they are not a reliable way to compare us to other companies.

A handwritten signature in black ink, appearing to read "Jochen Tilk". The signature is written in a cursive, flowing style.

Toronto, Canada  
April 28, 2011

Jochen Tilk  
*President and  
Chief Executive Officer*

# INMET MINING CORPORATION

## Supplementary financial information

### Cash costs

2011 For the three months ended March 31

	per pound of copper			
	LAS			TOTAL
	ÇAYELI	CRUCES	PYHÄSALMI	
(US dollars)				
Direct production costs	\$1.62	\$1.83	\$1.87	\$1.77
Royalties and variable compensation	0.18	0.09	-	0.10
Smelter processing charges and freight	1.83	0.01	1.30	0.89
Metal credits	(3.02)	-	(3.86)	(1.81)
<b>Cash cost</b>	<b>\$0.61</b>	<b>\$1.93</b>	<b>(\$0.69)</b>	<b>\$0.95</b>

2010 For the three months ended March 31

	per pound of copper			
	LAS			TOTAL
	ÇAYELI	CRUCES <sup>(1)</sup>	PYHÄSALMI	
(US dollars)				
Direct production costs	\$1.19	\$ -	\$2.21	\$1.49
Royalties and variable compensation	0.13	-	-	0.09
Smelter processing charges and freight	1.35	-	1.44	1.38
Metal credits	(2.04)	-	(3.79)	(2.55)
<b>Cash cost</b>	<b>\$0.63</b>	<b>\$ -</b>	<b>(\$0.14)</b>	<b>\$0.41</b>

### Reconciliation of cash costs to statements of earnings

2011 For the three months ended March 31

	per pound of copper			
	LAS			TOTAL
	ÇAYELI	CRUCES	PYHÄSALMI	
(millions of Canadian dollars, except where otherwise noted)				
GAAP reference	page 17	page 19	page 21	
Direct production costs	\$23	\$33	\$15	\$71
Smelter processing charges and freight	18	-	13	31
By product sales	(30)	-	(33)	(63)
Adjust smelter processing and freight, and sales to production basis	(3)	-	-	(3)
<b>Operating costs net of metal credits</b>	<b>\$8</b>	<b>\$33</b>	<b>(\$5)</b>	<b>\$36</b>
US \$ to C\$ exchange rate	\$0.99	\$0.99	\$0.99	\$0.99
Inmet's share of production (000's)	13,200	17,800	8,000	39,000
<b>Cash cost</b>	<b>\$0.61</b>	<b>\$1.93</b>	<b>(\$0.69)</b>	<b>\$0.95</b>

2010 For the three months ended March 31

	per pound of copper			
	LAS			TOTAL
	ÇAYELI	CRUCES <sup>(1)</sup>	PYHÄSALMI	
(millions of Canadian dollars, except where otherwise noted)				
GAAP reference	page 17	page 19	page 21	
Direct production costs	\$22	\$ -	\$15	\$37
Smelter processing charges and freight	19	-	12	31
By product sales	(32)	-	(26)	(58)
Adjust smelter processing and freight, and sales to production basis	1	-	(2)	(1)
<b>Operating costs net of metal credits</b>	<b>\$10</b>	<b>\$ -</b>	<b>(\$1)</b>	<b>\$9</b>
US \$ to C\$ exchange rate	\$1.04	\$ -	\$1.04	\$1.04
Inmet's share of production (000's)	15,700	-	6,400	22,100
<b>Cash cost</b>	<b>\$0.63</b>	<b>\$ -</b>	<b>(\$0.14)</b>	<b>\$0.41</b>

(1) Las Cruces' results were included from July 1, 2010

# INMET MINING CORPORATION

## Quarterly review

(unaudited)

### Latest Four Quarters

	2011	2010 <sup>(1)</sup>	2010 <sup>(1)</sup>	2010 <sup>(1)</sup>
	First	Fourth	Third	Second
(thousands of Canadian dollars, except per share amounts)	quarter	quarter	quarter	quarter
<b>STATEMENTS OF EARNINGS</b>				
Gross sales	\$ 254,277	\$ 230,269	\$ 225,960	\$ 161,165
Smelter processing charges and freight	(31,585)	(35,733)	(34,358)	(35,272)
Cost of sales (excluding depreciation)	(79,150)	(82,967)	(70,503)	(48,123)
Depreciation	(27,040)	(18,882)	(19,062)	(10,328)
	116,502	92,687	102,037	67,442
Corporate development and exploration	(13,411)	(5,434)	(2,758)	(2,524)
General and administration	(8,422)	(4,758)	(3,985)	(6,200)
Investment and other income	(5,773)	50,622	3,197	3,321
Finance costs	(2,331)	(4,294)	(5,239)	(1,770)
Capital tax expense	-	(127)	(82)	(82)
Income tax expense	(27,160)	(31,833)	(25,184)	(8,693)
Income from continuing operations	59,405	96,863	67,986	51,494
Income from discontinued operation (net of taxes)	83,439	47,993	33,569	12,475
Net income	\$ 142,844	\$ 144,856	\$ 101,555	\$ 63,969
Net income attributable to:				
Inmet equity holders	\$ 142,844	\$ 146,932	\$ 91,678	\$ 68,495
Non-controlling interest	-	(2,076)	9,877	(4,526)
	\$ 142,844	\$ 144,856	\$ 101,555	\$ 63,969
Income from continuing operations per share				
Basic	\$ 0.97	\$ 1.73	\$ 1.04	\$ 1.00
Diluted	\$ 0.96	\$ 1.73	\$ 1.03	\$ 1.00
Income from discontinuing operations per share				
Basic	\$ 1.36	\$ 0.84	\$ 0.60	\$ 0.22
Diluted	\$ 1.35	\$ 0.84	\$ 0.60	\$ 0.22
Net Income per share				
Basic	\$ 2.33	\$ 2.57	\$ 1.64	\$ 1.22
Diluted	\$ 2.31	\$ 2.57	\$ 1.63	\$ 1.22

<sup>(1)</sup> Information from 2010 restated in accordance with IFRS, including presentation of our share of Ok Tedi as discontinued operations.

# INMET MINING CORPORATION

## Quarterly review (continued)

(unaudited)

### Previous Four Quarters

	2010 <sup>(1)</sup>	2009 <sup>(2)</sup>	2009 <sup>(2)</sup>	2009 <sup>(2)</sup>
	First	Fourth	Third	Second
(thousands of Canadian dollars, except per share amounts)	quarter	quarter	quarter	quarter
<b>STATEMENTS OF EARNINGS</b>				
Gross sales	\$ 161,162	\$290,570	\$241,121	\$213,042
Smelter processing charges and freight	(33,101)	(53,696)	(41,607)	(40,589)
Cost of sales (excluding depreciation)	(52,266)	(74,995)	(72,706)	(73,827)
Depreciation	(7,716)	(17,911)	(14,558)	(13,604)
	68,079	143,968	112,250	85,022
Corporate development and exploration	(2,779)	(2,915)	(1,963)	(2,727)
General and administration	(5,421)	(9,836)	(5,147)	(4,785)
Investment and other income	1,204	280	3,588	16,466
Asset impairment	-	(3,496)	-	-
Stand-by costs	(6,753)	-	-	-
Finance costs	(1,873)	(496)	(496)	(493)
Capital tax expense	(82)	69	(744)	(125)
Income tax expense	(3,004)	(38,668)	(39,244)	(24,052)
Income from continuing operations	49,371	88,906	68,244	69,306
Income from discontinued operation (net of taxes)	30,718	-	-	-
Net income	\$ 80,089	\$ 88,906	\$ 68,244	\$ 69,306
Net income attributable to:				
Inmet equity holders	\$ 84,771	\$ 89,763	\$ 61,551	\$ 66,528
Non-controlling interest	(4,682)	(857)	6,693	2,778
	\$ 80,089	\$ 88,906	\$ 68,244	\$ 69,306
Income from continuing operations per share				
Basic	\$ 0.96	\$ 1.60	\$ 1.10	\$ 1.37
Diluted	\$ 0.96	\$ 1.60	\$ 1.09	\$ 1.36
Income from discontinuing operations per share				
Basic	\$ 0.55	\$ -	\$ -	\$ -
Diluted	\$ 0.55	\$ -	\$ -	\$ -
Net Income per share				
Basic	\$ 1.51	\$ 1.60	\$ 1.10	\$ 1.37
Diluted	\$ 1.51	\$ 1.60	\$ 1.09	\$ 1.36

<sup>(1)</sup> Information from 2010 restated in accordance with IFRS, including presentation of our share of Ok Tedi as discontinued operations.

<sup>(2)</sup> Information from 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

# Consolidated financial statements

## INMET MINING CORPORATION

### Consolidated statements of financial position

(unaudited)

(thousands of Canadian dollars)	Note reference	March 31, 2011	December 31, 2010 <sup>(1)</sup>	January 1, 2010 <sup>(1)</sup>
<b>Assets</b>				
Current assets:				
Cash and short term investments	7	\$444,260	\$326,425	\$533,913
Restricted cash	8	695	617	15,130
Accounts receivable		108,510	119,426	155,761
Inventories		61,154	72,154	98,324
Current portion of held to maturity investments	9	75,425	53,915	9,993
Assets held for sale	10	92	319,082	-
		<b>690,136</b>	<b>891,619</b>	<b>813,121</b>
Restricted cash	8	73,848	70,059	101,589
Property, plant and equipment		1,766,671	1,736,065	1,945,669
Investments in equity securities		5,636	2,694	42,411
Held to maturity investments	9	563,266	318,615	89,891
Deferred income tax assets		3,372	8,721	2,360
Other assets		2,379	2,335	1,903
<b>Total assets</b>		<b>\$3,105,308</b>	<b>\$3,030,108</b>	<b>\$2,996,944</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accrued liabilities		\$137,778	\$136,345	\$170,524
Provisions	11	17,588	17,668	17,417
Derivatives		-	-	1,543
Liabilities associated with assets held for sale	10	-	111,896	-
		<b>155,366</b>	<b>265,909</b>	<b>189,484</b>
Long-term debt		17,361	16,619	200,026
Provisions	11	165,475	162,399	196,430
Other liabilities		18,833	18,117	20,695
Derivatives		-	-	3,165
Deferred income tax liabilities		15,830	12,525	25,732
<b>Total liabilities</b>		<b>372,865</b>	<b>475,569</b>	<b>635,532</b>
Commitments and contingencies	18			
<b>Equity</b>				
Share capital		1,089,576	1,089,576	669,952
Contributed surplus		66,282	66,131	64,809
Share based compensation		7,583	6,542	5,170
Retained earnings		1,720,351	1,577,507	1,527,109
Accumulated other comprehensive income (loss)	12	(151,349)	(185,217)	19,093
<b>Total equity attributable to Inmet equity holders</b>		<b>2,732,443</b>	<b>2,554,539</b>	<b>2,286,133</b>
Non-controlling interest		-	-	75,279
<b>Total equity</b>		<b>2,732,443</b>	<b>2,554,539</b>	<b>2,361,412</b>
<b>Total liabilities and equity</b>		<b>\$3,105,308</b>	<b>\$3,030,108</b>	<b>\$2,996,944</b>

<sup>(1)</sup> Refer to note 6 for effects of adoption of IFRS

(See accompanying notes)

**INMET MINING CORPORATION**  
**Segmented statements of financial position**

(unaudited)

<b>2011</b> As at March 31	<b>CORPORATE &amp; OTHER</b>	<b>ÇAYELI</b>	<b>LAS CRUCES</b>	<b>PYHÄSALMI</b>	<b>COBRE PANAMA</b>	<b>DISCONTINUED OPERATIONS - OK TEDI</b>	<b>TOTAL</b>
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
<b>Assets</b>							
Cash and short-term investments	\$54,172	\$155,255	\$87,572	\$142,899	\$4,362	\$ -	\$444,260
Other current assets	82,975	48,754	53,757	59,287	1,103	-	245,876
Restricted cash	16,692	-	55,468	1,688	-	-	73,848
Property, plant and equipment	847	146,257	975,666	67,304	576,597	-	1,766,671
Investments in equity securities	5,636	-	-	-	-	-	5,636
Held to maturity investments	499,829	63,437	-	-	-	-	563,266
Other non-current assets	1,028	4,723	-	-	-	-	5,751
	<b>\$661,179</b>	<b>\$418,426</b>	<b>\$1,172,463</b>	<b>\$271,178</b>	<b>\$582,062</b>	<b>\$ -</b>	<b>\$3,105,308</b>
<b>Liabilities</b>							
Current liabilities	\$26,695	\$37,177	\$52,957	\$32,571	\$5,966	\$ -	\$155,366
Long-term debt	17,361	-	-	-	-	-	17,361
Provisions	55,902	21,511	60,089	27,973	-	-	165,475
Other liabilities	676	-	18,157	-	-	-	18,833
Deferred income tax liabilities	54	-	3,160	12,616	-	-	15,830
	<b>\$100,688</b>	<b>\$58,688</b>	<b>\$134,363</b>	<b>\$73,160</b>	<b>\$5,966</b>	<b>\$ -</b>	<b>\$372,865</b>

<b>2010</b> As at December 31	<b>CORPORATE &amp; OTHER</b>	<b>ÇAYELI</b>	<b>LAS CRUCES</b>	<b>PYHÄSALMI</b>	<b>COBRE PANAMA</b>	<b>DISCONTINUED OPERATIONS - OK TEDI</b>	<b>TOTAL</b>
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
<b>Assets</b>							
Cash and short-term investments	\$53,184	\$107,750	\$59,866	\$97,056	\$8,569	\$ -	\$326,425
Other current assets	60,785	58,959	59,602	66,193	686	318,969	565,194
Restricted cash	16,906	-	51,521	1,632	-	-	70,059
Property, plant and equipment	779	152,653	941,434	66,984	574,215	-	1,736,065
Investments in equity securities	2,694	-	-	-	-	-	2,694
Held to maturity investments	253,749	64,866	-	-	-	-	318,615
Other non-current assets	952	5,754	4,350	-	-	-	11,056
	<b>\$389,049</b>	<b>\$389,982</b>	<b>\$1,116,773</b>	<b>\$231,865</b>	<b>\$583,470</b>	<b>\$318,969</b>	<b>\$3,030,108</b>
<b>Liabilities</b>							
Current liabilities	\$30,286	\$39,654	\$47,220	\$28,913	\$7,940	\$111,896	\$265,909
Long-term debt	16,619	-	-	-	-	-	16,619
Provisions	57,536	21,607	56,439	26,817	-	-	162,399
Other liabilities	676	-	17,441	-	-	-	18,117
Deferred income tax liabilities	176	-	-	12,349	-	-	12,525
	<b>\$105,293</b>	<b>\$61,261</b>	<b>\$121,100</b>	<b>\$68,079</b>	<b>\$7,940</b>	<b>\$111,896</b>	<b>\$475,569</b>

**INMET MINING CORPORATION**  
**Segmented statements of financial position (continued)**

(unaudited)

2010 As at January 1	CORPORATE & OTHER	ÇAYELI	LAS CRUCES	PYHÄSALMI	COBRE PANAMA	DISCONTINUED OPERATIONS - OK TEDI	TOTAL
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
<b>Assets</b>							
Cash and short-term investments	\$251,570	\$158,631	\$10,039	\$66,314	\$10,728	\$36,631	\$533,913
Other current assets	37,591	40,341	73,501	49,882	468	77,425	279,208
Restricted cash	16,492	-	56,878	1,854	-	26,365	101,589
Property, plant and equipment	13,508	168,389	1,034,947	72,183	537,251	119,391	1,945,669
Investments in equity securities	42,411	-	-	-	-	-	42,411
Held to maturity investments	89,891	-	-	-	-	-	89,891
Other non-current assets	729	2,196	412	-	-	926	4,263
	<b>\$452,192</b>	<b>\$369,557</b>	<b>\$1,175,777</b>	<b>\$190,233</b>	<b>\$548,447</b>	<b>\$260,738</b>	<b>\$2,996,944</b>
<b>Liabilities</b>							
Current liabilities	\$42,278	\$35,144	\$29,173	\$27,665	\$10,855	\$44,369	\$189,484
Long-term debt	18,094	-	181,932	-	-	-	200,026
Provisions	56,281	21,214	55,929	21,522	-	41,484	196,430
Other liabilities	676	-	20,019	-	-	-	20,695
Derivatives	-	-	-	-	-	3,165	3,165
Deferred income tax liabilities	3,128	-	-	11,448	-	11,156	25,732
	<b>\$120,457</b>	<b>\$56,358</b>	<b>\$287,053</b>	<b>\$60,635</b>	<b>\$10,855</b>	<b>\$100,174</b>	<b>\$635,532</b>

**INMET MINING CORPORATION**  
**Consolidated statements of changes in equity**

(unaudited)

	Attributable to Inmet equity holders					Non-controlling interest	Total equity	
	Share Capital	Retained earnings	Contributed surplus	Share based compensation	Accumulated other comprehensive income (loss) (note 13)	Total		
(thousands of Canadian dollars)								
<b>Balance as at January 1, 2010<sup>(1)</sup></b>	\$669,952	\$1,527,109	\$64,809	\$5,170	\$19,093	\$2,286,133	\$75,279	\$2,361,412
Comprehensive income	-	84,771	-	-	(117,575)	(32,804)	(9,907)	(42,711)
Equity settled share-based compensation plans	-	-	324	658	-	982	-	982
Other	-	-	-	-	-	-	(29)	(29)
<b>Balance as at March 31, 2010<sup>(1)</sup></b>	<b>\$669,952</b>	<b>\$1,611,880</b>	<b>\$65,133</b>	<b>\$5,828</b>	<b>(\$98,482)</b>	<b>\$2,254,311</b>	<b>\$65,343</b>	<b>\$2,319,654</b>
Comprehensive income	-	307,105	-	-	(79,830)	227,275	1,595	228,870
Equity settled share-based compensation plans	-	-	998	714	-	1,712	-	1,712
Dividends on common shares	-	(11,210)	-	-	-	(11,210)	-	(11,210)
Acquisition of non-controlling interest in Las Cruces	419,624	(330,268)	-	-	(6,905)	82,451	(66,847)	15,604
Other	-	-	-	-	-	-	(91)	(91)
<b>Balance as at December 31, 2010<sup>(1)</sup></b>	<b>\$1,089,576</b>	<b>\$1,577,507</b>	<b>\$66,131</b>	<b>\$6,542</b>	<b>(\$185,217)</b>	<b>\$2,554,539</b>	<b>\$</b>	<b>\$2,554,539</b>
Comprehensive income	-	142,844	-	-	33,868	176,712	-	176,712
Equity settled share-based compensation plans	-	-	151	1,041	-	1,192	-	1,192
<b>Balance as at March 31, 2011</b>	<b>\$1,089,576</b>	<b>\$1,720,351</b>	<b>\$66,282</b>	<b>\$7,583</b>	<b>(\$151,349)</b>	<b>\$2,732,443</b>	<b>\$</b>	<b>\$2,732,443</b>

<sup>(1)</sup> Refer to note 6 for effects of adoption of IFRS

(See accompanying notes)

# INMET MINING CORPORATION

## Consolidated statements of earnings

(unaudited)

### Three Months Ended March 31

(thousands of Canadian dollars except per share amounts)	Note reference	2011	2010 <sup>(1)</sup>
Gross sales		\$254,277	\$161,162
Smelter processing charges and freight		(31,585)	(33,101)
Cost of sales (excluding depreciation)		(79,150)	(52,266)
Depreciation		(27,040)	(7,716)
Earnings from operations		116,502	68,079
Corporate development and exploration		(13,411)	(2,779)
General and administration		(8,422)	(5,421)
Investment and other income	13	(5,773)	1,204
Stand-by charges		-	(6,753)
Finance costs	14	(2,331)	(1,873)
Income before taxation		86,565	52,457
Capital tax expense		-	(82)
Income tax expense	15	(27,160)	(3,004)
Income from continuing operations		\$59,405	\$49,371
Income from discontinued operation (net of taxes)	10	83,439	30,718
<b>Net income</b>		<b>\$142,844</b>	<b>\$80,089</b>
<b>Net income attributable to:</b>			
Inmet equity holders		\$142,844	\$84,771
Non-controlling interest		-	(4,682)
		<b>\$142,844</b>	<b>\$80,089</b>
<b>Earnings per common share</b>			
	16		
Income from continuing operations			
Basic		\$0.97	\$0.96
Diluted		\$0.96	\$0.96
Income from discontinued operation			
Basic		\$1.36	\$0.55
Diluted		\$1.35	\$0.55
Net income			
Basic		\$2.33	\$1.51
Diluted		\$2.31	\$1.51

<sup>(1)</sup> Refer to note 6 for effects of adoption of IFRS

(See accompanying notes)

**INMET MINING CORPORATION**  
**Segmented statements of earnings**

(unaudited)

<b>2011</b> For the three months ended March 31	<b>CORPORATE &amp; OTHER</b>	<b>ÇAYELI</b>	<b>LAS CRUCES</b>	<b>PYHÄSALMI</b>	<b>COBRE PANAMA</b>	<b>DISCONTINUED OPERATIONS - OK TEDI</b>	<b>TOTAL</b>
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
Gross sales	\$ -	\$99,053	\$90,826	\$64,398	\$ -	\$ -	\$254,277
Smelter processing charges and freight	-	(17,894)	(268)	(13,423)	-	-	(31,585)
Cost of sales (excluding depreciation)	-	(24,460)	(40,426)	(14,264)	-	-	(79,150)
Depreciation	-	(5,226)	(19,556)	(2,258)	-	-	(27,040)
Earnings from operations	-	51,473	30,576	34,453	-	-	116,502
Corporate development and exploration	(9,969)	(478)	(5)	(730)	(2,229)	-	(13,411)
General and administration	(8,422)	-	-	-	-	-	(8,422)
Investment and other income	(6,995)	850	248	124	-	-	(5,773)
Finance costs	(941)	(147)	(1,024)	(219)	-	-	(2,331)
Income tax expense	(204)	(11,656)	(7,497)	(7,803)	-	-	(27,160)
<b>Net income from continuing operations</b>	<b>(\$26,531)</b>	<b>\$40,042</b>	<b>\$22,298</b>	<b>\$25,825</b>	<b>(\$2,229)</b>	<b>\$ -</b>	<b>\$59,405</b>
Income from discontinued operation (net of taxes)	-	-	-	-	-	83,439	83,439
<b>Net income (loss)</b>	<b>(\$26,531)</b>	<b>\$40,042</b>	<b>\$22,298</b>	<b>\$25,825</b>	<b>(\$2,229)</b>	<b>\$83,439</b>	<b>\$142,844</b>

<b>2010</b> For the three months ended March 31	<b>CORPORATE &amp; OTHER</b>	<b>ÇAYELI</b>	<b>LAS CRUCES</b>	<b>PYHÄSALMI</b>	<b>COBRE PANAMA</b>	<b>DISCONTINUED OPERATIONS - OK TEDI</b>	<b>TOTAL</b>
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
Gross sales	\$34,454	\$75,268	\$ -	\$51,440	\$ -	\$ -	\$161,162
Smelter processing charges and freight	(2,758)	(18,838)	-	(11,505)	-	-	(33,101)
Cost of sales (excluding depreciation)	(16,533)	(20,684)	-	(15,049)	-	-	(52,266)
Depreciation	(985)	(4,710)	-	(2,021)	-	-	(7,716)
Earnings from operations	14,178	31,036	-	22,865	-	-	68,079
Corporate development and exploration	(1,878)	(66)	-	(835)	-	-	(2,779)
General and administration	(5,421)	-	-	-	-	-	(5,421)
Investment and other income	1,129	119	(44)	-	-	-	1,204
Stand-by charges	-	-	(6,753)	-	-	-	(6,753)
Finance costs	(969)	(149)	(569)	(186)	-	-	(1,873)
Capital tax expense	(82)	-	-	-	-	-	(82)
Income tax expense	1,187	(6,866)	7,634	(4,959)	-	-	(3,004)
<b>Net income from continuing operations</b>	<b>\$8,144</b>	<b>\$24,074</b>	<b>\$268</b>	<b>\$16,885</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$49,371</b>
Income from discontinued operation (net of taxes)	-	-	-	-	-	30,718	30,718
<b>Net income</b>	<b>\$8,144</b>	<b>\$24,074</b>	<b>\$268</b>	<b>\$16,885</b>	<b>\$ -</b>	<b>\$30,718</b>	<b>\$80,089</b>

# INMET MINING CORPORATION

## Consolidated statements of comprehensive income (loss)

(unaudited)

(thousands of Canadian dollars)	Note reference	Three months ended March 31	
		2011	2010 <sup>(1)</sup>
Net income		<u>\$142,844</u>	\$80,089
Other comprehensive income (loss) for the period:			
<b>Continuing operations</b>			
Changes in fair value of investments		(540)	172
Currency translation adjustments		17,956	(117,730)
Income tax recovery related to investments - other comprehensive income		77	605
		<u>17,493</u>	(116,953)
Other comprehensive income from discontinued operation (net of taxes)		<u>16,375</u>	(5,847)
<b>Comprehensive income (loss)</b>		<u>\$176,712</u>	(\$42,711)
Comprehensive income (loss) attributable to:			
Inmet equity holders		\$176,712	(\$32,804)
Non-controlling interests		-	(9,907)
		<u>\$176,712</u>	(\$42,711)

<sup>(1)</sup> Refer to note 6 for effects of adoption of IFRS

(See accompanying notes)

# INMET MINING CORPORATION

## Consolidated statements of cash flows

(unaudited)

Three months ended March 31

(thousands of Canadian dollars)

Note reference

2011

2010<sup>(1)</sup>

### Cash provided by (used in) operating activities<sup>(2)</sup>

Net income from continuing operations		<b>\$59,405</b>	\$49,371
Add (deduct) items not affecting cash:			
Depreciation		<b>27,040</b>	7,716
Deferred income taxes	15	<b>8,389</b>	(12,906)
Accretion expense on asset retirement obligations and capital leases		<b>1,891</b>	1,420
Foreign exchange loss		<b>4,225</b>	545
Other		<b>(418)</b>	739
Settlement of asset retirement obligations		<b>(1,666)</b>	(573)
Net change in non-cash working capital	17	<b>19,310</b>	(1,185)
		<b>118,176</b>	45,127

### Cash provided by (used in) investing activities

Purchase of property, plant and equipment		<b>(40,730)</b>	(17,541)
Acquisition of long term investments	9	<b>(275,456)</b>	(102,380)
Maturing of held to maturity investments		<b>8,000</b>	-
Funding received under Cobre Panama option		<b>3,944</b>	2,139
Purchase of equity securities		<b>(3,493)</b>	-
Sale of short-term investments		<b>7,278</b>	26,996
Other		<b>126</b>	-
		<b>(300,331)</b>	(90,786)

### Cash provided by (used in) financing activities

Financial assurance payments		<b>(1,952)</b>	(31)
Funding by non-controlling shareholder		-	2,795
Other		<b>(884)</b>	(127)
		<b>(2,836)</b>	2,637

### Foreign exchange on cash held in foreign currencies

	<b>3,140</b>	(13,957)
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### Cash provided by discontinued operation

10	<b>306,982</b>	39,342
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### Increase (decrease) in cash:

#### Cash:

Beginning of period		<b>319,129</b>	506,917
End of period		<b>\$444,260</b>	\$489,280
Short term investments		-	-

### Cash and short-term investments

<b>\$444,260</b>	<b>\$489,280</b>
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<sup>(1)</sup> Refer to note 6 for effects of adoption of IFRS

(See accompanying notes)

### <sup>(2)</sup> Supplementary cash flow information:

Cash interest paid	<b>\$562</b>	\$600
Cash taxes paid	<b>\$17,509</b>	\$19,831

**INMET MINING CORPORATION**  
**Segmented statements of cash flows**

(unaudited)

<b>2011</b> For the three months ended March 31	<b>CORPORATE &amp; OTHER</b>	<b>ÇAYELI</b>	<b>LAS CRUCES</b>	<b>PYHÄSALMI</b>	<b>COBRE PANAMA</b>	<b>DISCONTINUED OPERATIONS - OK TEDI</b>	<b>TOTAL</b>
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
<b>Cash provided by (used in) operating activities</b>							
Before net change in non-cash working capital	(\$26,890)	\$46,882	\$52,264	\$28,329	(\$2,229)	\$ -	\$98,356
Net change in non-cash working capital	(4,331)	7,115	5,426	11,610	-	-	19,820
	<u>(31,221)</u>	<u>53,997</u>	<u>57,690</u>	<u>39,939</u>	<u>(2,229)</u>	<u>-</u>	<u>118,176</u>
<b>Cash provided by (used in) investing activities</b>							
Purchase of property, plant and equipment	(182)	(2,416)	(14,834)	(326)	(22,972)	-	(40,730)
Funding received under Cobre Panama option agreement	-	-	-	-	3,944	-	3,944
Purchase of held-to-maturity investments	(274,979)	(477)	-	-	-	-	(275,456)
Maturity of held-to-maturity investments	8,000	-	-	-	-	-	8,000
Purchase of equity securities	(3,493)	-	-	-	-	-	(3,493)
Sale of short-term investments	-	-	7,278	-	-	-	7,278
Other	126	-	-	-	-	-	126
	<u>(270,528)</u>	<u>(2,893)</u>	<u>(7,556)</u>	<u>(326)</u>	<u>(19,028)</u>	<u>-</u>	<u>(300,331)</u>
<b>Cash provided by (used in) financing activities</b>	<u>139</u>	<u>-</u>	<u>(2,975)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,836)</u>
<b>Foreign exchange on cash held in foreign currencies</b>	<u>-</u>	<u>(3,520)</u>	<u>2,433</u>	<u>4,320</u>	<u>(93)</u>	<u>-</u>	<u>3,140</u>
<b>Cash provided by discontinued operation</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>306,982</u>	<u>306,982</u>
Intergroup funding (distributions)	302,598	(79)	(14,590)	1,910	17,143	(306,982)	-
Increase (decrease) in cash	988	47,505	35,002	45,843	(4,207)	-	125,131
Cash:							
Beginning of year	53,184	107,750	52,570	97,056	8,569	-	319,129
End of period	<u>54,172</u>	<u>155,255</u>	<u>87,572</u>	<u>142,899</u>	<u>4,362</u>	<u>-</u>	<u>444,260</u>
<b>Short term investments</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash and short-term investments</b>	<u>\$54,172</u>	<u>\$155,255</u>	<u>\$87,572</u>	<u>\$142,899</u>	<u>\$4,362</u>	<u>\$ -</u>	<u>\$444,260</u>

<b>2010</b> For the three months ended March 31	<b>CORPORATE &amp; OTHER</b>	<b>ÇAYELI</b>	<b>LAS CRUCES</b>	<b>PYHÄSALMI</b>	<b>COBRE PANAMA</b>	<b>DISCONTINUED OPERATIONS - OK TEDI</b>	<b>TOTAL</b>
(thousands of Canadian dollars)		(Turkey)	(Spain)	(Finland)	(Panama)	(Papua New Guinea)	
<b>Cash provided by (used in) operating activities</b>							
Before net change in non-cash working capital	\$7,643	\$26,139	(\$6,753)	\$19,283	\$ -	\$ -	\$46,312
Net change in non-cash working capital	(524)	3,605	-	(4,266)	-	-	(1,185)
	<u>7,119</u>	<u>29,744</u>	<u>(6,753)</u>	<u>15,017</u>	<u>-</u>	<u>-</u>	<u>45,127</u>
<b>Cash provided by (used in) investing activities</b>							
Purchase of property, plant and equipment	(8)	(1,819)	2,652	(457)	(17,909)	-	(17,541)
Acquisition of long term investments	(102,380)	-	-	-	-	-	(102,380)
Funding received under Cobre Panama option agreement	-	-	-	-	2,139	-	2,139
Sale of short-term investments	26,996	-	-	-	-	-	26,996
	<u>(75,392)</u>	<u>(1,819)</u>	<u>2,652</u>	<u>(457)</u>	<u>(15,770)</u>	<u>-</u>	<u>(90,786)</u>
<b>Cash provided by (used in) financing activities</b>	<u>(55)</u>	<u>-</u>	<u>2,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,637</u>
<b>Foreign exchange on cash held in foreign currencies</b>	<u>-</u>	<u>(6,026)</u>	<u>(1,335)</u>	<u>(6,392)</u>	<u>(204)</u>	<u>-</u>	<u>(13,957)</u>
<b>Cash provided by discontinued operation</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,342</u>	<u>39,342</u>
Intergroup funding (distributions)	15,983	(19)	4,175	(4,122)	17,149	(33,166)	-
Increase (decrease) in cash	(52,345)	21,880	1,431	4,046	1,175	6,176	(17,637)
Cash:							
Beginning of year	224,574	158,631	10,039	66,314	10,728	36,631	506,917
End of period	<u>172,229</u>	<u>180,511</u>	<u>11,470</u>	<u>70,360</u>	<u>11,903</u>	<u>42,807</u>	<u>489,280</u>
<b>Short term investments</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash and short-term investments</b>	<u>\$172,229</u>	<u>\$180,511</u>	<u>\$11,470</u>	<u>\$70,360</u>	<u>\$11,903</u>	<u>\$42,807</u>	<u>\$489,280</u>

# INMET MINING CORPORATION

## Notes to the consolidated financial statements

### 1. Corporate information

Inmet Mining Corporation is a publicly traded corporation listed on the Toronto stock exchange. Our registered and head office is in Toronto, Canada. Our principal activities are the exploration, development and mining of base metals.

### 2. Basis of presentation and statement of compliance

International Financial Reporting Standards (IFRS) require us to make an explicit and unreserved statement that our financial statements are in compliance with IFRS. We will make this statement when we issue our 2011 annual financial statements. These condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB) and using the accounting policies we expect to adopt in our consolidated financial statements for the year ending December 31, 2011.

This is the first year we have prepared our financial statements in accordance with IFRS. See note 6, *First time adoption of IFRS*, for information about our transition from Canadian GAAP. You should read our interim statements in conjunction with our annual statements which you can find in our 2010 Annual Report.

We have prepared the consolidated financial statements under the historical cost convention, modified by the revaluation of certain financial instruments we have measured in accordance with IFRS. The financial statements are in Canadian dollars and all values are rounded to the nearest thousand except where otherwise indicated. These statements have been approved by Inmet's board of directors and have been reviewed by our external auditors.

Our segmented statements reflect the management structure of our company, where each operation retains its own management team and compiles its own financial information, following the accounting policies outlined here.

- *Çayeli* – a mine in Turkey that produces copper and zinc concentrates. Çayeli is a wholly-owned subsidiary.
- *Las Cruces* – a high grade copper mine and plant operation in Spain that produces cathode copper. Las Cruces is a wholly-owned subsidiary.
- *Pyhäsalmi* – a mine in Finland that produces copper and zinc concentrates. Pyhäsalmi is a wholly-owned subsidiary.
- *Cobre Panama* – a copper, gold and molybdenum deposit currently under development in Panama. We have a 100 percent interest in Cobre Panama. Korea Panama Mining Corp owns an option to acquire a 20 percent interest in Cobre Panama.
- *Corporate and other* – our head office and closed properties. As a result of the closure of Troilus, we no longer consider it to be a separate reportable operating segment and included its results in *Corporate and other* retroactively.

### **3. Summary of significant accounting policies**

#### **Basis of consolidation**

##### *Entities we control*

We have control of an entity when we have the right to govern its operating and financial policies (usually when we have more than 50 percent voting power through ownership or agreements), unless a non-controlling interest is able to prevent us from exercising control.

We consolidate the results of entities we control and eliminate all intercompany balances and transactions. When we acquire a new entity, we consolidate from the day that control passes to us. We consolidate those we sell until the day control passes to the acquirer.

##### *Interests in jointly controlled entities*

We jointly control an entity when we hold a long-term interest in it, and share joint control over its operating and financial decisions with one or more other parties under a contractual arrangement.

We proportionately consolidate our share of any entity we jointly control, combining its line-by-line results with similar line items in our financial statements.

#### **Foreign exchange**

##### *Functional and presentation currency*

Inmet Mining's functional currency is the Canadian dollar. We report our consolidated financial statements in Canadian dollars.

Our entities measure the items in their financial statements in their functional currency (the currency of the primary economic environment they operate in). Çayeli, Ok Tedi and Cobre Panama use the US dollar and Pyhäsalmi and Las Cruces use the euro.

##### *Foreign currency transactions*

Monetary items denominated in foreign currencies are translated into each entity's functional currency at the rate of exchange on the balance sheet date, and gains and losses on translation are recognized in the statement of earnings for the period. We recognize all other transactions in foreign currencies at the exchange rate at the time of the transaction.

##### *Financial statements of foreign operations*

For operations that have a functional currency other than the Canadian dollar, we translate the statement of earnings and balance sheet as follows:

assets and liabilities: translated at the closing rate at the end of the financial period.

revenues and expenses: translated for each statement of earnings at rates approximating the exchange rates at the time of the transactions

resulting differences: recognized as a separate component of *accumulated other comprehensive income*.

We also recognize exchange differences relating to long-term intercompany loan balances with foreign operations that form part of the net investment in the foreign operation in this separate component of *accumulated other comprehensive income*.

When we sell all or part of a foreign operation, or repay its share capital or intercompany debt considered part of the net investment, we recognize exchange differences arising from the translation of the net investment in the statement of earnings.

## **Business combinations**

When we acquire a subsidiary, we account for it using the purchase method.

The cost of the business combination is the fair value at the date of exchange of:

- the assets we gave
- the liabilities we incurred or assumed, and
- the equity instruments we issued in exchange for control.

We allocate total consideration paid to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) we acquired, at their fair value on the date of the acquisition, including mineral reserves and resources that can be reliably valued.

We expense transaction costs related to an acquisition as incurred.

If the fair value of our share of the identifiable net assets acquired is greater than the fair value of the consideration paid, we recognize the difference in the statement of earnings on the acquisition date.

Non controlling interest is the portion of an entity that we do not own (the profit or loss and net assets we are not entitled to). We record non controlling interests in equity, separate from our shareholders' equity.

## **Revenue**

*Gross sales* includes the sale of all concentrate, cathode copper and gold doré. It does not include smelter processing charges and freight, which are presented as a separate line item in the statement of earnings.

We recognize revenue when all significant risks and rewards of ownership of our products have been transferred to the customer – usually when the customer takes on the insurance risk and the goods have been delivered to the shipping agent.

Most of our sales contracts set the sales price at the commodity's market price on a specified future date. To calculate our revenue from the sale of our products, we use the forward price of the commodity for the day we expect the contract to settle. Variations between the price we record on the date of initial revenue recognition and the final price we receive due to changes in market prices represents an embedded derivative in our sales contracts. We adjust our revenue every period for any change in the value of the contract using the period end forward price for the day the contract is expected to settle. When it settles, we record the difference between the forward price and the final price we receive in revenue.

We recognize interest income in *investment and other income*, based on the principal outstanding and the effective interest rate.

We recognize dividends and royalties in *investment and other income* when we have established the right to receive payment.

## **Inventories**

Inventories include:

*stockpiled ore, materials and supplies*: ore, goods and supplies that will be consumed directly or indirectly in the production process

*work in process*: inventory in an intermediate state that has not yet passed through all stages of the production process

*finished goods*: concentrate, cathode copper and gold doré that are ready for sale.

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

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

We classify inventories of stockpiled ore that we do not expect to process in the next year as *Other assets*.

### **Property, plant and equipment**

On initial acquisition, we recognize property, plant and equipment at cost. Cost includes the purchase price, costs that can be directly attributed to acquiring it, and the cost required to bring the asset to the location and the condition necessary to operate in the way we intended it to.

In subsequent periods, we recognize it at cost less accumulated depreciation and any impairment in value.

We depreciate the cost, less estimated residual values of property, plant and equipment, as follows:

- *property*: depreciated in proportion to the depletion of proven and probable reserves on a unit of production basis.
- *plant and equipment*: depreciated using a straight-line method based on estimated useful life. The expected useful lives of plant and equipment range from 5 to 15 years, but do not exceed the life of mine.

When different parts (or components) of an asset are significant and have different useful lives, we depreciate the individual components separately, considering both a component's physical life, and the present estimated mineral reserves at the mine where the component is located.

We review estimates in remaining useful lives and residual values at least annually and account for any changes prospectively.

When we carry out a major maintenance refit, we may replace or overhaul assets or parts of assets. When we replace an asset or a component that we have been depreciating separately, we capitalize these costs if this extends its useful life and it is probable that this will result in future economic benefits to the operation. In addition, we write off the asset or component that has been replaced. If we replace part of an asset that was not considered a component, we use the replacement value to estimate the carrying amount of the replaced asset and immediately write that off. We expense all other regular maintenance costs as incurred.

### **Exploration and evaluation expenditures**

We expense the costs of exploration and evaluation as incurred, except for the following:

in areas currently under development

where we can reasonably expect to convert existing mineral resources into mineral reserves or add additional mineral resources with further drilling and evaluations

the cost to acquire an early stage entity conducting primarily exploration and evaluation activities.

In the first two instances, we capitalize costs as development expenditures. In the third instance, we capitalize costs as exploration and evaluation assets.

### **Development expenditures**

We capitalize the costs of acquiring and developing mineral reserves and resources on the balance sheet as we incur them. These costs include accessing the ore body, designing and constructing the production infrastructure, interest and financing relating to construction, and costs that can be directly attributed to bringing the assets to the condition necessary for their intended use. This includes costs during the commissioning period when required before the asset can operate at normal levels.

Development expenditures are not depreciated. When production begins, we reclassify these costs to the appropriate category of property, plant and equipment and depreciate them according to our accounting policy.

### **Capitalized stripping**

In open pit mining operations, we remove overburden and other waste in order to access the ore body (stripping). During development, we capitalize the cost of stripping as part of the cost of mine development and reclassify it to property when production begins.

During the production phase, we capitalize these costs to property when stripping activity gives us access to reserves that would not otherwise have been accessible, and that we expect will be mined in the future. We amortize production phase stripping costs over the reserves that are directly affected by the stripping activity on a units-of-production basis.

### **Leasing**

We determine whether an arrangement is, or contains, a lease based on the substance of the arrangement, considering whether the arrangement is dependent on the use of a specific asset or whether the arrangement conveys a right to use the asset.

We classify a lease as financial when we carry substantially all of the risks and rewards of owning the asset. We capitalize assets under financial leases at either the fair value of the leased asset or the present value of the minimum lease payments over the lease term using the interest rate in the lease agreement – whichever is lower. We determine these amounts at the inception of the lease and depreciate the corresponding asset over its estimated useful life or the lease term – whichever is shorter. We recognize a corresponding amount representing our future obligation for finance leases in *Other liabilities* in the balance sheet, and recognize the associated accretion expense over time in *finance costs* in the statement of earnings.

We classify a lease as operating when we do not have substantially all the risks and rewards of ownership. We recognize rentals payable under operating leases in the statement of earnings on a straight line basis over the term of the lease.

### **Impairment of assets**

At each reporting date, we look for indications of impairment of our non-current assets. If there are indicators of impairment, we carry out a formal test to see whether the asset's carrying amount exceeds its recoverable amount.

An asset's recoverable amount is its *fair value less costs to sell* or its *value-in-use* – whichever is higher.

- *Fair value less costs to sell* is the amount we would receive from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties. For our mining assets, we generally use the present value of future cash flows we expect from their continued use, including any expansion prospects, and from their eventual disposal. When assessing cash flows and discounting them to present value, we use assumptions that we believe an arm's length party would consider appropriate.
- We calculate the *value-in-use* of an asset by using the present value of cash flows we expect from its continued use in its present form, and from its disposal, without taking into account any future development. *Value-in-use* is likely to be different from fair value because we use different assumptions.

If the carrying amount of the asset exceeds its recoverable amount, we recognize an impairment loss in the statement of earnings to reflect the lower amount of the asset. We recognize impairment losses related to continuing operations in the statement of earnings in the expense category that relates to the asset's function.

We carry out these reviews for each asset, unless the asset does not generate cash flows on its own. In this case, we will carry out the review at the cash-generating unit level. Cash generating units are the smallest identifiable group of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. This generally results in an evaluation of assets at the mine entity level.

We reverse an impairment loss in the statement of earnings if the estimates we used to calculate the recoverable amount have changed since we recognized the impairment. We increase the carrying amount to the recoverable amount, net of the depreciation or amortization that would have arisen if we had not recognized the original impairment loss.

After a reversal, we recognize depreciation over the asset's remaining useful life based on its revised carrying amount, less any residual value.

### **Government subsidies**

We recognize government subsidies when there is reasonable assurance we will receive the subsidy and will comply with all of the associated conditions. We credit government subsidies related to a capital expenditure against the carrying amount of the related asset, and amortize the subsidy over the expected useful life of the asset. We credit subsidies that are not associated with an asset to income, to match them with the expenses they relate to.

### **Provisions for asset retirement obligations**

Our mines, closed properties and joint ventures are subject to environmental laws and regulations in Canada and the other countries we operate in. Mining companies are legally obligated to rehabilitate land and other property that has been damaged or contaminated in the course of their business activities. While rehabilitation activities usually happen after the site has been closed, companies are required to estimate reclamation costs from both operating sites and closed sites.

We incur obligations to restore and rehabilitate land and the environment as we carry out the regular construction and operation of our mines. Costs can include, among other things, the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas. We recognize a provision for these costs as the related disturbances occur, using our best estimate of future costs based on information available at the balance sheet date, including an adjustment for risk when there is significant variability in possible outcomes. We discount the provision using a current inflation adjusted pre-tax risk free interest rate and include the accretion of the discounted amount over time in *finance costs* in the statement of earnings.

When we recognize a provision, we record a corresponding increase in the carrying amount of the related asset (where we can identify one) and recognize depreciation following our accounting policies for property, plant and equipment.

We review these provisions annually for changes to our obligations, legislation or discount rates that affect our cost estimates or lives of operations. We adjust the provision and the cost of the related asset (where we can identify one) when there is a change in the estimated cash flows or discount rate, and depreciate the adjusted cost of the asset prospectively.

When we do not identify an asset, such as at our closed sites, we record a provision or a change in provision in *cost of sales*.

### **Other provisions**

We recognize a provision when we have a legal or constructive obligation because of past events, and it is probable that, to settle the obligation, we will be required to make a payment that we can reliably estimate. If its effect is material, we discount the provision to net present value using a pre-tax risk free interest rate. We recognize the accretion of discounted provisions over the time of the obligation in *finance costs* in the statement of earnings.

### **Income taxes**

We calculate current income tax expense for each of our taxable entities based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date, and include adjustments to income taxes payable or recoverable for previous periods.

We calculate deferred tax assets and liabilities based on temporary differences between the carrying amounts in our balance sheet and their tax bases, using income tax rates we expect to be in effect when the temporary differences are likely to be settled. We present all deferred taxes as non-current assets and liabilities on the balance sheet.

We only recognize deferred tax assets when it is probable that we will have enough taxable income in the future to recover them. We include the effects of changes in tax rates in income when the change is enacted or substantively enacted.

We recognize deferred tax assets or liabilities for all temporary differences, except for:

a deferred tax liability on the initial recognition of goodwill

a deferred tax asset or liability arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not affect accounting profit or loss, or taxable profit or loss

a deferred tax liability related to investments in subsidiaries, branches, associates and interests in joint ventures, when we can control the timing of the reversal of the temporary difference and when it is probable that the temporary difference will not reverse in the foreseeable future.

We review the carrying amount of deferred income tax assets at each balance sheet date and adjust it if:

- an asset not previously recognized meets the criteria for recognition
- our estimate of future taxable income available to recover them changes.

We recognize current and deferred tax that relates to equity items in equity, and not in the statement of earnings.

### **Assets held for sale and discontinued operations**

#### *Assets held for sale*

We classify assets and disposal groups as *held for sale* if we will recover their carrying amounts through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal groups are available for immediate sale in their present condition. We must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

We carry assets (or disposal groups) held for sale at the lower of the carrying amount before being classified as *held for sale*, and the fair value less costs to sell. We present the assets and liabilities of a disposal group classified as held for sale separately as one line in the assets and liabilities sections on the statement of financial position.

#### *Discontinued operations*

A discontinued operation is a component of an entity that has been disposed of or classified as *held for sale*, with operations and cash flows that are clearly distinguished both operationally and for financial reporting purposes from the rest of the entity. To be classified as a discontinued operation, an operation must:

- represent a separate major line of business or geographical area of operations
- be part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- be a subsidiary acquired only for resale.

When the operation is discontinued at the balance sheet date, the results are presented in one line on the statement of earnings, and prior period results are represented as discontinued.

See note 10 for a breakdown of our results from discontinued operations.

### **Cash and short-term investments**

Cash includes cash and money market instruments that mature in 90 days or less from the date of acquisition. Short-term investments mature in 91 days to a year.

In the consolidated statements of cash flows, we disclose:

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

See note 7 for a breakdown of our cash and short-term investments.

### **Restricted cash**

Restricted cash includes cash that has been pledged for other uses, such as reclamation, and is not available for immediate disbursement.

See note 8 for a breakdown of our restricted cash.

## Financial instruments

Financial instruments include cash, as well as any contract that gives rise to a financial asset to one party and a financial liability or equity instrument to another party. We classify financial instruments at their initial recognition. We initially recognize financial instruments at their fair value.

Fair value is the value a financial instrument can be closed out or sold at, in a transaction with a willing and knowledgeable counterparty. It is usually the instrument's quoted market price. If a quoted market price is not available, we determine fair value with models using market-based or independent information and assumptions.

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

These financial instruments have been designated as *fair value through profit and loss* and are recorded at fair value. We record any changes in their fair value in net income. We record interest and dividends earned on cash, short-term investments and restricted cash in *Investment and other income*. For cash, we calculate fair value using published price quotations in an active market where there is one. Otherwise fair value represents cost plus accrued interest, which is reasonable given its short-term nature. We record accounts receivable related to metal sales at fair value based on forward market metal prices on the date of the balance sheet (see our *Revenue* policy above). We record accounts payable and accrued liabilities at amortized cost, which approximates fair value because of their short-term nature.

### *Investments*

Our investments in equity securities are designated as *available-for-sale* and recorded at fair value. We calculate fair value using the bid price of the investment as quoted in an active market. We record changes in the fair value of our investments in *Other comprehensive income*. The change in fair value of an investment in an equity security appears in *Investment and other income* only when it is sold or impaired.

Our investments in long-term government and corporate bonds are designated as *held to maturity*. We initially recognize these investments at fair value and subsequently at amortized cost with the related interest income recorded in *Investment and other income*. We only designate investments as *held to maturity* when we intend, and have the ability, to hold them to maturity.

We capitalize transaction costs related to investments we make and include these in the investment's initial carrying value.

### *Loans and receivables*

All non-metal receivables are designated as *loans and receivables*. We initially measure these assets at fair value. In subsequent periods, we measure them at amortized cost using the effective interest rate method.

### *Long-term debt*

Our long-term debt is designated as *other liabilities* and is accounted for at amortized cost. We record interest expense on long-term debt in *finance costs* in the statement of earnings unless it relates specifically to a development project, and has been accounted for using our accounting policy for borrowing costs.

### *Derecognition of financial instruments*

We will derecognize a financial asset when:

- our rights to receive cash flows from the asset have expired
- our right to receive cash flows has been retained, but we have assumed an obligation to pay them in full to a third party without material delay, or
- our right to receive cash flows has been transferred, together with substantially all the risks and rewards of ownership.

We derecognize financial liabilities when the associated obligation is discharged, cancelled or has expired.

### *Impairment of financial assets*

We review our investments for impairment at the end of each reporting period based on both quantitative and qualitative criteria, including the extent that cost exceeds market value, the length of a market decline and the financial health of the issuer.

For loans and receivables and our investments in long-term bonds, we measure the amount of the loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. We reduce the carrying amount of the asset and recognize the amount of the loss in the income statement in *investment and other income*. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, we reverse the previously recognized impairment loss. We recognize any subsequent reversal of an impairment loss in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If our investments in equity securities are impaired, we transfer the difference between its cost and its current fair value, less any impairment loss previously recognized in the income statement, from *accumulated other comprehensive income* to the income statement in *investment and other income*.

### *Embedded derivatives*

When we enter into a contract, we determine whether it contains an embedded derivative. We separate an embedded derivative from its host contract if the derivative is not measured at *fair value through profit and loss*, and when its economic characteristics and risks are not closely related to the host contract. In these circumstances, we recognize the embedded derivative according to our accounting policy for derivatives.

### *Derivatives and hedging*

We designate non-financial derivative contracts as *held-for-trading* and record them at fair value on the balance sheet. We include mark-to-market adjustments on these instruments in net income, unless the instruments are designated as part of a hedge relationship.

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

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

When we enter into a hedging contract, we formally document the relationship between the hedging instrument and the items it hedges, and the related risk-management strategy. This documentation:

- links the hedging instrument to a specific asset or liability, specific forecasted transaction, firm commitment or variable future cash flows
- defines how we assess retrospective and prospective hedge effectiveness.

At the end of every quarter, we determine whether we expect a hedging instrument to be highly effective in offsetting risk in the future. If we do not expect it to be highly effective, we stop hedge accounting prospectively, and keep accumulated gains or losses in *other comprehensive income* until the hedged item affects earnings.

We also stop hedge accounting prospectively if:

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

If we conclude that it is probable that a forecasted transaction will not happen within the documented time frame, we immediately transfer all gains and losses accumulated in *other comprehensive income* to earnings. When hedge accounting stops, we reclassify the derivative as a non-hedge derivative prospectively.

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

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

*fair value hedges*: we record the change in the fair value of the derivative and the item it hedges in earnings

*cash flow hedges*: we record the change in the fair value of the derivative in *other comprehensive income* until earnings are affected by the item it hedges, except for any hedge ineffectiveness which we immediately record in earnings

*non-hedge derivatives*: we record the change in the fair value of the derivative in *investment and other income*.

#### *Gold forward sales contracts*

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

*prospective effectiveness*: we compare the effect of theoretical shifts in forward gold prices on the fair value of the actual derivative and a hypothetical derivative.

*retrospective effectiveness*: we compare the effect of historical changes in gold prices each period on the fair value of the actual and the hypothetical derivative.

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

#### **Borrowing costs**

When we can attribute borrowing costs directly to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use, we capitalize these costs as part of the asset's carrying value and amortize them over its useful life. Otherwise, we capitalize borrowing costs related to the establishment of a loan facility as long-term debt, and amortize them over the life of the loan facility.

We recognize other borrowing costs as an expense when we incur them.

#### **Share capital**

When we issue common shares, we recognize them in share capital at the net proceeds received (the fair value of the consideration we received, less costs we incurred to issue the shares).

#### **Share based compensation plans**

We currently have only equity settled awards. We recognize an expense for the fair value of an award in *general and administration* on a straight line basis over the applicable vesting period. This expense reflects the estimated number of awards we expect to vest based on management performance to date.

Fair value is determined based on the closing trading price of our common shares on the grant date. We calculate the cumulative expense at each balance sheet date before vesting, basing it on the vesting period remaining and our best estimate of the awards that we ultimately expect to vest, and recognize any change in the statement of earnings.

#### **Net income per share**

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

We calculate diluted net income per share by taking into consideration the dilutive effects of Deferred Share Units (DSU's) and Long Term Incentive Plan (LTIP) units. We adjust the weighted average number of common shares by the number of DSU's outstanding and the number of LTIP units that are expected to vest.

See note 16 for our calculation of basic and diluted net income per share.

### **Employee future benefits**

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

Employees in the other jurisdictions where we operate either have state pension arrangements or do not receive pension benefits.

Certain employees take part in the defined contribution employee benefit plans. Our cost for these plans is the required contributions based on specified percentages of salaries we are required to make.

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

We expense contributions as they come due.

### **4. Application of critical accounting judgements and estimates**

Preparing our consolidated financial statements in conformity with IFRS requires us to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and reported amounts of revenues and expenses during the reporting period. Our estimates and assumptions are based on our experience and other factors, including expectations of future events that we believe to be reasonable under the circumstances. We continuously evaluate these estimates, but actual outcomes could be different.

The most critical judgements, estimates and assumptions are described below.

#### *Estimated mineral reserves*

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, commodity prices and exchange rates. Our reserves for all operations are estimated based on information compiled by or under the supervision of a qualified person as defined under National Instrument 43-101.

Changes in our reserve estimates can affect:

asset carrying values due to changes in estimated future cash flows and impairment analysis

depreciation in the statement of earnings, when depreciation is based on units of production, or when the useful economic life of an asset changes

asset retirement obligations where changes in estimated reserves affect expectations about the timing or cost of these activities.

#### *Provision for 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.

Our provision for asset retirement obligations is our best estimate of the present value of the future costs of mine closure, and involves a significant number of technical issues, estimates and assumptions, with many uncertainties, including changes to the relevant legal and regulatory framework, the magnitude of possible contamination and the timing and extent of the cost of required restoration activities. We will record any changes that arise prospectively, as follows:

- *operating mines*: we record changes in the balance sheet by adjusting the reclamation asset and provision, which affects both future depreciation and finance costs
- *closed properties*: we immediately recognize changes to estimated costs in the statement of earnings as *finance costs*.

### *Impairment of assets*

If we believe an asset may be impaired, we calculate its recoverable amount as either its fair value less costs to sell, or its value in use (whichever is higher), following our *Impairment of assets* accounting policy described in note 3.

When following this policy, we make estimates and assumptions about future production and sales volumes, future commodity prices, recoverable mineral reserves, discount rates, foreign exchange rates, future operating and capital costs. We may also make assumptions about our ability to obtain financing for a project or to recover costs by selling an asset. Actual outcomes could be different.

### *Income taxes*

We operate in a number of countries around the world and are subject to, and pay annual income taxes under the regimes in countries in which we operate. These tax regimes are determined under general corporate income tax laws in those countries. We file all required income tax returns and pay the taxes reasonably determined to be due.

The tax laws in many countries can be complex and subject to interpretation. From time to time, there may be disagreement with the taxing authorities over our interpretation of the country's income tax rules. The final outcome of these disputes could be materially different from our estimated tax liabilities.

We have significant Canadian tax benefits from capital losses, capital cost allowances and mining resource pools. We only recognize deferred tax assets arising from tax loss carry forwards, capital losses and temporary differences when it is probable that we will have enough taxable income in the future to recover them, therefore this is dependent on the generation of sufficient future taxable income.

Our estimates of future taxable income include assumptions about interest rates, foreign currency exchange rates and other factors. Our future income tax asset could be reduced if future taxable income is reduced resulting in a corresponding charge to income tax expense in the statement of earnings.

### *Plant construction*

In the construction of plant and equipment, we capitalize costs that can be directly attributed to bringing the asset into working condition for its intended use, including costs during a commissioning period, before the asset is able to operate at normal levels.

We use several criteria to determine when an asset is able to operate at normal levels. These are complex, and depend on each development property's plan and its economic, political and environmental condition. Criteria can include:

producing saleable material

completing a reasonable period of testing of the plant and equipment in the mine, mill and/or plant

achieving certain level of recoveries from the ore mined and processed

sustaining ongoing production and reaching a certain level of production.

Once these criteria are met, we stop capitalizing the costs related to the commissioning period, and begin to recognize production costs in the statement of earnings.

## 5. Standards issued but not yet effective

The IASB has issued the following standard. This standard is not yet effective at March 31, 2011, and could have an impact in future periods:

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IFRS 9	Financial instruments	January 1, 2013	<p>IFRS 9 simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost and fair value. Existing IAS 39 categories of loans and receivables, held-to-maturity investments, and available-for-sale financial assets will be eliminated.</p> <p>A financial asset can be measured at amortized cost when:</p> <ul style="list-style-type: none"><li>• the objective of the business model is to hold assets in order to collect contractual cash flows, and</li><li>• the contractual terms give rise, on contractual dates, to cash flows that are solely payments of principal and interest on principal outstanding.</li></ul> <p>All other financial assets are measured at fair value.</p>
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We are currently assessing the impact these changes in accounting will have on our consolidated financial statements.

## 6. First time adoption of IFRS

We have adopted IFRS from January 1, 2011, as required for publicly accountable enterprises in Canada.

Our transition date is January 1, 2010 and we have adjusted 2010 comparative information from what was previously reported under Canadian GAAP to conform to IFRS.

Under IFRS 1 – *First time adoption of International Financial Reporting Standards*, we must apply IFRS retrospectively at the transition date, changing retained earnings to incorporate all adjustments to assets and liabilities as stated previously under Canadian GAAP, except where we apply any exemptions that are available. We have applied the following significant exemptions:

we did not restate acquisitions we made before January 1, 2010 in accordance with IFRS 3 – *Business combinations*

we reset the cumulative translation gains and losses in *accumulated other comprehensive income* to nil at January 1, 2010 and made the corresponding adjustment to retained earnings

we applied IFRS 2 – *Share based payments* only to equity settled share based payment awards we granted after November 7, 2002 and that had not vested by January 1, 2010

for certain mines, we used a transitional calculation to determine the property, plant and equipment associated with our provision for asset retirement obligations. Under this calculation, we measured the provision at the transition date and discounted to the date the liability first arose. The result became the initial asset value we applied depreciation to.

## Balance sheet reconciliations

The schedule below reconciles our Canadian GAAP and IFRS balance sheets as at January 1, 2010 (our transition date to IFRS).

	Canadian GAAP	Reclassifications	Subtotal	Adjustments	Notes	IFRS
<b>Assets</b>						
Current assets:						
Cash and short-term investments	\$533,913	\$-	\$533,913	\$-		\$533,913
Restricted cash	15,130	-	15,130	-		15,130
Accounts receivable	129,987	-	129,987	25,774	i	155,761
Inventories	103,108	-	103,108	(4,784)	i, ii	98,324
Current portion of held to maturity investments	9,993	-	9,993	-		9,993
Deferred income tax asset	8,466	(8,466)	-	-		-
	800,597	(8,466)	792,131	20,990		813,121
Restricted cash	101,589	-	101,589	-		101,589
Property, plant and equipment	1,860,616	-	1,860,616	85,053	ii, iii, iv, v	1,945,669
Investments in equity securities	42,411	-	42,411	-		42,411
Held to maturity investments	89,891	-	89,891	-		89,891
Deferred income tax assets	6,151	5,076	11,227	(8,867)	vii, viii	2,360
Other assets	2,894	-	2,894	(991)		1,903
	\$2,904,149	(\$3,390)	\$2,900,759	\$96,185		\$2,996,944
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$185,145	(\$15,047)	\$170,098	\$426		\$170,524
Provisions	-	17,417	17,417	-		17,417
Derivatives	1,543	-	1,543	-		1,543
Deferred income tax liabilities	4,612	(4,612)	-	-		-
	191,300	(2,242)	189,058	426		189,484
Long-term debt	200,026	-	200,026	-		200,026
Asset retirement obligations	145,038	(145,038)	-	-		-
Provisions	-	156,456	156,456	39,974	vi	196,430
Other liabilities	32,113	(11,418)	20,695	-		20,695
Derivatives	3,165	-	3,165	-		3,165
Deferred income tax liabilities	16,357	(1,148)	15,209	10,523	vii, viii	25,732
Non-controlling interest	78,005	(78,005)	-	-		-
	666,004	(81,395)	584,609	50,923		635,532
<b>Equity</b>						
Share capital	669,952	-	669,952	-		669,952
Contributed surplus	63,296	-	63,296	1,513		64,809
Stock based compensation	5,170	-	5,170	-		5,170
Retained earnings	1,541,803	-	1,541,803	(14,694)		1,527,109
Accumulated other comprehensive income (loss)	(42,076)	-	(42,076)	61,169	ix	19,093
<b>Total equity attributable to Inmet equity holders</b>	2,238,145	-	2,238,145	47,988		2,286,133
Non-controlling interest	-	78,005	78,005	(2,726)		75,279
<b>Total equity</b>	2,238,145	78,005	2,316,150	45,262		2,361,412
<b>Total liabilities and equity</b>	\$2,904,149	(\$3,390)	\$2,900,759	\$96,185		\$2,996,944

The schedule below reconciles our Canadian GAAP and IFRS balance sheets as at March 31, 2010.

	Canadian GAAP	Reclassifications	Subtotal	Adjustments	Notes	IFRS
<b>Assets</b>						
Current assets:						
Cash and short-term investments	\$489,280	\$-	\$489,280	\$-		\$489,280
Restricted cash	12,225	-	12,225	-		12,225
Accounts receivable	125,386	-	125,386	29,314	i	154,700
Inventories	80,879	-	80,879	(5,210)	i, ii	75,669
Current portion of held to maturity investments	25,952	-	25,952	-		25,952
Deferred income tax assets	9,325	(9,325)	-	-		-
	743,047	(9,325)	733,722	24,104		757,826
Restricted cash	97,975	-	97,975	-		97,975
Property, plant and equipment	1,750,566	-	1,750,566	80,882	ii, iii, iv, v	1,831,448
Investments in equity securities	42,583	-	42,583	-		42,583
Held to maturity investments	177,812	-	177,812	-		177,812
Deferred income tax assets	13,961	6,064	20,025	(7,655)	vii, viii	12,370
Other assets	2,801	-	2,801	(991)		1,810
	\$2,828,745	(\$3,261)	\$2,825,484	\$96,340		\$2,921,824
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$182,770	(\$16,610)	\$166,160	\$-		\$166,610
Provisions	-	17,558	17,558	-		17,558
Derivatives	1,300	-	1,300	-		1,300
Deferred income tax liabilities	1,281	(1,281)	-	-		-
	185,351	(333)	185,018	-		185,018
Long-term debt	187,986	-	187,986	-		187,986
Asset retirement obligations	139,611	(139,611)	-	-		-
Provisions	-	150,997	150,997	37,882	vi	188,879
Other liabilities	30,128	(11,386)	18,742	-		18,742
Derivatives	2,766	-	2,766	-		2,766
Deferred income tax liabilities	9,316	(2,928)	6,388	12,391	vii, viii	18,779
Non-controlling interest	66,758	(66,758)	-	-		-
	621,916	(70,019)	551,897	50,273		602,170
<b>Equity</b>						
Share capital	669,952	-	669,952	-		669,952
Contributed surplus	63,709	-	63,709	1,424		65,133
Stock based compensation	5,828	-	5,828	-		5,828
Retained earnings	1,621,674	-	1,621,674	(9,794)		1,611,880
Accumulated other comprehensive income (loss)	(154,334)	-	(154,334)	55,852	ix	(98,482)
<b>Total equity attributable to Inmet equity holders</b>	2,206,829	-	2,206,829	47,482		2,254,311
Non-controlling interest	-	66,758	66,758	(1,415)		65,343
<b>Total equity</b>	2,206,829	66,758	2,273,587	46,067		2,319,654
<b>Total liabilities and equity</b>	\$2,828,745	(\$3,261)	\$2,825,484	\$96,340		\$2,921,824

The schedule below reconciles our Canadian GAAP and IFRS balance sheets as at December 31, 2010.

	Canadian GAAP	Re- classifications	Subtotal	Adjustments	Notes	IFRS
<b>Assets</b>						
Current assets:						
Cash and short-term investments	\$326,425	\$-	\$326,425	\$-		\$326,425
Restricted cash	617	-	617	-		617
Accounts receivable	91,893	-	91,893	27,533	i	119,426
Inventories	84,077	-	84,077	(11,923)	i, x	72,154
Current portion of held to maturity investments	53,915	-	53,915	-		53,915
Deferred income tax assets	27,614	(27,614)	-	-		-
Assets held for sale	282,255	-	282,255	36,827	xi	319,082
	866,796	(27,614)	839,182	52,437		891,619
Restricted cash	70,059	-	70,059	-		70,059
Property, plant and equipment	1,921,843	-	1,921,843	(185,778)	ii, iii, iv, v, x	1,736,065
Investments in equity securities	2,694	-	2,694	-		2,694
Held to maturity investments	318,615	-	318,615	-		318,615
Deferred income tax assets	1,336	12,782	14,118	(5,397)	vii, viii	8,721
Goodwill	76,368	-	76,368	(76,368)	x	-
Other assets	4,865	-	4,865	(2,530)		2,335
	\$3,262,576	(\$14,832)	\$3,247,744	(\$217,636)		\$3,030,108
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$153,111	(\$17,668)	\$135,443	\$902	i	\$136,345
Provisions	-	17,668	17,668	-		17,668
Liabilities associated with assets held for sale	102,447	-	102,447	9,449		111,896
	255,558	-	255,558	10,351		265,909
Long-term debt	16,619	-	16,619	-		16,619
Asset retirement obligations	108,592	(108,592)	-	-		-
Provisions	-	118,598	118,598	43,801	vi	162,399
Other liabilities	28,123	(10,006)	18,117	-		18,117
Deferred income tax liabilities	95,200	(14,832)	80,368	(67,843)	vii, viii	12,525
	504,092	(14,832)	489,260	(13,691)		475,569
<b>Equity</b>						
Share capital	1,015,698	-	1,015,698	73,878	x	1,089,576
Contributed surplus	64,972	-	64,972	1,159		66,131
Stock based compensation	6,542	-	6,542	-		6,542
Retained earnings	1,889,491	-	1,889,491	(311,984)		1,577,507
Accumulated other comprehensive income (loss)	(218,219)	-	(218,219)	33,002	ix	(185,217)
<b>Total equity</b>	<b>2,758,484</b>	<b>-</b>	<b>2,758,484</b>	<b>(203,945)</b>		<b>2,544,539</b>
<b>Total liabilities and equity</b>	<b>\$3,262,576</b>	<b>(\$14,832)</b>	<b>\$3,247,744</b>	<b>(\$217,636)</b>		<b>\$3,030,108</b>

**Notes to the balance sheet reconciliations as at January 1, 2010, March 31, 2010 and December 31, 2010:**

*Reclassifications*

We reclassified several items to conform to IFRS. The following are the most significant:

- **non-controlling interests** are under a separate component of equity. Under Canadian GAAP, we reported these as a liability.
- **current deferred income tax assets and liabilities** are under long term assets and liabilities. Under IFRS, all deferred income taxes assets and liabilities must be classified as long term.
- **asset retirement obligations** are under *provisions*. We previously reported these as a separate long term liability.
- certain **employee compensation obligations** are under current and long term provisions. Under Canadian GAAP, we reported them in *accounts payable* if they were current obligations, or as *other liabilities* if they were long term obligations.

**Adjustments**

- (i) **Revenue recognition** – at January 1, 2010 we increased accounts receivable by \$25.8 million (March 31, 2010 - \$29.3 million, December 31, 2010 - \$27.5 million) and reduced inventory by \$5.6 million (March 31, 2010 - \$6.2 million, December 31, 2010 - \$6.3 million).

Under IFRS, we recognize revenue when all significant risks and rewards of ownership of our products are transferred to the purchaser. Under Canadian GAAP, title also had to legally transfer to the purchaser before revenue was recognized. For certain shipments at Çayeli, Pyhäsalmi 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.

- (ii) **Reversal of impairment of assets** – at January 1, 2010, we increased property plant and equipment by \$51.9 million (March 31, 2010 - \$48.0 million, December 31, 2010 - \$41.1 million) to reverse an impairment charge we recognized for Çayeli in 1996. The increase is the IFRS carrying amount we would have calculated, net of depreciation, if we had not recognized the original impairment.

Canadian GAAP did not allow for reversal of impairment charges after they were initially recognized. Under IFRS, we must reverse an impairment loss if there is a change in the estimates we used to determine the recoverable amount. In 1996, after Çayeli's first two years of operations, we recognized an impairment charge of \$128 million against property, plant and equipment. At the time, zinc and copper recoveries were significantly lower than feasibility levels, and were continuing to deteriorate. The complex mineralogy of the Çayeli ore body, continuing poor metallurgical results and the possibility that no improvements may have been achievable were the main reasons for the impairment. After many initiatives and capital improvements, and many years of significantly improved production performance since that time, we concluded that the extensive uncertainties underlying the original impairment no longer apply, and that Çayeli's recoverable amount exceeded its carrying value on our transition to IFRS.

- (iii) **Plant and equipment at Ok Tedi** – at January 1, 2010, we increased property, plant and equipment by \$14.5 million (March 31, 2010 - \$14.0 million). For plant and equipment that was purchased after our initial proportionate consolidation of Ok Tedi, we used Ok Tedi's accumulated depreciation, which Ok Tedi has used historically under IFRS.
- (iv) **Property, plant and equipment associated with asset retirement obligations** – at January 1, 2010, we increased property, plant and equipment by \$8.8 million (March 31, 2010 - \$10.5 million, December 31, 2010 - \$12.1 million).

Under both IFRS and Canadian GAAP, we recognize a corresponding change in the provision for asset retirement obligations in the carrying value of the related property, plant and equipment and depreciate this amount prospectively. The amount of our asset retirement obligations under IFRS is different from the amount under Canadian GAAP as described in (vi) below, and therefore has an impact on our related assets.

- (v) **Foreign exchange forward contract** – at January 1, 2010, we increased property, plant and equipment by \$13.4 million on our transition to IFRS (March 31, 2010 - \$12.2 million, December 31, 2010 - \$11.5 million).

To fix the amount of euros under its credit facility upon conversion to a US dollar denominated loan, Las Cruces entered into a forward contract to exchange US \$215 million for €171.1 million. In 2008, this derivative settled on a net basis with Las Cruces receiving cash of €32.6 million (\$52.3 million).

Under Canadian GAAP, we applied hedge accounting for this contract. While the credit facility was outstanding, Las Cruces capitalized the related interest under its credit facility as a cost of deferred development. We amortized the gain in property, plant and equipment, as a reduction of this capitalized interest. Under IFRS, this instrument does not qualify as a hedge for accounting purposes, and we reclassified the amount we had recognized against property, plant and equipment to retained earnings.

- (vi) **Provision for asset retirement obligations** – at January 1, 2010, we increased our provision for asset retirement obligations by \$39.8 million (March 31, 2010 - \$37.7 million, December 31, 2010 - \$43.6 million).

Under IFRS, we measure asset retirement obligations using a risk free interest rate, and revalue for changes in market risk free interest rates. Under Canadian GAAP, we used a credit adjusted risk free interest rate and were not required to remeasure for changes in market rates.

- (vii) **Deferred income taxes – translation of non-monetary items** – at January 1, 2010, we increased deferred income tax assets by \$3.3 million (March 31, 2010 - \$2.6 million, December 31, 2010 - \$1.0 million).

Under IFRS, when an entity's taxes are denominated in a currency that is not its functional currency (Çayeli and Ok Tedi), we are required to recognize deferred income taxes and liabilities related to the foreign exchange gains and losses for foreign non-monetary assets and liabilities that are re-measured into the functional currency, using historical foreign exchange rates. This was not allowed under Canadian GAAP.

- (viii) **Deferred income taxes** – as a result of the tax effect of changes to our opening balances under IFRS, we decreased deferred income tax assets by \$12.2 million at January 1, 2010 (March 31, 2010 - \$10.2 million, December 31, 2010 - \$6.4 million) and increased deferred income tax liabilities by \$10.7 million (March 31, 2010 - \$12.9 million, December 31, 2010 - decrease of \$65.9 million).
- (ix) **Cumulative translation adjustment** – at January 1, 2010, we reset the cumulative translation gains and losses in *accumulated other comprehensive income* to nil, and recognized a corresponding decrease of \$61.2 million in retained earnings, using an election under IFRS 1.

- (x) **Acquisition of non-controlling interest in Las Cruces** – at December 31, 2010, we decreased inventory by \$6.8 million, decreased property, plant and equipment by \$247.0 million, decreased goodwill by \$76.4 million and increased share capital by \$73.9 million.

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 have accounted 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.

- (xi) **Assets and liabilities held for sale for Ok Tedi** - on January 29, 2011, Ok Tedi Mining Limited repurchased our 18 percent equity interest in Ok Tedi for US \$335 million, and we classified it as *held for sale* at December 31, 2010 (consistent to our Canadian GAAP presentation). Our share of Ok Tedi's assets and liabilities classified as *held for sale* under IFRS were \$36.8 million and \$9.4 million higher respectively than they were under Canadian GAAP because of the adjustments outlined above.

- (xii) **Equity reconciliation** – The table below reconciles total equity under Canadian GAAP to total equity under IFRS, and illustrates the after-tax effect of each of the most significant adjustments had on equity.

	Notes	January 1, 2010	March 31, 2010	December 31, 2010
Canadian GAAP equity		\$2,238,145	\$2,206,829	\$2,758,484
IFRS adjustments:				
Reclassification of non-controlling interest to equity		78,005	66,758	-
Revenue recognition	i	14,210	16,164	30,023
Reversal of impairment of assets – Çayeli	ii	42,395	39,357	34,005
Plant and equipment - Ok Tedi	iii	10,184	9,819	11,179
Property, plant and equipment associated with asset retirement obligations	iv	8,304	9,853	12,175
Foreign exchange forward contract – Las Cruces	v	9,386	8,558	8,034
Provision for asset retirement obligations	vi	(38,349)	(36,334)	(41,310)
Deferred income taxes	vii	3,481	3,107	2,870
Acquisition of the non-controlling interest in Las Cruces	x	-	-	(254,056)
Other		(4,349)	(4,457)	(6,865)
IFRS equity		\$2,361,412	\$2,319,654	\$2,554,539

The schedule below reconciles our Canadian GAAP and IFRS net income for the three months ended March 31, 2010. The Canadian GAAP statement of earnings is presented in an IFRS format.<sup>(1)</sup>

	Canadian GAAP	Reclassifications	Ok Tedi	Adjustments	Notes	IFRS
Gross sales	\$251,559	\$ -	(\$94,626)	\$4,229	i	<b>\$161,162</b>
Smelter processing charges and freight	(44,329)	-	10,523	705	i	<b>(33,101)</b>
Cost of sales (excluding depreciation)	(80,980)	1,119	27,963	(368)	i	<b>(52,266)</b>
Depreciation	(15,224)	-	6,789	719	i, iii, iv	<b>(7,716)</b>
Earnings from operations	111,026	1,119	(49,351)	5,285		<b>68,079</b>
Corporate development and exploration	(2,779)	-	-	-		<b>(2,779)</b>
General and administration	(5,510)	-	-	89		<b>(5,421)</b>
Investment and other income	(78)	-	(77)	1,359	ii	<b>1,204</b>
Stand-by costs	(6,753)	-	-	-		<b>(6,753)</b>
Finance costs	(452)	(1,330)	254	(345)		<b>(1,873)</b>
Income before taxation	95,454	(211)	(49,174)	6,388		<b>52,457</b>
Capital tax expense	(82)	-	-	-		<b>(82)</b>
Income tax expense	(20,063)	211	18,456	(1,608)	vi	<b>(3,004)</b>
Income from continuing operations	\$75,309	\$ -	(\$30,718)	\$4,780		<b>\$49,371</b>
Income from discontinued operation (net of taxes)	-	-	30,718	-		<b>30,718</b>
Net income	\$75,309	\$ -	\$ -	\$4,780		<b>\$80,089</b>
Attributable to:						
Inmet equity holders	\$79,871	\$ -	\$ -	\$4,900		<b>\$84,771</b>
Non-controlling interest	(4,562)	-	-	(120)		<b>(4,682)</b>
	\$75,309	\$ -	\$ -	\$4,780		<b>\$80,089</b>

<sup>(1)</sup> Under Canadian GAAP, we deducted the non-controlling interest's share of Las Cruces' income when calculating net income. Under IFRS, no deduction for this is made and net income is presented as separately attributable to the equity holders of Inmet Mining and to the non-controlling interest.

The schedule below reconciles our Canadian GAAP and IFRS net income for the year ended December 31, 2010. The Canadian GAAP statement of earnings is presented in an IFRS format.<sup>(1)</sup>

	Canadian GAAP	Reclassifications	Ok Tedi	Adjustments	Notes	IFRS
Gross sales	\$1,098,087	\$ -	(\$356,629)	\$37,098	i	<b>\$778,556</b>
Smelter processing charges and freight	(166,754)	-	36,448	(8,158)	i	<b>(138,464)</b>
Cost of sales (excluding depreciation)	(345,764)	6,343	95,871	(10,309)	i, v	<b>(253,859)</b>
Depreciation	(81,844)	-	27,513	(1,657)	i, iii, iv	<b>(55,988)</b>
Earnings from operations	503,725	6,343	(196,797)	16,974		<b>330,245</b>
Corporate development and exploration	(12,036)	-	-	(1,459)		<b>(13,495)</b>
General and administration	(20,638)	-	-	274		<b>(20,364)</b>
Investment and other income	35,416	-	(32)	22,960	ii	<b>58,344</b>
Stand-by costs	(6,753)	-	-	-		<b>(6,753)</b>
Finance costs	(6,873)	(7,148)	910	(65)		<b>(13,176)</b>
Income before taxation	492,841	(805)	(195,919)	38,684		<b>334,801</b>
Capital tax expense	(373)	-	-	-		<b>(373)</b>
Income tax expense	(134,682)	805	71,164	(6,001)	vi	<b>(68,714)</b>
Income from continuing operations	\$357,786	\$ -	(\$124,755)	\$32,683		<b>\$265,714</b>
Income from discontinued operation	-	-	124,755	-		<b>124,755</b>
Net income	\$357,786	\$ -	\$ -	\$32,683		<b>\$390,469</b>
Net income attributable to:						
Inmet equity holders	\$358,898	\$ -	\$ -	\$32,978		<b>\$391,876</b>
Non-controlling interest	(1,112)	-	-	(295)		<b>(1,407)</b>
	\$357,786	\$ -	\$ -	\$32,683		<b>\$390,469</b>

<sup>(1)</sup> Under Canadian GAAP, we deducted the non-controlling interest's share of Las Cruces' income when calculating net income. Under IFRS, no deduction for this is made and net income is presented as separately attributable to the equity holders of Inmet Mining and to the non-controlling interest.

### Notes to the reconciliation of the statement of earnings for three months ended March 31, 2010 and the year ended December 31, 2010:

#### Reclassifications

When we adopted IFRS, we reclassified accretion of asset retirement obligations and capital lease obligations to finance costs. We recognized it as part of cost of sales under Canadian GAAP.

#### Ok Tedi

In January 2011, we sold our 18 percent equity interest in Ok Tedi. As the operations and cash flows for Ok Tedi have been eliminated as a result of this disposal and we have no continuing involvement with this operation, we have presented our proportionately consolidated results from Ok Tedi as *discontinued operations* retroactively. The sale of our investment in Ok Tedi did not qualify for treatment as discontinued operations under Canadian GAAP. This change affects our entire income statement so we have disclosed it separately.

#### Adjustments

- (i) **Revenue** – for the three months ended March 31, 2010 we increased revenue by \$4.2 million (year ended December 31, 2010 - \$37.1 million) and made associated adjustments to smelter processing charges and freight, cost of sales and depreciation.

Under IFRS, we recognize revenue when all significant risks and rewards of ownership of our products are transferred to the purchaser. Under Canadian GAAP, title also had to legally transfer to the purchaser before revenue was recognized. For certain shipments at Çayeli, Pyhäsalmi 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.

- (ii) **Foreign exchange gains and losses** – for the three months ended March 31, 2010, we reversed foreign exchange losses recognized under Canadian GAAP, which increased investment and other income by \$1.3 million (year ended December 31, 2010 - \$22.7 million).

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

- (iii) **Depreciation** – we increased property, plant and equipment relating to the reversal of an impairment charge recognized for Çayeli, and made an associated increase in depreciation of \$2.0 million for the three months ended March 31, 2010 (year ended December 31, 2010 - \$7.9 million).
- (iv) **Depreciation of property, plant and equipment associated with asset retirement obligations** – we recognized a \$3.2 million decrease in depreciation for the three months ended March 31, 2010 (year ended December 31, 2010 - \$6.3 million).

Under both IFRS and Canadian GAAP, we recognize a corresponding change in the provision for asset retirement obligations in the carrying value of the related property, plant and equipment and depreciate this amount prospectively. The amount of our asset retirement obligations under IFRS is different from the amount under Canadian GAAP, and therefore has an impact on our related assets and depreciation expense.

- (v) **Provision for asset retirement obligations** – we increased *cost of sales* by \$6.5 million for the year ended December 31, 2010 to increase our asset retirement obligations at our closed properties as a result of changes in discount rates.

Under IFRS, we measure asset retirement obligations using a risk free interest rate, and revalue for changes in market risk free interest rates. Under Canadian GAAP, we used a credit adjusted risk free interest rate and were not required to remeasure for changes in market rates.

- (vi) **Deferred income taxes** – as a result of the tax effect of changes recognized in our income statement under IFRS, we increased income tax expense by \$1.6 million for the three months ended March 31, 2010 (year ended December 31, 2010 - \$4.8 million)

The schedule below reconciles our Canadian GAAP and IFRS comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010. The Canadian GAAP statement of comprehensive income is presented in an IFRS format.

	Notes	March 31, 2010	December 31, 2010
Comprehensive income (loss) reported under Canadian GAAP		(\$36,949)	\$181,643
Total adjustments to net income		4,780	32,683
Adjustments to other comprehensive income (loss):			
Currency translation adjustments	i, ii	(10,542)	(28,167)
Comprehensive income (loss) under IFRS		<b>(\$42,711)</b>	<b>\$186,159</b>

### Notes to the reconciliation of the statement of comprehensive income for the three months ended March 31, 2010 and the year ended December 31, 2010

#### Adjustments

- (i) **Currency translation adjustments** – for the three months ended March 31, 2010, we reversed foreign exchange losses previously recognized in the statement of earnings under Canadian GAAP, which decreased other comprehensive income by \$1.3 million (year ended December 31, 2010 - \$22.7 million).

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. 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 recognized the deferred foreign exchange gains or losses on these amounts in investment and other income.

- (ii) **Currency translation adjustments** - as a result of the currency translation impact of recognizing changes to our balance sheet under IFRS, we decreased other comprehensive income by \$9.2 million for the three months ended March 31, 2010 (year ended December 31, 2010 - \$5.5 million).

#### Cash flow statement

The IFRS transition adjustments above did not have an impact on our cash and short-term investments. Differences in our cash flow statements between Canadian GAAP and IFRS are the result of non-cash adjustments to items in the statements of earnings outlined above and the presentation of Ok Tedi cash flows as discontinued operations (note 10).

#### 7. Cash and short-term investments

	March 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents:			
Liquidity funds	\$294,186	\$194,603	\$205,190
Term deposits	77,459	52,991	40,140
Overnight deposits	60,150	4,319	54,435
Bankers acceptances	-	-	92,200
Money market funds	7	40,048	19,951
Bank deposits	12,458	27,168	95,001
	<b>444,260</b>	<b>319,129</b>	<b>506,917</b>
Short-term investments:			
Corporate	-	-	26,996
Term deposits	-	7,296	-
	-	7,296	26,996
Total cash and short-term instruments	<b>\$444,260</b>	<b>\$326,425</b>	<b>\$533,913</b>

## 8. Restricted cash

	March 31, 2011	December 31, 2010	January 1, 2010
Collateralized cash for letter of credit facility – Inmet Mining In trust for Ok Tedi reclamation	\$16,692	\$16,906	\$16,492
Collateralized cash for letters of credit – Las Cruces	56,163	52,138	72,008
Collateralized cash for Pyhäsalmi reclamation	1,688	1,632	1,854
	<b>74,543</b>	70,676	116,719
Less current portion:			
Collateralized cash for letters of credit – Las Cruces	(695)	(617)	(15,130)
	<b>\$73,848</b>	\$70,059	\$101,589

## 9. Held to maturity investments

This quarter, we purchased US \$274 million of US Treasury bonds with credit ratings of AAA. The bonds mature between March 2012 and January 2016 and have a weighted average annual yield to maturity of 1.2 percent. Additionally, we purchased a Provincial Government bond for \$8 million with a credit rating of AA, maturity of June 2011 and an annual yield to maturity of 1.08 percent.

We have designated these bonds as held to maturity, measuring them initially at fair value and subsequently at amortized cost.

## 10. Sale of our interest in Ok Tedi

On January 29, 2011, Ok Tedi Mining Limited repurchased our 18 percent equity interest in Ok Tedi for US \$335 million. Our interest in Ok Tedi met the criteria of an asset held for sale, so we presented our share of the results of operations of Ok Tedi as discontinued operations in the consolidated statements of earnings and the consolidated statements of cash flow retroactively. In 2011, after-tax income of \$83 million from this discontinued operation includes net earnings of \$17 million in January, before the sale, and a gain on sale of \$66 million net of withholding taxes. Papua New Guinea withholding taxes of \$28 million were paid on the sale and no Canadian taxes were payable, but we expect to reduce our tax-affected Canadian tax loss pools by about \$2 million. The following tables provide a breakdown of our share of the earnings and cash flows at Ok Tedi for the three months ended March 31, 2010 and 2011.

### Statements of earnings

	three months ended March 31	
	2011	2010
Gross sales	\$44,865	\$94,626
Smelter processing charges and freight	(4,051)	(10,523)
Cost of sales (excluding depreciation)	(12,116)	(27,963)
Depreciation	(2,272)	(6,789)
	<b>26,426</b>	49,351
Investment and other income	(80)	72
Finance costs	(33)	(254)
Income tax expense	(9,670)	(18,456)
	<b>16,643</b>	30,718
Gain on sale of our interest	79,029	-
Income tax expense on sale of our interest	(12,233)	-
<b>Net income from discontinued operation</b>	<b>\$83,439</b>	<b>\$30,718</b>

**Statements of cash flow**

	<b>three months ended March 31</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash provided by operating activities</b>		
Before net change in non-cash working capital	\$-	\$34,949
Net change in non-cash working capital	-	11,501
	-	46,450
<b>Cash provided by (used in) investing activities</b>		
Cash proceeds on sale, net of withholding tax	306,982	-
Purchase of property, plant and equipment	-	(4,280)
	306,982	(4,280)
<b>Cash used in financing activities</b>	-	(648)
<b>Foreign exchange change on cash held in foreign currency</b>	-	(2,180)
<b>Net cash from discontinued operation</b>	<b>\$306,982</b>	<b>\$39,342</b>

**11. Provisions**

The table below shows the significant components of our provisions.

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>January 1, 2010</b>
Asset retirement obligations	\$171,994	\$168,589	\$198,291
Employee benefits and other	11,069	11,478	15,556
	183,063	180,067	213,847
Less current portion:			
Asset retirement obligations	(16,847)	(16,417)	(13,500)
Employee benefits and other	(741)	(1,251)	(3,917)
	(17,588)	(17,668)	(17,417)
	\$165,475	\$162,399	\$196,430

## 12. Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) includes:

	March 31, 2011	December 31, 2010	January 1, 2010
Unrealized losses on gold forward sales contracts (net of tax of nil (December 31, 2010 - \$2,427, January 1, 2010 - \$2,015))	\$-	(\$5,661)	(\$4,701)
Unrealized gains (losses) on investments (net of tax of \$155 (December 31, 2010 - \$78, January 1, 2010 - \$4,788))	(915)	(452)	23,794
Currency translation adjustment	(150,434)	(179,104)	-
<b>Accumulated other comprehensive income (loss)</b>	<b>(\$151,349)</b>	<b>(\$185,217)</b>	<b>\$19,093</b>

### Currency translation adjustments

The table below is breakdown of our currency translation adjustments.

	March 31, 2011	December 31, 2010	January 1, 2010
Pyhäsalmi (euro functional currency)	(\$17,084)	(\$24,354)	\$-
Las Cruces (euro functional currency)	(59,807)	(93,427)	-
Çayeli (US dollar functional currency)	(29,914)	(20,908)	-
Cobre Panama (US dollar functional currency)	(43,629)	(29,701)	-
Ok Tedi (US dollar functional currency)	-	(10,714)	-
	<b>(\$150,434)</b>	<b>(\$179,104)</b>	<b>\$-</b>

The Canadian dollar to US dollar exchange rate was \$0.97 at March 31, 2011, \$0.99 at December 31, 2010 and \$1.05 at January 1, 2010. The Canadian dollar to euro exchange rate was \$1.38 at March 31, 2011, \$1.33 at December 31, 2010 and \$1.50 at January 1, 2010.

## 13. Investment and other income

	three months ended March 31 2011	March 31 2010
Interest income	\$2,772	\$1,597
Dividend and royalty income	600	714
Foreign exchange loss	(10,826)	(1,061)
Other	1,681	(46)
	<b>(\$5,773)</b>	<b>\$1,204</b>

Foreign exchange loss is a result of:

	three months ended March 31 2011	March 31 2010
Translation of foreign-denominated cash	(\$8,732)	(\$771)
Revaluation of US dollar held-to-maturity investments	(1,452)	-
Translation of other-monetary assets and liabilities	(642)	(290)
	<b>(\$10,826)</b>	<b>(\$1,061)</b>

#### 14. Finance costs

	three months ended March 31	
	2011	2010
Interest on note payable	\$279	\$298
Accretion on note payable	161	154
Accretion on provisions and capital lease obligations	1,891	1,421
	<b>\$2,331</b>	<b>\$1,873</b>

#### 15. Income tax

For the three months ended March 31, 2011:

	Corporate and other	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Cobre Panama (Panama)	Total
Current income taxes	\$249	\$10,590	\$-	\$7,932	\$-	\$18,771
Deferred income taxes	(45)	1,066	7,497	(129)	-	8,389
Income tax expense	\$204	\$11,656	\$7,497	\$7,803	\$-	\$27,160

For the three months ended March 31, 2010:

	Corporate and other	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Cobre Panama (Panama)	Total
Current income taxes	\$1,160	\$9,808	\$-	\$4,942	\$-	\$15,910
Deferred income taxes	(2,347)	(2,942)	(7,634)	17	-	(12,906)
Income tax expense	(\$1,187)	\$6,866	(\$7,634)	\$4,959	\$-	\$3,004

## 16. Net income per share

(thousands)	three months ended March 31	
	2011	2010
Income from continuing operations available to common shareholders	<b>\$59,405</b>	\$54,053
Income from discontinued operations available to common shareholders	<b>83,439</b>	30,718
Net income available to common shareholders	<b>142,844</b>	84,711

(thousands)	three months ended March 31	
	2011	2010
Weighted average common shares outstanding	<b>61,549</b>	56,107
Plus incremental shares from assumed conversions:		
Deferred share units	<b>112</b>	96
Long term incentive plan units	<b>52</b>	43
Diluted weighted average common shares outstanding	<b>61,713</b>	56,246

The table below shows our earnings per common share for the three months ended March 31.

(Canadian dollars per share)	three months ended March 31			
	2011		2010	
	Basic	Diluted	Basic	Diluted
Net income from continuing operations per share	<b>\$0.97</b>	<b>\$0.96</b>	\$0.96	\$0.96
Income from discontinued operations per share	<b>1.36</b>	<b>1.35</b>	0.55	0.55
Net income per share	<b>\$2.33</b>	<b>\$2.31</b>	\$1.51	\$1.51

## 17. Statements of cash flows

The tables below show the components of our net change in non-cash working capital by segment.

For the three months ended March 31, 2011:

	Corporate and other	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Cobre Panama (Panama)	Total
Accounts receivable	(\$760)	\$7,585	(\$5,246)	\$9,077	\$-	\$10,656
Inventories	-	711	5,971	(66)	-	6,616
Accounts payable and accrued liabilities	(2,169)	812	4,701	(2,400)	-	944
Taxes payable	(1,402)	(1,990)	-	4,999	-	1,607
Provisions	(510)	-	-	-	-	(510)
Other	-	(3)	-	-	-	(3)
	(\$4,841)	\$7,115	\$5,426	\$11,610	\$-	\$19,310

For the three months ended March 31, 2010:

	Corporate and other	Çayeli (Turkey)	Las Cruces (Spain)	Pyhäsalmi (Finland)	Cobre Panama (Panama)	Total
Accounts receivable	(\$337)	\$5,897	\$ -	\$925	\$-	\$6,485
Inventories	4,153	(1,442)	-	582	-	3,293
Accounts payable and accrued liabilities	(4,695)	521	-	(6,539)	-	(10,713)
Taxes payable	576	(1,448)	-	766	-	(106)
Provisions	(216)	-	-	-	-	(216)
Other	(5)	77	-	-	-	72
	(\$524)	\$3,605	\$ -	(\$4,266)	\$-	(\$1,185)

## 18. Capital commitments

Our operations had the following capital commitments as at March 31, 2011:

- Las Cruces committed \$3.4 million for the purchase of plant equipment.
- Cobre Panama committed \$130.0 million for the design and supply of two SAG mills, four ball mills and the related gearless drives, and for basic engineering.

### Additional annual disclosures under IFRS

As a result of the transition adjustments discussed in note 6 to the interim financial statements, we have included the following IFRS annual disclosures for the year ended December 31, 2010 to help you understand our interim financial information.

#### 1. Property, plant and equipment

	Property	Plant and equipment	Development expenditures	Total
January 1, 2010, net of accumulated depreciation	\$135,127	\$238,344	\$1,572,198	\$1,945,669
Additions	39,666	47,982	96,298	183,946
Depreciation	(21,534)	(82,532)	-	(104,066)
Reclassification to property, plant and equipment	269,058	639,293	(908,351)	-
Reclassification to assets held for sale (note 10)	(11,822)	(92,100)	-	(103,922)
Asset retirement obligations adjustments	4,968	7,247	-	12,215
Disposals	-	(8,887)	-	(8,887)
Funding received under Cobre Panama option agreement	-	-	(14,427)	(14,427)
Other	-	(75)	-	(75)
Foreign exchange	(3,441)	556	(171,503)	(174,388)
December 31, 2010, net of accumulated depreciation	<b>\$412,022</b>	<b>\$749,828</b>	<b>\$574,215</b>	<b>\$1,736,065</b>

	Property	Plant and equipment	Development expenditures	Total
<b>January 1, 2010</b>				
Cost	\$293,542	\$502,562	\$1,572,198	\$2,368,302
Accumulated depreciation	(158,415)	(264,218)	-	(422,633)
Net carrying value	<b>\$135,127</b>	<b>\$238,344</b>	<b>\$1,572,198</b>	<b>\$1,945,669</b>
<b>December 31, 2010</b>				
Cost	\$591,971	\$1,096,578	\$574,215	\$2,262,764
Accumulated depreciation	(179,949)	(346,750)	-	(526,699)
Net carrying value	<b>\$412,022</b>	<b>\$749,828</b>	<b>\$574,215</b>	<b>\$1,736,065</b>

#### 2. Accounts receivable

	December 31, 2010	January 1, 2010
Accounts receivable from sale of metal	\$89,917	\$112,435
Value-added and other taxes receivable	9,619	22,132
Advances and prepaid expenses	12,940	13,948
Other amounts receivable	6,950	7,246
	<b>\$119,426</b>	<b>\$155,761</b>

#### 3. Inventories

	December 31, 2010	January 1, 2010
Stockpiled ore	\$22,077	\$16,812
Work in progress	7,407	14,253
Finished goods inventory	23,327	28,668
Materials and supplies	19,343	38,591
	<b>\$72,154</b>	<b>\$98,324</b>

#### 4. Accounts payable and accrued liabilities

	December 31, 2010	January 1, 2010
Accounts payables and accrued liabilities	\$94,792	\$106,701
Amounts payable related to metal sales (note 29(a))	592	103
Income taxes payable	40,961	63,720
	<b>\$136,345</b>	<b>\$170,524</b>

#### 5. Other liabilities

	December, 31 2010	January 1, 2010
Las Cruces capital lease obligation	\$17,441	20,019
Other	676	676
	<b>\$18,117</b>	<b>\$20,695</b>

#### 6. Asset retirement obligations

	December 31, 2010	January 1, 2010
Present value of future water treatment costs	\$34,722	\$30,032
Obligations at closed properties	35,209	35,490
Obligations at operating and developing mines	98,658	132,769
	<b>168,589</b>	198,291
Less current portion	(16,417)	(13,500)
	<b>\$152,172</b>	<b>\$184,791</b>

The table below shows how our asset retirement obligations changed in 2010.

#### 2010

	Çayeli	Las Cruces	Pyhäsalmi	Ok Tedi	Closed sites	Total
Opening balance at January 1, 2010	\$15,673	\$55,929	\$21,522	\$39,645	\$65,522	\$198,291
Liabilities settled	-	-	-	-	(9,719)	(9,719)
Accretion expense charged through finance costs	590	2,160	708	910	2,066	6,434
Liabilities incurred	-	4,953	-	-	-	4,953
Revisions in timing and amount of estimated cash flows	-	-	7,263	1,585	14,298	23,146
Reclassification to held for sale (note 10)	-	-	-	(39,981)	-	(39,981)
Foreign exchange and other	(861)	(6,603)	(2,676)	(2,159)	(2,236)	(14,535)
Closing balance at December 31, 2010	<b>\$15,402</b>	<b>\$56,439</b>	<b>\$26,817</b>	<b>\$-</b>	<b>\$69,931</b>	<b>\$168,589</b>

At December 31, 2010, we estimate that we need \$213 million in undiscounted cash flows to settle these liabilities, payable over approximately 15 years. We discount cash flows at interest rates that range from one percent to five percent.

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## Investor Relations

Financial information such as annual reports, interim reports and other information is available on Inmet's web site: [www.inmetmining.com](http://www.inmetmining.com).

Copies of the annual reports, interim reports and other corporate publications are also available from our Investor Relations department:

- By mail directed to our Corporate Office
- By email at [investor@inmetmining.com](mailto:investor@inmetmining.com)
- By fax at + 1-416-368-4692
- By telephone at + 1-416-860-3965

## Shareholder Inquiries

Inquiries with respect to changes of address, registration and lost share certificates should be directed to the Stock Transfer Department of CIBC Mellon Trust Company Ltd. in Toronto, Montreal, Winnipeg, Calgary or Vancouver. Alternatively, our Transfer Agent may be reached at:

CIBC Mellon Trust Company Ltd.  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario, Canada  
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## Common Shares

<i>(thousands)</i>	2011	2010
Outstanding as at March 31	61,549	56,107
Weighted average for the three months ended March 31	61,549	56,107

## Stock Exchange Listing

Toronto Stock Exchange

## Stock Symbol

IMN

## Common Shares

### Trading History

	High	Low
<b>2011</b>		
First Quarter	\$81.67	\$61.51
<b>2010</b>		
Fourth Quarter	\$78.76	\$56.82
Third Quarter	\$59.10	\$42.40
Second Quarter	\$61.90	\$41.97
First Quarter	\$71.05	\$52.69