

Inmet Mining Corporation

Annual Information Form

March 15, 2013



Annual information form

This AIF contains important information that can help you make an informed decision about Inmet Mining Corporation. It describes our business, our mineral reserves and resources, our operations and prospects, risks and other factors that affect us.

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About this document

Unless otherwise indicated, the information in this annual information form ("AIF") is given as of December 31, 2012. All currency amounts in this AIF are expressed in United States dollars, unless otherwise indicated. References to "Cdn \$" are to Canadian dollars and "€" are to Euros, where and if applicable. "SEDAR" means the System for Electronic Document Analysis and Retrieval, the publicly accessible database used for the filing of public securities information as required by securities regulatory agencies in Canada. Throughout this AIF, the terms *we*, *us*, *our* and *Inmet* mean Inmet Mining Corporation and its subsidiaries and joint ventures. *Inmet Mining* means Inmet Mining Corporation only.

Caution with respect to forward-looking statements and information

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

These statements are "forward-looking" because we have used what we know and expect today to make a statement about the future. Forward-looking statements usually include words like *may*, *expect*, *anticipate*, *believe* or other similar words. We believe the expectations reflected in these forward-looking statements are reasonable. Actual events and results could be substantially different, however, because of the risks and uncertainties associated with our business or events that happen after the date of this AIF. For resource and reserve figures appearing herein, varying cut-off grades have been used depending on the mine, method of extraction and type of ore contained in the ore body.

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

All forward-looking statements and information herein are qualified by this cautionary statement.

Presentation of mineral reserve and resource estimates

This AIF uses the terms "Mineral", "Measured", "Indicated" and "Inferred" in connection with its resource presentations, as defined in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101") under guidelines set out in the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") Standards on Mineral Resources and Mineral Reserves adopted by the CIM Council. While the terms "Mineral", "Measured", "Indicated" and "Inferred" are recognized and required by Canadian regulations, they are not defined terms under standards of the SEC. As such, certain information contained in this AIF concerning descriptions of mineralization and resources under Canadian standards is not comparable to similar information made public by U.S. companies subject to the reporting requirements of the SEC. "Inferred" resources have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an "Inferred" resource will ever be upgraded to a higher category. Under Canadian rules, estimates of "Inferred" resources may not form the basis of feasibility or other economic studies. Mineral resources that are not mineral reserves do not have demonstrated economic viability. United States shareholders are cautioned not to assume that all or any part of "Measured" or "Indicated" resources will ever be converted into "Mineral Reserves". United States shareholders are also cautioned not to assume that all or part of an "Inferred" resource exists, or is economically or legally mineable. In addition, the definitions of "Proven" and "Probable" reserves under CIM standards differ in certain respects from the Securities and Exchange Commission ("SEC") standards.

CORPORATE STRUCTURE

Inmet Mining exists under the Canada Business Corporations Act. Our registered and head office is at 330 Bay Street, Suite 1000, Toronto, Ontario Canada, M5H 2S8. We have approximately 1,390 employees worldwide.

Inmet Mining's corporate history

1987	June 1	Metall Mining Corporation/Corporation Minière Metall continued under the laws of Canada by certificate and articles of continuance
1988	January 1	Amalgamation with two wholly-owned subsidiaries by certificate and articles of amalgamation
1990	December 31	Amalgamation with a wholly-owned subsidiary by certificate and articles of amalgamation
1995	May 4	Name changed to Inmet Mining Corporation/Corporation Minière Inmet
1999	January 1	Amalgamation with a wholly-owned subsidiary by certificate and articles of amalgamation
2011	February 14	Amalgamation with a wholly-owned subsidiary by certificates and articles of amalgamation

Principal Subsidiaries and Properties

Our principal subsidiaries as at December 31, 2012 were:

	Jurisdiction	Ownership (%)
Çayeli Bakir Isletmeleri A.S. (Çayeli)	Turkey	100
Cobre Las Cruces S.A. (Las Cruces)	Spain	100
Pyhäsalmi Mine Oy (Pyhäsalmi)	Finland	100
Minera Panama S.A. (Cobre Panama)	Panama	80

Our principal operations and development properties as at December 31, 2012 were:

	Çayeli	Las Cruces	Pyhäsalmi	Cobre Panama¹
Location	Turkey	Spain	Finland	Panama
Ownership	100%	100%	100%	80%
Primary metal	copper	copper	copper	Copper
Secondary metal	zinc	-	zinc	Gold
Mine type	underground	open pit	underground	open pit
Mine life	2019	2022	2019	40 years (est.)

¹ Cobre Panama is a development property currently in construction and is not currently an operating mine.

GENERAL DEVELOPMENT OF THE BUSINESS

The following is a summary of key developments over the past three years:

2010

Cobre Panama final FEED Study

On March 31, 2010 we announced the results of a final Front-end Engineering and Design (FEED) study that included updated capital cost and operating cost estimates, and other information about the Cobre Panama project.

Las Cruces Commissioning

Effective July 1, 2010, we ceased capitalizing Las Cruces' pre-operating costs net of sales and began to recognize these results in operating earnings and operating cash flow in our consolidated financial statements.

Acquisition of Remainder of Cobre Las Cruces

On December 15, 2010, we completed the acquisition of a 30 percent indirect equity interest and subordinated sponsor loans in Las Cruces from Leucadia National Corporation and an affiliate of it (Leucadia). Inmet paid US \$150 million in cash and issued Leucadia 5,442,413 common shares. Leucadia was also released from its guarantee on US \$72 million debt owed by Cobre Las Cruces, S.A. to an affiliate of Inmet. As a result of the share issuance, the number of Inmet's issued and outstanding common shares increased to 61,549,172 common shares and Leucadia's beneficial ownership increased at that time to 11,042,413 Inmet shares, or 17.94 percent of Inmet's issued and outstanding common shares.

Amended Subscription Agreement with Temasek subsidiary

On March 31, 2010 we announced that Inmet and Ellington Investments Pte. Ltd. (Ellington), an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited (Temasek) entered into a subscription agreement pursuant to which Ellington agreed to purchase 9,258,419 subscription receipts at a price of \$54.0049 for total proceeds of \$500 million. Each subscription receipt was exchangeable for an Inmet common share upon satisfaction of certain conditions.

On December 23, 2010 Inmet and Ellington announced that they had amended the subscription agreement to provide that the subscription receipts previously issued to Ellington would be exchanged for Inmet common shares. Under the amended subscription agreement, each subscription receipt was exchangeable for 0.840283 Inmet common share, representing a subscription price per Inmet common share of \$64.2699, or a 15 percent discount to the five day volume-weighted average price of Inmet common shares on the Toronto Stock Exchange as at December 22, 2010. The subscription receipts were to be automatically exchanged no later than 150 days after the coming into effect of legislation to amend Panama's Mineral Resources Code (Code) to permit entities in which foreign governmental bodies or authorities have an interest to hold direct or indirect interests in mining concessions in Panama.

2011

Terminated Arrangement with Lundin Mining Corporation

On January 12, 2011, Inmet Mining and Lundin Mining Corporation (Lundin) entered into an arrangement agreement under which they agreed, subject to certain conditions, to amalgamate the two companies by way of a Plan of Arrangement under the Canada Business Corporations Act. On February 28, 2011, Equinox Minerals Limited (Equinox) announced that it would make an unsolicited offer to acquire Lundin, followed by a formal bid made on March 7, 2011. On March 20, 2011, Lundin announced that its board of directors unanimously recommended that Lundin shareholders reject the Equinox offer. On March 29, 2011, Inmet and Lundin agreed to terminate the arrangement agreement in accordance with its terms.

Disposition of Interest in Ok Tedi

On January 28, 2011 we disposed of our 18 percent equity interest in Ok Tedi Mining Limited (OTML) for gross proceeds of US \$335 million, which resulted in net proceeds received by Inmet of approximately US \$307 million after deduction of withholding taxes paid in Papua New Guinea.

Temasek Subsidiary Exchanges Subscription Receipts for Common Shares

On May 17, 2011 Ellington, a Temasek subsidiary, exchanged \$500 million previously issued subscription receipts for 7,779,692 common shares. As a result of the share issuance, the number of Inmet's issued and outstanding common shares increased to 69,328,864 common shares and Temasek's beneficial ownership represented approximately 11 percent of Inmet's issued and outstanding common shares.

Cobre Panama ESIA Approval

On December 28, 2011 the Government of Panama, through ANAM, approved the project environmental and social impact assessment (ESIA) required for development of the Cobre Panama copper project, including the mining operations and related infrastructure, a port facility, and a coal-fired power plant.

2012

Full Scale Construction For Cobre Panama Commences and Additional Reserves Announced

In 2012 we achieved several significant milestones for our world-class Cobre Panama project. In May 2012, we announced the completion of basic engineering, indicating a capital cost estimate of \$6.2 billion, and began full scale construction. As of December 31, 2012 Minera Panama had entered into commitments for approximately \$4.1 billion, representing 67 percent of estimated capital expenditures for the project. In December 2012, we announced an increase to proven and probable mineral reserves from the Balboa, Brazo and Botija Abajo deposits. These additional mineral reserves increased Cobre Panama's total estimated contained copper by 27 percent to approximately 26 billion pounds, and increased estimated contained gold by 41 percent to approximately 7.3 million ounces. The additional mineral reserves have been integrated into a revised mine plan that extends the estimated mine life for Cobre Panama from 31 to 40 years.

KPMC Exercises Option for 20 percent of Cobre Panama

On April 25, 2012, KPMC completed its acquisition of a 20 percent interest in Minera Panama, owner and developer of the Cobre Panama development project, for \$161 million in cash and committed to fund 20 percent of the estimated \$6.2 billion development cost of Cobre Panama. KPMC's acquisition cost and expected share of development costs amounts to aggregate expected funding of \$1.4 billion. KPMC also has the right to enter into an off-take purchase agreement, on terms to be negotiated, under which it will be entitled to purchase a pro-rata share of Cobre Panama's production of copper concentrates, subject to KPMC providing financing to the project in proportion to its interest.

Issuance of Senior Unsecured Notes

On May 18, 2012, we issued \$1.5 billion of senior unsecured notes bearing a coupon rate of interest of 8.75 percent and maturing on June 1, 2020 (the 2020 Notes). On December 18, 2012, we issued a further \$0.5 billion of senior unsecured notes bearing a coupon rate of interest of 7.5 percent and maturing on June 1, 2021 (the 2021 Notes, and together with the 2020 Notes, the Notes).

Precious Metals Stream

In August 2012, we announced the completion of a precious metals stream agreement with a subsidiary of Franco-Nevada Corporation (Franco-Nevada). Under the terms of the agreement, Franco-Nevada will provide a \$1.0 billion deposit to Minera Panama once Inmet's funding since issuing a Full Notice to Proceed reaches \$1.0 billion pro-rata on a 1:3 ratio with Inmet's subsequent funding contributions. The amount of precious metals deliverable to Franco-Nevada under the stream is indexed to the copper in concentrate produced from the project and approximates 86 percent of the estimated payable precious metals attributable to Inmet's 80 percent ownership based on the 31 year mine plan included the Cobre Panama Basic Engineering Summary Report dated May 6, 2012 (the Basic Engineering Summary Report). Beyond that contemplated mine life, the precious metals deliverable under the stream will be based on a fixed percentage of the precious metals in concentrate.

Recent Developments

On January 9, 2013, a wholly-owned subsidiary First Quantum Minerals Ltd. (First Quantum) commenced an unsolicited offer to acquire all of Inmet Mining's issued and outstanding common shares for consideration of \$72.00 in cash, or 3.2967 common shares of First Quantum, or \$36 in cash and 1.6484 common shares of First Quantum, subject in each case, to proration, and subject to, among other conditions, a 66 2/3rds percent minimum tender condition (the Offer). On March 12, 2013 First Quantum announced that in excess of 61percent of Inmet Mining shares had been tendered to the Offer, and that First Quantum was varying the minimum tender condition to 50 percent and extending the expiry of the Offer to March 21, 2013.

DESCRIPTION OF THE BUSINESS

Inmet is a Canadian-based global mining company that focuses on producing copper and zinc. We have three wholly-owned mining operations: Çayeli (Turkey), Las Cruces (Spain) and Pyhäsalmi (Finland). We also have an 80 percent interest in Cobre Panama, a development property in Panama.

The following table provides a summary of our copper and zinc production by operating mine for each of our last two financial years:

	2012		2011	
	COPPER PRODUCTION (TONNES)	ZINC PRODUCTION (TONNES)	COPPER PRODUCTION (TONNES) ⁽¹⁾	ZINC PRODUCTION (TONNES)
Çayeli	31,400	40,700	28,700	48,100
Las Cruces	67,700	-	42,100	-
Pyhäsalmi	12,600	25,600	14,000	32,300
Total	111,700	66,300	84,800	80,400

⁽¹⁾ Excludes volumes from Ok Tedi (Inmet's interest disposed of in January, 2011)

The following table sets out our revenue by product for each of our last two financial years:

	2012		2011	
	(\$, millions)	(%)	(\$, millions)	(%)
Copper	903	80.3	674	71.1
Zinc	125	11.1	172	18.1
Other	96	8.6	102	10.8
Total	1,124	100	948	100.0

Product Summary

Inmet is primarily a producer of copper and zinc and also produces gold, silver and pyrites as by-products. We produce both copper cathodes and copper concentrates, as well as zinc concentrates. We also produce a pyrite concentrate for customers who require sulphur units.

Copper

Refined copper is used primarily in electrical and electronic applications.

Our business model focuses primarily on copper, which we continue to believe will be an attractive business over the long-term. As populations and industries grow, so does the demand for copper. Prices and premiums are largely dependent on the demand for electrical wire in construction, communications, automotive applications and in consumer durables. The pace of industrialization, especially in China and India, has kept global demand for copper high over the last decade and it is expected to remain high over the long-term. Per capita copper consumption in developing countries is still only a fraction of that of developed nations. Copper supply has been constrained by declining production at existing operations, declining ore grades, production disruptions for environmental, economic and community reasons, a limited number of viable new projects and restricted access to financing. New copper projects are increasingly more difficult to develop because of their locations, their social contexts, and increasingly stringent environmental regulations and requirements. We believe that this bodes very well for the price of copper in the future and that copper has the best performance profile in the industry. Copper is traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE).

Copper prices began 2012 at US \$3.43 per pound and ranged between a low of US \$3.29 and a high of US \$3.93 during the year. The price of copper closed 2012 at US \$3.59 per pound. The average copper price for 2012 was US\$3.60 per pound, 10 percent lower than the 2011 average.

Zinc

Zinc is used primarily for galvanizing steel, and prices and premiums are largely dependent on the demand for steel products. The main consuming sectors are infrastructure, auto production and construction. Zinc is traded on the London Metal Exchange and on the Shanghai Futures Exchange.

In recent years zinc mine supply has grown strongly keeping the zinc market in surplus as evidenced by significantly accumulated exchange stocks since 2008. As a result, zinc prices have not been as strong as copper prices in recent years.

Zinc prices started 2012 at US \$0.83 per pound and ranged between a low of US \$0.80 per pound and a high of US \$0.99 per pound during the year. Zinc prices closed 2012 at \$0.92 per pound. The average zinc price for 2012 was US \$0.88 per pound, 11 percent lower than the 2011 average price.

OPERATIONS

Çayeli

Location	Turkey
Ownership	100%
Type of mine	underground
Primary metal	copper
Secondary metal	zinc
End product	copper and zinc concentrates
Expected mine life	2019
Average reserve grades	copper – 3.1% zinc – 3.6%
Infrastructure	close to roads and 18 kilometres from the port at Rize
Employees	506
Contractors	188

Business structure

Çayeli Bakir İşletmeleri A.S. is a wholly-owned subsidiary of Inmet Mining and is incorporated under the laws of the Republic of Turkey. Its main asset is the Çayeli copper and zinc mine.

Eti Holding A.S. (Eti), which is wholly-owned by the Government of Turkey, holds the operating license for the property and has leased it to Çayeli. The lease expires on July 29, 2044. Eti is entitled to a royalty based on 7 percent of Çayeli's net income.

About the property

The Çayeli mine is located in the province of Rize near the Black Sea coast of northeastern Turkey:

- the plant site is at about 100 metres above sea level, on the western flood plain of the Büyükdere River
- it sits directly across from the town of Madenli, about seven kilometres from the Black Sea coast
- the town of Çayeli is located where the Büyükdere River enters the Black Sea, about 18 kilometres east of the city of Rize
- the surface projection of the ore body covers an area of approximately 203 hectares
- the mine accesses electrical power from the national grid and draws the water it uses for processing from a series of ground water wells and the adjacent Büyükdere River
- copper and zinc concentrates are shipped from the site in covered trucks to the Black Sea port at Rize, a distance of 18 kilometres.

Physical characteristics of the deposit

Çayeli is a Cretaceous-age volcanogenic massive sulphide deposit that:

- has a known strike length of over 600 metres
- extends to a depth of at least 600 metres
- varies in thickness from a few metres to 80 metres, averaging about 20 metres.

The average dip is 65 degrees to the north northwest.

The deposit is at the contact between altered footwall felsic volcanic flows and pyroclastic and hangingwall mafic volcanic rocks. It consists of massive and stockwork sulphides. The mineralization includes pyrite, chalcopyrite and sphalerite and smaller amounts of galena and tetrahedrite.

Geology

The massive sulphide ore is classified into:

- yellow ore, which is copper-rich and zinc-poor
- black ore, which is zinc-rich and copper-poor
- clastic ore, which contains copper, zinc and precious metals. In this ore, the sphalerite contains intergrowths and inclusions of chalcopyrite and requires batch processing through the mill.

Stockwork ore, containing pyrite and chalcopyrite in veins, occurs stratigraphically below the massive sulphide ores.

Environmental and Social Context

The Çayeli surface footprint is small, consisting of mine infrastructure, processing facilities, administrative offices, warehouse facilities and yards. There are three small rock storage facilities that store waste rock from the underground mine.

In 2011, Çayeli received its Integrated Environmental Permit from the Turkish regulators which governs the environmental requirements at the site. In 2012 Çayeli received a similar permit for its Rize Port facility. There is no tailings management facility at Çayeli. Process plant tailings are disposed at a depth of 275 metres in the Black Sea (Deep Sea Tailings Placement, or DSTP) in compliance with applicable Turkish regulations and accepted practice. At this depth in the Black Sea, the water is naturally rich in hydrogen sulphide and low in dissolved oxygen, which is an environment that does not support marine life. As a result, DSTP is the preferred tailings disposal method. Turkey is currently developing Mines Waste Regulations to align with European Union standards, and we are working with the regulators toward the continuing acceptance of DSTP within these regulations. We do not anticipate any challenge to DSTP given the long-standing acceptance of this practice, our strong long-term environmental performance, the evidence indicating no change in water quality, and Çayeli's robust monitoring program.

Çayeli pumps ground water from a local aquifer. The aquifer has historically shown signs of drawdown, caused by a number of local and regional factors, and this has periodically affected our ability to pump sufficient water to satisfy our operational needs. Çayeli has secured other surface water rights to help offset future ground water limitations. In addition, it has implemented several water recycling initiatives to reduce our water use demand.

When the mine is closed, Çayeli's infrastructure will be dismantled and any remaining waste rock will be placed underground in the mine. Waste rock from the Çayeli underground workings is stored in one of three surface storage facilities. Plans call for this material to be placed back underground when the facility is decommissioned in 2019. If such material is left on surface post-closure there is a risk that it could generate acid drainage which could increase closure and post-closure costs.

Any contaminated materials will be disposed of in accordance with Turkish law and we will re-vegetate the site. The underground mine workings will be allowed to flood once the facility is decommissioned. There is a risk that ground water traveling through the Çayeli underground workings could become contaminated with metals and other constituents over time which could necessitate treatment of ground water, increasing post-closure costs.

Çayeli operates under Turkish environmental laws and regulations, many of which have been modified over the past several years to incorporate aspects of European Union directives. The current estimated, undiscounted closure cost is \$19 million.

Many houses in the vicinity of the mine have suffered damage due to settling. Some members of the local community have attributed this settling to our mining activities. A 2012 study commissioned by Çayeli established that the local ground movement is not linked to ongoing mining activities and is primarily the result of heavy precipitation in this historically unstable area. Çayeli nonetheless decided in 2011 to address this issue as a community relations initiative, rather than through a strictly technical or legal process. We have performed detailed surveys of homes in the area, identified a zone of impact (in conjunction with local residents), completed inventories and prioritized homes based on the severity of the damage. We have initiated a multi-year process of coming to agreement with owners of all 59 homes in the zone of impact to purchase them for fair market value and ensure that the residents have replacement housing that is better than the damaged homes they had been living in. In-kind and/or cash settlements have been offered, depending on the particular circumstances of the residents. Demolition of the homes is

proceeding as offers are accepted and replacement housing is secured. Total expected cost of this project is \$21.9 M over a three-year period (2012-2014).

This process has been conducted under evolving international best practice and in compliance with Turkish law. As a result of this process we believe we have continued to foster an atmosphere of open dialogue and trust with our local communities, avoiding conflict and maintaining our privilege to operate.

Mining method and metallurgical process

Çayeli's mine design is based on underground bulk mining methods with the use of delayed backfill to extract ore in a sequential manner. The primary mining method is retreat transverse and longitudinal long hole stoping with paste fill and loose or consolidated waste rock backfill. The stopes are mined in primary, secondary and tertiary sequencing.

Ore processing includes three stages of crushing, primary and secondary ball mill grinding, conventional flotation using either standard or column cells, and water removal by thickening and pressure filtering to produce copper and zinc concentrates.

Çayeli key operating data

		2012 results	2011 results	Change (2011 to 2012)
Tonnes of ore milled (thousands)		1,218	1,195	+2%
Tonnes of ore milled per day		3,300	3,300	+2%
Grades (percent)	copper	3.3	3.2	+3%
	zinc	5.0	6.0	-17%
Mill recoveries (percent)	copper	78	75	+4%
	zinc	66	68	-3%
Metal production (tonnes)	copper	31,400	28,700	+9%
	zinc	40,700	48,100	-15%
Capital expenditures (US\$ millions)		\$18	\$ 13	+38%

Operations review

Çayeli's mine production reached a record 1.21 million tonnes this year. The increase in mine production is the result of consistent ground support and rehabilitation performance, improved mine planning processes, including new scheduling software capable of quick scenario reviews, and capturing further benefits from the mine control system implemented in 2011.

Mill production this year reached a record of 1.22 million tonnes. Managing tailings density and coordination with the mine's pastefill requirements were key in achieving the higher throughput level this year. Copper production in 2012, at 31,400 tonnes, was better than in 2011 and our target due to higher copper grades and recoveries. Zinc production was significantly lower than in 2011, consistent with our expectations, due to the lower zinc grade and associated lower recoveries.

We spent \$18 million in capital this year to begin construction of a pair of new ore passes, add to the underground mobile fleet, improve underground pastefill and water drainage infrastructure, replace the surface concrete batch plant, and continue mine development. In 2011 we spent \$13 million to engineer the new ore passes, purchase mobile equipment, install column flotation cells and a conveyor dust collection system in the mill, add surface water runoff capacity, and continue our mine development.

Legal Matters

A wholly-owned subsidiary of Inmet Mining has been named as a defendant in a claim for the equivalent of \$5 million, filed before the Ankara (Turkey) 10th Commercial Court. Inmet Mining held an indirect interest in the Cerattepe exploration property in eastern Turkey, but ultimately the mining license with respect to the project was cancelled by a Turkish court. Inmet was unsuccessful in its efforts to overturn this judgment. The claimant holds a royalty interest in the cancelled Cerattepe license. Inmet and other third parties have been named as defendants based on an alleged failure to comply with the terms of the royalty agreement. Inmet is evaluating the claim but at this time it believes that the claim is without merit.

Our Turkish tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate. In 2012 Çayeli became the subject of an audit of its 2008 to 2011 taxation years. On February 4, 2013, Çayeli received an assessment from the Turkish tax authorities adjusting the amount of withholding taxes to be remitted on dividends paid by Çayeli to its direct shareholder. The shares of Çayeli are owned by an indirect wholly-owned Spanish subsidiary of Inmet. The Turkish tax authorities have taken the position that Inmet and not the Spanish subsidiary is the beneficial owner of the dividends. The Turkish tax authorities are therefore taking the position that the withholding tax on the dividends should be the 15 percent domestic rate and not the reduced rate of 5 percent under the Turkey-Spain tax treaty. The dividends paid during the period assessed total TL 628 million. The assessed tax liability is TL 63 million (US \$35 million) plus interest and penalties. Inmet's view is that the relevant facts and circumstances support the position that Çayeli fulfilled its tax remittance obligations and Çayeli intends to vigorously dispute the assessment.

Outlook for 2013

In 2013, the production level should increase from 1.2 million tonnes to 1.25 million tonnes. The mine should benefit from the commissioning of the two new ore passes by the third quarter of 2013, the extension of a shotcrete slickline to the lower levels of the mine, improved lower mine infrastructure and the addition of stope production from a new mining block, all of which should ease the pressure on existing production areas. Çayeli's ground conditions require constant monitoring and reinforcement, including the need to minimize any underground void area. Continued progress in meeting the challenges of poor ground conditions and planned operational efficiencies is aimed at reducing the risks associated with achieving our production plan.

Both copper and zinc recoveries should be lower in 2013, reflecting the increased proportions of metallurgically challenging ore types. We expect to produce between 27,800 tonnes and 30,900 tonnes of copper and between 35,900 tonnes and 39,900 tonnes of zinc in 2013.

Las Cruces

Location	Spain
Ownership	100%
Type of mine	open pit
Primary metal	copper
End product	copper cathode
Expected mine life	2022
Average reserve grades	copper – 5.4%
Infrastructure	well maintained all-weather paved roads provide excellent access to the site
Employees	246
Contractors	867

Business structure

Cobre Las Cruces, S.A. (CLC), the owner and operator of the Las Cruces mine, is a wholly-owned indirect subsidiary of Inmet. CLC exists under the laws of Spain. CLC has been granted mining rights for subsurface minerals through Mining Concession No. 7532, granted by the Regional Ministry for Employment and Technological Development of the Province of Andalucía.

History

The Las Cruces deposit was originally discovered by a subsidiary of Rio Tinto plc in 1994. It carried on exploration activity until 1999 and sold the project in that year to MK Resources Company (MK Resources), which established CLC as its local Spanish subsidiary. CLC completed two feasibility studies and carried out environmental studies and permitting work prior to becoming an affiliate of Inmet. The Mining Concession was granted in August 2003, after a positive Declaration of Environmental Impact was issued by the Andalusian Regional Ministry of the Environment in May 2002.

On August 22, 2005, Inmet acquired a 70 percent indirect interest in CLC from MK Resources. At that time Leucadia National Corporation, through MK Resources, retained the other 30 percent interest in CLC.

CLC completed a revised feasibility study and basic engineering and commenced construction of the project in 2006. Construction of the mine was completed in 2008 and the process plant was completed in February, 2009. Effective July 1, 2010 we ceased capitalizing CLC's pre-operating costs net of sales and began to recognize these results in operating earnings and operating cash flow in our consolidated financial statements. On December 15, 2010 Inmet purchased the remaining 30 percent interest in CLC from Leucadia National Corporation, to bring Inmet's ownership to a 100 percent indirect interest.

About the property

Las Cruces is located in southern Spain, about 20 kilometres northwest of the city of Seville in the autonomous region known as Andalucía. The regional climate is characterized as Mediterranean and the topography is one of gently rolling hills.

The project has all permits and approvals necessary to operate.

The excellent location of the property provides access to all necessary infrastructure:

- well maintained, paved roads
- international airport in Seville with connections throughout Europe
- port facilities in Huelva, approximately 80 kilometres to the southwest.

Power for Las Cruces is provided by the Spanish national grid, water for plant operations comes from both contact water extracted from the pit and from the San Jeronimo municipal water treatment facility.

The project is subject to a royalty of 1.5 percent of the copper price greater than or equal to US \$0.80 per pound.

Physical characteristics of the deposit

The massive sulphide on the property is hosted by late Devonian to early Carboniferous Period volcanic and sedimentary rocks deposited in a submarine setting within a narrow and relatively shallow intra-continental sea and characterized by bimodal volcanism and sedimentation.

Post depositional secondary copper enrichment occurred in the upper part of the massive sulphide deposit, forming the mineralization of interest. The deposit was subsequently buried under 100 to 150 metres of sandstone and calcareous mudstone, called marl.

Geology

The Las Cruces deposit occurs near the eastern end of the Iberian Pyrite Belt, a 250 kilometre long and 40 kilometre wide geologic belt that extends eastward from southern Portugal into southern Spain. The belt is host to more than 100 mineral deposits, some of which were exploited for metals as long ago as pre-Roman times. Mineralization consists of syngenetic massive sulphides containing polymetallic mineralization, similar to most other Iberian Pyrite Belt deposits.

Las Cruces is a blind deposit with no outcroppings because of the 100 to 150 metres of marl on top of the deposit. No other deposits have been found in the immediate area but exploration is difficult because of the thickness of the overburden.

The nearest deposits are Aznalcollar and Los Frailes, both approximately 10 kilometres to the west in the area where the host rock assemblage outcrops at the surface. The Aznalcollar and Los Frailes deposits consist of lead and zinc massive sulphides that were in production over the last 10 to 20 years.

Environmental and Social Context

Our main environmental focus in 2012 was compliance with the considerable number of commitments contained in our various licenses. Water management and water purification are two areas of intense focus and activity. The Las Cruces ore body lies below the regional Niebla-Posadas aquifer. We treat all the water that comes into contact with mine materials and much of this water is then recycled for dust suppression around the mine area or reused in the hydrometallurgical process. Las Cruces uses a dewatering and reinjection system (DRS) to remove ground water from the vicinity of the pit, transport it in a system of closed pipelines around the pit and re-inject the water back into the aquifer so that the ground water quantity and quality are preserved. The ground water contains low concentrations of naturally-occurring metals and other constituents. We have committed to removing these constituents, as necessary, so that the extracted ground water meets Spanish human health-based drinking water quality standards. See "Permits and Regulatory Context" below.

The region of southern Spain where Las Cruces is located is subject to intense, short duration rainfall events that can result in pit flooding and accidental release of water from surface storage facilities. There is a risk that such events could lead to a temporary cessation of operations that could impact Las Cruces' ability to meet its copper production targets.

The tailings storage facility (TSF) and waste rock storage facility are engineered structures constructed from compacted marl and synthetic liner. These facilities receive dewatered leach residue from the operation for permanent storage. In July, 2008 an unanticipated ground movement impacted the TSF. After a thorough investigation, we changed the design of all structures on the property that have been constructed from marl to mitigate the potential for the occurrence of a similar event.

Based on the closure plan developed in 2005, the reclamation costs are estimated at \$117 million, of which \$37 million has been secured with bonds posted to the relevant authorities by CLC. We are currently conducting studies to better understand the water geochemistry and feasibility of long term land uses. Once these studies are completed, we will update the closure plan.

Las Cruces has built and continues to build broad-based support and privilege to operate. Through a foundation, in 2012 Las Cruces made a commitment of 5 M Euros over four years in increased support to the four local Spanish communities.

Permits and Regulatory Context

Mining activities in Spain are subject to Spanish national, regional and local environmental laws and regulations, which regulate, among other things, air emissions, water discharges, soil contamination, waste management, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation. Spain has harmonized European Union Directives pertaining to environmental matters into its domestic legislation. These rules impose strict environmental conditions on the management of, among other things, water, wastes and air emissions.

Las Cruces is a complex operation, and as is typical, requires a large number of permits. The key permits for Las Cruces are:

- Declaration of Environmental Impact (DEI). The DEI is the formal statement from the Seville Provincial Delegation of the Regional Ministry for the Environment that determines the environmental suitability of a project. The DEI also outlines the environmental conditions for the development and operation of the mine regarding protective measures, mitigation and monitoring. The DEI is binding and is incorporated into the conditions of the mining concession;
- Integrated Pollution Prevention and Control permit (IPPC) which provides for an integrated system of environmental permitting for all media and for the different relevant environmental regimes, reflecting the harmonization of Spanish environmental legislation with EU Directive 96/61 on Integrated Pollution Prevention and Control. Las Cruces' IPPC has very low water discharge emission limit values and in some cases much lower than the receiving water quality in the nearby Guadalquivir River; and
- The DRS Authorization, issued by the Agencia Andaluza del Agua, which regulates the extraction and re-injection of ground water surrounding the Las Cruces open pit. The DRS authorization was amended as part of the "Global Plan" authorization in July, 2009 and by a further resolution in May, 2010. These documents contain, among other things, the limit values that pertain to re-injected ground water.

In May, 2008, the authority responsible for the DRS suspended CLC's authorization to operate other than to ensure preservation of the mine pit walls. The suspension was lifted in May, 2009 and in July 2009 approval for CLC's "Global Plan" was received. The Global Plan is designed to address the concerns that led to the suspension and address water management at the operation.

In 2011, we obtained the necessary permits and built an engineered membrane system to purify extracted water prior to re-injecting it back into the ground. Throughout 2012, we operated the permanent water purification plant to purify extracted water for re-injection as well as to purify contact water from the pit prior to useage in other areas. The volume of water flowing into the open pit increased during the year, the result of pit deepening and the loss of well locations resulting from planned pit expansion. The purification system is working well and the water we are re-injecting is drinking water quality and cleaner than background levels in the area. The purification system is consistently able to meet the emission limit values for the Spanish human health-based drinking water quality constituents. Our licence, however, contains constituents for which the purification system was not designed and which are not included in the Spanish human health-based drinking water quality regulation. Moreover, the licence also has emission limit values for some constituents that are more stringent than the drinking water quality limits. This combination of factors means that we do not currently comply with all aspects of our licence and we have been subject to a number of administrative proceedings relating to exceeding the emissions limit values for boron, chlorine and fluorine. We are working with the regulatory agencies to modify our licence so that it addresses the constituents the purification system was designed to address. The non-compliance is strictly administrative in nature and since we are improving the overall quality of the ground water through the re-injection of drinking quality water, there is no adverse environmental impact. Las Cruces has taken and will continue to take all necessary actions to comply with applicable requirements. It is likely that water management will remain an operational challenge at Las Cruces for the foreseeable future.

Legal Matters

A local non-governmental organization has initiated several legal proceedings against regulatory authorities asserting that several approvals for the project relating to the lifting of the suspension on mining, approval of the Global Plan, and a municipal approval from the Town of La Algaba for a license for pipelines and a town planning agreement were not properly authorized. We believe these proceedings are without merit. CLC has joined in the proceedings and is active in vigorously defending against them. While subject to customary legal uncertainties, we believe that all of these proceedings will be resolved without a material impact on CLC.

Certain employees of CLC are the subject of a criminal investigation arising from a complaint made by a local non-governmental organization to the local public prosecutor. The complaint concerns the placement of certain wells in the open pit immediately prior to the suspension of the DRS permit that were intended to facilitate water management. The complaint alleges that the operation of the wells in question resulted in environmental damage, which allegation we unequivocally deny. CLC and its employees are fully cooperating with the investigating judge, who has broad investigative and remedial powers. As the investigation has been completed, we are waiting for the definitive court resolution.

On May 25, 2010, the failure of a pipeline beneath one of the reactors in the process plant exposed two contractor employees and one CLC employee to hot, acidic pulp. One of the contractor employees subsequently succumbed to his injuries. Certain of CLC's employees are the subject of a criminal investigation in connection with the fatality, which we have been advised is a customary procedure in Spain in such circumstances. CLC and its employees are fully cooperating with the investigation, whose outcome cannot be determined at this time. On January 30, 2013 the Criminal Court of Sevilla issued a provisional stay of the proceedings and ordered the shelving of the case. The Criminal Court decision stated that, according to the conclusions raised by the experts in their reports, the pipeline had defects that would be highly difficult, and perhaps impossible, to detect, and that the cause of the breakage was the incorrect manufacture of the pipeline. The Court concluded that Cobre las Cruces did not breach any legal duty or safety requirement.

Mining method and metallurgical process

Las Cruces uses conventional open pit mining methods, based upon hydraulic shovels and trucks, with drilling and blasting in the lower marls and ore zones. The project has a relatively high stripping ratio supported by the high grade ore. Las Cruces uses contract miners for all mine production.

Ore at Las Cruces is mined from an open pit excavated into marl. Overall pit slopes are shallow (28 degrees) but there is a risk that pit slope instability could develop and this could have a material impact on Las Cruces' ability to access the bottom of the pit to mine ore.

The metallurgical plant relies on an atmospheric leaching process to recover copper from the rich Las Cruces chalcocite ore. A unique feature of the plant is the use of eight OKTOP agitated reactors to dissolve the copper under conditions of high temperature and high acidity. Oxygen is also added into the reactors to complete the reaction. The feed to the leaching reactors is mine ore that has passed through three stages of crushing and a single stage of grinding.

Once leached, the liquid is separated from the ground solids to become PLS, the feed for the solvent extraction (SX) area. In the SX area the copper is passed to an organic solution and then to the electrolyte that feeds the electrowinning cells. The electrowinning cells produce LME grade copper cathodes weighing approximately 50 kilograms each. An automated crane and stripping machine then harvests and packages the cathodes for shipment.

Las Cruces key operating data

		2012 results	2011 results	Change (2011 to 2012)
Tonnes of ore processed (thousands)	1,082	776	+39%	
Copper grades (percent)		7.1	6.5	+9%
Plant recoveries (percent)		88	84	+5%
Copper production (tonnes) cathode		67,700	42,100	+61%
Cost per pound of cathode produced (US\$)		\$1.12	\$1.54	-27%
Capital expenditures (US\$ millions)		\$43	\$52	-17%

Mining

We mined a total of 1.1 million tonnes of ore this year. Mining progressed as expected throughout the year, successfully advancing Phase II mining and Phase III stripping.

Production

2012 was a year of significant accomplishments for Las Cruces with plant production averaging the design capacity of 6,000 tonnes of copper cathode for the last 9 months of the year. This production level was reached following a shutdown in March to remove and re-align the ball mill gearing as well as to make numerous operating improvements to improve process flows.

The plant reliability increased in all areas with stable reactor and agitator performance and further improvements to crushing, conveying and grinding. In all, 12 days of planned downtime were required for ongoing plant maintenance compared to our original plan of 20 days. Overall copper recoveries were 88 percent in 2012, an improvement from 84 percent in 2011 due to the full implementation of the leach feed surge tank with oxygen addition. Plant feed grades averaged 7.1 percent during the year, compared to 6.5 percent in 2011.

Las Cruces production of 67,700 tonnes of copper cathode this year was significantly higher than 42,100 tonnes in 2011 as a result of process improvements and came within 1.5 percent of the high end of our guidance range.

Capital Spending

We spent \$43 million this year mainly on mine development, tailings facility expansion and land purchase. In 2011, we spent \$52 million mainly for mine development, tailings facility expansion and plant improvements.

Outlook for 2013

We expect to produce between 68,500 tonnes and 72,000 tonnes copper cathode in 2013. The plant will be tested at higher ore tonnage and lower grade to assess the effects on plant performance before we enter into lower copper grade areas of the mine which we expect to occur in 2014.

Pyhäsalmi

Location	Finland
Ownership	100%
Type of mine	underground
Primary metal	copper
Secondary metal	zinc
End product	copper and zinc concentrates
Expected mine life	2019
Average reserve grades	copper – 1.1% zinc – 1.8%
Infrastructure	close to roads and rail connection at property
Employees	233
Contractors	65

Business structure

Pyhäsalmi Mine Oy is a wholly-owned subsidiary of Inmet Mining incorporated under the laws of Finland. Its main asset is the Pyhäsalmi copper and zinc mine.

Pyhäsalmi's mining concession consists of two leases:

- a mining lease of 59.2 hectares, covering all the surface expression of the ore body and the mine itself
- an auxiliary lease of 352.4 hectares, covering all other areas used for mining purposes.

About the property

The Pyhäsalmi mine is in central Finland, four kilometres southeast of the town of Pyhäjärvi, on Lake Pyhäjärvi:

- it is within a two-hour drive from the cities of Oulu, Jyväskylä and Kuopio and their airports
- a rail spur joins the mine to the national network
- the rail spur also joins the mine to the port of Kokkola, 170 kilometres to the west on the Gulf of Bothnia.
- the mine accesses electrical power through two 110 kV national grid lines and draws its fresh water requirements from Lake Pyhäjärvi.

Physical characteristics of the deposit

The Pyhäsalmi deposit is a copper-zinc volcanogenic massive sulphide deposit of Proterozoic age:

- the mineralization is hosted by altered felsic and mafic volcanic rocks
- the enveloping alteration zone is at least four kilometres long and one kilometre wide at its widest point. Alteration of the felsic volcanic rocks includes sericite and cordierite dominated mineralogies. Cordierite, anthophyllite and garnet dominate in the altered mafic volcanic rocks
- the metamorphic grade is upper amphibolite facies.

Geological Setting

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

The newer deep deposit is located between the +1050 metre level (from surface) and the +1416 metre level:

- maximum dimensions are 420 metres long and 200 metres wide
- the inner part of the lens consists of massive pyrite with low copper and zinc values. This core is surrounded by massive chalcopyrite-pyrite and the outer rim consists of massive sphalerite-pyrite

The main sulphide minerals are:

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

The ore is very coarse grained.

Environmental Context

Pyhäsalmi continues to have an excellent environmental operating record, and our standards have evolved to adhere to increasingly stringent regulatory requirements in Finland, and globally. Much of the environmental focus at the mine revolves around the quality of our water discharge and the quality of fresh water we use in our processing. Pyhäsalmi draws water from Lake Pyhäjärvi and has developed a water recycling and conservation plan to reduce its reliance on fresh water from the lake. Pyhäsalmi has reduced its annual water consumption by approximately 1,000,000 m³ since 2009. In 2011, Pyhäsalmi completed a water management study to identify ways to further reduce fresh water requirements and to increase water recycling. Several opportunities to conserve water resources were identified in the study and implemented in 2012, resulting in a 30 percent increase in recycled water. We are also upgrading the neutralization process in our tailings ponds to better control the metal loadings and pH of our discharge water.

Pyhäsalmi discharges treated water into Lake Pyhäjärvi. The southern part of Lake Pyhäjärvi is protected by the Natura 2000 European Union conservation network. To minimize any impacts of our discharge to this part of the lake, we only discharge when the water flow in the lake is to the north. Although Pyhäsalmi's discharge enters the lake well north of the protected area and the lake does not contain any endangered species, we are supporting the town and the local fishing association by working with them to protect and improve fish habitat in the lake. Pyhäsalmi actively monitors metal concentrations in its effluent and in the lake.

The Pyhäsalmi site consists of mine infrastructure, processing facilities, administrative offices and warehouses, yards, concentrate storage facilities, an abandoned open pit, quarry and tailings storage facilities. Pyrite concentrate is stored outdoors and as a result emission of fugitive pyrite dust has occurred onto adjacent properties. Pyhäsalmi has taken steps to limit these emissions.

Pyhäsalmi received its environmental permit in the fourth quarter of 2007. This permit reflects the European Union Integrated Pollution Prevention and Control environmental regulatory framework that has been incorporated into Finnish environmental legislation.

When the mine is closed, the main activity will be rehabilitating the surface area. This includes covering and re-vegetating the tailings impoundments. Acid drainage has developed in a decommissioned portion of the tailings management facility and this is managed effectively during operations. The need for long-term water treatment will be evaluated as the mine approaches closure. The current closure plan and cost estimate were updated during 2010; the current estimate of closure costs is \$42 million.

Mining method and metallurgical process

Pyhäsalmi uses non-entry, bulk open-stope mining methods in a primary-secondary sequence. On average, stope size varies from 50,000 tonnes for narrow primary stopes to over 100,000 tonnes for wider secondary stopes.

Milling includes crushing, 3-stage grinding, conventional flotation using three separate circuits, and water removal to produce copper, zinc and pyrite concentrates.

Pyhäsalmi key operating data

	2012 results	2011 results	Change (2011 to 2012)
Tonnes of ore milled (thousands)	1,384	1,386	—
Tonnes of ore milled per day	3,800	3,800	—
Grades (percent)			
copper	1.0	1.1	-9%
zinc	2.0	2.6	-23%
sulphur	42	42	—
Mill recoveries (percent)			
copper	96	96	—
zinc	92	91	+1%
Metal production (tonnes)			
copper	12,600	14,000	-10%
zinc	25,600	32,300	-21%
pyrite	891,700	804,900	+11%
Capital expenditures (US\$ millions)	\$9	\$7	+29%

Operations Review

Pyhäsalmi continued its strong performance in 2012, processing 1.4 million tonnes of ore and achieving copper recoveries of 96 percent and zinc recoveries of 92 percent. Backfill supply was reliable and the underground open void volume was maintained below planned levels.

Both copper and zinc production were at the high end of our guidance range but lower than in 2011, as expected, because of lower grades in the areas we mined. A record 891,700 tonnes of pyrite concentrate was produced this year to meet higher customer demand.

Outlook for 2013

Pyhäsalmi expects to mine 1.4 million tonnes of approximately 1 percent copper and 1.7 percent zinc in 2013, and produce between 12,000 tonnes and 13,400 tonnes of copper and 20,300 tonnes and 22,500 tonnes of zinc. Zinc production should be lower than it was in 2012 as we expect a decrease in zinc grades. Pyhäsalmi expects to produce and sell 820,000 tonnes of pyrite in 2013.

Cobre Panama Development Project

Location	Panama
Ownership	80%
Type of mine	open pit
Primary metal	copper
Secondary metal	gold and molybdenum
End product	copper and molybdenum concentrates
Expected mine life	40 years
Average reserve grades	copper – 0.38%
Infrastructure	20 kilometres from tide water
Employees	281
Contractors	1,959

Business structure

We currently have an 80 percent equity interest in Minera Panama S.A. (Minera Panama), the Panamanian corporation that holds the concession for the Cobre Panama property. Minera Panama was incorporated in January 1997 under the laws of the Republic of Panama.

History

2005

In 2005 Inmet, Petaquilla Minerals Ltd. and Teck Cominco Limited (the shareholders of Minera Panama at that time) entered into an agreement to develop a copper project on the concession for the Cobre Panama property in phases, subject to approval by the Government of Panama.

Under the agreement Petaquilla Minerals was granted the right to explore and develop gold deposits (as defined under the agreement) on the concession, and Minera Panama was granted the right to explore for and develop copper deposits (as defined under the agreement) on the Molejon concession.

In November 2005 the Panamanian Minister of Commerce and Industry (MICI) issued a resolution declaring that for the purposes of Contract-Law No. 9 of February 26, 1997 (or Law 9), promulgated by the Government of Panama and under which Minera Panama was granted the mining concession for the property, the start of development of the Molejon gold deposit would constitute the start of development of the copper project and related infrastructure and would also constitute compliance with Minera Panama's obligations under Law 9 to begin construction of the larger copper project.

2006

In 2006 Petaquilla Minerals transferred all of its interest in Minera Panama to Petaquilla Copper Ltd. via a plan of arrangement.

2008

At the beginning of 2008, we owned 48 percent of Minera Panama. In March, 2008 we entered into an agreement with Teck to proceed with the development of Cobre Panama. We agreed to work with Teck in project development, acting as operator of the project on its behalf. As a result, Teck received a 26 percent interest in Minera Panama and Petaquilla Copper's interest in Minera Panama was fixed at 26 percent.

In November, 2008 we acquired all of the outstanding shares of Petaquilla Copper pursuant to a take-over bid, thereby acquiring an additional 26 percent interest in Minera Panama. In December, 2008 the common shares of Petaquilla Copper Ltd. were delisted from the Toronto Stock Exchange.

On November 20, 2008 Teck notified us of its intention to not continue to participate in Cobre Panama. We subsequently acquired its 26 percent interest in the project. As at December 31, 2008 we owned 100 percent of Minera Panama.

2009

In October, 2009, we entered into an agreement with KPMC that gave them the option to acquire a 20 percent interest in Minera Panama. Under the terms of the option agreement, we and KPMC were required to fund our respective proportionate shares of Minera Panama's development costs up to US \$150 million, except that we were required to fund 100 percent of development costs that exceed US \$150 million prior to the exercise of the option.

The initial agreement provided KPMC with 60 days following an announcement by Inmet with respect to the construction and development of the project to exercise its option. Subsequently, in July, 2011 Inmet and KPMC agreed to amend the initial agreement to provide KPMC with the right to exercise its option up to the date that is the later of 60 days following Inmet's announcement, and the seventh day following receipt of approval of the project environmental and social impact assessment (ESIA) by the Autoridad Nacional del Ambiente (ANAM), the Panamanian environmental regulatory authority (provided that the option could not be exercised after June 30, 2013). Upon exercise of the option, KPMC was required to invest in Minera Panama its proportionate share of our investment to that time, and fund its share of future development costs. KPMC also had the right also to enter into an off-take purchase agreement, on terms to be negotiated, under which it would be entitled to purchase a pro-rata share of Cobre Panama's production of copper concentrates, subject to KPMC arranging for financing in proportion to its interest.

2012

On January 10, 2012, KPMC elected to exercise its option to acquire a 20 percent interest in the Cobre Panama development project. On April 25, 2012, KPMC completed its acquisition of a 20 percent interest in Minera Panama, owner and developer of the Cobre Panama development project, for \$161 million in cash and Inmet and KPMC entered into a shareholders agreement with respect to their interests in Minera Panama. Pursuant to the shareholder's agreement KPMC is also required to fund its proportionate share of Cobre Panama's budgeted development costs. KPMC's acquisition cost and expected share of development costs amounts to aggregate expected funding of \$1.4 billion. KPMC also has the right to enter into an off-take purchase agreement, on terms to be negotiated, under which it will be entitled to purchase a pro-rata share of Cobre Panama's production of copper concentrates, subject to KPMC providing financing to the project in proportion to its interest.

In May 2012, Minera Panama and Inmet announced the completion of Basic Engineering for Cobre Panama, with a capital cost estimate of \$6.2 billion, and issued Full Notice To Proceed (FNTP) to start construction of the project.

In August 2012, Minera Panama announced the completion of a precious metals stream agreement with a subsidiary of Franco-Nevada Corporation (Franco-Nevada). Under the terms of the agreement, Franco-Nevada will provide a \$1.0 billion deposit to Minera Panama after Inmet's funding since issuing a Full Notice to Proceed reaches \$1.0 billion pro-rata on a 1:3 ratio with Inmet's subsequent funding contributions. The amount of precious metals deliverable under the stream is indexed to the copper in concentrate produced from the entire project and approximates 86 percent of the estimated payable precious metals attributable to Inmet's 80 percent ownership based on the 31 year mine plan included in the Basic Engineering Summary Report. Beyond that contemplated mine life, the precious metals deliverable under the stream will be based on a fixed percentage of the precious metals in concentrate. Until the deposit has been reduced to zero, the Franco-Nevada subsidiary will pay to Minera Panama an amount for each ounce of precious metals delivered equal to the prevailing market price payable in cash up to \$400 per ounce for gold and \$6 per ounce for silver (subject to an annual adjustment for inflation) for the first 1,341,000 ounces of gold and 21,510,000 ounces of silver (approximately the first 20 years of expected deliveries) and thereafter the greater of \$400 per ounce for gold and \$6 per ounce for silver (subject to an adjustment for inflation) or one-half of the then-prevailing market price (the "Fixed Price"). If the prevailing market price is greater than the Fixed Price, the excess amount will be payable by crediting an amount equal to the difference between the prevailing market price and the Fixed Price against the deposit until the outstanding balance of the deposit has been reduced to zero. Thereafter, the purchase price will be the lesser of the Fixed Price and the prevailing market price. In all cases the amount paid is not to exceed the prevailing market price per ounce of gold and silver. Concurrent with entering into the

precious metals stream agreement, as KPMC is not participating in the precious metals stream agreement, Inmet and KPMC amended the shareholders' agreement with respect to their interests in Minera Panama and the share capital of Minera Panama to ensure that the precious metals stream agreement will not adversely impact KPMC's economic interests or funding requirements with respect to the Cobre Panama project.

In December 2012, we announced an increase to proven and probable mineral reserves at Cobre Panama. The additional mineral reserves reflect the completion of work on resource definition, metallurgical recoveries, pit design and other engineering, allowing us to include the Balboa, Brazo and Botija Abajo mineralization in our mine plan for Cobre Panama. The additional mineral reserves increased Cobre Panama's total estimated contained copper by 27 percent to approximately 26 billion pounds, and increased estimated contained gold by 41 percent to approximately 7.3 million ounces. These additional mineral reserves have been integrated into a revised mine plan that extends the estimated mine life for Cobre Panama from 31 to 40 years

Law 9 and Permits

Minera Panama was granted the mineral concession to explore and exploit the property under Law 9. Law 9 has an initial twenty-year term ending in 2017 and provisions for two consecutive twenty-year extensions. Being a contract law, Law 9 requires the consent of both parties to effect any changes. Renewals are standard and are awarded in the year of the renewal.

Under Law 9, Minera Panama has the rights to explore for, extract, exploit, beneficiate, process, refine, transport, sell and market the gold, copper and other mining deposits on the concession. It must pay a 2 percent royalty on all mineral product revenues to the Government of Panama. Law 9 also grants to Minera Panama rights of way on state owned lands and easements to use surface lands on concessions adjacent to the Law 9 concession, and the right to build, maintain and use on such lands and easements for use to build, install, maintain and use facilities and installations that Minera Panama deems convenient for the development of the Cobre Panama project.

The legal regime established by Law 9 for the development of the Cobre Panama concession is supplemented by the Mineral Resources Code of Panama (Code). In February 2011, amendments to modify the Code, including clarifications regarding the ability of foreign state-owned entities to own interests in mineral concessions were enacted. However, such modifications were subsequently repealed by the National Assembly of Panama and given legal effect on March 18, 2011. The repeal recognized concerns from indigenous communities over mining within areas known as Comarcas that are recognized under Panamanian law as administratively autonomous regions whose largely indigenous populations possess exclusive land rights to them. 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. In April of 2012, the National Assembly reached a settlement that ceded authority to the Comarcas in determining how and when mineral deposits in the Comarcas could be developed, and shortly thereafter the Mining Code of 2012 was established.

Changes to Law 9 require the agreement of Minera Panama and the government, and approval by the National Assembly. Two items in Law 9 that Inmet expects will likely be changed to align with the new Mining Code of 2012 are:

- The 2 percent royalty will likely be increased to the levels in the mining code which are 5 percent for base metals and 4 percent for precious metals. A significant part of the royalty, 2 percent of the 5 percent, is expected to go to the local municipalities ensuring strong local support for the project.
- Currently, a tax provision states that no income tax is payable for as long as any debt exists on the project. Recent discussions with the government will likely see this tax holiday eliminated.

Both these anticipated revisions to Law 9 have been reflected in the financial forecasts and the economic evaluations contained in the Basic Engineering Report.

Legal proceedings

Two proceedings have been brought in the Supreme Court of Panama against governmental authorities claiming that Law 9 violates the Constitution of Panama. In one of the proceedings, the claimant alleges that Law 9 did not fulfill mandatory legal requirements at the time of its enactment in 1997 and would also cause harm to the environment and the health of citizens of Panama. In 2011 the Procurer, the Panamanian equivalent of a District Attorney General, issued her formal opinion that Law 9 was constitutional. The case is expected to be heard by the Panamanian Supreme Court. In the other proceeding, the claimant alleges that Law 9 is unconstitutional because it violates the economic national interest and would cause harm to the environment. We believe that the claims are without merit and Minera Panama has intervened in both proceedings.

About the property

The Cobre Panama concession is 120 kilometres west of Panama City and 20 kilometres from the Caribbean Sea coast, in the District of Donoso, Colon Province, in the Republic of Panama. It includes four zones and 13,600 hectares. There is no industrial development in the area of the concession and the region is sparsely populated. The primary occupation of the local residents is subsistence farming. The nearest community, the village of Coclecito (population 900), is 12 kilometres southeast of the proposed plant site. The city of Penonomé, which has a population of 25,000, is 49 kilometres southeast of Coclecito.

The topography in the concession area is rugged with considerable local relief covered by dense forest. The area to the north is a lowland with minimal relief extending to the Caribbean coast. Climatic conditions are tropical with high precipitation levels, high humidity and relatively high temperatures year-round of 25 to 30 degrees Celsius.

The project has two main development areas: a mine and plant site within the concession boundaries, and a port and power station site at Punta Rincon, about 25 kilometres north of the plant site on the Caribbean coast.

Physical characteristics and geology of the deposit

Mineralization at Cobre Panama consists of several disseminated copper – gold – molybdenum deposits. Known geologically as porphyry copper deposits, these are typical of the Western Cordillera of the Americas and other regions around the Pacific Ocean basin.

During a regional survey in 1968, a United Nations Development Program team discovered copper, gold and molybdenum porphyry mineralization in the Petaquilla River region of north-central Panama.

From 2007 through 2012, MPSA has drilled a total of 731 diamond drill holes resulting in 173,044 metres of drilling. Exploration has outlined the several porphyry deposits, which developed around granodioritic stocks within and peripheral to the Oligocene Petaquilla batholith. Epithermal gold mineralization has also been identified in a more distal setting to the batholith.

The porphyry deposits occur at the southern margin of a large granodioritic batholith of mid-Oligocene age. The three main deposits are Botija, Colina and Valle Grande. There are also a number of smaller zones; the most significant being Brazo and Botija Abajo.

All of the porphyry style mineralization on the property is hosted in granodiorite, feldspar-quartz-hornblende porphyry and adjacent andesitic volcanic rocks. At Botija, a number of north dipping feldspar-quartz-hornblende dikes cut the granodiorite. Two roof pendants of andesitic volcanic rock occur in the central and eastern parts of the deposit. At Colina, mineralization is associated with an east-southeasterly trending, shallow north dipping, 2.5 kilometre by 1 kilometre feldspar-quartz-hornblende porphyry sill and dike complex that intrudes granodiorite and andesitic volcanic rocks. The Valle Grande zone is associated with a southeast trending feldspar-quartz-hornblende porphyry lopolith that is bounded to the north and south by andesitic volcanics and minor granodioritic dikes. At Brazo and Botija Abajo the host rock is dominantly feldspar-quartz or feldspar-quartz-hornblende porphyry.

Hydrothermal alteration along the Cobre mineral trend is primarily silica-chlorite which is interpreted to be a form of propylitic alteration. Potassic alteration, consisting of salmon coloured potassium feldspar and secondary biotite is seen in the central parts of Botija. Argillic and phyllic alteration is patchy in the three

main deposits with the latter variety being most prevalent near the tops of the deposits. At Brazo, pervasive sericite, clay and pyrite is associated with well-developed quartz stockworks.

Hypogene sulphides occur as disseminations, micro-veinlets, fracture fillings, and quartz-sulphide stockworks. Chalcopyrite is the dominant copper mineral with lesser bornite. Traces of molybdenite are commonly found in quartz veinlets. There is no significant zone of supergene enrichment at Botija, Colina and Valle Grande. At Brazo, supergene mineralization consisting of chalcocite-coated pyrite and rare native copper occurs to a depth of at least 150 metres.

Environmental and Social Context

The Cobre Panama project presents a complex interplay of challenges as a result of its socio-environmental context. The project is located in a dense tropical rainforest, which is part of the Mesoamerican Biological Corridor (MBC), a linear zone of high biodiversity value that extends from southern Mexico through to Colombia. The MBC is a sustainable development model for Mesoamerica that unites the goals of conservation with sustainable development initiatives of local peoples throughout the region from southern Mexico to Panama. Unsustainable slash and burn agricultural practices have damaged and are currently impacting the MBC ecosystem. It is estimated that between 10,000 and 40,000 hectares of primary forest is impacted annually in Panama by these practices.

The Panamanian government established the nearby Donoso Multiple Use Area (DMUA) in 2009 as a mixed use protected area that explicitly recognizes the presence of the Cobre Panama mining concession. Minera Panama and other affected parties were not consulted prior to creation of the DMUA and Minera Panama contested its establishment on the basis that required consultative administrative procedures were not followed by the relevant authority. Minera Panama contested the DMUA to protect its constitutional right to due process and not because it objects to the objectives behind the establishment of the DMUA. Minera Panama's contesting the DMUA had the effect of suspending the DMUA pending resolution of this case. On December 27, 2011 the Panamanian Supreme Court of Justice issued a decision which maintained the DMUA but established that the DMUA does not affect the existing mining rights of Minera Panama. However, Minera Panama submitted a Request of Clarification in January 6, 2012 to prevent the ruling from becoming effective and extending the suspension period of the DMUA until the Panamanian Supreme Court responds such Request of Clarification. In May, 2012 the court responded to the clarification request and closed the case, which would have had the effect of lifting the suspension of the DMUA. However, in a separate proceeding prior to the closure of this case, on April 27, 2012 the Third Chamber of the Supreme Court of Justice suspended the DMUA pending resolution of the nullity motion filed by a resident of the Donoso District. The decision of the Third Chamber is still pending, and the DMUA remains suspended until a decision is reached. Minera Panama is working with the Autoridad Nacional del Ambiente (ANAM), the Panamanian National Environmental Authority, and other stakeholders to create management plans, biodiversity offsets and conservation areas in the region to protect biodiversity in the context of the Cobre Panama project.

The project area has up to five metres of rainfall annually, so responsible water management is imperative to ensure that there are no adverse impacts from mine waste materials and other project-related activities.

There are twenty-two communities in the region of the project that we consider to be "project-affected". All of these are relatively small villages and many are situated along the access road leading north from La Pintada. There are several small communities of indigenous Ngobe-Bugle people who have migrated into the project area over the past decade from the Ceomarca. The project will directly impact approximately 65 local families of Latino and indigenous people; the indigenous people are dominantly located in two small settlements. We are applying international best practice in the resettlement of these people.

Artisanal mining activities are conducted along the western boundary of the concession, mainly by indigenous people exploiting placer gold deposits along the Petaquilla River. Mining is generally performed with pumps and sluices; hydraulic mining is used locally. We do not have any evidence of mercury use to produce amalgam.

Environmental and social impact assessment

In September 2010, Minera Panama submitted the project environmental and social impact assessment (ESIA) to the Autoridad Nacional del Ambiente (ANAM), the Panamanian environmental regulatory

authority. On December 28, 2011 ANAM approved the ESIA, including the mining operations and related infrastructure, a port facility, and a coal-fired power plant.

The ESIA describes the environmental and social context of the project, the expected impact from project development and the steps we will take to mitigate them and deliver a net benefit collectively to the local communities, to the environment and to Panama as a whole. We have committed to meeting or exceeding the requirements of the International Finance Corporation Performance Standards (IFC PS) on social and environmental sustainability, and we have incorporated these into the ESIA.

The ESIA is one of the most intensive studies ever undertaken of the socio-environmental context of the Atlantic slope of Panama. More than 40,000 person-hours of field time were recorded and more than 100 Panamanian and international experts were involved in preparing the document, and three rounds of public consultation were held in local communities. The document consists of approximately 15,000 pages in 40 volumes. We worked closely with the Panamanian authorities to facilitate the review process. ANAM hired external experts to assist in their review. In addition to the Panamanian authorities' review of the ESIA, the project has also been reviewed by external financing agencies for compliance with the International Finance Corporation's Performance Standards and the Equator Principles.

Our detailed flora and fauna baseline work confirmed the presence of several threatened and endangered species and also identified more than sixty species of plants new to science. Our project will have a large footprint in the MBC and we have made commitments to conserve and enhance the biodiversity of the MBC through offsets and by contributing to the management of existing protected areas. We are committed to delivering net positive impact to biodiversity through a large-scale conservation approach designed to maximize the survival of species.

The most significant environmental impacts are changes to local stream flows, possible water quality impacts, deforestation, impacts to air quality, possible impacts to the biodiversity of the area and an increase in greenhouse gas emissions. Inmet has made significant commitments to address these concerns to develop the project responsibly and sustainably.

Our environmental activities this past year revolved around two primary components: work to further define our actions stemming from ESIA commitments, and support for our field activities. Work related to the ESIA includes establishing financial agreements and developing management plans to support National Park, Reforestation actions, and developing protection programs for species of concern in the mine area. Our primary field-related concerns as we begin construction are effective implementation of sediment controls, flora and fauna rescue and relocation of disturbed areas, and the management of solid and hazardous waste and petroleum products. We have worked cooperatively with the Panamanian environmental regulators to define the permit requirements for our planned field activities and with our evolving knowledge of the Panamanian legal framework, we will continue to ensure that we meet all requirements.

The project area is a remote and undeveloped part of north-central Panama characterized by rich biodiversity and the presence of small and isolated Latino and indigenous communities. Local residents are facing a cycle of poverty and environmental degradation, lack of infrastructure, and basic health and educational services.

The lack of economic prospects has relegated the local residents to a largely subsistence existence, often characterized by slash and burn agricultural practices. Such practices, coupled with the continued immigration of people to the area, are having a detrimental effect on the local biodiversity as more land is cleared. The Cobre Panama project is expected to be a regional economic engine, contributing to Panama's growth, helping to alleviate poverty in the local project area, catalyzing the development of sustainable communities while protecting the rich biodiversity of the Mesoamerican Biological Corridor.

One of the indigenous communities is close to planned project infrastructure and we are in discussions with members of this community about resettlement. We also expect that there will be direct resettlement of some homesteads that are within the project footprint as well as some indirect (economic) dislocation of individuals. We are committed to following international best practice in resettlement. None of the land required for the project facilities is recognized as a Comarca. In 2011, all six Resettlement Negotiation Committees, representing all of the 65 households to be resettled, signed the Resettlement Action Plan. The Resettlement Action Plan describes the actions that we will take to protect the rights of the people, to

compensate them for their housing and household goods and to provide replacement livelihoods. In 2012, Minera Panama signed an Indigenous Peoples Development Plan with two other indigenous communities located near the project. The plan has a timeframe of five years and commits the company to assisting the communities in establishing a community-public-private alliance for the technical, financial, infrastructure and cooperative investment for sustainable development of the communities. The company also committed to a Sustainable Development Plan for the Districts of Donoso and La Pintada to further define ESIA commitments to community development in the region, and initiated a Project Induced In-Migration Plan to prevent and mitigate possible negative impacts from the Project on local communities.

We have established a local, dedicated team of Panamanian community relations and community development professionals. We continue to consult extensively with affected communities, and conducted community meetings to describe the impact of the project and mitigations.

We also started several community development projects to demonstrate our commitment to being a catalyst to help alleviate poverty and build sustainable communities in the region. These programs include agricultural improvement programs, local employment-building initiatives, provision of meals to 6,000 school students daily, a scholarship program and efforts to work with governments to improve local access to healthcare, education and clean drinking water.

Building our privilege to operate in an underdeveloped region of Panama continues to be one of our highest priorities, and we are confident that our activities will continue to result in local and regional support for the project and the benefits that it will deliver.

The Project

Basic Engineering Report

On May 6, 2012 we announced the results of the Basic Engineering Report for Cobre Panama carried out by JVP between November 2010 and March 2012. The purpose of the basic engineering was to further develop the scope and execution plan for Cobre Panama, and to serve as the basis for detailed engineering, procurement and construction. This report builds on the 2010 Front End Engineering Design Study (FEED) and provides:

- A capital cost estimate with an accuracy of +/-10 percent;
- A Project Execution Plan in readiness for the Notice to Proceed;
- A detailed Level 3 Project Master Schedule;
- Detailed engineering for site capture and civil works; and
- Initial Work Packages and contracting strategy to support procurement activities.

The total estimated capital cost to bring the project into operation is \$6.2 billion as of February 21, 2013, 2013, of which approximately \$4.1 billion has been spent or committed by February 21, 2013. Sustaining capital is estimated to be \$2.9 billion required over the mine life, and assumes an expansion to increase throughput capacity from 160,000 tonnes per day to 240,000 tonnes per day ready for production at the end of the 9th year of operations with the potential to accelerate. Operating costs are estimated to be \$6.88 per tonne of ore milled with mining costs benefiting from a life of mine strip ratio of 0.58 tonnes waste per tonne of ore. Power cost is estimated to be of \$1.01 per tonne of ore milled. The first concentrate is scheduled for early 2016.

Cobre Panama will be developed as a conventional truck and shovel open pit mine with a concentrator that uses proven technology (e.g. crushing, grinding, flotation) to produce copper-gold and molybdenum concentrate, a 300 MW coal fired power plant and ship loading port facilities.

The copper concentrates will be pumped as slurry through a pipeline to a new port site on the Caribbean coast for filtration, storage and loading onto ocean-going vessels for shipment to market destinations. Molybdenum concentrates will be dewatered at the mine site and bagged for truck delivery to the port site. Tailings from the flotation process will be stored under water in a storage facility to be constructed.

Both the mine and plant site and port site operations will be supported by equipment maintenance shops, warehouses, container storage areas, administration and security facilities, potable water supply, sewage

treatment plants and concrete batch plants for use during both construction and operations. A new access road will be constructed between the mine and plant site and the port. Three pipelines will be buried next to the road, one for pumping the copper concentrate to the port site, one for diesel fuel delivery to the mine, and the third for returning filtrate water from the dewatered concentrate back to the tailings management facility at the mine/plant site. New access roads and improvements to the existing access roads from Penonome through La Pintada and Coclesito to the site will be constructed to permit safe access to the mine and plant site from the Pan-American Highway via the existing road from Penomone. A permanent camp will be established at the mine and plant site for personnel working in both operating areas. All facilities would operate continuously 24 hours per day, 365 days a year.

Power Plant

In July 2011, we engaged SK Engineering and Constructors (SK) for the power plant under an engineering, procurement and construction lump sum turnkey contract. SK was instructed to proceed with engineering and pre-procurement activities under a limited notice to proceed. The power plant is scheduled for construction during 2013 to 2015, concurrent with overall mine project construction. This plant is expected to produce electric power at an average life-of-mine cost of 4.43 c/kWh resulting in a significant cost savings compared to an approximate average cost of 10 c/kWh in Panama. The power plant will consist of two pulverized coal fired units and associated steam turbine generators, each unit rated at 153,290 kW, measured at the generator terminals. The power plant will be a highly efficient and reliable utility scale generating station, incorporating modern equipment, software and features. It will operate primarily at base load and will supply electric power via a double circuit 230 kV transmission powerline, designed and installed to the mine switchyard 22 km from the power plant. The transmission powerline will also be extended to connect to the Panamanian Grid at Llano Sanchez, 94 km to the south of the mine site. During the first nine years, the power plant in steady state operation will be able to supply 100 percent of the mine's electricity requirements (currently estimated peak load range is about 226 to 257 MW). Excess electricity generated by the power plant will be exported and sold into the grid, subject to dispatch requirements. During periods of scheduled maintenance or forced outages of the power plant, the mine will purchase electricity from the grid. The power plant design incorporates two 150 MW conventional subcritical pulverized coal fired boilers, air quality control systems utilizing seawater flue gas desulfurization, continuous emissions monitoring systems, steam turbine generators with full condensing and reheat capabilities, turbine water induction prevention, condenser cooling via once-through sea water, condensate systems, boiler feed water systems, balance of plant systems including mechanical and electrical equipment, control systems, engineering, procurement and construction, coal delivery including handling and storage, and supporting civil, structural, and architectural features.

The 300 MW gross capacity power plant capital cost is estimated at \$707 million; including EPC capital costs of \$669 million, owner's capital costs of \$6 million and working capital of \$32 million. During the first nine years of mine operation, the average Minera Panama power cost during this period is estimated to be 2.65 c/kWh. With the addition of a third mill to the processing circuit at the mine, Minera Panama will need to buy a very small amount of additional electricity from the grid. The average Minera Panama power cost during years 10 to 30 of mine operation, however, excludes this potential power plant expansion and is estimated to be 4.96 c/kWh, including the cost of more substantial electricity purchases from the grid.

Construction Progress

In 2012 our Engineering, Procurement and Construction Management (EP+CM) contractor, Joint Venture Panama (JVP), progressed with detailed engineering during the year, including work on contract procurement, earthworks and ground preparation for camps and road construction. We began the commissioning of the plant site's camp and general pioneering work is progressing well, including development work on the quarry. Significant progress was also achieved at the port site in Punta Rincon, including the first beach landing in early July and the installation and commissioning of jack-up barges, allowing safe mooring of barges at the port site. The mobile crusher was also commissioned allowing rock production to commence at the port site. In addition, the camp platform at the port site was prepared to receive pre-fabricated camp units and the camp was completed in early 2013. Our Engineering, Procurement and Construction (EPC) contractor, SK Engineering and Construction, progressed with detailed engineering and procurement activities for the power plant, and with planning for geotechnical work and the erection of temporary facilities. With regards to the process plant, we completed our

evaluation of process plant bids and awarded the contract for detailed engineering and procurement services to Joint Venture Panama in late 2012. Upon satisfactory advancement of detailed engineering and procurement of equipment, we expect to award the contract for construction of the process plant in the third quarter of 2013. Furthermore, during 2012, Minera Panama had obtained all required permits and land usage rights for its construction activities both at the mine and the port site; we continued the process of resettling the people who will be physically and economically displaced by the project; we made significant progress in our flora and fauna rescue program to ensure the protection of the biodiversity of the area and Minera Panama finalized an agreement with ANAM to support the management of two national parks and a similar agreement for the Donoso area is in progress. These agreements are an important aspect to our commitment to have a net positive benefit to the biodiversity of the project area.

Minera Panama and its contractors' workforce comprise more than 90 percent local residents from the Provinces of Cocolé and Colón, Panama. The combined construction workforce is expected to increase to more than 9,000 people by the end of 2014. We have adopted a one-team approach for safety and health execution on the project to ensure that a leading safety culture is fostered. Creating alignment between the owners' team and all contractors working on the project is of prime importance as we progress with construction. This approach has led to the current lost-time injury frequency of 0.23 injuries per 200,000 work hours worked since commencement of full construction.

Capital spending

We expect completion to take approximately 44 months from the point we issued Full Notice to Proceed in May, 2012. The schedule below provides the expected timing of capital spending by year.

(US\$ millions)	Total expenditures (100% basis)	Inmet's share after Stream	Franco-Nevada's Stream funding	KPMC's 20% share
Cumulative spending at December 31, 2012	\$593	\$313	\$-	\$280 ⁽¹⁾
Future capital spending:				
2013	2,147	1,435	283	429
2014	2,527	1,516	506	505
2015	914	520	211	183
Total direct costs	\$6,181	\$3,784	\$1,000	\$1,397

⁽¹⁾ Includes KPMC's \$161 million payment to acquire a 20 percent interest in Minera Panama, which increased KPMC's share of total project funding to \$1.4 billion and reduced Inmet's share by an equal and offsetting amount.

The current capital expenditure estimate to complete Cobre Panama is based on certain assumptions and analyses made by our management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These estimates, however, and the assumptions upon which they are based, are subject to a variety of risks and uncertainties and other factors that could cause actual expenditures to differ materially from those estimated. If these estimates prove incorrect, the total capital expenditures required to complete Cobre Panama may increase or the length of time to complete construction may be greater than expected. There is a risk that we will be unable to access sufficient financing or generate sufficient cash flow to fund any increase in required capital spending for the construction and development of Cobre Panama. As a result, any such increase in costs could have a materially adverse effect on our business, results of operations, financial condition and cash flows.

Furthermore, it is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there is no assurance that future development activities will result in profitable mining operations or that we will successfully establish an operation at Cobre Panama on our expected timing or at all. In addition, whether operations at Cobre Panama can be economically feasible depends upon future copper prices.

Exploration

Our exploration strategy focuses on three components which we believe offer the greatest potential for realizing growth. Those components are:

- exploring under our generative program within selected jurisdictions for copper deposits that are consistent with our growth objectives;
- exploring on the Cobre Panama property to find additional resources that will materially impact the economics of the project; and
- exploring within our operational areas to take advantage of the existing infrastructure and to potentially extend the life of our mines and/or increase mill output.

Our objective is to build a pipeline of future growth opportunities. Our generative effort is focused on exploring for world-class copper deposits which will deliver annual production of at least 100,000 tonnes of copper and have a mine life of at least 25 years. We believe that copper-gold and copper-molybdenum porphyries, sedimentary-hosted copper, skarns and iron oxide copper-gold deposits are those deposit types most likely to meet our growth objectives.

We have directed our activities into those geographic areas where we believe the probability of achieving success is highest. Our country selection is based upon:

- geological favourability;
- quality of geodatabase;
- political risk;
- infrastructure; and
- level of competition.

Our exploration is now focused on Chile, Peru, Mexico, Finland, Canada, the United States and Australia.

MINERAL RESERVES AND RESOURCES

Mineral reserves and resources table

The table below shows our operating property mineral reserves and resources estimated at December 31, 2012.

Mineral reserves																
	Category	Tonnes (x 1000)	Cu %	Zn %	Pb %	Au g/t	Ag g/t	S %	Mo %	Contained Metal (x 1000)						Inmet's Interest
										Cu tonnes	Zn tonnes	Pb tonnes	Au ounces	Ag ounces	Mo tonnes	
Cobre Panama	Proven	258,000	0.57	-	-	0.14	1.6	-	0.010	1,453	-	-	1,118	13,000	24	80%
	Probable	2,800,000	0.37	-	-	0.07	1.3	-	0.006	10,360	-	-	6,170	118,000	168	80%
	Total	3,058,000	0.38	-	-	0.07	1.3	-	0.006	11,813	-	-	7,300	131,000	192	80%
Inmet's share (80%)										9,450	-	-	5,840	104,800	154	
Las Cruces	Proven	2,644	6.72	-	-	-	-	-	-	178	-	-	-	-	-	100%
	Probable	11,488	5.14	-	-	-	-	-	-	590	-	-	-	-	-	100%
	Total	14,132	5.44	-	-	-	-	-	-	768	-	-	-	-	-	100%
Çayeli	Proven	4,490	3.02	3.19	-	0.36	27.0	-	-	136	143	-	52	3,898	-	100%
	Probable	2,585	3.12	4.42	-	0.43	36.0	-	-	81	114	-	36	2,992	-	100%
	Total	7,075	3.06	3.64	-	0.39	30.3	-	-	216	258	-	89	6,824	-	100%
Pyhäsalmi	Proven	8,482	1.07	1.85	-	0.40	14.0	42	-	91	157	-	109	3,818	-	100%
	Probable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
	Total	8,482	1.07	1.85	-	0.40	14.0	42	-	91	157	-	109	3,818	-	100%
Inmet's share (100%)										1,075	415	-	198	10,642	-	
Grand Total Inmet's share										10,526	415	-	6,038	115,442	154	
Mineral resources (inclusive of mineral reserves)																
	Category	Tonnes (x 1000)	Cu %	Zn %	Pb %	Au g/t	Ag g/t	S %	Mo %	Contained Metal (x 1000)						Inmet's Interest
										Cu tonnes	Zn tonnes	Pb tonnes	Au ounces	Ag ounces	Mo tonnes	
Cobre Panama	Measured	262,000	0.56	-	-	0.13	1.5	-	0.009	1,476	-	-	1,118	13,000	24	80%
	Indicated	3,941,000	0.34	-	-	0.06	1.2	-	0.005	13,342	-	-	7,888	157,000	214	80%
	Total	4,203,000	0.35	-	-	0.07	1.3	-	0.006	14,820	-	-	9,006	170,000	239	80%
Inmet's share (80%)										11,856	-	-	7,205	136,000	191	
Cobre Panama	Inferred	3,686,000	0.23	-	-	0.04	1.0	-	0.004	8,318	-	-	4,396	115,000	156	80%
	Inmet's share (80%)										6,654	-	-	3,517	92,000	125
Mineral resources (exclusive of mineral reserves)																
	Category	Tonnes (x 1000)	Cu %	Zn %	Pb %	Au g/t	Ag g/t	S %	Mo %	Contained Metal (x 1000)						Inmet's Interest
										Cu tonnes	Zn tonnes	Pb tonnes	Au ounces	Ag ounces	Mo tonnes	
Las Cruces (Secondary)	Measured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
	Indicated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
	Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
Las Cruces (Gossan)	Inferred	453	5.14	-	-	-	-	-	-	23	-	-	-	-	-	100%
	Measured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
	Indicated	958	-	-	5.81	3.85	109.0	-	-	-	-	56	119	3,356	-	100%
Las Cruces (Primary)	Total	958	-	-	5.81	3.85	109.0	-	-	-	-	56	119	3,356	-	100%
	Inferred	1,834	-	-	1.88	2.32	40.0	-	-	-	-	35	137	2,383	-	100%
	Measured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
Çayeli	Indicated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
	Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
	Inferred	38,231	1.05	2.61	1.29	-	27.2	-	-	401	999	495	-	33,396	-	100%
Pyhäsalmi	Measured	4,460	2.67	1.74	-	0.34	10.0	-	-	119	78	-	48	1,362	-	100%
	Indicated	3,230	2.67	2.42	-	0.56	18.0	-	-	86	78	-	58	1,869	-	100%
	Total	7,690	2.67	2.03	-	0.43	13.4	-	-	205	156	-	106	3,231	-	100%
Inferred	760	2.71	6.83	-	-	-	-	-	-	21	52	-	-	-	-	100%
	Measured	8,036	0.63	0.51	-	-	-	43	-	51	41	-	-	-	-	100%
	Indicated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
Inferred	Total	8,036	0.63	0.51	-	-	-	43	-	51	41	-	-	-	-	100%
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100%
Inmet's share (100%)										256	197	56	225	6,587	-	100%
(not including inferred resources)																

N.B. Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.

Notes to mineral reserves and resources table

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

Rounding as required by reporting guidelines may result in apparent summation differences between tonnes, grade and contained metal content.

The mineral reserve and resource estimates are prepared in accordance with the *CIM Definition Standards for Mineral Resources and Mineral Reserves*, adopted by CIM Council on November 14, 2004, and updated November 27, 2010 and the *CIM Estimation of Mineral Resources and Mineral Reserves Best Practice Guidelines*, adopted by CIM Council on November 23, 2003, using geostatistical and/or classical methods, plus economic and mining parameters appropriate to each project. You will find the definitions and guidelines at www.cim.org.

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

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

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

The Qualified Persons identified below have reviewed the technical content of this release.

Cobre Panama

Mineral resources as at August, 2012, were estimated by Robert Sim, P. Geo., of SIM Geological Inc. Mineral reserves as at December 13, 2012 were estimated by William Rose, P.E., of WLR Consulting, Inc., Both William Rose and Robert Sim are qualified persons under National Instrument 43-101. Both mineral reserves and mineral resources remained unchanged at December 31, 2012.

Reserve estimates are based on the following assumptions:

- copper price: US \$2.25 per pound
- gold price: US \$1,000 per ounce
- silver price: US \$16 per ounce
- molybdenum price: US \$13.50 per pound
- Mining costs: US \$1.66 per tonne of ore mined, US \$1.96 per tonne of waste mined and
- Milling and general and administration cost: US \$5.27 - \$5.52 per tonne of ore milled (depending on the deposit), average life of mine metallurgical recoveries: 89 percent for copper, 55 percent for gold, 44 percent for silver and 53 percent for molybdenum.

Mineral resources include mineral reserves.

Resource grades are estimated using ordinary kriging with a nominal block size of 25 metres by 25 metres by 15 metres. Resources are limited inside a pit shell defined by a copper price of US \$2.60 per pound, \$1.75 per tonne mining cost, \$7.02 per tonne total site operating cost, and are tabulated at a cut-off grade of 0.15 percent copper.

Las Cruces

Mineral resources as at December 31, 2012, were estimated by Robert Sim, P. Geo., of SIM Geological Inc. Mineral reserve estimates as at December 31, 2012 were prepared under the supervision of Joseph Boaro, P. Eng. (Director, Mining, Inmet Mining).

Reserve estimates are based on the following assumptions:

- copper price: US \$2.75 per pound
- exchange rate: €1.00 = US \$1.30
- open pit cut-off: 1 percent copper

Resource estimates for the gossan material are based on a cut-off grade of 1 gram per tonne gold.

Resource estimates for the primary sulphide material are based on a cut-off grade of 1 percent copper equivalent (CuEq) based upon the following formula:

$$\text{CuEq} = [\text{Cu}\% + (\text{Zn}\% \times 0.360) + (\text{Pb}\% \times 0.360) + (\text{Ag gpt} \times 0.0106)]$$

Çayeli

Mineral resources as at December 31, 2012, were estimated by Robert Sim, P. Geo., of SIM Geological Inc. Mineral reserve estimates as at December 31, 2012 were prepared under the supervision of Joseph Boaro, P. Eng. (Director, Mining, Inmet Mining).

Reserve estimates are based on the following assumptions:

- copper price: US \$2.75 per pound
- zinc price: US \$1.00 per pound
- net smelter return cut-off: US \$65 per tonne.

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

Pyhäsalmi

Mineral reserve and resource estimates as at December 31, 2012 prepared under the supervision of Timo Maki, EurGeol., European Federation of Geologists (Chief Geologist, Pyhäsalmi).

Mineral reserve estimates are based on the following assumptions:

- copper price: US \$2.75 per pound
- zinc price: US \$1.00 per pound
- exchange rate: €1.00 = US \$1.30
- net smelter return cut-off: €31.81 per tonne.

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

RISK FACTORS

There are risks in every business and the mining industry has its own inherent risks. The following is a description of some of the material risks and uncertainties to which Inmet is subject.

Current Global Economic and Financial Conditions May Adversely Affect Our Growth and Profitability

The events in global financial markets since 2007 have had a significant impact on the global economy. Many industries, including the copper mining industry, have been impacted by these market conditions. Current global financial conditions have been characterized by increased volatility and uncertainty. Several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities and a number of sovereign borrowers have experienced difficulties refinancing existing sovereign debt and issuing additional sovereign debt. Although there have been some indications of recovery, there is no certainty that the disruptions and their effects have ended and will not continue to affect the markets.

A continued or worsened slowdown in the financial markets or other economic conditions, including but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect our growth and profitability. Specifically:

- the global credit/liquidity crisis could impact the cost and availability of debt or equity financing and Inmet's overall liquidity and, further, the availability of financing on terms favourable to Inmet;
- as China consumes a significant proportion of global copper output, the overall state of the Chinese economy, including credit/lending levels, fluctuations in inflation and interest rates and fiscal policy could have an impact on global demand for copper, thereby potentially affecting copper prices realized by Inmet;
- the volatility of metal prices could impact Inmet's revenues, profits, losses and cash flow;
- volatile energy prices, commodity and consumables prices, other input costs and currency exchange rates could impact Inmet's production and development costs; and
- any or all of these economic factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses.

These factors could have a material adverse effect on Inmet's financial condition, results of operations and share price.

Fluctuations in Metal Prices May Adversely Affect Us

The value and price of Inmet's common shares, Inmet's financial results, and Inmet's exploration, development and mining activities are significantly affected by the price of copper, zinc and other metals in the world market. Our earnings are derived from the sale of metals and fluctuate with changes to the market prices for refined metals. We typically do not hedge the prices of the base metals we produce. Copper, zinc and other metal prices fluctuate widely and are affected by numerous factors beyond Inmet's control, such as:

- global supply and demand;
- regional supply and demand;
- the political and economic conditions of copper-producing and copper-consuming countries throughout the world;
- exchange rates relative to the US dollar;
- interest rates and interest rate expectations;
- inflation or deflation and expectations with respect to inflation or deflation; and
- speculative activities.

Future metal price declines could materially adversely affect the value and amount of our reserves, our business, financial condition, liquidity and results of operations, and could cause continued development of and commercial production from Inmet's properties to be uneconomic. Depending on the price of copper and other metals, cash flow from mining operations may not be sufficient and Inmet could be forced to discontinue production and may lose its interest in, or may be forced to sell, some or all of its properties. Reserve calculations and mine plans using significantly lower copper and other metal prices could result in significant reductions in mineral reserve estimates, which in turn could result in material write-downs of Inmet's investment in mining properties and increased amortization, reclamation and closure charges. In addition to adversely affecting Inmet's reserve estimates and its financial condition, declining metal prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Inmet's Share Price May be Volatile and May Decline

Securities markets throughout the world are cyclical and, over time, tend to undergo high levels of price and volume volatility, and the market price of securities of many companies, particularly those in the resource sector, can experience wide fluctuations which are not necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that such fluctuations will not affect the price of Inmet's securities, and Inmet's share price may decrease.

Inmet May be Adversely Affected by the Availability and Cost of Key Inputs

Our competitive position depends on our ability to control operating costs. The cost structure of each operation is based on the location, grade and nature of the ore body, and the management skills at each site as well as the costs of key inputs such as fuel, tires for mining equipment, and other supplies. If such supplies become unavailable or their cost increases significantly, the profitability of Inmet's mines would be impacted and operations at Inmet's mines could be interrupted or halted resulting in a significant adverse impact on Inmet's financial condition. Management of Inmet prepares its cost and production guidance and other forecasts based on its review of current and estimated future costs, and management assumes that the materials and supplies required for operations will be available for purchase. Lack of supply or increased costs for any of these inputs would decrease productivity, reduce the profitability of Inmet's mines, and potentially result in Inmet suspending operations at its mines.

Many of our costs are driven by supply and market demand. For example, the cost of local materials, like cement, explosives and electricity will vary based on demand. Wages can be affected by inflation and currency exchange rates and by the shortage of experienced human resources. The costs of fuel and steel are driven by global market supply and demand. We do not enter into long-term contracts for any consumable products. Our main cost drivers include the cost of labour plus consumables such as electricity, fuel and steel. In recent years, the mining industry has been impacted by increased worldwide demand for critical resources such as input commodities, drilling equipment, tires and skilled labour, and these shortages may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and production schedules.

Concentrate treatment charges, transportation costs, and energy costs are also a significant component of operating costs. Concentrate treatment and refining charges have been volatile in recent years. We are dependent on third parties for rail, truck and maritime services to transport our products, and contract disputes, demurrage charges, rail and port capacity issues, availability of vessels, weather and climate and other factors can have a material adverse impact on our ability to transport our products according to schedules and contractual commitments. Our operations, by their nature, use large amounts of power and energy. Even a temporary interruption of power could adversely affect an operation. An increase in power and energy prices could negatively affect our business, financial condition, liquidity and results of operations. Increases in these costs would have an adverse impact on Inmet's results of operations and could have a material adverse effect on Inmet's financial condition, results of operations and share price.

Labour Shortages or Labour Disruptions May Adversely Affect Us

From time to time the mining industry experiences a shortage of skilled or experienced personnel, especially trades people, on a global, regional or local basis. While we have a comprehensive strategy in place to attract and retain people of the highest caliber, there is no assurance that Inmet will be able to retain current personnel and attract and retain new personnel.

Certain of our employees are employed under collective bargaining agreements. Inmet cannot predict at this time whether it will be able to reach an agreement with its unionized workforces without a work stoppage. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by the relevant governmental authorities in the jurisdictions in which Inmet operates. Changes in such legislation or otherwise in Inmet's relationship with its employees may result in labour unrest or disruptions such as strikes, lockouts or other work stoppages, could have a material adverse effect on our business as a whole, financial condition, results of operations or share price.

We are Subject to Various Risks Related to Environmental and Health and Safety Laws and Regulations

Our activities by their very nature impact the environment so our operations and investments are subject to extensive and stringent laws and regulations concerning the environment, employee health and safety, waste disposal, mine development, mine operation and mine closure and reclamation. We require permits and approvals from a variety of regulatory authorities for many aspects of mine development, operation, closure and reclamation. In addition to meeting the requirements necessary to obtain such permits and approvals, they may be invalidated if the applicable regulatory authority is challenged legally that it did not lawfully issue such permits and approvals.

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

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

Environmental and health and safety laws and regulations continue to evolve and this can create significant uncertainty around the environmental and reclamation costs we incur. If new legislation and regulations are introduced in the future, they could lead to additional costs, capital expenditures, restrictions and delays at existing operations or development properties, and the extent of any of these possible changes cannot be predicted in a meaningful way, and therefore there cannot be any assurance that such future changes will not adversely affect Inmet's operations.

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

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

Our ability to foster and maintain the support of local communities and governments for our development projects and operations by engaging in dialogue and consulting with them about our activities and generating social and economic benefits from them is critical to the conduct and growth of our business. Even with extensive dialogue and consultation with local communities and governments, as well as the generation of social and economic benefits from a project or operation to them, there can be no assurance

that this support can be fostered or maintained. Failing to foster or maintain this support would adversely affect our ability to develop a new mine or operate any of our current mines.

Our Reserve and Production Estimates Are Inherently Uncertain and May be Revised

The mineral reserves we have reported as of December 31, 2012 are estimated quantities of proven and probable mineral reserves that can be mined legally and economically, and processed by extracting their mineral content under current conditions and conditions anticipated in the future. We determine the amount of our mineral reserves according to the regulatory requirements that apply, and following established mining standards.

The volume and grade of reserves we actually recover, and rates of production from our current mineral reserves, may be less than geological measurements of the reserves. Fluctuations in the market price of copper, zinc and other metals, changing exchange rates and operating and capital costs may make it uneconomical to mine certain mineral reserves in the future.

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

Mineral reserve estimates can be uncertain because they are based on limited sampling and not the entire ore body. As we gain more knowledge and understanding of an ore body through on-going exploration and mining activity, the reserve estimate may change significantly, either positively or negatively.

We prepare estimates of future production that are based on, among other things, reserve estimates, assumptions about ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics, and estimated rates and costs for mining and processing.

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

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

There is no assurance that we will achieve our production estimates. In particular, we continue our efforts to ramp up production at Las Cruces to achieve design capacity. Production estimates at new operations such as Las Cruces are particularly uncertain and subject to revision. There are no assurances that production at Las Cruces will achieve design capacity in the time periods that we currently expect, or at all. Failing to achieve production estimates at any of our operations or in aggregate could have a material adverse effect on our future cash flows, earnings, financial condition, results of operations or share price.

Exploration and Development of New and Existing Mines May be Unsuccessful

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

Exploration and development of mineral properties involves significant financial and operational risk. There is no assurance that we will be successful in our efforts. Very few properties that are explored are later developed into an operating mine. Developing a property involves many risks and unknowns, such as establishing mineral reserves by drilling, completion of feasibility studies, obtaining and maintaining various permits and approvals from governmental authorities, constructing mining and processing facilities, securing required surface or other land rights, finding or generating suitable sources of power and water, confirming the availability and suitability of appropriate local area infrastructure and developing it if needed, and obtaining adequate financing. Substantial spending may be made on properties that are later abandoned due to a failure to satisfy any of such factors.

The capital expenditures and timeline needed to develop a new mine are considerable and the economics of a project can be affected by changes to them. Actual costs may increase significantly and economic returns may differ materially from our estimates. We may be unable to satisfactorily resolve fiscal and tax issues, or fail to obtain permits and approvals necessary to operate a project so that the project may not proceed, either on the original timeline, or at all. New mining operations may experience unexpected problems during start-up, which can cause delays and require more capital than anticipated. Failure to achieve any of these factors could result in Inmet being unsuccessful in developing new mines and consequently may have a negative impact on Inmet's mineral reserves and resources, production, financial condition, results of operations and share price.

We may experience strong competition from other mining companies as we look for acquisition or development opportunities. Much of this competition is from larger, better established mining companies with greater financial resources, operational experience and technical capabilities than Inmet. As a result of this competition, Inmet may be unable to maintain or acquire rights to explore additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that Inmet will acquire any interest in additional operations that would yield reserves or result in commercial mining operations. If Inmet is not able to acquire such interests, this could have an adverse impact on future cash flows, earnings, financial condition, results of operations and share price.

Our International Operations are Subject to Political and Country Risk

We conduct exploration, development and production activity in a number of countries. These operations are potentially subject to a number of political, economic and other risks. We are not able to determine the impact of political, economic or other risks on our future financial position, including:

- emerging resource nationalism;
- cancellation or renegotiation of contracts;
- changes in foreign laws or regulations, including tax laws and royalty regimes;
- retroactive tax or royalty claims;
- expropriation or nationalization of property;
- inflation of costs that is not compensated by a currency devaluation;
- restrictions on the remittance of dividend and interest payments offshore;
- environmental controls and permitting;
- risks of loss due to civil strife, acts of war, guerrilla activities, insurrection and terrorism; and
- other risks arising out of foreign sovereignty issues.

Such risks could potentially arise in any country in which Inmet operates. Furthermore, in the event of a dispute arising from such activities, Inmet may be subject to the exclusive jurisdiction of courts outside North America or may not be successful in subjecting persons to the jurisdiction of the courts in North America, which could adversely affect the outcome of a dispute.

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

These operations and investments could also be negatively affected by changes in Canadian laws and regulations relating to foreign trade, investment and taxation. We do not currently have political risk insurance.

We May be Adversely Affected by Loss of Access to Capital

Mining is an extremely capital intensive business. Mining companies need significant amounts of on-going capital to maintain and improve existing operations, invest in large scale capital projects with long lead times, and manage uncertain development and permitting timelines and the volatility associated with fluctuating metals and input prices. Financial markets – banking, debt and equity - can also be extremely volatile and can prevent us from gaining access to the capital required to maintain and grow our business. Failure to obtain, or difficulty or delay in obtaining, requisite financing could result in delay of certain projects or postponement of further exploration, assessment or development of certain properties or projects. Financing through the issuance of equity will result in dilution of existing shareholders.

We hold Substantial Funds in Cash and Cash Equivalents and there is a Risk that Financial Market Turmoil or Other Extraordinary Events Could Prevent Us From Obtaining Timely Access to Such Funds or Result in the Loss of Such Funds

We currently hold substantial investments in cash and cash equivalents, including treasury bills, money market funds and bank deposits. Management has adopted a conservative investment philosophy with respect to such funds, as we may require that these funds be used on short notice to support our business objectives. Nevertheless, there is a risk that an extraordinary event in financial markets generally or with respect to an obligor under an investment individually will occur that prevents us from accessing our cash and cash equivalent investments. Such an event could, in the case of delayed liquidity, have a negative impact on implementation of time sensitive business objectives that require access to such funds or such an event could, in extreme circumstances, result in the loss of some or all of such funds.

Titles or Boundaries at Our Properties Could be Challenged

Title to Inmet's properties may be challenged or impugned, and title insurance is generally not available. Inmet's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, Inmet may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Our Insurance Coverage Does Not Cover All Potential Risks

The business of mining and mineral exploration is generally subject to a number of risks and hazards including: adverse environmental conditions; industrial accidents; work force health issues; contaminations; labour disputes; unusual or unexpected geological conditions; ground or slope failures; cave-ins; changes in the regulatory environment; and natural phenomena such as inclement weather conditions, floods and earthquakes. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage to Inmet's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although Inmet maintains insurance against certain risks that are typical in the mining industry and in amounts that Inmet believes to be reasonable, its insurance will not cover all of the potential risks associated with its operations. Specifically, Inmet may be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to Inmet or to other companies in the mining industry on acceptable terms. Inmet might also become subject to liability for pollution or other hazards which may not be insured against or which Inmet may elect not to insure against because of premium costs or other reasons. Losses from these events may cause Inmet to incur significant costs that could have a material adverse effect upon its financial condition, results of operations and share price.

Inmet is Dependent on a Relatively Small Number of Key Personnel

Inmet is dependent on a relatively small number of key employees, the loss of any of whom could have an adverse effect on Inmet. Inmet currently does not have key person insurance on these individuals.

We are Subject to Litigation, the Outcome of Which may Affect our Business

Inmet is subject from time to time to litigation and may be involved in disputes with other parties in the future, which may result in litigation. We cannot predict the outcome of any litigation. If we cannot resolve

these disputes favourably, our activities, financial condition, results of operations, future prospects and share price may be materially adversely affected.

We are Subject to Taxation Risk

Inmet has operations and conducts business in a number of jurisdictions and is subject to the taxation laws of these jurisdictions. These taxation laws are complicated and subject to changes and are subject to review and assessment in the ordinary course. Any such changes in taxation law or reviews and assessments could result in higher taxes being payable by Inmet which could adversely affect Inmet's profitability.

Inmet's Directors May have Conflicts of Interest

Certain of the directors of Inmet also serve as directors and/or officers of other companies involved in natural resource exploration and development and consequently there exists the possibility for such directors to be in a position of conflict. In all cases where directors have an interest in another resource company, such other companies may also compete with Inmet for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of Inmet and will abstain from voting for or against the approval of such participation or such terms. In appropriate cases, Inmet will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict.

Our Costs of Reclamation are Uncertain

The actual costs of reclamation are uncertain and planned expenditures may differ from the actual expenditures required. It is not possible to determine the exact amount that will be required to complete reclamation activities, and the amount that Inmet is required to spend could be materially different than current estimates. Reclamation bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation over the life of a mine's operation. Although Inmet includes estimated reclamation costs in its mining plans, it may be necessary to revise the planned expenditures and the operating plans for our operations in order to fund required reclamation activities. Any additional amounts required to be spent on reclamation may have a material adverse effect on Inmet's financial condition, results of operations and share price.

Asset Carrying Values are Evaluated Annually and May be Subject to Write-downs

Inmet annually undertakes an evaluation of Inmet's portfolio of development projects, exploration and other assets. The recoverability of Inmet's carrying values of its properties are assessed by comparing carrying values to estimated future net cash flows from each property.

Factors which may affect carrying values include, but are not limited to, copper, zinc, iron pyrite and gold prices, capital cost estimates, mining, processing and other operating costs, grade and metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of depressed copper prices or in the event of other factors reducing estimated future net cash flows from exploration and development properties, Inmet may be required to take additional material write-downs of its exploration and development properties.

Our Use of Derivative Contracts Exposes Us to Risk of Opportunity Loss, Mark to Market Accounting Adjustments and Exposure to Counterparty Credit Risk

From time to time, Inmet may enter into price risk management contracts to protect against fluctuations in the price of gold and other precious metals, exchange rate movements, and changes in the price of fuel and other input costs. These contracts could include forward sales or purchase contracts, futures contracts, purchased put and call options, and other contracts. Any such use of forward or futures contracts can expose Inmet to risk of an opportunity loss. The use of derivative contracts may also result in significant mark to market accounting adjustments, which may have a material adverse impact on Inmet's reported financial results. Inmet is exposed to credit risk with contract counter-parties, including, but not limited to, sales contracts and derivative contracts. In the event of non-performance by a customer in connection with a contract, Inmet could be exposed to a loss of value for that contract.

Fluctuations in exchange rates may adversely affect our operating and capital costs.

We incur costs in several different currencies, including euros and Turkish lira. Our operating costs and capital costs are affected by fluctuations in the exchange rates between the U.S. dollar and the euro and Turkish lira. While we may use option contracts to hedge against changes in these currencies relative to the

U.S. dollar, not all of our exposure will be hedged, any such hedges may not be effective, and therefore changes in currency exchange rates could adversely affect our business, results of operations, financial condition and cash flows.

The Actual Cost to Develop Cobre Panama May Differ Materially from Our Current Estimates and Involve Unexpected Problems or Delays

The estimates incorporated by reference in this AIF regarding the development and operation of Cobre Panama are based on the Basic Engineering estimate to first production of US \$6.2 billion. The current estimate of the amount of capital expenditures that will be required to be incurred to complete the first phase of Cobre Panama represent estimates only and are based on certain assumptions and analyses made by Inmet's management in light of their experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. These estimates, however, and the assumptions upon which they are based, are subject to a variety of risks and uncertainties and other factors that could cause actual expenditures to differ materially from those estimated. If these estimates prove incorrect, the total capital expenditures required to complete the first phase of Cobre Panama may increase, which may have a material adverse impact on Inmet's financial condition and share price.

There are also a number of uncertainties inherent in the development and construction of any new mine, including Cobre Panama. These uncertainties include:

- earning and maintaining the privilege to operate from host communities;
- the need to obtain necessary environmental and other governmental approvals and permits, and the timing of those approvals and permits; the timing and cost of the construction of mining and processing facilities; the timing and cost of the construction of power facilities;
- potential increases in construction and operating costs due to changes in the cost of fuel, power, materials and supplies and foreign exchange rates;
- the availability of funds to finance construction and development activities;
- the need to obtain all mineral and surface rights necessary to optimally exploit the deposit;
- challenges to mineral rights;
- the availability and cost of water, power, skilled labour and mining equipment;
- potential opposition from non-governmental organizations, environmental groups or local groups which may delay or prevent development activities; and
- the availability of appropriate off-take arrangements for copper.

It is common in new mining operations to experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there is no assurance that future development activities will result in profitable mining operations or that Inmet will successfully establish an operation at Cobre Panama. In addition, whether operations at Cobre Panama can be economically feasible depends upon future copper prices.

We may not be able to generate sufficient cash to service all of our indebtedness, including the 2020 Notes and the 2021 Notes, and may be forced to take other actions to satisfy our obligations under such indebtedness, which may not be successful

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The indentures governing the 2020 Notes and the 2021 Notes

restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

If we are unable to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, it would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations under the Notes. If we cannot make scheduled payments on our debt, we will be in default and holders of the Notes could declare all outstanding principal and interest to be due and payable, causing a cross-acceleration or cross-default under certain of our other debt agreements, if any, and we could be forced into bankruptcy, liquidation or restructuring proceedings.

The terms of the Indentures governing the Notes will restrict our current and future operations, particularly our ability to respond to changes or to take certain actions

The indentures governing the 2020 Notes and the 2021 Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on Inmet and may limit its ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;
- sell, transfer or otherwise dispose of assets;
- incur or permit to exist certain liens;
- enter into transactions with affiliates;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, amalgamate, merge or sell all or substantially all of our assets.

A breach of the covenants under the indentures governing the Notes or our other debt instruments from time to time could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In the event our lenders or noteholders accelerate the repayment of our borrowings, we may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results and our credit ratings could adversely affect the availability and terms of our financing.

Cobre Panama is subject to the many risks associated with joint venture projects.

Cobre Panama is a significant project and we will require a significant amount of additional financing in order to bring it into production. On April 25, 2012, KPMC acquired an indirect 20 percent equity interest in Cobre Panama. There are a variety of risks associated with KPMC's ownership interest in Cobre Panama, including:

- disagreement with KPMC about how to develop, operate or finance the project;
- that KPMC may at any time have economic or business interests or goals that are, or become, inconsistent with our business interests or goals;
- that KPMC may not comply with the agreements governing our relationship with them;
- disagreement with KPMC over the exercise of KPMC's rights under the agreements governing our relationship;
- the possibility that KPMC elects to have Inmet fund cost overruns as a loan to KPMC;
- the possibility that KPMC may become insolvent; and
- possible litigation with KPMC over matters related to Cobre Panama.

These risks could result in legal liability or affect our ability to develop or operate Cobre Panama, either of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

There is a risk of non-payment by KPMC of project expenditures it is required to pay, which could adversely affect our financial condition and adversely affect our ability to complete the development of Cobre Panama within budgeted costs and timelines, different than current estimates. Reclamation bonds or other forms of financial assurance represent only a portion of the total amount of money that will be spent on reclamation over the life of a mine's operation. Although we include estimated reclamation costs in our mining plans, it may be necessary to revise the planned expenditures and the operating plans for our operations in order to fund required reclamation activities. Any additional amounts required to be spent on reclamation would adversely affect our business, results of operations, financial condition and cash flows.

Passive Foreign Investment Company Status

We have significantly increased our cash balance following the issuance of senior unsecured notes for the construction of Cobre Panama. For U.S. federal income tax purposes a non-U.S. corporation may be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which either (1) at least 75 percent of its gross income is passive income, or (2) on average at least 50 percent of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Based on our analysis, we do not believe that we are a "passive foreign investment company" (PFIC) for the current tax year. The methods used to determine income and assets for the purpose of this test are subject to interpretation and judgment, and based on the manner in which fair value is determined, the analysis could show that we are a PFIC. If we are classified as a PFIC, U.S. taxpayers that hold our common shares could be subject to adverse U.S. federal income tax consequences, including increased tax liabilities and possible additional reporting requirements. As the determination of PFIC status is made annually at the close of each tax year and is dependent in part on a number of assumptions, there can be no assurance that Inmet is not a PFIC in the current year or will not become a PFIC in any future tax year. U.S. taxpayers that hold our common shares are urged to consult their tax advisors concerning the potential U.S. federal income tax consequences of holding common shares if Inmet were considered a PFIC in any year.

DESCRIPTION OF CAPITAL STRUCTURE

Inmet Mining's articles of amalgamation provide for three classes of shares:

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

Each class has an unlimited number of shares.

At December 31, 2012 there were 69,365,603 common shares issued and outstanding. We have not issued any preferred shares or subordinate voting participating shares.

Common shares

Each common share gives the holder the right to:

- receive notice of and attend all meetings of shareholders, with each common share entitling the holder to five votes at a meeting of shareholders
- participate equally with the holders of subordinate voting participating shares in any:
 - dividends declared by the directors
 - distribution of assets if the company is liquidated, dissolved or wound up, after payments are made to holders of preferred shares.

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

Preferred shares

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

Holders of preferred shares do not have the right to receive notices of any meetings of shareholders, or to attend them or to vote at them, unless the conditions when the preferred shares are issued state otherwise. Preferred shares can carry other rights that have been specified when the shares are issued. The holders of preferred shares can also be entitled by law to vote as a class on certain matters.

Preferred shares rank ahead of subordinate voting participating shares and common shares when:

- dividends are paid
- assets are distributed if the company is liquidated, dissolved or wound up.

Subordinate voting participating shares

Each subordinate voting participating share gives the holder the right to:

- receive notice of and attend all meetings of shareholders
- one vote at a meeting of shareholders
- participate equally with the holders of common shares in any dividends declared by the directors, and any distribution of assets if the company is liquidated, dissolved or wound up, after payments are made to holders of preferred shares.

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

Dividends

Inmet Mining's board of directors can declare dividends at its discretion and has approved a dividend policy for dividends each year of Cdn. \$0.20 per common share. Since November 2005 of each year, we have paid semi-annual dividends of Cdn. \$0.10 per common share on June 15 and December 15 to our common shareholders. The amount and timing of any dividends is within the discretion of Inmet Mining's Board of Directors. The Board of Directors reviews the dividend policy from time to time based on the cash requirements of Inmet Mining's operating assets, exploration and development activities, as well as potential acquisitions, combined with the current and projected financial position of Inmet Mining. The Board of Directors currently believes that Inmet Mining can maintain its current level of dividend as copper prices fluctuate.

LONG-TERM DEBT

As of December 31, 2012, our long-term debt is comprised of 2 issues of outstanding notes.

On May 18, 2012 we issued US\$1.5 billion principal amount of senior unsecured notes bearing a coupon rate of interest of 8.75 percent and maturing on June 1, 2020 (the 2020 Notes) and on December 18, 2012 we issued a further US\$500 million principal amount of senior unsecured notes bearing a coupon rate of interest of 7.5 percent and maturing on June 1, 2021 (the 2021 Notes, and together with the 2020 Notes, the Notes). The 2020 Notes and the 2021 Notes were issued under indentures dated May 18, 2012 and December 18, 2012, respectively, with Citibank N.A., as U.S. Trustee and with Citi Trust Company Canada, as Canadian Trustee (collectively, the Indentures).

The Indentures contains various restrictive covenants, including:

- restrictions regarding new indebtedness, restricted payments, asset dispositions, liens, sales and leaseback transactions, restrictive agreements, transactions with affiliates, mergers and other fundamental corporate transactions; and
- a restrictive covenant regarding change in control, which provides that holders of the Notes may require that we purchase all or any part of a holder's notes at 101 percent of the principal amount thereof plus accrued and unpaid interest, if any. For this purpose, a change of control will be deemed to have occurred in the event of certain circumstances, including generally the sale or other disposition of all or substantially all of the assets of the Company; the acquisition of 50 percent of Inmet's combined voting power is acquired by other than certain permitted holders; the consolidation, merger or similar corporate transaction involving Inmet occurs unless the voting stock of Inmet constitutes more than 50 percent of the voting power of the surviving entity; the first day on which the majority of the then Board of Directors of the Company (including directors nominated by a majority of current directors) cease to be continuing directors (as defined in the Indentures); and the adoption of a plan relating to the liquidation or dissolution of Inmet.

The Notes issued under the Indentures are guaranteed by certain material subsidiaries of Inmet. The Indentures provide for customary events of default, which include non-payment of principal or interest, failure to comply with covenants, the bankruptcy or insolvency of Inmet or a material subsidiary, final judgments against Inmet or a significant subsidiary in excess of US\$50 million, failure to pay other indebtedness in excess of US\$50 million, or an acceleration of other indebtedness in excess of US\$50 million.

Ratings

The following table sets forth the current ratings that we have received from rating agencies in respect of our outstanding securities. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. Credit ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. We cannot assure you that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future. The following table sets forth the current ratings that we have received from rating agencies in respect of our outstanding securities.

	<u>Moody's</u>	<u>Standard & Poor's</u>
2020 Notes (Rating)	B1	B+
2020 Notes (Outlook)	Negative	Negative
2021 Notes Rating	B1	B+
2021 Notes (Outlook)	Negative	Negative

A description of the rating categories of each of the rating agencies is set out below.

Moody's Investor Service (Moody's)

Moody's long-term credit ratings are on a rating scale that ranges from Aaa to Caa, which represents the range from highest to lowest quality of securities rated. Moody's Baa2 rating assigned to our senior debt instruments is the fourth highest rating of seven major rating categories. Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. Moody's appends numerical modifiers from 1 to 3 to its long-term debt ratings, which indicates where the obligation ranks within its ranking category, with 1 being the highest. Moody's has also assigned a Negative outlook to the rating, which is an opinion regarding the likely direction of an issuer's rating over the medium term.

Standard & Poor's (S&P)

S&P's long-term credit ratings are on a rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of securities rated. S&P's BBB rating assigned to our senior debt instruments is the fourth highest rating of 12 major rating categories. A BBB rating indicates that the obligor's capacity to meet its financial commitments is adequate, but that the obligation is somewhat more susceptible to adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. S&P uses "+" or "-" designations to indicate the relative standing of securities within a particular rating category. S&P has also assigned a negative outlook to the rating, which is its assessment regarding the potential direction of the rating over the immediate to long-term.

MARKET FOR SECURITIES

Trading price and volume

Inmet's common shares trade on the Toronto Stock Exchange (TSX) under the symbol IMN. The table below shows the range in share price and volume traded in each month of 2012.

Month	High	Low	Volume traded
January	\$70.34	\$64.05	7,665,440
February	\$69.94	\$62.75	5,836,531
March	\$67.35	\$53.38	7,639,853
April	\$58.67	\$51.65	5,211,855
May	\$54.57	\$42.61	7,065,071
June	\$47.94	\$37.61	6,517,218
July	\$44.24	\$37.01	6,624,836
August	\$47.82	\$38.91	5,783,863
September	\$54.88	\$43.20	10,242,357
October	\$52.00	\$45.44	4,866,148
November	\$68.52	\$51.36	14,655,252
December	\$75.00	\$65.20	8,623,737

Source: TSX Historical Data Access Database

MATERIAL CONTRACTS

Reference is made to the material contracts of Inmet filed with the Canadian securities regulatory authorities on the SEDAR website at www.sedar.com.

The following are the only contracts entered into by Inmet in 2012 which are material and still in effect and not entered into in the ordinary course of business:

- Indenture dated May 18, 2012, between Inmet and Citibank N.A., as U.S. trustee, and Citi Trust Company Canada, as Canadian trustee, and certain subsidiaries of Inmet, as guarantors.
- Indenture dated December 18, 2012, between Inmet and Citibank N.A., as U.S. trustee, and Citi Trust Company Canada, as Canadian trustee, and certain subsidiaries of Inmet, as guarantors.
- Amended and Restated Minera Panama Shareholders Agreement dated August 20, 2012 between Inmet Mining Corporation, Korea Panama Mining Corporation, Minera Panama, S.A., LS-Nikko Copper Inc., Korea Resources Corporation and Inmet Panama II S.A.
- Purchase and Sale Agreement dated August 20, 2012 between Franco-Nevada (Barbados) Corporation, Minera Panama, S.A., Inmet Panama I SARL, Inmet Panama II S.A. and Inmet Finance Company SARL
- Shareholder Rights Plan ("Rights Plan") dated November 28, 2012 between Inmet Mining and CIBC Mellon Trust Company. The Rights Plan is not intended to prevent take-over bids. Rather, it is intended in the event of an unsolicited take-over bid to protect shareholders. According to securities laws, a take-over bid has to remain open for at least 35 days. We believe 35 days is not enough time for the board to fully consider a take-over bid and explore alternatives to it, given our size and complexity. A shareholder rights plan gives the board more time to assess the merits of a take-over bid and any competing offers from other parties and provide you with complete information so you can make your own assessment; and explore and, if feasible, move ahead with corporate reorganizations, restructurings or other alternatives to maximize or protect shareholder value in the face of take-over bid.

GOVERNANCE

Board of directors

Our board of directors is responsible for the stewardship of our business and affairs. Its main role is to oversee corporate performance and to make sure that management has the talent, professionalism and integrity necessary to successfully carry out our strategic plan and achieve our corporate objectives.

Each of our directors holds office until our next annual meeting of shareholders, or until a successor is appointed. Information regarding each of our directors as at March 15, 2013 is set out below.

Dr. Yilmaz Argüden, Ph.D.

55

Istanbul, Turkey

Independent – Director since 2005

Member of:

- Audit committee
- Corporate governance and nominating committee
- Corporate responsibility committee

Owns no common shares

Holds 12,380 deferred share units

Dr. Argüden is Chairman of ARGE Consulting A.S., a management consulting firm based in Istanbul, Turkey. He is the Chairman of Rothschild investment bank in Turkey. He is also an Adjunct Professor of Business Strategy at the Bosphorus University and an author of numerous books and a columnist.

He is the former Chairman of Erdemir, the largest Turkish steel company, and has been a board member of various Anadolu, Borusan, Koç, Vestel and state owned companies in Turkey. Dr. Argüden was selected as a “Global Leader of Tomorrow” by the World Economic Forum in 1999. Dr. Argüden is also Chairman of the Turkish Canadian Business Council, the National Representative of the United Nations Global Compact, and a member of the Private Sector Advisory Group of the Global Corporate Governance Forum.

Dr. Argüden is also a director of Anadolu Efes, Coca-Cola İçecek, and Dogus Otomotiv Servis Tic. A.S.

David R. Beatty, O.B.E.

70

Toronto, Ontario

Independent - Chairman – Director since 2003

Member of:

- Corporate governance and nominating committee
- Human resources and compensation committee

Owns 10,000 common shares

Holds 21,399 deferred share units

Mr. Beatty is Inmet’s non-executive Chairman. He is Professor of Strategic Management and director of the Clarkson Centre for Business Ethics and Board Effectiveness at the University of Toronto’s Rotman School of Management. He is the past Managing Director of the Canadian Coalition for Good Governance.

He is also Honorary Consul to Canada for the Government of Papua New Guinea, and in 1993, was awarded the O.B.E.

Mr. Beatty is also a director of FirstService Corporation and Walter Energy, Inc.

John H. Clappison

66

Toronto, Ontario

Independent – Director since 2010

Member of:

- Audit committee (chair)

*Owns 500 common shares**Holds 3,636 deferred share units*

Mr. Clappison is a corporate director and former managing partner of the Greater Toronto Area office of PricewaterhouseCoopers LLP. He is a Chartered Accountant, a Fellow of the Institute of Chartered Accountants of Ontario and worked with PricewaterhouseCoopers (or its predecessor firm) for 37 years.

Mr. Clappison is also a director of Cameco Corporation, Rogers Communications Inc. and Sun Life Financial Inc.

John C. Eby

61

Toronto, Ontario

Independent – Director since 2005

Member of:

- Audit committee
- Corporate governance and nominating committee (chair)
- Corporate responsibility committee

*Owns 3,200 common shares**Holds 6,875 deferred share units*

Mr. Eby is a corporate director and former Vice-Chairman of Scotia Capital Inc. where he was responsible for overseeing the firm's mining practice.

He had over 29 years of experience with Scotiabank and its affiliates, covering corporate banking, capital markets and investment banking in a variety of sectors.

Mr. Eby is also a director of Crombie Real Estate Investment Trust and Wajax Corporation.

Paul E. Gagné

66

Senneville, Quebec

Independent – Director since 1996

Member of:

- Audit committee
- Corporate responsibility committee (chair)
- Human resources and compensation committee

*Owns 5,300 common shares**Holds 34,500 deferred share units*

Mr. Gagné is Chairman of Wajax Corporation and a corporate director. From 1998 to 2002, he was a consultant to Kruger Inc. and prior to that, he was Chief Executive Officer of Avenor Inc., a pulp, paper and wood products company.

Mr. Gagné has extensive experience in the resources sector and is a Canadian chartered accountant.

Mr. Gagné is also a director of Ainsworth Lumber Co. Ltd., CAE Inc., Textron Inc. and Wajax Corporation.

Gerald W. Grandey

66

Saskatoon, Saskatchewan

Independent – Director since 2012

Member of:

- Human resources and compensation committee

*Owns no common shares**Holds 2,072 deferred share units*

Mr. Grandey is the former Chief Executive Officer of Saskatoon-based Cameco Corporation. Prior to that, he held senior positions within that company. Mr. Grandey has a degree in geophysical engineering from the Colorado School of Mines and a law degree from Northwestern University. He serves on the Dean's Advisory Council of the University of Saskatchewan's Edwards School of Business and the Board of Governors of the Colorado School of Mines Foundation.

Mr. Grandey is also a director of Canadian Oil Sands Limited, Potash Corp. of Saskatchewan and Sandspring Resources Limited

Oyvind Hushovd

63

Kristiansand, Norway

Independent – Director since 2002

Member of:

- Human resources and compensation committee
- Corporate governance and nominating committee
- Corporate responsibility committee

*Owns no common shares**Holds 12,933 deferred share units*

Mr. Hushovd is a corporate director and past Chairman and Chief Executive Officer of Gabriel Resources Ltd. From 1996 to 2002, he was President and Chief Executive Officer of Falconbridge Limited and prior to that, held senior positions within that company.

Mr. Hushovd is also a director of Cameco Corporation, Ivanplats Limited and Nyrstar NV.

Thomas E. Mara

67

New York, USA

Independent – Director since 2005

Member of:

- Audit committee

*Owns no common shares**Holds 9,870 deferred share units*

Mr. Mara is Executive Vice-President and Treasurer, Leucadia National Corporation.

He has broad U.S. and international financial experience.

Jochen Tilk

49

Toronto, Ontario

Non-Independent – Director since 2010

Owns 36,240 common shares

Mr. Tilk is Inmet's President and Chief Executive Officer. He is a mining engineer and holds a master's degree in engineering from the University of Aachen, Germany.

Douglas Whitehead

66

North Vancouver, British Columbia

Independent – Director since 2007

Member of:

- Corporate responsibility committee
- Human resources and compensation committee (chair)

*Owns 4,000 common shares**Holds 5,352 deferred share units*

Mr. Whitehead is Chairman of the Board of Finning International Inc. He was President and Chief Executive Officer of Finning International Inc. from April 2000 to May 2008.

From 1992 to 1998, Mr. Whitehead was President and Chief Executive Officer of Fletcher Challenge Canada. Prior to that, he held a number of line management and executive positions in general management, marketing and merchandising, planning and development and human resources with Fletcher Challenge Canada and its predecessors.

Mr. Whitehead is also a director of Ballard Power Systems Inc., Finning International Inc. and International Forest Products Limited.

Corporate Cease Trade Orders and Bankruptcies

Except as set out below, and to the best of the knowledge of Inmet, no current director or executive officer of Inmet is at the date of the AIF, or within the ten years prior to the date of the AIF has been, a director or chief executive officer chief financial officer of any issuer that was the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days that was issued while that person was acting in that capacity or was issued after that person ceased to act in that capacity and resulted from an event that occurred while such person was acting in that capacity.

Except as set out below, and to the best of the knowledge of Inmet, no current director, executive officer or shareholder holding a sufficient number of securities to materially affect control of Inmet is at the date of the AIF, or within the ten years prior to the date of the AIF has been, a director or executive officer of any issuer that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Except as set out below, to the best of the knowledge of the Company, no current director, executive officer or shareholder holding a sufficient number of securities to materially affect control of the Company had been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

- Early in November 2006, Mr. Gagné resigned as a director of Gemofo Inc. (Gemofo), a small, privately held manufacturer of sawmilling equipment. In December 2006, Gemofo declared bankruptcy.
- Mr. Gagné was a director of Fraser Papers Inc. (Fraser) from April 2004 until February 2011. In June 2009, Fraser initiated a court-supervised restructuring under the Companies' Creditors Arrangement Act (CCAA) and also filed for protection pursuant to Chapter 15 of the U.S. Bankruptcy Code. As part of its restructuring, Fraser sold all of its productive assets and distributed the proceeds from the sale of those assets under a Consolidated Plan of Compromise and Arrangement which was approved by the courts in February 2011.
- Fraser's common shares were suspended from trading on the Toronto Stock Exchange (TSX) on June 23, 2009 and Fraser was delisted on July 22, 2009. On March 10, 2011, the Ontario Securities Commission issued a cease trade order against Fraser.
- Mr. Beatty was a director of Thistle Mining Inc. (Thistle) on December 21, 2004 when it announced its plans to restructure under the Companies' Creditors Arrangement Act (CCAA). Thistle completed its restructuring on June 30, 2005. Its common shares have been suspended from trading on the TSX since December 31, 2004 due to the restructuring. Mr. Beatty is no longer a director of Thistle.

About the audit committee

The audit committee consists of five directors:

- **John Clappison** (chair)
Mr. Clappison is a Canadian chartered accountant and is the former managing partner of the Greater Toronto Area office of PricewaterhouseCoopers LLP. He is a Fellow of the Institute of Chartered Accountants of Ontario and worked with PricewaterhouseCoopers LLP (or its predecessor firm) for 37 years.
- **Paul E. Gagné**
Mr. Gagné is a Canadian chartered accountant and is a former Chief Executive Officer of Avenor Inc., a pulp, paper and wood products company.
- **Dr. Yilmaz Argüden**
Dr. Argüden is Chairman of ARGE Consulting A.S., a management consulting firm based in Istanbul, Turkey. He is the Chairman of Rothschild investment bank in Turkey. He was selected as a "Global Leader of Tomorrow" by the World Economic Forum in 1999. He received his Ph.D. in policy analysis from the RAND Graduate Institute. Dr. Argüden is also Chairman of the Turkish Canadian Business Council.
- **John C. Eby**
Mr. Eby is a corporate director. He is a former Vice-Chairman, Scotia Capital Inc. where he was in charge of the firm's mining practice.
- **Thomas E. Mara**
Mr. Mara is Executive Vice-President and Treasurer of Leucadia National Corporation. He has broad U.S. and international financial experience.

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

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

- the quality, integrity and appropriateness of our financial reporting
- the quality, integrity and performance of our systems of internal control for finance, accounting and ethics
- the quality, performance and independence of our external auditors
- our compliance with legal and regulatory requirements.
- the audit committee receives regular reports on the following in order to fulfil its mandate:

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

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

Financial reporting

The audit committee is also responsible for reviewing:

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

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

External auditors

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

These professional services break down into different types of fees:

- *audit fees* for services for reading annual and interim financial statements and notes and for conducting the annual audit of Inmet Mining and its subsidiaries
- *audit-related fees* for services relating to KPMG's role as auditor. The fees for fiscal 2012 and 2011 relate to our transition to International Financial Reporting Standards (IFRS), French translation services and services in connection with our offering of senior unsecured notes.
- *tax fees* for services relating to tax compliance, tax advice and tax planning
- *All other services and fees.*

The table below shows the fees that were paid to KPMG for the fiscal years ended December 31, 2012 and 2011.

Fee (thousands)	2012	2011
Audit fees	\$ 1,197	\$ 879
Audit-related fees	176	278
Tax fees	1,906	1,556
All other services and fees	125	223
Total	\$ 3,404	\$ 2,936

Auditor independence

The audit committee has reviewed this list of services and determined KPMG maintained auditor independence.

The audit committee has the authority to conduct any investigation it believes is necessary to help it fulfil its responsibilities, and has direct access to the external auditors, our financial management, our officers and employees and all of our books and records. Any member of the committee can ask to retain the help of accounting, legal or other consultants or experts to carry out its duties, and these expenses would be paid by Inmet.

Approving services

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

- audit and non-audit services provided by external auditors, and the annual range of fees for each type of service
- services that are not part of the annual process

- fees that go higher than the range of fees that was pre-approved.

Management must submit a report to the audit committee each year describing in detail all services it expects the external auditors to provide the following fiscal year. The report must also include a range of fees for each type of service.

The audit committee takes into account the ratio of fees for audit and audit-related services to non-audit services when pre-approving services and fees. It has also delegated limited authority to the committee chair to pre-approve services and fees. Any approvals the committee chair makes must be reported to and ratified by the audit committee at its next meeting.

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

The committee met 5 times in 2012.

A copy of the committee charter is attached as an appendix to this AIF. It is available on SEDAR (www.sedar.com).

Officers

Certain information regarding each of the officers of Inmet Mining as at March 15, 2013 is set out below.

Jochen Tilk

Toronto, Ontario

President and Chief Executive Officer

Years with Inmet: 25

Owns 36,040 common shares

Prior to November, 2009, President and Chief Operating Officer, Inmet

Steven Astritis

Toronto, Ontario

Vice-President, Legal and Corporate Affairs

Years with Inmet: 12

Owns 19,000 common shares

Prior to April 2011, Vice-President, General Counsel and Secretary, Inmet

D. James Slattery

Oakville Ontario

Vice-President and Chief Financial Officer

Years with Inmet: 7

Owns 16,370 common shares

Frank Balint

Toronto, Ontario

Vice-President, Corporate Development

Years with Inmet: 35

Owns 12,267 common shares

Lynda Beesley

Toronto, Ontario

Corporate Secretary

Years with Inmet: 6

Owns no common shares

Prior to April 2011, Assistant Corporate Secretary, Inmet

Prior to September 2006, Assistant Corporate Secretary, Falconbridge Limited and Noranda Inc.

Steven Botts

Panama City, Republic of Panama

President and Chief Executive Officer, Minera Panamá, S.A.

Years with Inmet: <1

Owns no common shares

Prior to September 2012, Interim President and Chief Executive Officer of Minera Panamá

Prior to May 2012, President of Santa Barbara Consultants, Inc.

Craig Ford

Oakville, Ontario

Vice-President, Corporate Responsibility

Years with Inmet: 13

Owns 9,501 common shares

Prior to November 2010, Vice-President, People & Environment, Inmet

Prior to July 2008, Vice-President, Safety, Environmental and Community Affairs, Inmet

Scott Herr

Oakville, Ontario

Vice-President, Mining

Years with Inmet: 6

Owns 6,375 common shares

Prior to January 2007, Director, Mining

Wendy Kaufman

Oakville, Ontario

Vice-President, Finance and Treasury

Years with Inmet: 19

Owns 9,979 common shares

Prior to October 2011, Vice-President, Finance, Inmet

Jean-Claude Lalumiere

Oakville, Ontario

Vice-President, Human Resources

Years with Inmet: 2

Owns no common shares

Prior to November 2010, Vice-President, Human Resources and Facilities, World Wildlife Fund

Prior to March 2007, Director Global Human Resources Management Systems, LaFarge S.A.

Fernando Martinez-Caro

Oakville, Ontario

Vice-President, Engineering and Infrastructure

Years with Inmet: 4

Owns 1,808 common shares

Prior to January 2010, Director, Projects, Inmet

Prior to August 2008, Managing Director, Ferrovial Agroman (North America)

Jan (Jon) Wojnicki

Toronto, Ontario

Vice-President, Strategic Development

Years with Inmet: 1

Owns 9,750 common shares

Prior to January 2012, Principal, McKinsey & Company, Inc.

TRANSFER AGENT AND REGISTRAR

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

USE OF EXPERTS

We rely on experts to audit our financial statements and prepare our mineral reserve and resource estimates.

- Our consolidated financial statements for the year ended December 31, 2012 have been audited by KPMG LLP. The auditors have confirmed they are independent according to the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.
- *Notes to mineral reserves and resources table* herein lists qualified persons, as defined by *National Instrument 43-101 – Standards of Disclosure for Mineral Projects*, and competent persons, as defined by the *Australasian Code for Reporting of Identified Mineral and Ore Reserves* (the Australasian Code) who have prepared or supervised the preparation of our mineral reserve and mineral resource estimates.

None of these people or organizations beneficially owns (directly or indirectly), or exercises control or direction over, more than one percent of our issued and outstanding common shares.

SHARE OWNERSHIP

Our directors and senior management as a group beneficially own (directly or indirectly), or exercise control or direction over, less than 1 percent of our issued and outstanding common shares. Mr. Mara is an officer of Leucadia which, through its wholly-owned subsidiary, MK Resources, owns approximately 15.9 percent of Inmet's issued and outstanding common shares.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below or elsewhere in this AIF, no director or executive officer of Inmet or person that beneficially owns or controls, directly or indirectly, 10 percent or more of the issued and outstanding common shares or associate or affiliate of any such director or executive officer or 10 percent shareholder has any material interest, direct or indirect, in any transaction within Inmet's three most recently completed financial years or within the current financial year that has materially affected or would materially affect Inmet.

Leucadia, through its wholly-owned subsidiary, MK Resources, is Inmet's largest shareholder, holding 15.9 percent of Inmet's issued and outstanding common shares. Within Inmet's three most recently completed financial years, and within the current financial year, Leucadia has been party to transactions that have materially affected, or could materially affect, Inmet. See "*THREE YEAR HISTORY – Acquisition of Remainder of Cobre Las Cruces*".

ADDITIONAL INFORMATION

Additional information about Inmet may be found on SEDAR at www.sedar.com.

Further information, including particulars of directors' and officers' remuneration and indebtedness, principal holders of Inmet's securities, and securities authorized for issuance under equity compensation plans is contained in the Inmet's management information circular for its most recent annual meeting of holders of the Inmet's common shares. Additional financial information is provided in the Inmet's most current consolidated financial statements and MD&A, copies of which have been filed with the securities commissions in each Canadian province in which Inmet Mining is a reporting issuer and which is available on SEDAR at www.sedar.com.

To request a copy of any of these documents, write to:

Director of Investor Relations
Inmet Mining Corporation
330 Bay Street, Suite 1000
Toronto, Ontario
Canada M5H 2S8

You can also call us at +1.416.361.6400 or send a fax to +1.416.368.4692.

SCHEDULE 1

Inmet Mining Audit Committee Charter

I. Purpose

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

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

II. Composition

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

III. Meetings

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

The Audit Committee Chair will approve an agenda in advance of each meeting and will cause minutes of meetings to be maintained. The Chair will regularly report to the Board of Directors on the results of the Committee's deliberations.

IV. Responsibilities and Duties

To fulfil its responsibilities and duties, the Audit Committee shall:

Financial reporting

1. Review the principal risks affecting the Corporation's financial reporting and oversee appropriate systems to identify, evaluate and manage such risks.
2. Review the Corporation's public disclosure of financial information, including annual and interim financial statements, management's discussion and analysis (MD&A) and annual and interim earnings releases, prior to filing with regulatory authorities or public dissemination and make recommendations to the Board for approval of same.

Such review shall address:

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

Independent auditors

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

Internal controls and compliance

13. Review and assess reports prepared or caused to be prepared by management regarding internal controls, financial risk management and insurance programs.
14. On at least a quarterly basis, review with the Corporation's counsel any legal matters, the Corporation's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies that could have a significant impact on the Corporation's annual financial statements.
15. Establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Corporation or its subsidiaries of concerns regarding questionable accounting or auditing matters.
16. Review management's reports on related party transactions.
17. Review annually the framework of internal controls, how these align with the objective of preventing and detecting fraud as well as management's assessment of the continued effectiveness and application of those internal controls.
18. Review at least annually management's report on executive travel and other expenses.
19. Review at least annually management's report on the Corporation's source deductions and other remittances required under applicable tax legislation.

Other responsibilities

20. Periodically review and discuss with management and the independent auditors the significance of emerging regulatory and accounting standards and initiatives for the financial reporting of the Corporation.
21. Review and reassess the adequacy of this Charter at least annually and make recommendations to the Corporate Governance and Nominating Committee as well as to the Board of Directors for approval.
22. Annually assess the effectiveness of the Committee against its Charter and report the results of the assessment to the Corporate Governance and Nominating Committee as well as to the Board.
23. Review disclosure of a summary of this Charter to shareholders.
24. Perform any other activities consistent with this Charter, the Corporation's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.
25. At each Audit Committee meeting, meet with management in the absence of the independent auditors.

26. Periodically review financial and accounting personnel succession planning within the Corporation and its major subsidiaries.
27. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditors of the Corporation.

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

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

This Charter has been adopted by the Audit Committee of the Corporation, and approved by the Board, with effect as of December 1, 2009.



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