INCO LTD
Form 10-K
March 16, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2005

Commission File Number 1-1143

Inco Limited

(Name of registrant as specified in its charter)

Canada	**98-0000676**
(Jurisdiction of incorporation)	*(I.R.S. Employer Identification No.)*
145 King Street West, Suite 1500 **Toronto, Ontario, Canada** *(Address of principal executive offices)*	**M5H 4B7** *(Postal code)*

(416) 361-7511
(Telephone number)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Shares	New York Stock Exchange (1)
Stock Purchase Rights	New York Stock Exchange (2)
Common Share Purchase Warrants	New York Stock Exchange (2)

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

þ Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

o Yes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

oYes þ No

As of June 30, 2005, the approximate aggregate market value, based upon the closing sale price of the Common Shares on the New York Stock Exchange, of the registrant s voting shares held by non-affiliates was $7,125 million.(3)

As of February 17, 2006, 192,769,128 Common Shares of the registrant were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s proxy circular and statement dated February 17, 2006 for the 2006 Annual Meeting of Shareholders of the Registrant are incorporated by reference in Part III of this Report to the extent set forth in Items 10, 11, 12 and 14 hereof.

(1) In addition, the Common Shares are listed on the Toronto Stock Exchange and are traded on certain other exchanges principally through independent arrangements made by securities dealers.

(2) In addition, the Stock Purchase Rights and the Common Share Purchase Warrants are listed on the Toronto Stock Exchange.

(3) Unless otherwise stated, all dollar amounts in this Report are expressed in United States currency.

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UNLESS OTHERWISE STATED, ALL DOLLAR AMOUNTS IN THIS REPORT ARE EXPRESSED IN UNITED STATES CURRENCY

PART I

Items 1. and 2. Business and Properties of Inco Limited

Introduction

Inco Limited (Inco , the Company , we or us) was incorporated in 1916 under the laws of Canada, succeeding a business established in 1902. In 1979, Inco was continued by articles of continuance under the *Canada Business Corporations Act* and is governed by that Act. Our executive offices are located at 145 King Street West, Suite 1500, Toronto, Ontario, Canada M5H 4B7. Unless the context otherwise requires, all references in this Report to Inco , the Company , we , our or us include all of its consolidated subsidiaries, unincorporated units and divisions.

Inco is one of the world s premier mining and metals companies. We are a leading producer of nickel, a hard, malleable metal which, given its properties and wide range of applications, can be found in thousands of products. We are also an important producer of copper, precious metals and cobalt and a major producer of value-added specialty nickel products. We also produce sulphuric acid and liquid sulphur dioxide as by-products from our processing operations in Sudbury, Ontario. Our principal mines and processing operations are located in the Sudbury area of Ontario, the Thompson area of Manitoba, Voisey s Bay in Newfoundland and Labrador, and, through a subsidiary in which we have an equity interest of approximately 61 per cent, PT International Nickel Indonesia Tbk (PT Inco), on the Island of Sulawesi, Indonesia (see PT International Nickel Indonesia Tbk below). We also operate additional wholly-owned metals refineries at Port Colborne, Ontario and in the United Kingdom at Clydach, Wales and Acton, England. We also have interests in nickel refining capacity in the following Asian countries: in Japan, through Inco TNC Limited (ITL), in which we have an equity interest of 67 per cent; in Taiwan, through Taiwan Nickel Refining Corporation (Taiwan Nickel), in which we have an equity interest of 49.9 per cent; and in South Korea, through Korea Nickel Corporation (Korea Nickel), in which we have an equity interest of 25 per cent. In addition, we have a 65 per cent equity interest in Jinco Nonferrous Metals Co., Ltd., a company that produces nickel salts in Kunshan City, People s Republic of China (China). We also have joint venture operations in China, through Inco Advanced Technology Materials (Dalian) Co., Ltd. (Dalian), in which we have a total direct and indirect equity interest of 81.6 per cent, and Inco Advanced Technology Materials (Shenyang) Co., Ltd. (Shenyang), in which we have a total direct and indirect equity interest of 82 per cent. In March 2005, Shenyang acquired substantially all of the assets which represented the nickel foam business of Shenyang Golden Champower New Materials Corp., a leading Chinese producer of nickel foam. These two ventures in China produce nickel foam products for the Asian battery market. We also have a shearing and packaging operation in China for certain nickel products to meet the specific needs of this geographic market.

The first nickel concentrates were produced in September 2005 at our wholly-owned Voisey s Bay nickel-copper-cobalt project in the Province of Newfoundland and Labrador, Canada. The first shipments of nickel concentrates from the Voisey s Bay project were made to Inco s operations in Sudbury, Ontario and Thompson, Manitoba in November 2005 and the first production of finished nickel from these concentrates occurred in January 2006. In October 2005, Inco s demonstration plant, part of the initial phase of this project, was completed and began operations at Argentia in the Province of Newfoundland and Labrador. This facility is being used to test proprietary hydrometallurgical processing technologies to treat Voisey s Bay nickel concentrates as part of our research and development program covering those processes, a program which is scheduled to run until late 2007. For further information on the Voisey s Bay project and related matters, see Voisey s Bay Nickel Company Limited below.

Inco is also currently developing another major new greenfield project, the Goro nickel-cobalt project in the French overseas territorial community (*collectivité territoriale*) of New Caledonia (New Caledonia). We currently hold a 71 per cent interest in the project company, Goro Nickel S.A.S. (Goro Nickel), following the capitalization of certain shareholder advances in late February 2005, the sale of shares representing a 21 per cent interest in Goro Nickel to a joint venture between Sumitomo Metal Mining Co., Ltd. and Mitsui & Co., Ltd. of Japan on April 8, 2005 and, taking into account the additional capital contribution we have made to Goro Nickel as a result of the election by Société de Participation Minière du Sud Calédonien SAS (SPMSC), a company formed by the three provinces of New Caledonia which acquired an initial 10 per cent interest in Goro Nickel in February 2005, not to make certain pro-rata capital contributions to the project since it became a shareholder in Goro Nickel in February 2005. Having announced our decision to proceed with the project in October 2004 after the completion of our comprehensive review of the project,

we have moved the project forward on a phased approach, with the first phase focusing on engineering, contract development and permitting. Engineering was about 70 per cent complete as of year-end 2005 and approximately 900 construction personnel were on site, initially focusing on earthworks for the process plant, the residue storage facility and road realignment. We are also building some 400 process plant modules and pre-finished units for the process plant in the Philippines which are expected to be delivered to the Goro site beginning in April 2006. We expect to have a definitive capital cost estimate by the second quarter of 2006 when engineering is

expected to be at least 80 per cent complete and all major contracts are expected to have been awarded. The expected initial start-up of the project remains in late 2007. For further information on the Goro project and related matters, see Goro Nickel S.A. below.

On October 11, 2005, Inco and Falconbridge Limited (Falconbridge) announced that their respective Boards of Directors had approved the acquisition by Inco of all of the outstanding common shares of Falconbridge by way of a friendly take-over bid. The combined organization which would be created by the pending transaction would be one of the world s premier mining and metals companies in both nickel and copper, with one of the mining industry s most attractive portfolios of low-cost, profitable growth projects. Our offer, which was mailed to Falconbridge common shareholders on October 24, 2005 (the Offer), is conditional upon at least 66 2/3 per cent of the common shares of Falconbridge being tendered, the receipt of all necessary regulatory clearances and certain other conditions. The Offer was initially open for acceptance until December 23, 2005 but has been extended on three occasions in order to provide additional time to obtain the required regulatory clearances. It is currently open for acceptance by Falconbridge common shareholders until June 30, 2006. We currently expect to take up and pay for the Falconbridge common shares tendered to the Offer prior to this date or shortly thereafter. For further information on this transaction, see Proposed Acquisition of Falconbridge Limited below.

Inco s properties are described under Description of Business and Ore Reserves and Mining Rights below.

The information in this Report is as of December 31, 2005 except where an earlier or later date is expressly indicated. Nothing included herein should be considered as implying that any information is correct as of any date other than December 31, 2005, except as otherwise expressly stated.

In this Report, certain data and estimates which had been previously limited to the Western World or the Western World plus China because of limited available data from certain countries or regions have been reported on a global or worldwide basis.

Availability of Documents

Inco files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K with the Securities and Exchange Commission (the SEC). You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the hours of operation of the SEC s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Such reports and all amendments to such reports regarding Inco are available free of charge on our website, www.inco.com, as soon as reasonably practicable after such reports are electronically filed with the SEC. Information contained in or otherwise accessed through our website or any other website does not form part of this Report. All such references to websites are inactive textual references only.

Cautionary Statement Regarding Forward-Looking Statements and Forward-Looking Information

Certain statements contained in this Report are forward-looking statements (as defined in the U.S. *Securities Exchange Act of 1934*) or contain forward-looking information (as defined in the Ontario *Securities Act*). Examples of such statements include, but are not limited to, statements concerning: (1) the price volatility for nickel and other primary metal products produced by the Company; (2) the demand for and supply of nickel, copper and other metals, both globally and for certain markets and uses, as well as the availability of, and prices for, and the Company s requirements for, intermediate products containing nickel purchased by the Company and/or to be produced by the Company and nickel-containing stainless steel scrap and other substitutes for primary nickel and nickel inventories; (3) the premiums realized by the Company over London Metal Exchange (LME) cash prices and the sensitivity of the Company s results of operations to changes in metals prices, prices of commodities and other supplies used in its operations, interest and exchange rates, and our common share price; (4) the Company s strategies and plans and level of capital expenditures and contributions thereto from third parties; (5) the Company s nickel unit cash cost of sales before and after by-product credits, interest and other expenses; (6) the Company s energy and other costs, and pension contributions and expenses and assumptions relating thereto; (7) the Company s position as a low-cost producer of nickel; (8) the Company s debt-equity ratio and tangible net worth; (9) the political unrest or instability in countries (such as Indonesia) in which the Company and its subsidiaries (such as PT Inco) operate and the impact thereof on the Company; (10) construction, commissioning, initial start-ups, shipments and other schedules, capital costs and other

aspects of the Goro and Voisey s Bay projects and PT Inco s latest program start-ups to increase its production, changes in the ownership of the Goro project, capital expenditures, and hydroelectric power generation at PT Inco and the effect thereon of lower water levels; (11) receipt of funds under the necessary financing plans and arrangements for, and partner or similar investment and other agreements or arrangements associated with, the Goro project, and the timing of the start of production and the costs of construction with respect to, the issuance of the necessary permits and other authorizations required for,

and engineering and construction timetables for, the Goro project and the additional phases of the Voisey s Bay project; (12) the Company s estimates of the quantity and quality of its ore/mineral reserves and mineral resources, exploration and drilling schedules and the timing of completion of feasibility assessments of the Company s reserves; (13) planned capital expenditures and tax payments; (14) the Company s costs of production, deliveries of products, and production levels for 2006 and beyond, including the costs of and potential impact on operations and production of complying with existing and proposed environmental laws and regulations and net reductions in environmental emissions; (15) the impact of changes in Canadian dollar-U.S. dollar and other exchange rates on the Company s costs and the results of its operations; (16) the Company s sales of specialty nickel products; (17) the Company s cost reduction and other financial and operating objectives and planned maintenance and other shutdowns; (18) the commercial viability of new production processes and process changes and processing recoveries for its development projects; (19) the Company s productivity, exploration and research and development initiatives as well as environmental, health and safety initiatives; (20) the negotiation of collective agreements with its unionized employees; (21) the Company s sales organization and personnel requirements; (22) business and economic conditions; (23) the extension of current mining and other leases, export licences and concessionary rights; (24) third party tolling, smelting and refining arrangements; and (25) factors relating to the Offer made by the Company to the common shareholders of Falconbridge to purchase all of the outstanding common shares of Falconbridge and the results expected to be achieved from the successful completion of the Offer and the combination of the Company and Falconbridge, including the timing and conditions to receipt of required regulatory clearances, the synergies and cost savings expected to be achieved and the timing thereof; the increased market capitalization, share price multiple and improved liquidity of the Company s shares; the improved cash flow and earnings of the Company; statements regarding strategies, objectives, goals and targets; and the financial position and international presence that would permit the combined company to better compete against global mining companies. Inherent in forward-looking statements and forward-looking information are risks and uncertainties that are well beyond the Company s ability to predict or control. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements and forward-looking information contained in this Report.

Such forward-looking statements and forward-looking information are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: business and economic conditions generally; exchange rates, availability and cost of energy and other anticipated and unanticipated costs and pension contributions and expenses; the supply and demand for, deliveries of, and the level and volatility of prices of, nickel, copper, cobalt, aluminum, zinc and other primary metals products, purchased intermediates and nickel-containing stainless steel scrap and other substitutes and competing products for the primary nickel and other metal products the Company produces; the timing and quantities of available Voisey s Bay intermediate nickel and copper concentrates and the feasibility and timing of the development of the hydrometallurgical process at Voisey s Bay; the timing of the receipt of remaining regulatory and governmental approvals for the Goro project and other operations; the continued availability of financing on appropriate terms, including through partner or other participation arrangements in the case of the Goro project, for the Company s development projects; the Company s costs of production and production and productivity levels, as well as those of the Company s competitors; our ability to continue to pay quarterly cash dividends in amounts as our Board of Directors may determine in light of other uses for such funds; metal recovery rates and ore recovery and dilution factors; engineering and construction timetables and capital and operating costs for the Goro and Voisey s Bay projects and PT Inco s latest expansion program; market competition; mining, processing, exploration and research and development activities and methods; the accuracy of ore/mineral reserve and mineral resource estimates; premiums realized over LME cash and other benchmark prices; tax benefits/charges; the resolution of environmental reviews and environmental and other proceedings and the impact on the Company of various environmental regulations and initiatives; the ability to obtain or renew permits, licences, leases and concessions; assumptions concerning political and economic stability and expectations of inflation in Indonesia and other countries or locations in which the Company operates or otherwise; and the Company s ongoing relations with its employees at its operations throughout the world. In addition to the foregoing, forward-looking statements and forward-looking information relating to the Offer, its completion and the consequences thereof are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions respecting Falconbridge and its operations

and plans, the ability of the Company to successfully compete against global metals and mining and exploration companies by creating through the combination of the Company and Falconbridge an enterprise of increased scale; continued strong demand for nickel, copper and other metals in emerging markets such as China; the level of pre-tax operating and other synergies and cost savings, and other benefits to be realized based on the achievement of operational efficiencies from restructuring, integration and other initiatives relating to the combination; the approvals or clearances required to be obtained by the Company and Falconbridge from regulatory and other agencies and bodies being obtained in a timely manner; divestitures required by regulatory agencies being acceptable and completed in a timely manner; there being limited costs, difficulties or delays relating to the integration of Falconbridge s operations with those of the Company; and the timely completion of the steps required to be taken for the eventual combination and integration of the two companies.

The forward-looking statements and forward-looking information included in this Report represent the Company s views as of the date of this Report. While the Company anticipates that subsequent events and developments may cause the Company s views to

change, the Company specifically disclaims any obligation to update these forward-looking statements and forward-looking information. These forward-looking statements and forward-looking information should not be relied upon as representing the Company s views as of any date subsequent to the date of this Report. Although the Company has attempted to identify important factors or assumptions that could cause actual actions, events or results to differ materially from those described in forward-looking statements and forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements and forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers of this Report should not place undue reliance on forward-looking statements and forward-looking information. These factors are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted elsewhere in this Report.

Material Assumptions

A number of assumptions were made by Inco in connection with certain forward-looking statements and forward-looking information for 2006 and beyond included in this Report and in connection with our pending acquisition of Falconbridge. These assumptions include estimates on the U.S. dollar-Canadian dollar exchange rate for 2006, global industrial production and in key geographic markets, interest rates, global nickel and other metals demand and supply and in key geographical markets, growth in the key end-use markets for the metals produced by the Company, that we would not have any labour, equipment or other disruptions at any of our operations of any significance in 2006 other than any planned maintenance or similar shutdowns and that any third parties which we are relying on to supply purchased intermediates or provide toll smelting or other processing do not experience any unplanned disruptions. Some of the material assumptions made by us involve confidential or particularly sensitive information and, accordingly, we do not believe it is appropriate to disclose such assumptions for competitive or other business reasons. Forward-looking statements and forward-looking information for time periods subsequent to 2006 involve longer term assumptions and estimates than forward-looking statements and forward-looking information for 2006 and are consequently subject to greater uncertainty. Therefore, the reader is especially cautioned not to place undue reliance on such long-term forward-looking statements and forward-looking information.

Description of Business

Sales

The following table shows Inco s net sales to customers for the three years ended December 31, 2005:

	2005	2004	2003
		(in millions)	
Primary nickel	$ 3,655	$ 3,503	$ 2,109
Copper	463	364	171
Precious metals [1]	267	246	114
Cobalt	57	72	17
Other [2]	76	93	63
Net sales to customers	$ 4,518	$ 4,278	$ 2,474

(1) Excludes toll-refined materials.

(2) Representing principally sales of sulphuric acid, liquid sulphur dioxide, miscellaneous primary metals products, reprocessed waste materials and certain price adjustments.

Deliveries

The following table shows deliveries of Inco s principal primary metals and related products for the three years ended December 31, 2005:

	2005	2004	2003
Nickel, including intermediates[1] (tonnes)[2]	246,282	251,882	213,890
Copper[3] (tonnes)	120,543	124,884	93,335
Cobalt (tonnes)	1,694	1,542	903
Platinum[4] (troy ounces, in thousands)	172	183	83
Palladium[4] (troy ounces, in thousands)	220	221	101
Rhodium[4] (troy ounces, in thousands)	16	9	17
Ruthenium[4] (troy ounces, in thousands)	2	3	2
Iridium[4] (troy ounces, in thousands)	5	4	6
Gold[4] (troy ounces, in thousands)	76	80	50
Silver[4] (troy ounces, in thousands)	1,429	1,990	1,435
Sulphuric acid and liquid sulphur dioxide (tonnes)	695,000	747,000	548,000

(1) Includes 22,471 tonnes in 2005, 16,697 tonnes in 2004 and 29,780 tonnes in 2003 purchased by Inco.

(2) A tonne is a metric unit equal to approximately 2,204.6 pounds.

(3) Includes 1,133 tonnes in 2003 purchased by Inco.

(4) Excludes toll-refined materials.

Prices

Nickel

Inco s nickel price realizations tend to lag LME cash nickel price movements due primarily to the terms of its contractual sales arrangements with certain of its customers. The LME, a physical market where various metals, including nickel, can be bought or sold for prompt or future delivery, represents the principal terminal market for primary nickel in the world. We realize a premium over prevailing LME cash prices for many of our finished nickel products, including certain of our nickel powders and other value-added products discussed under Inco Special Products below.

Our average realized price for our primary nickel products, including intermediates and purchased products, was $14,842 per tonne ($6.73 per pound) in 2005, representing an increase of seven per cent from the average price of

$13,906 per tonne ($6.31 per pound) in 2004 and an all-time record average realized nickel price for Inco. The 2004 average realized price was 41 per cent higher than the average price of $9,860 per tonne ($4.47 per pound) in 2003.

The price realizations for our nickel and other primary metals products generally reflect LME or other metal market prices and, over the longer term, depend principally upon the balance between demand for our products in the marketplace relative to the supply available from us and our competitors, including for this purpose similar primary metals materials in various producer, merchant and consumer inventories, inventories of secondary or scrap materials containing nickel and other metals in usable or recyclable form, and supplies of other materials which may compete as substitutes. Of particular importance is the availability of nickel-containing stainless steel scrap, which competes directly with primary nickel as a source of nickel for use in the production of stainless steel and certain other industrial applications. The stainless steel scrap ratio, or the proportion or ratio of nickel-containing stainless steel scrap relative to the total nickel (including primary nickel) consumed by stainless steel producers, was 49 per cent in 2005, compared with 47 per cent in 2004 and 44 per cent in 2003. The applications for nickel and variations in demand for and supply of nickel are discussed under Nickel below.

For information on Inco s hedging transactions relating to nickel, see Off-Balance Sheet Arrangements and Aggregate Contractual Obligations Derivative Instrument Positions in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report and Notes 1, 19 and 24(h) to the financial statements under Item 8 of this Report.

The average prices, per tonne and per pound, realized by Inco for its primary nickel products, including intermediates and purchased products, for the five years ended December 31, 2005, including by quarter for 2005, are shown in the following table:

Year	**Nickel**	
	($ per tonne)	**($ per pound)**
2001	6,468	2.93
2002	7,143	3.24
2003	9,860	4.47
2004	13,906	6.31
2005		
First Quarter	15,312	6.95
Second Quarter	16,578	7.52
Third Quarter	14,857	6.74
Fourth Quarter	12,780	5.80
Year	14,842	6.73

Copper

Inco s average realized price for copper was $3,839 per tonne ($1.74 per pound) in 2005, representing an increase of 32 per cent from the average realized price of $2,916 per tonne ($1.32 per pound) in 2004. The 2004 average realized price was 59 per cent higher than the average realized price of $1,832 per tonne ($0.83 per pound) in 2003.

The average prices, per tonne and per pound, realized by us for copper, including purchased products, for the five years ended December 31, 2005, including by quarter for 2005, are shown in the following table:

Year	**Copper**	
	($ per tonne)	**($ per pound)**
2001	1,668	0.76
2002	1,629	0.74
2003	1,832	0.83
2004	2,916	1.32
2005		
First Quarter	3,365	1.53
Second Quarter	3,427	1.56
Third Quarter	3,921	1.78
Fourth Quarter	4,528	2.05
Year	3,839	1.74

Other Metals

The average prices, per tonne or per troy ounce, realized by Inco for cobalt, the principal platinum-group metals (platinum, palladium and rhodium), gold and silver, all of which are produced primarily from our Ontario ores, for the five years ended December 31, 2005 are shown in the following table:

Year	**Cobalt**	**Platinum**	**Palladium**	**Rhodium**	**Gold**	**Silver**
	($ per tonne)	**($ per troy ounce)**				
2001	23,216	541.27	711.32	1,475.85	270.50	4.40
2002	15,124	545.92	419.70	804.59	309.17	4.58

2003	18,846	588.96	297.36	530.66	367.72	4.86
2004	46,442	762.73	225.56	1,166.85	398.68	6.73
2005	32,828	841.27	209.46	2,055.55	423.21	7.06

For information on our hedging transactions relating to these metals, see Off-Balance Sheet Arrangements and Aggregate Contractual Obligations Derivative Instrument Positions under Item 7 of this Report and Notes 1, 19 and 24(h) to the financial statements under Item 8 of this Report.

Results of Operations

All financial statement information in this Report is based on our financial statements prepared in accordance with generally accepted accounting principles (GAAP) in Canada. A reconciliation of our Canadian GAAP financial statements to United States GAAP is presented in Note 24 to the financial statements under Item 8 of this Report.

Customers

As in recent years, sales of Inco s primary metals products in 2005 were concentrated in the United States, Europe, Japan, other countries in Asia, and Canada, with sales of nickel to customers in Asia representing about 60 per cent of its total nickel sales revenues for 2005. For further information, see Inco s Position in the Nickel Industry below.

No single non-affiliated customer of Inco accounted for more than 10 per cent of total sales in 2005, 2004 or 2003.

See Nickel , Copper and Other Primary Metals and Related Products below for additional information on the Company s customers.

Competitors

A discussion of the competitive conditions in the nickel industry appears under Nickel below. Competitive conditions with respect to our other primary metals and related products are discussed under Copper and Other Primary Metals and Related Products below.

Inventories

Inco s general practice is to sell its principal primary metals products at the time of production and not to hold inventories except as necessary to meet its current sales requirements. Our finished nickel inventories at the end of each of the five years ended December 31, 2005 are shown in the following table:

Year-end	Inco s Finished Nickel (in tonnes)
2001	26,517
2002	23,126
2003	25,604
2004	27,334
2005	23,444

Historically, we have believed that the minimum finished nickel inventories we generally need to run our business and meet our customers requirements should be about 26,000 tonnes, depending upon the required product mix and other factors. We expect to continue to evaluate the factors to be considered in determining what our minimum inventory level should be.

Nickel Unit Cash Cost of Sales

Since this cost measure captures our key costs of production and the effect of prices for our by-products, nickel unit cash cost of sales after by-product credits represents a key performance measurement that management uses to manage our costs and operations.

Nickel unit cash cost of sales before by-product credits, representing a calculation equal to the total of all cash costs incurred to produce a unit of nickel before the deduction of contributions from by-products sold divided by Inco-source nickel deliveries, increased to $6,702 per tonne ($3.04 per pound) in 2005 from $5,732 per tonne ($2.60 per pound) in 2004. For 2005, the increase in nickel unit cash cost of sales before by-product credits was principally due to (i) the higher average Canadian U.S. dollar exchange rate which adversely affected our costs incurred in Canadian dollars, (ii) higher costs for heavy fuel oil and diesel fuel at PT Inco, (iii) higher electricity and natural gas prices at our Ontario operations, (iv) higher spending on supplies and services, and (v) lower nickel production, partially offset by approximately $40 million of net cost reductions and related savings achieved in 2005. In addition, we experienced lower costs for purchased intermediates due to lower volumes processed at our Canadian operations in 2005 partially offset by higher benchmark prices upon which such purchases are made. In 2004, nickel unit cash cost of sales before by-

product credits of $5,732 per tonne ($2.60 per pound) increased from $4,453 per tonne ($2.02 per pound) in 2003. For 2004, the increase in nickel unit cash cost of sales before by-product credits was principally due to (i) the higher cost for, and volumes of, purchased nickel intermediates, (ii) the higher average Canadian dollar-U.S. dollar exchange rate compared with 2003, (iii) higher costs for heavy oil at PT Inco, (iv) higher spending on supplies and services primarily as a result of increased production rates, and (v) higher earnings-based compensation payments, partially offset by the absence of ramp-up costs which we incurred in the third quarter of 2003 after the end of a strike at our Ontario operations, and the cost reductions and related savings as discussed below.

Nickel unit cash cost of sales after by-product credits increased to $5,842 per tonne ($2.65 per pound) in 2005 from $5,115 per tonne ($2.32 per pound) in 2004. For 2005, the increase in nickel unit cash cost of sales after by-product credits was due to higher unit cash cost of sales before by-product credits, partially offset by an increase in by-product credits. The increase in by-product credits was primarily due to higher realized prices for copper and certain PGMs partially offset by higher production costs for copper and lower deliveries of certain PGMs. In 2004, nickel unit cash cost of sales after by-product credits of $5,115 per tonne ($2.32 per pound) increased from $4,740 per tonne ($2.15 per pound) in 2003. For 2004, the increase in nickel unit cash cost of sales after by-product credits was due to higher nickel unit cash cost of sales before by-product credits, partially offset by higher by-product credits as a result of higher realized selling prices for and higher deliveries of our principal by-products.

We have used, and expect to continue to use, at least in 2006, purchased nickel intermediates to increase processing capacity utilization at our Ontario and Manitoba operations. While the cost of purchased nickel intermediates is higher than that for processing our own mine production and such costs increase as the prevailing prices, LME cash nickel or other benchmark prices, on which this material is purchased by us increases, the price realizations are also higher, resulting in margins on these purchases remaining relatively unchanged.

A reconciliation of our nickel unit cash cost of sales before and after by-product credits to cost of sales under Canadian GAAP for the periods indicated is shown in the table entitled Reconciliation of Nickel Unit Cash Cost of Sales Before and After By-Product Credits to Canadian GAAP Cost of Sales under Non-GAAP Financial Measure in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

In 2005, Inco realized net cost reductions and related savings of $40 million, which was below our target of $60 million for the year. In 2004, we realized cost reductions and related savings of $59 million.

Inco s nickel unit cash cost of sales, both before and after by-product credits, for the five years ended December 31, 2005 are shown in the following table:

Year	Nickel Unit Cash Cost of Sales Before By-Product Credits	Nickel Unit Cash Cost of Sales After By-Product Credits
	($ per pound)	
2001	1.56	1.35
2002	1.58	1.45
2003	2.02	2.15
2004	2.60	2.32
2005	3.04	2.65

Based upon the average exchange rate for the year, the Canadian dollar, the currency in which a substantial portion of our operating costs are incurred, increased by 7.2 per cent relative to the U.S. dollar in 2005. In 2004, the Canadian dollar increased by 7.5 per cent relative to the U.S. dollar. At December 31, 2005, the value of the Canadian dollar relative to the U.S. dollar was $0.858, compared with $0.831 at December 31, 2004 and $0.774 at December 31, 2003, and was $0.861 at March 13, 2006. At December 31, 2005, we had outstanding forward currency contracts to

purchase Cdn.$21 million at an average exchange rate of $0.845 during 2006. The purpose of these contracts is to eliminate the risk of exchange rate movements on a portion of the future construction costs of certain capital projects at our Ontario operations. For further information on these contracts and a discussion of the sensitivity of foreign currency exchange rates on the Company s earnings, see Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

For information regarding Inco s profit sharing and incentive arrangements and the collective agreements with our unionized employees, see Employees below.

Business Segment Information

Our business operations consist of two segments, our (i) finished products segment, representing our mining and processing operations in Ontario, Manitoba and Newfoundland and Labrador, our refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries referred to above, and (ii) intermediates segment, which represents PT Inco s mining and processing operations in Indonesia, where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market. In the fourth quarter of 2005, production of nickel and copper concentrates at the initial phase, representing an open-pit mine and concentrator and related facilities, of our Voisey s Bay project, operated by our wholly-owned subsidiary, Voisey s Bay Nickel Company Limited (VBNC), started and, accordingly, the assets relating to the initial phase of this project were reclassified from the development projects segment to the finished products segment. Voisey s Bay produces nickel concentrates for processing by our Ontario and Manitoba operations, as well as copper concentrate for sale to third parties.

For further information on our business segments by operating segment, including each segment s net sales to customers, earnings and total assets, and geographic location, see Note 18 to the financial statements under Item 8 of this Report.

Nickel

Applications for Nickel[1]

Nickel is a hard, malleable metal with a wide range of uses. Its principal characteristics include imparting strength and corrosion resistance in alloys. The following five general categories constitute the principal applications of nickel: (i) nickel-bearing or austenitic stainless steels, (ii) low-alloy steels, (iii) non-ferrous alloys, (iv) foundry industry castings and (v) non-alloying uses. Inco s nickel products represent what is known in the industry as primary nickel, a designation given to nickel produced principally from nickel ores. It is estimated that approximately 79 per cent of global primary nickel consumption relates to its end use in austenitic stainless steel production and as an alloy with other metals. The other type of nickel used in industrial applications is known as secondary nickel, which is also referred to as recycled or scrap nickel. Secondary nickel units are recovered largely from austenitic stainless steel manufacturing and fabricating operations and nickel-containing scrap from obsolete plant and equipment. In the recent past, secondary nickel has represented between 44 and 49 per cent of the total nickel used for austenitic stainless steels, with primary nickel accounting for between 51 and 56 per cent of such nickel use. These percentages can vary based upon relative prices, the availability of scrap and other factors.

The nickel industry generally divides its primary nickel products into three categories: (i) charge nickel products (products of various nickel purities produced in special forms for the stainless and low-alloy steel industries), (ii) melting nickel products (relatively pure metallic products for the non-ferrous metals and foundry industries) and (iii) plating nickel products (relatively pure nickel products in certain shapes or cut to certain sizes for the plating industry).

The largest use of primary nickel in the world has continued to be in the production of nickel-bearing or austenitic stainless steels. Stainless steels, defined as iron-based alloys containing 10.5 per cent or more chromium, are typically identified by their metallurgical structure austenitic, ferritic, martensitic, precipitation-hardening and duplex. Approximately 75 to 77 per cent of global stainless steel production in recent years has consisted of austenitic, or nickel-bearing, grades. On average, austenitic stainless steels contain approximately eight to 10 per cent nickel. Nickel-bearing stainless steels are used in a wide variety of applications ranging from consumer products to industrial process equipment, as well as for power generation and transportation equipment, kitchen appliances and hundreds of other applications where strength and corrosion resistance are required. Nickel use in nickel-bearing or austenitic stainless steels currently accounts for about 60 per cent of annual global primary nickel consumption.

A second, closely related, use of primary nickel is in low-alloy steels for construction and in structural, tool, high-strength and electrical steels. These steels are produced in greater volume than stainless steels but with a much lower nickel content, averaging less than one per cent nickel by weight. They account for about five per cent of annual global primary nickel demand.

[1] Unless otherwise indicated, data in this Report on applications for nickel are on a global basis. Reports prior to 2003 from the Company included data on a Western-World-plus-China basis. Western World is defined as the world excluding the former East Bloc countries (Russia and other members of the former Commonwealth of Independent States, China, Cuba, Bulgaria, the Czech Republic, Slovakia, Hungary, Poland and Romania).

The third category of nickel use is in non-ferrous alloys which, unlike the two categories of steel alloys noted above, contain little or no iron. These alloys, which are used primarily in industrial process plants, marine engineering applications, coinage, electronics, and gas turbine engine components, as well as in other diverse products, account for approximately 10 per cent of annual global primary nickel demand.

A fourth category is comprised of foundry industry castings, which consist of either iron alloys, steel alloys or non-ferrous alloys. These uses account for about four per cent of annual global primary nickel demand and represent the balance of the approximately 79 per cent of primary nickel used to make stainless steels and nickel-containing alloys.

The fifth category consists of various non-alloying uses of primary nickel. These uses account for the remaining 21 per cent of annual global primary nickel demand, and includes electroplating (representing about 11 per cent of primary nickel demand) and numerous applications of nickel powders, including Inco s specialty nickel powder products described under Inco Special Products below. Many consumer durable goods, such as metal furniture, are nickel-chrome electroplated. Nickel powder applications are a relatively small but important nickel-consuming sector. Given the properties of nickel powders, applications include dissolving nickel into salts for plating and catalysts for the petrochemical industry, and use in nickel-cadmium and nickel-hydride rechargeable batteries, lithium ion batteries, welding electrodes, metal sprays and specialized parts made by powder metallurgy.

As indicated above, primary nickel used in stainless and low-alloy steel sectors accounts for approximately 65 per cent of annual global primary nickel demand. In choosing to use primary nickel, these two sectors can generally use either charge nickel products or melting nickel products to satisfy their nickel requirements; however, they may also use secondary nickel units such as nickel-containing stainless steel scrap or other recycled nickel-containing material, with the decision of using primary or secondary nickel being based largely on relative prices and availability of these materials. See Prices Nickel above for a discussion of the percentages of nickel consumed as stainless steel scrap by stainless steel producers.

In early 2004, the Nickel Development Institute (NiDI), a non-profit association formed in 1984 to promote applications for nickel, and the Nickel Producers Environmental Research Association (NiPERA), an organization that Inco and other nickel producers formed in 1980 to focus on and fund scientific studies relating to environmental, health and other issues related to various forms of nickel, merged to form the Nickel Institute (NI). Inco had been a member of NiDI since it was founded. The NI, the membership of which represents more than 70 per cent of current world nickel production, generates and communicates information required to support the safe and sustainable production, use and re-use of nickel. It also provides a single membership and management structure for the activities previously undertaken separately by NiDI and NiPERA, such as research and development projects, including projects aimed at promoting the use of nickel-containing stainless steels, broadening markets for nickel-containing alloys resistant to extreme temperatures, high pressure and corrosion, and seeking to ensure that sound science is used as the basis for regulatory developments relating to the production and use of nickel and nickel-containing products and the recycling or disposal of nickel-containing waste materials. The NI has continued the nickel use-related technical work of NiDI, but has focused more on nickel issues related to stewardship and sustainable development, including the generation and use of knowledge about the full life cycle effects of nickel.

Historical Review of the Nickel Industry; Recent Industry Conditions[2]

The nickel market has been cyclical in nature over the past half-century given the positive correlation of nickel demand to industrial production.

Primary nickel demand in the Western World grew significantly during the 1946-1974 period in response to postwar reconstruction, increased per capita incomes and the rapid growth of the stainless steel industry. Annual demand increased from approximately 136,100 tonnes in 1950 to a then record level of approximately 620,000 tonnes in 1974. The compound rate of annual growth in nickel demand over the 1946-1974 period was about six per cent.

With the oil crisis in 1973, the substantial rise in energy costs resulted in a reduction in industrial production and a consequent reduction in primary nickel demand. These negative trends were repeated in the early 1980s following a second round of significant oil price increases in 1979-1980 but were reversed in the second half of the 1980s, when a period of strong industrial growth resulted in an increase in the demand for nickel.

[2] Data and estimates included in this historical review through 2002 are limited to the Western World because of limited available data for certain countries. See Note 1 above with respect to our definition of Western World.

Record growth in stainless steel production, accompanied by a shortage of nickel production, placed significant upward pressure on LME cash nickel prices in 1988 and 1989, with these prices averaging $13,823 per tonne ($6.27 per pound) and $13,338 per tonne ($6.05 per pound), respectively, for 1988 and 1989.

During the early 1990s, significant increases in primary and secondary nickel deliveries to the world from the Russian Federation (Russia) and other members of the former Commonwealth of Independent States (CIS), combined with economic downturns in North America, Western Europe and Japan, led to a surplus in primary nickel supply, resulting in a weakening of nickel prices. This situation was exacerbated in 1992 and 1993 by negative economic growth in Western Europe and Japan and continued exports of nickel from the CIS. From 1990 to 1993, annual average LME cash nickel prices fell from $8,885 per tonne ($4.03 per pound) to $5,291 per tonne ($2.40 per pound).

In 1994 and 1995, a worldwide economic recovery led to strong growth in stainless steel production and nickel demand, resulting in primary nickel demand exceeding supply and a recovery in nickel prices, with the LME cash nickel price rising to an average of $8,231 per tonne ($3.73 per pound) for 1995.

In the latter half of the 1990s, strong economic growth led to significant increases in stainless steel production and nickel demand, except that the Asian economic crisis in 1998 caused overall nickel demand to decrease slightly that year. The decrease in the demand for nickel during 1998, combined with the market s anticipation of large supplies of low-cost nickel from three new Australian laterite projects, Murrin Murrin, Bulong and Cawse, resulted in the LME cash nickel price reaching a low for the decade of $3,725 per tonne ($1.69 per pound) in December 1998. Nickel prices recovered during 1999, supported by the resumption of strong economic and nickel demand growth, with the LME cash nickel price reaching $8,450 per tonne ($3.83 per pound) at the end of 1999.

The LME cash nickel price continued to increase into 2000, reaching a peak of $10,660 per tonne ($4.84 per pound) in March 2000 but over the balance of 2000 declined to $7,190 per tonne ($3.26 per pound) by the end of that year. Favourable market conditions contributed to the increase in the average LME cash nickel price to $8,641 per tonne ($3.92 per pound) in 2000. World production of stainless steel increased by 8.8 per cent in 2000 to a then record level of 19.5 million tonnes. However, the use of primary nickel in this segment registered no growth in 2000 due to the increased supply of nickel-containing stainless steel scrap. Overall world demand for primary nickel grew by 5.8 per cent in 2000 to 1,109,000 tonnes, reflecting both stock building by consumers and an estimated 12 per cent growth in consumption for primary nickel in applications other than stainless steel. In 2000, world primary nickel supply increased by an estimated 78,000 tonnes to 1,105,000 tonnes, due mainly to a rise in primary nickel production in the Western World of approximately 52,000 tonnes, reflecting mainly production from new nickel capacity and the continued commissioning of the three new laterite projects in Australia referred to above. Demand for nickel in 2000 exceeded supply by approximately 4,000 tonnes, but we believe that additional material was withheld from the market by one leading nickel producer, as reflected in nickel inventories held in LME warehouses, which fell by over 37,000 tonnes during the year.

Market fundamentals weakened during 2001 as the world s major economies experienced softness. This weakness in demand was primarily concentrated in the Western World where nickel demand declined significantly. While there was continued strength in nickel demand in China in 2001, Inco estimates that there was an overall decline in world nickel demand in 2001 of 2.2 per cent to approximately 1,085,000 tonnes with world primary nickel production increasing by 43,000 tonnes to 1,148,000 tonnes in 2001. The largest sources of this increase in supply were the continued ramping up of the laterite projects in Australia and the commissioning of new capacity in Venezuela and Colombia. The world nickel market in 2001 shifted to a surplus position of approximately 63,000 tonnes following the deficit positions in the previous two years. Over 2001, nickel inventories held by consumers are estimated to have fallen by 13,000 tonnes while LME inventories increased by only 9,510 tonnes, ending 2001 at 19,188 tonnes. The cash nickel price on the LME opened 2001 at $6,995 per tonne ($3.17 per pound) but declined to the year s low of $4,420 per tonne ($2.00 per pound) in late October 2001. With the aggressive reduction of interest rates in the United States and renewed prospects for an economic recovery, prices for nickel improved in the fourth quarter of 2001 and the LME cash nickel price increased to $5,680 per tonne ($2.58 per pound) as of December 31, 2001.

The nickel market strengthened in 2002 as world demand grew by approximately eight per cent during the year to 1,168,000 tonnes despite continued weakness in certain large segments of the global economy. The growth in nickel demand in 2002 was primarily concentrated in the stainless steel sector where the demand in this use increased by

almost 10 per cent, driven by an increase in stainless steel production and minimal growth in the use of nickel-containing stainless steel scrap by stainless steel producers. World stainless steel production increased by 7.9 per cent to approximately 20.8 million tonnes. This production growth was particularly strong in the United States, where production increased by 20 per cent, driven by the opening of a new 800,000 tonne-per-

year stainless steel production facility in Kentucky, and in Taiwan, where production increased by 20 per cent as existing facilities operated at near-capacity levels. The growth in primary nickel supply in 2002 came principally from (i) Colombia and Venezuela, where new or greenfield projects were completing their ramp-up to their design capacities, (ii) Australia, where production increased from the continued ramp-up of one project and higher production from certain existing producers, and (iii) Japan, where production in the form of ferronickel rebounded to near-capacity levels. The strong growth in nickel demand largely offset the growth in nickel production in 2002, resulting in a small surplus of approximately 8,000 tonnes for the year. Inventories of nickel on the LME increased slightly during 2002, remaining at a relatively low level of 21,972 tonnes at December 31, 2002. The LME cash nickel price opened 2002 at $5,680 per tonne ($2.58 per pound) and increased during the first half of 2002 as the economies of certain industrialized countries began to recover, ending the first half of the year at $7,080 per tonne ($3.21 per pound). Prices declined through the third quarter, reaching a low of $6,305 per tonne ($2.86 per pound) in September 2002 as concern over the pace of economic recovery and uncertainty about a potential war involving Iraq adversely affected the nickel markets. The LME cash nickel price recovered in the fourth quarter, underpinned by improving fundamentals for nickel, ending 2002 at $7,100 per tonne ($3.22 per pound).

The world nickel market strengthened in 2003 as demand grew by approximately seven per cent during the year to 1,244,000 tonnes despite continued weakness in certain large segments of the global economy. During 2003, growth in industrial production continued in China and was positive in the United States and Japan for the first time in three years, while economic recovery in Europe continued to struggle to take hold. The growth in nickel demand in 2003 was concentrated in the stainless steel sector. Nickel demand growth in this sector increased by almost eight per cent in 2003, driven by a significant increase in stainless steel production and a decline in the stainless steel scrap-ratio. Nickel demand growth in non-stainless steel applications was relatively weak in 2003, as one important end-use market, high nickel alloys for the aerospace industry, continued to struggle with new aircraft orders remaining at relatively depressed levels. However, demand for nickel in plating applications was relatively strong, led by growth in these applications in China, slightly offset by reduced demand for these applications in Europe and the United States. The growth in world production of primary nickel in 2003 could not keep pace with the demand growth experienced that year. Production of primary nickel in 2003 was adversely affected by the labour disruption at our Ontario operations during a three-month period beginning June 1, 2003, resulting in effectively no production from these operations for this period where they would normally produce about 9,000 tonnes (20 million pounds) of primary nickel per month. We believe that several other major producers failed to reach their 2003 projected production targets due to unexpected maintenance or operational problems. The shortfall in production was partially offset by the release of approximately 60,000 tonnes into the market during 2003, which nickel had been used as collateral for a loan to one nickel producer. In addition, production of ferronickel in Australia, New Caledonia, Colombia and the Dominican Republic increased in 2003. As a result, world primary nickel production increased by 28,000 tonnes to 1,204,000 tonnes in 2003. World primary nickel supply increased to 1,264,000 tonnes, taking into account the release into the market of the 60,000 tonnes used as loan collateral discussed below. The significant growth in nickel demand during 2003, coupled with the limited supply growth, created an underlying deficit between supply and demand in 2003 of approximately 40,000 tonnes. With the release in 2003 of 60,000 tonnes of nickel that one producer had pledged as collateral for a loan, we believe there was a small surplus in the global nickel market of approximately 20,000 tonnes in 2003. Inventories of nickel on the LME increased slightly during 2003 by 2,100 tonnes, remaining at a relatively low level of 24,072 tonnes at December 31, 2003. The LME cash nickel price averaged $9,860 per tonne ($4.47 per pound) in 2003. At the end of 2003, the LME cash nickel price was $16,650 per tonne ($7.55 per pound), an increase of 135 per cent compared with $7,100 per tonne ($3.22 per pound) at the end of 2002.

The year 2004 was one characterized by high nickel prices, which we believe were due principally to broad-based growth in global demand for nickel. The increase in demand was attributed to a recovery in non-stainless steel applications for nickel. Primary nickel demand in stainless steel applications experienced virtually no growth in 2004, despite strong global stainless steel production growth, due to a large increase in nickel-containing scrap consumption and substitution for nickel in certain stainless steel applications. The increase in nickel demand was driven by the strongest global industrial production growth in 10 years, led by continued economic growth in China, as well as economic growth in South Korea, Taiwan and Japan. The economies of the United States and Europe also exhibited

growth above the levels seen in the recent 2000-2003 period. The global nickel market was in deficit for 2004 as the level of demand exceeded the level of supply. We believe that relatively low physical inventories, high prices and the active trading in nickel by investment, hedge or similar funds which purchase and sell or otherwise trade in metals for profit (Metals Trading Funds) contributed to volatile price conditions in 2004.

The growth in primary nickel demand in 2004 was concentrated in the non-stainless steel sector, which increased by seven per cent, as demand for nickel for the production of high nickel alloys improved as the recovery of the aerospace industry continued. World production of stainless steel increased by eight per cent to approximately 24.6 million tonnes. Stainless steel production expanded in all major industrialized geographic regions and was particularly strong in South Korea where new production facilities operated at capacity during the year. However, primary nickel demand growth in the stainless steel sector was adversely affected by a

large increase in stainless steel scrap consumption, as well as an increase in the production of stainless steels containing relatively low amounts or grades of nickel (one to four per cent nickel) and grades containing no nickel compared with higher nickel containing stainless steel grades (eight to 10 per cent nickel).

World supply of primary nickel in 2004 was lower than world nickel supply in 2003, although production of primary nickel increased by four per cent in 2004, due to the relatively large stockpile releases in 2003. World primary nickel production in 2004 totalled 1,255,000 tonnes, an increase of 51,000 tonnes, of which approximately 50 per cent was the result of our recovery from our strike-impacted levels experienced in 2003. However, world primary nickel supply of 1,255,000 tonnes decreased from 1,264,000 tonnes in 2003, taking into account the release into the market in 2003 of 60,000 tonnes initially pledged by one producer as collateral for a loan.

The growth in nickel demand during 2004, coupled with the overall decline in supply for 2004, created a deficit between supply and demand of approximately 7,000 tonnes. Inventories of nickel on the LME decreased during 2004 by 3,174 tonnes to a relatively low level of 20,898 tonnes at December 31, 2004.

For a discussion of the LME cash nickel price during 2004, see Overview Key Factors Affecting our Business 2004 Nickel Market Highlights in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

The year 2005 represented a year of two very distinct periods for the nickel industry. We believe that the first half of the year reflected relatively strong demand for nickel, relatively tight supplies of nickel, nickel buying activity from Metals Trading Funds, falling LME nickel inventories and relatively strong nickel prices. However, by the start of the third quarter a significant negative shift began in the supply-demand fundamentals of the nickel market, as we believe demand weakened, Metals Trading Funds sold the nickel positions they had acquired, LME inventories increased and prices fell. The significant deterioration in market conditions was, we believe, the result of a large reduction in global stainless steel production in the second half of the year, as discussed below. For 2005 as a whole, nickel demand grew by less than one per cent from 2004 levels. The non-stainless steel uses for nickel, in particular for high nickel alloys, plating and battery materials, were the only end uses for primary nickel to experience demand growth in 2005. Primary nickel demand in stainless steel applications experienced a sharp contraction in 2005, with global stainless steel production falling by one per cent in 2005 from 2004 levels, and primary nickel demand for this application declining by about six per cent compared with 2004. Demand was also negatively affected in this key application by substitution of other metals or other materials for nickel in certain stainless steel applications and a higher relative usage of secondary, or scrap, nickel.

We believe that relatively low inventories of nickel, high prices and the active trading of Metals Trading Funds, factors which were also prevalent and, accordingly, affected the nickel markets in 2004, contributed to the continued volatile price conditions experienced in 2005. The difference between the high and low daily LME cash nickel prices for 2005 was $6,250 per tonne ($2.83 per pound). We estimate that the global nickel market was in a slight surplus for 2005 as the level of demand was more than covered by the level of supply. However, we believe that the level of demand was restrained by the relatively high nickel prices in at least the first half of 2005, and that demand would have been significantly stronger had prices been closer to historic averages.

The modest growth in primary nickel demand in 2005 was, as noted above, due to the strength in non-stainless steel uses for nickel, as demand from the stainless steel sector, the largest end use of primary nickel, was adversely affected by several factors as discussed below. Nickel demand growth for non-stainless steel uses increased by eight per cent in 2005, as demand for nickel for the production of high nickel alloys improved as a result of the continued strength in demand for high nickel alloys used in the aerospace industry and for land-based gas turbines, as well as growth in the oil and gas, liquid natural gas and battery applications for nickel. Nickel demand from battery applications improved in 2005, in part due to the increased production of hybrid electric vehicles.

World production of stainless steel increased by approximately seven per cent during the first half of 2005, consistent with the relatively strong production growth rates seen in this area for 2003 and 2004. This growth was due, in part, to increased capacity utilization at several large-scale stainless steel manufacturing facilities, as well as new production capacity coming on stream, particularly in China. The strong stainless steel production growth in the first half of 2005, combined with strength in the non-stainless steel market, led to nickel demand growth of approximately six per cent in the first half of the year. However, end-use consumption of stainless steel did not keep pace with

stainless steel production and global inventories increased during the first half of the year. We believe that the increase in global stainless steel inventories was a sign of an oversupplied market that, in turn, triggered sharply falling stainless steel prices beginning in July 2005. At the beginning of the third quarter of 2005, almost all major stainless steel producers had begun to reduce production levels in an effort to reduce the relatively high global inventory levels of stainless steel and, through such supply reductions, correct this oversupply situation. Most of these production cuts were maintained through the end

of 2005. We estimate that stainless steel production curtailments in the second half of the year led to an overall production decline in stainless steel production in the second half of 2005 of nine per cent compared with the second half of 2004. This sharp reduction in stainless steel production, in turn, led to a significant reduction in demand for primary nickel used in stainless steel. The global stainless steel market also used relatively high amounts of secondary or scrap nickel in 2005 compared with prior years, as well as increasing the production of stainless steels containing relatively low amounts or grades of nickel (one to four per cent) and grades containing no nickel compared with stainless steels with higher nickel grades (eight to ten per cent nickel).

The growth in the world supply of primary nickel in 2005 was adversely affected by several unexpected disruptions. While domestic production by certain producers did increase in certain countries or territories, including China, New Caledonia and Norway, these increases were largely offset by reductions in output or lower than planned increases by producers in other countries. Overall production of primary nickel increased by approximately 2.4 per cent in 2005, about half of the long-term average production growth rate of four per cent. Several producers experienced production problems as labour disruptions or shortages, feed material shortages, inclement weather, technological challenges and extended maintenance shutdowns curtailed output below originally announced planned levels for 2005. Approximately two thirds of global nickel production growth was the result of a ramp-up in Chinese nickel production, in an effort to reduce that country s nickel import requirements. World primary nickel supply increased by 30,000 tonnes to 1,285,000 tonnes in 2005. We believe that no stockpiles of nickel were released into the market in 2005 or 2004, in contrast to what occurred in 2003.

The slower than average growth in nickel demand for 2005, coupled with a relatively modest amount of growth in nickel supply for the year, created a surplus for the year that we estimate to have been approximately 15,000 tonnes. However, as discussed above, the supply-demand relationship was in a deficit in the first half of the year and moved to a surplus in the second half of the year. Inventories of nickel on the LME decreased during the first half of 2005 to a low of 4,926 tonnes. However, the decline in demand in the second half of the year led to a steady increase in LME inventories during this period to a level of 36,042 tonnes at December 31, 2005. LME nickel inventories have decreased in the first 10 weeks of 2006, with such inventories totalling 34,266 tonnes as of March 13, 2006.

For a discussion of the LME cash nickel price during 2005, see Overview Key Factors Affecting our Business 2005 Nickel Market Highlights in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

An uncertain global economic environment would be expected to have a significant adverse effect on Inco s business and financial results given the historical positive correlation between industrial production and demand for primary nickel and our other products. There can be no assurance that the over-supply situations which have existed historically in the nickel markets could not reoccur in the future. Any such conditions would have an adverse effect on the prices realized by us for our nickel products. Other international economic trends, expectations of inflation and political events in major nickel producing and consuming countries can also adversely affect nickel prices and the prices of other metals produced by us. These factors are beyond our control and have resulted, and are expected to continue to result, in a high degree of price volatility for nickel and other primary metals produced by us. There can be no assurance that the price for nickel or other metals produced by us will not decline. A return to the nickel price realizations for us reasonably near to the LME cash nickel price which prevailed through most of 1998 and into the first half of 1999 and during a portion of the second half of 2001 would have a material adverse effect on our results of operations, financial condition, cash flows and liquidity.

World primary nickel demand has increased at an average compound annual rate of approximately four per cent over the last ten years. As noted under Applications for Nickel above, about two-thirds of world primary nickel demand is associated with the production of austenitic stainless steels. The following table shows the relationship between our most recent estimates of world primary nickel demand and stainless steel production for the five years ended December 31, 2005:

Year	World Primary Nickel Demand[1] (in tonnes)	World Stainless Steel Production (in millions of tonnes)
2001	1,085,000	19.0
2002	1,168,000	20.8
2003	1,244,000	22.7
2004	1,262,000	24.6
2005[2]	1,270,000	24.3

(1) Previously disclosed figures were provided on a Western World-plus-China basis.

(2) Preliminary estimates.

The following table shows Inco s most recent estimates of world primary nickel demand, world primary nickel supply, year-end combined Western World producers and LME inventories of primary nickel, year-end LME nickel inventories and the average annual LME cash nickel prices for the five years ended December 31, 2005:

Year	World Primary Nickel Demand	World Primary Nickel Supply	Year-End Combined Western World Producers and LME Inventories[2]	Year-End LME Inventories	Average Annual LME Cash Nickel Prices ($ per tonne)
	(in tonnes)				
2001	1,085,000	1,148,000	106,000	19,188	$ 5,948
2002	1,168,000	1,176,000	100,000	21,972	6,772
2003	1,244,000	1,264,000	104,000	24,072	9,640
2004	1,262,000	1,255,000	111,000	20,898	13,852
2005	1,270,000[1]	1,285,000[1]	127,000[1]	36,042	14,733

(1)

Preliminary estimates.

(2) Excludes Russia, other members of the former CIS, China, Cuba and Eastern Europe.

Future nickel consumption and nickel prices could be adversely affected by a number of factors, including the development of new nickel capacity, such as the new capacity described below under Participants in the Nickel Industry ; new processing technologies which have made, and are expected to continue to make, the development of relatively low-grade lateritic nickel deposits economically viable; decreases in the general level of economic and business activity in industrial economies which, in turn, could lead to reduced production of stainless steel; levels of nickel-containing stainless steel scrap and other sources of secondary nickel; increased environmental restrictions affecting the production and use of nickel and nickel-containing products; recommissioning of any currently remaining shutdown nickel capacity; and, in the longer term, increased use of substitutes, including plastics and ceramics, for nickel-containing materials. In addition, the future levels of production and consumption of nickel in Russia are expected to continue to have significant, but unpredictable, effects on world nickel prices.

Participants in the Nickel Industry

The five largest suppliers in the nickel industry, each having its own integrated facilities, including nickel mining, processing, refining and marketing operations, are MMC Norilsk Nickel (Norilsk), Inco, BHP Billiton plc (BHP Billiton), Falconbridge and Jinchuan Nonferrous Metals Corporation (Jinchuan). Inco estimates that these five producers accounted for about 62 per cent of the total world primary nickel production in 2005. In addition to these five principal industry participants, there are approximately 25 other producers in numerous other countries around the world that participate in the nickel industry. Operations of the five largest producers are located in several countries. Norilsk has operations in Russia. Inco, as noted on page 1 of this Report, has operations in Canada, the United Kingdom, Indonesia, Japan and China and in other parts of Asia through two companies, Taiwan Nickel and Korea Nickel, in whose refining capacity Inco has interests, but less than majority ownership. BHP Billiton has operations in

Australia and Colombia; Falconbridge has operations in Canada, Norway and the Dominican Republic; and Jinchuan has operations in China.

Norilsk has integrated facilities at Norilsk in Siberia and at Pechenga and Severonickel on the Kola Peninsula of Russia. For 2005, Norilsk reported production of approximately 243,000 tonnes of nickel from all of its facilities, compared with 243,000 tonnes in 2004 and 239,000 tonnes in 2003. Nickel exports from Russia were 262,000 tonnes in 2005, compared with 251,000 tonnes in 2004 and 238,000 tonnes in 2003.

Inco s Position in the Nickel Industry

Inco is a leading producer of nickel. Our nickel deliveries in 2005 represented an estimated 19 per cent of the total world demand for primary nickel, compared with 20 per cent in 2004 and 17 per cent in 2003.

Our total deliveries of nickel in 2005 were 246,282 tonnes, representing a decrease of two per cent from total deliveries of 251,882 tonnes in 2004. Deliveries of Inco-source nickel were 223,811 tonnes in 2005, representing a decrease of five per cent from deliveries of 235,185 tonnes in 2004, primarily due to decreased production at our Ontario and Manitoba operations in 2005 as a result of scheduled major maintenance shutdowns and slower than planned ramp-ups after such shutdowns, as discussed below. In 2004, our deliveries of Inco-source nickel represented an increase of 28 per cent from deliveries of 184,110 tonnes in 2003. This increase was primarily due to increased production at our Canadian and U.K. operations as well as at PT Inco.

We believe that one of the key strengths of our position in the highly-competitive global nickel industry is the broad geographic distribution of our customers. In 2005, we continued to supply our customers worldwide from our operations in Canada, the United Kingdom and Asia. In 2005, reflecting our global market presence, 27 per cent of our total primary nickel deliveries were to customers in the United States and Canada, 23 per cent to customers in Japan, 11 per cent to customers in Europe, and 39 per cent to customers in other countries, primarily in Asia, compared with 25 per cent to customers in the United States and Canada, 23 per cent to customers in Japan, 11 per cent to customers in Europe, and 41 per cent to customers in other countries, primarily in Asia, in 2004. In 2005, sales to customers in Asia, including Japan, represented 60 per cent of our total nickel deliveries for the year, compared with 62 per cent in 2004.

We have fixed-volume contracts with customers for a substantial portion of our expected annual nickel sales. These contracts, combined with the requirements of our affiliated refineries in Asia and our sales of proprietary nickel products, have continued to provide stable demand for a significant portion of our annual production.

The following table shows, for the five years ended December 31, 2005, our most recent estimates of total world primary nickel demand, our total nickel deliveries, our deliveries of purchased nickel, our estimated share of world demand based on our total nickel deliveries, the LME average cash and three-month nickel prices and our average realized price for our primary nickel products:

Year	World Primary Nickel Demand	Total Inco Deliveries[1] (in tonnes)	Inco Deliveries of Purchased Nickel	Inco Share of World Demand (%)	LME Average Cash Nickel Price	LME Average 3-Month Nickel Price ($ per tonne)	Inco Average Realized Nickel Price[1]
2001	1,085,000	230,049	22,978	21	5,948	5,877	6,468
2002	1,168,000	231,590	19,343	20	6,772	6,755	7,143
2003	1,244,000	213,890	29,780	17	9,640	9,610	9,860
2004	1,262,000	251,882	16,697	20	13,852	13,765	13,906
2005	1,270,000[2]	246,282	22,471	19[2]	14,733	14,551	14,842

(1) Includes intermediates and purchased nickel.

(2) Preliminary estimates.

Inco Special Products

Inco is a world leader in the development, production and sale of value-added or specialty nickel products, including powders, foams, flakes, oxides and nickel-coated graphite. These products are used for such applications as consumer electronics, rechargeable batteries for consumer and hybrid vehicle use, fuel cells, powder metallurgy, automotive parts, electromagnetic interference shielding for computers and cellular telephones, special catalysts and salts, metal injection moulding, and hard metal binders.

Inco Special Products, an unincorporated business unit, has responsibility for all business activities related to our value-added or specialty nickel products. These products, most of which are developed at our research laboratory at Mississauga, Ontario, are manufactured at our refineries in Sudbury, Ontario and Clydach, Wales, using our proprietary gas decomposition technology, and at Novamet[3] Specialty Products Corporation, a wholly-owned subsidiary of Inco Limited located in Wyckoff, New Jersey, and our Dalian and Shenyang joint ventures in China. Inco Special Products expects to continue to work closely with customers to develop advanced nickel products to meet their needs. Accounting for approximately nine per cent of Inco s nickel sales revenue in 2005, compared with eight per cent in 2004 and nine per cent in 2003, value-added or specialty nickel products are sold at premium prices. These premiums are affected by fluctuations in the LME cash nickel price and how we price certain of our value-added or specialty nickel products.

Copper

We produce copper at our Ontario operations which we recover, in conjunction with nickel, principally from the sulphide ores mined in the Sudbury area of Ontario. In 2005, our finished copper production, including anodes production, was 125,595 tonnes, representing an increase of one per cent from 124,456 tonnes in 2004. In addition, production of copper in concentrates from our Voisey s Bay operations was 4,406 tonnes in 2005. In 2004, copper production increased by 37 per cent from 91,134 tonnes in 2003, reflecting a return to normal production levels following a three-month strike and ramp-up problems associated with the restart of operations after the strike at our Ontario operations in 2003.

In May 2005, our Ontario operations announced that it would be closing its copper refinery in Sudbury as a result of a number of factors, including the size of the refinery and its cost structure relative to the leading copper refineries in the world. The closure of this facility resulted in an after-tax asset impairment charge of $14 million in the second quarter. In late June 2005, we announced that we had entered into a long-term agreement with Noranda Inc. (now Falconbridge, following the combination of Noranda Inc. and the company then known as Falconbridge at the end of June 2005) under which Inco agreed to sell all of its copper production from its Ontario operations in anode form to Falconbridge. This agreement, which covers a period of 10 years beginning January 1, 2006 and is subject to extension, also provides for the recovery by Falconbridge at its Montreal, Quebec copper refinery of all other metals in the copper anodes, with Inco receiving back the nickel and PGMs recovered from the anodes subject to certain treatment charges and Falconbridge purchasing and paying Inco for all of the gold and silver recovered. It is currently estimated that between approximately 104,000 and 126,000 tonnes annually of contained copper in anode form will be purchased and processed by Falconbridge under this agreement. The actual volume of copper in anode form to be purchased and processed by Falconbridge under the agreement will depend upon a number of factors, including the timing of certain capital expenditures and related changes to Falconbridge s Montreal-based copper refinery to enhance the recovery of nickel and certain of the other metals contained in the anodes.

Copper accounted for $463 million, or 10 per cent, of our net sales to customers in 2005, compared with $364 million, or nine per cent, in 2004.

Our sales and deliveries (including purchased copper) for the past three years and our average realized prices for copper for the past five years are shown in the tables under Sales , Deliveries and Prices Copper above, respectively.

World refined copper production is currently estimated to have been approximately 16.3 million tonnes in 2005, compared with 15.8 million tonnes in 2004 and 15.2 million tonnes in 2003.

Like nickel prices, copper prices have been in recent years, and are expected to continue to be, subject to significant price volatility. In 2004, strong economic growth in Asia, in particular China, combined with the relatively strong economic recovery in the United States, led to an increase in global copper demand. Global copper production was, however, negatively impacted in 2004 by an open-pit mine collapse at one leading copper producer as well as labour disruptions at various other copper production facilities. By the end of 2004, combined reported copper stocks on the COMEX Division of the New York Mercantile Exchange and the LME had declined from year-end 2003 levels by over 86 per cent to 97,100 tonnes in total. The LME cash copper price averaged $2,868 per tonne ($1.30 per pound) in 2004, a 61 per cent increase over the average price of $1,780 per tonne ($0.81 per pound) in 2003. In 2005, continued economic growth in Asia, combined with a number of supply disruptions at various copper mining and refining operations, resulted in a tightly balanced market for copper. Inventory of reported copper stocks on the

COMEX and the LME at year-end were 98,407 tonnes, basically unchanged from year-end 2004. The LME cash copper price averaged $3,684 per tonne ($1.67 per pound) in 2005, representing a 28 per cent increase from the average price in 2004. For the fourth quarter of 2005, the LME cash

3 Inco trademark

copper price averaged $4,297 per tonne ($1.95 per pound), compared with a third quarter 2005 average of $3,759 per tonne ($1.70 per pound). For the month of December 2005, the LME cash copper price averaged $4,577 per tonne ($2.08 per pound). The LME cash copper price reached a new record of $5,145 per tonne ($2.33 per pound) on February 7, 2006 and has remained above $4,405 per tonne ($2.00 per pound) through to mid-March 2006. The LME cash copper price was $4,946 ($2.24 per pound) on March 13, 2006.

Other Primary Metals and Related Products

Other primary metals and related products accounted for nine per cent of our total net sales to customers in 2005, compared with 10 per cent in 2004 and eight per cent in 2003. These products include cobalt, platinum-group metals or PGMs (platinum, palladium, rhodium, ruthenium and iridium) (PGMs), gold, silver, sulphuric acid, liquid sulphur dioxide and some modest quantities of selenium and tellurium. For 2005, based upon production principally from our Ontario ores, we accounted for approximately three per cent of the world s supply of PGMs. PGMs are utilized primarily for catalysts, electronic components and jewellery. In addition to refining our own ores to obtain PGMs, we process substantial volumes of spent automotive catalytic converters and other material containing these metals at our Sudbury, Ontario and Acton, England refineries. In 2005, such other material, which was principally toll-refined, accounted for about 64 per cent of all PGMs refined by us, compared with 64 per cent in 2004 and 76 per cent in 2003. Deliveries of toll-refined material, however, are not included in our deliveries of precious metals shown in the table under Deliveries above since we do not take ownership of these materials. Sales of PGMs accounted for approximately five per cent of our net sales to customers in 2005, compared with five per cent in 2004 and four per cent in 2003.

Approximately 85 per cent of Inco s cobalt production, which is derived from its Canadian ores and purchased feedstock material, is sold as metal, with the balance being sold as a cobalt intermediate product. The intermediate product is used by chemical producers to make cobalt-based chemicals. Cobalt metal is used in the production of various alloys, particularly for aerospace applications, as well as the manufacture of cobalt-based chemicals.

Copper and nickel producers supply a majority of the world s cobalt production as a by-product of their copper and nickel operations, which has resulted in the supply of cobalt being largely driven by the demand for copper and nickel rather than the demand for cobalt. As a result, there has been a significant increase in the supply of cobalt in the last decade. Demand for cobalt from the aerospace and land-based gas turbine sectors, which together currently represent about 22 per cent of world cobalt consumption, was strong in 2005, returning to the levels of demand that existed prior to September 11, 2001. The total demand for cobalt also increased in 2005 as a result of the growth of applications for cobalt in the battery and catalyst market sectors. The supply and demand fundamentals for the cobalt market were, we believe, in balance during 2005. No significant new supply came onto the market from the traditional copper- and nickel-based sources; however, additional supplies came from the Democratic Republic of Congo. The Metal Bulletin 99.8 average cobalt reference price, the most commonly used benchmark price for the pricing of high grade cobalt, averaged $34,863 per tonne ($15.81 per pound) for 2005, compared with $53,177 per tonne ($24.12 per pound) in 2004 and $23,951 per tonne ($10.86 per pound) in 2003, while the Metal Bulletin 99.3 average cobalt reference price, the most commonly used benchmark price for the pricing of lower grade cobalt, averaged $32,084 per tonne ($14.55 per pound) for the year, compared with $50,215 per tonne ($22.78 per pound) in 2004 and $21,564 per tonne ($9.78 per pound) in 2003. On March 10, 2006, the Metal Bulletin 99.8 and 99.3 average cobalt reference prices were $30,049 per tonne ($13.63 per pound) and $27,514 per tonne ($12.48 per pound), respectively.

As indicated in the table of Inco s price realizations under Prices Other Metals above, Inco s average realized price for its cobalt deliveries was $32,828 per tonne ($14.89 per pound) in 2005, compared with $46,442 per tonne ($21.07 per pound) in 2004 and $18,846 per tonne ($8.55 per pound) in 2003. Our Goro and Voisey s Bay projects, in addition to the quantities of nickel projected to be produced by them, are also expected to produce significant quantities of cobalt given the currently estimated quantities of cobalt that are present in the mineral deposits to be mined as part of these projects. We currently estimate that we will produce about 1,100 tonnes of cobalt from Voisey s Bay nickel concentrates in 2006. The price of cobalt has fluctuated significantly over the past several years. The financial analyses undertaken by Inco in 2004 in support of the substantial planned investment to be made with respect to the Goro project were based upon a long-term price of cobalt of $19.85 per kilogram ($9.00 per pound). If realized cobalt prices, as well as realized prices for the other metals to be produced by these two projects, were to be below the

long-term prices assumed by us, the expected financial returns from, and expected cash and other unit costs of production after by-product credits for, these projects would be adversely affected.

Inco also produces sulphuric acid and liquid sulphur dioxide from the sulphur dioxide gases captured as part of its sulphur dioxide (SO_2) abatement program at the Ontario operations. We produced a total of 626,000 tonnes of sulphuric acid and liquid sulphur dioxide in 2005, compared with in 676,000 tonnes in 2004 and 473,805 tonnes in 2003. Most of our sulphuric acid production and all of our liquid sulphur dioxide production are sold to Chemtrade Logistics Income Fund, an unaffiliated customer, under long-term

contractual arrangements at prices based on prevailing market prices for these products. These products are included in the table of product deliveries under Deliveries above.

Tables showing the Company s sales, deliveries and average net realized prices of these other primary metals and related products are shown under Sales , Deliveries and Prices Other Metals above.

Mining and Production

General

Based on publicly available information and our own studies and analysis, we believe that, relative to other nickel producers, we are a low-cost producer of nickel. Since low-cost operations are essential in the highly competitive global nickel business, one of our key strategic objectives is to become the world s lowest-cost and most profitable producer of nickel. A number of favourable factors, as described below, generally contribute to our current cost structure, with the contribution of each factor varying from year to year. We and a number of other nickel producers continued in 2005 to experience some of the same cost pressures we did in 2004, including higher energy costs and the impact of the strengthening of the Canadian dollar and certain other currencies in which some or all of their costs of production are incurred relative to the U.S. dollar, the currency in which at least some of their revenue is received.

Our estimated ore reserves include both sulphide and laterite nickel deposits which are the two main types of nickel deposits found in the world. Sulphide deposits currently account for about 30 per cent of the world s estimated nickel resources and are found in bedrock, often deep below the surface, which generally makes them more costly to mine than laterite deposits. Sulphide deposits commonly contain copper, precious metals and cobalt in addition to nickel. Laterite deposits, which currently account for the remaining approximately 70 per cent of the world s estimated nickel resources, occur as either wet laterites or dry laterites. Wet laterites are found in tropical areas where heavy rainfall combined with suitable landforms have resulted in the concentration of nickel through a process of surface weathering and leaching action. Currently, wet laterites may be processed by using either smelting or acid leaching technology, depending on the characteristics of the particular deposit. Dry laterites, such as those found in Australia, may be processed only by using acid leaching technology due to their mineralogy and their generally lower nickel content compared with wet laterites. Laterite deposits are found at or near the surface and are therefore usually amenable to low-cost surface mining. Cobalt is also usually present in these deposits.

We have large sulphide orebodies with satisfactory ore grades and metallurgical properties principally at our Ontario operations and at the Voisey s Bay project and certain sulphide orebodies with generally declining ore grades at our Manitoba operations, and large lateritic orebodies with satisfactory ore grades and metallurgical properties at our operations in Indonesia. In addition to nickel, we recover significant quantities of precious metals from our Ontario ores and significant quantities of copper and cobalt from our Ontario ores and, beginning in 2006, from our Voisey s Bay ores. The relative economic advantages of our Canadian sulphide ores are offset, to some degree, by the higher mining costs for sulphide ores relative to lateritic ores and by higher costs of doing business in Canada relative to some other nickel-producing countries. Our unit costs of production also generally benefit from economies of scale attributable to our large, integrated mining and processing facilities and from the use of bulk mining methods and automated mining equipment and other productivity improvements implemented in recent years in all areas of our business.

Energy costs are a significant component of production costs in the nickel industry since nickel production is very energy- intensive, especially with respect to costs of processing lateritic ores such as those processed at our PT Inco operations. Energy requirements for production from our Canadian sulphide ores are generally only about one-fifth of the energy required to process lateritic ores. In addition, low-cost energy is available from our hydroelectric facilities in Ontario and at PT Inco s lateritic mining operations in Indonesia, and from purchased hydroelectric power at our Manitoba operations.

In 2005, our hydroelectric facilities in Ontario generated approximately 14 per cent of our Ontario operations electricity requirements, and PT Inco s 165-megawatt hydroelectric generating facility at Larona together with its 93-megawatt hydroelectric generating facility at Balambano generated virtually all of PT Inco s 2005 electricity requirements. The Balambano facility continued to generate power consistently above its design capacity due to improved water management practices and higher reservoir levels and other related factors than were assumed in developing its original design capacity. In 2005, energy costs at our Ontario and Manitoba operations were

approximately 14 per cent of their total cash production costs, compared with 43 per cent for PT Inco. The availability of captive hydroelectric power decreased cash energy costs at PT Inco by about 47 per cent in 2005, 53 per cent in 2004 and 51 per cent in 2003 relative to the energy costs that would have been incurred by PT Inco if its operations were dependent on fuel oil as the sole source to meet its energy requirements.

Our Ontario operations benefit significantly, and our Manitoba operations benefit to a minor extent, from the copper, precious metals and cobalt produced in association with nickel. In 2005, our Ontario ores accounted for approximately 92 per cent of our copper production, 90 per cent of our by-product PGMs production and 57 per cent of our by-product cobalt production, with one per cent of our copper production, five per cent of our by-product platinum-group metals production and 19 per cent of our cobalt by-product production derived from our Manitoba ores. We also produce nickel, copper, cobalt and precious metals from purchased materials. Precious metals have relatively high selling values compared with our processing costs for these metals. Inco s accounting and financial reporting practice is to include revenues from deliveries of copper, precious metals and cobalt in net sales and to include costs of recovering such metals in cost of sales. Copper is considered to be a joint product with nickel and, as such, its production costs include an allocation of mining costs plus its identifiable concentrating, smelting and refining costs; precious metals and cobalt are considered to be by-products and, as such, their production costs include no allocation of mining, concentrating and smelting costs, but do include their identifiable upgrading and refining costs.

Inco s nickel production decreased by seven per cent to 220,727 tonnes in 2005, compared with 236,817 tonnes in 2004, the year in which we experienced the highest annual production in our history. The decrease in nickel production was primarily due to a longer than planned major maintenance shutdown at our Ontario operations and a slower ramp-up after that shutdown caused, in turn, by a number of factors. These factors included labour productivity problems involving one contractor on the work undertaken during the shutdown, an increase in the scope of certain work undertaken as a result of the shutdown, the need to repair unanticipated leaks relating to the expansion of the acid plant at these operations and a fire in one of the dust capture bag houses. In addition, we had a longer than usual major maintenance shutdown at our Manitoba operations during the third quarter which was necessary to prepare those operations for the arrival of Voisey s Bay nickel concentrates late in the fourth quarter of 2005 and the processing of the additional cobalt contained in such concentrates and to have the ability to operate with a single furnace. In 2004, nickel production increased by 27 per cent, compared with 187,173 tonnes in 2003, primarily reflecting higher production at our Canadian and U.K. operations compared with 2003 when the three-month strike at our Ontario operations that began on June 1, 2003 and a difficult ramp-up of operations in September 2003 following the strike negatively affected production. Production of finished nickel from Canadian ores and purchased material processed in Canada totalled 145,036 tonnes in 2005, compared with 161,730 tonnes in 2004 and 120,479 tonnes in 2003. Additional nickel and copper production statistics for our primary metals operations are shown in the tables under Concentrating, Smelting and Refining below. For a discussion of PT Inco s operating rates and estimated ore reserves, see PT International Nickel Indonesia Tbk Operations below.

Our 2006 nickel production, including material toll smelted and refined by third parties, is currently expected to be approximately 256,000 tonnes, up from the 220,727 tonnes level in 2005. The increase in production is primarily due to finished nickel products produced from our Voisey s Bay nickel concentrates at our Canadian operations and to the toll smelting and refining arrangements covering purchased intermediates with certain third parties as noted below. We expect our purchases of nickel intermediates processed through our Canadian operations to decrease by 45 per cent from 2005 levels to approximately 15,400 tonnes in 2006. Finished copper production for 2006, including anodes production, is currently expected to be approximately 124,700 tonnes compared to 125,595 tonnes in 2005. Production of copper in concentrate at Voisey s Bay is currently expected to be approximately 29,500 tonnes compared with 4,406 tonnes of copper in concentrate in 2005. Total production of PGMs is expected to be 400,000 troy ounces for 2006.

Since 2002, as mine production at our Manitoba operations transitioned from Thompson Mine to the lower-grade Birchtree Mine, we have experienced lower mine production. We have relied upon the availability of purchased nickel intermediates to maintain Manitoba s nickel production at around the 45,000 tonne annual level. With the availability of Voisey s Bay nickel concentrates for processing at our Manitoba operations, these operations are expected to produce finished nickel products at or above the 45,000 tonne annual level over at least the 2006 2011 period. In August 2005, we announced plans to develop the 1D Lower orebody at Thompson Mine. Work has commenced on the development of the 1D Lower orebody, which would increase the availability of local concentrates and, assuming the current diamond drilling program covering this orebody for lateral and deeper extensions is successful, would provide a platform for ongoing production once Voisey s Bay concentrates are no longer supplied to Manitoba. The

cost to develop the 1D Lower orebody is approximately $34 million and production is expected to begin in 2008.

Starting in early 2006, we will be relying on our Voisey s Bay nickel concentrates to maintain production at or near capacity at our Manitoba and Ontario operations. If our Voisey s Bay operations experience problems in producing or shipping to Sudbury or Thompson its nickel concentrates, these events would have an adverse effect on our ability to produce and sell the nickel products we plan to produce in 2006 and would adversely affect our results of operations, financial condition, profitability and cash flows.

We have contracts with two Australian suppliers of purchased nickel intermediates which we have been using to maintain production principally at our Manitoba operations and, to a lesser extent, at our Ontario operations. Under these arrangements, these

producers are currently expected to provide an aggregate of about 53,000 tonnes of nickel in concentrate over the 2006 2009 period. In late 2005 and early 2006 we entered into contracts with subsidiaries of Boliden AB and OM Group, Inc. to toll smelt and refine some of these quantities of concentrates at their respective smelting and refining operations in Finland for three-year terms expiring in mid-2009. The purpose of these arrangements is to enable us to increase production from our own Canadian ores.

Capital Expenditures

The primary focus of Inco s capital expenditure programs is to provide its operations with appropriate production capacity for its nickel and other primary metals products and to develop new projects, including the Voisey s Bay and Goro projects. Capital expenditures totalled $1,168 million in 2005, compared with $876 million in 2004 and $591 million in 2003.

Cash spent for the Goro project, including capitalized interest, totalled $344 million in 2005, compared with $138 million in 2004 and $249 million in 2003, and for the Voisey s Bay project, including capitalized interest, totalled $353 million in 2005, compared with $447 million in 2004 and $138 million in 2003. The balance of capital expenditures in each of the three years was directed primarily to the development, maintenance and improvement of new and existing mining operations in Canada and productivity improvements and to meet environmental regulations and similar requirements. We currently estimate that our existing operations require, on an annual basis, on average approximately $230 million of capital expenditures to sustain their operations and to meet current environmental regulations and similar requirements at our currently planned production and/or utilization levels for these operations.

Our total 2006 capital expenditures for our existing operations and development projects are currently expected to total $1,820 million and, taking into account contributions to be made by the other shareholders in Goro Nickel and receipt of certain government assistance under programs relating to our development projects, we expect our share of this total to be $1,340 million. This estimate includes approximately $1,140 million, including capitalized interest, for the Goro project, $55 million for the Voisey s Bay project, $60 million for the program to increase production at PT Inco and approximately $80 million for mines development, approximately $120 million for environmental measures, $50 million for discretionary expenditures and approximately $315 million for sustaining capital. Total depreciation, depletion and amortization expenses for our existing operations are currently projected to be $455 million in 2006, including an estimated $175 million in respect of the Voisey s Bay project. The total capital expenditures for the Goro project will depend on a number of factors, including receipt of all necessary construction and other permits and the continued availability of certain tax-advantaged financing from the French government. For a discussion of the Goro project, see Goro Nickel S.A.S. below.

Mining and Mine Production

At December 31, 2005, Inco had the following mines in operation in Canada:

Ontario	**Manitoba**	**Voisey s Bay**
Copper Cliff North	Birchtree	Ovoid
Copper Cliff South	Thompson	
Creighton [1]		
Garson		
Gertrude		
McCreedy East/Coleman		
Stobie		

(1) Excludes Creighton 3 Mine which is located near the main Creighton Mine and accessible by a

separate shaft
and ramp.

All of the mines listed above are underground mines except for Gertrude Mine and the Ovoid which are open pit mines. In addition to these operating mines, our Ontario operations include several non-operating mines or mines on standby which contain estimated ore reserves as indicated in the tables Total Estimated Ore Reserves as of December 31, 2005 and Total Estimated Ore Reserves as of December 31, 2004 under Ore Reserves and Mining Rights below.

The following maps show the location of the operating mines, non-operating mines, undeveloped properties and processing and other facilities at our Ontario and Manitoba operations and the Voisey s Bay project.

Ontario Operations
Location of Operating Mines, Non-Operating Mines, Undeveloped Properties and Processing and Other Facilities

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Manitoba Operations

Location of Operating Mines, Non-Operating Mines and and Processing and Other Facilities

For further information on the development projects or undeveloped properties at our Ontario and Manitoba operations, see Exploration and Mine Development below.

Voisey s Bay Project (Initial Phase)
Location of Operating Mines, Concentrator and Other Facilities
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At PT Inco, mining operations were being conducted at the Sorowako and Pomalaa-Antam mining areas at December 31, 2005. For further information, see PT International Nickel Tbk General below.

The tables below set forth our annual mine production in thousands of tonnes by operating mine (or on an aggregate basis for PT Inco area since it has mining areas rather than mines) and the average percentage grades of certain metals (nickel and copper) for our Ontario operations, our Manitoba operations, our Voisey s Bay project and PT Inco for 2005, 2004 and 2003. For our Manitoba and Ontario operations and our Voisey s Bay project, the production and average grades represent the mine product delivered to those operations respective processing plants and do not include adjustments due to beneficiation, smelting or refining. The mine production at PT Inco represents the product from PT Inco s dryer kilns (Dry Kiln Product) delivered to PT Inco s smelting operations and does not include nickel losses due to smelting.

Annual Mine Production

(in thousands of tonnes, except percentages)

		2005	2004	2003
Ontario Operations Operating Mines				
Copper Cliff North Mine	Mine production	1,261	1,085	701
	Copper (per cent)	1.32	1.07	1.16
	Nickel (per cent)	1.09	1.04	1.21
Copper Cliff South Mine	Mine production	890	838	769
	Copper (per cent)	1.84	2.45	2.50
	Nickel (per cent)	1.36	1.92	1.80
Creighton Mine	Mine production	988	968	713
	Copper (per cent)	1.62	1.48	1.53
	Nickel (per cent)	2.09	2.06	2.10
Stobie Mine	Mine production	3,018	3,005	2,222
	Copper (per cent)	0.79	0.83	0.83
	Nickel (per cent)	0.86	0.88	0.90
Garson Mine	Mine production	721	610	434
	Copper (per cent)	1.09	1.04	1.10
	Nickel (per cent)	1.67	1.74	1.87
McCreedy East/Coleman Mine	Mine production	1,401	1,210	870
	Copper (per cent)	2.78	3.05	3.57
	Nickel (per cent)	1.68	1.69	1.78
Gertrude Mine	Mine production	474	504	453
	Copper (per cent)	0.31	0.33	0.36
	Nickel (per cent)	0.80	0.95	1.01
Total Ontario Operations	Mine production	8,753	8,220	6,162
	Copper (per cent)	1.38	1.41	1.53
	Nickel (per cent)	1.28	1.33	1.39
Manitoba Operations Operating Mines				
Thompson Mine	Mine production	1,323	1,377	1,393
	Nickel (per cent)	2.01	2.10	2.21
Birchtree Mine	Mine production	1,121	962	640
	Nickel (per cent)	1.54	1.64	1.83
Total Manitoba Operations	Mine production	2,444	2,339	2,033
	Nickel (per cent)	1.80	1.91	2.09
Voisey s Bay Project	Mine production	351		

Copper (per cent)	1.78
Nickel (per cent)	3.44

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		2005	2004	2003
PT Inco Operating Mining Areas				
Sorowako Mining Area	Mine production	4,689	4,350	3,891
	Nickel (per cent)	1.84	1.85	1.91
Pomalaa-Antam Mining Area	Mine production	370		
	Nickel (per cent)	2.30		
Total PT Inco	Mine production	5,059	4,350	3,891
	Nickel (per cent)	1.87	1.85	1.91

Concentrating, Smelting and Refining

The conversion of nickel ore mined from Inco s sulphide deposits in Canada into commercially marketable products requires various processing and refining steps undertaken at concentrators, smelters and refineries. The ore is first crushed and ground, the sulphides are separated into concentrates, and the concentrates are then smelted to produce nickel matte, an intermediate product containing approximately 75 per cent nickel plus copper. The matte is then refined to produce primary nickel and copper products.

Inco s processing facilities in operation during 2005 in the Sudbury area included a concentrator, a combined nickel and copper smelter, matte processing facilities, a nickel refinery, a copper refinery, a silver refinery, a sulphuric acid plant and a sulphur dioxide liquefaction plant. Nickel matte produced in Sudbury is refined in Sudbury and other locations into nickel pellets, nickel powders, UTILITY[4] nickel, nickel discs and Nickel Oxide Sinter 75[5], a product containing approximately 75 per cent nickel. In Thompson, Manitoba, we have a concentrator, a nickel smelter and an electrolytic nickel refinery. Certain nickel products produced in Sudbury and Thompson are finished at Port Colborne, Ontario.

In May 2005, as discussed above, we announced the closure of our copper refinery in Sudbury based upon a number of factors. Given this decision, all of our copper production in Ontario will be processed into copper anodes beginning in 2006.

Finished nickel is also produced at our refinery at Clydach, Wales. The Clydach refinery processes material supplied from our operations in Canada. At Port Colborne, we also operate an electrocobalt refinery and a precious metals upgrading facility. The majority of our silver production is refined at Copper Cliff, Ontario and our gold production is refined in Canada under a tolling arrangement with the Royal Canadian Mint. This by-product production is reflected in the tables under Sales and Deliveries above. Our refinery at Acton, England produces PGMs from upgraded concentrates from our operations in Canada and from the recovery, through toll-refining, of materials containing PGMs supplied by unaffiliated customers.

Inco s Ontario operations, Manitoba operations and operations in the United Kingdom form a business unit known as our Canadian and UK Operations. This organization, which was created in 2001, facilitates the sharing of knowledge and helps to optimize the use of certain of our facilities and resources.

The conversion of nickel ore mined from PT Inco s laterite deposits in Indonesia into nickel-in-matte requires various processing steps. The ore is first screened at one of five screening stations to reject barren or low-grade boulders. Ore-grade boulders are crushed and added to the screening station product. Large wet ore storage inventories are maintained to feed the processing plant. The ore in storage has a moisture content of between 25 and 35 per cent. In PT Inco s processing plant, the ore is dried in one of three dryers to reduce the moisture content to about 20 per cent, heated (using a process called calcining) in one of five reduction kilns and smelted in one of four electric furnaces to produce furnace matte containing about 25 to 28 per cent nickel, 8 to 10 per cent sulphur and 60 per cent iron. The molten furnace matte is then charged to one of three batch-refining vessels called Pierce Smith Converters to produce a saleable nickel-in-matte product containing approximately 78 percent nickel, 1.0 to 1.5 per cent cobalt, 18 to 22 per cent sulphur and a maximum of 0.7 per cent iron.

The following table shows our total production of finished nickel and copper from our primary metals facilities for the five years ended December 31, 2005:

Finished Nickel and Copper Production

	2005	2004	2003	2002	2001
			(in tonnes)		
Nickel	220,727	236,817	187,173	209,728	207,077
Copper	125,595	124,456	91,134	111,787	116,255

[4] Inco trademark

[5] Inco trademark

See Mining and Production General above for information regarding Inco s expected nickel and copper production for 2006.

Of the amounts reported in the table above as finished nickel production, the following table shows the amounts of such total finished nickel production from nickel-in-matte produced by PT Inco for the five years ended December 31, 2005:

	Finished Nickel from PT Inco Matte				
	2005	**2004**	**2003**	**2002**	**2001**
			(in tonnes)		
Nickel	73,965	75,087	65,704	61,692	61,856

Inco s worldwide nickel processing capacity, including capacity at our majority-owned subsidiaries, is adequate to refine the production from our mines at current rates of mine production. We also have contractual nickel refining arrangements with nickel refiners in Asia in which we have minority equity interests. These include an arrangement with Taiwan Nickel for the supply of intermediate products produced by Inco for Taiwan Nickel s refining operations, and a joint venture, also involving the supply of intermediate products produced by Inco, with Korea Nickel which, in turn, produces UTILITY nickel. The other shareholders of Taiwan Nickel are a number of Taiwanese investors and the other shareholders of Korea Nickel are Korea Zinc Company, Ltd. (Korea Zinc), a number of individuals associated with Korea Zinc and entities associated with Pohang Iron and Steel Co., Ltd.

All production facilities at our operations in Ontario, Manitoba, Newfoundland and Labrador, Clydach and Acton are owned by us and are located on property which we own or with respect to which we have contractual rights to acquire ownership or, in the case of the Voisey s Bay project, are covered by the surface lease referred to under Our Resources and Mining Rights Mining and Other Rights Voisey s Bay Project below.

Permission from the Ontario government is required for the export of intermediate products derived from Ontario ores. Our practice is to meet with government officials prior to the expiration of each of the required export licences to discuss relevant aspects of the export procedure. In December 2005, the Ontario government granted permission for us to continue to export nickel oxide sinter and nickel sulphide matte, as well as nickel sulphate residue, to Clydach until December 31, 2015. During 2005, we refined about 17 per cent of our primary nickel production at our refinery in Clydach from intermediate products derived from our Ontario ores. The Ontario government also granted us permission in December 2005 to continue to export semi-refined PGMs concentrate to our Acton refinery until December 31, 2015. We are not aware of any information or other factors at this time which would indicate that we could not reach agreement with the Province of Ontario on extending these permits for additional periods upon their expiry. The Province of Manitoba currently does not restrict the export of products from our Thompson mines. As discussed under Ore Reserves and Mining Rights and Voisey s Bay Nickel Company Limited Arrangements with the Provincial Government below, there are certain restrictions and limitations relating to the export of intermediate products from the Province of Newfoundland and Labrador.

Ore Reserves and Mining Rights

Ore Reserves

The following tables show, as of December 31, 2005 and 2004, our estimates of our (i) proven ore reserves, (ii) probable ore reserves, and (iii) the aggregate of proven and probable ore reserves at our operating mines, non-operating mines, undeveloped properties and development projects at our Ontario operations, our Manitoba operations, our Voisey s Bay project in the Province of Newfoundland and Labrador which began commercial production in 2005, PT Inco in Indonesia and our Goro project in New Caledonia and the estimated respective average nickel, copper, cobalt, platinum, palladium and gold metal grades, where significant, of each such total amount as of the end of the periods indicated. Ore reserve estimates referred to under Exploration and Mine Development below or elsewhere in this Report are included in these tables.

Total Estimated Ore Reserves as of December 31, 2005
(in millions of tonnes (Mt) except as indicated) [1][2][3][7][8]

	Class	Quantity (Mt)	Nickel (per cent)	Copper (per cent)	Cobalt (per cent)	Platinum (grams/ tonne)	Palladium (grams/ tonne)	Gold (grams/ tonne)
ONTARIO OPERATIONS[4][6]								
Operating Mines	Proven	69	1.22	1.32	0.04	0.6	0.7	0.2
	Probable	42	1.30	1.71	0.03	1.1	1.1	0.4
	Total/Average	111	1.25	1.47	0.04	0.8	0.8	0.3
Non-Operating Mines	Proven							
	Probable	48	1.13	0.98	0.04	0.7	0.8	0.3
	Total/Average	48	1.12	0.98	0.04	0.7	0.8	0.3
Undeveloped Properties	Proven	1	1.09	0.50	0.03	0.1	0.1	
	Probable	3	1.41	0.97	0.05	0.5	0.3	0.1
	Total/Average	4	1.38	0.93	0.05	0.4	0.3	0.1
Total	Proven	69	1.22	1.32	0.04	0.6	0.7	0.2
	Probable	94	1.22	1.31	0.04	0.9	0.9	0.3
	Total/Average	163	1.22	1.31	0.04	0.8	0.8	0.3
MANITOBA OPERATIONS[4][6]								
Operating Mines	Proven	14	1.94	0.13				
	Probable	11	1.86	0.12				
	Total/Average	25	1.90	0.13				
PT INCO[5][6]								
Mining Areas	Proven	59	1.80					
	Probable	88	1.81					
	Total/Average	147	1.80					
VOISEY S BAY PROJECT[4][6]								
Operating Mine	Proven	29	2.99	1.73	0.15			
	Probable	3	0.64	0.37	0.03			
	Total/Average	32	2.75	1.59	0.14			
GORO PROJECT[5][6]								
Development Property	Proven	96	1.34		0.12			
	Probable	24	2.01		0.09			
	Total/Average	120	1.48		0.11			

Total Estimated Ore Reserves as of December 31, 2004
(in millions of tonnes (Mt) except as indicated) [1][2][3][7][8]

	Class	Quantity (Mt)	Nickel (per cent)	Copper (per cent)	Cobalt (per cent)	Platinum (grams/ tonne)	Palladium (grams/ tonne)	Gold (grams/ tonne)
ONTARIO OPERATIONS [4][6]								
Operating Mines	Proven	70	1.24	1.34	0.04	0.65	0.71	0.24
	Probable	59	1.35	1.59	0.03	1.02	1.13	0.39
	Total/Average	129	1.29	1.46	0.04	0.82	0.91	0.32
Non-Operating Mines	Proven							
	Probable	44	1.09	0.87	0.04	0.52	0.52	0.20
	Total/Average	44	1.09	0.87	0.04	0.52	0.52	0.20
Undeveloped Properties	Proven	1	1.09	0.50	0.03	0.10	0.10	0.03
	Probable	3	1.41	0.97	0.05	0.45	0.34	0.07
	Total/Average	4	1.38	0.93	0.05	0.41	0.32	0.07
Total	Proven	71	1.24	1.34	0.04	0.65	0.72	0.24
	Probable	106	1.24	1.28	0.04	0.79	0.86	0.31
	Total/Average	177	1.24	1.30	0.04	0.72	0.79	0.27
MANITOBA OPERATIONS [4][6]								
Operating Mines	Proven	14	2.08	0.14				
	Probable	13	2.13	0.14				
	Total/Average	27	2.10	0.14				
PT INCO [5][6]								
Mining Areas	Proven	88	1.84					
	Probable	20	1.81					
	Total/Average	108	1.83					
VOISEY S BAY PROJECT [4][6]								
Development Property	Proven	29	3.05	1.77	0.15			
	Probable	3	0.76	0.45	0.04			
	Total/Average	32	2.82	1.54	0.14			
GORO PROJECT [5][6]								
Development Property	Proven	73	1.39		0.13			
	Probable	22	2.01		0.09			
	Total/Average	95	1.53		0.12			

(1) Estimated ore reserves

represent, in accordance with applicable rules and regulations of the SEC, including the definitions thereunder, that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven ore reserves are reserves for which (i) the quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable ore reserves are reserves for which the quantity and

grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven ore reserves, is high enough to assume continuity between points of observation. For the purposes of the SEC s rules and regulations, the ore reserves at our Ontario and Manitoba operations operating mines are estimated based upon, among other factors, operating costs, and the ore reserves at such operations non-operating mines are estimated based on, among other factors, mining costs derived from certain mining feasibility studies.

(2) The Company, in accordance with applicable Canadian securities regulatory requirements, also estimates its mineral reserves (as well as mineral resources as discussed on the following pages) in compliance with the definitions under the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines adopted by the CIM Council of the Canadian Institute of Mining, Metallurgy and Petroleum in November 2004 (the CIM Guidelines). If the reserve numbers in the tables above estimated as of year-end 2005 and 2004 were prepared in accordance with such definitions for mineral reserve , probable mineral reserve and proven mineral reserve in the CIM Guidelines, there would be no substantive

difference in such estimates from the total estimates for proven and probable ore reserves in the tables above or with respect to the other reserve estimates set forth elsewhere in this Report. For the purposes of the CIM Guidelines, the Ontario and Manitoba operations ore reserves at their operating mines are estimated based on, among other factors, operating costs, and the ore reserves estimates at such operations non-operating mines are based on, among other factors, mining costs derived from certain mining feasibility studies. Our total ore reserve estimates are based on a number of assumptions such as mining methods, production and other costs, metal recovery rates and ore recovery dilution factors.

We develop our business plans using a time horizon that reflects our view of long-term metals prices over the relevant historical cycle for each metal we produce and other key long-term assumptions. We also use these long-term metals prices and other key assumptions in preparing our ore reserve estimates. These long-term metals prices and other key assumptions are different (in some cases materially different) than the latest three-year averages for the metals we

produce and relevant exchange rates. We used the following long-term metals prices and other assumptions as of year-end 2005 and 2004 for our business plans and ore reserve estimates; nickel at $3.50 per pound (LME cash nickel price), with adjustments made for the premiums on special products realized in our Ontario and Manitoba operations and discounts for the matte product at PT Inco and the planned nickel oxide product to be produced at the Goro project; copper at $0.90 per pound; cobalt at $9.00 per pound for cobalt metal with adjustments made for other cobalt products; platinum at $550 per troy ounce; palladium at $200 per troy ounce; and gold at $275 per troy ounce; with respect to currencies, a long-term average of the U.S. dollar-Canadian dollar exchange rate of $1.00 =

$1.39, and a long-term average of the U.S. dollar-Indonesian rupiah (Rp) exchange rate of $1.00 to 10,000 Rp. The following represent the approximately three-year averages for the period from January 1, 2003 to September 30, 2005 for these same metals prices and exchange rates; nickel at $5.78 per pound LME cash nickel price, with adjustments made for the premiums on speciality products realized in our Ontario and Manitoba operations, and discounts for the matte product produced at PT Inco and the planned nickel oxide product to be produced at the Goro project; copper at $1.20 per pound; cobalt at $14.95 per pound for cobalt metal with adjustments made for other cobalt products; platinum at $784 per troy ounce; palladium at $207 per troy ounce; and gold at $400 per troy ounce; and with

respect to currencies, the latest three-year average U.S. dollar-Canadian dollar exchange rate of $1.00 = Cdn. $1.32 and the latest three-year average U.S. dollar-Indonesian rupiah (Rp) exchange rate of $1.00 = Rp. 8,969. For the period from January 1, 2002 to November 30, 2004 the averages for these same metals prices and exchange rates were as follows: nickel at $4.56 per pound (LME cash nickel price), with adjustments made for the premiums on speciality products realized in our Ontario and Manitoba operations, and discounts for the matte product produced at PT Inco and the planned nickel oxide product to be produced at the Goro project; copper at $0.95 per pound; cobalt at $12.07 per pound for cobalt metal with adjustments made for other cobalt products; platinum at $679 per troy ounce; palladium

at $256 per troy ounce; and gold at $358 per troy ounce; and with respect to currencies, the latest three-year average U.S. dollar-Canadian dollar exchange rate of $1.00 = Cdn. $1.43 and the latest three-year average U.S. Dollar-Indonesian rupiah (Rp) exchange rate of $1.00 = Rp. 8,934. If these approximately three-year averages were used, as applicable, for our ore reserve estimates as of year-end 2005 and 2004, respectively, these estimates as of year-end 2005 and 2004 would not change to any significant degree given the nature of the mineralization in our deposits and the relative importance of a number of other factors that are used in developing our reserve estimates for these applicable periods.

(3) For the purpose of estimating and reporting Inco s ore reserves, all persons preparing and/or reviewing

the estimates are designated as responsible persons for internal requirements. As part of our internal processes and procedures in developing these estimates, the role of each such responsible person is to review those key parts of the estimated ore reserves for which such person has the appropriate professional expertise and/or experience, and/or supervisory or management responsibility to ensure that the estimates are reasonable, economically viable and consistent with our production plans and that they are not aware of any environmental, permitting, legal, ownership, taxation, political or social issues that would materially affect the estimates.

In accordance with applicable Canadian securities regulatory requirements, including the recently revised

National Instrument 43-101, Standards of Disclosure for Mineral Projects , Mr. S. Nicholas Sheard, Vice-President of Exploration, Dr. Olivier Tavchandjian, Principal Geologist, Mineral Reserves and Mineral Resources, and Dr. Lawrence B. Cochrane, Director of Mines Exploration, each as a qualified person within the meaning of such National Instrument (which means generally an individual with relevant experience as an engineer or geoscientist who is also a member in good standing of a recognized engineering or similar professional association) indirectly supervised the preparation of the ore reserves estimates as of December 31, 2005 and 2004 and other information set forth in the above tables relating to 2005 and 2004 and each has, in

accordance with the requirements of such National Instrument, conducted either directly by himself or indirectly through employees of the Company reporting directly or indirectly to him, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purpose of verifying such data. Each of Mr. Sheard, Dr. Tavchandjian and Dr. Cochrane, as well as the responsible persons described above and other staff of the Company involved in the process of developing these estimates, also periodically check the adequacy of such procedures, systems and processes which are intended to provide sufficient verification of such data based upon recognized sampling,

analytical testing, modeling and other procedures in the mining industry.

(4) The ore reserve estimates for the Ontario and Manitoba operations and the Voisey s Bay project are of in-place material after adjustments for mining dilution and mining recovery. No adjustments have been made to these estimates for metal losses due to processing (beneficiation, smelting and refining at the Ontario and Manitoba operations and beneficiation at the Voisey s Bay project). For the Ontario operations, the average metal recoveries after processing in 2005 were as follows: nickel 76.4 per cent, copper 89.3 per cent, platinum 74.0 per cent, palladium 76.2 per cent and gold 66.1 per cent. For the Manitoba operations, the average metal recoveries after processing in 2005 were as follows:

nickel 85.1 per cent, copper 82.6 per cent and cobalt 42.8 per cent. For 2004, the average metal recoveries after processing at our Ontario operations were as follows: nickel 76.6 per cent, copper 90.0 per cent, platinum 75.1 per cent, palladium 77.1 per cent and gold 68.2 per cent and at the Manitoba operations were as follows: nickel 86.3 per cent, copper 84.3 per cent and cobalt 41.8 per cent. The metal recoveries for each operating mine, non-operating mine and undeveloped property vary depending on the metal grades and mineralogy for each mine or undeveloped property. In addition, the metal recoveries at both the Ontario and Manitoba operations vary depending on the nature and quantity of concentrates acquired from external sources. Overall metals recoveries for the Voisey s Bay

project are expected to be 82 per cent for nickel, 94 per cent for copper, and 39 per cent for cobalt. The Voisey s Bay metal recoveries include beneficiation which was determined from extensive pilot plant tests. Smelting and refinery recoveries are estimated from actual recoveries at the Ontario and Manitoba operations, given that the Voisey s Bay nickel-containing concentrates planned to be produced over the 2006-2011 period are to be processed at these operations. The realized metal recoveries in each zone may vary depending on the metal grades and the mineralogy of the ore in each zone.

(5) The ore reserve estimates for PT Inco s Sorowako mining area represent Dry Kiln Product. The estimated ore reserves for the Sorowako mining area include factors for dilution

and ore losses due to mining and screening recovery during ore preparation. The estimated ore reserves do not include nickel losses due to smelting. The average nickel recovery after processing used for PT Inco s 2005 and 2004 ore reserve estimate was 90.0 per cent. The estimated Pomalaa mining area ore reserves of 1.8 million tonnes grading 2.30 per cent nickel are included in PT Inco s estimated total proven ore reserves. For the Goro project, the ore reserve estimates include factors for dilution due to mining and for ore losses due to mining recovery and screening recovery during feed preparation. The ore reserve is estimated using a screened fraction recovered of minus 50 millimetres. The ore reserve estimates do not include the nickel or cobalt losses due to processing. The planned processing

recoveries for the Goro project are anticipated to be 93.0 per cent for nickel and 90.0 per cent for cobalt.

(6) At the Ontario operations, the drill-spacing for the estimated ore reserves classified as proven ranges from 30 metres by 46 metres to 15 metres by 23 metres, averaging 23 metres by 34 metres. The drill-spacing for the estimated ore reserves classified as probable ranges from 61 metres by 91 metres to 30 metres by 61 metres, averaging 46 metres by 76 metres. The classifications are also dependent on the mining method and mining selectivity. At the Manitoba operations, the drill-spacing for the estimated ore reserves classified as proven ranges from 15 metres by 18 metres to 12 metres by 12 metres, averaging 14 metres by 15 metres. The drill-spacing for the estimated ore reserves classified as probable ranges from 30 metres by

30 metres to 61 metres by 61 metres, averaging 45 metres by 45 metres. The classifications are also dependent on the mining method and mining selectivity. For the Voisey s Bay project, the drill-spacing for the estimated ore reserves classified as proven averages 50 metres by 25 metres and the drill-spacing for the estimated ore reserves classified as probable averages 50 metres by 50 metres. For the 2005 ore reserve estimates of PT Inco, the drill-spacing requirements were revised based on recent drill-spacing reconciliation studies conducted by PT Inco and our Inco Technical Services Limited unit and confirmed by external consultants. The drill-spacing for the estimated ore reserves classified as proven are 50 metres by 50 metres and the drill-spacing for the estimated ore reserves classified as probable are

100 metres by 100 metres. The drill-spacing for the estimated ore reserves classified as proven for the PT Inco 2004 ore reserve estimates ranged from 50 metres

by 100 metres to 50 metres by 50 metres, whereas the drill-spacing for the estimated ore reserves classified as probable ranged from 150 metres by 150 metres to 100 metres by 100 metres. The total ore reserve tonnage and grade remain essentially the same, with about 44 million tonnes of proven ore reserves having been reclassified to probable ore reserves. This reclassification does not affect the mining plan. At the PT Inco Pomalaa mining area, where more selective mining is conducted with smaller equipment than at the Sorowako mining area, the drill-spacing for the ore reserves classified as proven is 25 metres by 25 metres. For the Goro project, the average drill-spacing for the estimated ore reserves

classified as proven is 100 metres by 100 metres and 100 metres by 200 metres for the estimated ore reserves classified as probable.

(7) All estimated proven and probable ore reserves referred to in this Report, including the estimates referred to under Exploration and Mine Development below, are included in the tables above.

(8) The estimates shown in the above tables may reflect rounding differences and, accordingly, may not be consistent with certain of the subtotal or total numbers shown. Certain corrections have been made to grades for 2004.

At our Ontario operations, the estimated combined proven and probable ore reserves declined from 2004 to 2005 by 14 million tonnes, from 177 million tonnes to 163 million tonnes. The decrease was primarily due to mining (8.7 million tonnes) and the reclassification of certain estimated ore reserves to mineral resources at the Victor project and Stobie Mine.

At our Manitoba operations, the estimated combined proven and probable ore reserves declined from 2004 to 2005 by two million tonnes, from 27 million tonnes to 25 million tonnes, and the nickel grade declined. These reductions were primarily due to mining (2.4 million tonnes) and certain re-evaluations undertaken at each mine. These changes

included a decrease in the cut-off grade at Birchtree Mine and the re-evaluation of remnants areas together with revisions to the mineral deposit models at Thompson Mine.

At Voisey s Bay, the estimated combined proven and probable ore reserves remained unchanged from 2004 to 2005 with a slight decrease in nickel grade. The reduction in grade was due to mining in 2005 and an increase in the mining dilution as a result of a change to a larger block size for mining assessments resulting in reduced selectivity.

At PT Inco, the estimated combined proven and probable ore reserves increased from 2004 to 2005 by 39 million tonnes, from 108 million tonnes to 147 million tonnes after adjustments for mining estimated at approximately five million tonnes. The additions were from the West Block deposits, based on recent additional core drilling required to meet processing feed plant chemistry constraints, allowing for additional estimated ore reserves to be added from the Petea deposit and additional limonite material from the East Block required for blending. Ore reserves were also added at the Pomalaa mining area as a result of drilling in 2005.

At Goro, the estimated combined proven and probable ore reserves increased by 25 million tonnes from 2004 to 2005 due to the inclusion of the East Kwe Basin in the mining plan and the addition of medium-grade limonite to meet processing feed plant chemistry constraints. As a result of the addition of more limonite, the ore reserve grade decreased slightly.

The economic test that we use in establishing ore reserves is performed using a financial model encompassing all operating processes necessary to produce a saleable product or products at each operation or project. For all the operations and projects, this economic model represents a cash flow evaluation based on the production plan, which demonstrates our intent to mine . The production schedule is determined based on a variable cut-off grade and a number of other factors including the nature of deposit mineralization, plant capacities and optimizing the benefit of the capital investment. The economic viability of the ore reserve estimates is based on mining plans or feasibility studies for the operating business units and full feasibility studies for development projects.

At our Ontario and Manitoba operations, all costs are based upon Inco s applicable annual operating plan. Processing costs include operating, depreciation and sustaining capital costs and are updated annually to reflect the assumptions for such costs included in Inco s current annual or longer term (usually five-year) operating plans. Plant overhead costs are also updated annually with plant throughput assumed to remain constant. Corporate costs include selling, general and administration costs, charges for stand-by mines and demolition expenses. Mining costs include operating and mine overhead, capital and transportation expenditures. For our Ontario and Manitoba operations, metal recoveries are calculated from models based on process plant recoveries developed as part of our annual operating plans and the models are updated annually.

Block modeling and geostatistical interpolation methods are used to derive the ore reserve estimates for over 90 per cent of the ore reserves at our Ontario operations. Conventional (polygonal) methods are used primarily to estimate the ore reserves remaining in pillars for secondary mining assessments. At our Manitoba operations, block models are used and geostatistical interpolation methods are used at Birchtree Mine and portions of Thompson Mine. Conventional estimation methods are used for about 15 per cent of the ore reserve estimates at our Manitoba operations. The mining methods used are generally non-selective and the internal dilution is included in the mining blocks evaluated in developing the estimates.

For the block models, an estimation method, which we believe represents an appropriate geostatistical approach for the data, is selected and technical checks are incorporated into the modeling process. Reconciliation studies of mined out areas are completed to verify the appropriateness of the estimation methods and the block models are verified and peer reviewed. External auditors have been periodically used to critique the geostatistical techniques we utilize. Standard procedures are used for the polygonal estimation techniques. Sections and plans employing standardized grading and interpretation procedures are used to select the mining method and assign mining lines. Mineral tonnages and metal grades are then estimated and appropriate mineability and dilution rates are applied.

For the Voisey s Bay project, the geological interpretation of the Ovoid zone is based on the block modeling of the troctolite unit hosting the mineral. Within this modelling process, two domains of massive sulphide and disseminated mineralization were further defined. The block dimensions used in the block model in 2005 are 10 metres by 10 metres by 7.5 metres vertical. The vertical dimension was increased from five metres in 2005. Geotechnical data derived from core holes drilled in the pit walls were used to design the open pit to mine this zone. Economic evaluations are based on metal recoveries determined from extensive metallurgical testing and operating costs estimated in the Voisey s Bay project s March 2003 feasibility study.

Due to the different economic contributions from each metal, block net smelter royalty (BNSR) values have been used instead of a single metal cut-off grade for the open pit definition, production planning and ore reserve estimates. The BNSR calculations assume constant concentrate grades with which to calculate smelting, refining and freight charges. Charges in the BNSR calculation, in addition to smelting, refining, and concentrate shipping charges, include, for the Voisey s Bay project, a three per cent royalty originally held by Archean Resources Ltd., which royalty interest was transferred in 2003 to a limited partnership created to hold such royalty interest and is currently held by two entities, as discussed under Mining and Other Rights below, and an assumed technical/management fee payable to Inco. The life-of-mine schedule uses a cut-off value corresponding to the expected milling costs. All blocks with BNSR values less than the cut-off value were considered as waste. There are no plans for a low-grade stockpile for the Voisey s Bay project, and, accordingly, no part of the Voisey s Bay estimated ore reserve is considered stockpile ore.

At PT Inco, the assumed nickel price used is discounted for the nickel-in-matte product produced by PT Inco (representing the selling price received by PT Inco for its nickel-in-matte product equivalent to a percentage of the LME cash nickel price). Costs are based on annual plant operating costs (including selling, general and administration costs), and current depreciation and amortization expenses (adjusted for any future changes). For 2005, operating and fixed costs were based on PT Inco s 2006 annual budget plan, after normalizing certain costs for long-term usage and removing certain unusual costs for one-time events (additional pre-stripping, delineation drilling and equipment rentals) and an adjustment for oil prices to a ten-year average. PT Inco s process plant nickel recovery factor is also based on its annual operating plan and is adjusted each year. Given the nature of PT Inco s laterite deposits and how they are mined, PT Inco does not have specific operating mines but rather has mining areas. PT Inco from time to time has, however, collectively referred to its Sorowako West Block and East Block areas and the Petea area (shown on the maps under PT International Nickel Indonesia Tbk below) as its Sorowako mining area.

The ore reserves for PT Inco are estimated using block modeling techniques and geostatistical interpolation methods. Standard block sizes are used with different parameters applied to each deposit and in each of the limonite and saprolite layers. Mining volumes were estimated using a minimum ore thickness of two metres and material below cut-off grade was classified as internal waste if it was equal to or less than two metres thick. A minimum of 25 metres by 25 metres lateral extent criteria was used to classify the ore. The mineral volumes were converted to tonnages using appropriate wet tonnage factors. Screening recovery factors based on actual production are applied to convert the run of mine product to equivalent Dry Kiln Product. Mining recovery and dilution were included in the estimation of the ore reserves.

For the Goro project, the ore reserves were estimated using block modeling based on a 30-metre by 30-metre by one-metre block size. The nickel and cobalt grades, the chemical components and screen recoveries were interpolated for each block for each of the laterite layers using recognized mining industry methods. The specific gravity, moisture content and screen size recoveries of the laterite layers were determined based on data collected during geological and geotechnical drilling campaigns. Grade simulation models, developed from close-spaced drilling, were used to simulate variability in the layers thickness and chemistry, that are expected to be encountered during mining, to

estimate the ore loss due to mining and mining dilution. A variable nickel cut-off grade was used to estimate the ore reserves. These variable cut-off grades replaced the cut-off grade of 1.20 per cent nickel used prior to 2005 to accommodate variations in the chemical composition of the feed material for the processing plant. The cut-off grade provides a plant feed that meets the required chemistry of the blended material delivered to the process plant to provide the planned nickel and cobalt production. The cut-off grade was applied in the limonitic layer only and all material located below that cut-off horizon are planned to be mined in bulk, without mining selectivity applied, until bedrock is reached. Both low-grade limonite stockpiles and high-grade saprolite stockpiles are planned.

The key processes for developing Inco s ore reserve estimates have since 2003 been enhanced to include more formalized senior management review and approval of such processes and the preparation of such estimates. These processes have involved, as discussed in Note 3 to the tables entitled Total Estimated Ore Reserves as of December 31, 2005 and Total Estimated Ore Reserves as of December 31, 2004 above, key technical personnel at each of the principal operating units or locations, our corporate technical group, including our corporate exploration personnel, as well as senior management, and have been enhanced as part of the objective of recognizing ore reserve estimating as a core business process. In addition to internal audits of the processes utilized and the estimates themselves, we have also retained external auditing firms to review such processes and estimates. In 2005, an external audit was conducted on the ore reserve estimates at PT Inco s Sorowako mining area. This audit resulted in the reclassification of certain proven ore reserves as probable ore reserves. In 2004, external audits were conducted on the ore reserve estimates at Creighton Mine in Ontario and Birchtree Mine in Manitoba. None of these audits found any material issues with respect to the audited ore reserve estimates.

Mineral Resources

As indicated below, we are including estimated mineral resources as of December 31, 2005 and 2004 in this Report. Historically, we have not included mineral resources information in our Annual Report on Form 10-K, but we have elected to do so in this Report based on the principles of the multi-jurisdictional disclosure system between Canada and the United States. As indicated, we have used certain terms, such as mineral resources and measured , indicated , and inferred mineral resources , that SEC guidelines normally strictly prohibit U.S. registered companies from including in their filings with the SEC. These terms are defined in Note (1) to the tables below. Mineral resource estimates as reported are determined in accordance with applicable Canadian requirements and are in addition to the estimated ore reserves and do not include diluting material and allowances for losses that may occur when the material is mined. Cut-off values or grades and other shape and physical criteria, as applicable, for such estimated mineral resources are based upon cost estimates appropriate to the proposed mining and processing methods. Costs are derived on the same basis as those used to determine the cut-off values or grades and other criteria as applicable for the ore reserve estimates at each operation or development project except for mine capital costs. The cut-off values or grades and other criteria, as applicable, may change with additional data and economic evaluations.

Cautionary note to U.S. investors We use the terms mineral resources and measured and indicated miner resources . U.S. investors should be aware that, while these terms are recognized under applicable Canadian regulations, the SEC does not recognize them. U.S. investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves. We also use the term inferred mineral resources . U.S. investors should be aware that, while this term is also recognized under applicable Canadian regulations, the SEC does not recognize it. Inferred mineral resources have a greater amount of uncertainty as to their existence, and great uncertainty with respect to their economic feasibility. It should not be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. While the SEC generally permits registered U.S. mining companies, in their filings with the SEC, to disclose only those mineral deposits that a company can economically and legally extract or produce, it does permit companies subject to the multi-jurisdictional disclosure system between Canada and the United States, such as Inco to disclose, on a voluntary basis, in their Form 10-K or other Annual Reports filed with the SEC, their estimated mineral resources.

The following tables show, as of December 31, 2005 and 2004, our estimates of our (i) measured mineral resources, (ii) indicated mineral resources, (iii) the aggregate of measured and indicated mineral resources and (iv) inferred mineral resources at our operating mines, non-operating mines, undeveloped properties and development projects at our Ontario operations, our Manitoba operations, the Voisey s Bay project in the Province of Newfoundland and Labrador, PT Inco in Indonesia and the Goro project in New Caledonia and the estimated respective average nickel, copper, cobalt, platinum, palladium and gold metal grades, where significant, of each such total amount as of the end of the periods indicated.

Total Estimated Mineral Resources[1][3] as of December 31, 2005

(in millions of tonnes (Mt) except as indicated)

	Class	Quantity (Mt)	Nickel (per cent)	Copper (per cent)	Cobalt (per cent)	Platinum (grams/ tonne)	Palladium (grams/ tonne)	Gold (grams/ tonne)
ONTARIO OPERATIONS								
Operating Mines	Measured	11	1.20	1.09	0.05	0.6	0.7	0.3
	Indicated	18	1.42	1.63	0.05	0.9	1.1	0.4
	Total/Average	29	1.34	1.43	0.05	0.8	1.0	0.3
	Inferred[2]	23	1.9	1.8	0.04	1.2	1.4	0.5
Non-Operating Mines	Measured							
	Indicated	13	1.45	0.54	0.05	0.2	0.2	
	Total/Average	13	1.45	0.54	0.05	0.2	0.2	
	Inferred[2]	13	1.6	3.2	0.03	1.5	1.5	0.5
Undeveloped Properties	Measured	0.4	1.03	0.35	0.05			
	Indicated	4.3	1.16	0.89	0.05	0.6	1.2	0.2
	Total/Average	5	1.15	0.85	0.05	0.5	1.1	0.2
	Inferred[2]	12	1.6	0.9	0.02	0.5	0.7	0.1
Total	Measured	11	1.19	1.07	0.05	0.7	0.7	0.2
	Indicated	36	1.40	1.14	0.05	0.6	0.8	0.2
	Total/Average	47	1.36	1.12	0.05	0.6	0.8	0.2
MANITOBA OPERATIONS								
Operating Mines	Measured	1	1.94	0.12				
	Indicated	3	2.56	0.15				
	Total/Average	4	2.41	0.14				
	Inferred[2]	6	1.8	0.1				
Non-Operating Mines	Measured							
	Indicated							
	Total/Average							
	Inferred[2]	24	0.8	0.1				
Total	Measured	1	1.94	0.12				
	Indicated	3	2.56	0.15				
	Total/Average	4	2.41	0.14				

PT INCO			
Mining Areas	Measured	0.4	1.85
	Indicated	0.5	1.7
	Total/Average	1	1.8
	Inferred[(2)]	2	1.9
Undeveloped Properties	Measured		
	Indicated	27	1.67
	Total/Average	27	1.67
	Inferred[(2)]	319	1.7
Total	Measured	0.4	1.85
	Indicated	28	1.67
	Total/Average	28	1.65

	Class	Quantity (Mt)	Nickel (per cent)	Copper (per cent)	Cobalt (per cent)	Platinum (grams/ tonne)	Palladium (grams/ tonne)	Gold (grams/ tonne)
VOISEY S BAY PROJECT								
Undeveloped Properties	Measured							
	Indicated	40	1.89	0.9	0.12			
	Total/Average	40	1.89	0.9	0.12			
	Inferred[2]	6	2.3	1.0	0.2			
GORO PROJECT								
Development Property	Measured	39	1.31		0.12			
	Indicated	36	1.68		0.12			
	Total/Average	75	1.49		0.12			
	Inferred[2]	128	1.7		0.1			

Total Estimated Mineral Resources[1][3] as of December 31, 2004

(in millions of tonnes (Mt) except as indicated)

	Class	Quantity (Mt)	Nickel (per cent)	Copper (per cent)	Cobalt (per cent)	Platinum (grams/ tonne)	Palladium (grams/ tonne)	Gold (grams/ tonne)
ONTARIO OPERATIONS								
Operating Mines	Measured	18	1.36	1.24	0.05	0.7	0.7	0.3
	Indicated	6	1.13	2.49	0.04	1.4	2.3	0.7
	Total/Average	24	1.30	1.57	0.05	0.9	1.1	0.4
	Inferred[2]	19	2.1	1.9	0.05	1.3	1.5	0.5
Non-Operating Mines	Measured							
	Indicated	17	1.38	0.55	0.05	0.2	0.2	0.1
	Total/Average	17	1.38	0.55	0.05	0.2	0.2	0.1
	Inferred[2]	7	1.8	5.8	0.01	2.7	2.7	0.9
Undeveloped Properties	Measured							
	Indicated	4	1.21	0.64	0.04	0.4	0.5	0.1
	Total/Average	4	1.21	0.64	0.04	0.4	0.5	0.1
	Inferred[2]	12	1.6	0.9	0.02	0.5	0.6	0.1
Total	Measured	18	1.36	1.24	0.05	0.7	0.7	0.3
	Indicated	27	1.30	1.02	0.04	0.5	0.7	0.2
	Total/Average	45	1.33	1.11	0.05	0.6	0.7	0.2

MANITOBA OPERATIONS				
Operating Mines	Measured	2	2.57	0.16
	Indicated	2	2.3	0.14
	Total/Average	4	2.42	0.15
	Inferred[(2)]	3	1.8	0.1
Non-Operating Mines	Measured			
	Indicated			
	Total/Average			
	Inferred[(2)]			
Total	Measured	2	2.57	0.16
	Indicated	2	2.30	0.14
	Total/Average	4	2.42	0.15

	Class	Quantity (Mt)	Nickel (per cent)	Copper (per cent)	Cobalt (per cent)	Platinum (grams/ tonne)	Palladium (grams/ tonne)	Gold (grams/ tonne)
PT INCO								
Mining Areas	Measured	1	1.71					
	Indicated	32	1.80					
	Total/Average	33	1.80					
	Inferred[(2)]	2	1.7					
Undeveloped Properties	Measured	2.5	2.3					
	Indicated	74	1.66					
	Total/Average	76	1.68					
	Inferred[(2)]	319	1.7					
Total	Measured	4	2.10					
	Indicated	106	1.70					
	Total/Average	110	1.72					
VOISEY S BAY PROJECT								
Undeveloped Properties	Measured							
	Indicated	50	1.66	0.78	0.1			
	Total/Average	50	1.66	0.78	0.1			
	Inferred[(2)]	12	1.7	0.7	0.1			
GORO PROJECT								
Development Property	Measured	29	1.39		0.14			
	Indicated	26	1.84		0.12			
	Total/Average	55	1.60		0.13			
	Inferred[(2)]	144	1.7		0.1			

(1) The following sets forth the definitions that we use for our estimated mineral resources, inferred mineral resources, indicated mineral resources and

measured mineral resources.

A mineral resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth s crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. Mineral resources which are not ore reserves do not

have demonstrated economic viability.

An inferred mineral resource is that part of a mineral resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

An indicated mineral resource is that part of a mineral resource for which quantity and grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to

allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

A measured mineral resource is that part of a mineral resource for which quantity and grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence

sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

For the purposes of data collection, data verification, geological modeling, block modeling, mineral resource estimation and ore reserve estimation, we apply the CIM Guidelines and

Estimation of Mineral Resources and Reserves Best Practice Guidelines (2003) for all our current operations and development projects. Mineral resource estimates as reported are in addition to the estimated ore reserves and do not include diluting material and allowances for losses that may occur when the material is mined. Cut-off values or grade and other shape and physical criteria, as applicable, for such estimated mineral resources are based upon cost estimates appropriate to the proposed mining and processing methods. Costs are derived on the same basis as those used to determine the cut-off values or grades and other criteria as applicable for the estimated ore reserves at each operation

or development project except for mine capital costs. The cut-off values or grades and other criteria, as applicable, may change with additional data and economic evaluations.

(2) Inferred mineral resources have a great amount of uncertainty as to their existence and with respect to their economic feasibility. Investors are cautioned not to assume that any part or all of an inferred mineral resource exists or is economically or legally mineable.

(3) For the purpose of estimating and reporting Inco s mineral resources, all persons preparing and/or reviewing the estimates are designated as responsible persons for internal requirements. As part of our internal processes and procedures in

developing these estimates, the role of each such responsible person is to review those key parts of the estimated mineral resources for which such person has the appropriate professional expertise and/or experience, and/or supervisory or management responsibility to ensure that the estimates are reasonable, economically viable and consistent with our production plans and that

they are not aware of any environmental, permitting, legal, ownership, taxation, political or social issues that would materially affect the estimates. In accordance with applicable Canadian securities regulatory requirements, including the recently revised National Instrument 43-101, Standards of Disclosure for Mineral Projects , Mr. S. Nicholas Sheard, Vice-President of Exploration, Dr. Olivier Tavchandjian, Principal Geologist, Mineral Reserves and Mineral Resources, and Dr. Lawrence B. Cochrane, Director of Mines Exploration, each as a qualified person within the meaning of such National Instrument (which means generally an individual with relevant experience as an engineer or geoscientist who is also a member in good standing of a recognized engineering or similar professional association) indirectly supervised the preparation of the mineral resource estimates as of December 31, 2005 and 2004 and other information set forth in the above tables relating to 2005 and 2004 and each has, in accordance with the requirements of such National Instrument, conducted either directly by himself or indirectly through employees of the Company reporting directly or indirectly to him, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purpose of verifying such data. Each of Mr. Sheard, Dr. Tavchandjian and Dr. Cochrane, as well as the responsible persons described above and other staff of the Company involved in the process of developing these estimates, also periodically check the adequacy of such procedures, systems and processes which are intended to provide sufficient verification of such data based upon recognized sampling, analytical testing, modeling and other procedures in the mining industry.

Mining and Other Rights

The following discussion reflects a summary of the property rights, mining rights, licences, leases or other concessionary rights to mine for or extract metals and other associated minerals from the areas that we currently mine or expect to mine as part of our long-term mine plans in Canada, Indonesia and New Caledonia. With respect to those properties which are not currently owned but are subject to leases or licenses with finite terms that are not perpetual or cannot be automatically renewed or extended and on which estimated ore reserves are located and/or are covered by our current long-term mine plans, we currently believe that we will be able to obtain renewals or extensions of such leases or licenses, if required as part of our long-term mine plans on a timely basis.

Ontario Operations

All operating mines, non-operating mines and undeveloped properties which contain estimated proven and probable ore reserves for our Ontario operations are on lands owned by us, with the exception of a portion of Copper Cliff South Mine (known as Kelly Lake) and a portion of the Victor non-operating mine. These portions of the Copper Cliff South and Victor mines are located on lands with respect to which we currently hold a licence of occupation. In 2004, we applied for a 21-year lease for each of these two areas. We have received the lease for the Victor mine and are awaiting receipt of the lease for Kelly Lake which we believe will be granted on a timely basis.

In Ontario, we also hold mining rights, surface rights, licences of occupation and mining claims granted to us by the Province of Ontario. Mining rights are rights to exploit and extract minerals on, in or under the land, and surface rights are rights to use the surface of the land. These rights remain in effect so long as we own the land to which these rights apply. We also own a combination of mining and surface rights covering land leased from the Province of Ontario. These leased lands, which include a combination of mining and surface rights, are leased for either 10 or 21 years. Annual rentals are paid to the Province of Ontario to keep the leases in good standing. These leases are renewed for further 10- or 21-year terms as they come up for renewal. The next lease that comes up for renewal will be in 2008. Inco currently holds 165 licences of occupation for mining, hydro electric installations and various other industrial purposes in Ontario. These licences of occupation allow Inco to use the land in the manner specified in each license, including the right to dig, excavate and remove ores and minerals from and under the land. Inco currently also has a number of mining claims in Ontario. Mining claims represent rights to explore the land covered by the claim. In early March 2001, a party purported to stake mining claims and then initiated an administrative appeal effectively contesting the validity of a licence of occupation originally granted to Inco more than 50 years ago covering a portion of our Kelly Lake deposit which was identified in 1997. The actions taken by this party were ultimately dismissed. As a result of the dismissal of these actions and the enactment of new legislation in Ontario in 2002, we do not anticipate any future challenges to the validity of such licences on the grounds alleged by this party.

Manitoba Operations

Inco s landholdings or mining rights in Manitoba consist of order-in-council leases (OIC Leases), mineral leases and mining claims. OIC Leases were negotiated as part of an agreement between Inco and the Province of Manitoba entered into in 1956 covering the development of the Thompson, Manitoba nickel deposits by Inco. OIC Leases entitle the lessee to explore for, and mine, all minerals in the subsurface (except hydrocarbons, industrial minerals and surficial deposits that are not incidental to the mining, milling, smelting and refining processes). OIC Leases also provide the lessee with the right to erect buildings and structures necessary for its operations and provide for a right of access over and upon the lands. OIC Leases provide for an initial 21-year term and two subsequent guaranteed renewals of 21 years each, for a total guaranteed lease period of 63 years. Subsequent lease renewals beyond the three guaranteed 21-year terms can be granted at the discretion of the Province of Manitoba. Inco s OIC Leases were initially surveyed and made effective over a six-year period from 1957 to 1962. All of our current OIC Leases have now been renewed twice

(each is in its third guaranteed 21-year term) and remain in effect through the 2020-2025 period. These include the OIC Leases that cover the current area of Thompson Mine which were renewed in 2001 and the OIC Leases that cover the eastern and depth extensions of Thompson Mine, including the 1D Lower orebody, which were renewed in September 2004. Mineral leases are 21-year leases that are renewable at the discretion of the Province of Manitoba. Inco holds seven mineral leases in the Thompson, Manitoba nickel belt. These mineral leases, which convey to Inco the exclusive right to the minerals (other than quarry minerals) that occur on or under the land covered by these leases and access rights to erect buildings and structures (including shafts) to mine within the limits of the leases, remain in effect until April 1, 2013. Inco also holds mining claims, a right issued by the Province of Manitoba under provincial legislation which conveys to the holder the exclusive right to the minerals (other than quarry minerals) that occur on or under the land covered by the claim and access rights to explore for and develop minerals owned by the Province. A mining claim does not, however, entitle the holder to extract minerals from the land covered by the claim. In order to extract minerals from the land covered by a mining claim, the holder must obtain a mineral lease from the Province of Manitoba.

All of our Manitoba operations operating mines and all of the mineral rights for all of their mines which contain estimated proven and probable ore reserves are on properties covered by OIC Leases and mineral leases. Thompson Mine is located on land covered by OIC Leases that are due for renewal in 2022 and the eastern and depth extensions of Thompson Mine are covered by OIC Leases that are due for renewal in 2025. Birchtree Mine is located on land covered by both OIC Leases which are due for renewal in 2022 and three mineral leases which are in good standing until April 1, 2013. Since the renewal of these OIC Leases would be beyond the three guaranteed 21-year terms, renewals can be applied for and obtained, at the discretion of the Province of Manitoba, prior to their current expiry dates. We currently believe that the renewal of these OIC Leases and mineral leases will be granted before they expire.

Voisey s Bay Project

The Voisey s Bay project company, VBNC, holds mineral claims (which have been grouped into mineral licences), a mining lease and surface rights in the Province of Newfoundland and Labrador. A mineral claim (generally covering a 500-metre by 500-metre parcel of land), issued by the Province of Newfoundland and Labrador under provincial legislation, gives its holder the exclusive right to explore for minerals in, on or under the area of land described in the licence, and obligates the holder to conduct a minimum amount of assessment work (measured by the amount of money spent) on the land covered by the licence. Up to 256 mineral claims can be grouped together into one mineral licence. Grouping mineral claims into a single mineral licence allows the holder to better manage the assessment work required to be done on the land that is the subject of the claims. Mineral claims and mineral licences are issued for a period of five years and may be extended for three additional five-year renewal periods, for a total of 20 years. A mineral licence does not entitle its holder to extract any minerals from the land described in the licence. All of the Voisey s Bay project s current estimated proven and probable ore reserves are located on lands covered by the 25-year mining lease referred to below.

In order to extract minerals from the land covered by a mineral licence, the holder of a mineral licence must obtain a mining lease issued by the Province under provincial legislation for the land covered by such mineral licence. VBNC obtained a mining lease, effective September 30, 2002, for a period of 25 years granting VBNC the exclusive right to extract minerals and carry out mineral exploration, mining operations or mining processing and development in, on or under the lands, or part of the lands, covered by the lease so long as VBNC and Inco continue to meet the terms and conditions of the development agreement, as discussed under Voisey s Bay Nickel Company Limited below, entered into in October 2002 between VBNC, Inco and Her Majesty the Queen in right of Newfoundland and Labrador. This mining lease can be renewed for further 10-year terms so long as VBNC has been in compliance with the terms of the lease and has applied for such renewal at least three months prior to the expiration of the then current lease. Under the terms of the mining lease, production is not to exceed on average 2.2 million tonnes of ore annually for the first 10 years of mining operations and on average 5.5 million tonnes of ore annually thereafter. The current areas to be mined as part of the Voisey s Bay project and all of the estimated proven and probable ore reserves for the Voisey s Bay project are held under this mining lease. We are not aware of any information or other factors at this time which would indicate that we could not reach agreement with the Province on a new mining lease or an extension

when the current mining lease expires in September 2027. In conjunction with the mining lease, VBNC received a surface lease entitling it to use certain lands necessary for its mining operations. Like the mining lease, the surface lease was effective September 30, 2002 for a period of 25 years, and may be renewed for further 10-year terms.

VBNC also holds nine mineral licences, all of which expire over the March-November 2014 period, covering the main claim block of the Voisey s Bay project. These mineral licences have not been legally surveyed. Geographic coordinates define their locations. To date, sufficient assessment work has been completed to maintain these mineral licences at least until 2008 so long as the required renewal fees (currently being approximately Cdn.$100,000 and payable every five years, subject to increases in such fees based on subsequent renewals) are paid. Additional assessment work will be required to hold the mineral licences in good standing through 2014.

Pursuant to the terms of an option agreement originally entered into in 1993 (the Option Agreement), Diamond Fields Resources Inc. (Diamond Fields) acquired, upon the exercise of the option thereunder, all of the mineral claims of Archean Resources Ltd. (Archean) in Labrador and Archean was granted a royalty, payable quarterly on the proceeds received by VBNC on the sale of its production equal to three per cent of net smelter returns from mining production from VBNC s Labrador properties, including the Voisey s Bay deposit (the Royalty), and a three per cent gross royalty (also payable quarterly) on the gross value of raw diamonds and/or gemstones recovered from these properties. The Option Agreement was assigned to VBNC by Diamond Fields in 1995. The Royalty is secured by a mortgage on VBNC s Labrador properties in the maximum aggregate principal amount of $100 million. The mortgage is expressly subordinated to any mine development financing that might be obtained in the future. In 2003, Archean transferred the Royalty to a limited partnership controlled by Archean s principal shareholders and effectively sold up to a 10 per cent interest in the Royalty to a third party. In late February 2005, the remaining 90 per cent interest in the Royalty then held by Archean s principal shareholders was, through the sale of Archean, acquired by another third party.

The Voisey s Bay deposit is within a geographical area that has been the subject of land claims negotiations between certain aboriginal groups and the Governments of Canada and the Province of Newfoundland and Labrador. Aboriginal groups asserting land claims in the area include the Labrador Inuit Association (the LIA) and Innu Nation. For further information, see Voisey s Bay Nickel Company Limited Arrangements with Aboriginal Groups below.

PT Inco

Under the original Contract of Work or concessionary agreement between the Republic of Indonesia and Inco entered into in 1968, and the agreement modifying and extending that Contract of Work entered into in January 1996 and which sets forth certain provisions which will apply once the terms of the original Contract of Work expire on March 1, 2008 and through December 28, 2025, PT Inco, as the sole contractor of the Government of Indonesia in the areas covered by the Contract of Work, has been granted exclusive rights in these specified areas on the Island of Sulawesi to mine, process, store, transport and sell all nickel and nickel-containing minerals in any form and all minerals (except for radioactive materials) found in association with nickel in the areas. The Contract of Work also grants PT Inco all necessary licences and permits to conduct its operations, including certain expansions of its operations, as provided for in the Contract of Work. All of PT Inco s mining areas currently containing estimated proven and probable ore reserves are within PT Inco s Contract of Work. Reference is made to PT International Nickel Indonesia Tbk below for a discussion of certain recent legislative and regulatory developments in Indonesia. Under the terms of the agreement of modification and extension of PT Inco s original Contract of Work entered into in 1996, the Government of Indonesia has agreed to give sympathetic consideration to a further renewal or extension of the Contract of Work, upon the request of PT Inco based upon one or more developments, including a proposal to make a substantial new investment in PT Inco, or the demonstration by PT Inco of the positive economic and other benefits to Indonesia provided by PT Inco. We are not aware of any information or other factors at this time that would indicate that we would not be able to reach agreement on a further extension of PT Inco s Contract of Work before it expires at the end of 2025. If we are not able to extend the Contract of Work past 2025, this could reduce PT Inco s estimated ore reserves and mineral resources and affect its long-term mining plans.

Goro Project

The Goro project company, Goro Nickel, currently holds 69 mining concessions in the Massif du Sud (part of the south province of New Caledonia) covering 20,600 hectares authorizing the mining of nickel, cobalt, chrome, iron and manganese, and approximately 26 surface rights. An additional 10 mining concessions are held by Tiebaghi Nickel S.A.S. (Tiebaghi), a subsidiary of Inco, outside the Goro project area in a mining domain called Tiebaghi, located in the north province of New Caledonia. Two other concessions held by Tiebaghi were not renewed in 2005. Of the 69 concessions held by Goro Nickel, the Goro project covers 6,042 hectares within seven mining concessions, of which four are perpetual in term, two are renewable prior to their expiry dates in 2016 and one is renewable prior to its expiry date in 2051. Goro Nickel has the right to renew these three renewable concessions for an additional 25-year period when their initial terms expire, provided a satisfactory technical report is delivered to the authorities five years before the expiry date. Concessions generally represent long term permits (mostly 75 year terms, with some having a term up to perpetuity) granted for mining large deposits which entitle the holder the exclusive right to exploit, extract

and mine. A concession applies to one or several minerals defined by the granting decision along with its geographical location. The granting of a concession is based on the delineation of an exploitable orebody made during exploration activities conducted pursuant to permits called *permis de recherches* and *permis d exploitation*. Surface rights can be granted independently of mineral rights. Goro Nickel holds surface rights, known as *occupation des sols*, which are rights to use surfaces on or outside mining permits for mining-related activities, including surfaces of other owners. All of the present estimated proven and probable ore reserves for the Goro project as at December 31, 2005 are within the mining rights held as concessions.

Reference is made to Goro Nickel S.A.S. Prony West Deposit below for a discussion of our rights to the Prony West area.

PT International Nickel Indonesia Tbk

General

Inco s current ownership interest in PT Inco is approximately 61 per cent. Sumitomo Metal Mining Co., Ltd. (Sumitomo) of Japan holds slightly more than 20 per cent and public shareholders hold a total of slightly more than 18 per cent of the equity of PT Inco. PT Inco s shares are traded on the Jakarta Stock Exchange. Our investment in PT Inco at book value was approximately $392 million at December 31, 2005, compared with $392 million at December 31, 2004 and $364 million at December 31, 2003. At December 31, 2005, PT Inco s outstanding indebtedness to third party lenders was $38 million, compared with $115 million at December 31, 2004 and $192 million at December 31, 2003. This indebtedness was incurred primarily to finance the expansion project completed in 1999 referred to below under Contract of Work Extension and 1999 Expansion of Facilities .

In view of its remote location, PT Inco s production facilities are almost completely self-contained. They consist of an open-cast laterite mine, a processing plant with four electric furnace smelting lines (including a fourth line constructed as part of the PT Inco expansion project referred to below), thermal and hydroelectric power generating facilities and ancillary infrastructure, including a townsite, roads, an airport and port facilities.

Indonesia has experienced periods of economic and political turmoil since the late 1990s, some of which have been compounded by a downturn in the global economy. Indonesia s economic and political stability will, we believe, continue to be dependent to a large extent on the effectiveness of measures taken by the democratically-elected Government of Indonesia to maintain business and confidence, decisions of international financial institutions, including the World Bank and the International Monetary Fund, regarding the availability of continued financing to Indonesia and companies operating in Indonesia, global economic conditions, and a number of other factors, including regulatory and political developments within Indonesia, which are beyond Inco s control or ability to predict.

In the Indonesian mining sector, mining companies have, over the past several years, been facing several challenges stemming from the economic and political problems experienced by Indonesia. These challenges have included regulatory uncertainty under regional autonomy legislation which has sought to transfer governmental power in a number of areas, including taxation and mining regulation, from the central government to regional governments; overlapping and unclear tax and environmental legislation enacted by central, provincial and local government authorities; weakness in the banking sector; illegal mining activities; increasingly militant actions of non-governmental organizations and labour unions; and continued disputes between mining companies and local communities who are making increasing demands on mining companies operating in their communities. These other challenges may, in time, affect PT Inco s operations and have, to the extent possible, been taken into account by PT Inco s management in evaluating PT Inco s current and future activities in Indonesia.

The maps below indicate the mining areas (the East and West Blocks, the Petea mining area and the Pomalaa-Antam mining area) where PT Inco s estimated proven and probable ore reserves were located for 2005 and 2004, as well as the location of PT Inco s processing plant and hydroelectric facilities and the boundary of the other properties containing additional mineralized nickel laterite deposits (referred to as Sulawesi Other Concessions on the map) within the area covered by PT Inco s Contract of Work:

PT Inco Sulawesi Concessions
Location of Operating Mining Areas and Undeveloped Properties
41

PT Inco
Location of Operating Mines, Plant and Facilities,
Undeveloped Properties and Concessions
42

Contract of Work Extension and 1999 Expansion of Facilities

As discussed under Ore Resources and Mining Rights above, PT Inco s operations are conducted pursuant to a Contract of Work with the Government of Indonesia under which PT Inco is the sole contractor of the Indonesian government for the production and marketing of nickel and associated minerals (other than hydrocarbons and radioactive materials) mined in specified areas on the Island of Sulawesi. The original Contract of Work was signed in 1968 and in January 1996 PT Inco signed an agreement with the Government of Indonesia to modify and extend the Contract of Work to the year 2025, subject to further extensions with the consent of the Government of Indonesia, from its original expiry date in 2008. The Contract of Work confers upon PT Inco all authorizations necessary for the development and operation of its nickel project.

In late 1999, PT Inco completed a major expansion project that increased its production capacity by 50 per cent to 68,000 tonnes of nickel-in-matte per year. The expansion involved improvements to the three existing smelting lines and the construction of a fourth electric furnace smelting line together with the construction of 93 megawatts of additional low-cost hydroelectric generating capacity at Balambano, approximately 25 kilometres from PT Inco s production facilities at Sorowako. Since it began operation, the Balambano facility has been able to generate power consistently above its design capacity due to improved water management practices and higher reservoir levels and other related factors than were assumed in developing its original design capacity.

Financing for the expansion project was provided by a group of international lenders in the total principal amount of $340 million for this expansion project and an additional $81 million to refinance then existing PT Inco debt. The remainder of the original estimated cost of $580 million for this project had been expected to be provided by PT Inco s available cash balances plus cash generated by existing operations during the construction period. However, as a result of lower production levels caused by limited rainfall and its adverse effect on hydroelectric power generation in 1997 and 1998, low nickel prices and increased costs due to construction delays associated with its new hydroelectric facilities, PT Inco s ability to generate cash was significantly reduced and, as a result, Inco Limited agreed in May 1999 to provide PT Inco with a loan facility under which $88 million was advanced. These advances were effectively repaid to Inco Limited in 2002.

PT Inco s existing hydroelectric facilities were constructed and are currently operated pursuant to a 1975 decree of the Indonesian government. This decree, which effectively also covers the Balambano generating capacity which was part of the expansion project, vests an Indonesian ministry with the right, upon two years prior written notice to PT Inco, to acquire the hydroelectric facilities. No such notice has been given. If such right were exercised, the decree also provides that the hydroelectric facilities would be acquired at their then depreciated value subject to the ministry providing PT Inco with sufficient power to meet its operating requirements, at a rate based on costs plus a normal profit margin, for the remaining term of the Contract of Work. The new hydroelectric dam referred to under Operations below to be constructed by PT Inco as part of its latest expansion program is also expected to be subject to this decree.

PT Inco s estimated proven and probable ore reserves are sufficient to support its operations for more than 25 years, and its estimated mineral resources have the potential to continue to supply PT Inco s operations for a number of additional years. Future expansions are possible, as warranted by market conditions, by developing the extensive laterite nickel deposits within PT Inco s Contract of Work area in the Sorowako outer area and at Bahodopi and Pomalaa, located approximately 80 kilometres and 200 kilometres, respectively, from PT Inco s operations at Sorowako. Reference is made to Operations below for a discussion of certain recent legislative and regulatory developments in Indonesia.

When PT Inco s Contract of Work was extended in 1996, PT Inco agreed to several undertakings with regard to future expansions of its operations. Under one such undertaking, PT Inco agreed, subject to economic and technical feasibility, to construct production plants at Pomalaa in Southeast Sulawesi and Bahodopi in Central Sulawesi. The Contract of Work indicated that the first plant could be in operation by 2005 and the second by 2010, but did not specify which plant was to be constructed first. As indicated below, this initial expansion has been deemed to be satisfied through 2008 under certain arrangements with PT Antam Tbk (PT Antam).

In February 2003, PT Inco signed a Cooperative Resources Agreement (the CRA) with PT Antam, an Indonesian government-controlled diversified mining company and producer of ferronickel whose nickel operations are located

near PT Inco s Pomalaa deposits within its Contract of Work area. Under the CRA, PT Inco agreed to supply saprolite, a relatively high grade of lateritic ore, to PT Antam from certain designated portions of PT Inco s Contract of Work area in Pomalaa at prices based on an agreed upon pricing formula. The initial term of the CRA is 36 months starting from the initial delivery of ore by PT Inco to PT Antam. The first ore deliveries by PT Inco were made to PT Antam on July 1, 2005. The CRA can be extended for one or more additional terms of 12

months each provided PT Antam has fulfilled its obligations under the CRA. PT Inco has certain unilateral termination rights under the CRA.

In conjunction with the CRA, PT Inco obtained the approval of the Indonesian Minister of Energy and Mineral Resources with respect to PT Inco meeting certain of its undertakings covering future mining and processing activities, as noted above, under its Contract of Work by virtue of entering into the CRA. That approval indicated that PT Inco will be deemed to have satisfied its obligation to build a commercial plant at Pomalaa until the later of December 31, 2008 or the termination of the CRA, following which PT Inco will be obligated to deliver a report evaluating the technical and economic feasibility of constructing such a plant to the Government of Indonesia. PT Inco s obligation under its Contract of Work concerning the construction of a commercial plant at Bahodopi by 2010, subject to economic and technical feasibility, remains in effect.

PT Inco believes that the CRA provides a number of benefits to PT Inco, including (i) enabling PT Inco s saprolite mineral deposits at Pomalaa to be developed on a basis that should provide PT Inco with a reasonable return, (ii) satisfying certain of PT Inco s undertakings under its Contract of Work, (iii) evidencing, in addition to PT Inco s Sorowako expansion in 1999, Inco s continuing commitment to the Indonesian mining sector, and (iv) satisfying certain concerns relating to regional development expressed by the provincial and regional governments in Southeast Sulawesi which have assumed a greater role in the development of regional natural resources under Indonesia s regional autonomy program.

Operations

Production of nickel-in-matte at PT Inco increased by six per cent to a record level of 76,400 tonnes in 2005, compared with 2004, reflecting increased mine production and consistent downstream operations, in part delivered by improved water management and power reliability. Production in 2004 was 72,200 tonnes, up three per cent over the 2003 level of 70,200 tonnes. Nickel-in-matte, an intermediate product, is sold by PT Inco primarily into the Japanese market. Virtually all of PT Inco s electric power requirements are supplied by its 165-megawatt hydroelectric generating facilities on the Larona River and its newer 93-megawatt facilities at Balambano which began operation in 2000. As noted above, the Balambano facility has been able to generate power consistently above its design capacity due to improved water management practices and higher reservoir levels and other related factors than were assumed in developing its original design capacity. PT Inco announced plans in 2004 to construct a third dam on the Larona River at a cost of approximately $150 million. The new dam is the first stage of a four-year capital program currently estimated to total about $280 million aimed at raising PT Inco s annual production by 25 per cent to about 200 million pounds of nickel-in-matte by 2009. The new dam is expected to increase PT Inco s hydroelectric generating capacity by an average of 90 megawatts annually. In January 2006, PT Inco temporarily suspended groundwork at the new dam site, pending the receipt of certain amendments to a required permit issued by the Minister of Forestry. While we are optimistic that we will receive the necessary approvals to continue the groundwork, any delay will affect the overall project timing and PT Inco s ability to reach the annual 200 million pounds of nickel-in-matte production by 2009.

PT Inco s nickel unit cash cost of sales increased 25 per cent for 2005 compared with 2004 due to higher prices for heavy fuel oil, higher volumes of heavy fuel oil used due to higher production and more moisture in the ore from PT Inco s Petea mining area and higher prices for, and higher volumes, of diesel used due to a greater haulage distances, given the increased ore mined at PT Inco s Petea mining area. PT Inco also required approximately 364,000 tonnes of fuel oil to operate its dryers, kilns and other oil-fired facilities in 2005 compared with 447,000 tonnes in 2004.

The following table shows PT Inco s production, together with deliveries by Inco of finished nickel refined from PT Inco s matte, for the five years ended December 31, 2005:

Year	Production of Nickel-in-Matte (in tonnes)	Deliveries of Finished Nickel to Customers[1]

2001	62,600	61,018
2002	59,500	61,997
2003	70,200	65,512
2004	72,200	73,853
2005	76,400	73,965

(1) Includes 12,283 tonnes in 2001, 12,557 tonnes in 2002, 14,307 tonnes in 2003, 14,716 tonnes in 2004 and 15,441 tonnes in 2005 of nickel-in-matte delivered to Sumitomo as a final product.

As indicated in the tables on estimated ore reserves on a Company-wide basis above under Ore Reserves and Mining Rights , PT Inco s estimated ore reserves at the end of 2005 were 59 million tonnes of proven reserves grading 1.8 per cent nickel and 88 million tonnes of probable reserves grading 1.81 per cent nickel compared with an estimated 88 million tonnes of proven reserves grading 1.84 per cent nickel and 20 million tonnes of probable reserves grading 1.81 per cent nickel at the end of 2004[6].

In July 2005, the Constitutional Court in Indonesia upheld legislation adopted by the Indonesian parliament in August 2004 which exempted PT Inco and a limited number of other Indonesian mining companies from certain legislation passed in 1999. The 1999 legislation had the effect of restricting open-pit mining and certain other activities in areas designated as protected forests . A significant portion of the areas that PT Inco is authorized to mine under its Contract of Work was considered to be protected forests under the 1999 legislation. The legality of the 2004 legislation was challenged in early 2005 when certain parties initiated a process to have the 2004 legislation reviewed in the Constitutional Court. The July 2005 decision of this Court upholding the 2004 legislation is final and non-appealable.

Although this decision of the Constitutional Court has clarified that the areas that PT Inco is authorized to mine under its Contract of Work will not be subject to the 1999 legislation, in order to conduct mining in protected forests PT Inco must still resolve certain issues relating to a regulation issued by the Indonesian Minister of Forestry in late 2004 which imposed new requirements restricting mining in protected forests, including requiring that PT Inco submit an application for and obtain licences and other approvals to conduct such activities. While PT Inco continues to believe that the terms of its Contract of Work provide it with all authorizations needed to conduct mining activities in the areas covered by its Contract of Work and that any disputes relating to its Contract of Work are subject to arbitration under international conventions, if the forestry regulation restricts PT Inco s ability to mine in certain areas, it could reduce PT Inco s estimated ore reserves and adversely affect PT Inco s long-term mining plans. In addition, as discussed above, PT Inco is awaiting receipt of an amendment to a forestry permit in connection with its latest expansion project.

Sales

All of PT Inco s production of nickel-in-matte is sold in U.S. dollars under long-term contracts to Inco and Sumitomo. These contracts, which by their terms continue until the expiration of the Contract of Work, provide that if the Contract of Work is extended or renewed these contracts will be extended for the period of such extension or renewal. Under these contracts, about 20 per cent of PT Inco s production is sold to Sumitomo and the balance to Inco.

Net sales by PT Inco of nickel-in-matte totalled $885 million in 2005 compared with $792 million in 2004. This increase in 2005 relative to 2004 was due to increased deliveries as a result of higher production rates and higher realized prices.

PT Inco s deliveries of nickel-in-matte were 76,100 tonnes in 2005, compared with 72,500 tonnes in 2004 and 70,500 tonnes in 2003. The Japanese nickel market continues to be particularly important to PT Inco since PT Inco s operations were conceived, in part, as a stable source of feed material to Japanese nickel refiners in the form of a processed intermediate nickel product which could be imported free of existing Japanese tariffs levied on refined nickel metal and other finished forms of nickel. ITL processes nickel-in-matte from PT Inco to produce finished products for the stainless steel industry in Japan.

PT Inco s net realized price for nickel-in-matte in 2005 averaged $11,462 per tonne ($5.20 per pound) in 2005, compared with $10,766 per tonne ($4.88 per pound) in 2004 and $7,117 per tonne ($3.23 per pound) in 2003. Under PT Inco s long-term sales contracts, the selling price of PT Inco s nickel-in-matte is determined by a formula which is based upon the LME cash price for nickel.

Voisey s Bay Nickel Company Limited

Voisey s Bay Deposits

The Voisey s Bay deposits consist of four main mineral deposits: the Ovoid, the Eastern Deeps and related deposits, the Reid Brook deposit and the Discovery Hill deposit. As reflected in the table Total Estimated Ore Reserves as of December 31, 2005

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Reference is made to Note (3) to the tables entitled Total Estimated Ore Reserves as of December 31, 2005 and Total Estimated Ore Reserves as of December 31, 2004 above for the qualified persons under applicable Canadian securities regulatory requirements who conducted, either directly by themselves or indirectly through employees of the Company reporting directly or indirectly to them, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purpose of verifying these estimated ore reserves.

under Ore Reserve and Mining Rights above, as of December 31, 2005, estimated proven ore reserves of 29 million tonnes grading 2.99 per cent nickel, 1.73 per cent copper and 0.15 per cent cobalt and probable ore reserves of three million tonnes grading 0.64 per cent nickel, 0.37 per cent copper and 0.03 per cent cobalt were estimated for the Ovoid.

VBNC s exploration expenditures in Labrador were $5 million in 2005, compared with $3 million in 2004 and $2 million in 2003. In 2005, in-fill exploration drilling from surface was carried out at the Reid Brook deposit. Fifty-two holes totalling 21,000 metres were drilled in 2005, resulting in the addition of additional high-grade massive sulphide mineralization to this deposit. This drilling confirmed that these massive sulphides occur primarily as flat-lying bands and lenses within the wall rocks adjacent to the troctolite dyke that hosts the low-grade disseminated mineralization and that there is potential to add additional massive sulphide mineralization to this deposit with further drilling. Down-hole geophysical surveys were conducted in 2005 to identify the zones of massive sulphides and to optimize the drilling. The resource block model for the Reid Brook deposit was updated in 2005 and scoping-stage feasibility assessments continued on the underground resources. The exploration program will continue at the Reid Brook deposit in 2006 to seek to further increase the estimated high-grade resource there.

Environmental Review Process

The scope of the environmental review and approval process for the Voisey s Bay project was established under a January 1997 memorandum of understanding among the Governments of Canada and the Province of Newfoundland and Labrador (the Province), the LIA and Innu Nation on a harmonized environmental review process for the mine, concentrator and related facilities and infrastructure in the Voisey s Bay area (the Mine/Concentrator Project).

Having undergone a comprehensive environmental review, both the federal and provincial governments released the Mine/Concentrator Project from the environmental assessment process subject to certain terms and conditions, including measures intended to mitigate potential environmental effects relating to the Mine/Concentrator Project, and accepted a number of the panel s recommendations. We do not believe that those recommendations or the terms and conditions of the releases stipulated by the governments created or would create any unduly burdensome financial or other restrictions on the Mine/Concentrator Project.

In 1999, the federal and provincial governments entered into negotiations with the LIA and Innu Nation to develop a project-specific environmental management agreement for the issuance of the necessary governmental licences and permits for the Mine/Concentrator Project. With the agreement on the commercial development of the Voisey s Bay project having been reached in mid-2002, as discussed below, these discussions restarted and in July 2002 the governments entered into an environmental management agreement with the LIA and Innu Nation which created an environmental management board in order to provide for participation by these aboriginal groups in the process leading to the issuance of the necessary licences and permits for the Mine/Concentrator Project. The environmental management board has been meeting since it was created in July 2002 to provide advice on the issuance of the necessary permits and licences for the Mine/Concentrator Project, including the mining and surface leases issued to VBNC pursuant to the definitive agreements entered into with the Province of Newfoundland and Labrador, as discussed below. In 2004, we also began the process covering the environmental assessment of the planned commercial processing plant to process nickel concentrates from the Voisey s Bay mine and concentrator. This environmental assessment process is anticipated to be a multi-year one and is expected to be completed in 2007.

Arrangements with Aboriginal Groups

In June 2001, when confidential negotiations with the Province restarted on the terms that would enable the project to proceed, VBNC also resumed separate IBA negotiations with the LIA and Innu Nation. VBNC reached agreement on IBAs with both the LIA and Innu Nation in May 2002. These IBAs were subsequently ratified by the respective memberships of the two aboriginal groups and were signed by the parties effective July 29, 2002. The IBAs set forth (i) certain payments to be made to the LIA and Innu Nation by Inco and VBNC over the life of the Voisey s Bay project, (ii) programs relating to training, employment and business opportunities for the LIA and Innu Nation and (iii) the participation of the LIA and Innu Nation in environmental and certain other programs and procedures relating to the operation of the Mine/Concentrator Project, among other areas.

We understand that, following separate confidential negotiations between each of the LIA and Innu Nation and the Governments of Canada and the Province of Newfoundland and Labrador, interim agreements were reached to resolve

the respective land claims of the LIA and Innu Nation in July 2002. Neither VBNC nor Inco was a party to these agreements nor to the negotiations leading to those agreements. The LIA has since reached agreement with the federal and provincial governments on how their claims relating to Voisey s Bay would be addressed in its final land claims agreement, as well as an interim measures agreement to allow the Mine/Concentrator Project to proceed. We understand that the federal and provincial governments and the LIA reached agreement on

a final comprehensive land claims agreement in August 2003 and that in early 2004 the LIA completed a community-based ratification process ratifying the final comprehensive land claims agreement among those parties. The Province passed legislation ratifying the land claims agreement in December 2004 and the federal government ratified that agreement in 2005.

With respect to their land claims, Innu Nation has also reached agreement with the federal and provincial governments on how their claims relating to Voisey s Bay would be addressed in its final land claims agreement, and entered into a memorandum of agreement under which Innu Nation agreed, among other things, not to assert any aboriginal land claims in the Voisey s Bay area, thereby allowing the Mine/Concentrator Project to proceed. We were advised that the Innu of Labrador were registered for eligibility to receive benefits under the *Indian Act* (Canada) in November 2002, and that a reserve was created for the community of Natuashish in December 2003, but the community of Sheshatshiu does not yet have reserve status. We also understand that the federal and provincial governments and Innu Nation continued negotiations in 2005 towards the conclusion of a final comprehensive land claims agreement, but no such agreement has as yet been reached.

Arrangements with the Provincial Government

After a series of negotiations over the 1998 1999 and June 2001 June 2002 periods, in June 2002 Inco and the Government of Newfoundland and Labrador announced their agreement on a non-binding statement of principles covering the development of the Voisey s Bay project. The statement of principles was approved by the provincial legislature in late June 2002 and on October 7, 2002 Inco and VBNC signed definitive agreements with the government to implement the terms of the statement of principles. The definitive agreements provide for the development of a mine and concentrator processing plant at Voisey s Bay, representing the Mine/Concentrator Project, a research and development program focusing on hydrometallurgical processing technologies, an industrial and employment benefits program for the Voisey s Bay project, a timetable for the start and completion of the principal stages of the project, and other key parts and requirements covering the overall development of the Voisey s Bay project. The definitive agreements set forth certain obligations of Inco to construct and operate (i) a demonstration plant in the Province as part of the overall research and development program to test hydrometallurgical processing technologies to treat nickel-containing ores or intermediate products from the Voisey s Bay deposits and (ii) subject to technical and economic feasibility pursuant to the terms thereof, a commercial processing facility in the Province by the end of 2011 to treat all of the Voisey s Bay ores or intermediate products to produce finished nickel and cobalt products based upon hydrometallurgical processing technologies or, if such technologies do not meet certain technical and/or economic feasibility requirements, as may be determined by one or more agreed upon experts as provided for in such agreements, a conventional refinery. With the completion of the demonstration plant and the initial shipment of intermediate concentrate product from the Mine/Concentrator Project for testing at this plant in the fall of 2005, Inco began shipping quantities of intermediate concentrate products produced by the Mine/Concentrator Project containing nickel and/or cobalt to Inco s facilities in Ontario and Manitoba for further processing into finished nickel and cobalt products. Shipments of such Voisey s Bay intermediate concentrates will be limited to certain maximum aggregate quantities and will end when the construction of the hydrometallurgical or conventional matte commercial processing facility, as the case may be, is completed.

Under the definitive agreements, Inco is also required, prior to the cessation of the Voisey s Bay mining operations in the Province, subject to certain exceptions relating to the availability of such external sources, to bring into the Province for further processing at the hydrometallurgical or conventional matte processing facility to be constructed in the Province from sources outside the Province, in one or more intermediate forms, quantities of intermediate products, subject to certain annual minimum quantities, containing in total quantities of nickel and cobalt equivalent to what was shipped to our Ontario and Manitoba operations. The definitive agreements also set forth (1) Inco s commitment to an underground exploration program covering the Voisey s Bay deposits with the objective of discovering sufficient nickel-containing ore reserves for processing beyond the initial phase of the Voisey s Bay project, (2) the terms under which the processing of copper intermediate in the Province would be justified, and (3) the Province s commitment to (i) the tax regime that will apply to the project, (ii) electric power rates for the project and (iii) the issuance of the necessary permits and authorization to enable the Voisey s Bay project to proceed. The definitive agreements also provide for programs and arrangements relating to employment and industrial benefits in

connection with the construction and related aspects of the project. The definitive agreements also include specific sanctions if Inco were not to meet certain of its contractual obligations under such agreements, including the effective forfeiture of its lease to conduct mining operations in the Province. Under the terms of the definitive agreements, certain provisions became effective when these agreements were executed. The next steps which were to be met by the end of the first quarter of 2003 for these agreements to become effective overall included the securing of acceptable financing arrangements for the project and completing a bankable feasibility study for the first phase of the project, including the Mine/Concentrator Project. As discussed under Project Phases below, the bankable feasibility study was completed in late March 2003. In March 2003, Inco advised the Province that it was waiving the financing condition in these agreements. The remaining conditions to the effectiveness of these agreements were met in the third quarter of 2003.

Project Phases

Inco announced in late March 2003 (i) the results of a bankable feasibility study for the mine and concentrator for the Ovoid and adjacent surface deposits and related facilities representing part of the initial phase of the Voisey s Bay project and (ii) that it planned to proceed with this initial phase. The initial phase of the Voisey s Bay project consists of (i) the Mine/Concentrator Project and related infrastructure, (ii) a research and development program covering hydrometallurgical processing technologies (the Hydromet R&D Program) for the treatment of the Voisey s Bay nickel and cobalt-containing concentrates to be produced into finished nickel and cobalt product, including a demonstration plant to be constructed in Argentia on the Island of Newfoundland, (iii) concentrate handling facilities to be constructed at our Canadian operations for the nickel and cobalt-containing concentrates to be processed over the 2006-2011 period once the Mine/Concentrator Project is completed and (iv) an exploration program. As at December 31, 2005 we estimate that this initial phase will cost $970 million and as of the end of 2005 we had incurred expenditures of approximately $902 million on this initial phase.

Production began at the Voisey s Bay project in September 2005, well ahead of the original project schedule. The first shipments of intermediate nickel concentrates from the Voisey s Bay project were shipped to Inco s operations in Sudbury, Ontario and Thompson, Manitoba in November 2005 and the first production of finished nickel from these concentrates occurred in January 2006. In October 2005, the demonstration plant was, as discussed above, completed and began operating at Argentia with an initial shipment of concentrate for testing. Production from the Voisey s Bay project in 2006 is currently expected to be approximately 54,000 tonnes of nickel in concentrates.

Assuming technical and economic feasibility, a commercial hydrometallurgical processing plant will be built as part of the second phase of the project between 2009 and 2011. As noted above, in the unlikely event that the hydrometallurgical process proves not to be technically and/or economically feasible, a conventional refinery will be built to produce finished nickel product. It is expected that the Voisey s Bay hydrometallurgical plant will produce approximately 50,000 tonnes of nickel, 2,300 tonnes of cobalt and up to 7,000 tonnes of copper intermediates. In addition, it is expected that the Mine/Concentrator Project will produce approximately 32,000 tonnes of copper in concentrate annually. A total investment, based upon the updated capital cost estimate for the initial phase and the prefeasibility studies for the other two phases of the project of approximately $2,000 million would be required for all phases of the project over the 30-year life of the project, including estimated sustaining capital requirements.

Goro Nickel S.A.S.

Goro Deposits

Goro Nickel holds a number of claims covering nickel-cobalt properties in New Caledonia, located about 1,500 kilometres east of Australia. These properties have an extensive laterite resource base, including, as reflected in the tables above covering estimated ore reserves on a Company-wide basis under Ore Reserves and Mining Rights , an initial mining zone with, as of December 31, 2005, an estimated 96 million tonnes of proven ore reserves grading 1.34 per cent nickel and 0.12 per cent cobalt and 24 million tonnes of probable ore reserves grading 2.01 per cent nickel and 0.09 per cent cobalt which has been outlined as an initial source of feed for a commercial plant[7]. Given the completion of the comprehensive review of the Goro project referred to below, the capital cost estimate used for this estimate of ore reserves as at year-end 2005 was based on the updated capital cost estimate announced in October 2004. This estimated ore reserve base is to be mined using low-cost open pit methods, which, when combined with Inco s proprietary pressure-acid leaching and solvent extraction (PAL-SX) technology, will give the project the potential to have one of the lower cash costs of nickel production in the world.

The following map shows the Goro project concessions and the location of Goro Nickel s ore reserves and mineral resources, the process plant site and other facilities:

[7] Reference is made to Note (3) to the tables entitled Total Estimated Ore Reserves as of

December 31, 2005 and Total Estimated Ore Reserves as of December 31, 2004 above for the qualified persons under applicable Canadian securities regulatory requirements who conducted, either directly by themselves or indirectly through employees of the Company reporting directly or indirectly to them, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purpose of verifying these estimated ore reserves.

Goro Project
Location of Concessions, Ore Reserves and Mineral Resources, Process Plant Site and Other Facilities
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Ownership of Goro Nickel

Inco currently owns approximately a 71 per cent interest in Goro Nickel following the capitalization of certain shareholder advances in February 2005, the sale of shares representing a 21 per cent ownership interest in Goro Nickel to Sumic Nickel Netherlands (Sumic), a joint venture between Sumitomo and Mitsui & Co., Ltd. (Mitsui) in April 2005, and the election by SPMSC not to make its pro-rata capital contributions to the project as described below.

Under the terms of a share purchase agreement entered into with Inco covering their acquisition of a 21 per cent interest in Goro Nickel, Sumitomo and Mitsui paid a total of approximately $150 million for their interest. This amount included their pro-rata share of certain project capital and other expenditures made since we announced our initial decision in July 2001 to proceed with the Goro project and certain advances made by us to fund the project. Under the terms of a shareholders agreement entered into as of April 8, 2005 (the Sumic Shareholders Agreement), setting forth the rights and obligations that Sumic (as well as Sumitomo and Mitsui) have as a shareholder in Goro Nickel, including the right to elect two directors to the board of directors of Goro Nickel so long as Sumic holds at least a 16 per cent ownership interest in Goro Nickel and the right to elect one director so long as it holds at least an eight per cent ownership interest, Sumic is also obligated to make capital contributions on a pro-rata basis, subject to certain limitations and adjustments tied to the actual capital cost of the project, as required to meet the funding requirements of Goro Nickel until such time as the Goro project meets certain minimum commercial production and related performance tests (the Sumic Threshold Performance Tests). If Sumic does not make such capital contributions, it will suffer dilution of its ownership interest based upon a penalty dilution formula. If the capital cost of the Goro project exceeds a threshold as specified above a capital cost estimate of $1,878 million, as calculated under the Sumic Sharheolders Agreement, prior to when the Sumic Threshold Performance Tests are met, then Sumic will not have any obligation to provide capital contributions to meet the Goro project s funding requirements and we would, subject to certain terms and conditions under the Sumic Shareholders Agreement, be required to provide certain funding to meet such requirements, up to a specified level, in the form of interest-bearing debt repayable by Goro Nickel. In addition, under the Sumic Shareholders Agreement Sumic has the right to participate on a pro-rata basis in any future expansion of the Goro project and also has certain rights to approve certain expenditures and other actions relating to Goro Nickel or the Goro project that would be outside the currently planned scope and operation of the project. As of April 8, 2005, Inco, Sumic, Sumitomo and Mitsui also entered into an operations agreement which sets forth Goro Nickel s role and responsibilities as the operator of the Goro project and its financial and other reporting obligations to its shareholders and a product offtake agreement was also executed under which Sumic has the right and obligation to purchase its pro-rata share of Goro Nickel s production of nickel and cobalt products based on its ownership interest in Goro Nickel, with a subsidiary of Inco under a separate product offtake agreement having the right and obligation to purchase all of Goro Nickel s production not purchased by Sumic (which would currently represent 79 per cent of such eventual production).

On February 18, 2005, SPMSC acquired all of the shares of Goro Nickel held by a subsidiary of Bureau des Recherches Géologiques et Minières (BRGM). These shares represented, after the capitalization by Goro Nickel of certain shareholder advances as of February 18, 2005, approximately a 9.71 per cent interest in Goro Nickel. At the same time, Inco sold shares in Goro Nickel to SPMSC representing approximately a 0.29 per cent interest such that SPMSC would own, as of February 18, 2005, approximately a 10 per cent interest in Goro Nickel. SPMSC also entered into a shareholders agreement with Inco on February 18, 2005 setting forth its rights and obligations as a shareholder in Goro Nickel. Under the terms of that agreement, SPMSC will have a right to nominate and elect one director to the board of directors of Goro Nickel so long as it holds at least a five per cent interest in Goro Nickel. SPMSC will also have the right, but not the obligation, to make capital contributions on a pro-rata basis as required to meet the funding requirements of Goro Nickel until such time as the Goro project meets certain minimum commercial production and related performance tests (the Threshold Performance Tests). If SPMSC does not make such capital contributions, then Inco has agreed to provide such capital contributions in addition to its own pro rata contributions, subject to certain limitations, and SPMSC would, accordingly, suffer dilution of its ownership interest, with the dilution formula to be subject to a penalty if SPMSC s interest by virtue of dilution were to fall below five per cent. If the capital cost of the Goro project exceeds a threshold above a capital cost estimate of $1,878 million, as calculated

under the shareholders agreement between SPMSC and Inco, prior to when the Threshold Performance Tests are met, then SPMSC will not have any right or obligation to provide capital contributions to meet the Goro project s funding requirements and Inco would be required to provide certain funding to meet such requirements, up to a specified level, in the form of interest-bearing debt repayable by Goro Nickel, and SPMSC would also be required to provide its pro rata share of certain administrative and related costs incurred by Goro Nickel up to a specified limit. Once the Threshold Performance Tests are met, to the extent that SPMSC has elected not to make its pro rata capital contributions and, accordingly, has suffered dilution of its interest in Goro Nickel, SPMSC has agreed to purchase from Inco, based upon the price paid by Inco for such shares plus interest

thereon based upon a formula tied to Inco s then applicable long-term weighted average cost of capital, a sufficient number of shares such that SPMSC will then hold a 10 per cent interest in Goro Nickel. Our planned capital expenditures for the Goro project do not assume that SPMSC will make its pro rata capital contributions until it is diluted down to five per cent.

SPMSC will also have the right to participate in any future expansion of the Goro project. In the event that the Goro project were effectively abandoned on a permanent basis or did not meet the Threshold Performance Tests within seven years after the Goro project s process plant had been constructed and was ready to receive feed for processing, SPMSC would have the right to receive a preferential payment ahead of Goro Nickel s other shareholders out of the proceeds received from the sale of Goro Nickel s assets, after the discharge of all of Goro Nickel s liabilities to third parties, based upon SPMSC s total capital contributions in, and purchase of shares of, Goro Nickel subject to a ceiling. Inco has agreed to provide, subject to certain terms and conditions, a letter of credit in the future in favour of SPMSC to secure this preferential payment.

Since SPMSC became a shareholder of Goro Nickel in February 2005, it has elected not to make its proportionate capital contributions. Accordingly, Inco has made such contributions, resulting in SPMSC being diluted to approximately an eight per cent ownership interest as of December 31, 2005 and Inco has increased its ownership to approximately 71 per cent in Goro Nickel by virtue of making such additional contributions. Contributions are made in the form of shareholder advances which are then capitalized on a quarterly basis.

Goro Project

In 1999, we completed the construction of an integrated pilot plant in New Caledonia capable of processing 12 tonnes of ore per day to continue with the development of the PAL-SX technology required for commercialization. The pilot plant operated successfully for over two years, both in further proving the PAL-SX technology and in training the core workforce for a future commercial plant.

In April 2001, following completion of a bankable feasibility study, Inco announced that it planned to proceed with the construction of a commercial nickel-cobalt project at Goro.

During 2002, Inco proceeded with the commercial development of the Goro project. In early September 2002, the project experienced labour disruptions by personnel associated with certain project construction subcontractors. As a result of these disruptions, a decision was made to curtail certain activities at the project site to enable Goro Nickel, contractors, subcontractors and other interested parties to develop procedures to avoid future disruptions. Over the September to November 2002 period, a number of procedures were put in place as part of a phased resumption of certain of the project activities that had been curtailed. At the same time that the labour disruptions referred to above occurred, Inco began updating the status of certain key aspects of the project, including the necessary permitting, capital cost estimate, project schedule and organization. Work on certain critical parts of the project, including engineering, continued during this update process.

Project Review Process

On December 5, 2002, Inco announced that it would be undertaking a comprehensive review of all key aspects of the Goro project. This action was based upon information received by Inco from the engineering, construction and procurement firms acting as the prime construction contractors for the project which, if confirmed, indicated an increase in the capital cost estimate for the project in the range of 30 to 45 per cent above the then current capital cost estimate of $1,450 million. The objective of the comprehensive review was to assess all information on the Goro project, including the various cost estimates and trends, and determine what changes in the capital cost estimate and the project could be made to maintain the project s economic feasibility. As a result of the temporary suspension of certain development activities and other actions which had been taken by year-end 2002 during this review process, we recorded a pre-tax charge of $25 million in the fourth quarter of 2002. This charge was comprised of pre-tax expenses of $62 million relating to the cancellation or termination of certain outstanding contractual obligations, to accrue for demobilization costs and to reduce the carrying value of certain assets relating to the project, partially offset by currency gains of $37 million as a result of the ineffectiveness of certain forward currency contracts that had been entered into for hedging purposes. As part of the comprehensive review, we also evaluated various contractual and other arrangements covering construction and other work relating to the Goro project and implemented certain actions to suspend or terminate certain of those contractual arrangements.

This review, as discussed above, evolved into two phases during 2003. Phase 1 of the review focused on an orderly suspension of work and identification of opportunities for capital cost reduction. In August 2003, we announced the key results of Phase 1 of the

review process and that we were moving to a second phase, or Phase 2, of the review which would involve a structured process intended to (i) further develop the capital cost reduction opportunities identified in Phase 1 and (ii) establish a capital cost control estimate, an updated project schedule and an optimized and clearly defined scope and execution plan for the project.

In late May 2004, we announced the key preliminary findings reached to that date as part of Phase 2 of the review. These findings included (i) an updated preliminary capital costs estimate, taking into account an expected non-cash charge, of approximately $1,850 million for the mine, process plant and related infrastructure, within a minus five per cent to plus 20 per cent confidence level and (ii) changes in the planned Goro project configuration, moving to direct heating of the ore feed and other changes intended to reduce the capital cost estimate and enhance the operating efficiency of the planned process plant and the process itself. As a result of such changes, capitalized expenditures incurred of $201 million were written off as of the end of the second quarter of 2004. These changes related to certain expenditures, principally engineering and related work associated with the original project configuration and equipment purchased for the indirect heating of ore feed, that no longer would have any value for the project or otherwise. We announced the key final results of Phase 2 of the review in October 2004. These final results included an updated capital cost estimate of $1,878 million for the mine, process plant and related infrastructure, within a minus five per cent to plus 15 per cent confidence level. This estimate included about $40 million for assumed escalation in costs during the construction phase of the project, an amount that was not in previous capital costs estimates, and also reflected favourable currency hedging gains realized by Inco of about $31 million which were also not included in previous estimates. The principal reasons for the increase from the $1,850 million estimate which had been announced in May 2004 were higher costs for a range of construction materials and labour required for construction and the incorporation of a new tailings storage area as part of the project. The results of Phase 2 of the review also established an expected annual capacity for the project of 60,000 tonnes of nickel and a current range for cobalt capacity of 4,300 to 5,000 tonnes per year to take into account the optimized mine plan for the project. Having completed and achieved the key objectives of Phase 2 of the review, in October 2004 we also announced the decision to proceed with the project.

Since October 2004, project execution has been based on a phased approach, with the first phase focusing on engineering, contract development and permitting. Engineering was about 70 per cent complete as of year-end 2005 and approximately 900 construction personnel were on site initially focusing on earthworks for the process plant, the residue storage facility and road realignment. We are also building some 400 process plant modules and pre-finished units for the process plant in the Philippines which are expected to be delivered to the Goro site beginning in April 2006. Taking into account these cost pressures for such construction materials and other input costs, the currently anticipated trends in such costs and the latest regulatory requirements for the configuration of the project s tailings area, we currently believe that, if we were to formally update our latest estimate for the capital cost for Goro s mine, process plant and infrastructure of $1,878 million with a minus five per cent plus 15 per cent confidence level, such updated forecast would be expected to be at the high end of the plus 15 per cent confidence level. As part of our ongoing work on the project, we have implemented a number of systems to monitor all key costs trends which could affect the capital cost forecast. We currently expect to be in a position to have a definitive cost estimate, reflecting all relevant factors at that time, and which is currently expected to be subject to a confidence or accuracy level developed as part of that estimate, sometime in the second quarter of 2006 when engineering is expected to be at least 80 per cent complete and all major construction contracts will have been awarded. The expected initial start-up of the project remains in late 2007. Reference is made to Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Development Projects Segment under Item 7 of this Report for a discussion of the status of the Goro project as of year-end 2005.

Fiscal Regime

The New Caledonian authorities enacted a fiscal regime in 2001 which provides a nominal 15-year tax holiday plus an additional five years at tax rates that are 50 per cent of the prevailing tax rates for qualifying metallurgical companies. If the project achieves an internal rate of return in excess of a cumulative threshold rate during this 20-year period, the applicable tax rates or levels for the project would then be adjusted prospectively to be equivalent to the general rates or levels then in effect for mining and processing companies.

Girardin Act Financing

On December 30, 2004, we entered into agreements for the Goro project covering the *Girardin Act* tax-advantaged lease financing program (Girardin Financing) sponsored by the French Government. The Girardin Financing is subject to a ruling issued by the French Minister of Economy, Finance and Industry (the Ruling). The Ruling provides that certain investors who are French qualified investors under the Girardin Financing (Tax Investors) may utilize certain tax deductions in connection with assets

representing a portion of the Goro project s processing plant which are financed by the Girardin Financing (Girardin Assets). The Ruling requires that Goro Nickel and Inco satisfy certain conditions, including operating the Goro project for a minimum of five years.

As part of the Girardin Financing, a special purpose entity (SPE), a variable interest entity, was formed by the Tax Investors to finance the purchase, construction and installation of the Girardin Assets. As we are the primary beneficiary of the SPE, our consolidated accounts include the accounts of the SPE. The purchase, construction and installation of the Girardin Assets by the SPE is funded by a combination of (i) non-refundable loans (Tax Advances) provided by the Tax Investors pursuant to a tax loan agreement (the Tax Loan Agreement) between the Tax Investors and the SPE, and (ii) loans provided to the SPE by a subsidiary of Inco pursuant to a loan agreement (the Loan Agreement).

Under a construction agreement between the SPE and Goro (the Construction Agreement), Goro has been appointed the construction agent on behalf of the SPE and is responsible for the purchase, construction, installation and commissioning of the Girardin Assets. The costs for the construction, installation and commissioning of the Girardin Assets total approximately $500 million and are payable in three instalments. In the event of a cost overrun, a fourth instalment would be made to Goro Nickel with the additional funds provided pursuant to the Loan Agreement. Goro Nickel is required to give notice of substantial completion of the Girardin Assets to the SPE by December 31, 2008 or such later date as may be approved by the French tax authorities. Upon such substantial completion, the SPE will lease the Girardin Assets to Goro Nickel under an agreement between the SPE and Goro Nickel (the Lease Agreement). While the term of the Lease Agreement is 12 years, the related agreements covering the Girardin Financing extend certain call and put options to Goro Nickel and the SPE, respectively, covering both the Girardin Assets and the ownership interests in the SPE whereby, assuming no default by Goro Nickel under the arrangements covering the Girardin Financing, one of these options will be exercised after five years, resulting in the termination of the Lease Agreement and the ownership of the Girardin Assets reverting to Goro Nickel.

The Construction Agreement and the Lease Agreement contain certain events of default and termination rights for the benefit of the SPE, including the failure of Goro Nickel to meet certain terms and conditions of the Ruling. Following any termination of the Lease Agreement, (1) certain termination compensation could be payable by Goro Nickel to the Tax Investors pursuant to the Add-Back Indemnity (as defined below) and (2) Goro Nickel would be required to either (a) repay the entire then outstanding amount drawn under the Loan Agreement or (b) assume all of the SPE s obligations under the Loan Agreement. Upon the occurrence of such events, Goro Nickel would continue to have the right to use the Girardin Assets, with the SPE retaining ownership thereof until all termination payments due by Goro Nickel under the Lease Agreement were paid. In addition, each of the Lease Agreement and the Construction Agreement provides that Goro Nickel must indemnify the SPE and the Tax Investors with respect to (1) the Add-Back Indemnity (as defined below), (2) increased taxes incurred by the SPE or Tax Investors in respect of certain changes in tax laws or the imposition of certain unanticipated taxes in New Caledonia and (3) certain operational losses incurred by the SPE or Tax Investors arising out of third party claims in their capacity as owners of the Girardin Assets. In the event of a termination of the Construction Agreement or the Lease Agreement or in the event that the Tax Investors exercise their put option upon the occurrence of certain material adverse environmental events relating to Goro Nickel prior to the fifth anniversary of substantial completion of the Goro project, it is possible that the Tax Investors could lose their tax deductions in respect of the Girardin Assets, thereby triggering an indemnity whereby Goro Nickel would be required to reimburse the Tax Investors for the denial or reversal of their tax deductions under the Girardin Financing by the French tax authorities and for any interest and penalties levied thereon by such authorities (the Add-Back Indemnity). In connection with any termination event, the Tax Investors will receive certain priorities relating to Goro s assets over other creditors.

As at December 31, 2005, Goro Nickel had received $307 million in Girardin Financing, of which $79 million was in the form of Tax Advances. The SPE expects to receive the balance of the Tax Advances in December 2006 pursuant to the terms of the Tax Loan Agreement. It is currently estimated that such Tax Advances will total $148 million, before fees to be paid to the Tax Investors, with the balance of the Girardin Financing to be provided under the Loan Agreement. Of the remaining Tax Advances to be made in 2006, approximately 65 per cent of these amounts has been committed by the Tax Investors, with the balance expected to be placed with additional investors

prior to the end of 2006. If sufficient commitments from additional investors are not obtained prior to year-end 2006, this will reduce the total Tax Advances referred to above available to Goro Nickel.

In connection with the Girardin Financing, Inco Limited provided certain guarantees on behalf of Goro Nickel covering payments due from Goro Nickel of up to a maximum amount of $100 million (the Maximum Amount) in connection with the Add-Back Indemnity. Inco Limited also provided an additional guarantee covering the payments due from Goro Nickel of (a) amounts exceeding the Maximum Amount in connection with the Add-Back Indemnity and (b) certain other amounts payable by Goro Nickel under the Girardin Financing relating to certain possible operational or other developments applicable to the Goro project.

New Caledonia

New Caledonia is currently an overseas territorial community (*collectivité territoriale*) of France having special legal status under the French constitution, including significant autonomy except in foreign relations, defence, justice, currency and certain other related areas. As part of the objective of increasing New Caledonia s autonomy from France and to implement arrangements to address political and other issues that New Caledonia had experienced, in 1998 the French government, the New Caledonian government and two New Caledonian political movements representing the native population entered into the Noumea accord. This accord sets forth a process and timetable for increasing the autonomy of New Caledonia over the coming years, culminating in a referendum to be held by 2018 on whether New Caledonia would become fully independent from France. As part of the initial phase of the accord, steps have been taken, and will be taken over the next few years, to develop the form of provincial governments to be part of the New Caledonian government structure and to pass local legislation, including the enactment of a new mining law, that will provide for the transfer of certain authority in a number of areas still maintained by France to the New Caledonian government. We do not believe that these developments will have an adverse effect on the Goro project but there can be no assurances in this regard. Provincial elections were held in May 2004 for the election of members of the three provincial assemblies in New Caledonia. Each assembly has elected its president who is part of the province s executive board. The members of the newly elected provincial assemblies also serve as members of the Congress of New Caledonia. This Congress is responsible for the selection of the President of New Caledonia.

In late 2005, a number of boycotts and other related actions in New Caledonia affected the operations of Eramet and its subsidiary, Société Le Nickel, and other local businesses as a result of labour and other disruptions and other developments. While those actions and developments did not affect the construction of the Goro project to any significant degree, such disruptions could have a substantial adverse effect on the project s construction schedule and capital costs if they were to resume and continue for any extended length of time.

Prony West Deposit

In September 2001, Goro Nickel applied for an exploration permit for an area next to the Goro deposit known as Prony West. Several other companies applied for the same exploration permit. After an assessment of the various applications, the government of the South Province of New Caledonia recommended to accept Goro Nickel s application based upon its approach to the development of this deposit. The South Province s recommendation to accept Goro Nickel s application was discussed at a government mining committee (Comité Consultatif des Mines) level in April 2002 and the recommendation to accept Goro Nickel s application was subsequently approved by the provincial mining council (Conseil des Mines). In July 2002, after a public debate on the awarding of this exploration permit, the legislative assembly of the South Province voted to award the Prony West exploration permit to Goro Nickel. As soon as this decision was made, several companies challenged the South Province s decision. The administrative tribunal which considered this challenge released its decision on December 24, 2003. The administrative tribunal decided that the legislative assembly of the South Province did not have the authority to make the award as this authority had been previously delegated to the Executive Committee of the South Province and that the delegation had not been withdrawn. As a result of this decision, the exploration permit previously awarded to Goro Nickel was cancelled. However, after the cancellation of this permit, on December 27, 2003 the Executive Committee of the South Province met and re-awarded the exploration permit to Goro Nickel. This decision to re-award the permit to Goro Nickel was open to challenges until late April 2004. A number of challenges were filed by several different parties and on November 21, 2005 the administrative tribunal rendered a decision annulling the Prony West exploration permit. The tribunal annulled the permit on procedural grounds, ruling that there was a material change in circumstances between the first and second awards given that the Goro project was suspended in December 2002. Goro Nickel has appealed the tribunal s decision. The respondents to this appeal have not yet filed their responses and the hearing of the appeal has therefore not yet been scheduled. If the tribunal s decision to annul the permit is upheld on appeal, it is expected that the Prony West exploration rights would then be subject to the submission by Goro Nickel and any other interested party of a new application for an exploration permit and a new process for the review and approval of such an application would be undertaken by the Comité Consultatif des Mines and the Conseil des Mines.

Exploration and Mine Development

One of the objectives of Inco s exploration program has been to provide us with sufficient ore reserves and mineral resources to sustain production at current levels for at least 20 years at our Ontario and Manitoba operations. See Mining and Production General above for further information on our planned production levels and Ore Reserves and Mining Rights in Canada above for information on our estimated proven and probable ore reserves. We also continue to pursue exploration opportunities for precious metals (PGMs and gold) in Ontario.

Exploration expense totalled $43 million in 2005, compared with $32 million in 2004 and $27 million in 2003. Our exploration efforts in 2005 focused on finding additional high-grade nickel deposits in Canada near existing mine workings to increase our estimated ore reserves and provide additional feed for our existing processing facilities, as well as looking for new deposits that would be capable of supporting stand-alone production facilities. Of our total exploration expenditures in 2005, $19 million was spent on exploration in Ontario and Manitoba directed at finding additional nickel, copper and PGMs ore reserves near our existing mines, compared with $13 million in 2004 and $11 million in 2003. Additions to estimated ore reserves from the evaluation of diamond drilling in 2005 totalled 0.4 million tonnes averaging 1.8 per cent nickel and 1.2 per cent copper at our Ontario operations and 0.5 million tonnes averaging 1.9 per cent nickel at our Manitoba operations. Significant quantities of mineral resources were added to the mineral inventory at both the Ontario and Manitoba operations and the feasibility assessments required to classify a portion of these resources as ore reserves are planned to be completed in 2006. We have also continued to evaluate joint venture opportunities that have the potential to enhance our overall mining operations.

At our Ontario operations, underground exploration continued on the 170 footwall high-grade precious metals deposit at McCreedy/Coleman Mine in 2005. Additional holes were drilled from the exploration drift. The hanging wall exploration drift, which is required to conduct the close-spaced drilling needed for a final feasibility assessment, was advanced by 330 metres in 2005. A further 90 metres is required to complete the exploration drift in 2006. In-fill drilling is currently underway and is scheduled to be completed by June 2006. As of December 31, 2005, the probable ore reserves in the 170 deposit was estimated at 1.5 million tonnes grading 1.0 per cent nickel, 7.4 per cent copper and 17.4 grams per tonne of combined platinum, palladium and gold. Other exploration drilling at McCreedy East/Coleman Mine included the intersection of an new footwall copper zone, designated as the 161 zone. The compilation of the drilling results from this zone is planned to be completed by the end of 2006. Drilling to the west of the main orebody extended the strike length of the current reserve by 180 metres. Resource compilation on this extension is ongoing and results are expected by the end of the first quarter of 2006.

At Copper Cliff North Mine, the results of the 2004 drilling program on the 178 deposit were used in 2005 to model the deposit and evaluate its exploration potential and potential economic viability. As a result of the evaluation of the 178 deposit, the economic viability of the 191 orebody project, which is located approximately 500 metres north of the 178 deposit, has been enhanced. An exploration ramp has been collared on the 4,000-foot level and will be advanced north from a production shaft, past the 178 deposit location to the 191 orebody, a total of about 2,000 metres. An exploration drilling program on the 178 deposit is scheduled to begin from this ramp in early 2007.

Exploration at Copper Cliff South Mine continued in 2005 on the 865 orebody below the 2,400-foot level. Drilling on the southern end of the 865 orebody identified a major new mineralized zone which is referred to as the 860 deposit. This deposit is continuous with, and extends approximately 500 metres south of, the 865 orebody. It is contained within the quartz diorite dyke which hosts the mineral deposits at Copper Cliff North and Copper Cliff South mines. Two additional intersections of massive sulphide mineralization were encountered at year-end 2005 containing high-grade copper and nickel over widths of about 70 metres each, extending the zone about 80 metres south of previously know mineralization. Additional drilling and geological and economic assessments are planned in 2006. Drilling on the 865 deposit in 2005 outlined a new segment of the quartz diorite dyke containing ore-grade mineralization down-dip from the currently known ore reserves and mineral resources in the 865 deposit. Further drilling on this zone is also planned for 2006.

Exploration drilling was carried out at Garson Mine to assess the known mineral resources located down-dip from the No. 1 Shear Orebody below the Phase 2A development project for this mine. The Phase 2A development project is exploiting the known ore reserves at Garson Mine down to the 5,100-foot-level. Exploration drilling has been conducted to collect samples for mill testing, provide more confidence in the continuity of the mineral resource and increase the mineral resource. The drilling demonstrated a significant increase in the thickness of the mineralization in the vicinity of structures cross-cutting the deposit due to apparent dragging of the mineralization adjacent to those structures. An exploration drift and exploration drilling are planned for 2006 to further test the No. 1 Shear Orebody and another orebody, the No. 4. This program will also test the No. 4 Shear Orebody between the 4,600-foot and the 5,000-foot levels in 2007.

In 2005, surface exploration continued at our Ontario operations to evaluate mine extensions and test new exploration targets in the South Range, North Range and East Range of the Sudbury Basin and the Copper Cliff offset. At the Copper Cliff offset, a surface-drilling program was initiated for additional mineralization between the 5,200-foot level down to the 7,000-foot level below the current ore reserves at the Kelly Lake project and to test for new copper-nickel-PGM mineralization within the Copper Cliff Offset dyke south of the Kelly Lake project. In addition, an advanced surface drilling program was initiated at the Kelly Lake project within the 710 and 720 zones to further define tonnage and grade continuity, gain additional geotechnical data and obtain material for mineralogical examination and additional mill test work for full feasibility assessment. At year-end 2005, five diamond drills were in

operation at this project and are scheduled to continue work in 2006. An advanced exploration program continued at Creighton Mine in 2005 to test the extensions of the 402 orebody up-plunge along a trend to Gertrude Mine above the 3,500-foot level. The 402 orebody is currently being mined at the 3,800-foot level. In the South Range of the Sudbury Basin, an exploration program was initiated at the Graham West Property, located to the west of Creighton Mine, to evaluate an interpreted off-hole geophysical anomaly located in the contact environment. Two holes were drilled and intersected narrow zones of mineralization at the contact of the Sudbury Igneous Complex with the footwall rocks. The interpretation of the geological information indicated the presence of a footwall structure that may lead to mineralization in the footwall environment. This program is scheduled to continue in 2006. In the North Range of the Sudbury Basin, the Norman exploration program continued to test a significant previously undrilled area in diamond drilling along the contact of the Sudbury Igneous Complex contact down dip from Whistle Mine. Three holes were completed in 2005 and intersected narrow widths of mineralization. This project is also scheduled to continue in 2006.

The $21.5 million Phase 2 project to develop a high-grade nickel deposit at McCreedy East/Coleman Mine reached an average production rate of 1,335 tonnes of ore per day in 2005. The $31.2 million Phase 3 project to develop a section of McCreedy East/Coleman Mine s main and west orebodies was nearing completion as of year-end 2005. All development work and construction of the major facilities were completed in 2005. Production of ore from this area began on schedule in December 2004 and ore production in 2005 reached an average of 307 tonnes per day, well above the design capacity of 219 tonnes per day. Ore production in 2006 is scheduled to be 591 tonnes per day. The final design capacity of 1,070 tonnes per day is expected to be achieved in 2008.

In October 2000, Inco began a $12 million project to develop the lower-grade area of Stobie Mine at our Ontario operations. The development and construction needed for production to begin through the ore-handling component of this project was completed in October 2001. Lateral development and construction of the individual mining levels were completed in early 2005 and production from this project reached 4,460 tonnes per day in 2005. The planned production level is scheduled to be 4,355 tonnes per day in 2006, with production from this project expected to continue until 2014.

In 2005, mine development continued on the first of the expected three phases of the Creighton Deep project at the Ontario operations Creighton Mine, a project that was first announced in 1998. Capital expenditures on this project totalled $4.3 million in 2005. Production from the first phase of this project began in early 2003 and totalled 233,163 tonnes of ore grading 3.25 per cent nickel and 2.33 per cent copper in 2005. Production of ore from this first phase is expected to continue at a rate of approximately 250,000 tonnes per year until 2016. The second phase of the Creighton Deep project, which includes the development of a production level at the 7,810-foot level of the mine to access estimated proven ore reserves totalling about 1.7 million tonnes grading 3.62 per cent copper and 3.11 per cent nickel, was approved by Inco s Board of Directors in December 2005 and is expected to cost $38 million. Capital expenditures for the second phase totalled $1.2 million in 2005. The third phase of the Creighton Deep project, which would provide access to estimated probable ore reserves of 2.72 million tonnes grading 2.90 per cent copper and 2.71 per cent nickel between the 7,810- and 8,200-foot levels of the mine between the 8,200- and 10,350-foot levels, is currently being evaluated.

The $47 million 2A project to deepen Garson Mine from the 4,470-foot level to the 5,070-foot level was completed in 2005. Production in 2005 was 2,166 tonnes of ore per day, exceeding the project design rate of 2,087 tonnes per day. This project is expected to extend the life of Garson Mine until approximately 2012.

In January 2002, Inco entered into an option agreement with FNX Mining Company Inc. (FNX) relating to certain rights extended to FNX to explore and develop five non-core properties of the Company in the Sudbury Basin. The properties covered by this agreement all had a history of past production but were inactive and Inco had no further plans for the exploration or development of these properties. Subject to meeting certain conditions enabling it to exercise the option to acquire a 100 per cent interest in the mineral rights to these properties, FNX agreed, pursuant to the terms of the option agreement, to spend Cdn.$14 million over a 16-month period beginning in January 2002 and was granted an option to earn a 100 per cent interest in the mineral rights in these properties by spending a further Cdn.$16 million over the next four years. In December 2003, FNX announced that it had completed its total expenditure commitment and had exercised its option to acquire a 100 per cent interest in the mineral rights covering the properties. As part of the agreement, Inco had initially acquired common shares and common share purchase

warrants of FNX representing a total equity interest in FNX of 19.9 per cent on a fully-diluted basis. This ownership position was sold over the 2002-2003 period. The related agreements with FNX covering the option provide Inco with the right to buy back a 51 per cent interest in any new ore deposits meeting certain criteria that FNX discovers on the properties. Under the terms of a related offtake agreement, Inco is currently purchasing and refining all of the ore production from the properties covered by the option agreement. During 2005, FNX continued exploration and rehabilitation work on these properties. In addition, FNX became the sole owner of the mineral rights to the properties by acquiring Dynatec Corporation s interest in October 2005.

In January 2005, Inco entered into a joint venture agreement with Lonmin Plc and its subsidiary Lonmin Canada Inc. (Lonmin) to establish a 50:50 unincorporated joint venture covering six of our properties in the Sudbury Basin. The purpose of this venture is to explore for, and if economically viable subsequently develop and process, low sulphide PGMs-rich deposits occurring away from the typical high-grade base metals deposits in the Sudbury Basin. Lonmin has committed to solely fund minimum expenditures of $10 million over the first three years of the venture and, subsequently, at Lonmin s annual election, to spend a minimum of $3 million per year. After Lonmin has solely funded expenditures of $32 million in total, Inco and Lonmin will fund the venture on a 50:50 basis. Lonmin s interest in any PGMs deposits discovered based upon work undertaken by the venture does not vest until a development decision is made in respect of the relevant deposit. Inco retains 100 per cent ownership of all non-PGMs mineral deposits on the properties covered by the venture. The venture will also pay to Inco a three per cent net smelter royalty on all products sourced from the venture s PGMs deposits. An exploration program, consisting of surface and borehole geophysical surveys, mapping, sampling, trenching and diamond drilling, was conducted on all six properties in 2005. A similar program is planned for 2006.

In the Thompson, Manitoba nickel belt, the compilation of exploration targets for the regional surface exploration program on the OIC Leases continued in 2005 and is scheduled to continue in 2006. Underground exploration continued in 2005 at Thompson Mine to test for extensions to known deposits and to identify new satellite deposits. At Birchtree Mine, a pilot hole was drilled in preparation for development work in 2006 that will facilitate exploration drilling to test the depth of the extension of the 84 orebody, which is the primary production area of the mine.

An advanced exploration program on the Thompson North zone, located below the 3,600-foot level of Thompson Mine, continued in 2005. Approximately 480 metres of development work and 22,433 metres of diamond drilling were completed, confirming the continuity of high-grade nickel mineralization indicated by previous, widely-spaced drilling over a 600-metre strike and 150 metres down-dip. This exploration drilling will continue in 2006. Some 5,040 metres of diamond drilling were completed from the 1,600-foot and 2,400-foot levels of Thompson Mine in 2005 to determine the continuity and thickness of nickel sulphide mineralization in the upper portion of the Thompson 1D orebody, which is currently being mined. The results are, we believe, encouraging and justify the continuation of this program in 2006. In addition, surface drilling continued north of the T-3 shaft of Thompson Mine to assess the potential for a deposit that could be accessed by open pit mining. 1,838 metres of diamond drilling and 231 metres of overburden drilling were completed in 2005. The evaluation of a zone immediately north of the T-3 shaft over a strike length of 270 metres above the 400-foot level was encouraging and further evaluations will be conducted in 2006. The 2006 drilling program is planned to focus on a second zone of mineralization near surface that is located 1,200 metres further north. An economic analysis was completed on the extensions of the Thompson deposit to depth and to the north where additional exploration potential has been identified. To adequately test all of the Thompson extensions in a timely and most cost-effective manner, a dormant 3,600-foot level exploration drift is planned to be reconditioned to provide access for exploration drilling. Preparation for this work began in 2005 and exploration drilling and down-hole geophysical surveys are scheduled to be conducted from this drift in 2006.

In August 2005, Inco announced the development of a portion of the Thompson 1-D orebody located between the 3,600-foot and the 4,000-foot levels of Thompson Mine. The cost of this project is estimated to be $34 million. Designated as the 602 zone , this portion of the orebody contains estimated proven and probable ore reserves of 4.7 million tonnes grading 2.2 per cent nickel. The planned production rate from the 602 Zone is 2,180 tonnes of ore per day, beginning in 2008 and extending through to 2015. Development was initially planned to begin in mid-2006. However, a decision was made in October 2005 to advance the start of the project by six months and development work for the project began in late 2005.

At Pipe Mine, which operated between 1970 and 1985, historical drilling data from the area beneath the open pit and extensions of the mineralization to the north were assessed in 2005 based on an open pit mining method. A program of pulp re-assaying, diamond drilling and metallurgical testing is planned for 2006 to further evaluate this mineralization.

In 2005, exploration continued at the Mel project, located 25 kilometres north of the City of Thompson, under the terms of an agreement with Nuinsco Resources Limited (Nuinsco) which was entered into in August 1999. The agreement grants Nuinsco the right to acquire the mineral lease that covers the Mel deposit and 60 contiguous mining

claims by incurring total expenditures of Cdn.$6 million by February 2006, subject to Inco s right to buy back a 51 per cent interest in the deposit by spending the next Cdn.$6 million over a further four-year period. Nuinsco had spent approximately Cdn.$4 million on the deposit by the end of February 2006 and is currently negotiating with Inco to amend the August 1999 agreement. Under the terms of this agreement, all production from any commercial quantities of ore discovered would be delivered to our Thompson facilities for processing on then-prevailing market terms. During 2005, Nuinsco funded a program of diamond drilling, overburden drilling and a pulse electro-magnetic borehole survey on the Mel mineral lease and mining claims. A total of 2,506 metres of diamond drilling, 94 metres of overburden drilling and the electro-magnetic survey were completed under this program. Massive sulphide was

intersected on the mining claims but no significant nickel mineralization was found. However, the electro-magnetic survey identified two strong conductors that warrant further work. A scoping study to consider an open-pit mining approach for the deposit was completed in 2005, but the project economics were unfavorable due largely to the low shear strength of the deep, clay-rich overburden which negatively impacts the design of a potential open-pit mine.

In 2005, exploration continued at the TNB South project, located approximately 100 kilometres southwest of the City of Thompson. The property covered by this program is contiguous with the southwest boundary of the OIC Leases held by Inco and extends 50 kilometres further to the southwest. Canadian Royalties Inc., under the terms of an agreement entered into with Inco in November 2003, has the right to earn a 50 per cent interest in the property covered by the agreement by funding 100 per cent of exploration expenditures totalling Cdn.$5 million over five years. Inco has a right of first refusal on all production from any commercial quantities of ore discovered. During 2005, line cutting, 27 surface electromagnetic (UTEM) surveys and 2,195 metres of diamond drilling were completed. Some of the boreholes intersected massive sulphide mineralization, but no significant nickel mineralization was found. Additional diamond drilling is planned for 2006.

In 2005, field exploration apart from Inco s producing mines and development projects focused on Australia, Brazil, Canada, China, Greenland and Finland.

In Brazil, exploration on the Aguapei property, located in the state of Mato Grosso, continued under our joint venture letter of intent with Japan Oil, Gas and Metals National Corporation that was entered into in 2004. Drilling intersected anomalous nickel values hosted by sulphide-bearing mafic and ultramafic rocks, leading to a decision by the joint venture to expand the property by staking additional mineral claims. An option agreement was entered into with Rio Gameleira Prospecção E Geologia Ltda (Gameleira) in March 2005, allowing Inco to earn an interest in the nickel rights in a series of properties held by Gameleira in the Tocantins area of Brazil. Work in 2005 included geological, geophysical and geochemical surveys. The results of these surveys will be reviewed in 2006 to determine if there are any targets that warrant drilling. Inco also entered into a data evaluation agreement with De Beers Brazil Ltda (DeBeers) in October 2005. This agreement provides Inco with access to DeBeers geochemical database and physical samples for an area of interest in northern Brazil. In December 2005, Inco also entered into subscription and exploration agreements with Perth, Australia-based Mirabela Nickel Ltd. (Mirabela) covering several nickel properties held by Mirabela in Brazil. Under the subscription agreement, in December 2005 and February 2006 Inco purchased approximately 10 per cent of the shares of Mirabela on a fully-diluted basis. The exploration agreement allows Inco one year to evaluate its interest in three Mirabela properties and then enter into an option and joint venture agreement on agreed upon terms and conditions.

In Australia, Inco continued grassroots nickel sulphide exploration on a number of properties that we either acquired by staking or obtained the right to explore under option and/or joint venture agreements with the owners of the properties. In Western Australia, a deep penetrating geophysical survey was carried out over the Loongana property with negative results, and our option agreement with Helix Resources Limited was subsequently terminated. Late in 2005, having met our funding commitment under our joint venture agreement with LionOre Australia Pty Ltd., ongoing exploration work under that agreement ended. Following the completion in early 2005 of a drilling program that began in 2004, our Polar Bear Nickel joint venture with Plutonic Operations Limited and four other Australian mining companies was terminated. Geochemical and geophysical surveys were completed, followed by the drilling of eight boreholes, on the Southern Hills property in Western Australia under a joint venture agreement entered into with FraserX Pty Ltd. in November 2004. The analytical results from this work are not yet available. In 2005, Inco staked a large property position at Bangemall in Western Australia covering a strong gravity and magnetic feature. In South Australia, following extensive geophysical surveys, we terminated our option agreements with PlatSearch NL and Adelaide Exploration Limited. Ground geophysical surveys were carried out over the Black Hill properties in South Australia and targets are scheduled to be drilled in 2006. In New South Wales, an extensive program of geological, geochemical and geophysical surveying on the Koonenberry property led to the discovery of a gossan zone that returned anomalous copper and nickel values. Further work on this property is planned for 2006. Finally, several properties were staked in the State of Victoria in 2005 to cover conceptual targets based on magnetic data and exploration results from previous explorers.

Subscription and farm-in joint venture agreements were entered into with Heron Resources Limited (Heron) in April and July 2005. Under the subscription agreement, Inco acquired approximately 10 per cent of the shares of Heron and has the right to participate in future offerings of shares by Heron in order to maintain its percentage interest. The farm-in joint venture agreement provides Inco with the opportunity to acquire a 60 per cent interest in Heron s extensive nickel laterite properties located in the Kalgoorlie area of Western Australia by achieving certain milestones staged over several years. In 2005, Inco began exploration drilling on certain of the properties.

In Canada, Inco has active joint ventures with Aurora Platinum Corp., Soquem and Superior Diamonds Inc. to explore certain areas in Ontario and Quebec using historic Inco airborne and ground follow-up geophysical data. Inco retains a right to purchase any nickel, copper and PGMs produced from the properties covered by these joint ventures, as well as the right to buy back into any properties acquired or elect to take a royalty. Inco is using the balance of its historic airborne database to develop nickel-PGMs targets throughout Canada which are being followed up with surface exploration under a continuing program. On Baffin Island, the first season s exploration work was completed in 2005 under a data-sharing agreement with De Beers Canada Exploration Inc. which was entered into in October 2005. Certain anomalies that were identified are planned to be drilled in 2006.

In Greenland, an option and joint venture agreement was entered into with Diamond Fields International Ltd. (DFI) in June 2005, under which Inco had the right to earn an interest in a property held by DFI in Greenland. Geophysical surveys followed by drilling were carried out and the agreement was terminated by year-end 2005.

In northern Finland, Inco is exploring for nickel-copper-PGMs deposits in the Lapland area under a joint venture with Korea Resources Corporation that was entered into in December 2004. Initial ground mapping, prospecting, geophysics and geochemistry surveys were carried out. These were followed by preliminary drilling. Further ground has been applied for and the area of the joint venture has been expanded for 2006. In central and southern Finland, Inco entered into an agreement with Polar Mining Oy in August 2005 to assess data and delineate new projects.

Inco continued to evaluate exploration projects in China during 2005. Exploration continued on the areas covered by two cooperative joint venture agreements in Jilin province, one with Jilin Nickel Industry Group Ltd. and the other with Geological Survey Institute, Jilin Province. Preliminary drilling and a helicopter-based airborne geophysical survey and ground surveys were completed in 2005. Exploration is planned to continue under these agreements in 2006 with drilling and follow-up surveys when the land positions have been secured. Preliminary ground reconnaissance surveys were carried out under memorandums of understanding covering exploration areas in Yunnan province and in Sichuan province in early 2005. We continue to evaluate other exploration targets in China.

In February 2003, Canico Resource Corp. (Canico) acquired a 100 per cent ownership interest in Inco s Onça Puma nickel laterite property in Brazil. Under the agreements covering this transaction, Inco received an equity interest in Canico and Inco agreed to (i) purchase and process all matte produced from any mine on the property under an offtake agreement, and (ii) act as Canico s sales agent for all nickel commodities produced from any such mine (other than those purchased by Inco) and earn a commission of 2.75 per cent on those sales. On November 30, 2005, we tendered our holding of 5,732,473 common shares of Canico to a take-over bid made by Companhia Vale do Rio Dolce of Brazil and received Cdn.$20.80 per share, realizing a gain of about $88 million.

See Voisey s Bay Nickel Company Limited Voisey s Bay Deposit above for information on exploration activities at the Voisey s Bay project.

All of the estimated ore reserves referred to in this section are included in the tables under Ore Reserves and Mineral Resources above.

Research and Development

Inco s central research and development facilities, J. Roy Gordon Research Laboratory (JRGRL), are located in two separate buildings in Sheridan Park, Mississauga, Ontario. JRGRL is operated by Inco Technical Services Limited (ITSL), a wholly-owned subsidiary of Inco Limited. ITSL also provides engineering, project management and information technology services to Inco s operating locations and development projects. Our research and development activities at JRGRL are organized into two groups, process research and product research.

Inco believes that it is a nickel industry leader in research and technology development. Our research and development focus continues to be closely aligned with our key strategic objectives. Our major research and development projects currently include the development of metallurgical and environmental process improvements for existing operations, process development work for our Voisey s Bay and Goro projects, and the development of proprietary, value-added nickel products. Research and development expenditures totalled $35 million in 2005, compared with $29 million in 2004 and $27 million in 2003, representing continued significant expenditures on the hydrometallurgical research and development program for the Voisey s Bay project.

ITSL s process research and process engineering groups work in close cooperation with personnel at Inco s operating locations, and with the Voisey s Bay and Goro project teams. At Inco s existing operations, this work is

aimed at developing opportunities for

increased operating earnings through process modifications. At our Ontario operations, the process research group continued to assist in improving metals recoveries at the Clarabelle Mill, concentrating in particular on modifications to grinding and mineral liberation operations. Testing was also conducted on copper-nickel separation techniques for the Clarabelle Mill and on improvements in matte separation at the Copper Cliff Smelter. ITSL also continued to work with the Copper Cliff Smelter to improve its operating efficiency and reduce costs by making changes to its operating procedures and improvements to the integrity of its furnaces, converters and kilns. Work also continued on equipment and flow-sheet modifications to enable emissions reductions from this smelter. In the Copper Cliff Nickel Refinery, innovations developed as a result of ITSL-sponsored research programs contributed to higher throughputs and improved equipment reliability.

At our Manitoba operations, we made progress on a project to begin smelting through the operation of a single furnace. Previous testing indicated that it may be possible to economically increase the grades of the concentrates that are smelted. To investigate anticipated challenges in the single-furnace smelting operation, computer modeling is being employed to identify limitations in the operations converters and to develop ways to eliminate bottlenecks.

The process research group is also responsible for developing cost-effective, environmentally responsible processes for the recovery of nickel, cobalt and copper from the Voisey s Bay and Goro ores. During 2005, this group continued its successful mini-pilot plant program to develop and demonstrate proprietary hydrometallurgical leaching and refining processes for the Voisey s Bay project. Mini-pilot plant testing of acid leaching of concentrates was completed and the technology was transferred to the Voisey s Bay demonstration plant at Argentia, which began operations in October 2005. The stability of leach residues in the natural environment remains a focus of laboratory and demonstration-scale studies. The mini-pilot plant at JRGRL was also used to scope process alternatives for matte refining. A number of different approaches were investigated and a program for further study in 2006 was formulated and initiated.

Inco continued to maintain a highly-focused product research group that concentrates on creating and commercializing new, proprietary, value-added nickel products, as well as new applications for existing products. It also provides technical support to customers for these products. The product research group works in close collaboration with Inco Special Products, which has responsibility for all business activities related to our specialty nickel products. Projects are led and conducted using cross-functional teams. A stage-gate process is employed to evaluate the potential technical and business success of proposed projects.

A filamentary nickel powder with modified properties that is capable of enhancing electrode porosities in rechargeable batteries was developed through joint efforts between ITSL and our Clydach Refinery. This new nickel powder was introduced into the marketplace in 2005 as Type 240. Working with our electrolytic nickel foam plants in Shenyang and Dalian, China, ITSL provided technical support and suggestions for improvements to the electrolytic production of high-quality INCOFOAM® nickel foam aimed particularly at hybrid electric vehicles. In separate development efforts, ITSL also researched the production and properties of superior cathode materials for lithium-ion batteries and began plans for pilot-scale studies on the production of these materials. In 2005, technical assistance and product improvement work continued for three nickel powder products that were recently introduced into the marketplace. These new products, T110PM for use in powder metallurgy and INP-400 and INP-600 for applications in multi-layer ceramic capacitors, are all based on extra-fine nickel products produced using Inco s carbonyl technology.

Working with internationally-based partners and contractors, Inco has developed a process for manufacturing nickel-based alloy foams that are resistant to corrosion and high temperatures. The material has been tested for applications in diesel exhaust gas treatment systems and has demonstrated effectiveness at removing particulates. A pilot plant is being constructed at Heufeld, Germany to demonstrate the process on a larger scale and produce material for commercial-scale testing.

Metals Recycling

Inco s subsidiary, The International Metals Reclamation Company, Inc. (Inmetco), located near Pittsburgh, Pennsylvania, is a world leader in metals recycling. Using proprietary Inco technology, Inmetco recycles nickel, chromium and iron from stainless steel mill and metal finishing wastes and nickel and cadmium from spent batteries.

Inmetco s net sales to customers, which are included in Other in the table under Sales above, were $46 million in 2005, compared with $50 million in 2004 and $35 million in 2003.

[8] Inco trademark

[9] Inco trademark

Certain feedstocks and by-products of Inmetco s process are regulated as hazardous or residual wastes by the U.S. Environmental Protection Agency (the EPA) and the Commonwealth of Pennsylvania. While such regulation increases the demand for Inmetco s services in some respects, it also increases Inmetco s operating costs. We expect that in the years ahead EPA and the Commonwealth of Pennsylvania may issue a number of new regulations that could impose additional costs on Inmetco s operations. We are not, however, able to predict at this time the effect that such additional regulations could have on its operating costs and financial condition.

Environment, Health and Safety

Inco s operations are subject to numerous environmental laws and regulations relating to, among other areas, air emissions, water discharges, soils, recycling and waste management, decommissioning and reclamation, and employee health and safety. While environmental requirements vary considerably from country to country, future laws and regulations may be expected to impose stricter environmental requirements on the mining and metals processing industries in general, and on specific uses of certain metals. We devote considerable resources to our performance under and compliance with the environmental, health and safety laws and regulations to which we are subject. However, the impact of future laws and regulations in these areas on the Company cannot be predicted with any degree of certainty.

Environmental and Health and Safety Management Systems

In 2001, Inco s Canadian operations began to develop and implement formal environmental management systems conforming to the Mining Association of Canada s Environmental Management Framework (the EMF). The EMF also conforms to the ISO 14001 Environmental Management System Standard (ISO 14001). Our operations in the United Kingdom, as well as ITL, Jinco and Taiwan Nickel have been certified to ISO 14001.

In order to conform to ISO 14001, in 2001 we broadened our environmental, health and safety policy to include policies related to social responsibility and sustainable development and to include pollution prevention as a key element of this policy. Work also began on the identification and ranking of environmental aspects and effects relating to our operations and the development of action plans to deal with any significant environmental effects.

Also in 2001, Inco established an internal working group to undertake an analysis of current occupational health practices and activities in our operations in Canada and the United Kingdom with a view to creating a single overarching health management system which would provide a mechanism for workplace health management to assist in meeting applicable legal and other health requirements. In mid-2002, we elected to develop an integrated health, safety and environmental management system consistent with the OHSAS 18001 Occupational Health and Safety Management System (OHSAS 18001), the ISO 9001 Quality Standard, ISO 14001, and the EMF. In 2005, each Inco operation began implementing this system and this process is expected to be completed on a Company-wide basis by the end of 2006.

Environment, Health and Safety Audits

Inco conducts environment, health and safety (EH&S) audits at its wholly-owned operating facilities as well as at operations in which it has at least a 50 per cent equity interest and at certain affiliates in which it has less than a 50 per cent equity interest. Inco s EH&S audit program supports our EH&S policy and is intended to provide senior management with assurance that appropriate systems are in place to effectively manage EH&S risks and to ensure compliance with applicable EH&S legislation, Inco s corporate guidelines and each facility s policies and procedures.

The current focus of our EH&S audits has been on conducting management system audits that seek not only to identify problems but also to examine the root cause of these problems and correct deficiencies in the system. The program currently covers 17 key areas (six environmental, two health, eight safety and one administrative). Audit results are reported to the facility management, which develops an action plan to correct any deficiencies. The Environment, Health and Safety Committee of Inco s Board of Directors oversees the program, reviewing audit findings and action plans. EH&S audits were conducted at eight Inco facilities worldwide in 2005.

SO_2 Emissions

Sudbury

Total sulphur dioxide (SO_2) emissions at Inco s Ontario smelting operations were 194,000 tonnes in 2005, below the current maximum SO_2 regulatory emission limit of 265,000 tonnes which was established by the Government of Ontario in 1994. These emissions totalled 209,000 tonnes in 2004 and 169,000 tonnes in 2003.

In February 2002, the Ontario Ministry of the Environment (MOE) issued a control order (the February 2002 Control Order) that requires us to reduce SO_2 emissions by 34 per cent from the current limit of 265,000 tonnes to 175,000 tonnes at our Ontario smelting operations by the end of 2006. The February 2002 Control Order also reduced the limit for SO_2 ground level concentrations (GLCs) by 32 per cent, from the then current level of 0.50 parts per million (ppm) to 0.34 ppm. GLCs refer to the concentrations of SO_2 at ground level after being emitted from the emissions stack and forced to the ground by atmospheric conditions rather than being dispersed. Fugitive emissions (emissions which are caused when SO_2 gases exit our operations through roof ventilation equipment, windows, doors and other openings) are also controlled under this order. During 2005, there were four exceedances of the new GLC limit (three from the stack and one fugitive). This compares with 11 exceedances in 2004 (nine from the stack and two fugitive) and seven exceedances in 2003 (four from the stack and three fugitive). The increase in exceedances in 2004 was due in part to the imposition by the MOE of a new method of counting exceedances. Under the new method, an event that registers as an exceedance on more than one monitor is counted as a separate exceedance for each monitor that registers the exceedance. We are subject to possible regulatory action, including fines, as a result of these exceedances, but we have not received any indication from the MOE whether or not any charges will be laid. In order to continue to meet the SO_2 emissions and GLC limits, it is likely that the Ontario operations smelter will be operated at reduced capacity for brief periods over the next few years when adverse meteorological conditions, such as temperature inversion events or the absence of wind, for plume dispersal exist. We do not, however, currently expect that compliance with the annual SO_2 emission limits from our smelter operations or GLC levels as set forth in the February 2002 Control Order will have any significant effect on our costs, operating procedures or annual production of nickel and other primary metals from our Ontario operations, subject to the other applicable requirements discussed below.

We are currently implementing an investment of approximately $90 million in fluid bed roaster (FBR) off-gas scrubbing technology intended to reduce SO_2 emissions to the new levels mandated by the February 2002 Control Order by the end of 2006. The FBR project is also expected to have the added benefit of decreasing total metal emissions of nickel, copper, arsenic and lead by 80 to 100 tonnes per year. The FBR project involves the installation of water scrubbers that clean the SO_2 gases by removing principally particulate matter. The SO_2 gases are then directed to the acid plant to be converted into sulphuric acid. The FBR project will also provide us with the ability to treat the same types of gases coming from certain other smelting furnaces. In 2005, the water scrubbers and modifications to the acid plant were completed in readiness for the commissioning of the FBR project in the second quarter of 2006. As part of the February 2002 Control Order, we will also be required to (i) continue research into the technology and economics of further reductions in SO_2 emissions and (ii) report annually to the MOE and the public on the progress of this research program. The February 2002 Control Order calls for a final report on achieving the additional reductions to be submitted by December 31, 2010.

In October 2005, the Ontario government enacted legislation that created new ceilings or caps on SO_2 emissions from our Sudbury smelter to be applicable over the 2006 2015 period. This legislation also established emission allowances that could be banked or traded (bought or sold) in an emissions trading market. In 2006 the ceiling or cap under this legislation that applies to our Sudbury smelter is approximately 256,000 tonnes. This cap declines to no higher than 175,000 tonnes in 2007 and could be lower depending upon actual production rates over the 2004 2006 period. Beyond 2007 and through 2014, this annual cap could be lower than 175,000 tonnes depending upon actual production rates over a three year rolling period. In 2015, this cap will fall to 66,000 tonnes. We believe that, given the implementation of the FBR technology referred to above and our ability to bank and purchase emission allowances over this period, we will be able to meet the caps over the 2006 2014 period without seriously affecting our currently planned production rates at our Ontario operations or requiring significant capital expenditures beyond what we currently estimate. We cannot, however, predict at this time what additional capital expenditures would be required

and the technology that could be implemented to meet the 2015 cap and what impact that cap would have on our production in Ontario, results of operations and cash flow from operations.

In September 2004, the Canadian federal environmental agency, Environment Canada, published a notice indicating its intention, under the requirements of the Canadian Environmental Protection Act (CEPA), to control emissions from base metal smelters and refineries using pollution prevention planning and a code of best practices for this sector. The notice also indicated a set of emission targets that each smelter in Canada, including our facilities in Ontario and Manitoba, would be expected to meet. Environment

Canada provided for an 18-month period from September 2004 for companies to indicate whether they could develop a plan to meet their proposed new targets on certain emissions. In response to this initiative, we have proposed that target levels for such emissions to be established by Environment Canada for our Ontario operations mirror the target levels developed by the Ontario Government. As discussed below under Thompson , we also proposed that any target level from our Manitoba operations be deferred. We do not know at this time what target levels Environment Canada may decide to set for our Ontario operations and over what period of time. Depending upon the difference in those target levels from what currently applies to our Ontario operations for the currently applicable periods and beyond, we may not be able to meet such levels without making very significant capital expenditures, and compliance with such levels could materially adversely affect our production levels, our financial results and cash flow from operations.

Canada signed and ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (Kyoto Protocol) in December 2002. The Kyoto Protocol calls for significant reductions in the emissions of greenhouse gases, such as carbon dioxide, and nationwide ceilings on such emissions. In November 2002, the federal government of Canada released an initiative to address certain causes of climate changes. The specific requirement of this initiative is also to limit the discharge of carbon dioxide and other greenhouse gases. Neither the Kyoto Protocol nor this other initiative has as yet established what the specific allocation of reductions among various sources of greenhouse gases would be. In August 2003, the federal government of Canada released certain principles covering the Kyoto Protocol intended to be used to implement the objective of having the oil and gas, thermal energy and mining and manufacturing sectors reduce greenhouse gases by certain specified limits. While during 2004 there was relatively little progress made by the federal government of Canada on advancing the implementation of greenhouse gas emission reductions as part of the Kyoto Protocol, in April 2005 Canada announced its so-called Project Green as part of the federal budget, intended to implement at least certain aspects of the Kyoto Protocol. This project provided for the overall reduction of greenhouse gases (GHGs) by so-called large final emitters (LFEs) such as leading metals and mining, energy and other companies, including ourselves, by 45 million tonnes. In July 2005 the federal government published a notice intended to outline certain principles for this project, including exactly what types of companies would be viewed as LFEs, and the level of GHGs reductions to be implemented by LFEs over the 2008 2012 first phase of the Kyoto Protocol. It is currently expected that we, as an LFE, could be required to reduce our GHGs intensity (based upon direct energy used and actual production) by 12 to 17 per cent from the base year of 2000 to be calculated for and applicable only for smelting and refining emissions. This reduction could result in a cost to us, based upon how these reductions are to be assessed, of in the order of $2 million. In November 2005, the federal government designated GHGs as toxic under CEPA, thus giving it the authority to regulate GHGs such as carbon dioxide under CEPA. We do not know what additional steps the federal government might take through CEPA to reduce GHGs and the impact those steps could have on our operations and cash flow.

While the precise impact of the Kyoto Protocol and its ratification or confirmation on our operations in Canada and the operations of others who provide energy or other products or services to us is uncertain at this time, we anticipate that compliance with these initiatives could have a significant adverse effect on our results of operations and costs.

Thompson

Inco s smelter at Thompson, Manitoba operated during 2005 under a regulation issued by the Manitoba government which limits emissions of SO_2 from Inco s Manitoba ores to 23,000 tonnes per month and 220,000 tonnes per calendar year. We met both of these limits during 2005, with the total of such emissions being 180,000 tonnes for the year. These emissions totalled 192,200 tonnes in 2004 and 191,000 tonnes in 2003.

As noted above under SO_2 Emissions Sudbury, the September 2004 notice published by Environment Canada under CEPA included a proposed set of targets for emissions that each smelter in Canada would be expected to meet. In response to this initiative, we have proposed that the reduced target levels for our Manitoba operations be deferred until 2020. We do not know at this time what target levels Environment Canada may decide to set for our Manitoba operations and over what period of time. Depending upon the difference in those target levels from what currently applies to our Manitoba operations for the currently applicable periods and beyond, we may not be able to meet such levels without making very significant capital expenditures, and compliance with such levels could materially adversely affect our production levels, our financial results and cash flow from operations.

Port Colborne and Sudbury Soils

Inco has been working with regulatory authorities and other interested parties to evaluate elevated levels of nickel and other metals in soils located in the vicinity of our processing facilities in Sudbury and Port Colborne, Ontario that may have been affected by the historical emission of windblown metal-containing particulates. Reference is made to Port Colborne Soils and Sudbury Soils below. The processes and criteria by which remediation requirements are determined in Ontario were issued by the MOE as a

guideline in 1996 (the Guideline). The Guideline specifies numerical soil concentrations above which environmental and human health concerns are considered sufficient to warrant detailed risk assessments. Inco voluntarily agreed to conduct such risk assessments and to remediate soils as necessary to reduce risks to negligible levels in both the Sudbury and Port Colborne areas. In October 2004, after formal community-based risk assessments were begun, the MOE issued a new regulation under the Ontario *Environmental Protection Act* (the Regulation) which incorporated the Guideline. Since October 2004, Inco and the MOE have been discussing when and under what circumstances the community-based risk assessments relating to Port Colborne and Sudbury would be subject to the Regulation. Based upon these discussions, it is unclear at this time whether these community-based risk assessments which are being funded by Inco will fall under the Regulation, but we plan to complete our detailed scientific measurements and risk assessments for these two communities and continue our discussions with the MOE with respect to how those findings would satisfy the site-specific requirements specified in the Regulation.

Port Colborne Soils

The results of soil sampling by the MOE in Port Colborne which were released in January 2000 indicated a wide area having surficial soils with levels of nickel, copper and cobalt above the generic levels established by the MOE for phytotoxicity. Based upon these results, Inco suggested that a community-based risk assessment (CBRA) process, funded by Inco, would represent a more objective, fair and efficient way of assessing any risks from these levels than conducting numerous site-specific risk assessments. The CBRA process was accepted by the MOE and the City of Port Colborne and in April 2000 the Port Colborne city council appointed a seven-member Public Liaison Committee (the PLC), consisting of local citizens, to interface and work with us and our consultants on the CBRA process. A stakeholder technical sub-committee was also formed consisting of representatives of the MOE, the Regional Public Health Department, the City of Port Colborne, Inco and consultants. In November 2000, the scope of work for the CBRA process was agreed upon and work commenced. The CBRA process has focused on ecological and human health assessments involving all potential pathways for exposure to specified chemicals of concern (CoCs), nickel, copper, cobalt and arsenic, for all living species and all health endpoints.

The soil sampling carried out by the MOE in Port Colborne showed lead levels higher than the generic levels established by the MOE, but completely within the range found in older communities throughout North America. It is generally believed that high lead levels in these communities were caused principally by use of lead-based paints and leaded gasoline until the mid-1970s and the improper disposal of lead-acid automobile batteries. Even though the Port Colborne refinery emitted some lead-containing particulates during its approximately 80 years of operation, an inventory of such emissions, together with air dispersion modelling, has shown that expected soil lead concentrations from such emissions represent only a small fraction of the lead observed in the soil. A comprehensive report on lead as a CoC within the CBRA process was prepared by a consultant to Inco in 2003 and was peer reviewed in 2004. This report confirmed that Inco should not be held responsible for the lead found in soils in Port Colborne. In 2005, an ad-hoc taskforce was formed by the technical subcommittee of the PLC to educate homeowners in Port Colborne about the risks associated with lead exposure. The taskforce includes the MOE, the Regional Public Health Department, the City of Port Colborne, the technical consultant to the PLC and two citizens of Port Colborne. Inco is assisting this effort by making the services of the technical consultant available to the taskforce at Inco s expense.

The objective of the CBRA process has been to assess human and environmental health risks from multi-pathway exposures to CoCs in Port Colborne. If risks were found to exist at unacceptable levels, as defined by governmental authorities, then the CBRA process would also recommend options for the remediation of soils to remove those risks. As a result of this effort, the CBRA is intended to be able to derive Port Colborne-specific soil concentrations for each CoC that will not be a risk for environmental and human receptors in the community and all soil types and uses occurring in the community. Significant progress was made in 2003 with the completion of two draft reports, one on the natural environment and the second on commercial crops. Both of these reports underwent extensive review by the consulting company hired to assist the PLC and by external independent peer reviewers. Revisions to these draft reports in response to the reviews were completed in mid-2004. The natural environment risk assessment looked in detail at 14 valued ecosystem components which served as sentinel species for all species in the Port Colborne environment. The only species that showed a potential risk to soil nickel levels was the earthworm, which showed a possible decrease in earthworm population in certain woodlots, but the woodlots themselves were healthy. Protection

of earthworm populations in woodlots may be very difficult to accomplish without harming the woodlot itself. Options for remediation will be investigated as part of the CBRA process in 2006.

The agricultural crops risk assessment used a number of sentinel crops, including oats which is a very nickel-sensitive crop. Both field and more highly-controlled greenhouse experiments were conducted to derive Predicted No Effect Levels for nickel in the four soil types found in agricultural sites in Port Colborne. While the results of the CBRA process have not yet been finalized, based on the information available to date, it appears that several hundred hectares of agricultural process land could require additional

sampling and remediation. Tests indicate that the addition of limestone to the soils to adjust soil acidity and the addition of manganese to overcome a potential deficiency would represent a cost-effective remediation solution for all farm sites. Such a solution would not be expected result in a significant expenditure on the part of the Company.

A third report concerning human health risks was completed and peer reviewed in 2004, and an addendum to this report was completed and peer reviewed in 2005. Both cancer and non-cancer health effects were evaluated. This report showed no risk to humans at any individual life stage or to humans receiving a reasonable maximum daily intake of nickel over a 70-year lifetime. The risk to humans appeared to be at nickel levels in the soils above 84,000 ppm. This assessment has used more accurate site-specific information than was available to the MOE when it conducted its assessment in 2002. There are no sites within Port Colborne that require remediation for protection of human health.

The fourth major report associated with the CBRA process has been referred to as the integration report. This report was completed in draft form in January 2006 and is subject to review by the technical subcommittee of the PLC. Comments from the public will be solicited in 2006 after this review has been completed. This report summarizes the findings of the technical risk assessments and explains the process by which properties are to be dealt with if they require remediation. It is expected that all of the CBRA reports will be submitted to the MOE for approval by mid-2006.

In late March 2001, two developments occurred in connection with the historic operations of Inco s refinery in Port Colborne, Ontario: (i) the filing of a purported class action proceeding in an Ontario court and (ii) the release of a report by the MOE covering elevated levels of nickel and other metals found in the soils at depth (below five centimetres) on 16 out of nearly 180 properties sampled by the MOE in Port Colborne (the March 2001 Report) and the issuance of a draft remediation order by the MOE.

The purported class action proceeding originally filed against Inco and several other parties under Ontario class action proceedings legislation claimed Cdn.$600 million in compensatory damages and Cdn.$150 million in punitive damages covering certain residents who lived in the Port Colborne area since 1995 and allegedly suffered a decline in their property values as a result of, and health and other injuries from exposure to, metals and related emissions from the refinery. In June 2002, hearings were held in the Ontario Superior Court of Justice to consider whether this action, or any portion of it, should be certified to proceed as a class action. In July 2002 the court rejected certifying any part of the action as a class action. The nominal plaintiff appealed this decision and the appeal, which revised the original pleadings and focused only on the plaintiff s claim for damages for property value diminution, resulting in a significant reduction in the number of citizens that the plaintiff is purporting to represent, was heard in June 2003. In February 2004, the Ontario Divisional Court rejected the plaintiff s appeal. The plaintiff subsequently sought leave (permission) to appeal to the Ontario Court of Appeal. Leave to appeal was granted and the appeal concerning whether this action should be certified as a class action under applicable Ontario law was heard in May 2005. In November 2005, the Ontario Court of Appeal overturned the decision of the Ontario Divisional Court and certified the action as a class action, but the certification was limited to claims for declines in property values. Inco filed a motion to the Court of Appeal on January 17, 2006 to correct certain factual errors in the Court s written decision and to settle the precise terms of the formal order to be issued. Inco also filed a motion in February 2006 for leave to appeal the Court of Appeal s decision to the Supreme Court of Canada. If such appeal is not heard, then this proceeding would move forward as a class action.

With respect to the issue of the finding of nickel, in particular nickel oxide as the primary form, at various depths in the Port Colborne soils adjacent to the Port Colborne refinery, the March 2001 Report established an intervention level of 10,000 ppm or more of nickel as a potential health risk and soil samples taken by the MOE reflected nickel concentrations above this level on 16 properties. While Inco did not accept the March 2001 Report s findings and conclusions, in response to the report it proposed a voluntary remediation program for the 16 properties whereby Inco offered to remove and replace the soil on these properties to bring them below the 10,000 ppm level.

In April 2001, Inco submitted a detailed comment letter to the MOE on the March 2001 Report. Based upon such key issues as what the exposure pathways would be and the level of exposure from nickel oxide and other forms of nickel found in the soils at depth, we did not believe that the levels of nickel found as reported in the March 2001 Report represented a health hazard. In May 2001, the MOE indicated that, given the comments it had received on the

March 2001 Report from Inco and others, it would effectively be withdrawing the report and draft order and would be undertaking further studies and analyses. A revised draft report was issued for public comment by the MOE in late October 2001 together with a new draft order which would have required that 25 properties, based upon the soil sampling by the MOE reflected in the March 2001 Report, be remediated given a slightly lower intervention level for nickel, 8,000 ppm, established by the MOE in its revised report. Inco submitted a new comment letter to the revised report and revised draft order in late November 2001. In March 2002, the MOE released its report and order in final form (the March 2002 Report). It contained a somewhat different methodology for calculating health risks for certain pathways, but retained

8,000 ppm nickel in soils at depth as the intervention level, and the MOE issued a broad order to Inco to remediate properties having soil nickel levels above that level and undertake certain other activities (the March 2002 Order). We did not believe the intervention level of 8,000 ppm nickel in soils at depth was supported by the scientific information available and believed that the March 2002 Order imposed a number of other remediation and sampling obligations that were not supported by the findings in the March 2002 Report.

In April 2002, Inco appealed the March 2002 Order. A group of citizens also appealed the March 2002 Order, asserting that it was too lenient. The appeals were heard by the Ontario environmental review tribunal, starting with preliminary sessions in November 2002. On the first day of the preliminary hearing, motions were made by both appellants regarding the scope of the hearings. Inco moved that the appeal should deal only with human health risk associated with systemic nickel intake, which was the basis of the March 2002 Order. The citizens group, on the other hand, argued that the hearings should consider all environmental endpoints and also respiratory cancer. The review tribunal accepted Inco s motion to limit the scope of the appeal to issues arising from the March 2002 Order only. Counsel for the citizens group appealed this decision by way of a judicial review, which was heard in March 2003. The judicial review concluded that the review tribunal was correct to limit the scope of its hearings and the hearings resumed in September 2003. As a result of Inco receiving clarification from the MOE on the scope of the March 2002 Order, and with the agreement of the citizens group to withdraw its appeal, the appeal was withdrawn and the March 2002 Order was re-instated with an expiry date of December 2004.

Notwithstanding the legal actions regarding the March 2002 Order, Inco kept its voluntary remediation program open for the original 16 properties and extended it to the additional nine properties identified by the MOE in the March 2002 Report as having in excess of 8,000 ppm nickel in soil at depth (the 25 Relevant Properties). Three property owners chose to participate in our voluntary remediation program to have us remove and replace the soil on their properties in 2001 and two more participated in 2002. All but one of the remaining 20 of the 25 Relevant Properties were remediated in 2004. The final property was scheduled for remediation in June 2005 but the owners of the property decided not to proceed with the remediation.

In April 2001, in response to the draft order accompanying the March 2001 Report, Inco voluntarily undertook additional sampling in residential areas adjacent to the area where the 25 Relevant Properties were located. Based upon this additional sampling by Inco, no additional properties were found to require remediation.

As part of the CBRA process, Inco agreed to carry out a special health survey of Port Colborne residents, to be conducted by a team of medical experts, to determine if adverse health effects linked to CoCs in the soils are currently being experienced by people in the community. We retained Ventana Clinical Research Corporation (Ventana) to conduct this work. During 2001, Ventana interviewed citizens in the community and medical professionals and presented a conceptual scope of work in October 2001. This scope of work was reviewed, revised and prioritized by the stakeholders during 2002. A study of the incidence of hospital admissions in Port Colborne relative to a number of comparative communities was completed in December 2003 but significant problems with the method of statistical analysis were found during peer review. As a result, the study was revised and reissued in October 2004. A second study on self-reported health status was completed in November 2004 and has been peer reviewed. A determination of the need for potential case-control studies, based on the results of the two completed studies, is being made by a panel of scientific and medical experts. Their report is expected to be completed in 2006. Another proposed study on the incidence of cancer among the Port Colborne population has been hampered by scientific design problems and it is unlikely that it can be conducted.

Given the existence of various legal appeals and scientific and medical studies currently underway, it is not possible to predict at this time the effect that these actions and studies could have on the Company s business, results of operations and financial condition.

Sudbury Soils

In September 2001, the MOE released a report indicating that it had analyzed soil samples collected within the Sudbury area for various substances, including arsenic and certain other metals. This report stated that nickel, copper, cobalt and arsenic in some soil samples were in excess of the applicable MOE guidelines and that the elevated concentrations of these metals in the soils were attributable to the history of nickel-copper mining and smelting in the area by Inco and Falconbridge. The two companies agreed to jointly fund risk assessments for human and

environmental health in the Sudbury region. They also joined the MOE in extending soil sampling to areas that were undersampled.

The Sudbury area soil data in the MOE report showed nickel concentrations lower than those found in Port Colborne soils, but the potentially affected area in Sudbury is larger than in Port Colborne. Some of the work being conducted at Port Colborne will be applicable to Sudbury, but the risk assessment for Sudbury is to be based on the specific soil types located there. During 2001, the

City of Greater Sudbury, the Regional Health Department, the MOE, Inco and Falconbridge formed a technical committee (the Sudbury Technical Committee), with Health Canada participating on behalf of First Nations communities, to guide the risk assessment work on nickel, copper, cobalt and arsenic in soils and other related environmental media. This action was followed by the formation of a public advisory committee consisting of ten citizens and the appointment of a process observer responsible for reviewing the timeliness, effectiveness and transparency of the risk assessment process.

In 2002, the Sudbury Technical Committee defined the scope of work for the human health and environmental health risk assessments, issued a comprehensive request for proposals to carry out the assessment, reviewed six proposals submitted and chose the winning bid based on technical, economic and public communication criteria. The risk assessments are being carried out by the Sudbury area risk assessment group (SARA), a consortium of firms having the collective experience necessary to conduct this multi-disciplinary project. The consortium includes a number of environmental management and analytical firms. Work was started under a preliminary contract in December 2002 and the final contract was signed by Inco and Falconbridge in 2003.

Public consultation as part of this process was carried out in 2003 and will continue throughout the risk assessment process. The analysis of several thousand new soil samples was completed by SARA and two additional elements, selenium and lead, were added to the list of CoCs for the community. Recent indoor sampling indicated elevated levels of lead in certain residences. These data will also be evaluated as part of the studies being undertaken. Toxicology Excellence for Risk Assessment (TERA), a U.S.-based non-profit corporation, has been engaged to undertake the peer reviews of SARA s work. The first volume (Background) of the SARA risk assessment report was issued in draft form in July 2005 and was commented on by the Sudbury Technical Committee. The second volume (Human Health Risk Assessment) was issued in draft form in October 2005 and is currently undergoing review by the Sudbury Technical Committee. The third volume (Environmental Risk Assessment) is expected to be issued in draft form in April 2006. It is impossible to predict what remediation may be recommended from these assessments but the Sudbury area has undergone successful re-vegetation efforts over the last several decades and has experienced a significant ecological recovery.

Decommissioning and Reclamation

Inco is committed to decommissioning its facilities, at both existing and inactive mine sites, in an environmentally sound manner commonly referred to as progressive decommissioning . In Ontario, progressive decommissioning is ongoing at the Copper Cliff tailings area where exposed tailings are being covered. In 2005, we continued to maintain more than 1,500 hectares of vegetated cover on inactive tailings for stabilization purposes. We also continued in 2005 our decommissioning and reclamation projects at both operating and non-operating properties in Ontario, including demolition and closure work at Shebandowan, Crean Hill and Frood-Stobie mines, re-contouring and capping Whistle Mine, tree planting and groundwater assessment. In Manitoba, our reclamation plans for Thompson Mine and the Thompson processing facilities were accepted by the Manitoba government. Reference is also made to Future Removal and Site Restoration; Closure and Post-Closure Plans below.

Re-vegetation Programs

A significant part of our environmental programs in both Canada and Indonesia involves the re-vegetation of mined-out lands and areas affected by mining and processing activities to return them to a natural state.

In 2005, approximately 200,000 pine seedlings were grown in our surface greenhouses in Sudbury and a further 50,000 were grown in our underground greenhouse at Creighton Mine. Of these, 100,000 were planted on Inco property, predominantly in the tailings area, 75,000 were donated to local groups and special events and 75,000 are over-wintering in preparation for planting in 2006. In 2005, we aerially treated two sections of land in the Sudbury basin. A 17-hectare portion of cleaned bedrock at Whistle Mine was treated to assist with full-scale closure activities being undertaken at that site. A further 125-hectare portion of land located between Sudbury and Val Caron was also treated.

At PT Inco in Indonesia, reclamation efforts continued to focus on returning to mined-out areas the waste rock and soil that was removed to access the ore and planting trees in these areas. The objective of this program is to maintain the size of the mine footprint to a maximum of 1,000 hectares and restore mined-out areas to their natural state. In 2004, the size of the maximum mine footprint that can be maintained without re-vegetation was increased from 650

hectares to 1,000 hectares, reflecting the increased mining activity associated with increased nickel production. By the end of 2005, the area of active mining at PT Inco totalled 938 hectares, with 2,844 hectares having been re-vegetated.

PT Inco

PT Inco s operations are subject to environmental regulations and permits issued by the Government of Indonesia. PT Inco is in compliance with these permits except for intermittent releases of soluble nickel, manganese and chromium in its liquid effluent discharges into a small stream adjacent to its operations and the levels of emissions of particulates from its facilities. In recent years, PT Inco has implemented a number of projects which have reduced the levels of nickel, manganese and chromium in its effluent discharges and is continuing its efforts to bring these levels within the regulated limits. By dredging, PT Inco has been able to increase the retention capacity of its sediment ponds. During 2005, there were no exceedances of the Indonesian effluent discharge standards for nickel and manganese and only two exceedances (during the first quarter of 2005) of the hexavalent chromium standard. A temporary treatment facility to remove hexavalent chromium from the effluent has been set up and a permanent facility is expected to be commissioned in 2006.

Since 2000, PT Inco has also had a program in place with the government for investigating the most effective way to further reduce its particulate emissions. This program included an action plan and periodic reporting to the government. PT Inco also initiated a dust handling program in 1999 to address issues associated with various dust-handling processes at PT Inco. This program included the installation of equipment, in particular additional electrostatic precipitators (ESPs), and other solutions to reduce dust emissions. The principal sources of dust emissions and other particulate emissions from PT Inco s facilities are PT Inco s dryers, reduction kilns, converters and electric furnaces. A new ESP was constructed and commissioned on one of PT Inco s three dryers in 2001 and operated in 2002, so that all of PT Inco s dryers had installed ESPs. This investment has resulted in a substantial decrease in dust from this source and PT Inco has been in compliance with permitted dust emissions levels from its dryers since the installation of the ESPs. Modifications to the ducting to one of PT Inco s five kilns resulted in decreased dust emissions and these modifications were subsequently made to the other two similar kilns. Two newer kilns were equipped with ESPs and operate at low dust emissions, below permitted levels. By 2004, all five kilns at PT Inco were in compliance with permitted dust emission levels. PT Inco has also installed an automated pneumatic dust handling system which collects and transports dusts for reprocessing and standby blowpot systems have been installed on four of PT Inco s kilns to allow maintenance to be performed without interrupting the control and collection of dust. The fifth kiln was constructed with standby blowpot capacity, thus providing that all five kilns now have this standby capacity. PT Inco s three converters are in compliance with permitted dust emission levels. The principal remaining sources of dust emissions are PT Inco s four furnaces. PT Inco and an independent engineering firm have studied and used a pilot test program to evaluate options for cleaning the furnace off-gases to meet permitted dust emission levels. During the first quarter of 2005, PT Inco commissioned dust control equipment on one of its four furnaces. Testing has indicated that this equipment has reduced dust emissions to below the Indonesian emission standard. Work has now begun to install similar equipment on the other three furnaces. This work is expected to be completed by the end of 2008.

Workplace dust issues are also being addressed to improve workplace air quality. During 2005, further improvements were realized as part of PT Inco s overall dust handling program, including the connection of the feed bin system for one of PT Inco s furnaces to a dust collection system to allow for increased dust capture. The feed bin systems on the remaining three furnaces are scheduled to be connected to a similar dust collection system in 2006 and 2007. While PT Inco has (i) kept the relevant Indonesian governmental authorities aware of those situations where it has not been in compliance with certain emission limits as noted above, (ii) been working with these governmental authorities in respect of such regulatory issues and (iii) not received any indication from such governmental authorities that it would be subject to any penalties or sanctions for such exceedances, PT Inco may still be subject to regulatory actions by such governmental authorities for non-compliance with certain emission limits.

Future Removal and Site Restoration; Closure and Post-Closure Plans

The following includes information that appears in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report and in Notes 1 and 11 to the financial statements under Item 8 of this Report.

Our operations have been, and may in the future be, affected from time to time in varying degrees by changes in environmental laws and regulations, including those for asset retirement obligations. Both the likelihood of future

changes in laws and regulations and their overall effect upon us vary greatly from country to country and are not predictable. Our policy is to meet or, if possible, surpass environmental standards set by relevant legislation, by the application of technically proven and economically feasible measures.

The estimation of asset retirement obligation costs depends on the development of environmentally acceptable closure and post-closure plans, which, in some cases, may require significant research and development to identify preferred methods for such plans which are economically sound and which, in many cases, may not be implemented for several decades. We have continued to utilize

appropriate technical resources, including outside consultants, to develop specific site closure and post-closure plans in accordance with the requirements of the various jurisdictions in which we operate. Typical closure and progressive rehabilitation activities include, where applicable, demolition of buildings, removal of underground equipment, sealing of mine openings, treatment to reduce or prevent acid generation from stockpiled waste materials such as tailings, general clean-up activities aimed at returning the area to an environmentally acceptable condition, and post-closure care and maintenance.

In accordance with environmental regulations adopted by the Province of Ontario in 1991, we developed rehabilitation and site restoration plans associated with the eventual closure of our operations in that province. Three closure plans were filed by the end of 1997, having previously received approval from the Province of Ontario for the consolidation of our operating mines and properties in that province into 15 sites for purposes of closure plans, and the remaining 12 closure plans were filed by the end of 1998. As a result of provincial regulatory changes which became effective in 2000, the plans were re-filed to meet these changes in 2001. In 2005, we submitted a closure plan for Levack Mine. We have continued to develop future tailings disposal and water management alternatives to accommodate up to approximately 40 years of future production. We believe that cost-effective tailings disposal alternatives exist within the ongoing operating activities of the Sudbury operations which would limit site restoration at closure to a care and maintenance activity, thus significantly reducing the costs of such site restoration.

In accordance with environmental regulations adopted by the Province of Manitoba in 1999, we have developed reclamation plans associated with the eventual closure of operations in that province. The Province of Manitoba has accepted the closure plans for all of our operations in the province.

Closure plans for the proposed mine and mill facilities were prepared and submitted in 1998 in connection with the environmental review process of the Voisey s Bay project in the Province of Newfoundland and Labrador. This plan, as updated, was submitted to the province in August 2004. Closure plans were also prepared for the Goro nickel project. The closure plan for the original tailings impoundment and overburden storage areas for the Goro project were included in our operating permit (*installation classée)* application dated May 2004. This operating permit was issued in October 2004 but will be subject to amendment or the issuance of a revised permit to reflect the revised project configuration developed as part of Phase 2 of the review process discussed under Goro Nickel S.A.S. above and, as a result of the revised project configuration, the closure plan may also have to be amended to take into account any changes to the tailings impoundment and other storage areas.

We follow a policy of progressive rehabilitation at our Indonesian operations whereby land disturbed by mining activities is re-vegetated on an ongoing basis. A closure plan for PT Inco was revised in 2004 to cover all relevant facilities of PT Inco.

Closure plans have been completed for the operating facilities in the United States and the United Kingdom. Based on currently available information, there are no required significant site restoration activities associated with these facilities.

Substantial environmental expenditures are incurred on an ongoing basis which are intended to significantly reduce asset retirement obligation costs that may otherwise be incurred following the closure of any sites. This progressive rehabilitation includes tailings management, land reclamation and re-vegetation programs, decommissioning and demolition of plants and buildings, and waste management activities. Operating costs associated with ongoing environmental and reclamation programs, including progressive rehabilitation, aggregated $20 million in 2005, compared with $20 million in 2004 and $39 million in 2003 and are included in cost of sales and other operating expenses. Capital expenditures on environmental projects were $89 million in 2005, compared with $41 million in 2004 and $28 million in 2003. We currently anticipate that capital expenditures on environmental control and related projects in 2006 will be approximately $120 million.

The estimate of the total liability for asset retirement obligations has been developed from independent environmental studies, which include an evaluation of, among other factors, information available at that time with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance required by presently enacted laws, regulations and existing industry standards. The total liability for asset retirement obligations represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of cash or other payments from

the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provisions or charges. Future changes, if any, to the estimated total liability, as a result of changes in requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Although the ultimate amount to be incurred is uncertain, the total present value of the liability for asset retirement obligations in respect of our worldwide operations to be incurred primarily after cessation of operations was estimated to be $171 million (including a current portion of such total obligation of $3 million) at December 31, 2005

based upon certain discount rates and timing with respect to when these costs would be expected to be incurred, compared with $174 million at December 31, 2004 and $149 million at December 31, 2003 (including the current portions of such total obligations).

Changes made in 2000 to mining regulations in the Province of Ontario require us to provide letters of credit or other forms of financial assurance intended to secure our ability to meet future reclamation and restoration costs, which are not expected to be incurred for many years, if we were to no longer meet certain minimum investment grade credit ratings for our outstanding publicly traded debt securities. Although our debt securities are currently rated investment grade, they were rated below investment grade in recent times and there can be no assurance that this situation will not reoccur. If we were not able to maintain the minimum investment-grade credit ratings, it is currently estimated that letters of credit or other forms of financial assurance associated with the currently estimated costs of the eventual future closure of our mines and other facilities in Ontario would have to cover approximately $790 million in such closure costs on an undiscounted basis. Due to the closure of three mines in Ontario, in 2002 we were required under such mining regulations to provide letters of credit in the amount of $23 million at that time to secure these near-term closure costs as discussed below. In addition, we are subject to certain Indonesian regulations which require us to provide security for the reclamation of land areas that have been mined. In the case of our Manitoba operations, in 2003 we submitted closure and reclamation plans for all of our operations in that province and in 2004 we provided financial assurance in the form of a letter of credit in the amount of approximately $0.4 million for certain future reclamation and restoration costs in that province. In 2005 the reclamation and closure plan for the mine and concentrator and related facilities at Voisey s Bay was approved by the Province of Newfoundland and Labrador, resulting in an increase in the financial assurance covering both the construction and operating phases of the initial phase of the project to $8 million. As discussed above, we believe that the financial assurance in the form of one or more letters of credit we will be required to provide to the Province of Newfoundland and Labrador will increase to in the order of $60 million. We do not currently know what, if any, changes in the security for reclamation costs in Indonesia or Manitoba might be made in the future. However, beyond the expected increase for our Voisey s Bay project referred to above, it is not currently expected that such financial assurance as might be required to be provided for our Indonesian, Manitoba and Voisey s Bay operations will be of a material amount. These potential costs might not be incurred until many years in the future. If these requirements for letters of credit or other forms of financial security had to be satisfied, they could have an adverse effect on the amounts available for borrowing by us under our bank credit facilities.

In view of the uncertainties concerning environmental remediation, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning our operations becomes available. Future changes, if any, to the estimated total liability, as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all areas in which we operate. We are not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on our results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

Health and Safety

The health and safety of our employees are of the highest priority. The prevention of workplace accidents and illnesses is a major goal of Inco. Safety training and educational programs for workers have continued to be enhanced at all of our operations and, through international workshops, sponsored university research and other activities, Inco is a leader in efforts to determine how to better test and assess the impact of metal compounds on humans and ecosystems.

Research Networks on Metals

Inco was one of the major contributors to the Metals in the Environment (MITE) research network which was initiated in Canada in 1998 and was sponsored, in part, by the Mining Association of Canada. This program concluded in 2004 and yielded useful information on the sources of metals, the movement of metals among environmental compartments and the toxicity of metals to aquatic and terrestrial organisms. These results are already affecting the

course of regulatory activity relating to metals throughout the world. The data generated are assisting in carrying out necessary risk assessments and in determining risk management strategies for the continued safe use of metals such as nickel, copper and cobalt.

As a logical extension of the stakeholder involvement created during MITE, a new network funded by the Canadian Natural Sciences and Engineering Research Council was formed in the fall of 2005 with specific interest in filling information gaps in human health assessments involving metals. We continue to assist in this work through our membership in the Mining Association of Canada.

Diesel Particulate Matter

In 1995, the American Conference of Governmental Industrial Hygienists (ACGIH) announced its intention to establish for the first time a threshold limit value (TLV) for diesel particulate matter (DPM) of 0.15 mg/m ^{3} . This proposed TLV, based primarily on rat and mice studies, constituted nearly a seven-fold reduction from the current Canadian target level of 1.0 mg/m^3 DPM. If adopted by regulatory authorities in Canada, this would require substantial changes in our use of diesel equipment in our underground operations since this equipment emits DPM. We responded to the proposed TLV by making written and oral presentations to the ACGIH in 1996, noting that toxicological and epidemiological studies on health effects of DPM have given inconsistent and unreliable results and that it would, accordingly, be impossible to set scientifically sound occupational exposure limits for DPM. For a discussion of TLVs, see Regulation of Nickel and Other Nonferrous Metals Occupational Exposure Limits (OELs) in Canada below.

The ACGIH did not take any action to adopt the TLV in 1997 or 1998. However, in 1999 the ACGIH announced that it intended to further reduce the proposed TLV to 0.05 mg/m^3 for DPM of less than one micrometre in diameter. In 2001, it lowered this proposed TLV even further, to 0.02 mg/m^3, analyzed as elemental carbon. In 2003, however, the ACGIH removed the proposed TLV for DPM from its Notice of Intended Change list and placed it on the list of Chemical Substances and Other Issues Under Study, where it remained until July 20, 2005, when it was also deleted from that list. It is not known whether the TLV as proposed in 2001 (or some modification thereof) will be placed on the Notice of Intended Change list again in the future.

The U.S. Mine Safety and Health Administration (MSHA) initiated a rulemaking activity in 1998 to establish a regulatory exposure limit for DPM in underground mines in the United States. Actions of this kind by MSHA are usually considered significant as Canadian provincial governments often consider taking similar actions. After a period of extensive public comment, MSHA adopted its new exposure limit in late 2000 of 0.4 mg/m^3 DPM, determined using the total carbon technique. Due to the extensive input from the mining industry, MSHA altered this rule in 2005, specifying the method of analysis of DPM to be elemental carbon instead of total carbon. The new MSHA rule provided an 18-month phase-in period for companies to achieve compliance, at which point the new limit would apply for a period of five years, after which it would be reduced to 0.16 mg/m^3. In response to feasibility concerns, a pending proposal would phase in the 0.16 mg/m ^{3} limit over a multi-year period. It is not known whether, when or how the Canadian provincial governments will respond with similar limits.

Recognizing the importance of regulatory Occupational Exposure Limits (OELs) for DPM on our operations in Ontario and Manitoba, as discussed under Regulation of Nickel and Other Nonferrous Metals Occupational Exposure Limits (OELs) in Canada below, in 1997 we helped form an industry-labour-government research consortium, the Diesel Emissions Evaluation Program (DEEP), to determine sampling and analytical techniques capable of measuring low levels of DPM and to evaluate techniques capable of controlling DPM emissions in workplace air. DEEP has investigated a number of research areas, in particular biodiesel, fuels, maintenance improvements, and the effect of light duty vehicles on DPM in underground mines. In 2000, DEEP extended its original three-year term to allow completion of field tests on particulate filters, which potentially hold the most promise for cost-effective control of DPM. Several of these underground tests began at Inco s Stobie Mine in 2001 and were completed in December 2004. The findings at Stobie Mine indicated that certain active particulate filter systems involving electrical heater filter regeneration work well for light-duty vehicles and will achieve very low DPM out of the tailpipes in a reliable way for over the long term. However, these systems do not work as well for heavy-duty diesel equipment because of the possibility of human error influencing the regeneration. While we have been evaluating the risks involved and the programs necessary to change human behaviour in the underground setting, we are also planning to evaluate new filter systems that remove human behaviour from the equation. The adoption by Inco of ultimate DPM control strategies developed by DEEP, and the cost of such adoption, will depend on a number of factors, including the types of engines used and their duty cycles as well as the final regulatory limit that we will be required to meet.

WSIB Occupational Disease Policies

Inco is subject to workers compensation laws in various jurisdictions pursuant to which occupational injuries to, and diseases of, individual workers making claims are examined and payments are awarded by a governmental board or agency. The expense of such awards is generally funded by the employer, typically as a percentage of payroll costs

within the jurisdiction of the relevant board or agency, and is adjusted according to the experience with such claims either with respect to employees of the particular employer alone or on the basis of all claims in respect of employees in the same industry within the relevant jurisdiction.

In 1994, the Occupational Disease Panel (ODP) of the Ontario Ministry of Labour (MOL) concluded that there was a probable connection between miners lung cancer and all hardrock mining. In 1996, the ODP asserted that a 1996 cancer morbidity study conducted by researchers at McMaster University, using a large group of Ontario male nickel production workers from Inco and Falconbridge, confirmed such a connection for nickel miners. Consequently, the ODP recommended that primary lung cancer and the occupation of hardrock mining be categorized under a particular schedule of the Ontario *Workers Compensation Act* which would create a presumption in favour of a causal relationship for lung cancer claims unless the contrary could be proven. In 1997, the ODP issued another report dealing specifically with laryngeal cancer and workers in nickel production. This report relied heavily on the 1996 McMaster University study referred to above. The ODP recommended that laryngeal cancer and certain nickel producing occupations be treated in the same manner as lung cancer and hardrock mining. Inco retained independent medical and epidemiological specialists to analyze these assertions and, as a result, made several submissions to the Workplace Safety and Insurance Board (WSIB), the regulatory body of the MOL responsible for evaluating and adjudicating workplace injuries and diseases, taking exception to the ODP recommendations, primarily on the basis that tobacco smoking is likely a confounding factor, and to the validity of the findings of both the original hardrock mining report and the McMaster University study. These submissions explained why we believed that the ODP report was flawed and suggested that no policies on this matter be established until more methodologically sound studies were conducted. Similar submissions were made by Falconbridge and by the Ontario Mining Association. In view of these submissions, the WSIB did not take any action on any of the ODP reports.

In late 1994 the WSIB also revised and extended its policy with respect to lung cancer compensation claims by nickel smelter and refinery workers. We objected to the process that was used in considering the revised policy, which, in our opinion, failed to take into account applicable scientific data, and we also objected to flaws in the policy itself. As a result of submissions to, and discussions with, WSIB staff, in early 1998 the WSIB proposed a revision to the 1994 policy. However, this revision failed to address our central concerns with the policy and we made additional written submissions to the WSIB suggesting further significant revisions. We have continued our efforts to have the WSIB change this policy, but no changes have been forthcoming. In mid-2001, we were invited to join a special stakeholder panel being formed by the WSIB. This panel, called the Occupational Disease Advisory Panel (ODAP), consisted of industry and labour representatives from a broad range of industrial sectors. The ODAP s mandate was to advise the WSIB of criteria that should be applied in developing policies, to review contentious policies that currently exist, and to recommend how the WSIB should deal with controversial studies previously conducted by the ODAP. During 2003, it became apparent that the ODAP could not reach consensus on a number of important issues and that a report from the ODAP was not possible. The ODAP Chair, who had been selected and assigned this position by the WSIB, issued a draft report in early 2004 which attempted to relate areas of agreement and disagreement of the ODAP s members. Inco provided comments on the draft report as a member of the ODAP. The ODAP Chair then issued a final draft report in mid-2004 and conducted public consultations in six cities across Ontario to obtain stakeholder input on that draft report. Inco made additional presentations to the ODAP Chair at these consultations held in Toronto and Sudbury in September 2004. The ODAP Chair s final report, which we believe recommends certain fundamental changes on how WSIB claims are adjudicated, was delivered to the WSIB in 2005. At the present time, we are unable to predict what, if any, actions WSIB will take as a result of this report and what effect, if any, such actions would have on our operations or financial condition.

Worker Safety

The table below shows the disabling injury frequency (DIF) for Inco in 2005, 2004, and 2003:

	2005	**2004**	**2003**
DIF	1.3	1.4	1.7

The DIF is calculated by Inco by multiplying the total number of disabling injuries in a year that employees incurred as a result of work-related injuries by 200,000 hours (which is a constant used by the Mines and Aggregates Safety and Health Association (Ontario) and other similar organizations) and then dividing that product by the total number of hours worked by employees during that year.

Inco continues to pursue a goal of zero accidents. The implementation of an integrated health, safety and environmental management system, which is compatible with OHSAS 18001, is intended to confirm our commitment to improved safety performance.

Our focus on safety led to our best ever result of 1.3 disabling injuries per 200,000 hours of work in 2005, placing Inco among the safest in the Canadian mining and metals industry based on this measure. However, in spite of these improvements, our safety performance was overshadowed in March of 2006 by a fatality at our Ontario operations. On March 6, 2006, Robert Nesbitt, an

employee at Stobie Mine in Sudbury, died while operating an underground loader known as a scooptram from a remote operating platform on the mine s 2600-foot level. The accident remains under investigation. We are deeply saddened by this loss and remain committed to the goal of eliminating workplace injuries. Safety remains a key priority for us as we continue to reevaluate every aspect of how we conduct business.

Regulation of Nickel and Other Nonferrous Metals

Regulatory and non-governmental agencies in the United States, Canada and Europe have proposed and, in certain instances, adopted regulations and other standards relating to environmental releases of nickel, exposure to nickel in various forms, and management of nickel-containing wastes, as summarized below.

Ontario Air Standards

In June 2004, the MOE announced the objective of replacing Ontario s existing air quality standards by incorporating new standards into the regulations under the Ontario *Environmental Protection Act* by June 2005. At the same time, through the issuance of draft information documents, the MOE sought input from stakeholders on new ambient air regulations for nickel, arsenic, cadmium and chromium and on new guidelines for air dispersion modeling which would come into effect with the new air quality standards. In October 2004, Inco provided comments on all of these draft information documents aimed at improving the accuracy and completeness of scientific literature and also commented on the strengths and weaknesses of lines of evidence that could be used in developing numerical air standards for these metals. Our comments on nickel were extensive and focused on the requirement to account for speciation of nickel in air, to properly extrapolate occupational dose-response information to the low doses expected in ambient air, and to suggest a new method for deriving the specific respiratory cancer unit risk for oxidic nickel compounds, the use of which is essential because oxidic nickel is the prevalent form of nickel in ambient air. Our comments on the proposed changes to the air dispersion modeling guideline emphasized (i) the need for assessing compliance against annual average air concentrations where the toxicological end-point is based on chronic health effects, as is done in many other jurisdictions, (ii) the need for ensuring that standards appropriately reflect true risk, and (iii) that the initiatives designed to improve air quality be sufficiently flexible so that a broad array of corrective strategies could be evaluated and implemented.

In November 2005, the Ontario government introduced a new regulation to govern air quality. This regulation, called the *Air Pollution Regulation Local Air Quality*, will apply to base metal smelters beginning in 2010. This new regulation includes new requirements for air dispersion modeling and compliance with new and existing air standards. While some of our comments were taken into account by the MOE, these new requirements are substantially the same as those set out in the draft information documents that were submitted to stakeholders for review.

The new regulation issued in November 2005 incorporates the existing air quality standards, but the MOE plans to replace these standards by completing a process that began in 1996 and was revised in 1999 for updating its air quality standards for priority contaminants. Under this plan, certain elements, including nickel, arsenic, cadmium and chromium, were identified as priority contaminants requiring review. The first step in setting new air quality standards for each element is the release of the relevant scientific information and possible approaches by which such information could be used in setting the standard. This information is then made available for public review and comment. The MOE then releases its proposed new air quality standards together with its rationale for setting the standard for each element, which is followed by a further comment period for stakeholders. Finally, the MOE considers all comments and then issues its final standards. This initiative did not progress during 2005 but it is now anticipated that the MOE will release its proposed new standards and its rationale for setting those standards in 2006. We are presently assessing these new requirements as part of our assessment of the effect of the new air quality regulation on our Ontario operations, but we will be unable to predict what, if any, effect the new air quality regulation will have on our operations or financial condition until the new air quality standards are known.

Occupational Exposure Limits (OELs) in the U.S. and the U.K.

Inco is generally in compliance with the permissible occupational exposure limits (OELs) for all forms of nickel that are currently applied by the U.S. and U.K. governments.

Prior to April 2005, the U.K. OELs were divided into two categories: maximum exposure limits (MELs) which were time-weighted average exposure levels that could not be exceeded, and occupational exposure standards (OESs) which were safe working levels. The U.K had not adopted an OES for nickel, but had adopted two MELs for nickel in

1985. The MEL for water soluble nickel was 0.1 mg/m^3, while the MEL for metallic nickel and insoluble nickel compounds was 0.5 mg/m^3. As of April 2005, MELs and

OESs were replaced with a single standard called workplace exposure limits (WELs). Like both MELs and OESs, WELs are time-weighted average exposure limits, but also include new requirements to strictly observe principles of good practice for the control of exposures to ensure that the WELs are not exceeded. The change to WELs places an increased obligation on Inco to demonstrate the use of the best available practices to minimize workplace exposures to nickel. The new WELs for nickel are the same as the old MELs, i.e. 0.1 mg/m^3 for water soluble nickel and 0.5 mg/m^3 for metallic nickel and insoluble nickel compounds. We do not anticipate that meeting the new WELs for nickel will have a material adverse effect on our operations or result in significant additional costs to comply.

On February 28, 2006, the U.S. Occupational Safety and Health Administration (OSHA) promulgated a very stringent eight-hour time-weighted average permissible exposure limit (PEL) of five micrograms of hexavalent chromium per cubic metre of air. The new PEL becomes binding on employers with 20 or more employees on November 27, 2006, and on smaller employers on May 30, 2007. With the exception of the painting of aircraft and large aircraft parts in the aerospace industry, employers will have to achieve compliance with the new PEL through the use of engineering and work practice controls, although the obligation to implement engineering controls has been postponed until May 31, 2010. In workplaces where the painting of aircraft and large aircraft parts occurs, engineering and work practice controls will have to be used to reduce hexavalent chromium exposures to 25 micrograms per cubic metre of air, with supplemental use of respirators to achieve the PEL. The new PEL could have an adverse impact on various U.S. industrial sectors (such as stainless steel producers and electroplaters) that are major users of nickel, particularly when the obligation to achieve compliance through the use of engineering controls attaches on June 1, 2010. We cannot predict at this time how significant that impact will be or how it will affect our results of operations or financial condition.

U.S. Environmental Regulatory Actions

In 1990, the United States Congress amended the U.S. *Clean Air Act* to require, among other things, that 189 chemicals or chemical groups (including nickel compounds) be regulated as hazardous air pollutants (HAPs). Pursuant to this legislation, EPA has been promulgating stringent technology-based standards for controlling emissions of HAPs from designated major source categories. This process will continue in the future and ultimately may include the promulgation of additional risk-based standards. Some of these standards may limit emissions of nickel and its compounds, most likely through limits on overall emissions of particulate matter. While it does not appear that the major source HAP control program will target emissions at nickel producing or using industries, it is possible that some nickel-emitting sources may ultimately be covered by such standards. We are unable to predict what capital expenditures or operating cost increases Inco or its customers may incur if that proves to be the case.

In July 1999, EPA issued its final Integrated Urban Air Toxics Strategy under which 33 HAPs judged to pose the greatest threat to public health in urban areas were to be targeted for future regulation. Nickel compounds were among the 33 HAPs listed under this strategy. As a result, nickel compounds will be included by EPA in periodic National Air Toxics Assessments (NATAs) designed to estimate and track trends in emissions, ambient air concentrations, population exposures, and associated characterizations of risk. In June 2002, EPA released the Final National-Scale Air Toxics Assessment for 1996 (NATA-1996), which estimates emissions, ambient air concentrations, and population exposures for the 33 HAPs referred to above based on a 1996 emissions inventory, and characterizes the resulting population risks on a national and regional basis. This assessment reflected much lower total national emissions of nickel compounds than an earlier estimate that was based on information for 1990. NATA-1996 found that concentrations of nickel compounds in the ambient air were not of concern with respect to non-cancer health effects. However, nickel compounds were characterized as being a more significant contributor to potential cancer risks. That finding was based on what Inco and other nickel producers believe to be a flawed methodology for estimating potential cancer risk. The nickel industry made a submission to EPA, asking that the methodology be corrected, so that a more appropriate risk characterization can be made in the next release of NATA information. It does not appear, however, that EPA has accepted that recommendation, which could mean that nickel compounds will be characterized as a more significant contributor to potential cancer risks than we believe is justified in future NATA reports as well.

In addition to issuing NATAs, EPA s Urban Air Toxics Strategy is targeting various area sources of hazardous air pollutants for further emissions reductions. In the case of nickel compounds, some of these sources are likely to be

fossil fuel combustion units, while others may involve nickel-producing or using industries such as stainless steel manufacturing, metal electroplating and secondary nonferrous metals. Currently, EPA is developing an area source emissions standard for secondary nonferrous metals facilities that presumably would apply to our Inmetco subsidiary. This standard is unlikely to be issued before 2007, if it is issued at all, and we do not know what its coverage will be or what emission limits it will establish. We are unable to predict what impact, if any, the inclusion of nickel compounds on EPA s list of Urban Air Toxics (and the related assessments and area source standards) might have on nickel users and, both directly and indirectly, on our results of operations or financial condition.

In December 2002, the National Toxicology Program (NTP) within the U.S. Department of Health and Human Services released its Tenth Report on Carcinogens (ROC). In these bi-annual reports, NTP lists various substances that it concludes are either known

to be human carcinogens or reasonably anticipated to be human carcinogens. Previous versions of the ROC listed metallic nickel and certain nickel compounds as reasonably anticipated to be human carcinogens. Metallic nickel remained in that category in the Tenth ROC. However, nickel compounds as a class (with no differentiation) were listed as known to be human carcinogens. That broad listing, encompassing all inorganic nickel compounds, runs counter to arguments that Inco and other nickel producers had made to NTP over the years. Since nickel compounds already had been characterized as carcinogenic to humans by the International Agency for Research on Cancer, it is not clear what additional impact, if any, NTP s listing of nickel compounds as known to be human carcinogens will have on businesses that produce, use, handle, or otherwise manage nickel compounds and wastes in which they are contained. Similarly, since metallic nickel has been listed as reasonably anticipated to be a human carcinogen by the NTP for many years, it is not clear what effect, if any, the reaffirmation of that listing will have. Following publication of the Tenth ROC, Inco, in conjunction with nickel producer associations, formally requested that NTP correct certain information in the Tenth ROC regarding nickel metal and nickel compounds. That request was rejected in late 2003. However, following an appeal, NTP made certain changes to correct some of this information in the discussion of nickel and nickel compounds in the Eleventh ROC, although the carcinogenic listings of metallic nickel and nickel compounds made in the Tenth ROC were not changed. The existence of these NTP listings is not expected to have a material adverse effect on our results of operations or financial condition.

In December 2002, EPA adopted sweeping amendments (IUR Amendments) to its Inventory Update Rule implementing provisions of the U.S. *Toxic Substances Control Act*. The IUR program requires manufacturers and importers of covered chemical substances to submit quadrennial reports of specified information if they produce or import more than a designated amount of a covered chemical at any one site. Prior to the adoption of the IUR Amendments, inorganic chemical substances (like nickel and its compounds) had been exempt from IUR reporting. The IUR Amendments removed that exemption so that inorganic chemicals are subject to the IUR program in the current reporting cycle covering calendar year 2005. While the basic reporting threshold has been increased from 10,000 pounds per site to 25,000 pounds per site, the information required to be reported was dramatically expanded, particularly for sites that produce or import more than 300,000 pounds of a covered chemical during the reporting year. The new processing and use information required in those cases will be burdensome to collect and report; however, this expanded requirement to report processing and use information will not apply to inorganic chemicals like nickel until the 2010 reporting year. While the new IUR reporting requirements will impose additional costs and burdens on Inco and various of its U.S. customers, they are not expected to have a material adverse effect on our results of operations or financial condition.

Canadian Environmental Protection Act

In 1994, under CEPA, two federal government departments, Environment Canada and Health Canada, published toxicity assessments of 17 substances, including nickel and its compounds. The assessment concluded that metallic nickel was not considered toxic under CEPA. However, oxidic, sulphidic and soluble compounds of nickel were considered toxic, according to statutory definitions and criteria. As a result of this assessment, together with CEPA toxic classifications for mercury, lead, and certain compounds of arsenic and cadmium, a base metal smelter Strategic Options Process (the SOP) was conducted in 1997 with the result that the industrial sector committed to develop site-specific environmental management plans and reduce sector-wide releases of arsenic, cadmium, lead, mercury and nickel by 80 per cent from 1988 (as the base year) to 2008.

In 1999, a revised CEPA was enacted and has been viewed as granting increased authority to, and mandating increased attention by, federal departments in data collection, pollution prevention and other regulatory actions. As a result of the revised CEPA, Environment Canada has initiated several additional programs. One has been to review the progress being made under the original base metal smelter commitments made as part of the SOP and possibly accelerating their implementation. Another program has been to take action regarding substances known to be toxic under CEPA, including emissions of dioxins and furans, sulphur dioxide and particulate matter. This program is discussed above under SO_2 Emissions Sudbury and SO_2 Emissions Thompson .

Another CEPA-related program seeks to categorize and prioritize all substances on the Domestic Substances List (the DSL), a list of more than 20,000 substances which are permitted to be produced in or imported into Canada. New substances that are not on the list are required to undergo a pre-manufacturing appraisal in order to be added to the

list. Environment Canada has elected to apply criteria for this process that we believe are inappropriate for inorganic substances. These criteria were originally developed for synthetic organic chemicals and involve assessments of persistence, bioaccumulation and toxicity. In 2001, an expert advisory group, including a consultant representing the Mining Association of Canada, was organized by Environment Canada for the purpose of reviewing the scientific validity of using persistent, bioaccumulative and toxic (PBT) criteria for inorganic substances. In late 2001, this group issued its findings and recommendation to Environment Canada. This group concluded that the persistent, bioaccumulative criteria do not properly categorize metals and other inorganic substances. However, recognizing that the use of PBT criteria is legislated, the group recommended that all inorganic substances should be considered as persistent for the purposes of this categorization, and that toxicity alone should be the criterion by which inorganic substances should be categorized. In June 2002,

Health Canada made a proposal for categorizing human exposure to substances on the DSL on the basis of use and on the basis of industry codes originally attached to substances when they were placed on the list. In 2005, Environment Canada and Health Canada completed the DSL priority review for all substances on the DSL, including compounds containing nickel. Based upon this review, it is expected that consultations will begin in 2006 with stakeholders on the risk management requirements for each substance on the priority DSL. We cannot at this time identify or predict what additional operating or capital expenditures will be required by Inco to meet the ultimate regulations that may result from these and other possible CEPA-based and Environment Canada programs or what effect they would have on our operations or financial situation.

California Regulatory Actions

In 1991, the California Air Resources Board (CARB) identified nickel and its compounds as a toxic air contaminant. A series of guidelines were then issued for assessing risks of non-occupational exposure, and acute and chronic reference exposure levels (RELs) were proposed along with a cancer potency factor for nickel compounds. Because Inco and other nickel producers believed that the guidelines and RELs were not well-founded scientifically and might lead to unjustifiable controls being placed on users of nickel in California and elsewhere, Inco and other nickel producers made submissions criticizing the methods used by CARB in developing the RELs. In February 2000, California adopted final RELs. Although the final RELs represent an improvement over the initial proposals, we believe that they are still unjustifiably low. Although the RELs do not appear to have had a significant impact on nickel users in California, we are unable to predict at this time what long-term impact the RELs will have in California or, indirectly, in other jurisdictions in which nickel is produced or used.

In June 2003, the California Office of Environmental Health Hazard Assessment proposed a Child-Specific Reference Dose (CSRD) for nickel to be used in school site risk assessments. Nickel producer associations of which Inco is a member submitted comments questioning the scientific basis for the proposed CSRD and arguing that it should be at least five times higher. In a final report dated December 2005, the California Office of Environmental Health Hazard Assessment raised the proposed CSRD by a factor of three. While that is an improvement, Inco believes that the CSRD should be even higher. We do not believe that this CSRD for nickel will have a material adverse impact on our results of operations or financial condition.

Late in 1999, the California Office of Environmental Health Hazard Assessment proposed a public health goal (PHG) of one microgram of nickel per litre of drinking water. In conjunction with other nickel producers, Inco submitted comments arguing that this proposal was scientifically unjustified. In August 2001, a final PHG of 12 micrograms of nickel per litre of drinking water was adopted by the California authorities. Although not itself a mandatory standard, the PHG could serve as a benchmark for setting a drinking water standard in California. In 2005, the California Department of Health Services announced that it did not plan a further review of the state s existing 100 microgram per litre drinking water standard for nickel. Nonetheless, the PHG could affect the perception of the health risks associated with nickel by producers and users of nickel-containing products, and it may have an impact on the EPA s consideration of a future drinking water standard for nickel.

Right-to-Know Legislation

Right-to-Know and other reporting laws have been adopted in many jurisdictions in which we operate. These laws generally require employers to advise their workers and their local communities, as well as specified governmental authorities, of the kinds and amounts of specified chemicals, including some chemicals made or used by Inco, which may be present in the workplace, released to the environment, or sent to a recycling or waste management unit, and to develop emergency response programs. Compliance with these Right-to-Know requirements has had no material effect on our results of operations or financial condition.

Harmonization of Classification and Labeling of Chemicals

In 1990, the International Labour Organization (ILO) initiated a project to harmonize existing systems for the classification and labeling of chemicals. This goal was endorsed by the 1992 UN Conference on Environment and Development (UNCED) and was included as one of the six areas for action identified in Chapter 19 of Agenda 21 of UNCED on the environmentally sound management of toxic chemicals. UNCED recommended that a globally harmonized hazard classification and compatible labeling system, including material safety data sheets (MSDSs) and easily understandable symbols, should be available, if feasible, by the year 2000. In September 2001, a Harmonized

Integrated Hazard Classification System for Chemical Substances and Mixtures was approved by the ILO s Taskforce on Harmonization of Classification and Labeling and endorsed by the OECD s Joint Meeting of the Chemicals Committee and Working Party on Chemicals, Pesticides and Biotechnology. This document and similar documents on Physical Hazard Classification and Hazard Communication Tools were merged to form the Globally Harmonized System (GHS). The GHS was adopted by the UN Subcommittee of Experts on the GHS on the Classification and Labeling of Chemicals and the UN

Committee of Experts on the Transport of Dangerous Goods and the GHS in December 2002. Although adoption of the GHS by individual countries continues to be considered voluntary, the goal of the Intergovernmental Forum on Chemical Safety, endorsed at the September 2002 World Summit on Sustainable Development, is to have as many countries as possible implement the GHS by 2008. In addition, the Asia-Pacific Economic Cooperation (APEC) organization is recommending that the GHS be adopted, on a voluntary basis, by 2006, and Australia has committed to adopting the GHS by 2006. The countries that are signatories to the North American Free Trade Agreement (Canada, the United States and Mexico) have committed to review their internal systems and consider adopting the GHS. It is expected that Canada will adopt the GHS by 2008. Inco does not believe that the adoption of the GHS will have a material impact on its results of operations or financial condition.

European Union Actions

There are several key areas under discussion at the European Commission concerning nickel in respect of workplace legislation, public health and consumer product legislation, and environmental legislation. Inco, together with other participants in the nickel industry, has been actively working with various European Union (EU) institutions to address these issues and investigate their effect on the nickel industry.

In October 2003, the European Commission adopted the draft legislative text of a new chemical policy for the EU which, when it becomes law, will supersede some 30 pieces of current EU legislation. The legislation was approved (with amendments) by the European Parliament after first reading in November 2005, and by the EU Council of Ministers (also with amendments) in December 2005. This legislation is expected to return to the European Parliament for a second reading during 2006. While the new policy seems very likely to be enacted, it is unlikely to come into force before 2007. This new legislation, referred to as REACH (for Registration, Evaluation and Authorization of Chemicals), would place more responsibility on companies to test exhaustively for all hazards, register their chemicals, and secure regulatory authorization as a condition for placing certain higher risk chemicals on the EU market or importing such chemicals into the EU. The registration requirements of this legislation would be triggered by the tonnage of certain substances to be placed on the EU market or imported into the EU. The evaluation process set forth in this legislation may be triggered by the EU authorities if the registration requirements are not fully met. In addition, authorizations would be required from the EU for chemicals of high concern, including those which are classified as category 1 or 2 carcinogens, mutagens or reproductive toxicants and those compounds with an organic component classified as persistent, bioaccumulative and toxic in the environment. In effect, the REACH system would require producers and importers of such chemicals to obtain an authorization to market them based on their use patterns. This draft legislation excludes ores and metal or mineral concentrates from the registration process, thereby limiting the impact of the legislation on the mining and metals sector. We do not believe that this legislation as currently drafted would, if enacted, have a significant adverse effect on our operations or financial condition.

EU Regulation 793/93(EEC), a regulation covering the evaluation of the risks of and controls for existing substances, includes five nickel substances (nickel sulphate, nickel chloride, nickel nitrate, nickel carbonate and nickel metal) listed for review under this regulation. Inco believes that this is the single most comprehensive legislative review of nickel in respect of human health, public health, consumer health and the environment that has been undertaken by a governmental authority worldwide. This legally driven initiative started in 1996, when Denmark, allegedly concerned about the ability of nickel to cause dermal sensitization, placed elemental nickel and nickel sulphate on the third priority substances list developed by the European Commission. In 1996, the Danish Environmental Protection Agency (the Danish EPA) was appointed the principal agency for conducting risk assessments on these substances. In 2000, three additional nickel compounds, nickel carbonate, nickel chloride and nickel dinitrate, were added to the risk assessment program as part of another priority substances list developed by the European Commission.

This nickel risk assessment program has progressed slowly due, in part, to the rapidly changing methodologies for assessing the environmental risks of metals in general. The nickel industry has been successful in demonstrating that further research and testing is required for a scientifically credible environmental risk assessment of nickel. A formal research program has been agreed upon with the European Commission for this work, with anticipated completion dates for the various elements of the program ranging from late 2005 to 2007. When this research program has been completed, the technical debate on safe levels of nickel in all of the environmental compartments (soils, water and

sediment) will resume. The scientific aspects of the health risk assessments of the original five nickel substances were completed in January 2006 and a final health risk assessment report is expected to be published in the second quarter of 2006. Any recommendations for increased health risk reduction measures, such as lower occupational exposure limits, beyond those currently in place will be passed to the relevant EU policy committees for their consideration after a formal peer review process by the European Commission. At this time it is not possible to predict what effect these nickel risk assessments may have on our operations or financial condition.

In the area of health risk assessment, the classification of soluble nickel compounds was referred to the specialized experts group (the SEG) of the European Commission s working group on classification, which agreed with the Danish EPA that all soluble nickel compounds should be classified as category 1 carcinogens or known human carcinogens. This change was scheduled to be implemented by changes to the EU classification and labeling directive in April 2005; however, this has not yet occurred. This change, if made, could have a material adverse effect on the sale of at least nickel sulphate and nickel chloride, two soluble nickel company, in Europe.

In October 2004, the EU classification committee determined that soluble nickel compounds should be classified as a category 2 reproductive toxicants under the EU classification system. Such a classification means that soluble nickel compounds would be subject to authorization under the new REACH legislation described above. Soluble nickel compounds also received new classifications for (i) acute toxicity orally, (ii) acute toxicity by inhalation (nickel chloride), (iii) causing chronic toxicity by inhalation, (iv) skin and eye irritant and (v) dangerous to the environment. In addition, nickel metal powders received a new hazard classification for chronic lung toxicity.

On January 10, 2006, the Danish EPA completed the final draft version of the EU nickel health risk assessment. This draft is expected to be released to the public in the second quarter of 2006. The next phase of this process is for the Danish EPA to prepare risk reduction strategies and risk mitigation proposals. It is anticipated that OELs for both metallic nickel and nickel compounds may be lowered as a result of new information in this assessment. The data to support the proposal to lower nickel OELs are also being reviewed by the European Commission s scientific committee on occupational exposure limits (SCOEL), which has been considering nickel occupational exposure limits for several years. A criteria document on occupational exposure limits for nickel which was prepared by independent experts was presented to SCOEL in 1997 by the European Nickel Group, an association whose members include most of the EU s nickel producers and importers. Further information on the carcinogenicity of nickel and related occupational health exposures was subsequently submitted in 2005 as part of the risk assessment process. SCOEL is expected to review the new information in 2006 and may recommend new OELs for nickel and nickel compounds. We cannot predict at this time if the OELs for metallic nickel and nickel compounds will be lowered and, if they are, whether this action would have a material adverse effect on our results of operations or financial condition.

In parallel with this risk assessment process, the Danish authorities have introduced a proposal for a group classification of 167 nickel substances using a read across principle, which uses the known properties of some chemicals to extrapolate the properties of other chemicals. Potentially, the proposal could result in 152 substances being classified as category 1 carcinogens (R49). Given the limited availability of toxicity data on these 167 substances, the Danish authorities have suggested using water solubility as the single criterion upon which this classification would be based. The nickel industry is in discussions with member state authorities as well as the European Commission in evaluating the validity of the methodology used to classify these 167 substances on the basis that it is scientifically incorrect and would result in the misclassification of the 152 substances referred to above. The industry was given the opportunity to comment on the proposal until the beginning of 2006. The next discussions are scheduled for March 2006 and a decision by the Member States is likely to be taken at that time.

At this time it is not known what overall impact the Danish EPA and other risk assessments associated with various forms of nickel will have on our operations or those of our customers. In mid-2005, the European Nickel Group issued a brief socio-economic and technical feasibility study on the risk assessments that had been completed to date. However, the study was inconclusive as the information from all of the risk assessments was not yet available. This draft nickel risk assessment recognizes the need to consider economic and technical feasibility information to be provided by the nickel industry.

The European Commission s Directive Relating to Arsenic, Cadmium, Mercury, Nickel and Polycyclic Hydrocarbons in Ambient Air which came into effect in February 2005 is aimed at controlling these substances in ambient air. This Directive includes a target limit value for nickel of 20 nanograms per cubic metre for atmospheric nickel. As a result of submissions by industry groups during the development of the Directive, the limits are target values, rather than binding limits, and control measures are not required to go beyond the best available technology or to require that disproportionate costs be incurred to achieve the target values. Although the target values adopted in the Directive are not binding limits, member states have the right to enforce them as binding limits. The monitoring of atmospheric nickel is currently the responsibility of member states. We are currently evaluating the impact of the

Directive on our Clydach refinery. Our preliminary data support the position that current operational emissions account for only a small percentage of the nickel in ambient air and, accordingly, compliance with this target value would not have a significant adverse effect on our operations or financial condition.

The European Commission s Water Framework Directive, which was issued in October 2000 and regulates water quality standards in the EU, listed nickel as one of the priority substances of concern and indicated that nickel may be subject to discharge control

measures that are more stringent than those currently in effect. It is not yet known what the EU nickel water quality standards will be or what will be the consequences to industries producing or using nickel in the EU. However, as part of the implementation of this Directive, member states will initially have to classify both surface and groundwater bodies. Any failure to meet a water quality standard within a portion of a water body will result in the entire water body being classified as not in compliance. It is expected that water body classification will be undertaken over a two-year timeframe beginning in 2006.

Several directives relating to the end-of-life of certain consumer products have been finalized and are being implemented in the EU. These include end-of-life for vehicles, waste electrical and electronic equipment, and restrictions on the use of hazardous substances in electrical and electronic equipment. A new and more comprehensive Directive on Batteries, Accumulators and their Waste was approved by the European Parliament on December 13, 2005. The new Directive requires the collection of 25 per cent of all spent batteries and accumulators within six years and 45 per cent within 10 years. Limited bans on certain heavy metals which contaminate the environment when placed in landfills were also included in this Directive. These bans include 0.0005 per cent mercury by weight for all batteries and 0.002 per cent cadmium by weight for portable batteries or accumulators (defined as batteries or accumulators used in household applications, cordless power tools, emergency lighting and electrical and electronic equipment and other applications by either consumers or professional users) with certain exceptions for such applications as emergency alarm systems, medical equipment and cordless power tools. Battery producers will be required to be responsible for and bear the cost of collecting and recycling used batteries in order to comply with this Directive. The new Directive has been approved by the European Parliament with the recommendation that it be approved in a second reading in 2006 by the EU Council of Ministers, which is necessary for it to be adopted. If it is rejected by the Environmental Council, it will have to undergo a conciliation process to arrive at a compromise between the European Parliament and the EU Council of Ministers.

The Seveso II Directive, which was issued by the European Commission in 2003, is concerned with preventing major accidents and releases of hazardous materials at industrial installations. Industrial installations that store or produce certain tonnages of hazardous substances listed in the Seveso II Directive (including nickel oxide) must make a safety report to their local authorities and obtain a permit for operation. There are two tiers of requirements under the Seveso II Directive, a lower tier and an upper tier. The changes relate only to lower tier operations and do not affect Inco s Clydach operations as those operations fall within the upper tier due to the nature and quantity of Clydach s nickel oxide inventories. Inco is working with its European nickel oxide customers to assist them in complying with this Directive.

To comply with pollution control regulations in the U.K., Inco s refineries at Clydach, Wales and Acton, England have obtained the necessary authorizations to continue to operate. These authorizations include prescribed emission release limits and are conditional upon Inco carrying out certain environmental improvements. In order to ensure continuous improvement, the government reviews these authorizations at least every four years, at which time new environmental improvement conditions may be established. Both refineries were issued the necessary authorizations in 2004 and continue to meet their specified improvement conditions, none of which are expected to have an adverse effect on operations. The improvement program is being managed using the refineries ISO 14001 certifications.

WHO Drinking Water Guidelines

The World Health Organization (WHO) periodically reviews its guideline values for contaminants in drinking water. Its most recent review of nickel in drinking water began in 1995. Over the past several years nickel producers organizations, including NiPERA, made submissions to the WHO concerning the most appropriate method for extrapolating animal test data to humans. The WHO recommended a very stringent guideline value of 20 micrograms of nickel per litre of drinking water. This value was disputed by the nickel industry and, in 1997, the WHO designated the value as provisional . In 2000, a new study on the reproductive effects of ingested nickel in animals was completed. This study, which was funded by the nickel industry, provides an improved scientific basis for setting a nickel guideline level for drinking water and was submitted to the WHO for its consideration. Based on its interpretation of that study, in 2004 the WHO determined that the guideline value for nickel to protect against general systemic toxicity (as reflected in reproductive effects) would be 130 micrograms of nickel per litre of drinking water. However, the WHO working group went on to calculate a guideline value designed to protect against a dermatitic reaction in

individuals who are highly sensitive to nickel ingested orally. The guideline value derived on that basis was 70 micrograms of nickel per litre of drinking water. It is currently expected that this guideline value will be published along with a revised background document in 2006. While WHO is not a regulatory body itself, the WHO guideline values influence governmental regulatory agencies around the world in adopting standards. We cannot predict what effect WHO s revised guideline value for nickel in drinking water will have in specific jurisdictions, including Canada, or what impact it will have on our results of operations or financial condition.

Other Environmental Control Regulations

Inco and other mining companies in Canada are aware of and concerned about the increasing desire on the part of many regulatory authorities throughout the world to limit the mining, refining and use of metals in the future. This desire is based on the belief of governments in the changing expectations of society towards various approaches to the concept of sustainable development , a concept that has been defined by regulatory and other bodies differently but, at a minimum, appears to focus on meeting the needs of the present without compromising the ability of future generations to meet their own needs. In response to this view, Inco believes that there is a tendency for some governments to use inadequate or incorrect information, to rely on inappropriate methodologies, and to apply the precautionary principle in an unwarranted manner in making regulatory decisions regarding metals. An example of this approach is the predisposition by some regulators to identify metals, including nickel, as PBT chemicals that should be targeted for use reduction or waste minimization.

In 1998, EPA published a draft list of 53 chemicals or groups of chemicals described as PBT substances that were to be the focus of a voluntary waste minimization initiative. Eleven of the 53 chemicals on the list were metals, including nickel. The inclusion of nickel on this list, if finalized, could have led to increased regulation of nickel, placing additional burdens on customers and users of nickel and possibly resulting in the substitution of other products for nickel. In submissions made to EPA, Inco pointed out that the scoring and ranking scheme used to develop this list does not, on a scientific and technical basis, properly apply to metals, so that nickel should be removed from the list. Similarly, at an expert workshop conducted under the joint sponsorship of EPA and other organizations in January 2000, the prevailing view was that PBT criteria, which were developed to evaluate potential environmental hazards of organic chemicals, could not appropriately be applied to metals and inorganic metal compounds. These views apparently had some effect. In the summer of 2002, EPA released the final version of what is now referred to as the Waste Minimization Priority Chemicals List. Only three metals, cadmium, lead and mercury, were included on the list, and they were selected for reasons that do not involve a PBT determination.

For the last four years, EPA has been engaged in developing a comprehensive cross-agency Framework for Metals Risk Assessment (the Framework) that will set forth principles for EPA programs to use in assessing the hazards and risks of metals and inorganic metal compounds. As part of the process, EPA commissioned a series of issue papers addressing various questions relating to the hazard assessment of metals. These issue papers, prepared by independent experts under contract to EPA, emphasized the complexity of evaluating the hazard potential of metals and questioned the scientific basis for applying to metals the same PBT criteria that EPA uses to evaluate the hazards of organic compounds. In late 2004, a revised draft of the Framework (based in large part on the issue papers) was released for public comment and peer review by EPA s Science Advisory Board. Although the draft Framework was criticized in various respects during the peer review process, EPA expects to release a revised version of the Framework as a final document in 2006. Based on the most recent draft, it is anticipated that the final Framework will establish a much more scientifically sound basis for evaluating the potential hazards and risks of metals than has been the case when EPA s PBT methodology was employed.

In the future, as in the past, at least some supranational, national, provincial, state and local governments and authorities under which Inco operates may put into effect new regulations covering the emission of air pollutants, the discharge of process wastewater and the generation, storage, treatment and disposal of liquid and solid wastes that could apply to various of our operations in the world and that could result in additional compliance costs on our operating units or on nickel-using industries. Certain of the proposed regulations discussed above, if enacted without change, would result in additional costs and/or require changes in our operations that could seriously affect our results of operations and/or financial condition. Reference is made to the discussion of future removal and site restoration costs and related plans under Future Removal and Site Restoration; Closure and Post-Closure Plans above.

Employees

At December 31, 2005, Inco had 11,707 employees, compared with 10,973 employees at year-end 2004 and 10,478 employees at year-end 2003. At year-end 2005, 6,699 of our employees were located in Canada, 157 in the United States, 395 in the United Kingdom, 3,380 in Indonesia, 593 in China, 253 in New Caledonia and 230 in other countries, compared with 6,419 in Canada, 162 in the United States, 391 in the United Kingdom, 3,320 in Indonesia, 351 in China, 189 in New Caledonia and 141 in other countries at year-end 2004. Most full-time employees

participate in Inco s performance through profit-sharing or other bonus arrangements.

On September 16, 2005, a new three-year collective agreement with our unionized workers at our Manitoba operations was successfully negotiated. This agreement expires in September 2008. Collective agreements with unionized hourly production and maintenance workers at our Ontario operations will expire on May 31, 2006. These agreements in Ontario had been reached following a three-month strike that had a material adverse effect on our 2003 production of nickel, copper and certain other metals and

our results of operations, financial condition, profitability and cash flow from operations for 2003. A three-year collective agreement with our unionized office, clerical and technical employees at our Ontario operations was negotiated in the first quarter of 2004 and remains in effect until March 31, 2007. Our PT Inco subsidiary entered into a new two-year collective labour agreement with its union in the fourth quarter of 2004 which expires in December 2006. While there were no significant problems in reaching this latest agreement with PT Inco s labour force, with the increased potential for actions of non-government organizations and other activist groups, the continuing uncertain economic and political situation in Indonesia and the general increase in labour activism in that country, there can be no assurance that such activism will not adversely affect PT Inco s ability to successfully operate. Any disruption in PT Inco s operations as a result of labour issues or other issues may adversely affect its operations and could materially adversely impact our business, results of operations, financial conditions and liquidity. At Goro, we currently have two unions representing some of our employees. In early September 2002, Goro experienced labour disruptions by personnel associated with certain project construction subcontractors. As a result of these disruptions, the decision was made in late September 2002 to curtail certain activities at the project s site to enable the project company, Goro Nickel S.A.S., contractors, subcontractors and other interested parties to develop procedures to avoid future disruptions. A number of procedures were put in place prior to the start of the Goro project comprehensive review in late 2002 and over the past three years we have been seeking to complete the implementation of these and other procedures as part of the negotiation of labour, site or other accords to help minimize any such disruptions in the future. Through an employers association, of which we are the controlling member, we negotiated a collective agreement effective September 2002 covering the construction of the first phase of the Voisey s Bay project. Currently, we are in the process of negotiating the first collective agreement with operations employees at Voisey s Bay.

There can be no assurance that we will be able to maintain positive relationships with our employees at our operations in Canada, Indonesia, New Caledonia, and elsewhere or that new collective agreements will be entered into without work interruptions when the then current collective agreements end as in the case of the three-month strike at our Ontario operations in 2003. We could also be adversely affected by labour disruptions involving third parties who may provide us with goods or services at our operations in Canada and elsewhere. For example, as discussed above, our Goro project experienced labour disruptions by certain employees of the project s construction subcontractors and other parties. Strikes and other labour disruptions at any of our operations and lengthy work interruptions at our Goro project could materially adversely affect the timing of completion and the cost of that project, as well as our business, results of operations, financial condition and liquidity.

Exmibal

In December 2004, Inco completed the sale, subject to certain conditions to be met during the option period referred to below, of its 70 per cent interest in its Guatemalan subsidiary, Exploraciones y Explotaciones Mineras Izabal, S.A. (Exmibal) (now called Compania Guatemalteca Mineras de Niquel, Socieda Anomina (CGN)), to Skye Resources Inc. (Skye) pursuant to a master agreement entered into in September 2004. Under the master agreement, Inco acquired (i) 1,888,101 common shares of Skye, (ii) 198,665 warrants to acquire common shares of Skye at Cdn.$3.00 per share, and (iii) 5,098 warrants to acquire commons shares of Skye at Cdn.$2.00 per share. All of these warrants expired unexercised. The master agreement gives Skye a five-year option period to evaluate the technical and economic feasibility of developing a nickel laterite mine project owned by CGN (now known as the Fenix project). If Skye exercises its option to proceed with the Fenix project, a second closing will occur at which time Skye will pay to Inco additional consideration in the form of $3.5 million in cash and the issuance of additional commons shares of Skye (currently estimated to be 1,750,000 shares) and Inco will transfer to Skye ownership of certain Inco subsidiaries in Guatemala which hold certain surface rights, dock facilities and other assets related to the project. The additional consideration would be payable after Skye has fulfilled a number of conditions during the option period, the most significant remaining condition being the completion of a feasibility study for the Fenix project. If Skye does not fulfill all of these conditions during the option period or if Skye elects not to exercise its option to proceed with the Fenix project, Inco will have the right to reacquire its interest in CGN (and the Fenix project).

Concurrently with the acquisition of Inco s interest in CGN in December 2004, Skye agreed that it or CGN will enter into the following ancillary agreements with Inco: (i) a production interest agreement providing for a cash

payment to be made by CGN on 70 per cent of the ore mined by the Fenix project, (ii) a sales agency agreement under which Inco would act as Skye s sales agent for nickel commodities produced from the project and earn a 2.75 per cent commission on those sales, and (iii) a net smelter return agreement providing Inco with a sliding-scale royalty calculated on 70 per cent of net smelter returns from the sale of ferronickel products from a ferronickel plant that would be built as part of the Fenix project. If Skye develops the Fenix project to produce intermediate nickel products, then Inco and CGN would enter into an offtake agreement under which Inco would purchase those products on commercially reasonable terms.

During 2005, Inco acquired an addition 1,000,000 common shares of Skye and 250,000 warrants to purchase common shares of Skye at Cdn.$5.75 per share, pursuant to a private placement and market transactions. On February 24, 2006, Inco acquired 731,150

common shares of Skye pursuant to a private placement upon the exercise of certain pre-emptive rights it has under the master agreement referred to above, thereby maintaining its 12.4 per cent ownership interest in Skye on a non-diluted basis.

Miscellaneous Investments

In connection with the disposition of the battery and related products businesses conducted by Inco ElectroEnergy Corporation (IEEC), which was completed in 1983, Inco assumed responsibilities for certain expenditures and other costs associated with certain proceedings or administrative actions initiated by or involving EPA or state environmental agencies concerning certain facilities operated by these businesses. We also assumed responsibility for compliance by these facilities with applicable local environmental regulations covering the treatment or discharge of certain wastewaters, compounds or effluents into publicly-owned treatment works, sewage systems, groundwater resources and watercourses and the related cleanup of deposits of certain minerals and compounds from such watercourses. Our total accounting reserve relating to these remaining responsibilities, which reflects their estimated cost, was $48 million at year-end 2005, compared with $30 million at year-end 2004 and 2003. The increase in this reserve at year-end 2005 was the result of a reevaluation during 2005 of the costs to remediate one of the IEEC properties in the U.S. that Inco agreed to retain in connection with sale back in the early 1980s of certain of the IEEC businesses.

Other Information

In addition to properties discussed under Description of Business above, certain of Inco s sales offices are leased and the Company also leases office space in Toronto, Ontario; London, England; Saddle Brook, New Jersey; and in certain other locations around the world.

Operations in certain foreign countries involve certain risks, including risks of monetary instability, changes in exchange rates, inconvertibility of currencies and expropriation and nationalization. For example, Indonesia experienced a significant devaluation of its currency and other economic issues in recent years and the future economic, social and political issues in that country could adversely affect PT Inco s ability to operate and, accordingly, our results of operations, financial condition and prospects. For further information on the political situation in Indonesia, see PT International Nickel Indonesia Tbk General above.

For financial information by geographic location, see Note 18 to the financial statements under Item 8 of this Report.

Shareholder Rights Plan

Inco s current shareholder rights plan is set out in a Rights Plan Agreement, as amended and restated as noted below, entered into between Inco and CIBC Mellon Trust Company, as Rights Agent, and is designed to (i) encourage the fair and equal treatment of shareholders in connection with any bid for control of Inco by providing them with more time than the minimum statutory period during which such bid must remain open in order to fully consider their options, and (ii) provide Inco s Board of Directors with additional time, if appropriate, to pursue other alternatives to maximize shareholder value.

The plan was initially approved by Inco s Board of Directors in September 1998 and became effective in October 1998. It was amended in certain respects by Inco s Board of Directors in February 1999 to ensure that it was consistent with rights plans which had been recently adopted by other Canadian companies. The amended plan was approved by the shareholders at our 1999 Annual and Special Meeting of Shareholders in April 1999. In February 2002, Inco s Board of Directors approved certain minor amendments to the plan to ensure that its terms remained consistent with other rights plans in Canada and unanimously recommended that the plan, as proposed to be amended, be reconfirmed, as amended and restated, by the shareholders. Such reconfirmation was obtained at our Annual and Special Meeting of Shareholders in April 2002. In February 2005, Inco s Board of Directors approved certain further minor amendments to the plan to reflect, among other things, changes in Inco s capital structure since April 2002, including the issuance of convertible debt securities, and unanimously recommended that the plan, as proposed to be amended, be reconfirmed, as amended and restated, by the shareholders. Such reconfirmation was obtained at our Annual and Special Meeting of Shareholders in April 2005. The plan remains in effect until October 2008.

The rights issued under the plan are attached to and trade with Inco s Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. Certificates evidencing Common Shares will be legended to reflect that they evidence the rights until the Separation Time (as defined below). Holders of Inco s Convertible Debentures, Subordinated Convertible Debentures and LYON Notes (as those terms are defined in Note 13 to the financial statements under Item 8 of this Report) and the certificates of entitlement attached thereto (which entitle their holders to receive rights in the event that the related security is converted into Common Shares) will generally be entitled to receive, upon conversion of the relevant security and presentment of the

certificate of entitlement, respectively, rights in an amount equal to the number of Common Shares issued upon conversion of such securities.

The rights will separate from the Common Shares and be transferable, trade separately from the Common Shares and become exercisable at the time (the Separation Time) when a person acquires, or announces its intention to acquire, beneficial ownership of 20 per cent or more of (i) Inco s then outstanding Voting Securities (defined at this time to be Inco s Common Shares) or (ii) its then outstanding Common Shares alone, in either case without complying with the permitted bid provisions of the plan (as summarized below), or without the approval of Inco s Board of Directors. Should such an acquisition occur, each right would entitle its holders, other than the acquiring person or persons related to or acting jointly or in concert with such person, to purchase additional Common Shares of the Company at a 50 per cent discount to the then current market price. The acquisition by any person (an Acquiring Person) of 20 per cent or more of Inco s Common Shares or Voting Securities, other than by way of a permitted bid, is referred to as a Flip-in-Event . Any rights held by an Acquiring Person will become void upon the occurrence of a Flip-in-Event.

A permitted bid is a bid made to all holders of Inco s outstanding Voting Securities that is open for at least 60 days. If, at the end of such 60-day period, more than 50 per cent of Inco s then outstanding Common Shares, other than those securities owned by the party making the bid and certain related persons, have been tendered, such party may take up and pay for the Common Shares but must extend the bid for a further 10 business days to allow other shareholders to tender, thus providing shareholders who had not tendered to the bid with enough time to tender to the bid once it is clear that a majority of Common Shares have been tendered.

Under the plan, Inco can (i) waive its application to enable a particular takeover bid to proceed, in which case the plan will be deemed to have been waived with respect to any other takeover bid made prior to the expiry of any bid subject to such waiver or (ii) with the prior approval of the holders of Voting Securities or rights, redeem the rights for nominal consideration at any time prior to a Flip-in-Event.

Proposed Acquisition of Falconbridge Limited

On October 11, 2005, Inco and Falconbridge announced that their respective Boards of Directors had approved the acquisition of all of the outstanding common shares of Falconbridge by Inco by way of a friendly take-over bid. The combined organization would be one of the world s premier mining and metals companies in both nickel and copper, with one of the mining industry s most attractive portfolios of low-cost, profitable growth projects.

Inco and Falconbridge entered into a Support Agreement dated October 10, 2005 (the Support Agreement) relating to the transaction. The Support Agreement provides that Inco would make an offer (the Offer) to acquire all of the outstanding common shares of Falconbridge not currently owned by Inco and that Falconbridge would co-operate with Inco and use its reasonable best efforts to permit the Offer to be successful, all on and subject to the terms and conditions set out in the Support Agreement. In accordance with the Support Agreement, on October 24, 2005 Inco formally made the Offer by mailing to Falconbridge common shareholders a take-over bid circular setting out the terms of the Offer, together with the Falconbridge Board of Directors circular and related documents. The Offer is subject to certain conditions of completion, including receipt of all necessary regulatory clearances and acceptance of the Offer by Falconbridge common shareholders owning not less than 66 2/3 per cent of the Falconbridge common shares on a fully diluted basis. Once the 66 2/3 per cent acceptance level is met, Inco intends, but is not required, to take steps to acquire all of the remaining Falconbridge common shares. The support agreement also provides for the payment of a fee of up to $320 million to Inco by Falconbridge if the acquisition is not completed for certain reasons.

The Offer is for Cdn.$34.00 in cash or 0.6713 of an Inco Common Share plus Cdn.$0.05 in cash for each Falconbridge common share. Falconbridge s common shareholders will have the right to elect to receive all cash or all Inco Common Shares (plus Cdn.$0.05 per Falconbridge Common Share), subject to pro ration based upon the maximum amount of cash and Inco Common Shares offered. Under the terms of the Offer, the maximum amount of cash to be paid by Inco will be approximately Cdn.$2.87 billion, and the maximum number of Inco common shares to be issued will be approximately 201 million shares, taking into account the conversion of Falconbridge s outstanding convertible debt securities and outstanding share options. Assuming full pro ration of these maximum amounts, this would mean Cdn.$7.50 in cash and 0.524 of an Inco common share for each Falconbridge common share subject to the Offer. Subject to certain other terms and conditions and other developments, Inco may elect to redeem some or all

of Falconbridge s junior preferred shares in conjunction with the completion of the acquisition.

The Offer was initially open for acceptance until December 23, 2005, unless withdrawn, extended or accelerated. On December 8, 2005, Inco announced that it had determined that one of the conditions of the Offer, receipt of all necessary regulatory clearances, would not be obtained by the December 23, 2005 acceptance date and that, pursuant to the terms of the Support Agreement, it was

extending the Offer until January 27, 2006 in order to allow more time to obtain these clearances. Subsequently, on January 12 and February 21, 2006, Inco announced further extensions of the acceptance date in order to provide additional time to obtain the required regulatory clearances from the U.S. Department of Justice and the competition authorities in Europe. As a result, the Offer is now open for acceptance until June 30, 2006, subject to withdrawal, extension or acceleration. On January 27, 2006, Inco announced that the Canadian Competition Bureau, the regulatory authority in Canada responsible for reviewing proposed mergers under Canadian competition legislation, had issued a no action letter to Inco indicating that it did not intend to oppose Inco s acquisition of Falconbridge. Pursuant to amendments to the Support Agreement, Inco has agreed that it will extend the Offer through one or more additional extensions if the regulatory clearance condition is not met by the time provided in that agreement. Falconbridge has agreed that any such extended acceptance date may be accelerated if the regulatory clearances are obtained earlier.

As part of the efforts of Inco and Falconbridge to obtain all of the regulatory clearances required to complete expeditiously the transactions contemplated by the Support Agreement, Inco is prepared, if required, to divest Falconbridge s Nikkelverk refinery in Norway and certain related marketing organizations, as a post-transaction event. This divestiture, if required, may occur through a sale to a third party of the divested assets/businesses or an initial public offering covering the divested assets/businesses. If required, Inco would provide the refinery with intermediate product to meet its forecast needs, consistent with what Falconbridge would have provided over a specified period.

The new Inco to be created by this pending transaction would have a strong balance sheet, enhanced financial resources and flexibility to achieve its growth plan and pursue additional opportunities to enhance shareholder value. Shareholders in the combined company would also enjoy significant liquidity given the strong position which it is expected to have on the Toronto and New York stock exchanges, with a total of approximately 390 million shares to be outstanding on an as issued basis, assuming all Falconbridge common shares are tendered under the Offer. Assuming all of the Falconbridge common shares are tendered, upon the completion of the acquisition current Inco common shareholders would hold approximately 54 per cent and former Falconbridge common shareholders would hold approximately 46 per cent of the fully diluted Inco common shares.

In connection with this transaction, Inco entered into a Loan Agreement dated December 22, 2005, (the Loan Agreement) with a group of banks and financial institutions, including Morgan Stanley Senior Funding (Nova Scotia) Co., RBC Capital Markets, Goldman Sachs Canada Credit Partners Co. and The Bank of Nova Scotia, as lead arrangers, and Morgan Stanley Senior Funding (Nova Scotia) Co. and RBC Capital Markets, as joint book running managers. The loan facilities under the Loan Agreement are sufficient to permit Inco to meet, directly or through subsidiaries who can borrow under the Loan Agreement, the total amount of cash, approximately $2,600 million, that it would need to acquire all of the issued and outstanding common shares of Falconbridge pursuant to the terms of the Offer and to pay the fees and expenses associated with such offer. The Loan Agreement provides for a bridge loan facility which matures one year from the date of the final drawdown under the bridge loan facility. The principal amount of the bridge loan facility is repayable in one payment on such maturity date but may also be prepaid prior to maturity at the option of Inco. Certain mandatory prepayments may also be required during the term of this facility out of net proceeds, if any, received from dispositions of certain assets, certain public or private issuances of debt and certain insurance proceeds received. The Loan Agreement also provides for a term loan facility which matures on the date that is five years plus one day next following the date of the final drawdown under the term loan facility. The principal amount of the term loan facility is repayable in one payment on such maturity date but may also be prepaid prior to maturity at the option of Inco. Certain mandatory prepayments may also be required during the term of this facility out of certain net proceeds, if any, received from the divestiture of certain assets of Falconbridge, certain public or private issuances of debt related to the divestiture of certain assets of Falconbridge, and certain insurance proceeds received. The loan facilities provided for in the Loan Agreement bear interest and are subject to fees at levels customary for credit facilities of this type and include covenants, representations, warranties, conditions and events of default consistent with the terms of Inco s existing credit facilities or otherwise customary for loan facilities of this type, including acceleration of obligations if any specified events of default occur. The first advance under the loan facilities is available until August 10, 2006. Subsequent advances are permitted within 140 days following the first advance. Inco is required to obtain the prior consent of the majority lenders under the loan facilities prior to amending, waiving, or making determinations relating to certain conditions of the acquisition of the Falconbridge common shares

under the terms of the Support Agreement.

Four members of the Falconbridge Board of Directors are to join the Inco Board of Directors upon the completion of the acquisition. The Board of Directors of Inco upon completion of the proposed transaction plans to review its dividend policy and the Board intends to continue a sustainable dividend consistent with the Company s capital and growth requirements.

Items 1A. Risk Factors

The information under Risks and Uncertainties in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report is incorporated herein by reference to such information.

Items 1B. Unresolved Staff Comments

None.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which Inco or any of its subsidiaries is a party or of which their property is the subject. Inco and its subsidiaries are subject to routine litigation incidental to the business conducted by them, to various environmental proceedings, and to other litigation related to such business that Inco does not believe to be material. Among the environmental proceedings are claims for personal injuries, enforcement actions and certain claims dating back a number of years in which one of our subsidiaries was designated, under the United States federal environmental law known as Superfund , or CERCLA , as a potentially responsible party. The Superfund claims assert that, as a potentially responsible party, Inco s subsidiary sent waste to a contaminated landfill or similar site and is jointly and severally liable for the cost of remediating such site. These claims have not proceeded to a point where a reliable assessment can be made of the costs to Inco, assuming responsibility is found to exist or liability is determined, but we believe, based upon our present information concerning these matters and its past experience, that its potential liability, if found to exist, would not be significant.

Inco has from time to time been named as a party or charged in connection with the alleged violation of, including exceeding regulatory limits relating to discharges under, certain environmental or similar laws and regulations applicable to its operations in Canada and elsewhere. Such proceedings have involved, and with respect to currently pending charges may ultimately involve, fines or similar sanctions in excess of $100,000. However, none of these currently pending or threatened proceedings are material, either singly or in the aggregate, to our results of operations, financial condition or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders in the fourth quarter of 2005.

PART II

Item 5. Markets for Inco Limited s Common Shares, Related Shareholder Matters and Inco Limited s Issuances or Purchases of Equity Securities

Common Shares

Market Information

There are two principal markets on which Inco s Common Shares are traded, the New York Stock Exchange (the NYSE) and the Toronto Stock Exchange (the TSX).

The high and low closing sale prices for Inco s Common Shares as reported on the NYSE and the TSX for each quarter during the past two years are as follows:

	New York Stock Exchange (U.S. $)							
	2005				2004			
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4th Q
High	43.25	41.43	47.35	46.93	41.34	36.43	39.20	40.25
Low	32.32	34.18	38.00	40.10	31.72	28.19	31.21	34.28

	Toronto Stock Exchange (Cdn. $)							
	2005				2004			
	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4th Q
High	52.55	51.04	54.99	54.95	53.10	47.99	49.87	50.58
Low	40.00	43.30	46.02	47.20	42.49	39.10	41.03	42.35

On March 13, 2006, the closing sale prices for the Company s Common Shares were $46.14 on the NYSE and Cdn.$53.54 on the TSX.

Issuance of Unregistered Securities

In the fourth quarter of 2005, a total of 2,557,361 Common Shares were issued on the conversion of our LYON Notes. These Common Shares were not registered under the *Securities Act of 1933* in reliance on the exemption from registration provided by Section 3(a)(9) of such Act. The Company received no separate consideration upon such conversion. The Company did not issue any other equity securities that were not registered under the *Securities Act of 1933* in 2005.

Holders of Common Shares

The total number of holders of record of the Company s Common Shares as of February 17, 2006 was 13,612.

Dividends

Subject to the preferential rights of any prior ranking shares (of which none were issued and outstanding as of the date of this report), the holders of Common Shares are entitled to such dividends as may be declared by Inco s Board of Directors out of funds legally available therefor. No dividend or other distribution on the Common Shares shall be paid, and no Common Share shall be acquired for value, unless dividends on all outstanding Preferred Shares have been paid for all past quarterly periods.

On April 19, 2005, Inco announced that its Board of Directors had reinstated a quarterly cash dividend of $0.10 per share on our Common Shares, beginning June 1, 2005, and on February 7, 2006 we announced that the Board of Directors had increased the quarterly dividend to $0.125 per share, effective for the dividend payable March 1, 2006. The payment of dividends on the Common Shares had been eliminated by the Board of Directors in 1999. The Board continues to review on a periodic basis the declaration and payment of dividends on the Common Shares and its dividend policy. This policy is expected to be evaluated by our Board of Directors upon the completion of the pending acquisition of Falconbridge. The quarter-to-quarter decision as to the amount of the quarterly dividend per Common Share is reviewed by our Board of Directors and determined with reference to a number of factors, including current business results and cash needs.

Common Share Purchase Warrants

As part of the redemption price Inco paid in connection with the redemption of the Company s Class VBN Shares discussed under Class VBN Shares below, Inco issued approximately 11 million Common Share Purchase Warrants (the Warrants). The Warrants were issued under, and are governed by, a Warrant Agreement dated as of December 1, 2000 by and among Inco, CIBC Mellon Trust Company, as the Canadian Warrant Agent, and ChaseMellon Shareholder Services, L.L.C., as the U.S. Warrant Agent (the Warrant Agreement).

Each whole Warrant entitles the holder to purchase one Common Share at an exercise price of Cdn.$30.00 (or the equivalent in U.S. dollars based upon then prevailing exchange rates at the time of exercise), subject to certain adjustments (the Exercise Price), until 5:00 pm (Toronto time) on August 21, 2006. Any Warrants not exercised prior to such date will expire. A Warrant holder does not have any voting or pre-emptive rights or any other rights as a shareholder of the Company until the Warrants held by such holder have been duly exercised and Common Shares of the Company have been issued to the holder pursuant thereto.

The Warrant Agreement provides that the Exercise Price and/or the number and kind of securities or property issuable on the exercise of the Warrants are subject to adjustment in certain events, including (1) the subdivision or consolidation of the Common Shares, (2) the issuance to all or substantially all the holders of Common Shares of a stock dividend or other distributions excluding any issuance of securities to holders of outstanding Common Shares which constitutes a Dividend Paid in the Ordinary Course (defined generally in the Warrant Agreement to include dividends or other distributions exceeding certain threshold aggregate or annual amounts based upon the value of the dividends or other distributions paid or consolidated net earnings for specified periods), and (3) the distribution to all or substantially all the holders of Common Shares of (i) shares of any other class, (ii) rights, options or warrants to acquire Common Shares, or (iii) cash, property or other assets of the Company (excluding, in each case, Dividends Paid in the Ordinary Course).

The Exercise Price and/or the number and kind of securities or property issuable on exercise will also be subject to certain adjustments in connection with certain other events, including any change, reclassification or alteration of the Common Shares, the consolidation, amalgamation, merger or other similar arrangement of the Company with another Company, or the transfer of all or substantially all of the Company s assets.

No adjustment in the Exercise Price or the number or kind of securities or property issuable upon exercise will be required to be made (1) unless the cumulative effect of such adjustment or adjustments would change the Exercise Price by at least one per cent or, in the event of a change in the number of Common Shares purchasable upon exercise, the number of Common Shares issuable would change by at least one one-hundredth of a Common Share or (2) in respect of the issue of Common Shares pursuant to (i) the exercise of the Warrants or (ii) the Company s Optional Stock Dividend Program and Share Purchase Plan and options granted current or former employees of the Company or any other option or share purchase plan.

The Warrant Agreement provides that modifications and alterations to it and to the Warrants may be made if authorized by extraordinary resolution and if all other necessary approvals are received. The term extraordinary resolution is defined in the Warrant Agreement to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66 2/3 per cent of the Warrants represented and voting at a meeting of Warrant holders or an instrument or instruments in writing signed by the holders of not less than 66 2/3 per cent of the outstanding Warrants. The Warrant Agreement and the Warrants may be modified and altered without authorization by extraordinary resolution and if all necessary approvals are received in order to cure defects or ambiguities, to make ministerial amendments otherwise provided that the rights of Warrant holders are not materially adversely affected thereby.

The Warrants are listed on the TSX and on the NYSE. Subject to applicable law, Inco may purchase Warrants in the market or by tender or private contract, and any Warrants so purchased will be cancelled.

Other Information

Under its articles of incorporation, Inco is authorized to issue an unlimited number of Common Shares.

For a description of Inco s outstanding debentures and notes which are convertible into Common Shares, see Notes 9 and 13 to the financial statements under Item 8 of this Report.

The Common Shares have general voting rights. At shareholders meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. See Note 16 to the financial

statements under Item 8 of this Report.

Class VBN Shares

At a special meeting of shareholders held on November 28, 2000, Inco received the requisite shareholder approval to amend the terms of the Class VBN Shares that had been created in August 1996 in connection with the Company s acquisition of Diamond Fields to provide for their redemption. The amendments allowed the Company to redeem each of its Class VBN Shares for Cdn.$7.50 (or the equivalent in U.S. dollars) in cash and a fraction, 0.45, of a Warrant. For a description of the Warrants, see Common Share Purchase Warrants above. All of the Class VBN Shares were redeemed by the Company, effective December 14, 2000, for a total redemption price of $133 million plus approximately 11.6 million Warrants which were reserved for issuance. As of December 31, 2005, 2004 and 2003, approximately 11 million Warrants had been issued in connection with this redemption. Approximately 550,000 Warrants still have not been issued given the limited number of holders of Class VBN Shares who did not accept the redemption consideration and elected under applicable legislation prior to the effective date of the redemption to have a court in the Province of Ontario determine the fair value of their Class VBN Shares. As of the date of this Report, this court proceeding was still in discovery and related preliminary stages and a related action had been filed in November 2005 in the U.S. in the federal district court for the State of New Jersey.

Preferred Shares

Certain Provisions of the Preferred Shares as a Class

Issuable in Series

Inco s authorized share capital includes 45 million Preferred Shares issuable in series, each series consisting of such number of shares and having such provisions attached thereto as may be determined by the Board of Directors of the Company, subject to a maximum aggregate issue price of Cdn.$1,500 million (or the equivalent in other currencies). As of the date of this Report, no Preferred Shares were issued or outstanding.

Priority

The Preferred Shares of each series rank on a parity with the Preferred Shares of every other series, and prior to the Common Shares with respect to the payment of cumulative dividends and the distribution of assets on a liquidation, dissolution or winding up of the Company or for the purpose of winding up its affairs (Liquidation).

Creation and Issue of Additional Preferred Shares

Subject to applicable law, Inco may, without the consent of the holders of the Preferred Shares as a class, (i) create additional Preferred Shares, (ii) create preferred shares of another class or classes ranking on a parity with the Preferred Shares with respect to the payment of dividends and/or the distribution of assets on Liquidation and (iii) increase any maximum number of authorized shares of any one or more of such other classes of shares. If (but only so long as) any dividends are in arrears on any outstanding series of the Preferred Shares, the Company may not, without the consent, by a simple majority of the votes cast, of the holders of the Preferred Shares as a class, (i) issue any additional series of the Preferred Shares, or (ii) issue preferred shares of another class ranking on a parity with the Preferred Shares with respect to the payment of dividends and/or the distribution of assets on Liquidation.

Class Voting Rights

The holders of the Preferred Shares are not entitled to any voting rights as a class except (i) as provided above, (ii) as provided by law, or (iii) with respect to the right to vote on certain matters as described under Modification below. When the holders of Preferred Shares vote as a class, or when two or more series of Preferred Shares vote together at a joint meeting, each holder has one one-hundredth of a vote in respect of each Canadian dollar (or its equivalent in a foreign currency at the date of issuance) of the issue price of the Preferred Shares he or she holds.

The Board of Directors of Inco may, at the time of creation of any series of Preferred Shares, confer voting rights on such series in addition to the voting rights of the holders of the Preferred Shares as a class. It is the Board of Director s intention that, with respect to the creation of any future series of Preferred Shares, to the extent that such Preferred Shares would have general voting rights then such shares would not have more than one vote in respect of each Preferred Share.

Modification

The class provisions attaching to the Preferred Shares may be amended at any time with such approval of the holders of such shares as may then be required by law or by the rules of any stock exchange on which the shares or any series of Preferred Shares are then listed. Currently, this approval requirement is by at least two-thirds of the votes cast at a meeting of such holders duly called for the purpose and at which a quorum is present, or as are required by the rules of any stock exchange upon which the shares of any series of Preferred Shares are then listed. In addition, the approval by at least two-thirds of the votes cast at a meeting of the holders of all shares of the Company carrying general voting rights is currently required by law for the amendment of such class provisions.

Securities Authorized for Issuance Under Equity Compensation Plans

The number of shares of Inco that may be issued upon the exercise of outstanding options, warrants and rights under our equity compensation plans at December 31, 2005, the weighted average exercise price of such options, warrants and rights, and the number of shares remaining available for future issuance under such plans are shown in the following table:

Plan category	(A) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(B) Weighted average exercise price of outstanding options, warrants and rights	(C) Number of remaining securities available for future issuance under equity compensation plans (excluding securities reflected in column (A))[2]
Equity compensation plans approved by security holders	3,116,261	$ 30.98	7,773,950
Equity compensation plans not approved by security holders			
Total	3,116,261	$ 30.98	7,773,950

(1) Consists of Common Shares authorized for issuance upon the exercise of options outstanding as of December 31, 2005 under (i) the 1993 and 1997 Key Employee Incentive Plans

which have been superseded and under which no further options may be granted, (ii) the 2001 Key Employees Incentive Plan (the 2001 KEIP), (iii) the 2005 Key Employees Incentive Plan (the 2005 KEIP), and (iv) the 2002 Non-Employee Director Share Option Plan (the 2002 NEDSOP) which was suspended by Inco s Board of Directors as of February 3, 2004.

(2) Consists of Common Shares authorized for issuance as of December 31, 2005 pursuant to the exercise of options which may be granted under the 2001 KEIP (1,773,950) and the 2005 KEIP (5,500,000) or as restricted share awards under the 2005 KEIP (500,000). Does not include 200,000 Common Shares available for future issuance

under the 2002 NEDSOP, given the Board s decision to suspend option grants under that plan. The 2001 KEIP is nearing the end of its term. No share options/SARS may be granted under the 2001 KEIP after April 24, 2006 and no incentive compensation awards may be made under the 2001 KEIP in respect of any financial year after December 31, 2006.

Other Information

There is no limitation or restriction imposed by Canadian law or by our restated articles of incorporation on the right of a non-resident of Canada to hold or vote Inco s common shares, except in the case where a non-resident of Canada were to seek to acquire control of Inco. The *Investment Canada Act* requires notification to and, in certain cases, advance review and approval by, the Government of Canada of the acquisition by a non-Canadian of control of a Canadian business , all as defined in this legislation. Generally speaking, in order for an acquisition to be subject to advance review and approval under this legislation the value of the acquired entity s gross assets currently must exceed Cdn.$265 million. This threshold is lower if the acquiror is not a resident of a country which is a member of the World Trade Organization. See also the discussion of the Shareholder Rights Plan under Shareholder Rights Plan above and in Note 16 to the financial statements under Item 8 of this Report.

Canadian federal tax legislation, in conjunction with applicable tax treaties, generally requires that we withhold 15 per cent from dividends paid by the Company to its shareholders resident in the United States, the United Kingdom and most western European countries. Similarly, depending upon applicable tax treaties, dividends paid to other non-residents of Canada are subject to a withholding tax at a maximum rate of 25 per cent. The amount of a stock dividend (for tax purposes) would generally be equal to the amount by which the stated capital of the Company has increased by reason of the payment of such dividend. Under regulations presently in effect in the United States, the Company is generally subject to the U.S. backup withholding rules which would require withholding at a rate of 28 per cent on dividends and interest paid to certain U.S. persons who have not provided the Company with a taxpayer identification number. Recent legislation enacted in the U.S. has reduced the tax rate to 15 per cent on certain dividends paid to U.S. individual shareholders of non-U.S. corporations such as the Company that meet certain requirements.

Through subsidiaries and affiliates, Inco s operations are conducted in numerous countries and some $3,600 million of our consolidated total assets are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in many overseas locations.

At December 31, 2005, approximately 61 per cent of the holders of our Common Shares had addresses in Canada, approximately 31 per cent had addresses in the United States and eight per cent elsewhere. Canadian residents of record held approximately 50.4 per cent of our issued and outstanding Common Shares, United States residents of record held approximately 49.3 per cent and residents of record of other countries held less than one per cent as at December 31, 2005.

Item 6. Selected Financial Data

The following table provides selected financial data as reported in Inco s 2005 consolidated financial statements on the basis of GAAP in Canada:

	Year Ended December 31,				
	2005	**2004 (Restated)**	**2003 (Restated)**	**2002 (Restated)**	**2001 (Restated)**
	($ in millions, except per share amounts)				
Net sales	$ 4,518	4,278	2,474	2,161	2,066
Cost of sales and operating expenses, excluding depreciation and depletion	$ 2,633	2,348	1,735	1,378	1,416
Depreciation and depletion [2]	$ 256	248	227	242	263
Selling, general and administrative	$ 207	192	169	136	111
Asset impairment charges	$ 25	201		2,415	
Interest expense[3]	$ 26	36	56	58	62
Income and mining taxes [2][3]	$ 408	432	(27)	(641)	(88)
Net earnings (loss) [2][3]	$ 836	619	146	(1,475)	302
Dividends per common share	$ 0.30				
Preferred dividends			(6)	(26)	(26)
Premium on redemption of preferred shares			(15)		
Net earnings (loss) applicable to common shares [2][3]	$ 836	619	125	(1,501)	276
Net earnings (loss) per common share basic [1][2][3]	$ 4.41	3.30	0.68	(8.21)	1.52
Common shares outstanding (weighted average, in millions)	189	188	185	183	182
Total assets [2][3]	$12,010	10,716	9,058	8,596	9,630
Long-term debt[3]	$ 1,852	1,761	1,603	1,636	842
Convertible debt[3]	$ 362	418	418	148	148
Preferred shares				472	472

(1) Net earnings (loss) per common share is calculated by dividing net earnings (loss) applicable to Common Shares by the weighted-average number of Common Shares issued and outstanding for the relevant period.

(2) Amounts reported in 2001 have not been restated for the change in depreciation and depletion as discussed in Note 2(d) to the financial statements under Item 8 of this Report.

(3) Prior year amounts have been restated for a change in accounting principles and a restatement. Reference is made to Notes 2(a), 2(b) and 2 Restatements to the financial statements under Item 8 of this Report.

There are a number of differences between Canadian and United States GAAP. The differences, insofar as they affect Inco s consolidated financial statements, relate to accounting for post-retirement benefits, currency translation gains (losses), research and development, exploration, asset impairment, our convertible debt, derivative instruments, investments, income and mining taxes and reporting of comprehensive income. A full discussion of these differences is presented in the Notes to the financial statements under Item 8 of this Report and, in particular, Note 24 to such financial statements.

The following table reconciles results as reported under Canadian GAAP with those that would have been reported under United States GAAP:

	Year Ended December 31,				
	2005	2004	2003	2002	2001
		(Restated)[1]	(Restated)[1]	(Restated)[1]	(Restated)[1]
	($ in millions, except per share amounts)				
Net earnings (loss) Canadian GAAP	$ 836	$ 619	$ 146	$ (1,475)	$ 302
Increased post-retirement benefits expense	(64)	(53)	(45)	(24)	(24)
Currency translation gains (losses)	(62)	(89)	(219)	(49)	123
Increased intangible assets amortization expense			(2)	(2)	
Increased research and development expense	(47)	(17)	(5)	(6)	(8)
Decreased (increased) exploration expense	(8)	1	(4)	(3)	(7)
Decreased (increased) asset impairment charges		11		(961)	
Increased interest expense	(23)	(14)	(13)	(1)	(5)
Cash settlement of LYON Notes tendered for conversion	(26)				
Unrealized net gain (loss) on derivative instruments	(17)	5	(1)	5	(4)
Increased income and mining tax expense			(15)		
Decreased (increased) minority interest	9	(8)	1	2	2
Change in accounting policy				1	1
Taxes on United States GAAP differences	30	22	28	139	15
Net earnings (loss) before cumulative effect of a change in accounting principle United States GAAP	628	477	(129)	(2,374)	395
Cumulative effect of a change in accounting principle			(17)	(2)	
Net earnings (loss) United States GAAP	$ 628	$ 477	$ (146)	$ (2,376)	$ 395
Net earnings (loss) per share Basic					
Net earnings (loss) per share before cumulative effect of a change in accounting principle	$ 3.32	$ 2.54	$ (0.82)	$ (13.13)	$ 2.03
Cumulative effect of a change in accounting principle			(0.09)	(0.01)	
Net earnings (loss) per share Basic	$ 3.32	$ 2.54	$ (0.91)	$ (13.14)	$ 2.03

Net earnings (loss) per share	Diluted									
Net earnings (loss) per share before cumulative effect of a change in accounting principle		$	2.87	$	2.30	$	(0.82)	$	(13.13)	$ 1.99
Cumulative effect of a change in accounting principle							(0.09)		(0.01)	
Net earnings (loss) per share	Diluted	$	2.87	$	2.30	$	(0.91)	$	(13.14)	$ 1.99

(1) Reference is made to Notes 2 and 24 to the financial statements under Item 8 of this Report.

The selected financial data item Preferred shares would be reported in the same amounts under Canadian and United States GAAP. Under United States GAAP, Total assets would be reported as $10,249 million at December 31, 2005 (2004 $9,352 million; 2003 $7,959 million; 2002 $7,727 million; 2001 $9,755 million).

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our 2005 consolidated financial statements and notes, which are expressed in U.S. dollars and prepared in accordance with generally accepted accounting principles (GAAP) in Canada, which generally conform with those principles established in the United States except as explained in note 24 to our 2005 consolidated financial statements. This MD&A contains certain forward-looking statements based on our current expectations or developments, anticipated benefits and other possible occurrences. These forward-looking statements entail various risks and uncertainties, as discussed below, which could cause actual results to differ materially from those reflected in these forward-looking statements. Reference is also made to Cautionary Statement Regarding Forward-Looking Statements and Forward-Looking Information and Material Assumptions above. Since we have not completed our pending acquisition of all of the common shares of Falconbridge, this MD&A only includes information on the Company alone and without taking into account the benefits of such acquisition unless otherwise expressly indicated in this MD&A with respect to certain forward-looking statements relating to what we have referred to as the new Inco to be created by the combination of Inco and Falconbridge. The information in this MD&A is as of December 31, 2005 unless otherwise indicated.

Nature of our Business

As discussed above, we are a leading producer of nickel, a hard, malleable metal which, given its properties and wide range of applications, can be found in thousands of products. The largest end use for nickel is in the production of austenitic or nickel-bearing stainless steels. This end use currently accounts for about two-thirds of demand for primary nickel. We define primary nickel to be nickel produced from nickel-containing ores. The other principal source of nickel, as discussed below, for nickel-bearing stainless steels and certain other industrial applications is secondary nickel or nickel-containing recycled or scrap material. We are also an important producer of copper, precious metals and cobalt and a major producer of value-added specialty nickel products. Our principal mines and processing operations are located in the Sudbury area of Ontario, the Thompson area of Manitoba, Voisey s Bay in Newfoundland and Labrador, and, through a subsidiary in which we have an equity interest of approximately 61 per cent, PT Inco, on the island of Sulawesi, Indonesia. We also operate wholly-owned metals refineries at Port Colborne, Ontario and in the United Kingdom at Clydach, Wales and Acton, England. We also have interests in nickel refining capacity in Japan, through ITL, in which we have an equity interest of 67 per cent; in Taiwan, through Taiwan Nickel, in which we have an equity interest of 49.9 per cent; and in South Korea, through Korea Nickel, in which we have an equity interest of 25 per cent. Additionally, we have a 65 per cent equity interest in Jinco, a company that produces nickel salts in Kunshan City, China. We also have joint venture operations in China, through Dalian, in which we have a total direct and indirect equity interest of 81.6 per cent, and Shenyang, in which we have a total direct and indirect equity interest of 82 per cent. In March 2005, Shenyang acquired substantially all of the assets which represented the nickel foam business of Shenyang Golden Champower New Materials Corp., a leading Chinese producer of nickel foam. These two ventures in China produce nickel foam products for the Asian battery market. We also have a shearing and packaging operation in China for certain nickel products to meet the specific needs of this geographic market.

Our business operations consist of two segments, our (i) finished products segment, representing our mining and processing operations in Ontario, Manitoba and Newfoundland and Labrador, our refining operations in the United Kingdom and interests in the refining operations in Japan and other Asian countries referred to above, and (ii) intermediates segment, which represents PT Inco s mining and processing operations in Indonesia, where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market. In the fourth quarter of 2005, production of nickel and copper concentrates at the initial phase, representing an open-pit mine and concentrator and related facilities, of our Voisey s Bay project, operated by our wholly-owned subsidiary, Voisey s Bay Nickel Company Limited, started and, accordingly, the assets relating to the initial phase of the Voisey s Bay project were reclassified from the development projects segment to the finished products segment. Voisey s Bay produces nickel concentrates for processing by our Ontario and Manitoba operations, as well as copper concentrates for sale to third parties. As part of our strategy to be the world s lowest cost and most profitable nickel producer, we are currently

developing our Goro project in New Caledonia in which we currently hold an approximate 71 per cent equity interest.

In recent years, sales of our primary metal products were concentrated in the United States, Europe, Japan, elsewhere in Asia, and Canada, with about 60 per cent of our 2005 revenues from the sale of a range of nickel products in Asia.

On October 11, 2005, we announced our friendly offer to purchase all of the outstanding common shares of Falconbridge. Our offer is Cdn. $34.00 in cash or 0.6713 of an Inco common share plus Cdn. $0.05 in cash for each Falconbridge common share.

Falconbridge s common shareholders will have the right to elect to receive all cash or all Inco common shares (plus Cdn. $0.05 per Falconbridge common share), subject to pro ration based upon the maximum amount of cash and Inco common shares offered. Under the terms of our offer, the maximum amount of cash to be paid by us will be approximately Cdn. $2.87 billion, and the maximum number of Inco common shares to be issued by us will be approximately 201 million, taking into account the conversion of Falconbridge s outstanding convertible debt securities and outstanding share options. Assuming full pro ration of these maximum amounts, this would mean Cdn. $7.50 in cash and 0.524 of an Inco common share for each Falconbridge common share subject to the offer. Our offer is conditional on at least 66 2/3 per cent of Falconbridge common shares being tendered to our offer, receipt of all necessary regulatory clearances and certain other conditions. Pursuant to our notice of extension dated February 27, 2006, the offer is open for acceptance by Falconbridge common shareholders until June 30, 2006, subject to further extension, acceleration or withdrawal. We currently expect to take up and pay for the Falconbridge common shares tendered pursuant to the offer late in the second quarter or sometime in the third quarter of 2006. Assuming that the pending transaction is completed as currently contemplated, we believe that it would create the world leader in primary nickel production and sales and a leading copper producer, with growth prospects in both metals, given the combined company s expected strong operations and portfolio of growth projects. The combined company that would be created by this pending transaction, which we have referred to as the new Inco, would be expected to generate substantial positive cash flow from operations, assuming that the prices to be realized for the metals and related products produced by the combined company remain at or near the levels realized in 2005, and have the ability to pursue its growth strategy on a scale that neither company could have contemplated individually. The new Inco would be a geographically diverse company, having a presence in North and South America, Asia, the South Pacific and Europe. Combining the two companies operations is expected to create significant operating and other synergies that are uniquely available given the proximity of our respective operations in Ontario and elsewhere. These synergies would come from efficiencies in overlapping operations in Ontario, better use of mining and processing facilities in Canada, improving procurement practices and other opportunities for increased efficiencies and cost savings.

Key Factors Affecting our Business

The price of nickel has represented, and is currently expected to continue to represent, the principal determinant of our profitability and cash flow from operations. Accordingly, our financial performance has been, and is expected to continue to be, closely linked to the price of nickel and, to a lesser extent, the price of copper and other primary metals produced by us. Historically, the demand for nickel has been closely correlated to industrial production in the major industrialized geographic regions as well as in those regions which are emerging as significant and industrialized areas, in particular North America, Europe and Asia, and we expect this positive correlation to continue. During 2005 we experienced, and currently expect to continue to experience at least in 2006, favourable demand and realized prices for the nickel products we produce based upon the relationship that has recently existed, and is currently expected to continue to exist at least for 2006, between global nickel supply and demand. While global nickel demand remained relatively strong in 2005 and is expected to remain relatively strong at least in 2006, global nickel supply has not increased significantly, creating an overall global nickel market that was essentially in balance for 2005 but one that we expect will reflect that overall supply may not keep pace with overall demand at least in 2006. While we currently believe that this favourable relationship between global nickel supply and demand will continue beyond 2006, we are not in a position to predict that those conditions will continue given the wide range of factors that could affect such conditions. In 2005, our average realized price for the nickel products we sold was $14,842 per tonne ($6.73 per pound), compared with $13,906 per tonne ($6.31 per pound) for 2004. The LME cash price for nickel, the price that is generally viewed as the benchmark price for nickel, averaged $14,733 per tonne ($6.68 per pound) in 2005, compared with $13,852 per tonne ($6.28 per pound) in 2004. Given the historically high nickel prices that prevailed for at least the first half of 2005, the nickel industry, as also happened in 2004, saw in 2005 some substitution of non-nickel products in place of primary nickel as well as a significant amount of substitution of non-nickel containing stainless steels in place of stainless steels having some or higher grades of nickel.

Since we sell our nickel products in all major geographic markets, the realized prices for our primary nickel and other metal products are influenced by both global and regional supply-demand factors and by the availability and prices of secondary or metal-containing scrap material, including nickel-containing scrap generated by the stainless

steel industry and other substitute or competing commodity products for the primary nickel and other metal products we produce. We believe that the industrial-based strength of the Chinese, United States and Japanese economies, coupled with continued slow economic recovery in some European countries, as well as the influence of Metals Trading Funds, were important factors in the increase in nickel price levels on average for 2005 and the volatility experienced in nickel prices during 2005. We currently expect these factors will continue to affect nickel demand and nickel prices at least for 2006.

While the price and global demand for nickel are the most important determinants of our profitability and cash flow from operations, our financial results are also affected by increases in the costs we incur to produce nickel and our other metals. In 2003,

2004 and 2005, we experienced increases in our costs due to a number of factors, including rising energy and pension and other post-retirement benefits expenses, the continued strengthening of the Canadian dollar relative to the U.S. dollar and the effect this has had on our operating costs incurred in Canadian dollars and higher costs for purchased nickel intermediates for our Canadian operations in advance of the availability of nickel concentrates on a significant ongoing basis from our Voisey s Bay operations. While we have continued to implement programs designed to manage our costs, our ability to continue to do so successfully will influence our profitability and cash flow from operations.

The initial phase or phase one of our Voisey s Bay project, which includes an open pit mine, concentrator and related facilities and certain research and development and other programs, began, as noted above, commercial production in the fourth quarter of 2005. The first shipment of nickel concentrate from Voisey s Bay took place on November 16, 2005, well ahead of the original schedule for this project. Our Ontario operations received feed from our Voisey s Bay operations in December 2005 and began processing this material. During 2005 we completed the rationalization of our cobalt production facilities at our Manitoba operations as well as the installation of the facilities required to receive Voisey s Bay nickel concentrates. Our Manitoba operations received an initial shipment of nickel concentrates from Voisey s Bay in late December 2005. In 2005, we spent $353 million, including capitalized interest, on our Voisey s Bay project and we currently expect to spend approximately $55 million on this project in 2006.

In 2005, we moved forward with the construction of our Goro development project as well as other capital investment initiatives. We spent $344 million, including capitalized interest, on our Goro project in 2005 and we currently plan to spend $1,140 million on this project in 2006 and estimate that we will have to fund approximately $670 million of this total after taking into account funding received or to be received from government assistance programs and partner contributions. In 2004, we announced plans to construct a third dam at a cost of approximately $150 million, the first stage of a four-year capital program currently estimated to total about $280 million, aimed at raising PT Inco s annual production by 33 per cent from its current nameplate capacity of about 150 million pounds to about 200 million pounds of nickel-in-matte by 2009. PT Inco spent $58 million on this program in 2005 and is expected to spend an additional $60 million in 2006. Our development projects continue to be very important to our future given that (1) the Voisey s Bay project currently represents a key source of intermediate nickel products for our Manitoba and Ontario operations, in particular our Manitoba operations given the decline in mine production which has been experienced over the past few years at this operation, and (2) these projects will be needed if we are to remain a leading nickel producer in an expected growing nickel market.

We currently plan to rely in part on, and accordingly, need to generate, very substantial cash flows from operations to meet sustaining capital expenditure requirements for our existing operations and the planned capital expenditures for our development projects. Our planned capital expenditures in respect of our current operations and development projects are expected to total approximately $1,820 million in 2006. Taking into account capital contributions expected to be made in 2006 by other shareholders in our Goro project, certain previously announced government assistance relating to our growth projects and other financing arrangements that are already in place for these projects, we currently project that of this $1,820 million total estimate, we have funded or will be required to fund about $1,340 million.

The following table shows our average realized price for nickel, the average LME cash nickel price and our cash flow from operations (which we refer to as our net cash provided by (or used for) operating activities) for each of the past ten years to show the relative correlation between nickel prices and our financial results:

Year	Inco Average Realized Price for Nickel[1] ($ per tonne)	Average LME Cash Nickel Price ($ per tonne)	Cash Flow from Operations ($ in millions)
1996	7,959	7,500	378
1997	7,407	6,916	243[2]
1998	5,291	4,617	174

1999	6,415	6,027	128 2
2000	9,007	8,641	842
2001	6,468	5,948	360
2002	7,143	6,772	599
2003	9,860	9,640	131 2
2004	13,906	13,852	1,393
2005	14,842	14,733	739

(1) Includes intermediates.

(2) Cash flow from operations for 1997 reflects a one-month strike at the Ontario operations. Cash flow from operations for 1999 and 2003 reflect three-months strikes at our Manitoba and Ontario operations, respectively.

The nickel industry is very competitive in all of its key parts, including the exploration for, and the development of, new sources of supply, the acquisition of mineral deposits, and the processing, distribution and marketing of nickel products. The level of production and export of primary nickel from Russia as well as the supply of secondary or nickel-containing scrap material, together with the continuing relatively limited level of domestic consumption of nickel in Russia, has had, and could continue to have, a significant affect on the nickel industry s supply-demand balance. While we produce primary nickel, the other principal source or type of nickel used in stainless steel and certain other industrial applications, as noted above, is secondary nickel, which is also referred to as recycled or scrap nickel. Secondary nickel is recovered largely from austenitic stainless steel manufacturing and fabricating operations and nickel-containing scrap from obsolete facilities and equipment. In the recent past, secondary nickel has represented (1) between 44 and 49 per cent of the total nickel used in the production of nickel-bearing or austenitic stainless steels, with primary nickel accounting for between 51 and 56 per cent of such nickel use and (2) between 34 and 36 per cent of total nickel used in all applications. These percentages can vary based upon relative prices, the availability of scrap, technical ability of users to switch between primary and secondary nickel sources, and other factors. To the extent that the supply of such secondary nickel increases, such an occurrence could also adversely affect nickel prices and our results of operations, financial condition and cash flows.

2005 Nickel Market Highlights

The year 2005 was a year of two very distinct periods. The first half of the year reflected relatively strong demand for nickel, relatively tight supplies of nickel, nickel buying activity from Metals Trading Funds, falling LME nickel inventories and relatively strong nickel prices. However, by the start of the third quarter a significant negative shift began in the supply-demand fundamentals of the nickel market, as demand weakened, Metals Trading Funds sold the nickel positions they had acquired, LME inventories increased and prices fell. The significant deterioration in market conditions was, we believe, the result of a large reduction in global stainless steel production in the second half of the year, as discussed below. For 2005 as a whole, nickel demand grew by less than one per cent from 2004 levels. The non-stainless steel uses for nickel, in particular for high nickel alloys, plating and battery materials, were the only end uses for primary nickel to experience demand growth in 2005. Primary nickel demand in stainless steel applications experienced a sharp contraction in 2005, with global stainless steel production falling by one per cent in 2005 from 2004 levels, and primary nickel demand for this application declining by about six per cent. Demand was also negatively affected in this key application by substitution for nickel in certain stainless steel applications and a higher relative usage of secondary, or scrap, nickel.

The relatively low inventories of nickel, high prices and the active trading of Metals Trading Funds, factors which were also prevalent and, accordingly, affected the nickel markets in 2004, contributed to the continued volatile price conditions in 2005. The difference between the high and low daily LME cash nickel prices for 2005 was $6,250 per tonne ($2.83 per pound). We estimate that the global nickel market had a slight surplus for 2005 as the level of demand was more than covered by the level of supply. However, we believe that the level of demand was restrained by the relatively high nickel prices in at least the first half of 2005, and that demand would have been significantly stronger had prices been closer to historic averages.

The modest growth in primary nickel demand in 2005 was, as noted above, due to the strength in non-stainless steel uses for nickel, as demand from the stainless steel sector, the largest end use of primary nickel, was adversely affected by several factors as discussed below. Nickel demand growth for non-stainless steel uses increased by eight per cent in 2005, as demand for nickel for the production of high nickel alloys improved as a result of the continued strength in demand for high nickel alloys used in the aerospace industry and for land-based gas turbines, as well as growth in the oil and gas, liquid natural gas and battery applications for nickel. Nickel demand from battery applications improved in 2005, in part due to the increased production of hybrid electric vehicles that contain nickel in their battery systems.

World production of stainless steel increased by approximately seven per cent during the first half of 2005, consistent with the relatively strong growth rates seen in this production for 2003 and 2004. This growth was due, in part, to increased capacity utilization at several large-scale stainless steel manufacturing facilities, as well as new production capacity coming on stream, especially in China. The strong stainless steel production growth in the first half of 2005, combined with strength in the non-stainless steel market, led to nickel demand growth of approximately

six per cent in the first half of the year. However, end-use consumption of stainless steel did not keep pace with stainless steel production and global inventories increased during the first half of the year. The increase in global stainless steel inventories was a sign of an oversupplied market that, in turn, triggered sharply falling stainless steel prices beginning in July 2005. At the beginning of the third quarter of 2005, almost all major stainless steel producers had begun to reduce production levels in an effort to reduce the relatively high global inventory levels of stainless steel and, through such supply reductions, correct this oversupply situation. Most of these production cuts were maintained through the end of 2005. We estimate that stainless steel production curtailments in the second half of the year led to an overall production decline in the second half of 2005

of nine per cent as compared with the second half of 2004. This sharp reduction in stainless steel production, in turn, led to a significant reduction in demand for primary nickel used in stainless steel. The global stainless steel market used relatively high amounts of secondary or scrap nickel in 2005 as compared with prior years, as well as increasing the production of stainless steels containing relatively low amounts or grades of nickel (one to four per cent) and grades containing no nickel compared with stainless steels with higher nickel grades (eight to ten per cent nickel).

The growth in the world supply of primary nickel in 2005 was adversely affected by several unexpected disruptions. While domestic production by certain producers did increase in certain countries, including China, New Caledonia and Norway, these increases were largely offset by reductions in output or lower than planned increases by producers in other countries. Overall production of primary nickel increased by approximately 2.4 per cent in 2005, about half of the long-term average production growth rate of four per cent. Several producers experienced production problems as labour disruptions or shortages, feed material shortages, inclement weather, technological challenges and extended maintenance shutdowns curtailed output below originally announced planned levels for 2005. Approximately two thirds of global nickel production growth was the result of a ramp-up in Chinese nickel production, in an effort to reduce that country s nickel import requirements. World primary nickel supply increased by 30,000 tonnes to 1,285,000 tonnes in 2005. We believe that no stockpiles of nickel were released into the market in 2005 or 2004, in contrast to what occurred in 2003.

The slower than average growth in nickel demand for 2005, coupled with a relatively modest amount of growth in nickel supply for the year, created a surplus that we estimate to have been approximately 15,000 tonnes. However, as discussed above, we believe that the supply-demand relationship was in a deficit in the first half of the year and moved to a surplus in the second half of the year. Inventories of nickel on the LME, a physical market (i) where various metals, including nickel, can be bought or sold for prompt or future delivery and (ii) representing the principal terminal market for primary nickel in the world, decreased during the first half of 2005 to a low of 4,926 tonnes. However, the decline in demand in the second half of the year led to a steady increase in LME inventories during this period to a level of 36,042 tonnes at December 31, 2005. LME nickel inventories have decreased in the first 10 weeks of 2006, with such inventories totalling 34,266 tonnes as of March 13, 2006.

The two distinct periods of nickel demand and supply dynamics for 2005 as noted above were reflected in the LME cash nickel price movements. The LME cash nickel price opened the year at $14,035 per tonne ($6.37 per pound) and moved on a steady upward path during the first quarter, as strong demand for nickel in China and a sharp reduction in LME inventories during the first quarter to below 8,000 tonnes led to what we believed were tight market conditions. Nickel prices experienced an overall increase during the first quarter of 2005, with the LME cash price increasing to $16,250 per tonne ($7.37 per pound) at the end of the quarter. The LME cash price was $16,140 per tonne ($7.32 per pound) at the beginning of the second quarter, and LME inventories declined by 3,372 tonnes during that quarter. Continued strong demand in China and elsewhere as well as limited new nickel supply led to continued price strength through the middle of May. The LME cash nickel price reached the year high on May 12, 2005 of $17,750 per tonne ($8.05 per pound). From that point, we believe that market sentiment weakened as the scale of large stainless steel inventories became apparent and stainless steel production cuts began. LME stocks began to increase and we believe Metals Trading Funds started to liquidate the positions in nickel they had accumulated in the second quarter of 2005. The LME cash nickel price decreased during the balance of the second quarter and ended the second quarter of 2005 at $14,700 per tonne ($6.67 per pound). In the third quarter, the stainless steel production cuts began to have a negative effect on demand for primary nickel, resulting in a surplus of nickel. Some of this nickel was delivered to the LME as evidenced by a 11,310 tonne increase in LME stocks during this period. LME cash nickel prices increased modestly through the middle of September, as we believe Metals Trading Funds built speculative positions in advance of the expiration of our Manitoba operations collective agreement in anticipation of a possible labour disruption together with the expectation that the stainless steel industry was at or close to the end of its production curtailments. Having reached a new collective agreement covering the unionized hourly rated workforce at our Manitoba operations without a labour disruption in mid-September 2005, coupled with announcements of continued stainless steel production cuts and steadily increasing LME stocks to a quarter-end level of 13,488 tonnes, the nickel price fell for the remainder of September and ended the quarter at $13,600 per tonne ($6.17 per pound). Nickel prices continued to decline during the early part of the fourth quarter of 2005, reaching a low for the year of $11,500 per tonne ($5.22 per

pound) on November 1, 2005. However, the nickel price increased through the remainder of the quarter due to, we believe, the expectation of improved stainless steel market conditions and increased nickel demand in the first quarter of 2006 and averaged $13,429 per tonne ($6.09 per pound) for December 2005. LME stocks increased steadily throughout the fourth quarter and ended the year at 36,042 tonnes. The LME cash nickel price ended the year at $13,380 per tonne ($6.07 per pound) compared with $15,205 per tonne ($6.90 per pound) at the end of 2004. The LME cash nickel price averaged $14,733 per tonne ($6.68 per pound) for 2005, higher than the 2004 average of $13,852 per tonne ($6.28 per pound) and the highest average annual benchmark nickel price ever based upon available data. The LME cash nickel price during the January 3 March 13, 2006 period averaged $14,775 per tonne ($6.70 per pound) and was $14,780 per tonne ($6.70 per pound) on March 13, 2006. This increase in prices early in

2006 has been, we believe, related to the expectation of improved demand for nickel from the stainless steel sector, as well as increased purchases of nickel by Metals Trading Funds.

The following table summarizes certain world primary nickel market and LME statistics for the years indicated (either in tonnes or in dollars per tonne in the case of LME cash nickel prices):

Year	World Primary Nickel Demand	World Primary Nickel Supply	Year-End Combined Western World[2] Producers and LME Inventories	Year-End LME Inventories	Average Annual LME Cash Nickel Prices
2001	1,085,000	1,148,000	106,000	19,188	$ 5,948
2002	1,168,000	1,176,000	100,000	21,972	6,772
2003	1,244,000	1,264,000	104,000	24,072	9,640
2004	1,262,000	1,255,000	111,000	20,898	13,852
2005	1,270,000[1]	1,285,000[1]	127,000[1]	36,042	14,733

(1) Preliminary estimates.

(2) Excludes Russia, other members of the former Commonwealth of Independent States, China, Cuba and Eastern Europe.

2004 Nickel Market Highlights

The year 2004 was one characterized by high nickel prices, which we believe were due principally to broad-based growth in global demand for nickel. The increase in demand was attributed to a recovery in non-stainless steel applications for nickel. Primary nickel demand in stainless steel applications experienced virtually no growth in 2004, despite strong global stainless steel production growth, due to a large increase in nickel-containing scrap consumption and substitution for nickel in certain stainless steel applications. The increase in nickel demand was driven by the strongest global industrial production growth in 10 years, led by continued economic growth in China, as well as economic growth in South Korea, Taiwan and Japan. The economies of the United States and Europe also exhibited growth above the levels seen in the recent 2000 2003 period. The global nickel market was in deficit for 2004 as the level of demand exceeded the level of supply. We believe that relatively low physical inventories, high prices and the active trading in nickel by Metals Trading Funds contributed to volatile price conditions in 2004.

The growth in primary nickel demand in 2004 was concentrated in the non-stainless steel sector, which increased by seven per cent, as demand for nickel for the production of high nickel alloys improved as the recovery of the aerospace industry continued. World production of stainless steel increased by eight per cent to approximately 24.6 million tonnes. Stainless steel production expanded in all major industrialized geographic regions and was particularly strong in South Korea where new production facilities operated at capacity during the year. However, primary nickel demand growth in the stainless steel sector was adversely affected by a large increase in stainless steel

scrap consumption, as well as an increase in the production of stainless steels containing relatively low amounts or grades of nickel (one to four per cent of nickel) and grades containing no nickel compared with higher nickel containing stainless steel grades (eight to ten per cent).

World supply of primary nickel in 2004 was lower than world nickel supply in 2003, although production of primary nickel increased by four per cent in 2004, due to the relatively large stockpile releases in 2003. World primary nickel production in 2004 totalled 1,255,000 tonnes, an increase of 51,000 tonnes, of which approximately 50 per cent was the result of our recovery from our strike-impacted levels experienced in 2003. However, world primary nickel supply of 1,255,000 tonnes decreased from 1,264,000 tonnes in 2003, taking into account the release into the market in 2003 of 60,000 tonnes initially pledged by one producer as collateral for a loan.

The growth in nickel demand during 2004, coupled with the overall decline in supply for 2004, created a deficit between supply and demand of approximately 6,000 tonnes. Inventories of nickel on the LME decreased during 2004 by 3,174 tonnes to a relatively low level of 20,898 tonnes at December 31, 2004.

While 2004 represented a very strong year for the global nickel market given the demand-supply fundamentals described above, there was also, as noted above, a very significant amount of volatility in nickel prices. The LME cash nickel price opened the year at $16,690 per tonne ($7.57 per pound). On January 6, 2004 the LME cash nickel price reached its highest level since March 9, 1989, $17,770 per tonne ($8.06 per pound). The LME cash price then drifted lower in the first quarter and was $14,220 per tonne ($6.45 per pound) at the beginning of the second quarter. Continued concern over a possible economic slowdown in China led to ongoing price

volatility and overall declining LME cash nickel prices to the middle of May. From that point, LME stock withdrawals and positive demand growth contributed to the LME cash nickel price increasing. In the third quarter, trading activity by Metals Trading Funds in nickel was limited during the traditionally quiet summer months and with a 6,534 tonne increase in LME stocks during this period, nickel prices declined to $12,050 per tonne ($5.47 per pound) by September 9, 2004. Prices increased in late September, despite a rise in LME inventories, and ended the quarter at $15,100 per tonne ($6.85 per pound). LME stocks increased steadily throughout the fourth quarter and ended the year at 20,898 tonnes. The LME cash price ended the year at $15,205 per tonne ($6.90 per pound) compared with $16,650 per tonne ($7.55 per pound) at the end of 2003. The LME cash nickel price averaged $13,852 per tonne ($6.28 per pound) for 2004.

Results of Operations

2005 Compared with 2004

Earnings Summary

Net earnings for 2005 were $836 million, or $4.41 per share ($3.75 per share on a diluted basis), compared with net earnings of $619 million, or $3.30 per share ($2.95 per share on a diluted basis) in 2004. Results for 2005 relative to 2004 primarily reflect higher realized selling prices for substantially all metals, significantly lower asset impairment charges and a gain on the sale of a non-core investment. These favourable factors were partially offset by higher production costs for nickel and copper and lower deliveries of nickel, copper and certain PGMs and estimated pre-tax remediation costs of $20 million involving a property we retained from a disposed business unrelated to our current operations.

The following bar chart sets forth the dollar impact (in millions of dollars) of the principal factors, both favourable and unfavourable (the dollar amounts of unfavourable factors are shown in parentheses), affecting our 2005 net earnings compared with 2004, with the starting point (first bar on the left) being the level of net earnings for 2004:

Principal Factors Affecting 2005 Net Earnings in Comparison with 2004

(in millions of dollars)

Nickel Production

Nickel production decreased to 220,727 tonnes (487 million pounds) in 2005 compared with 236,817 tonnes (522 million pounds) in 2004. The decrease in nickel production was primarily due to a longer than planned major maintenance shutdown at our Ontario operations and a slower ramp-up after that shutdown caused, in turn, by a number of factors. These factors included labour productivity problems involving one contractor on the work undertaken during the shutdown, an increase in the scope of certain work undertaken as a result of the shutdown, the need to repair unanticipated leaks relating to the expansion of the acid plant at these

operations and a fire in one of the dust capture bag houses. In addition, we had a longer than usual major maintenance shutdown at our Manitoba operations during the third quarter which was necessary to prepare those operations for the arrival of Voisey s Bay nickel concentrates late in the fourth quarter of 2005 and the processing of the additional cobalt contained in such concentrates and to have the ability to operate with a single furnace. Finished nickel production from PT Inco nickel-in-matte was comparable to 2004. Historically, we have believed that the minimum finished nickel inventories we generally need to run our business and meet customers requirements should be about 26,000 tonnes, depending upon the required product mix and other factors. We expect to continue to evaluate the factors to be considered in determining what this minimum inventory level should be. Our finished nickel inventories were 23,444 tonnes at December 31, 2005 compared with 27,334 tonnes at the end of 2004.

Copper Production

Finished copper production, including anode production for processing as discussed below under an agreement we entered into with Falconbridge, increased by one per cent to 125,595 tonnes (277 million pounds) in 2005 compared with 124,456 tonnes (274 million pounds) in 2004. In addition, production of copper in concentrates from our Voisey s Bay operations was 4,406 tonnes (10 million pounds) in 2005. In May 2005, we announced the closure of our copper refinery in Sudbury based upon a number of factors, including that facility s size and cost structure relative to the leading copper refineries in the world. In connection with our decision to close this facility, we recorded a charge of $25 million in the second quarter of 2005. The copper refinery was closed as planned in December 2005. We entered into a ten-year agreement in mid-2005 with Falconbridge under which we agreed to sell all our copper production from our Ontario operations in anode form to this company.

Commencement of Voisey s Bay Operations

On December 1, 2005, the open pit mine and 6,000 tonnes-per-day concentrator at Voisey s Bay began commercial production. For the year 2005, 10,450 tonnes (23 million pounds) of nickel in concentrates and 4,406 tonnes (10 million pounds) of copper in concentrate were produced at Voisey s Bay and two shipments of concentrates were made in 2005, with the nickel concentrates being sent to our Ontario and Manitoba operations. The first copper in concentrates was sold in January 2006. We produced initial quantities of finished nickel from the Voisey s Bay nickel concentrates in January 2006.

Net Sales

The following table sets forth deliveries and net sales of our principal metal products for the years indicated:

	Deliveries (tonnes except as indicated) 2005	Net Sales (in $ millions) 2005	Deliveries (tonnes except as indicated) 2004	Net Sales (in $ millions) 2004	Deliveries (tonnes except as indicated) 2003	Net Sales (in $ millions) 2003
Primary nickel, Including intermediates						
Inco-source	223,811		235,185		184,110	
Purchased	22,471		16,697		29,780	
	246,282	$ 3,655	251,882	$ 3,503	213,890	$ 2,109
Copper						
Finished	120,543		124,884		92,202	
Purchased					1,133	

	120,543	463	124,884	364	93,335	171
Cobalt	1,694	57	1,542	72	903	17
Precious metals (in thousands of troy ounces) [1]	1,920	267	2,490	246	1,694	114
Other		76		93		63
Net Sales to customers		$ 4,518		$ 4,278		$ 2,474

(1) Excludes toll-refined materials.

Realized Prices

The following table sets forth our average annual realized prices for the years indicated for the metal products we produce and sell:

($ per tonne/per pound)	2005	2004	2003
Primary nickel, including intermediates	$ 14,842/6.73	$ 13,906/6.31	$ 9,860/4.47
Copper	3,839/1.74	2,916/1.32	1,832/0.83
Cobalt	32,828/14.89	46,442/21.07	18,846/8.55
($ per troy ounce)			
Platinum	$ 841.27	$ 762.73	$ 588.96
Palladium	209.46	225.56	297.36
Rhodium	2,055.55	1,166.85	530.66
Gold	423.21	398.68	367.72
Silver	7.06	6.73	4.86

Net sales increased in 2005 due to higher selling prices for nickel, copper and certain PGMs partially offset by lower deliveries of nickel, copper and certain PGMs and lower average realized selling prices for cobalt.

Our nickel deliveries in 2005 represented an estimated 19 per cent share of the world market for primary nickel, compared with 20 per cent in 2004.

Our price realizations for nickel have tended to lag LME cash price changes. The premiums we realize over the prevailing LME cash price for our specialty or value-added and other nickel products are normally affected by (i) fluctuations in the LME cash nickel price, (ii) the effect these fluctuations have on the price we receive for the nickel-in-matte product produced by PT Inco, (iii) the lag effect that changes in the LME benchmark cash price have on the pricing of certain of our nickel products, (iv) how certain of our nickel products are priced and (v) the mix of our primary nickel products sold in the year. For 2005, the average realized price for our primary nickel products, including intermediates, was $14,842 per tonne ($6.73 per pound), compared with the LME cash nickel price which averaged $14,733 per tonne ($6.68 per pound). For 2004, the average realized price for our primary nickel products, including intermediates, was $13,906 per tonne ($6.31 per pound), compared with the LME cash nickel price which averaged $13,852 per tonne ($6.28 per pound).

The price realizations for our nickel and other metal products generally reflect LME or other metal market prices and, over the longer term, depend principally upon the balance between demand for our primary nickel products in the marketplace relative to supply available from us and our competitors, including for this purpose, supply of secondary or scrap materials containing metals in usable or recyclable form and supplies of other materials which do or may compete as substitutes for nickel and our other metal products. As noted above, the availability of nickel-containing stainless steel scrap, which competes directly with primary nickel as a source of nickel for use in the production of stainless steel, is particularly important to stainless steel primary nickel demand. The stainless steel scrap ratio was 49 per cent in 2005 compared with 47 per cent in 2004.

In 2005, our copper sales increased by 27 per cent from the previous year due to higher average realized selling prices, partially offset by lower deliveries. Sales of precious metals increased by nine per cent in 2005 due to higher realized selling prices for certain PGMs, partially offset by lower deliveries of certain PGMs.

Costs and Expenses/Other Income

The following table sets forth certain of our costs, principal expenses, other income, income and mining taxes and minority interest for the years indicated:

($ millions)	2005	2004 (Restated)[1]	2003 (Restated)[1]
Cost of sales and other expenses	$ 2,633	$ 2,348	$ 1,735
Depreciation and depletion	256	248	227
Selling, general and administrative	207	192	169
Research and development	35	29	27
Exploration	43	32	27
Currency translation adjustments	59	85	177
Interest expense	26	36	56
Asset impairment charges	25	201	
Other income, net	(83)	(49)	(108)
Income and mining taxes	408	432	(27)
Minority interest	73	105	45

(1) Reference is made to note 2 to our 2005 consolidated financial statements.

Cost of Sales and Other Expenses

Cost of sales and other expenses increased by 12 per cent in 2005, reflecting the adverse impact of a strengthening of the Canadian dollar relative to the U.S. dollar on our costs incurred in Canadian dollars, higher energy costs as a result of higher prices for and quantities of heavy fuel oil and diesel used at PT Inco, purchased electricity and natural gas used at our Ontario operations, higher spending on services and supplies and increased costs for and volume of purchased finished nickel. The cost of the nickel intermediates we purchase is based upon LME and other benchmark prices and is included in cost of sales and these costs increase as the benchmark prices increase as they did in the first half of 2005.

Selling, General and Administrative

Selling, general and administrative expenses increased by $15 million in 2005 compared with 2004. The increase was primarily due to higher capital taxes and higher expenses associated with share options granted in prior years, including share appreciation rights granted in association with such options, based upon the price of our common shares.

Currency Translation Adjustments

Currency translation adjustments represented primarily the effect of exchange rate movements on the translation of our Canadian dollar-denominated liabilities, post-retirement benefits, accounts payable and certain deferred income and mining taxes into U.S. dollars. Unfavourable currency translation adjustments were primarily due to the strengthening of the Canadian dollar as at December 31, 2005 relative to the U.S. dollar. The Canadian dollar U.S. dollar exchange rate was 0.858 at the end of 2005 compared with 0.831 at the end of 2004, representing approximately a three per cent appreciation in the Canadian dollar relative to the U.S. dollar on a year-to-year basis.

Interest Expense

Interest expense for 2005 was lower than 2004 by $10 million. Interest expense excluded capitalized interest of $103 million in 2005 and $70 million in 2004. We expect that our total interest costs (expensed and capitalized) will

increase to approximately $135 million in 2006, with approximately $55 million of that amount expected to be expensed and $80 million expected to be capitalized as part of our Goro project. The expected increase in interest expense for 2006 is primarily related to lower capitalized interest in respect of our Voisey s Bay project as of December 1, 2005 when the project achieved commercial production.

Asset Impairment Charges

As noted above, we entered into a ten-year agreement in late June 2005 with Falconbridge under which we agreed to sell all of our copper production from our Ontario operations in anode form to this company beginning in 2006. As a result of this decision, we recorded a $25 million impairment charge before taxes in the second quarter of 2005 related to the closure, which occurred in December 2005, of our copper refining facility in Sudbury, Ontario.

Other Income, Net

Other income included a gain of $88 million in respect of the sale in the fourth quarter of 2005 of a non-core investment in a junior mining company.

Income and Mining Taxes

Our effective tax rate for 2005 of 31 per cent was lower than the combined statutory income and mining tax rate in Canada of about 39 per cent due principally to the non-taxable nature of the gain referred to above on the sale of a non-core investment, the

benefit of profits earned in jurisdictions having lower tax rates and the net tax benefits relating to certain tax rulings, interpretations or determinations relating to prior years partially offset by the net tax costs relating to currency translation adjustments.

Minority Interest

Our minority interest represents primarily the respective minority shareholders interests in the earnings of PT Inco, ITL, Jinco and Goro Nickel. For 2005, minority interest included a favourable adjustment of $25 million, reflecting the recovery of losses previously taken by Inco due to insufficient minority interest balances existing in 2004 to absorb the share by the minority interest of the impairment charge associated with the Goro project recorded in the second quarter of 2004. Excluding the impact of the $25 million favourable adjustment, minority interest decreased in 2005 compared with 2004 primarily due to the lower earnings at PT Inco. Although PT Inco experienced higher average realized prices for and higher deliveries of its nickel-in-matte product in 2005, these benefits were partially offset by higher energy and supplies costs and the write-downs of certain capital assets, resulting in an overall decline in net earnings compared with 2004.

Nickel Unit Cash Cost of Sales

The following table sets forth nickel unit cash costs of sales before and after by-product credits for the periods indicated:

	2005	2004
Nickel unit cash cost of sales before by-product credits		
per tonne	$ 6,702	$ 5,732
per pound	3.04	2.60
Nickel unit cash cost of sales after by-product credits		
per tonne	$ 5,842	$ 5,115
per pound	2.65	2.32

Since this cost measure captures our key costs of production and the impact of prices for our by-products, nickel unit cash cost of sales after by-product credits represents a key performance measurement that management uses to manage our costs and operations. The following bar chart shows the principal factors (on a per pound basis), both favourable and unfavourable (favourable factors are shown in parentheses), affecting our 2005 nickel unit cash cost of sales after by-product credits, with the starting point (first bar on the left) being our nickel unit cash cost of sales after by-product credits for 2004:

Principal Factors Affecting Our 2005 Nickel Unit Cash Costs of Sales After By-Product Credits in Comparison with Such Costs for 2004

Nickel unit cash cost of sales before by-product credits represents a calculation equal to the total of all cash costs incurred to produce a unit of nickel before the deduction of contributions from by-products sold divided by Inco-source nickel deliveries. For 2005 compared with 2004, the increase in nickel unit cash cost of sales before by-product credits was principally due to the higher average Canadian U.S. dollar exchange rate which adversely affected our costs incurred in Canadian dollars, higher costs for heavy

fuel oil and diesel fuel at PT Inco, higher electricity and natural gas prices at our Ontario operations, higher spending on supplies and services and lower nickel production, partially offset by approximately $40 million of net cost reductions and related savings achieved in 2005. In addition, we experienced lower costs for purchased intermediates due to lower volumes processed at our Canadian operations in 2005 partially offset by higher benchmark prices upon which such purchases are made. For 2005 compared with 2004, the increase in nickel unit cash cost of sales after by-product credits was due to higher unit cash cost of sales before by-product credits, partially offset by an increase in by-product credits. The increase in by-product credits was primarily due to higher realized selling prices for copper and certain PGMs, partially offset by higher production costs for copper and lower deliveries of certain PGMs.

As discussed above, we have used, and expect to continue to use at least in 2006, purchased nickel intermediates to increase processing capacity utilization at our Canadian operations. While the cost of purchased nickel intermediates is higher than that for processing our own mine production and such costs increase as the prevailing prices, LME cash nickel or other benchmark prices, on which basis this material is purchased by us increases, the price realizations are also higher, resulting in margins on these purchases remaining relatively unchanged.

A reconciliation of our nickel unit cash cost of sales before and after by-product credits to cost of sales under Canadian GAAP is shown in the table entitled Reconciliation of Nickel Unit Cash Cost of Sales Before and After By-Product Credits to Canadian GAAP Cost of Sales under Non-GAAP Financial Measure below.

Energy Costs and Relative Advantages

Energy costs are a significant component of production costs in the nickel industry since nickel production is very energy-intensive, especially with respect to the costs of processing lateritic ores such as those processed at our PT Inco operations. Energy requirements for production from our Canadian sulphide ores are generally only about one-fifth of the energy required to process lateritic ores. In addition, low-cost energy is available from our hydroelectric facilities in Ontario and at PT Inco s lateritic mining operations in Indonesia, and from purchased hydroelectric power at our Manitoba operations.

In 2005, our hydroelectric facilities in Ontario generated approximately 14 per cent of our Ontario operations electricity requirements, and PT Inco s 165-megawatt hydroelectric generating-facility at Larona together with its 93-megawatt hydroelectric generating facility at Balambano generated virtually all of PT Inco s 2005 electricity requirements. The Balambano facility has been able to generate power consistently above its design capacity due to improved water management practices and higher reservoir levels and other related factors than were assumed in developing its original design capacity. In 2005, energy costs at our Ontario and Manitoba operations were approximately 14 per cent of their total cash production costs, compared with 43 per cent for PT Inco. The availability of captive hydroelectric power decreased cash energy costs at PT Inco by about 47 per cent in 2005 and 53 per cent in 2004 relative to the energy costs that would have been incurred by PT Inco if its operations were dependent on fuel oil as the sole source to meet its energy requirements.

Intermediates Segment

Our intermediates segment represents the mining and processing operations of PT Inco in Indonesia where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market. Net sales by PT Inco of nickel-in-matte were $885 million in 2005 compared with $792 million in 2004. This increase in 2005 relative to 2004 was due to increased deliveries as a result of higher production rates and higher realized prices. PT Inco s deliveries of nickel-in-matte totalled a record 76,100 tonnes (168 million pounds) in 2005 compared with 72,500 tonnes (160 million pounds) in 2004. PT Inco s net realized price for nickel-in-matte in 2005 averaged $11,462 per tonne ($5.20 per pound) compared with $10,766 per tonne ($4.88 per pound) in 2004. The selling price of PT Inco s nickel-in-matte is determined by a formula which is based upon the LME cash price for nickel. All of PT Inco s production is sold in U.S. dollars under long-term contracts to us and Sumitomo Metal Mining Co., Ltd.

Nickel-in-matte production at PT Inco increased by six per cent to a record 76,400 tonnes (168 million pounds) in 2005 from 72,200 tonnes (159 million pounds) in 2004. PT Inco s nickel unit cash cost of sales increased 25 per cent for 2005 compared with 2004 due to higher prices for heavy fuel oil, higher volumes of heavy fuel oil used in 2005 compared with 2004 due to higher production and more moisture in the ore from PT Inco s Petea mining area and higher prices for diesel and higher volumes of diesel used in 2005 relative to 2004 due to a greater haulage distances, given the increased ore mined at PT Inco s Petea mining area.

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Development Projects Segment

Our development projects segment includes the Goro nickel-cobalt project in New Caledonia and work on the second and third phases of our Voisey s Bay project.

Goro

Following the decision in October 2004 to proceed with the Goro project on the basis of a revised project scope resulting from a comprehensive review completed in September 2004, a phased execution approach was adopted. The first phase of this approach, focusing on process engineering definition, securing of all necessary permits, the appointment of leading construction firms to work with our own team to oversee construction and long-lead time procurement, continued through much of the first half of 2005. The second phase, which had been scheduled to commence in the second quarter of 2005 and would involve finalization of detailed engineering and procurement and negotiation of the remaining contracts for site mobilization and the start of construction, encountered a delay in its start pending the receipt of certain assurances from the New Caledonian government that we required in order to begin construction. These assurances related to a number of key construction permits, developing an agreed-upon process for revising the project s required operating permit and implementation of a 60 hour site work week.

An acceptable outcome with respect to these assurances was finally achieved early in the third quarter of 2005, enabling site mobilization to begin as well as the award of major site-related construction contracts to proceed. By year-end 2005 overall engineering progress was about 70 per cent complete while the number of personnel on site totalled approximately 900. Major construction activities are currently focused on the port, earthworks, civil works and the establishment of temporary facilities. Project execution will make extensive use of modularization and the utilization of skilled construction labour from low cost locations. By year-end 2005 facilities in the Philippines had been selected to produce modules for the process plant and other key parts of the project facilities and the major construction contracts had been finalized. For the year 2005 capital expenditures on the Goro project totalled $355 million, bringing total capital spending on this project since the October 2004 decision to proceed to $378 million. During 2005 Goro encountered significant cost challenges as a result of sharply higher oil prices, the continued strength in other commodity prices as well as very competitive market conditions for supplies and services and these challenges are expected to continue in 2006 and likely through the balance of construction for those items which we have not yet purchased.

Taking into account these cost pressures for such construction materials and other input costs, the currently anticipated trends in such costs and the latest regulatory requirements for the configuration of the project s tailings area, we currently believe that, if we were to formally update our latest estimate for the capital cost for Goro s mine, process plant and infrastructure of $1.878 billion with a minus 5 per cent plus 15 per cent confidence level, such updated forecast would be expected to be at the high end of the plus 15 per cent confidence level. As part of our ongoing work on the project, we have implemented a number of systems to monitor all key costs trends which could affect the capital cost forecast. We currently expect to be in a position to have a definitive cost estimate, reflecting all relevant factors at that time, and which is currently expected to be subject to a confidence or accuracy level developed as part of that estimate, sometime in the second quarter of 2006 when engineering is expected to be at least 80 per cent complete and all major construction contracts will have been awarded.

In late 2005 a number of boycotts and other related actions in New Caledonia affected the operations of Eramet and its subsidiary, Société Le Nickel, and other local businesses as a result of labour and other disruptions and other developments. While those actions and developments did not affect the construction of the Goro project to any significant degree, such disruptions could have a substantial adverse effect on the project s construction schedule and capital costs if they were to resume and continue for any extended length of time.

Voisey s Bay

In 2005, we continued our exploration program in the Province, spending $5 million on this program. Late in 2005, we also commissioned the demonstration plant at Argentia in the Province of Newfoundland and Labrador to test hydrometallurgical processes to treat the Voisey s Bay nickel concentrates as part of the initial phase of the project. This demonstration plant had a capital cost totalling about $80 million.

2004 Compared with 2003

Earnings Summary

Net earnings for 2004 totalled $619 million, or $3.30 per share ($2.95 per share on a diluted basis), compared with net earnings of $146 million, or 68 cents per share (64 cents per share on a diluted basis), in 2003. Results for 2004 included net income tax benefits totalling $23 million and the following pre-tax items: (1) an asset impairment charge of $201 million related to the write off of certain capitalized costs for our Goro nickel-cobalt project due to changes in project scope and other factors, and (2) unfavourable non-cash currency translation adjustments of $85 million. The unfavourable non-cash currency translation adjustments were due to the effect of a significant strengthening of the Canadian dollar relative to the U.S. dollar during the year principally on Canadian dollar-denominated post-retirement benefit liabilities.

Results for 2003 included net income tax benefits totalling $84 million and the following pre-tax items: (1) unfavourable non-cash currency translation adjustments of $177 million, (2) income of $24 million, representing a milestone payment received as part of the terms of the sale of a non-core exploration property in 1998, (3) a charge of $23 million for estimated remediation costs for certain former industrial sites in the United States we retained relating to a business sold in 1983, (4) an expense of $107 million associated with the three-month strike at our Ontario operations and (5) currency hedging gains net of suspension costs of $15 million relating to our Goro project. In addition, with respect to only the calculation of net earnings per share for 2003, a premium of $15 million was paid on the May 1, 2003 redemption of our 5.5 per cent Convertible Redeemable Preferred Shares Series E.

Nickel Production

Nickel production increased by 27 per cent to 236,817 tonnes (522 million pounds) in 2004, our highest annual production ever, exceeding our previous record of 510 million pounds in 1974, compared with 187,173 tonnes (413 million pounds) in 2003, primarily reflecting higher production at our Canadian and U.K. operations compared with 2003 when the three-month strike at our Ontario operations that began on June 1, 2003 and a difficult ramp-up of operations in September 2003 following the strike negatively affected production. PT Inco s production increased by about 4 million pounds to 159 million pounds of nickel-in-matte in 2004 compared with 155 million pounds of nickel-in-matte in 2003. Finished nickel inventories were 27,334 tonnes at December 31, 2004 compared with 25,604 tonnes at the end of 2003 due to the timing of certain shipments in late 2004.

Copper Production

Copper production increased by 37 per cent to 124,456 tonnes (274 million pounds) in 2004 compared with 91,134 tonnes (201 million pounds) in 2003. Copper production in 2003 was negatively impacted by the three-month strike at our Ontario operations.

Net Sales

Net sales increased substantially in 2004 due to higher selling prices for substantially all the metals we produce, particularly for nickel and copper, as well as higher deliveries of Inco-source nickel, copper, cobalt and PGMs. Deliveries of Inco-source nickel in 2004 increased by 28 per cent compared with 2003 due to increased production at our Canadian and U.K. operations as well as at PT Inco. Production for all metals for 2003 was adversely affected by a three-month strike at our Ontario operations that began on June 1, 2003.

Primary nickel sales increased by 66 per cent in 2004 from the previous year due to a 41 per cent increase in our average realized nickel price and an 18 per cent increase in nickel deliveries given the effect in 2003 of the three-month strike at our Ontario operations noted above on deliveries.

Our nickel deliveries in 2004 represented an estimated 20 per cent share of the world market for primary nickel, compared with 17 per cent in 2003.

The average realized price for our primary nickel products, including intermediates, was $13,906 per tonne ($6.31 per pound) in 2004, compared with the LME cash nickel price which averaged $13,852 per tonne ($6.28 per pound). The average realized price for our primary nickel products, including intermediates, was $9,860 per tonne ($4.47 per pound) in 2003, compared with the LME cash nickel price which averaged $9,640 per tonne ($4.37 per pound).

In 2004, our copper sales increased by 113 per cent from the previous year due to a 34 per cent increase in deliveries compared with the strike-affected levels for 2003 and a 59 per cent increase in our average realized price. Sales of precious metals increased by 116 per cent in 2004 due to increased deliveries and increased selling prices in 2004 for substantially all of the precious metals we produce.

Cost of Sale and Other Expenses

Cost of sales and other expenses increased by 35 per cent in 2004, reflecting higher deliveries of the metals we produce, increased costs for and volumes of purchased nickel intermediates processed, the adverse impact of a strengthening of the Canadian dollar relative to the U.S. dollar on our costs incurred in Canadian dollars, higher spending on services and supplies primarily as a result of increased production rates, higher employment costs associated with higher earnings-based compensation payments, and increased prices for heavy fuel oil used at PT Inco, partially offset by cost reductions and related savings achieved in 2004. As noted above, the cost of the nickel intermediates we purchase is based upon LME and other benchmark prices and is included in cost of sales. Results for 2003 included a pre-tax expense of $107 million associated with the three-month strike at our Ontario operations. In addition, during the third quarter of 2003 our Ontario operations experienced a series of unanticipated problems associated with the ramp-up of certain of its facilities after the strike which resulted in an expense of $25 million.

Selling, General and Administrative

Selling, general and administrative expenses increased by $23 million in 2004 compared with 2003. The increase was primarily due to higher expenses associated with our earnings-based incentive compensation programs, partially offset by lower expenses associated with share appreciation rights which historically had been granted as part of certain share option awards. Selling, general and administrative expenses also included $6 million in 2004 spent on our program to evaluate and report on our internal control over financial reporting under the U.S. Sarbanes-Oxley Act and certain expenditures totalling $11 million in 2004 and $10 million in 2003 in support of our Goro and Voisey s Bay projects.

Currency Translation Adjustments

Currency translation adjustments represented primarily the effect of exchange rate movements on the translation of Canadian dollar-denominated liabilities, post-retirement benefits, accounts payable and certain deferred income and mining taxes into U.S. dollars. Unfavourable currency translation adjustments were primarily due to the strengthening of the Canadian dollar as at December 31, 2004 relative to the U.S. dollar. The Canadian dollar U.S. dollar exchange rate was 0.774 at the end of 2003 and 0.831 at the end of 2004, representing approximately a 7 per cent appreciation in the Canadian dollar relative to the U.S. dollar on a year-to-year basis.

Interest Expense

Interest expense for 2004 declined compared with 2003, primarily as a result of an increase in capitalized interest associated with our projects under development and lower interest rates on our outstanding debt for 2004 compared with 2003, taking into account refinancing activities in 2003 and our interest rate swaps we entered into with certain third party financial institutions. Interest expense excluded capitalized interest of $70 million in 2004 compared with $55 million in 2003.

Asset Impairment Charges

Changes in the planned Goro project configuration, including moving to direct heating of the ore feed and other changes intended to reduce the project s capital cost and enhance the operating efficiency of the planned process plant and the process to be used to recover metals, resulted in certain capitalized costs incurred, principally for engineering and related work associated with the original project configuration and for equipment purchased for the indirect heating of ore feed, no longer having any value for the project or otherwise. As a result of these changes, an impairment charge covering capitalized expenditures of $201 million before minority interest and taxes was taken in the second quarter of 2004.

Other Income, Net

Other income decreased in 2004, compared with 2003. In 2004, other income included gains on foreign currency contracts in the amount of $10 million covering anticipated expenditures relating to the Goro project. We also realized a gain of $6 million on the sale of our interest in a Guatemalan subsidiary. In 2003, other income included gains of $35 million realized from the sale or transfer of

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shares and other interests contributed to or received in conjunction with strategic and other collaborations relating to our primary metals operations, the receipt of a milestone payment of $24 million under the terms of sale reached in 1998 of a non-core exploration property and net gains of $12 million in connection with derivative positions in metals intended to meet future customer requirements. In addition, currency hedging gains of $11 million were realized in 2003 on the closing out of certain forward currency contracts as a consequence of the decision to suspend the Goro project made in late 2003.

Income and Mining Taxes

Our effective tax rate for 2004 of 37 per cent was slightly lower than the statutory rate due to (1) the benefit of losses not previously recognized, (2) the favourable outcome of tax matters related to prior years and (3) the benefit of lower tax rates on profits earned in low tax jurisdictions. These factors were partially offset by the negligible tax relief recorded on the $201 million non-cash impairment charge, before minority interest and taxes, recorded in the second quarter of 2004 and taxes provided on unrealized foreign exchange gains with respect to the Canadian parent s U.S. dollar-denominated debt.

Minority Interest

Our minority interest represents primarily the respective minority shareholders interests in the earnings of PT Inco, ITL, Jinco and Goro Nickel. Minority interest increased in 2004 compared with 2003 primarily due to the higher earnings at PT Inco as a result of higher average realized prices for and higher deliveries of nickel-in-matte produced by PT Inco.

Nickel Unit Cash Cost of Sales

Nickel unit cash cost of sales before by-product credits increased to $5,732 per tonne ($2.60 per pound) in 2004 from $4,453 per tonne ($2.02 per pound) in 2003. Nickel unit cash cost of sales after by-product credits increased to $5,115 per tonne ($2.32 per pound) in 2004 from $4,740 per tonne ($2.15 per pound) in 2003.

The 2004 increase in nickel unit cash cost of sales before by-product credits was principally due to the higher cost for, and volumes of, purchased nickel intermediates, the higher average Canadian dollar exchange rate relative to the U.S. dollar exchange rate compared with 2003, higher costs for heavy fuel oil at PT Inco, higher spending on supplies and services primarily as a result of increased production rates and higher earnings-based compensation payments, partially offset by the absence of ramp-up costs which we incurred in the third quarter of 2003 after the end of the strike at our Ontario operations, and the cost reductions and related savings as discussed below.

The increase in nickel unit cash cost of sales after by-product credits for 2004 compared with 2003 was due to higher nickel unit cash cost of sales before by-product credits, partially offset by higher by-product credits as a result of higher realized selling prices for and higher deliveries of our principal by-products.

A reconciliation of our nickel unit cash cost of sales before and after by-product credits to cost of sales under Canadian GAAP is shown in the table entitled Reconciliation of Nickel Unit Cash Cost of Sales Before and After By-Product Credits to Canadian GAAP Cost of Sales under Non-GAAP Financial Measure below.

Energy Costs and Relative Advantages

In 2004, our hydroelectric facilities in Ontario generated approximately 19 per cent of our Ontario operations electricity requirements, and PT Inco s 165-megawatt hydroelectric generating-facility at Larona together with its 93-megawatt hydroelectric generating facility at Balambano generated virtually all of PT Inco s 2004 electricity requirements. In 2004, energy costs at our Ontario and Manitoba operations were approximately 12 per cent of total cash production costs, compared with 34 per cent for PT Inco. The availability of captive hydroelectric power decreased cash energy costs at PT Inco by about 53 per cent in 2004 and 51 per cent in 2003 relative to the energy costs that would have been incurred by PT Inco if its operations were dependent on fuel oil as the sole source to meet its energy requirements.

Intermediates Segment

Net sales by PT Inco of nickel-in-matte were $792 million in 2004 compared with $509 million in 2003. This increase in 2004 relative to 2003 was due to higher realized prices and increased deliveries as a result of then record production. PT Inco s deliveries of nickel-in-matte totalled 72,500 tonnes (160 million pounds) in 2004 compared with 70,500 tonnes (155 million pounds) in 2003.

The increase in 2004 compared with 2003 was due to higher production. PT Inco s net realized price for nickel-in-matte in 2004 averaged $10,766 per tonne ($4.88 per pound) compared with $7,117 per tonne ($3.23 per pound) in 2003. The selling price of PT Inco s nickel-in-matte is determined by a formula which is based upon the LME cash price for nickel.

Nickel-in-matte production at PT Inco increased by three per cent to 72,200 tonnes (159 million pounds) in 2004 from 70,200 tonnes (155 million pounds) in 2003. Nickel unit cash cost of sales increased by 15 per cent in 2004 compared with 2003 due to increases in the price of heavy fuel oil as well as greater usage of mining-related services due to the higher production levels. In order to increase production to take advantage of the favourable nickel market conditions in 2004, we augmented PT Inco s hydroelectric power generation by increasing the utilization of more expensive fuel-oil based power sources. PT Inco s energy costs were up in 2004 due to increased consumption of heavy fuel oil as a result of the higher production rates and higher prices paid for such fuel oil to operate its dryers, kilns and other oil-fired facilities. Fuel oil costs were up nine per cent in 2004 compared with 2003. Fuel oil represented about 27 per cent of PT Inco s cash costs of production of nickel-in-matte in 2004 compared with 31 per cent in 2003.

Cash Flows, Liquidity and Capital Resources

2005 Compared with 2004

The following bar chart presents the principal sources and uses of cash and cash equivalents for 2005 (uses of cash are shown in parentheses) with the starting point (first bar on the left) being the balance of cash and cash equivalents as at December 31, 2004:

Principal Sources and Uses of Cash in 2005

(in millions of dollars)

Operating Activities

The following table summarizes cash flow from operating activities for the periods indicated:

($ millions)	2005	2004 (Restated)	2003 (Restated)
Earnings before minority interest	$ 909	$ 724	$ 191
Charges not affecting cash	415	626	363
Contributions greater than post-retirement benefits expense	(137)	(140)	(23)
	1,187	1,210	531
Decrease (increase) in non-cash working capital related to operations	(448)	183	(400)
Net cash provided by operating activities	$ 739	$ 1,393	$ 131

The decrease in net cash provided by operating activities in 2005 relative to 2004 was primarily due to higher working capital requirements in 2005. The increased working capital requirements were primarily related to reduced income and mining tax payable balances in view of the significant tax payments of $245 million made during the first quarter of 2005 in respect of the 2004 taxation year and higher tax instalments paid in 2005. In addition, inventory levels increased primarily as a result of increased production costs, increased finished copper inventories as a result of the previously indicated closure of the copper refinery in Ontario in the month of December 2005 and higher in-process inventories of Voisey s Bay concentrates as well as the establishment of required supplies inventories at Voisey s Bay as this project moved into production.

In 2005 and in 2004, contributions to our pension plans significantly exceeded our minimum required pension contributions due to voluntary contributions included in the total contributions made. These voluntary contributions were $130 million in 2005 and $144 million in 2004. Our total contributions were $271 million for 2005 compared with $265 million in 2004. We have had in effect for a number of years defined benefit pension plans principally in Canada, the United States and the United Kingdom. Each of the jurisdictions in which these plans are located has legislation and regulations which, among other statutory requirements, cover the minimum contributions to be made to these plans to meet their potential liabilities as calculated in accordance with such legislation and regulations. Based upon the value of the assets in these plans, as determined pursuant to applicable provincial legislation and

regulations in Canada and other factors to be taken into account under such legislative or regulatory requirements, we, in accordance with such applicable legislation or regulations, and in light of our relatively strong financial position, made voluntary contributions to such plans. We currently expect that our annual minimum pension contributions will be approximately $180 million in 2006. Since the liabilities associated with these pension plans are affected by changes in certain exchange rates, primarily the Canadian dollar, changes in such exchange rates could also significantly affect the level of contributions for future years.

Investing Activities

Net cash used for investing activities increased to $892 million in 2005 compared with $881 million in 2004. This increase was primarily due to higher capital spending, mainly in respect of our Goro project, and higher sustaining capital expenditures at our Canadian operations and PT Inco, partially offset by proceeds from the April 2005 sale of an interest in the Goro project company to a joint venture formed by Sumitomo Metal Mining Co., Ltd. and Mitsui & Co., Ltd. and subsequent pro rata capital contributions from that shareholder in the project, the proceeds from the sale of a non-core investment and lower capital spending for our Voisey s Bay project. Reference is made to Risks and Uncertainties Other Risks and Uncertainties Capital Requirements and Operating Risks below for a discussion of the risks associated with our capital requirements. The following table sets forth our capital expenditures by principal operations and other investing activities for the years indicated:

($ millions)	2005	2004	2003
Capital Expenditures			
Ontario operations	$ (261)	$ (152)	$ (101)
Manitoba operations	(86)	(42)	(50)
PT Inco	(105)	(79)	(45)
Goro Project	(344)	(138)	(249)
Voisey s Bay project	(353)	(447)	(138)
Other	(19)	(18)	(8)
Other Investing Activities			
Partial sale of interest in Goro Nickel S.A.S.	150		
Proceeds from the sale of a non-core investment	103		
Other	23	(5)	26
Total	$ (892)	$ (881)	$ (565)

Financing Activities

Net cas