

EXPLORATION

Canadian Exploration and Deposit Appraisal: 2008 Expenditures Match 2007 Levels, Sharp Fall Indicated for 2009

Expenditures Approach \$3 billion for Second Year in a Row

The latest survey results for exploration and deposit appraisal¹ projects across the country, involving some 795 operators, confirmed a continuing high level of activity in Canada in 2008 as total expenditures reached \$2.8 billion, virtually unchanged from the record high achieved in 2007. These total expenditures have now surpassed \$1 billion for five straight years and reached close to \$3 billion for each of the last two years

Global Financial and Economic Conditions Deteriorate

In the last half of 2008, most mineral and metal commodity prices collapsed due in large part to

the turmoil in global credit and capital markets. The slowdown in mining activity around the world was unprecedented. The loss in value of mineral and metal companies was staggering as 2008 came to a close. These events have had a significant impact on spending intentions for 2009. About 100 companies that each reported more than \$1 million in spending during the 2008 preliminary survey are now reluctant to provide any intentions for 2009. Furthermore, close to 30 major spending companies have also declared their intentions to not spend during the year. Therefore, the current outlook for 2009 is very constrained as the industry attempts to adjust to current market dynamics. This includes reducing costs, and exploration budgets are usually one of the first activities to

be cut or significantly reduced in downturns. As the severity of the global financial and economic crisis continues to unfold, early 2009 intentions estimate a fall of some 50% in exploration and deposit appraisal expenditures to \$1.5 billion.

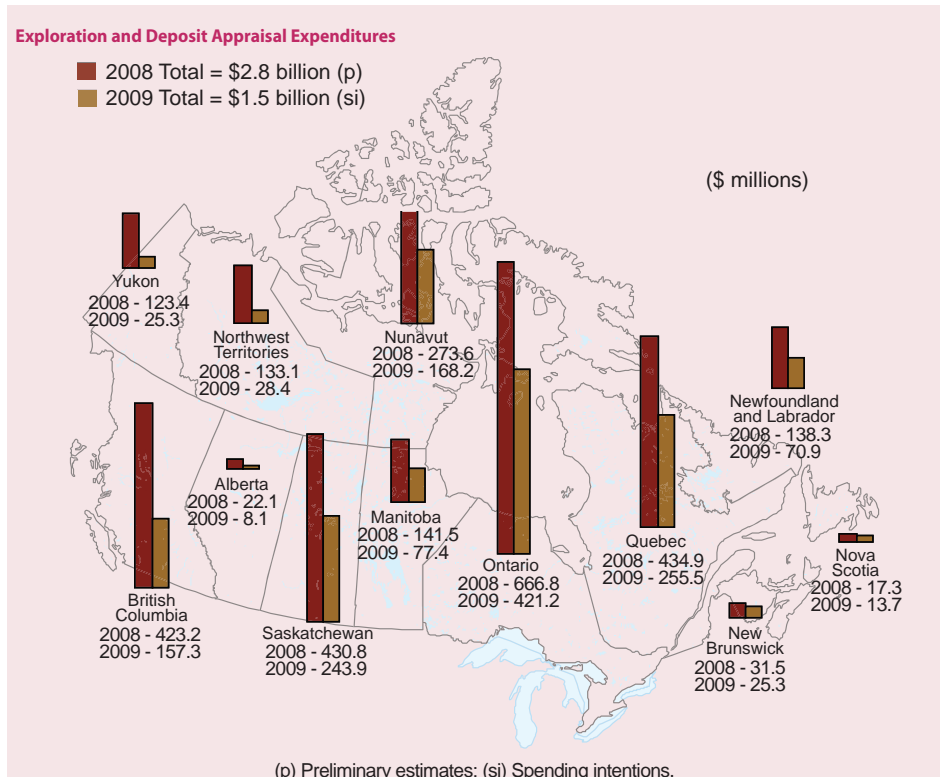
Off-Mine-Site Activity

In 2008, as in 2007, off-mine-site exploration remained at a record high of \$2.1 billion, which represented about 75% of total expenditures. Seventy-two off-mine-site deposit appraisal projects received an impressive \$526 million in spending, or 19% of the total, which constituted an increase of 6% over 2007. High mineral commodity prices (at least up to mid-2008) and already secured financing for the year encouraged companies to re-do work on known deposits that, usually after a short re-evaluation program, were being fast-tracked towards a production decision or takeover opportunity. This led to increased spending in the detailed and costly activities typical of a project in the deposit appraisal work phase. Close to half of the total expenditures were dedicated to drilling activity, representing a record high of 6.9 million metres drilled, including 6 million metres for off mine-site activities, of which 5.4 million metres were for surface diamond drilling alone.

Provinces and Territories

In 2008, expenditure increases were recorded in Ontario (up 17%), Saskatchewan (up 37%), Manitoba (up 35%), and Alberta (up 87%), and were down in all of the other jurisdictions. The largest dollar increase was in Saskatchewan, ahead of Ontario. The leading jurisdictions for total expenditures were Ontario, Quebec, Saskatchewan, and British Columbia, which together accounted for 69% of the total. The current data for 2009 show decreases in all jurisdictions.

¹Includes activities from grassroots exploration up to and including the conclusion of the project's feasibility study, under the deposit appraisal work phase, preceding a commitment to production.



Mineral Commodities

Among the commodity groups in 2008, precious metals led with total expenditures of \$1.1 billion (up 5%), followed by base metals at \$708 million (down 5%) and uranium with \$378 million (down 9%), the latter being third for the second year in a row. Diamonds were next at \$227 million (down 29%), and their share of total expenditures dropped to 8% from 11% in the previous year. Nonmetals, although sixth at \$162 million after other metals (down 3%), was up by 410% due principally to the strong performance of potash, which accounted for about two-thirds of the increase. This benefitted mainly Saskatchewan where potash is now second in importance after uranium. Several potash projects in that province, such as Jansen, Saturn, Legacy, and Leech Lake, have

received very costly work. Ferrous metals, at \$70 million (down 41%), were followed by coal, the last commodity in rank at \$48 million (up 40%). Coal was the only commodity besides precious metals and nonmetals to show an increase in 2008 as robust activity took place in British Columbia and, to a lesser extent, in Alberta and Nova Scotia. In 2009, declines are expected in all commodity groups.

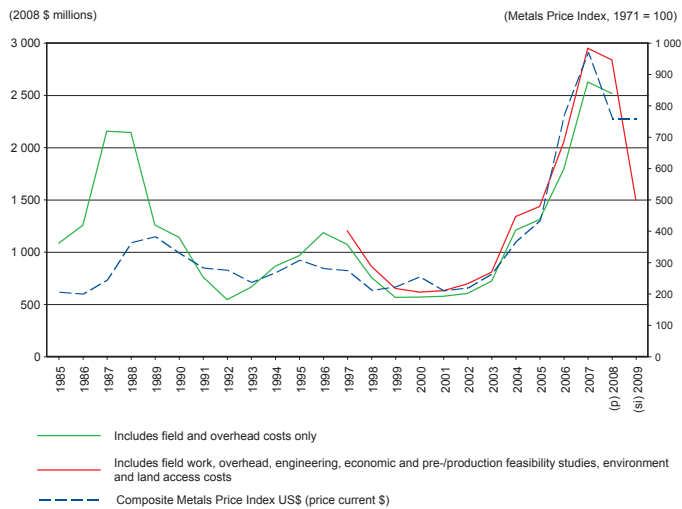
Juniors and Seniors

In recent years, junior companies² have funded a greater proportion of Canada's exploration effort. Total expenditures by junior project operators have increased from \$183 million in 1999 (in constant 2008 dollars) to \$2.0 billion in 2007 and \$1.8 billion in 2008. Their share of total expenditures reached an all-time high of 67% in 2007, and fell slightly to about

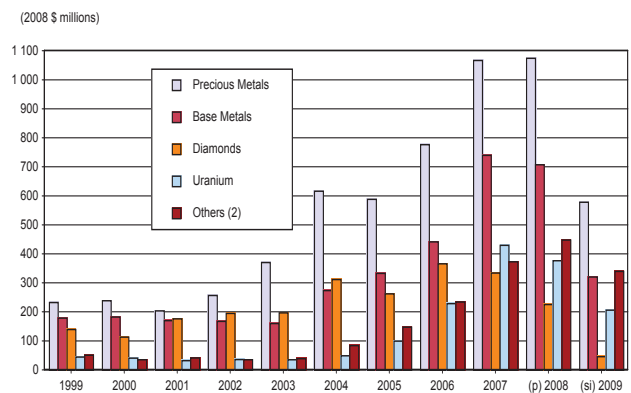
63% in 2008. The seniors' 37% share in 2008 was due to their total spending being up by 14% (or about \$130 million) to \$1.1 billion. In 2009, major expenditure decreases can be expected for both juniors and seniors, but with a steeper drop by juniors, resulting in comparable spending for juniors and seniors. This would be in sharp contrast to 2007 when junior expenditures were more than twice the amount spent by seniors. In 2008, the juniors led the growth in off-mine-site exploration, but were surpassed by the seniors in off-mine-site deposit appraisal, in contrast with 2007 when juniors were leaders in both categories.

²A junior company is defined as an exploration company that is not a recipient of significant income from producing mines or other businesses, and that is financed mainly by exploration funds raised through the issue of treasury shares.

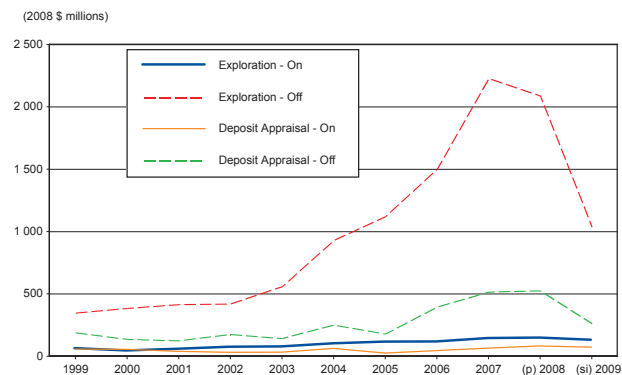
Exploration and Deposit Appraisal Expenditures and Metals Price Index, 1985-2009



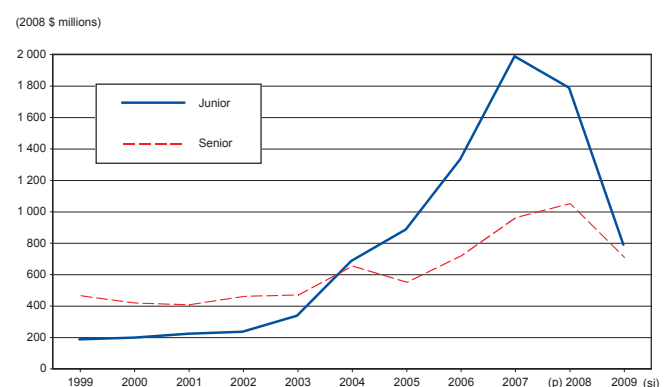
Exploration and Deposit Appraisal Expenditures (1) by Mineral Commodity, 1999-2009 (3)



Exploration and Deposit Appraisal Expenditures (1) by Type of Activity, 1999-2009



Exploration and Deposit Appraisal Expenditures (1) by Junior and Senior Operators, 1999-2009



Source: Natural Resources Canada from the federal-provincial/territorial Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development Expenditures.

(p) Preliminary estimates; (si) Spending intentions. (1) Includes field work, overhead, engineering, economic and pre-/production feasibility studies, environment and land access costs for on-mine-site and off-mine-site activities. (2) Includes coal, iron, other metals, and nonmetals. (3) Commodity breakdown for 2009 spending intentions was estimated based on 2008 preliminary reports. Notes: Company budgets for 2009 expenditures had not been finalized at the time of the survey. Data were collected between October 2008 and February 2009.

Additional information is available on the Internet at:
<http://mmsd.mms.nrcan.gc.ca/stat-stat/expl-expl/sta-sta-eng.aspx>

