

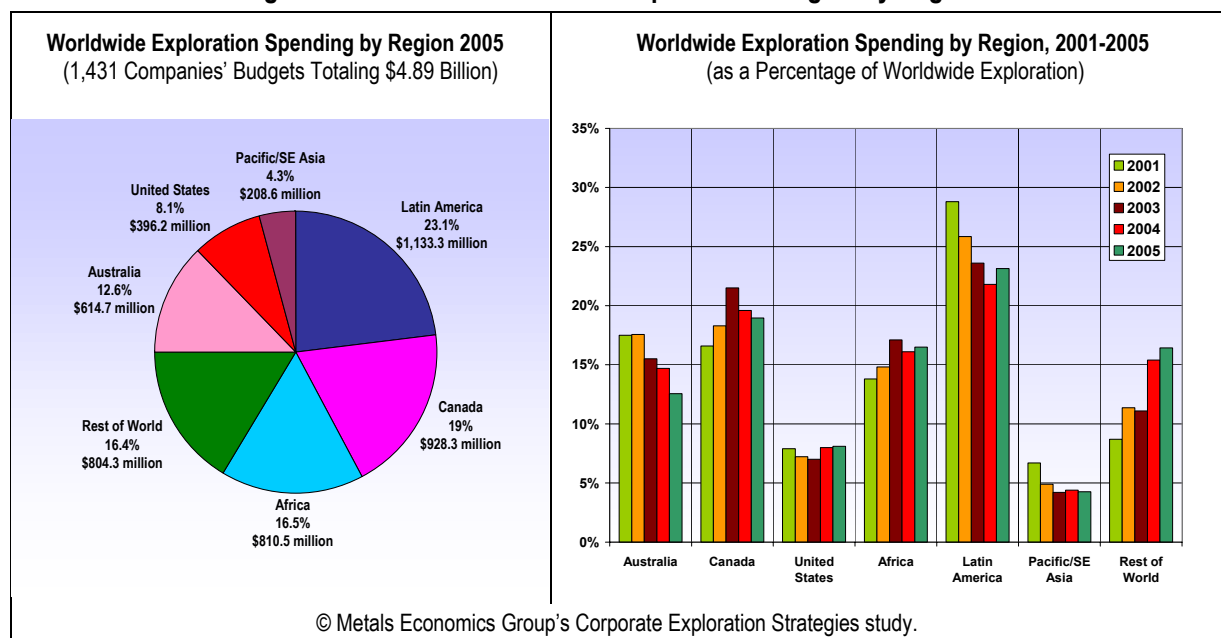
OVERVIEW OF WORLDWIDE EXPLORATION BUDGETS: LOCATIONS, TARGETS, AND STAGES OF DEVELOPMENT

Latin America is still the leading location for spending

Figure 1 below shows the regional distribution of the \$4.89 billion in commercially-oriented nonferrous exploration allocations by the 1,431 companies included in Metals Economics Group's 2005 edition of *Corporate Exploration Strategies*, and a five-year comparison of the allocations to each region as a percentage of each year's worldwide exploration total.

Exploration allocations by surveyed companies have increased in each of our regional categories for the third consecutive year, with four regions' allocations increasing by more than \$200 million this year: Latin America (up by \$360 million), led by increased spending in Mexico and Peru; our rest-of-world category (up by \$256 million), led by continued increased interest in Russia, China, and Mongolia; Africa (up by \$237 million), with Angola, the Democratic Republic of Congo, and Gabon showing the largest gains; and Canada (up by \$231 million).

Figure 1: Worldwide Nonferrous Exploration Budgets by Region



Latin America continues to be the most popular destination for exploration, increasing its lead for the second consecutive year over second-place Canada to \$205 million this year, after Canada's exploration tax incentives helped close the gap to a \$46.5 million margin in 2003. Africa remains in third place by region, closely followed by our rest-of-world category (which includes Europe, the

Former Soviet Union, Asia, and the Middle East). Despite a gradual slide to fifth place by region since 2001, Australia remains solidly in second place by country. The United States and the Pacific/Southeast Asia region remain in sixth and seventh place, respectively, positions they have held since 2001.

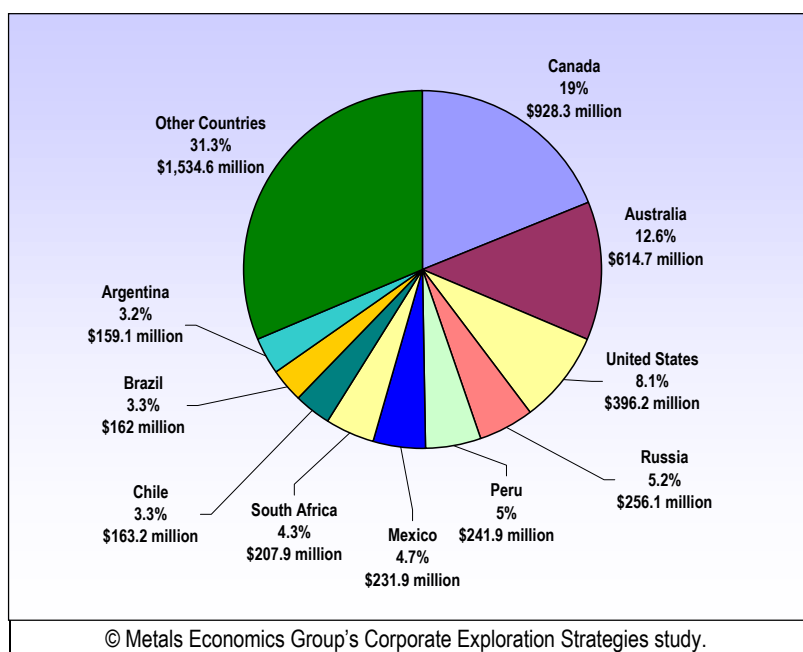
Continued growth in Russia and Mexico

Figure 2 below illustrates 2005 exploration spending for the top ten individual countries (as well as the total for the other 93 countries with 2005 exploration spending) and the top ten countries' percentage of the \$4.89 billion total worldwide budget.

In 2005, allocations for the top ten countries account for 69% (\$3.36 billion) of the overall budget total, slightly below the 70%-73% range seen in the previous five years. The traditional big three—Canada, Australia, and the United States—head the list, with Canada widening its ascendancy again this year to attract \$314 million more exploration dollars than Australia. Russia, with allocations totaling \$256 million, jumped from seventh to fourth place, moving Peru back to fifth spot. Mexico moved ahead of South Africa and remained in sixth place, while Chile passed Brazil to take the eighth slot. Argentina, which was bumped from the list last year by Mongolia, has reclaimed the number ten spot.

Figure 2: 2005 Exploration Spending for the Top Ten Countries

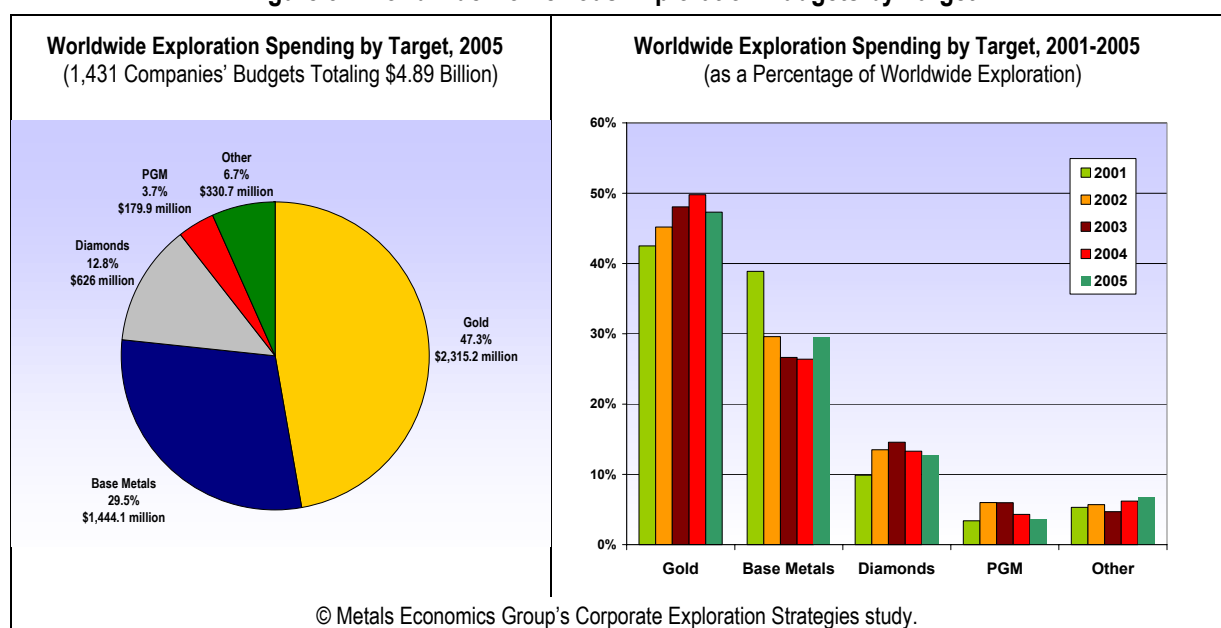
(Top Ten Countries' Budgets Total \$3.36 Billion;
69% of 2005 Total Budgets of \$4.89 Billion)



Base metals and diamond allocations reach new heights

This year's look at exploration allocations by target shows base metals and diamonds at record levels, gold continuing to rise but still well below the 1997 high, and platinum group metals recording the weakest growth. Figure 3 below illustrates the distribution of the \$4.89 billion in exploration allocations by target for this year's surveyed companies, and a five-year comparison of the allocations to each target as a percentage of each year's worldwide exploration total. Gold consistently attracts more exploration expenditure than any other metal, but has dropped back below the 50% level this year, receiving less than half of the overall budget total for five of the last six years. Despite a three-fold increase in gold allocations since the bottom of the exploration cycle in 2002, the \$2.3 billion allocated to gold in 2005 is still 22% less than at the 1997 exploration peak, when gold attracted almost \$3 billion and represented 65% of overall spending.

Figure 3: Worldwide Nonferrous Exploration Budgets by Target



Base metals allocations have increased significantly over the past three years as copper, nickel, and zinc prices are at their highest levels in many years. Copper allocations have accounted for at least half of the base metals total for more than a decade, and comprise 57% of this year's total; copper allocations in 2005 total \$825 million, surpassing the previous peak of \$755 million in 1997. Nickel exploration has also surpassed its previous high-water mark, rising 65% this year to \$428 million, while zinc allocations nearly doubled from 2004 to \$192 million. Despite the substantial rise in zinc exploration, the 2005 total remains well below the previous peak of \$267 million in 1997.

Diamond allocations have increased for the fourth consecutive year, rising 33% to \$626 million in 2005. Since the early 1990s, when the discovery of diamonds in northern Canada sparked a diamond exploration boom, Canada has increasingly vied with Africa as the most popular destination for diamond exploration allocations—in the ten years from 1996 to 2005, diamond allocations for Africa totaled

\$1.23 billion compared with \$1.09 billion for Canada. Exploration allocations for platinum group metals have recorded the weakest growth for the second year, increasing by a relatively meager 16% to a total of \$180 million in 2005, while budgets for other targets (primarily silver, molybdenum, cobalt, mineral sands, and industrial minerals) have risen by 49% to a total of \$331 million.

Late-stage allocations exceed grassroots exploration

Figure 4 below illustrates the distribution of the \$4.89 billion in exploration allocations by stage of development for this year’s surveyed companies, and a five-year comparison of the allocations to each stage as a percentage of each year’s worldwide exploration total. Annual exploration allocations by surveyed companies for each of the three stages of development over the past decade have generally tracked the overall trend in worldwide exploration spending in terms of dollars spent. Late-stage exploration, however, has become increasingly important in the current exploration cycle, as companies at all levels of the industry are continuing to focus on their later-stage projects, encouraged by higher metals prices and other global factors—the junior explorers, to prove up reserves in order to hold the attention of investors and to attract the majors; aspiring and small producers, to secure development financing while the market is strong; and majors, to fast-track projects in their existing pipeline. In addition, several known dormant projects, previously determined as uneconomic at the bottom of the commodities price cycle, are now being reevaluated for development.

The above-average increases in late-stage budgets over the past two years have far outstripped the increases in grassroots budgets, which have traditionally attracted the largest percentage of worldwide exploration spending. As a result, total late-stage budgets have exceeded total grassroots budgets (although by only \$3.2 million) for the first time since our series of studies began in 1989.

Figure 4: Worldwide Nonferrous Exploration Budgets by Stage of Development

