

Industries
Energy, Utilities & Mining

junior mine*

Review of trends in the TSX-V mining industry

February 2009



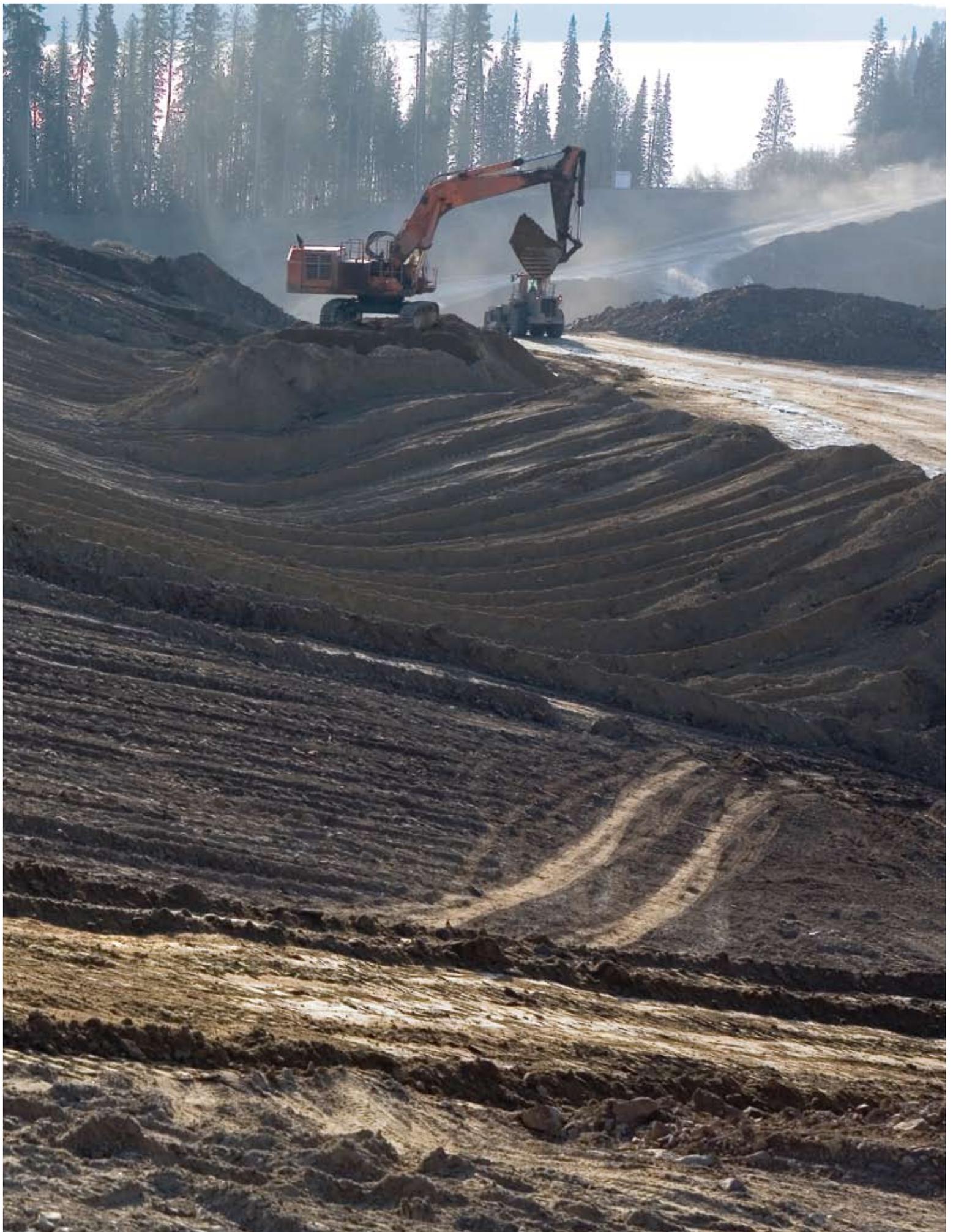
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Introduction

This year we have revised the format of our annual junior mining publication to reflect the powerful impact of the credit crisis on the sector. While previous editions examined the top 100 mining companies on the TSX Venture Exchange (TSX-V) based on market capitalization for year end June 30, our third annual Review of Trends in the TSX-V mining industry also includes additional analysis of the five months between June 30 and November 30, 2008 when the credit crunch hit hardest.

The other difference is a further breakdown of data into three categories of companies – exploration, development and production – from the two categories of exploration and production in previous editions, with development being broken out from exploration. As of June 30, 2008, 69 of the top 100 mining companies on the TSX-V were in the exploration phase, 16 in the production phase and 15 in the development phase.

In contrast to the exuberance that characterized 2007, 2008 was a dismal year for junior mining. The market capitalization of the top 100 companies declined marginally from \$20.2 billion on June 30, 2007 to \$18.1 billion a year later. But by the end of November 2008, the market capitalization of the top 100 had plummeted to \$4.1 billion as the global financial crisis worsened and investors fled this high-risk sector.

We hope this year's report, with its added analysis of trends during the latter half of 2008, provides a useful reflection on a tumultuous year for the junior mining sector as well as insight into what may lie ahead.

Paul Murphy

Canadian Mining Practice Leader
PricewaterhouseCoopers LLP



Financial highlights

The financial highlights for the 100 companies included in our analysis are summarized below.

| | Production | | | Development | | | Exploration | | |
|---|-----------------|-----------------|-------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
| | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % |
| Income Statement | | | | | | | | | |
| Revenues | 689,589 | 469,007 | 47% | 38,066 | 1,151 | 3207% | 5,270 | 1,051 | 401% |
| EBITDA | (170,829) | 59,502 | -387% | (98,177) | (129,880) | -24% | (430,214) | (416,925) | 3% |
| Net loss for the year | (295,242) | (7,363) | 3910% | (99,213) | (131,851) | -25% | (402,017) | (418,489) | -4% |
| Balance Sheet | | | | | | | | | |
| Cash and cash equivalents | 514,681 | 329,142 | 56% | 331,187 | 475,743 | -30% | 819,225 | 1,303,253 | -37% |
| Deferred exploration and mineral properties and property, plant and equipment | 3,283,788 | 1,131,730 | 190% | 688,296 | 852,210 | -19% | 1,740,170 | 1,574,293 | 11% |
| Total liabilities | 1,937,128 | 537,810 | 260% | 192,672 | 327,896 | -41% | 304,391 | 422,535 | -28% |
| Shareholders' equity | 2,475,640 | 1,283,108 | 93% | 956,733 | 1,180,368 | -19% | 2,596,107 | 2,893,112 | -10% |
| Cash Flow Statement | | | | | | | | | |
| Net cash provided by (used in) operating activities | 42,823 | 32,551 | 32% | (62,856) | 19,079 | -429% | (239,880) | (264,066) | -9% |
| Cash used in investing activities | (851,020) | (518,978) | 64% | (246,161) | (449,046) | -45% | (619,440) | (546,301) | 13% |
| Cash provided by financing activities | 845,565 | 727,694 | 16% | 458,712 | 803,632 | -43% | 1,199,447 | 1,705,017 | -30% |
| Source: Aggregated highlight financial information compiled by PricewaterhouseCoopers based on public SEDAR filings primarily annual reports. | | | | | | | | | |



Executive summary

The junior mining sector struggled in 2008, particularly in the latter half of the year. Lower commodity prices, higher costs, and limited access to cash combined to shrink market capitalizations and erode profit margins.

The market capitalization of the mining sector fell 27% to \$29.4 billion during the year ended June 30, compared to a decline of just 5% for the TSX-V as a whole. Moreover, the share of the TSX-V market capitalization represented by mining companies dropped from 65% to 50% over the year as investors shunned higher risk exploration companies, which make up the majority of mining listings on the TSX-V. But if the first half of 2008 was challenging, the worst was yet to come. By September 30 the mining sector's market capitalization had plummeted to \$15.3 billion and, by November 30, to \$7.9 billion, representing a 73% decline in the five months to the end of November 2008.

Even the production companies among the top 100 recorded a negative EBITDA of \$170.8 million for the year ending June 30, 2008 compared to a gain of \$59.5 million during the same period in 2007.

Sources of financing also began to dry up, leaving companies with limited cash to finance their exploration and development projects. Overall cash is down \$443 million and liabilities have increased \$1.1 billion. In the year ended June 30, 2008 cash from share issuance dropped to \$2.23 billion from \$2.97 billion in 2007. Despite this decline, spending rose slightly with \$202 million (\$184 million in 2007) expensed on exploration and \$1.23 billion (\$1.20

billion in 2007) capitalized on properties, plants and equipment as the cost of doing business rose.

In terms of representation on the TSX-V, mining's significance remained intact, with the number of companies falling only slightly to 44% of the 2395 listed companies from 47% in 2007. In fact, the number of mining listings actually rose from 1057 on June 30 to 1085 on November 30, reinforcing the notion that market capitalization among the sector did not decline because the TSX-V was losing mining companies, but because the listed companies were collectively losing share value.



Of the top 100 mining companies with total assets of \$8.46 billion, 42 were involved in gold mining and/or exploration. The net loss of \$797 million for the group reflects the dominance of exploration companies.

There has been little change in the distribution of the top 100 among production, development and exploration companies from 2007 to 2008. Exploration companies gained 2 for a total of 69, while production and development companies lost one each to end up with 16 and 15 respectively. Three companies entered into production over the year: Sherwood

Copper Corporation, Iberian Minerals Corp. and Roca Mines Inc.

There appears to be little relief ahead for junior mining companies in 2009. Those with proven reserves may be able to weather the financial storm, either by becoming the target of cash-rich majors or by raising debt financing with stringent repayment terms and hedging obligations. The exploration companies that make up the majority of the top 100, however, are in danger of running out of cash as they continue to be shunned by risk-averse debt and equity markets.

However, at the time of going to print, a number of financings are starting to be seen in the marketplace. It will be interesting to see how this sector develops in next year's publication.

The TSX-V junior mining sector

Market capitalization

After three years of gains, market capitalization for the mining sector reversed course in the year ended June 30, 2008, losing almost all the advances made in 2007. Furthermore, the number of mining companies with market capitalization of more than \$500 million, after jumping from four in 2006 to seven in 2007, slid back to five.

Turnover in the mining sector continued to be high as companies graduated to the main board and others were disqualified from the top 100. Of the top 100 in 2007, 46 remain in the top 100 in 2008: 22 graduated to the Toronto Stock Exchange (TSX) and 29 dropped off the current year top 100 list as their market capitalization fell below the minimum. The other three entities from the 2007 list were acquired (Palmarejo Silver and Gold Corporation by Coeur d'Alene Mines Corporation, Nevada Pacific Gold Ltd. by U.S. Gold Corporation and Arizona Star Resource Corp. by Barrick Gold Corporation). Of the top 100 examined in our first report in 2005, only 16 remain on the TSX-V. Of the remainder, 34 graduated to the TSX, 33 remain on the TSX-V but have dropped off the top 100, and 17 have been acquired.

There was a stark difference in growth between the high and low ends of the top 100. While the top five companies grew from \$3.76 billion in 2007 to \$5.33 billion in 2008 – mainly because of the substantial growth of SouthGobi Energy Resources Ltd. – the market cap of the 100th company

dropped from \$80.0 million to \$55.2 million, the same level as the 100th company in 2006. As a result, the gap between market cap of the 1st and 100th company widened to \$2.7 billion from \$1.1 billion in 2007.

Principal metals mined

Despite the high turnover of companies in the sector, the proportion of metals mined has remained fairly consistent year over year. Gold remains the main metal of interest, with 42% of companies either exploring for, developing or mining it, up from 40% in 2007.

The prominence of certain metals among the top 100's principal commodities tends to wax and wane in tandem with prices. Gold continues to dominate because the price of the metal has risen steadily over the decade and continued to do so in 2008. On the other hand, the number of uranium companies represented in the top 100 dropped from 16 in 2007 to 8 in 2008 as the uranium price plummeted to half its 2007 value. The only metal to buck this trend was nickel, which maintained its share of the pie despite a nearly 50% drop in nickel prices, an overhang from robust investment in Canadian nickel properties in Ontario and Manitoba when prices for the metal were much higher.

Headquarters

Among the provinces, British Columbia continues to increase its share of junior mining companies, providing a home for 73 of the top 100 companies, compared to 60 in 2007. Starting from a strong base as

the headquarters of the Vancouver Stock Exchange, a predecessor of the TSX-V, British Columbia has been moving up the ranks of mining-friendly jurisdictions in recent years, according to an annual survey of mining companies conducted by the Fraser Institute.

British Columbia's gain in head offices was at the expense of Ontario, Quebec and Alberta, whose share of top 100 mining companies dropped to 17%, 4% and 1% respectively.

As a nation, Canada continues to be the most popular headquarters in the world for junior mining companies because of ongoing incentives such as flow-through shares that allow tax deductions for exploration to be passed on to the investor. Although flow-through financing is currently not available anywhere else in the world, The Australian government is under pressure to put a similar scheme in place as part of its 2009 budget. How this initiative would affect Canada's dominance in the junior mining sector is unknown.

Top five companies

After more than doubling to 29 in our 2007 report, the number of companies with market capitalizations greater than \$200 million dropped to 22 in 2008 as lower metal prices took their toll and investors sold off high risk exploration stocks. The number of production companies represented in the plus-\$200 million group, however, doubled to six, suggesting they may have had a slight edge over

Figure 1 Growth of junior mining companies on the TSX-V from 2006 to 2008 (in billions)

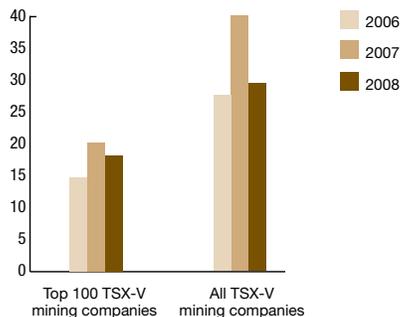


Figure 2 Principal commodity of the 100 companies analyzed, based on market capitalization

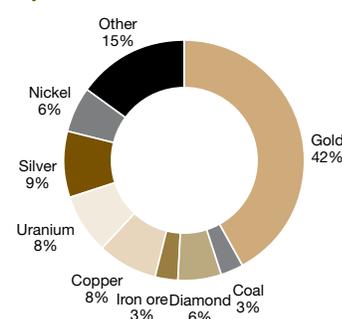
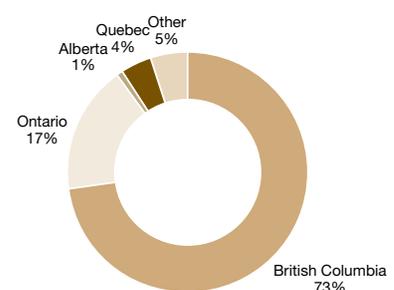


Figure 3 Location of the top 100 companies analyzed, based on market capitalization



exploration and development companies in weathering the credit crisis and the resulting deterioration of market value, at least in the first half of the year.

Another surprising outcome is that the market capitalization of the top five companies grew in the first half of 2008 even though overall market cap for the top 100 declined. The top group's 42% growth to \$5.33 billion is largely attributable to SouthGobi Energy Resources Ltd., whose market cap more than quadrupled from \$511 million in 2007 to \$2.7 billion in 2008 as it continued its transformation from precious metals explorer to coal producer and took advantage of record prices for coal in the first half of 2008. SouthGobi represented 51% of the market cap of the top five and 15% of the top 100. MagIndustries Corp., the third largest company – with exposure to hydroelectric power, forestry, magnesium and potash – also experienced significant growth.

All of 2008's top five companies were on the 2007 top 100 list including Seabridge Gold Inc. (#2), SouthGobi (#6), Anoroaq Resources Corp. (#11), Peak Gold Ltd. (#12) and MagIndustries (#23). Peak Gold was purchased in July 2008 to become part of New Gold Inc. and Seabridge moved to the TSX.

As a result of market deterioration, buy-outs and promotions, the top five deck was shuffled significantly from the second to third quarter, with SouthGobi the only company left in the top 5 on September 30, 2008. MagIndustries and Anoroaq lost

too much value and were replaced by San Gold Corporation and Rusoro Mining Ltd respectively. Hathor Exploration Ltd took Peak Gold's place in fourth spot, while Golden Wheaton Corp. replaced Seabridge in second place.

Production, development and exploration companies

There were 16 companies in production among the top 100, accounting for \$3.8 billion (21%) of the group's total market capitalization. Another 15 were at the development phase, representing a market capitalization of \$2.5 billion (14%). The majority (69) were in the exploration phase, representing a market capitalization of \$11.8 billion (65%).

Projects continued to be focused in Canada (especially British Columbia and Quebec), where 38% of the companies are producing, developing or exploring. Another 10% of companies are working in the United States, while Mexico drew 8% of the top 100. South America as a whole accounted for 14% of activity, up 2% from 2007.

Reporting currency

Similar to 2007, most companies (83%) in the top 100 reported their results in Canadian dollars. The rest reported in U.S. dollars. All of the companies are using Canada's Generally Accepted Accounting Principles (GAAP) but this practice will change when the adoption of International Financial Reporting Standards (IFRS) takes place in 2011. So far, very few TSX-V

mining companies have opted for early adoption of the international standards, even though they will replace GAAP for public profit-oriented companies.

Once IFRS reporting standards are in place, Canadian companies will be reporting at the same standard as many other mining jurisdictions including Australia, South Africa and several South American countries. The TSX-V's main competitors for mining listings, AIM in the UK and the ASX in Australia, already apply IFRS standards.

Notes on aggregation

In order to aggregate financial information in a common format consistent with previous years, we have made some adjustments and estimates to information for the year ended June 30, 2008. In addition, the data from 2007 has been broken down into three categories of companies (production, development and exploration) from two (production and exploration) in order to be comparable with 2008's categorization.

For balance sheets, we converted foreign currencies to Canadian dollars using the closing exchange rate on June 30, 2008. For income and cash flow statements, we used the average exchange rate for the year ended June 30, 2008.

Some companies have non-mining activities that are included in their results and our analysis. However, with the exception of MagIndustries, non-mining revenues are insignificant.

Figure 4 Market capitalization of the five largest TSX Venture Exchange mining companies

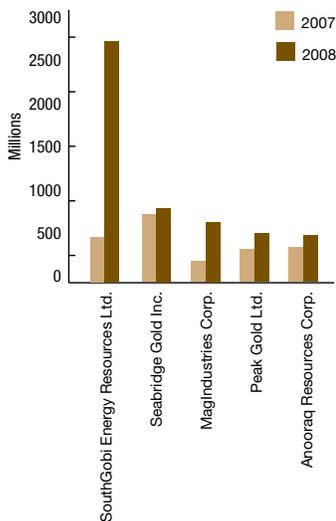


Figure 5 Major area of operation for the 100 companies analyzed

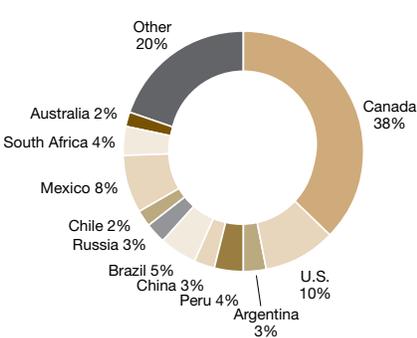
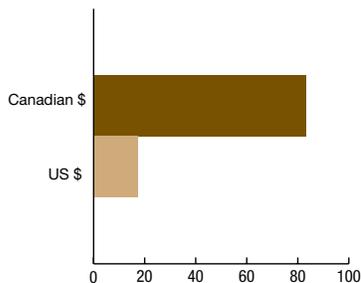


Figure 6 Reporting currency of the 100 companies



Financial performance

Aggregated income statements for the top 100 companies for the years ended June 30

| | Production | | | Development | | | Exploration | | |
|--|------------------|-----------------|--------------|-----------------|------------------|-------------|------------------|------------------|-------------|
| | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % |
| Revenues | | | | | | | | | |
| Mining revenue | 679,042 | 467,616 | 45% | 3,971 | – | – | 73 | 362 | -80% |
| Other revenue | 10,547 | 1,391 | 658% | 34,095 | 1,151 | 2862% | 5,197 | 689 | 654% |
| | 689,589 | 469,007 | 47% | 38,066 | 1,151 | 3207% | 5,270 | 1,051 | 401% |
| Expenses | | | | | | | | | |
| Cost of production | 506,600 | 280,649 | 81% | 28,506 | 20 | 142430% | 22 | 242 | -91% |
| Exploration expense | 26,360 | 17,963 | 47% | 26,418 | 85 | 30980% | 149,142 | 166,308 | -10% |
| General and administration | 102,003 | 72,956 | 40% | 48,784 | 45,585 | 7% | 147,079 | 147,670 | 0% |
| Stock-based compensation | 45,643 | 18,286 | 150% | 20,159 | 40,997 | -51% | 126,847 | 122,130 | 4% |
| Other expenses | 7,438 | 9,784 | -24% | 6,308 | 1,206 | 423% | 6,290 | 7,936 | -21% |
| | 688,044 | 399,638 | 72% | 130,175 | 87,893 | 48% | 429,380 | 444,286 | -3% |
| Other | | | | | | | | | |
| Interest income | 15,269 | 13,268 | 15% | 6,631 | 11,334 | -41% | 24,808 | 37,098 | -33% |
| Write down of mineral properties and exploration | (36,128) | (6,262) | 477% | (12,414) | (17,201) | -28% | (42,727) | (22,703) | 88% |
| Other gains (losses) | (151,515) | (16,873) | 798% | (285) | (37,271) | -99% | 11,815 | 11,915 | -1% |
| | (172,374) | (9,867) | 1647% | (6,068) | (43,138) | -86% | (6,104) | 26,310 | -123% |
| EBITDA | (170,829) | 59,502 | -387% | (98,177) | (129,880) | -24% | (430,214) | (416,925) | 3% |
| Amortization and depreciation | 118,040 | 53,118 | 122% | 1,481 | 161 | 820% | 4,313 | 2,419 | 78% |
| Interest expense | 9,743 | 8,011 | 22% | 3,580 | 5,974 | -40% | 775 | 4,744 | -84% |
| Loss before tax | (298,612) | (1,627) | 18254% | (103,238) | (136,015) | -24% | (435,302) | (424,088) | 3% |
| Income tax expense (recovery) | (3,370) | 5,736 | -159% | (4,025) | (4,164) | -3% | (33,285) | (5,599) | 494% |
| Net loss for the year | (295,242) | (7,363) | 3910% | (99,213) | (131,851) | -25% | (402,017) | (418,489) | -4% |

Source: Aggregated highlight financial information compiled by PricewaterhouseCoopers based on public SEDAR filings.

Growth

As some of the development companies from 2007 became production companies in 2008, revenue for the top 100 jumped 56% to \$733 million. Sherwood Copper Corporation, (revenue of \$68 million in the first half of 2008), Iberian Minerals Corp. (revenue of \$48 million in the first half) and Roca Mines Inc. (revenue of \$6 million in the three months to May 31, 2008) all went into production over the year.

The jump in revenue is also attributable to increased gold and silver prices, since more than half of the companies report either gold (42) or silver (9) as their principal commodity. The gold price increased 43% to US\$930 per ounce over the year ended June 2008, while silver recorded a gain of 41% to US\$17.65 per oz.

Overall growth in revenues was offset by increased costs across the board, from materials to labour. Oil virtually doubled in price over the year. The cost increases were exacerbated by increased demand from growing economies across the globe, especially in China and India.

As a result, mining margins dropped significantly from 28.1% in 2007 to a slim 3.5% in 2008. That means that 96.5% (\$707 million) of the total revenues of the top 100 companies was consumed by production and amortization costs in 2008.

Exploration expenses were higher at \$202 million compared to \$184 million in 2007 as project costs increased. Stock-based compensation also crept up by 6%, partially related to production companies trying to attract and retain quality workers during an industry-wide labour shortage while, at the same time, conserving cash.

As a result of these cost increases, EBITDA (earnings before interest expense, taxes, depreciation and amortization but after write downs of assets) was negative, even for production companies. Total EBITDA losses for the top 100 increased to almost \$700 million from \$487 million in 2007. EBITDA was also hit by unrealized losses from

derivative financial instruments on forward metal production and sales contracts, hedges required by loan facilities in order to obtain financing. Companies hurt by these instruments included Iberian Minerals, with a \$119 million loss for the first six months of 2008 and Sherwood Copper, with a \$77 million loss, accounting for majority of the loss in other gains (losses).

Steep declines in commodity prices other than gold and silver and disappointing exploration results forced companies to write down mineral properties and exploration to the tune of \$91 million, almost double the amount for 2007.

The growth of depreciable capital property also cut into earnings, leading to a total net loss for the year ended June 30, 2008 of \$797 million compared to a net loss of \$558 million the previous year.

Cash flow

Net losses from operating activities for the top 100 jumped 53% to \$838 million but non-cash items (i.e. the cost of depreciation and amortization) for the production companies was much greater than in 2007, leaving more net cash provided by operations. The same cannot be said of the exploration and development companies. Usually, non-cash items provide a bigger offset of net losses, but this year's increase in G&A and exploration costs and most other expenses paid with cash dampened the effect of non-cash items. As a result, the net cash used in operating activities by the top 100 as a whole increased 22% to \$260 million, of which \$202 million is related to exploration expenditures.

With the exception of the production companies, most companies spent less on exploration and mineral properties resulting in a 9% decrease overall. Spending on purchases of property, plants and equipment (PP&E), on the other hand, increased by 33% to \$442 million. The increase is largely attributable to Iberian Minerals, which spent \$118M to acquire PP&E in Canada, Spain and Peru.

Figure 7 Gold and silver commodity price index July 1, 2005–June 30, 2008

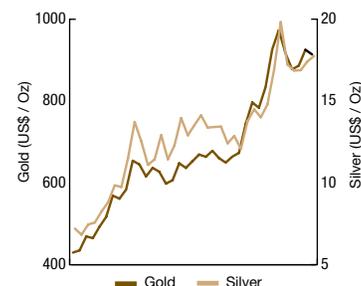


Figure 8 Copper, nickel and uranium commodity price index: July 1, 2005–June 30, 2008

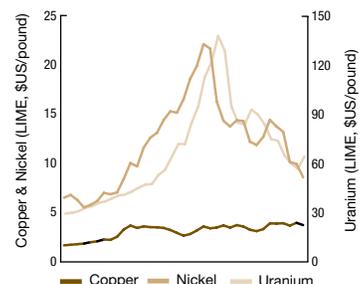


Figure 9 Mining revenues and production costs for the top 100 companies (\$ '000)

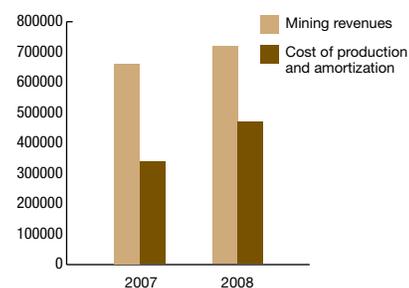
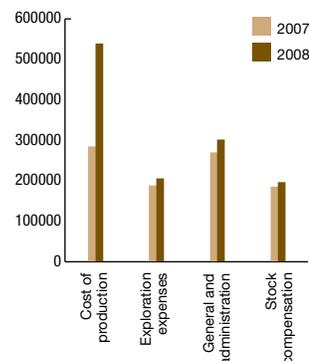


Figure 10 Key expenses for the top 100 companies (\$ '000)



Aggregated cash flow statements for top 100 companies for the years ended June 30

| | Production | | | Development | | | Exploration | | |
|--|-----------------|-----------------|-------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
| | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % |
| Operating activities | | | | | | | | | |
| Net loss | (373,119) | (20,896) | 1686% | (93,997) | (128,783) | -27% | (370,674) | (396,229) | -6% |
| Non cash items | 473,644 | 89,491 | 429% | 50,941 | 162,575 | -69% | 116,784 | 155,089 | -25% |
| Working capital changes | (34,017) | (33,492) | 2% | (20,093) | (12,687) | 58% | 14,718 | (22,942) | -164% |
| Other | (23,685) | (2,552) | 828% | 293 | (2,026) | -114% | (708) | 16 | -4525% |
| Net cash provided by (used in) operating activities | 42,823 | 32,551 | 32% | (62,856) | 19,079 | -429% | (239,880) | (264,066) | -9% |
| Investing activities | | | | | | | | | |
| Mineral property and exploration expenditures | (168,685) | (110,052) | 53% | (205,189) | (280,384) | -27% | (416,031) | (477,851) | -13% |
| Purchase of property, plant and equipment | (277,666) | (75,426) | 268% | (22,955) | (171,353) | -87% | (140,969) | (85,427) | 65% |
| Acquisitions of other companies (net of cash acquired) | (209,458) | (225,745) | -7% | (7,095) | 1,486 | -577% | (5,994) | 7,981 | -175% |
| Purchase of investments | (73,363) | (28,236) | 160% | (3,050) | (62,680) | -95% | (141,429) | (144,904) | -2% |
| Proceeds on sale of mineral properties | 328 | - | - | - | - | - | (1,957) | 1,606 | -222% |
| Proceeds on sale of investments | 35,660 | 205 | 17295% | 7,409 | 49,791 | -85% | 112,128 | 96,038 | 17% |
| Proceeds on sale of concentrate | - | - | - | - | - | - | - | 31,911 | -100% |
| Other | (157,836) | (79,724) | 98% | (15,281) | 14,094 | -208% | (25,188) | 24,345 | -203% |
| Cash used in investing activities | (851,020) | (518,978) | 64% | (246,161) | (449,046) | -45% | (619,440) | (546,301) | 13% |
| Financing activities | | | | | | | | | |
| Issue of shares | 670,117 | 698,628 | -4% | 428,956 | 614,885 | -30% | 1,131,747 | 1,658,874 | -32% |
| New borrowings | 235,011 | 41,380 | 468% | 5,121 | 80,725 | -94% | 6,150 | 63,382 | -90% |
| Repayment of borrowings | (83,428) | (68,953) | 21% | (16,672) | (3,792) | 340% | (4,266) | (20,465) | -79% |
| Dividends paid | (4,986) | - | - | - | - | - | - | - | - |
| Other | 28,851 | 56,639 | -49% | 41,307 | 111,814 | -63% | 65,816 | 3,226 | 1940% |
| Cash provided by financing activities | 845,565 | 727,694 | 16% | 458,712 | 803,632 | -43% | 1,199,447 | 1,705,017 | -30% |
| Effect of exchange rate | (2,521) | (290) | 769% | 2,907 | 189 | 1438% | (12,325) | 3,024 | -508% |
| Net increase in cash and cash equivalents | 34,847 | 240,977 | -86% | 152,602 | 373,854 | -59% | 327,802 | 897,674 | -63% |

Source: Aggregated highlight financial information compiled by PricewaterhouseCoopers based on public SEDAR filings.

Also notable is the 380% increase in “other” investing activities to \$198 million. In the second half of 2007 San Gold Corporation sold a production royalty for \$55 million. The cash was then invested in a financial institution to secure the company’s obligation under the royalty agreement. In addition, Iberian Minerals Corp made a cash deposit of \$21 million in Peru to pay pending hedge settlements.

Acquisitions of other companies remained fairly constant, showing a 3% increase to \$223 million. In 2007 Peak Gold was the main player, acquiring two mines from Goldcorp Inc. for \$300 million, including \$200 million in cash. In 2008 Rusoro Mining Ltd led the sector, acquiring all of the Venezuelan assets and liabilities of Gold Fields Netherlands Services BV for \$529 million, including US\$180 million in cash.

As investors shied away from risk, the ability of mining companies to finance their projects – especially those in the development or even higher risk exploration phases – declined. Equity issues dropped from \$3 billion in 2007 to \$2.2 billion in 2008. Exploration companies were the hardest hit (down 32%), followed by development companies (down 30%). Borrowing also decreased significantly among the exploration and development companies as lenders were hesitant to finance any property that was unproven. However, production companies were able to borrow 468% more than they did in 2007, suggesting money remained available for proven reserves in the ground. As a result, new borrowings increased 33% to \$246 million overall.

For the first time since 2006, mining companies paid dividends. Chief among these was Uruguay Mineral Exploration Inc. and GobiMin Inc, which paid out US\$2.7 million and US\$2.2 million in dividends respectively.

Assets & liabilities

As debt and equity markets became less accessible in 2008 and companies spent cash reserves accumulated during previous years, current assets of exploration and development companies (mostly cash) declined by 33% and 37% respectively from 2007. Although production companies were able to top up their cash balances by continuing to borrow, overall current assets for the top 100 companies dropped by \$341 million (12%) from 2007 to \$2.4 billion in 2008.

Non-current assets increased \$2.2 billion to \$6.1 billion, mainly because of the increased PP&E balances of one company. Rusoro Mining’s PP&E balance increased to US\$1.24 billion with the purchase of Gold Fields Netherlands Services BV, whose main asset is the Choco 10 mine in Venezuela.

The Gold Fields acquisition, along with increased inventory and deferred exploration and mineral properties, increased total assets for the top 100 by \$1.82 billion (27%) to \$8.5 billion. However, decreased commodity prices are forcing more write-offs resulting in lower inventory and deferred exploration and mineral property accounts.

Overall, the current asset to current liability ratio declined from 5.4 in 2007 to 2.7 in 2008 as companies increased accounts payable and current borrowing to help finance higher capital and production costs. The 50% decline was also attributable to lower cash balances among exploration and development companies, driving overall cash and cash equivalents for the top 100 down 21% to \$1.7 billion.

An 89% increase in overall liabilities was mainly the result of Rusoro Mining’s US\$445 million future income tax liability as of June 30, 2008. In addition, Sherwood Copper and Iberian Minerals contributed

\$289 million of derivative instrument liabilities combined, while San Gold Corp. had three promissory notes pledged to secure royalty obligations of \$114 million. Long term borrowing by production companies increased by 484% to \$243 million.

As equity financing waned, so did the share capital of exploration and development companies. However, production companies saw a large (79%) increase in share capital to \$2.4 billion that was mainly attributable to three companies: Silverstone Resources Corp., which was not on the top 100 list in 2007, had capital stock of US\$169 million as of June 30, 2008; Iberian Minerals increased its capital stock by \$83 million when it purchased 92% of the outstanding shares of Compania Minera Condestable S.A.; and Rusoro Mining added US\$323 million when it acquired Gold Fields.

“Other” equity for the top 100 companies increased by 133% to \$643 million. Again, Rusoro was in the driver’s seat with its \$404 million of “other comprehensive income”, \$367 million from unrealized foreign exchange gains on the translation of self-sustaining foreign operations as of June 30, 2008.

Despite these dramatic increases in share capital and other equity, liability growth (\$1.15 billion) outweighed equity growth (\$672 million). As a result, the debt to equity ratio jumped to 0.40 in 2008 from 0.24 in 2007, a clear indication that the top 100 companies were relying more on debt and less on equity to finance their operations in 2008.

Aggregated balance sheets for top 100 companies as at June 30

| | Production | | | Development | | | Exploration | | |
|--|-----------------|-----------------|-------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
| | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % | 2008 \$ '000 | 2007 \$ '000 | Change % |
| Current assets | | | | | | | | | |
| Cash and cash equivalents | 514,681 | 329,142 | 56% | 331,187 | 475,743 | -30% | 819,225 | 1,303,253 | -37% |
| Inventory | 146,022 | 79,819 | 83% | 6,865 | 4,707 | 46% | 6,823 | 5,903 | 16% |
| Accounts receivables | 116,905 | 62,999 | 86% | 17,998 | 19,942 | -10% | 39,545 | 45,409 | -13% |
| Marketable securities and short-term investments | 61,970 | 12,388 | 400% | 19,763 | 74,643 | -74% | 169,546 | 188,623 | -10% |
| Other current assets | 88,206 | 37,946 | 132% | 13,705 | 41,827 | -67% | 33,769 | 44,653 | -24% |
| | 927,784 | 522,294 | 78% | 389,518 | 616,862 | -37% | 1,068,908 | 1,587,841 | -33% |
| Non-current assets | | | | | | | | | |
| Deferred exploration and mineral properties | 1,074,911 | 899,617 | 19% | 626,505 | 507,571 | 23% | 1,501,147 | 1,513,753 | -1% |
| Property, plant and equipment | 2,208,877 | 232,113 | 852% | 61,791 | 344,639 | -82% | 239,023 | 60,540 | 295% |
| Investments | 151,309 | 133,378 | 13% | 44,035 | 20,947 | 110% | 40,483 | 102,670 | -61% |
| Other non-current assets | 49,887 | 33,516 | 49% | 27,556 | 18,245 | 51% | 50,937 | 50,843 | 0% |
| | 3,484,984 | 1,298,624 | 168% | 759,887 | 891,402 | -15% | 1,831,590 | 1,727,806 | 6% |
| Total assets | 4,412,768 | 1,820,918 | 142% | 1,149,405 | 1,508,264 | -24% | 2,900,498 | 3,315,647 | -13% |
| Current liabilities | | | | | | | | | |
| Accounts payable and accrued liabilities | 232,116 | 99,374 | 134% | 37,838 | 82,664 | -54% | 107,233 | 90,006 | 19% |
| Current borrowing | 255,237 | 72,603 | 252% | 28,766 | 36,073 | -20% | 13,819 | 13,589 | 2% |
| Other current liabilities | 111,669 | 46,392 | 141% | 19,652 | 29,611 | -34% | 81,012 | 31,398 | 158% |
| | 599,022 | 218,369 | 174% | 86,256 | 148,348 | -42% | 202,064 | 134,993 | 50% |
| Non-current liabilities | | | | | | | | | |
| Long-term debt | 243,163 | 41,640 | 484% | 25,553 | 63,376 | -60% | 32,903 | 73,948 | -56% |
| Other non-current liabilities | 1,094,943 | 277,801 | 294% | 80,863 | 116,172 | -30% | 69,424 | 213,594 | -67% |
| | 1,338,106 | 319,441 | 319% | 106,416 | 179,548 | -41% | 102,327 | 287,542 | -64% |
| Total liabilities | 1,937,128 | 537,810 | 260% | 192,672 | 327,896 | -41% | 304,391 | 422,535 | -28% |
| Shareholders' equity | | | | | | | | | |
| Share capital | 2,420,278 | 1,355,397 | 79% | 1,158,102 | 1,288,227 | -10% | 3,613,246 | 3,723,517 | -3% |
| Retained deficit | (667,298) | (247,926) | 169% | (390,796) | (290,106) | 35% | (1,435,435) | (1,284,910) | 12% |
| Contributed surplus | 274,495 | 126,828 | 116% | 71,935 | 116,424 | -38% | 341,182 | 293,549 | 16% |
| Other equity | 448,165 | 48,809 | 818% | 117,492 | 65,823 | 78% | 77,114 | 160,956 | -52% |
| | 2,475,640 | 1,283,108 | 93% | 956,733 | 1,180,368 | -19% | 2,596,107 | 2,893,112 | -10% |
| Total liabilities and shareholders' equity | 4,412,768 | 1,820,918 | 142% | 1,149,405 | 1,508,264 | -24% | 2,900,498 | 3,315,647 | -13% |

Source: Aggregated highlight financial information compiled by PricewaterhouseCoopers based on public SEDAR filings.

A troubling third quarter

In previous years, we have examined data for the year ended June 30. This year, we have added analysis up to November 30 to highlight the impact the global financial crisis had on the sector during the latter half of 2008. Between June 30, 2008 and November 30, 2008, the market capitalization of all TSX-V mining companies dropped 73% to \$7.9 billion. This compared to a decrease of 68% for the entire TSX-V for the same period.

The greater loss in the mining sector reflects investor distaste for high risk exploration stocks that make up the majority of the mining listings on the TSX-V.

The loss of value changed the make-up of the top five mining companies. Of the top five listed on June 30, only one – SouthGobi Energy Resources – remained by the end of the third quarter. Among the rest, Peak Gold was purchased, Seabridge graduated to the TSX and MagIndustries and Anooraq were knocked off the top five. They were replaced by Gold Wheaton Corp, San Gold Corporation, Hathor

Exploration Limited and Rusoro Mining. Overall, the market capitalization of the top five dropped 45% from \$5.3 billion on June 30 to \$2.9 billion by the end of the third quarter. By the end of November, the value of the group had plummeted to \$1.7 billion.

Rocky road ahead

The global financial crisis of 2008 shattered the junior mining industry in Canada and around the world. There could be no clearer indicator of this devastation than the market capitalization of mining companies on the TSX-V, which fell from \$40 billion on June 30, 2007 to \$7.9 billion on November 30, 2008, a decline of 80%. Most of this loss happened between June and November, 2008 as investors bailed out of equities, especially high risk ones, and engaged in tax-loss selling.

Production companies also suffered from lower commodity prices in the latter half of 2008 that further squeezed profit margins already reduced by the high cost of labour, equipment and energy. Their earnings are likely to be slim to non-existent for all of 2008.

Financing from both the debt and equity markets has also dried up, making it virtually impossible for explorers and developers to raise money for their projects. Companies with proven resources have had some luck raising financing, but they have had to accept far more stringent terms such as larger hedging obligations.

Until some confidence in the market returns and investors are willing to shoulder risk again, many projects will remain dormant. Some companies without proven resources will disappear altogether as they run out of money to cover even the most basic administration. For the year ended June 30, 2008 general and administration costs have increased by 12% for the top 100.

Other juniors will become takeover targets, although even majors with enough cash for purchases appear to be taking a wait-and-see approach while their own survival continues to be jeopardized by a commodity bear market.

| September 30, 2008 | |
|---------------------------------|------------------|
| Company | Sept 30, 2008 |
| SouthGobi Energy Resources Ltd. | 1,354,790,346.60 |
| Gold Wheaton Gold Corp | 809,646,787.84 |
| San Gold Corporation | 260,033,421.96 |
| Hathor Exploration Limited | 236,003,815.40 |
| Rusoro Mining Ltd | 215,574,695.01 |

| November 30, 2008 | |
|---------------------------------|----------------|
| Company | Nov 30, 2008 |
| SouthGobi Energy Resources Ltd. | 863,676,339.50 |
| Gold Wheaton Gold Corp | 254,586,246.20 |
| San Gold Corporation | 250,352,093.20 |
| Hathor Exploration Limited | 208,201,102.78 |
| Rusoro Mining Ltd | 102,306,634.92 |

Figure 11 TSX-V Market cap update (Q2, Q3 and Nov. 30)

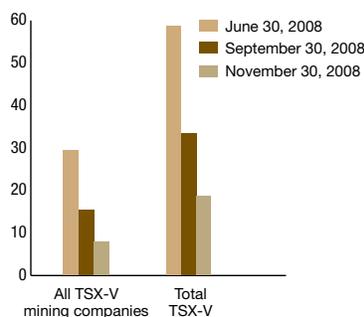
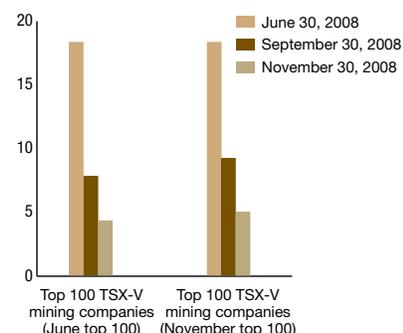


Figure 12 TSX-V Market cap update (Q2, Q3 and Nov. 30)



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