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# junior mine\*

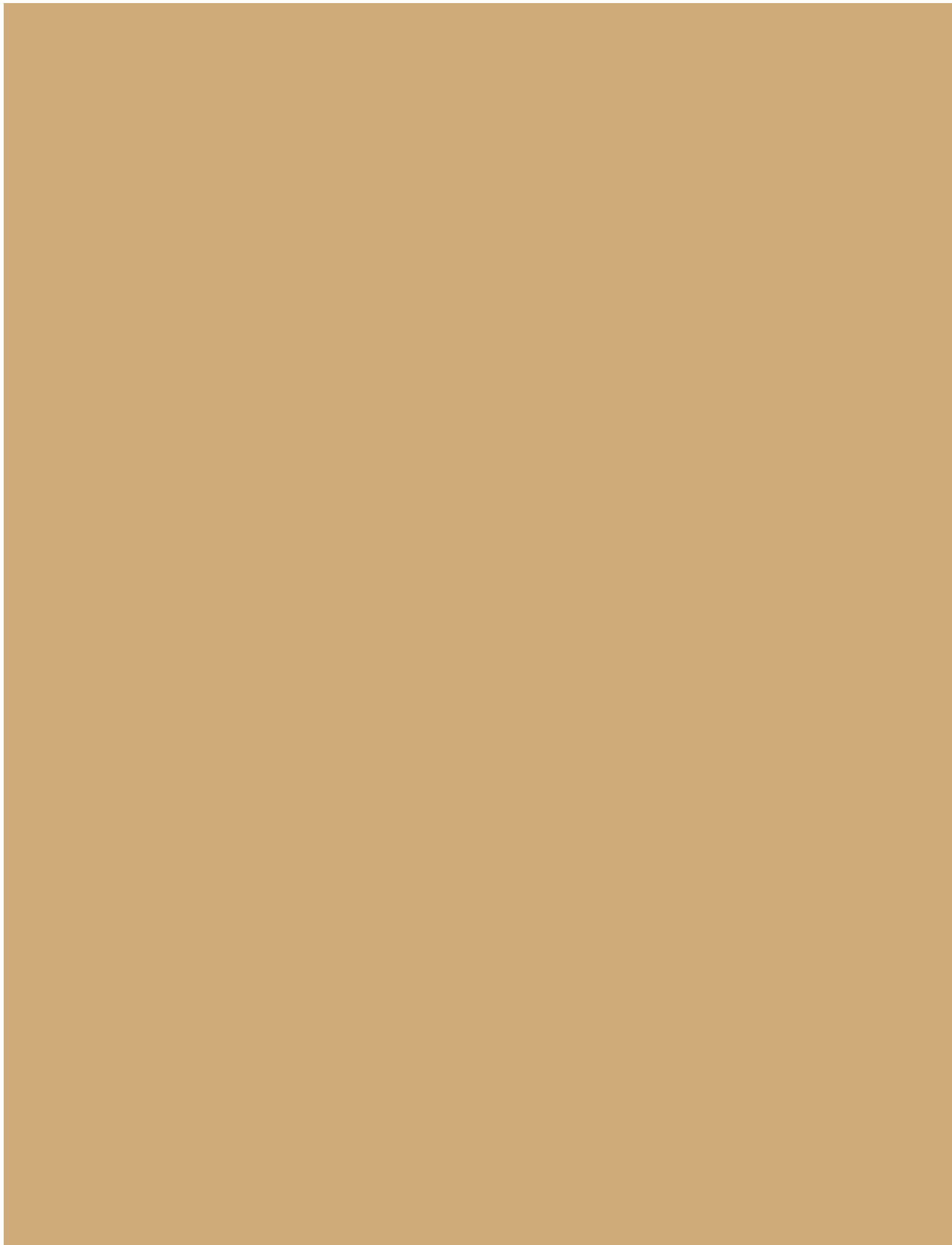
Trends in Junior Mining – 2009

February 2010



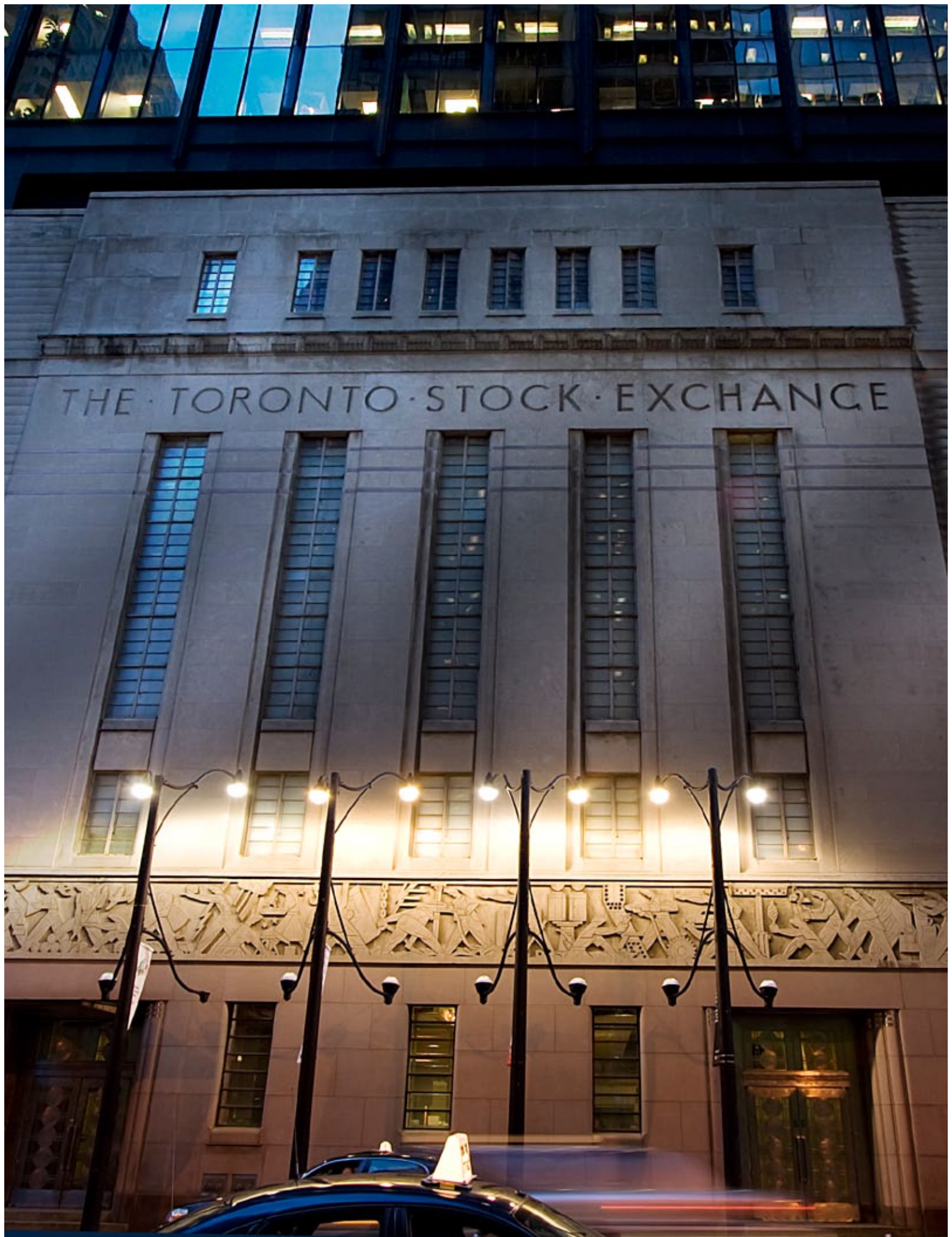
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PRICEWATERHOUSECOOPERS 



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# Introduction

The credit crisis and subsequent flight of capital were devastating for junior mining companies during the year ended June 30, 2009, the worst year for the sector since we launched our review in 2005. The total market capitalization for the top 100 mining companies on the TSX Venture Exchange (TSX-V) fell to \$8.6 billion, less than half the level for the same group in 2008. Even the top five companies on the list were not immune to the global financial collapse. Their total market capitalization fell from \$5.3 billion to \$2.7 billion.

This year we have revised our annual junior mining publication to include a snapshot of 20 mining companies on the TSX with market capitalizations of \$500-700 million, almost 10 times the market capitalization of the average company on the top 100 TSX-V list. The 20 companies on the TSX had a total market capitalization of \$12 billion.

The main difference between these two groups is that while the average market capitalization for the TSX-V companies fell considerably, the TSX companies were able to maintain—and even slightly increase—their average market capitalization year-over-year. The difference is likely attributable to better market accessibility and liquidity for larger companies that have advanced development projects or operations, especially those with a gold focus.

Of the TSX-V top 100, 71% were in the exploration phase, 18% in the development phase and 11% in the production phase. Of the top 20 companies with market capitalizations of \$500-700 million, 40% were in the exploration phase, 25% in the development phase and 35% in the production phase.

For consistency, we have adjusted all foreign currencies to Canadian dollars and have made some estimates and adjustments to arrive at a common format for financial information. Some companies have non-mining activities in their results, but these activities were not significant and, therefore, have been included in the data analysis.

We hope this year's report provides a comprehensive analysis of the continued erosion of market capitalization for the TSX-V's junior mining sector and some insight into how that sector might fare in 2010.

**Paul J. Murphy**

Partner & West Cluster Mining Industry Leader  
PricewaterhouseCoopers LLP

# Financial highlights

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

TSX-V	Production			Development			Exploration		
	2009 \$ '0000	2008 \$ '0000	Change %	2009 \$ '0000	2008 \$ '0000	Change %	2009 \$ '0000	2008 \$ '0000	Change %
<b>Income Statement</b>									
Revenues	296,328	210,531	41%	180,810	51,043	254%	187,178	152,364	23%
EBITDA	(5,239)	(97,900)	95%	(54,076)	(243,981)	78%	(742,189)	(386,797)	-92%
Net loss for the year	(26,758)	(118,442)	-77%	(97,917)	(221,916)	-56%	(741,700)	(397,919)	86%
<b>Balance Sheet</b>									
Cash and cash equivalents	210,692	198,725	6%	162,653	217,217	-25%	713,032	727,421	-2%
Deferred exploration and mineral properties and property, plant and equipment	1,378,934	1,689,681	-18%	979,654	1,020,945	-4%	1,932,895	1,610,409	20%
Total liabilities	531,859	783,528	-32%	549,925	755,064	-27%	668,492	534,175	25%
Shareholders' equity	1,234,861	1,547,749	-20%	1,493,190	655,744	128%	2,900,550	2,621,237	11%
<b>Cash Flow Statement</b>									
Net cash provided by (used in) operating activities	35,494	1,204	2848%	125,115	(89,831)	239%	(308,368)	(187,782)	-64%
Cash used in investing activities	(69,331)	(365,399)	-81%	(842,677)	(333,043)	153%	(546,278)	(637,377)	-14%
Cash provided by financing activities	125,648	384,486	-67%	641,593	535,250	20%	734,567	974,012	-25%

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

TSX Top 20	Production			Development			Exploration		
	2009 \$ '000	2008 \$ '000	Change %	2009 \$ '000	2008 \$ '000	Change %	2009 \$ '000	2008 \$ '000	Change %
<b>Income Statement</b>									
Revenues	693,374	610,330	14%	112,974	40,196	181%	871,927	709,146	23%
EBITDA	59,122	135,824	-56%	(142,864)	(35,557)	-302%	(80,951)	78,521	-203%
Net loss for the year	(63,506)	73,789	186%	(132,183)	(64,141)	106%	(246,648)	20,322	1314%
<b>Balance Sheet</b>									
Cash and cash equivalents	502,544	379,163	33%	455,174	377,243	21%	406,468	393,057	3%
Deferred exploration and mineral properties and property, plant and equipment	2,005,577	1,784,093	12%	2,117,152	1,204,590	76%	1,387,841	1,220,550	14%
Total liabilities	1,691,157	1,758,219	-4%	892,528	321,779	177%	655,272	606,231	8%
Shareholders' equity	3,150,637	2,556,970	23%	1,947,545	1,446,717	35%	2,406,066	2,437,903	-1%
<b>Cash Flow Statement</b>									
Net cash provided by (used in) operating activities	91,007	175,734	-48%	(80,869)	(126,207)	36%	136,838	97,870	40%
Cash used in investing activities	(231,018)	(527,382)	-56%	(769,201)	(205,377)	275%	(340,924)	(557,137)	-39%
Cash provided by financing activities	229,568	83,446	175%	708,510	29,546	2298%	211,637	403,827	-48%

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

# Executive summary

Despite higher gold prices, market conditions for the junior mining sector continued to deteriorate in 2009.



While some investors were prepared to take a chance on production and development companies, exploration companies, or any company perceived to carry a higher investment risk, were left out in the cold. As a result, market capitalizations for both the TSX-V mining sector and the entire TSX-V dropped by more than 50% from 2008 levels.

As the top 100 TSX-V companies tried to conserve cash, exploration spending fell by 8% across the board and by 24% for exploration companies. The top 100 group wrote down a total of \$644 million on mineral properties and exploration as projects were either abandoned or put on hold. Stock-based compensation fell in tandem with share prices.

Some of the smaller companies merged in order to survive, resulting in a 129% increase in acquisitions by exploration companies in the top 100 in 2009. Production companies, on the other hand, reduced their acquisitions by 81% as they focused on squeezing cash out of their existing assets rather than augmenting their portfolios.

Though cash available to the junior mining sector was beginning to dry up in 2008, financing became even more challenging for the top 100 in the first half of 2009. For the year ended June 30, cash provided by financing activities (both debt and equity) dropped 21% to \$1.5 billion. Expenses also declined as companies found ways to economize, but only by a modest 5%. One major expense component—the cost of production—rose sharply.

Although the make up of our top 100 list changes considerably from year-to-year as market capitalizations fluctuate, the overall distribution of exploration, development and production companies remains roughly the same. The majority of the top 100 companies are exploration companies, with development and production companies representing less than 20% of the total respectively. Gold is consistently the most popular commodity, especially in 2009 when gold prices soared through the \$1,000 per oz. level.

Of the top 100 companies in 2008, only 48 remain in the 2009 top 100 list. Most of the remainder dropped off the list as their market capitalizations fell, while eight—five of them gold companies—graduated to the TSX and another seven were acquired. The 100th company on the 2009 list had a market capitalization of \$25.7 million in 2009, compared to \$72 million in 2008 and \$195.3 million in 2007, reflecting the serious deterioration in market conditions for the junior mining sector.

Nevertheless, mining remained the dominant sector on the TSX-V in 2009, with the number of listed mining companies increasing to 1,084, or 48% of TSX-V listed companies, up from 44% in 2008.

Despite a difficult year, there were signs late in 2009 that the market was beginning to open to the junior mining sector.





# The junior mining sector

## Companies on the TSX with a market capitalization of \$500-700 million

To observe how mining companies further up the ladder from our usual selection of 100 TSX-V juniors fared during the economic crisis, we have included a brief analysis of 20 mining companies on the TSX with market capitalizations of \$500- \$700 million. The average market capitalization of these companies was \$602 million compared to an average market capitalization of \$87.5 million for the top 100 TSX-V companies. For the year ended June 30, 2009, the 20 TSX companies had total assets of \$10.7 billion and a net loss of \$442 million, while the 100 TSX-V companies had total assets of \$7.4 billion and a net loss of \$866 million.

In contrast to a 52% decline in the average market capitalization for the TSX-V mining sector year-over-year, the average market capitalization for mining companies valued at \$500-700 million increased slightly (0.17%). The difference is likely attributable to market accessibility. Companies at the high-risk exploration phase have been unable to tap the markets since the credit crunch of 2008, but larger gold companies at the development and production phases had more success attracting investors as the gold price gained momentum.

Gold was the most sought after commodity for both the TSX 20 (65%) and the TSX-V 100 (52%). However, the TSX companies were more likely to be headquartered

in Ontario (43%) than British Columbia (33%), while the majority of our TSX-V 100 companies called BC home. The preponderance of junior companies on the West Coast is a reflection of BC's legacy as a source of venture capital for junior exploration companies through the now defunct Vancouver Stock Exchange.

Although revenues for the top 20 companies increased, costs and write downs increased even more, leading to a net loss. For instance, production companies in the top 20 lost \$19 million on the disposal of mineral properties in 2009, up from \$552 thousand in 2008.

The list of 20 companies with market capitalizations of \$500-700 million in 2009 differs considerably from 2008's list. Only three companies fell into this category in both years: Andean Resources, Kirkland Lake Gold Inc. and Golden Star Resources.

## Market capitalization

The market capitalization of the TSX-V continued to deteriorate in 2009, falling by 55%. Representing 48% of the listings on the TSX-V, the mining sector's market capitalization declined in tandem, dropping 53% to \$8.6 billion in 2009 after a more modest decline of 27% in 2008. As a result, only two mining companies retained a market capitalization of more than \$500 million in 2009, down from five in 2008 and seven in 2007. The average market capitalization for the top 100 mining companies on the TSX-V dropped from \$181 million in 2008 to \$87.5 million.

The top five companies had a total market capitalization of \$2.7 billion, half of the \$5.3 billion recorded in 2008. As a result of the deterioration among the top companies, the difference between the market capitalizations of the two companies that bookend the top 100 shrank considerably, from \$2.7 billion in 2008 to \$1.3 billion in 2009. The number one company, SouthGobi Energy Resources Ltd., had a market cap of \$1.3 billion, down 112% from 2008, while the 100th company, JNR Resources, had a market cap of \$18.9 million.

High turnover in the mining sector continued as a few juniors graduated to the main board while many more were disqualified from the top 100 list. Of the top 100 in the 2008, only eight companies, including five gold companies, graduated to the Toronto Stock Exchange (TSX) compared with 22 in 2008. Another 36 dropped off the list as their market capitalization fell, compared to 29 companies in 2008.

The remaining seven were acquired. Frontier Pacific Mining Corporation was bought by Eldorado Gold, Mano River Resources merged with African Aura Resources, Peak Gold merged with New Gold and Metallica Resources, and Quinto Mining Corp. was acquired by Consolidated Thomson Mines. Sherwood Copper Corp merged with Capstone Mining Corp., while Waratah Coal was bought by Mineralogy. Yukon Zinc became wholly-owned by Molybdenum Group Co and Northwest Nonferrous International Investment Company.

Figure 1 Market Cap of junior mining companies on the TSX-V from 2006 to 2009

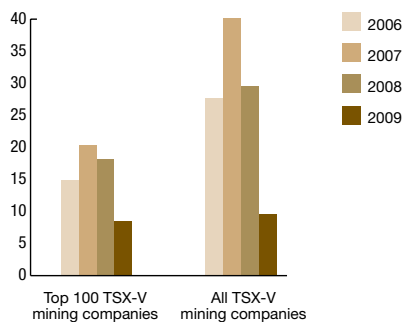


Figure 2 Principal commodity of the 100 companies analyzed, based on market capitalization

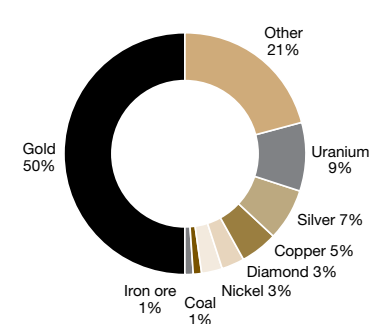
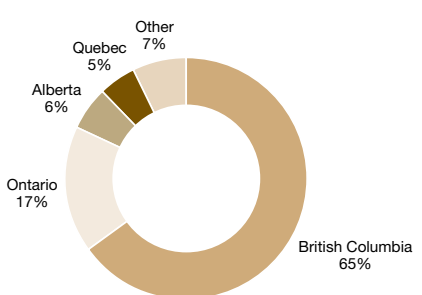


Figure 3 Location of the top 100 companies analyzed, based on market capitalization



Despite the dramatic changes to the list make up, the ratio of exploration to development to production companies remained fairly consistent at 71:18:11, compared to 69:15:16 in 2008.

### Principal commodity mined

Gold continued to build its dominance as the main commodity of interest with 50% of companies either exploring for, developing or mining it, up from 42% in 2008 and 40% in 2007. The overall distribution of commodities among companies has stayed fairly consistent over the four years since we launched our report, though uranium replaced copper as the second most sought after metal in 2009 and the focus on “other” minerals grew.

The gold price dropped slightly in the latter half of 2008, but began to rise steadily at the beginning of 2009 and continued its ascent throughout the year. As a result, gold was the only individual commodity that attracted more companies than the previous year, registering a 24% increase. The number of companies focused on diamonds, however, dropped from six in 2008 to one in 2009.

There was a significant increase in the number of companies looking for “other” commodities, from 15 in 2008 to 23 in 2009. The increase reflects the diversification of the junior mining sector into fertilizers and exotic metals. Three companies in the top 100 list, for example, listed potash as their main commodity of interest while another three were focused on lithium. Potash prices have been on the rise in recent years, peaking

at about US\$1,000 per pound in 2008, while demand for lithium is increasing as the market for products such as laptops, mobile phones and electric cars grows.

### Headquarters

Among the provinces, British Columbia remained by far the most popular location for headquarters, providing a home for 69 of the top 100 companies compared to 73 in 2008.

However, Alberta and Quebec both increased their share of headquarters, with Alberta providing a home base for six companies, up from one company in 2008 and Quebec adding two companies to host six. Ontario increased its share of company headquarters slightly from 17 to 18, leaving just one company headquartered elsewhere.

As a nation, Canada continues to be the premier jurisdiction 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. Flow-through financing is currently not available anywhere else in the world. Although Australia was under pressure to implement a similar scheme as part of its May 2009 budget, there has not yet been any action by the Australian government on this front.

### Top five companies

The declining value of the top companies in the junior mining sector provides a grim snapshot of the deterioration in the value of the sector as a whole. In 2007, there were 29 companies on our list with a market

capitalization of over \$200 million. That elite group shrank to 22 in 2008 and by 2009, only nine companies exceeded the \$200 million level. At the same time, the representation of producers in the plus-\$200 million group has ranged from three in 2007 up to six in 2008 and back down to one in 2009. The loss of value reflects the inability of juniors to tap into capital markets in the wake of the global financial crisis. As a result, share prices have fallen dramatically.

Among the top five companies, market capitalization dropped from \$5.3 billion in 2008 to \$2.7 billion in 2009, a 49% decrease. The decline was largely attributable to SouthGobi Energy Resources Ltd., a coal producer and developer in Mongolia, which represented 47% of the value of the top five. SouthGobi’s market capitalization plummeted 112% from 2008 to 2009.

On a more encouraging note, there were more developers (3) than explorers (1) among the top five companies in 2009, the opposite of 2008 when explorers (3) dominated and only one company of the top five had a mine under development. SouthGobi graduated from explorer to developer in 2009 as it continued to advance its coal properties in Mongolia. Joining SouthGobi in the development space was Gold Wheaton Corporation and Romarco Minerals Inc. Gold Wheaton, though not technically a developer, buys the gold by-product streams from developing or producing mines. Romarco is planning to begin construction on the Haile gold project in South Carolina in mid-2010.

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

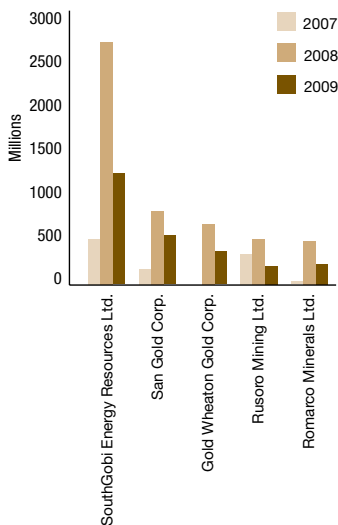


Figure 5 Major area of operation for the 100 companies analyzed (2009)

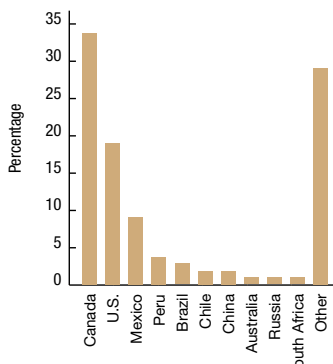
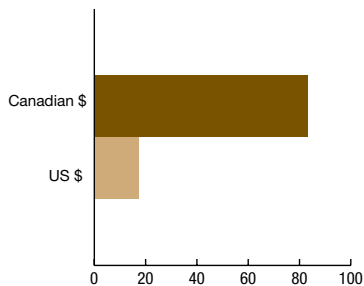


Figure 6 Reporting currency of the 100 companies



# Financial performance

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

	Production			Development			Exploration		
	2009 \$ '0000	2008 \$ '0000	Change %	2009 \$ '0000	2008 \$ '0000	Change %	2009 \$ '0000	2008 \$ '0000	Change %
<b>Revenues</b>									
Mining revenue	298,745	210,054	42%	134,555	50,831	165%	86,647	59,329	46%
Other revenue	(2,417)	477	-607%	46,255	213	21658%	100,531	93,035	8%
	296,328	210,531	41%	180,810	51,043	254%	187,178	152,364	23%
<b>Expenses</b>									
Cost of production	251,187	164,532	53%	146,782	52,726	178%	230,151	188,270	22%
Exploration expense	-	-	-	43,139	35,197	23%	50,238	66,083	-24%
General and administration	77,273	68,552	13%	61,723	46,608	32%	174,108	156,316	11%
Stock-based compensation	16,644	27,269	-39%	15,653	22,201	-29%	85,047	132,040	-36%
Other (income) expenses	(349)	(141)	148%	(244,069)	28,397	-959%	118,253	95,350	24%
	344,755	260,212	32%	23,228	185,128	-87%	657,797	638,060	3%
<b>Other income (expenses)</b>									
Interest income	45,267	3,907	1059%	1,711	7,974	-79%	16,810	37,037	-55%
Write down of mineral properties and exploration	(26,780)	(29,268)	-9%	(421,402)	(1,962)	21374%	(267,570)	(40,761)	556%
Other gains (losses)	24,700	(22,859)	208%	208,033	(115,909)	279%	(20,811)	102,622	-120%
	43,187	(48,220)	190%	(211,658)	(109,897)	-93%	(271,571)	98,899	-375%
EBITDA	(5,239)	(97,900)	95%	(54,076)	(243,981)	78%	(742,189)	(386,797)	-92%
Amortization and depreciation	38,472	25,520	51%	15,040	1,107	1259%	21,149	19,938	6%
Interest expense	5,397	6,641	-19%	1,785	1,416	26%	10,118	5,598	81%
Loss before tax	(49,109)	(130,061)	-62%	(70,901)	(246,504)	-71%	(773,456)	(412,333)	88%
Income tax expense (recovery)	(22,351)	(11,619)	92%	27,016	(24,588)	210%	(31,757)	(14,414)	120%
<b>Net loss for the year</b>	<b>(26,758)</b>	<b>(118,442)</b>	<b>-77%</b>	<b>(97,917)</b>	<b>(221,916)</b>	<b>-56%</b>	<b>(741,700)</b>	<b>(397,919)</b>	<b>86%</b>

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

Of the top five companies in 2008, only SouthGobi and Anoroaq Resources remained on the TSX-V in 2009 and, of these two, only South Gobi held its place in the top five. Anoroaq dropped from fifth to ninth position as its share price declined. Two of the five 2008 companies moved to the main board, while the remaining junior – Peak Gold - was acquired. Three of 2009's top five were in the TSX-V top 100 in 2008. South Gobi was first, San Gold Corporation was seventh and Rusoro Mining Ltd. was eighth. Gold Wheaton, a relatively recent listing, and Romarco, whose market capitalization ballooned as it prepared for production, did not feature on the 2008 list.

### Production, development and exploration companies

Of the top 100 companies, 11 are in production (compared to 16 in 2008), accounting for \$684 million or 8% of the total market capitalization, down from \$3.8 billion or 21% in 2008. Another 18 were in the development phase, representing a market capitalization of \$2.77 billion (32%). However, the majority (71) were in the exploration phase, representing a market capitalization of \$5.15 billion (60%). Despite the predominance of explorers, exploration spending by the TSX-V top 100 dropped 8% from 2008, as companies moved to conserve cash in a tough financing environment.

Projects continued to be focused in Canada (especially British Columbia and Quebec), where 34% of the companies are producing, developing or exploring. Another 19% of companies are working in the United States, up from 10% in 2008, while Mexico remained in third place by drawing 9% of the top 100. South America as a whole (Argentina, Brazil, Chile and Peru) accounted for 8% of activity, down from 14% in 2008.

### Reporting currency

Similar to 2008, most companies (83%) in the top 100 reported their results in Canadian dollars. The rest reported in US dollars. All of the companies used Canada's Generally Accepted Accounting Principles (GAAP).

Canadian public companies will be required to adopt International Financial Reporting Standards (IFRS) standards as of January 1, 2011. Although early adoption is permitted, there is little evidence that TSX-V mining companies are taking this initiative.

It is too soon to determine how the conversion from Canada's GAAP to IFRS will impact the Canadian mining sector. More than 100 countries have adopted the IFRS for financial reporting. The TSX-V's main competitors for mining listings, AIM in the UK and the ASX in Australia, have been employing IFRS standards for several years.

### 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 years ended June 30. Data was broken down into three categories of companies (production, development and exploration), consistent with the 2008 categorization. Our 2007 report included only two categories: production and exploration.

For the financial statements, we converted foreign currencies to Canadian dollars using the closing exchange rate (on June 30, 2009).

Some companies have elements of non-mining activities in their results. However, non-mining revenues are insignificant and therefore these elements have been included in our results and analysis.

### Growth

Total revenue jumped on average 60% in 2009 to \$664 million. Development companies reported the biggest gains, with a 254% increase to \$181 million. Production companies registered a 41% gain to \$296 million.

Since more than half the top 100 companies report gold (50) and silver (7) as their principal commodity, movements in precious metal prices have a direct impact on overall revenue for the group. On average, gold and silver prices were higher during the year ended June 30, 2009 compared to the year before.

Figure 7 Gold and silver commodity price index July 1, 2005-June 30, 2009

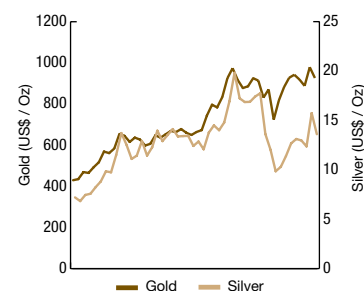


Figure 8 Copper, nickel and uranium commodity price index: July 1, 2005-June 30, 2009

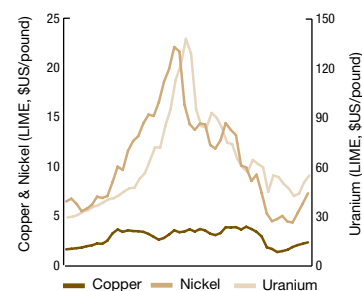


Figure 9 Mining revenues and production costs for the top 100 companies, 2008-2009 (\$ '000)

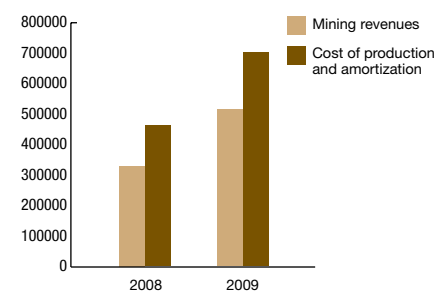
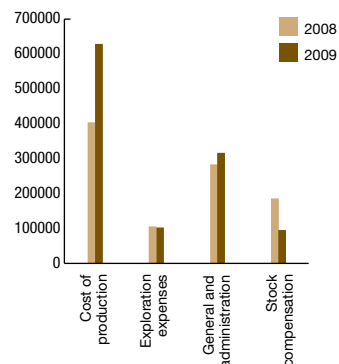


Figure 10 Key expenses for the top 100 companies, 2008-2009 (\$ '0000)



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

	Production			Development			Exploration		
	2009 \$ '0000	2008 \$ '0000	Change %	2009 \$ '0000	2008 \$ '0000	Change %	2009 \$ '0000	2008 \$ '0000	Change %
<b>Operating activities</b>									
Net loss	(32,000)	(117,031)	-73%	(85,680)	(220,455)	-61%	(729,812)	(329,773)	121%
Non cash items	67,685	100,704	-33%	334,505	152,283	120%	436,891	139,831	212%
Working capital changes	1,731	11,649	-85%	(31,986)	(4,836)	561%	(15,593)	1,450	-1175%
Other	(1,921)	5,882	-133%	(91,724)	(16,824)	445%	145	709	-79%
Net cash provided by (used in) operating activities	35,494	1,204	2848%	125,115	(89,831)	239%	(308,368)	(187,782)	-64%
<b>Investing activities</b>									
Mineral property and exploration expenditures	(52,374)	(89,748)	-42%	(640,734)	(208,541)	207%	(398,237)	(383,708)	4%
Purchase of property, plant and equipment	(96,480)	(81,070)	19%	(145,591)	(128,807)	13%	(148,417)	(162,004)	-8%
Acquisitions of other companies (net of cash acquired)	(32,712)	(169,425)	-81%	-	-	-	(27,355)	(11,920)	129%
Purchase of investments	(7,693)	(3,620)	113%	(130,816)	(12,108)	980%	(39,217)	(66,642)	-41%
Proceeds on sale of mineral properties	(1,764)	-	-	-	-	-	(383)	86,824	-100%
Proceeds on sale of investments	85,487	(656)	13132%	65,496	16,775	290%	32,354	(21,925)	248%
Proceeds on sale of concentrate	-	-	-	-	-	-	(25)	(951)	-97%
Other	36,205	(20,880)	-273%	8,968	(362)	-2578%	35,003	(77,051)	-145%
Cash used in investing activities	(69,331)	(365,399)	-81%	(842,677)	(333,043)	153%	(546,278)	(637,377)	-14%
<b>Financing activities</b>									
Issue of shares	174,667	281,133	-38%	571,467	359,355	59%	742,571	836,218	-11%
New borrowings	10,742	178,022	-94%	162,938	76,951	112%	73,524	63,403	16%
Repayment of borrowings	(52,153)	(71,057)	-27%	(234,321)	(67,160)	249%	(30,955)	(31,121)	-1%
Dividends paid	(6,760)	(2,217)	205%	-	-	-	-	(70,272)	-100%
Other	(848)	(1,395)	-39%	141,509	166,104	-15%	(50,573)	175,785	-129%
Cash provided by financing activities	125,648	384,486	-67%	641,593	535,250	20%	734,567	974,012	-25%
Effect of exchange rate	(12,271)	7,810	-257%	(5,902)	1,957	-402%	4,501	(13,483)	-133%
Net increase (decrease) in cash and cash equivalents	79,540	28,102	183%	(81,870)	114,333	-172%	(115,578)	135,371	-185%

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

The majority of development revenue came from two companies, Gold Wheaton Corporation (\$15.4 million), which buys gold byproduct streams and Iberian Minerals Corp (\$97.9 million), which operates copper mines with precious metals byproducts in Peru and Spain. Rusoro Mining had the largest revenue (\$70.2 million) as the company expanded production at its gold mines in Venezuela.

Continuing a trend set in 2008, overall growth in revenues was offset by increased production costs, from materials to labour, especially for development companies. In 2008, the total cost of production for the top 100 was \$406 million. That cost rose to \$628 million in 2009. Other expenses also increased as companies abandoned some projects and put others on hold, increasing write downs of mineral properties and exploration by an astounding 894% year-over-year.

However, both exploration expenses and stock compensation fell. Exploration costs dropped 8% to \$93 million, as companies conserved cash in the aftermath of the financial crisis and subsequent financing freeze. Stock compensation plummeted 35% to \$117 million as market capitalizations dropped and companies issued fewer options as a result.

EBITDA (earnings before interest expense, taxes, depreciation and amortization but after write downs of assets) was negative across the board in 2009, though the losses for production and development companies were not as high as they were in 2008, likely the result of a higher average gold price that propped up revenues. EBITDA losses for exploration companies almost doubled to \$742 million year-over-year as exploration companies took massive write downs on their properties.

Amortization and depreciation expenses increased by 60% for the top 100 group for the year ended June 30, 2009 and interest expenses edged up 27%, leading to a total net loss of \$866 million for the top 100, up from \$738 million in 2008.

## Cash flow

Total net losses from operating activities for the top 100 increased by 27% to \$848 million, mostly because exploration companies more than doubled their losses as a result of higher write downs and production costs. Production and development companies, on the other hand, had smaller net losses in 2009 compared to 2008 because of the increase in the price of precious metals, the main commodities of focus.

Similar to 2008, non-cash items did not offset losses because expenses paid with cash such as production costs, exploration and G&A were higher. As a result, the net cash used in operating activities was \$148 million in 2009. In years previous to 2008, non-cash items offset net losses, resulting in positive net cash provided by operating activities.

Spending remained stable or dropped in several categories as companies tried to maintain their treasuries. After a spending increase of 33% on purchases of property, plants and equipment (PP&E) in 2008, for instance, PP&E spending barely budged in 2009. "Other" investing activities dropped by 182%. Acquisitions, after remaining relatively constant in 2008, fell by 67%. The exceptions were exploration companies, which more than doubled their spending on acquisitions to \$27 million as they merged in order to survive.

Despite a tough financing environment, the top 100 managed to raise \$1.5 billion through share issues in 2009, roughly the same amount as in 2008. Though production companies (down 38%) and exploration companies (down 11%) raised less than they did in 2008, development companies increased the value of their share issues by 59% to \$572 million. With share price deterioration almost a universal reality for these companies in 2009, these financings could be considered excessively dilutive.

Borrowing decreased significantly among production companies, but exploration and development companies increased their borrowing somewhat. Overall, new borrowings dropped by an average of 22% for the top 100 group as access to credit tightened in late 2008 and early 2009. The group was also more likely to repay loans in 2009, resulting in a 87% increase in repayments in 2009 compared to 2008 levels.

As cash preservation became paramount, dividend payments dropped by 91% across the board to \$6.8 million. Only the production companies paid dividends in 2009.

## Assets & liabilities

Cash for exploration and development companies is drying up. Though current assets actually increased slightly in 2009, the increase is mostly the result of a 70% jump in inventory. Cash and cash equivalent balances are down 25% for development companies and 2% for exploration companies.

Non-current assets increased 8% to \$5.6 billion. The increase would have been even greater if PP&E balances hadn't dropped by 26%, mostly attributable to production companies.

Total assets for the top 100 showed a 7% gain to \$7.4 billion as a result of increased assets for development companies, up 45%. Production companies saw their total assets drop by 24% year-over-year, while exploration companies registered a modest gain of 13%.

While current assets increased 3%, current liabilities fell 13%. The decline included a 42% drop in "other" current liabilities, mostly attributable to a \$73 million decrease for Iberian Minerals Corp. As a result, the current asset to liability ratio increased from 2.7 in 2008 to 3.5 in 2009.

# Aggregated balance sheets for top 100 companies as at June 30

	Production			Development			Exploration		
	2009 \$ '000	2008 \$ '000	Change %	2009 \$ '000	2008 \$ '000	Change %	2009 \$ '000	2008 \$ '000	Change %
<b>Current assets</b>									
Cash and cash equivalents	210,692	198,725	6%	713,032	727,421	-2%	162,653	217,217	-25%
Inventory	53,071	36,519	45%	59,890	38,351	56%	25,668	6,506	295%
Accounts receivables	41,696	57,888	-28%	68,572	67,142	2%	102,900	63,362	62%
Marketable securities and short-term investments	9,122	10,286	-11%	104,609	138,266	-24%	107,006	39,822	169%
Other current assets	27,173	25,554	6%	44,688	49,424	-10%	38,421	39,186	-2%
	341,753	328,972	4%	990,791	1,020,604	-3%	436,646	366,094	19%
<b>Non-current assets</b>									
Deferred exploration and mineral properties	481,039	227,327	112%	1,627,460	1,387,718	17%	429,015	338,975	27%
Property, plant and equipment	897,895	1,462,354	-39%	305,435	222,692	37%	550,638	681,970	-19%
Investments	5,094	4,163	22%	29,104	27,912	4%	6,667	950	602%
Other non-current assets	40,940	308,462	-87%	616,250	496,487	24%	620,147	22,820	2618%
	1,424,968	2,002,305	-29%	2,578,249	2,134,808	21%	1,606,468	1,044,715	54%
Total assets	1,766,720	2,331,278	-24%	3,569,040	3,155,412	13%	2,043,114	1,410,808	45%
<b>Current liabilities</b>									
Accounts payable and accrued liabilities	74,387	113,524	-34%	111,873	104,643	7%	129,001	106,531	21%
Current borrowing	7,076	75,845	-91%	48,468	24,917	95%	90,015	37,095	143%
Other current liabilities	17,531	10,952	60%	38,406	42,158	-9%	58,991	144,107	-59%
	98,994	200,321	-51%	198,746	171,719	16%	278,007	287,733	-3%
<b>Non-current liabilities</b>									
Long-term debt	27,881	77,339	-64%	113,517	86,273	32%	142,137	96,175	48%
Other non-current liabilities	404,984	505,868	-20%	356,229	276,183	29%	129,781	371,156	-65%
	432,866	583,207	-26%	469,745	362,456	30%	271,918	467,331	-42%
Total liabilities	531,859	783,528	-32%	668,492	534,175	25%	549,925	755,064	-27%
<b>Shareholders' equity</b>									
Share capital	1,392,792	1,166,262	19%	4,502,698	3,574,175	26%	1,979,349	1,101,189	80%
Retained deficit	(282,443)	(238,117)	19%	(2,003,654)	(1,370,476)	46%	(705,148)	(541,526)	30%
Contributed surplus	188,619	150,686	25%	404,324	331,116	22%	109,171	77,916	40%
Other equity	(64,107)	468,919	-114%	(2,819)	86,422	-103%	109,818	18,165	505%
	1,234,861	1,547,749	-20%	2,900,550	2,621,237	11%	1,493,190	655,744	128%
Total liabilities and shareholders' equity	1,766,720	2,331,278	-24%	3,569,041	3,155,412	13%	2,043,114	1,410,808	45%

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



Long-term borrowing declined by 64% for production companies but increased for development and exploration companies, resulting in an overall increase of 9%. The increase for the development group was mainly attributable to Gold Wheaton, which borrowed \$96 million in the year ended June 30. The increase for the exploration group was mainly attributable to Northern Star Mining Corp. and ATW Gold Corp., which borrowed \$19.5 million and \$5 million respectively.

Total liabilities dropped 16% to \$1.8 billion, mostly the result of a \$262 million decline in other non-current liabilities and an \$82 million decline in other current liabilities. At the same time, shareholders' equity increased by a modest 17% to \$5.6 billion because of gains in share capital, retained deficits and contributed surplus. As a result, the total debt to equity ratio decreased to 0.31 in 2009 for the top 100 companies, down from 0.43 in 2008.

A declining debt to equity ratio combined with increasing asset to liability ratio resulted in a somewhat healthier aggregated balance sheet for the junior mining sector in 2009.

### Encouraging signs

The global financial crisis eroded the share prices of most junior mining companies and made it nearly impossible for many of them to raise money to finance their projects. A higher gold price was one of the few saving graces in the year ended June 30, 2009. It staunched the flow of losses for production and development companies though did little to help exploration companies that, by their nature, tend to have insignificant revenues.

However, there are signs that the prices of metals and other commodities are slowly reconsolidating as demand for raw materials to build infrastructure in the developing world increases. In addition, precious metals are expected to remain strong under the sceptre of a declining U.S. dollar and higher inflation.

Though exploration programs are becoming increasingly complex and burdensome as mineral deposits become harder to find and the social license to operate more difficult to obtain, it will be the junior sector that generates the next generation of mineral deposits. The Chinese, in particular, are making strategic investments in Canadian juniors and their projects in order to decrease their reliance on Australia and

Africa for raw materials. Several multi-million dollar acquisitions of Canadian mineral assets by the Chinese took place in the latter half of 2009.

There is also a reserve of North American money waiting on the sidelines that could help revive the sector. Investors remain wary of exploration projects that do not show immediate results, but have started moving capital into companies in the advanced exploration or development stage.

Because quick trades have become a way of life for many investors, the junior mining market will continue to be extremely volatile in 2010 and beyond. Junior companies must also be wary of creating excessive dilution by financing at depressed share prices.

In the longer term, the demand for metals and other commodities to build infrastructure in the developing world will help sustain commodity prices. As a result, those exploring for, developing or producing metals and minerals stand to benefit. However, after watching share prices erode so quickly and so universally in 2008 and 2009, it may take some time before investors feel comfortable putting money into exploration stage companies again.



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