



EXPLORATION

Canadian Exploration and Deposit Appraisal Expenditures Slump in 2009, Optimism for 2010

Expenditures Plummet to \$1.7 Billion in 2009 and Bring an End to a Record-Setting Trend

The worldwide economic and financial crisis, along with falling minerals and metals markets, had a significant impact on exploration and deposit appraisal activity¹ in Canada. The latest survey results for exploration and deposit appraisal expenditures reveal a dramatic decline in 2009 as some 669 project operators (companies managing their own projects or those of partnerships) reported total spending of \$1.7 billion. This amount represents a 47% drop from 2008 when 822 project operators reported a record \$3.3 billion in expenditures. This reduced spending interrupted a record-breaking trend of eight consecutive years of increasing expenditures.

The upward trending period of 2001-08 was characterized by the emergence of a strong junior mining sector. Buoyed by strong metal prices, the

availability of government-provided tax credits and incentives, and strong investor support, the expenditures of junior mining companies² peaked at \$2.1 billion in 2008, or 65% of total junior and senior expenditures. As the economic downturn intensified, access to debt and equity became more difficult and junior companies had to adopt a number of strategies in order to survive the downturn and preserve their cash and property assets. Consequently, junior company spending declined to \$977 million in 2009. This reduced level of activity translated into junior companies accounting for 74% of the total \$1.5 billion decline in spending recorded in 2009. The total number of junior project operators dropped by 17% from 716 to 593. The number of senior project operators also dropped significantly (from 106 to 76, or by 28%, for total spending of \$770 million). Furthermore, there was a 50% decrease in the number of project operators spending more than \$1 million in 2009.

Guarded Optimism for 2010

Company spending intentions for 2010 indicate that the Canadian mineral exploration sector is cautiously optimistic about the short-term outlook for minerals and metals. With an anticipated increase in spending of 24%, bringing the 2010 total to \$2.2 billion, exploration and deposit appraisal may be poised to embark on another stretch of strong activity instead of turning the 2009 dip into a longer-term decline. In fact, after a 48% decline over the second half of 2008, the NRCan Monthly Metals Price Index rebounded by 68% in 2009. While the prices of most minerals and metals are expected to continue to rise in 2010, albeit at a slower pace than in 2009, concerns remain about the strength and sustainability of the economic recovery. This uncertainty could explain the fact that a number of survey respondents (almost all junior companies) that were active in 2009 did not provide a budget forecast for 2010. Senior companies, on the other hand, appear more confident as their number of project operators increased for 2010. These companies, which usually operate the more costly projects, should account for 67% of the predicted \$414 million increase in spending in 2010 and contribute almost 50% (\$1.0 billion) of total exploration and deposit appraisal expenditures. Projects further along the mineral development curve are expected to get back on track faster, and this is reflected in an increase in the number of projects in the higher spending ranges.

Provinces and Territories

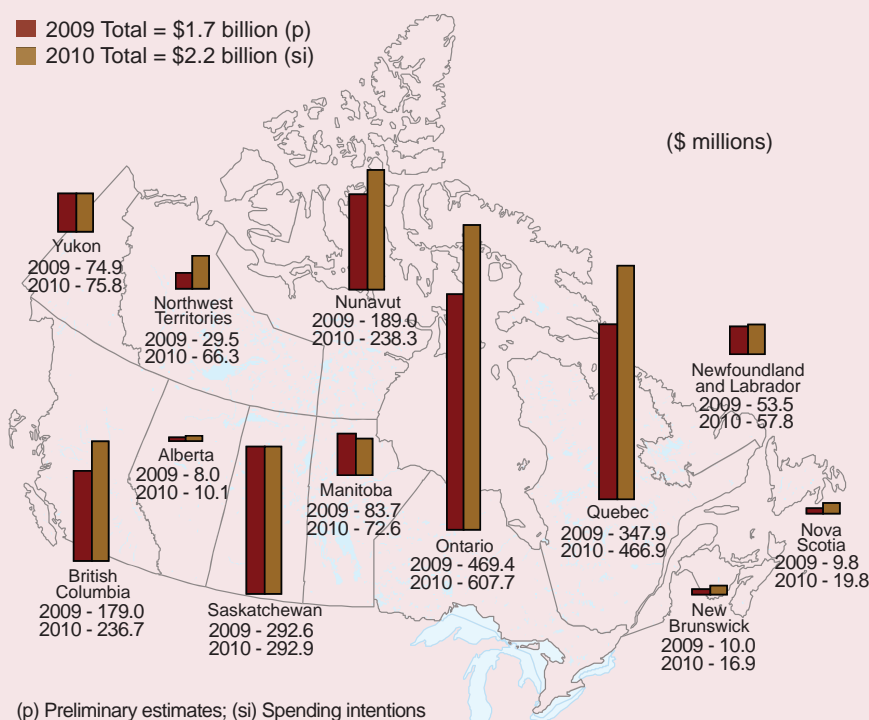
In 2009, all Canadian mining jurisdictions experienced exploration and deposit appraisal expenditure decreases. Ontario, British Columbia, and Nunavut saw their spending decrease by more than \$200 million each compared to the levels attained in 2008. Together these three jurisdictions accounted for 54% (\$830 million) of

¹Includes activities carried out to search for, discover, characterize, and define in detail a mineral deposit for the pre-feasibility and final feasibility studies that will support a production decision and the investment required.

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 funds raised through the issuance of treasury shares.

Exploration and Deposit Appraisal Expenditures

■ 2009 Total = \$1.7 billion (p)
■ 2010 Total = \$2.2 billion (si)



(p) Preliminary estimates; (si) Spending intentions

the total decrease in Canadian expenditures. In terms of total spending per province/territory, the three leading jurisdictions were Ontario, Quebec, and Saskatchewan. Together these three provinces accounted for 64% of total spending. Saskatchewan moved beyond British Columbia into third place, the latter being more heavily reliant on the junior mining sector and its link to equity markets. Although the 2010 results are very preliminary, expenditures are expected to be stable or to increase in every Canadian mining jurisdiction except Manitoba. In dollar terms, Ontario, Quebec, and British Columbia should account for three quarters of the expected \$414 million increase.

Mineral Commodities

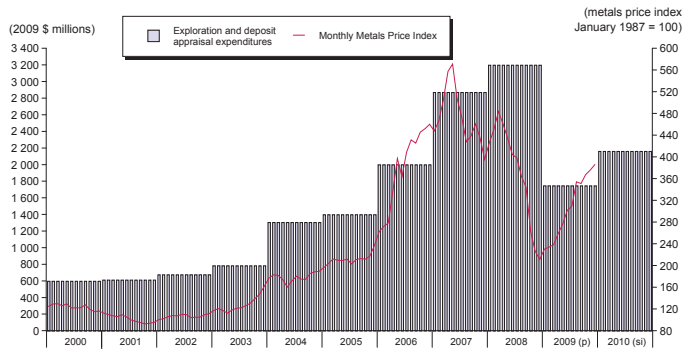
On a commodity sought basis, every commodity, or group of commodities, experienced a drop in expenditures in 2009. In decreasing order of

importance, declines of more than 50% were recorded for diamonds, base metals, and uranium. Reflecting continued strength in the price of gold, the least affected commodity group was precious metals, although it still recorded a 23% decline in expenditures. For 2010, expenditures should increase in each commodity group. In percentage terms, these increases are expected to amount to 26% for precious metals, 21% for base metals, and 20% for the "others" category (comprising ferrous metals, other metals, coal, and nonmetals). Diamonds, as a group, should also attract significantly more spending, mostly as a result of advanced work at one of the Northwest Territories' diamond mines.

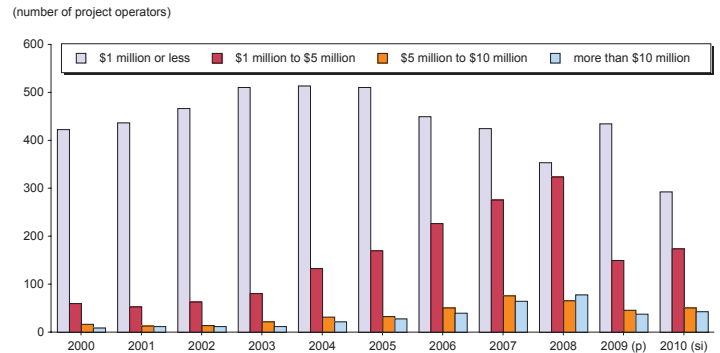
As can be expected, the precious metals (mainly gold) will remain the most attractive commodity group in 2010 with forecast spending of approximately \$1 billion. This total is comparable to those recorded in the peak years of 2007 and

2008 and clearly shows the importance of gold in sustaining the Canadian mineral exploration sector during uncertain economic times. Jurisdictions with well-known gold camps or gold belts, like Ontario, Quebec, and Nunavut, are the main beneficiaries of this strong activity for precious metals, and the largest projects in those regions are managed by senior companies. Base metals, diamonds and uranium expenditures are not expected to perform as strongly and should hover around 50% of their 2008 totals. The "others" category includes a number of emerging commodities that continue to draw interest regionally. For example, 2010 potash exploration and deposit appraisal spending should mirror that of 2009 and exceed \$150 million. Chromite and rare earth elements (including lithium) are also gaining momentum and should continue to see their spending increase, although their totals will remain small in comparison to the main commodity groups.

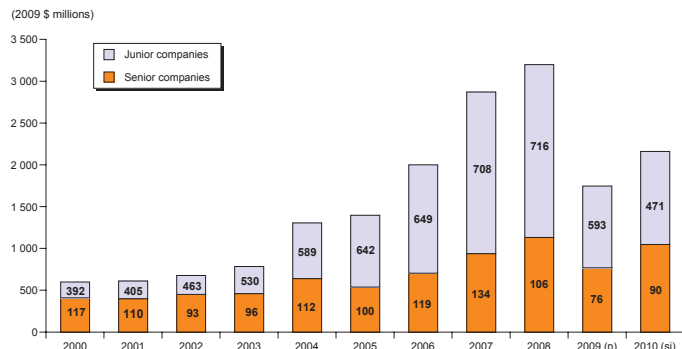
Exploration and Deposit Appraisal Expenditures (1) and Monthly Metals Price Index, (2) 2000-2010



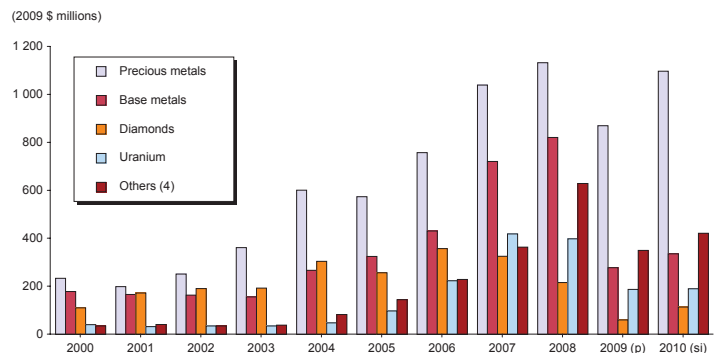
Exploration and Deposit Appraisal Project Operators by Range of Expenditures, 2000-2010



Exploration and Deposit Appraisal Expenditures (1) by Type of Company and Number of Project Operators, 2000-2010



Exploration and Deposit Appraisal Expenditures (1) by Mineral Commodity, 2000-2010 (3)



Source: Natural Resources Canada (NRCAN) 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- or production feasibility studies, environment, and land access costs for on-mine-site and off-mine-site activities. (2) Calculated by NRCAN. (3) The commodity breakdown for 2010 spending intentions was estimated based on 2009 preliminary reports. (4) Includes coal, iron, other metals, and nonmetals. Notes: Company budgets for 2010 expenditures had not been finalized at the time of the survey. Data were collected from October 2009 to mid-February 2010.

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

