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Junior mine

Trends in the TSX-V 2010

pwc

The top 100 mining companies on the TSX Venture Exchange benefited from the return of risk appetite as the global economy showed signs of improvement and commodity prices strengthened.

Contents

The top 100 mining companies market capitalization increased to $12.7 billion, up 49% from $8.6 billion on June 30 2009.

$8.6 B
to
$12.7B

Introduction

Mining companies represent 61% of the market capitalization of the TSX-V.

Welcome to the fifth edition of our Junior Mine publication. Over the past five years, we have witnessed extreme volatility in the industry from a steady increase in commodity prices that strengthened the junior mining sector, to a broad-based collapse of the financial markets to a partial recovery this year. We are cautiously optimistic that the sector recovery will continue as the appetite for metals and minerals grows in emerging economies.

During the year ended June 30, 2010 the top 100 mining companies on the TSX-V benefited from the return of risk appetite as the global economy showed signs of improvement and commodity prices strengthened. Higher gold prices brought on by the lack of confidence in the major paper currencies, also provided a significant benefit. The collective market capitalization of the top 100 increased to $12.7 billion, up 49% from $8.6 billion on June 30 2009.

Still, the top 100 are nowhere near the $18.1 billion in market capitalization they reached halfway through 2008, just before the market crash hit, and the recovery remains fragile and biased towards precious metal producers.

The results of the top 100 mirror the results for the TSX-V as a whole because mining companies represent 61% of the market capitalization of the TSX-V. In 2010, the market capitalization of the TSX-V grew by 51% to $37.7 billion, but fell short of the $55.9 billion that the exchange recorded in 2008.

In the fifth year of our review, we examined the top 100 mining companies on the TSX-V based on market capitalization as at June 30, 2010 compared to the top 100 as at June 30, 2009 primarily. This year, 51% of the companies are in the exploration phase, 34% in the development phase and 15% in the production phase.

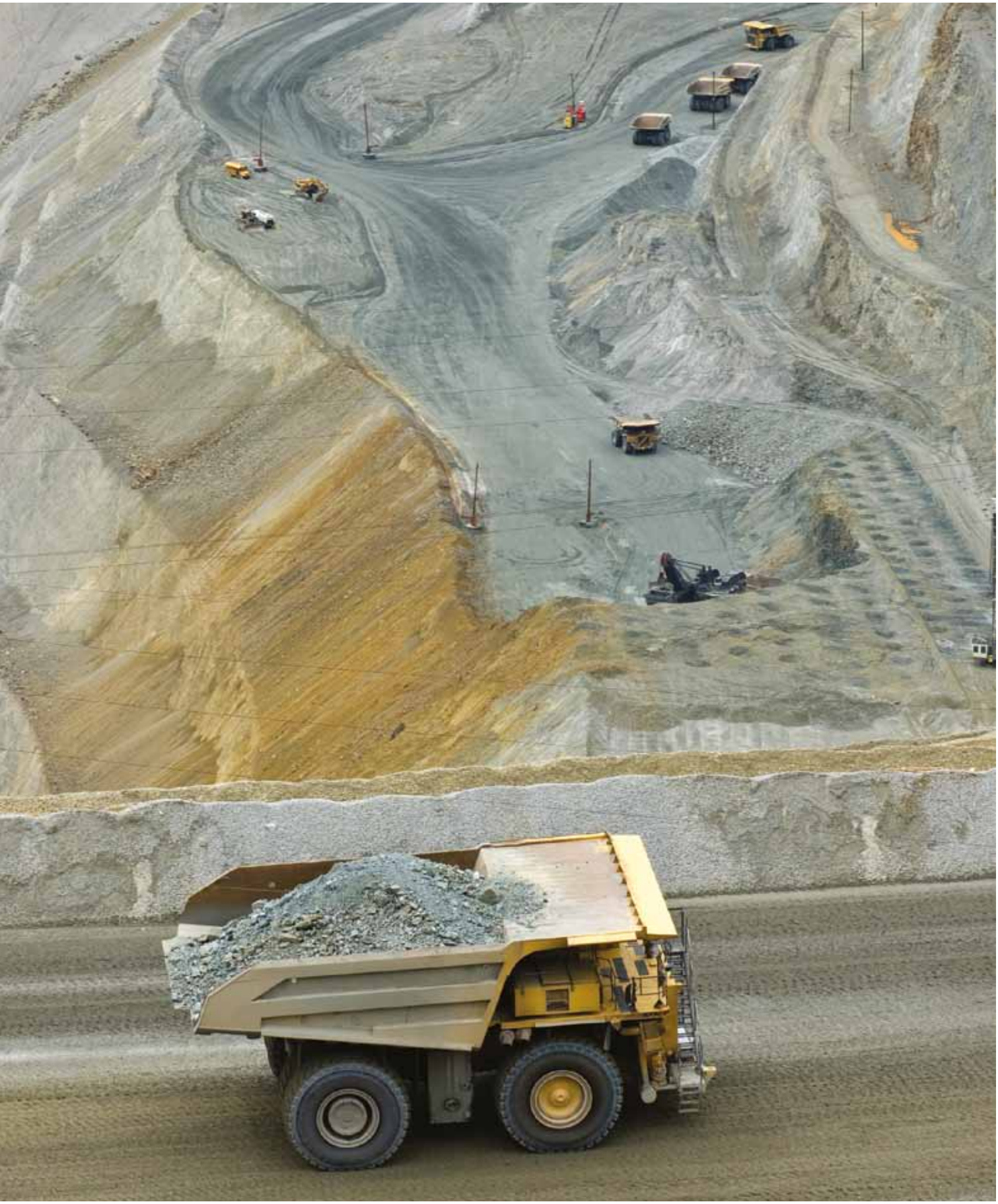
John Gravelle
Mining Industry Leader for the Americas
PwC

Financial highlights

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

CAD ($'000)	Production			Development			Exploration		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Number of companies	15	13		34	16		51	71	
Income Statement									
Revenue	726,061	419,751	73%	33,434	69,938	-52%	40,317	174,628	-77%
EBITDA	(248,253)	45,364	-647%	(260,584)	(136,561)	-91%	(257,191)	(717,650)	64%
Net loss for the year	(334,175)	(4,613)	7145%	(277,220)	(150,400)	84%	(239,099)	(718,704)	-67%
Balance Sheet									
Cash & ST Investments	226,160	285,570	-21%	452,576	213,880	112%	726,179	807,664	-10%
Property, plant and equipment	2,998,915	1,883,648	59%	1,387,676	1,081,999	28%	1,544,091	2,180,789	-29%
Total liabilities	2,120,894	1,016,773	109%	359,977	237,307	52%	261,752	496,196	-47%
Shareholder's Equity	1,630,465	1,555,036	5%	1,637,784	1,181,932	39%	2,094,564	2,891,632	-28%
Cash Flow Statement									
Net cash provided by (used in) operating activities	(46,386)	214,038	-122%	(155,343)	(77,688)	-100%	(127,766)	(254,895)	50%
Cash used in investing activities	(383,104)	(298,786)	28%	(365,043)	(621,287)	-41%	(422,866)	(533,386)	-21%
Cash provided by financing activities	376,147	83,868	348%	723,502	621,697	16%	1,105,610	702,187	57%

Rising commodity prices, especially for precious metals, boosted revenues by 20% to $800 million for the top 100 companies.



Executive Summary

For the 19% of companies who expense exploration costs, exploration spending dropped 29% to $66million.

Market conditions for the junior mining sector improved for the year ended June 30, 2010 as a result of a more favourable appetite for risk among investors and strengthening commodity prices. As a result, market capitalizations for both the TSX-V mining sector and the entire TSX-V gained approximately 50% year over year.

The top five juniors, all of them gold companies, were particularly strong. They each managed to at least double their market capitalization year over year, suggesting the market is particularly favorable to companies that have the best chance to capitalize on the rising gold price. The majority of operations were focused in North America, a change from previous years when projects had a more global spread.

Rising commodity prices, especially for precious metals, boosted revenues by 20% to $800 million for the top 100 group. Almost two thirds reported gold (56) or silver (8) as their principal commodity.

This year, a few companies within the top 100 dominated in terms of revenue, acquisitions, and financing. Iberian Minerals, with copper mines in Spain and Peru, was responsible for more than a quarter of the top 100 revenues ($222 million) and raised $139 million in debt financing for investing activities. Anooraq Resources, a platinum group metal producer with operations in South Africa, posted the second highest revenues ($122 million) in the top 100 and raised $600 million in debt to purchase an interest in the Lebowa mine. Romarco Minerals, moving towards production on its gold property in South Carolina, took the top spot for equity financings, improving its cash holdings by $150 million to $167 million.

Production costs continue to creep higher, however, eroding the margins of even the top performers. Though costs staged a modest increase of 12% this year, they have more than quadrupled since we started the review five years ago. Net losses for the top 100 amounted to $850 million, a slight improvement over last year.

For the 19% of companies who expense exploration costs, exploration spending dropped 29% to $66 million and cash used in capital expenditure investing activities dropped 44% to $835M. However, cash used for acquisitions soared 350% to $270 million, suggesting some juniors would rather buy a property that has already been explored than take the risk of doing the exploration themselves. If this trend continues, the number of available economic deposits will continue to decline as the mining sector shuffles properties but generates few new growth prospects.

At least the juniors were able to finance their exploration and acquisitions this year as market conditions recovered from the crash and credit markets loosened. Share issues increased by 51% to $2.2 billion while debt financing was up 148% to $402 million year over year.

Of last year's top 100, 52 remained in this year's top 100, 9 moved up to the TSX, 4 were bought and the remaining 35 fell below the top 100 minimum threshold of $43.6M market capitalization.

The junior mining sector

The average market capitalization for the top 100 mining companies on the TSX-V increased to $127 million from $88 million in 2009.

The mining sector, representing 61% of the TSX-V exchange, posted a 65% increase in market capitalization to $22.9 billion in 2010. The average market capitalization for the top 100 mining companies on the exchange increased to $127 million from $88 million in 2009. Within the mining sector, the top 100 companies made up 55% of the market capitalization which was down from 62% in both 2008 and 2009, indicating a slightly more even distribution of capital across the sector.

In 2010 the number of mining companies with market capitalizations of more than $200 million increased to 12 from nine in 2009, but in both years, there were only two producers among them. This is a significant drop from 2008, when there were six producers among the 22 companies with market capitalization of more than $200 million.

The top five companies had a total market capitalization of $3.45 billion compared to $2.71 billion for the 2009 group, a 27% increase that is largely attributable to greater representation from companies with market capitalizations of more than $400 million. All five managed to at least double their individual market capitalizations over the year.

The difference between the market capitalizations of the top company and the 100th company remained relatively steady at $1.2 billion compared to $1.3 billion in 2009. The number one company, San Gold Corporation, had a market cap of $1.26 billion similar to SouthGobi's $1.29 billion in 2009, while the 100th company, Bakerville Gold Mines, had a market cap of $43.6 million compared to JNR Resources' $18.9 million in 2009.

High turnover in the sector continued as only 52 companies in last year's top 100 remained on the 2010 list. The number of development companies more than doubled to 34 from 16, while the number of exploration companies dropped 28% from 71 to 51. The shift from exploration to development is likely a result of greater access to capital in the markets. The number of producers remained relatively steady at 15 compared to 13 in 2009.

Figure 1: Growth of junior mining companies on the TSX-V from 2006 to 2010 ($B)

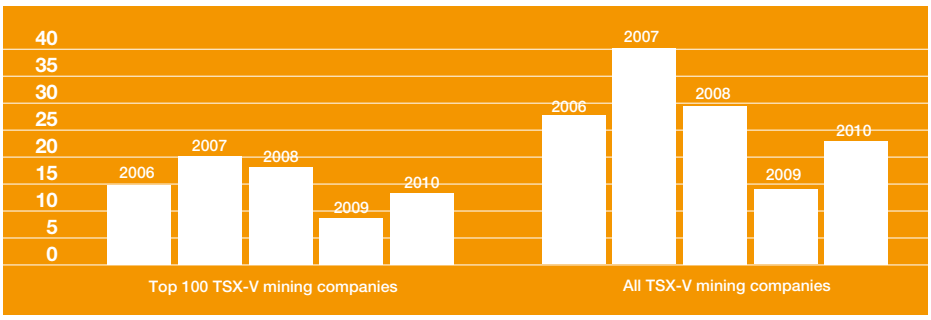


Figure 2: Principal commodity of the 100 companies analyzed

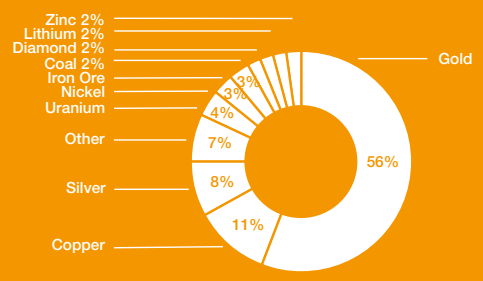
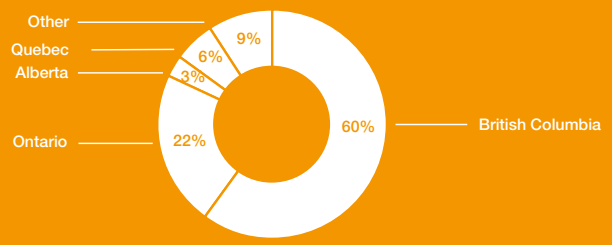


Figure 3: Location of the top 100 companies analyzed



Principal Commodity Mined

Gold continued to build dominance as the main commodity of interest with 56% of companies either exploring for, developing or mining the precious metal, up from 50% in 2009 and 42% in 2008. The increasing focus on gold reflects the steady climb in the gold price from US$925 per oz. in June 2009 to US$1240 per oz. in June 2010.

Otherwise, the overall distribution of commodities among companies has remained fairly consistent over the five years since we launched our report. Silver moved to third place with seven companies as the price of silver increased from US$13.62 to US$18.57per oz at June 30, 2010. Copper moved into second place with nine companies (up from 5 last year) and uranium dropped to fourth place with three companies (down from 8 in 2009), reflecting price swings in these commodities from year to year. The copper price increased from US$2.55 to US3.27 per lb. while the uranium price dropped from US$55 to US$42 per lb. Similar to 2009, there were two companies focused on diamonds, compared to six in 2008. "Other" minerals, included chromite, platinum, zircon, potash and molybdenum and made up 7 of the top 100 companies.

Headquarters

Mining tax incentives, especially flow through shares, continue to make Canada the premier jurisdiction for junior mining companies. Four of the top 100 companies were headquartered in the United States, up from three in 2009, of which two were incorporated in Canada. As such, these may still be able to benefit from flow through shares.

Among the provinces, British Columbia remained the most common location for headquarters, but the percentage of top 100 companies based there fell to 60% in 2010 from 69% in 2009 and 73% the year earlier. Ontario increased its share from 18% to 22%, while Alberta hosted just three companies, down from six in 2009. Quebec remained home to six companies.

Top Five Companies

For the first year since our junior mining review was launched five years go, all of the companies in the top five are gold companies. The dominance of gold at the top of the list is unsurprising given the steady increase in the gold price over the past five years, especially in comparison to the volatility of most other commodities over this period.

The other commonality of this year's top five is that all but one (East Asia Minerals) have projects in North America in contrast to previous years, when the projects had a more global reach. Shifting government policies regarding certainty of property rights and taxes on mining have affected major projects in several countries this past year including for example Venezuela and the DRC, creating uncertainty and greater political risk. Parts of Canada and the United States are considered relatively low risk jurisdictions.

The top five companies had a total market capitalization of $3.45 billion on June 30, 2010 compared to $2.71 billion for the top five of 2009. All of this year's top five managed to at least double their market capitalization over the year, while East Asia Minerals Corporation posted an increase of almost 10-fold. The strength of the top five reflects investors' willingness to put money into companies they perceive of having the best chance of capitalizing on a rising gold price.

In 2010, there was just one production company with the remaining 4 belonging to the exploration and development category.

In 2010, San Gold Corporation was the sole producer among the top five, representing 37% ($1.27 billion) of the group's total market capitalization and holding the #1 spot. Last year, the gold miner was second overall with a market capitalization of $587 million. San Gold operates its Rice Lake and Hinge mines in Manitoba, Canada and is actively exploring more opportunities in the area. On October 8, 2010 the Company announced its intention to list on the TSX.

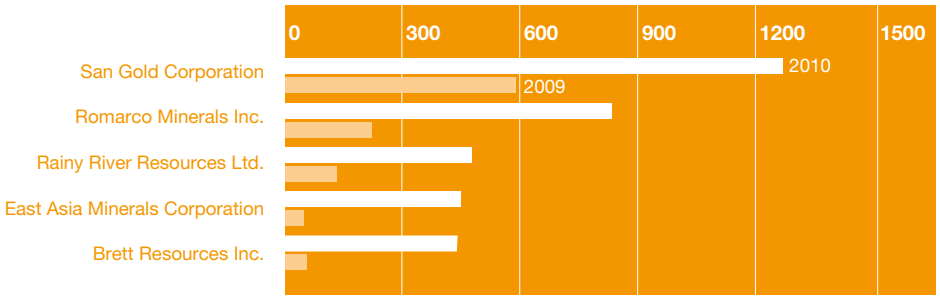
In 2009, Rusoro Mining was the sole producer. Although Rusoro still operates two mines in Venezuela, the company fell to 35th place in our top 100 as production costs soared and investors grew increasingly nervous about its operations in Venezuela. In the quarter ended June 30, 2010, Rusoro recorded a net loss of US$151.4 million. The company's market capitalization dropped from $240 million halfway through to $107 million at the same time this year.

SouthGobi Energy and Gold Wheaton disappeared from the top five under happier circumstances: they graduated to the TSX. Romarco Minerals remained in the group along with San Gold, increasing its market capitalization from $219 million to $830 million as it continued to advance its flagship Haile project in South Carolina, where a feasibility study is underway.

Added to the top five list this year were Rainy River Resources, East Asia Minerals and Brett Resources. In August 2010, Brett was acquired by Osisko Mining for US$372 million and is no longer a Canadian filer. Rainy River Resources has an advanced stage gold exploration project in Northern Ontario while East Asia Minerals has advanced gold and gold-copper properties in Indonesia and advanced uranium properties in Mongolia.

The top five companies had a total market capitalization of $3.45 billion compared to $2.71 billion for the 2009 group, a 27% increase…

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



As unexplored land becomes increasingly scarce worldwide, the relatively unexplored areas of Africa are attracting more investment.

Production, Development and Exploration Companies

Of the top 100 companies, 15 are in production, accounting for $2.7 billion or 21% of the total market capitalization. This is three times the 2009 production market capitalization of $684 million, accounting for 8% of the top 100. The jump in market capitalization among the producers reflects 2010's preponderance of gold producers, whose revenues increased substantially in tandem with the gold price.

The number of companies in the development category more than doubled from 16 to 34. As a result, the financial results for development category show sharp movements year over year in some cases simply because there are more companies represented by this category. The development category's gain was the exploration category's loss: there were 51 explorers this year compared to 71 in 2009.

More than a third (36%) of the top 100 companies were working primarily in Canada (especially British Columbia and Quebec), and another 15% had projects in the United States. The countries of South America, including Argentina (2%), Brazil (5%), Chile (3%), Peru (7%) and Venezuela (2%) continued to be popular destinations, attracting 19% of the companies. Mexico drew 8% of the top 100, roughly equivalent to last year.

As unexplored land in the historic mining camps becomes increasingly scarce, the relatively unexplored areas of Africa are attracting more investment. A total of 10 of the top 100 companies were primarily working on the continent in 2010, up from a single company last year.

Reporting Currency

Consistent with prior years, the majority of companies (79%) in the top 100 reported their results in Canadian dollars. Most of the rest reported in US dollars and 2% reported in Australian dollars. All but four of the companies used Canada's Generally Accepted Accounting Principles (GAAP). Of the remaining four, three used U.S. GAAP (3) and one used International Financial Reporting Standards (IFRS).

The way financial results are reported in Canada is about to change. For years commencing after January 1, 2011, all Canadian public companies will be required to switch to IFRS, the standard used by more than 100 countries worldwide 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, have been employing IFRS for several years.

Figure 5: Major area of operation

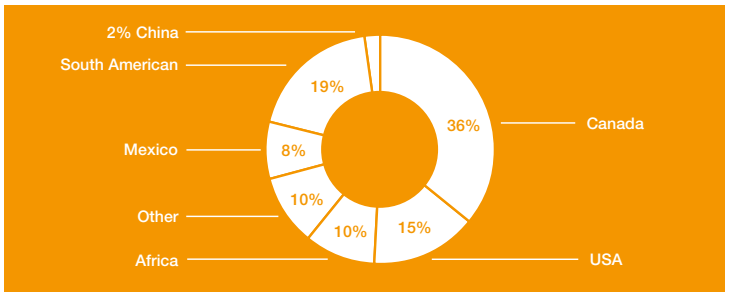
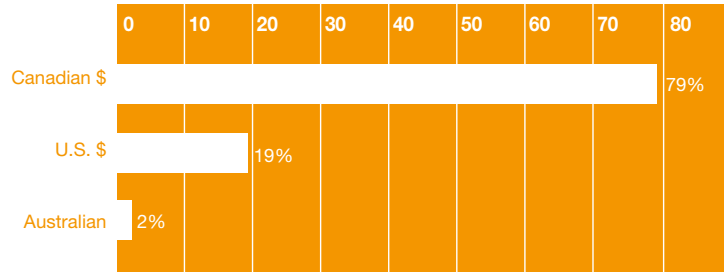


Figure 6: Reporting currency of the 100 companies



Financial performance

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

Income Statement									
CAD ($'000)	Production			Development			Exploration		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Number of companies	15	13		34	16		51	71	
Total Revenue	726,061	419,751	73%	33,434	69,938	-52%	40,317	174,628	-77%
Cost of production	661,762	380,507	74%	29,902	45,635	-34%	13,727	201,978	-93%
General and administration	68,709	100,550	-32%	106,923	43,560	145%	123,852	168,993	-27%
Exploration expense	13,600	5,190	162%	16,259	43,139	-62%	36,215	45,048	-20%
Stock-Based Compensation	16,455	21,763	-24%	25,236	16,100	57%	35,478	79,481	-55%
Other (income) expense	115,345	1,551	7338%	83,925	(237,765)	135%	45,076	117,392	-62%
	875,871	509,561	72%	262,245	(89,331)	394%	254,348	612,892	-59%
Interest income	10,230	54,220	-81%	2,827	904	213%	2,249	8,666	-74%
Write down of mineral & exploration properties	(15,867)	(420,963)	-96%	(34,594)	(27,219)	27%	(45,179)	(267,570)	-83%
Other Gains (losses)	(92,807)	501,917	-118%	(6)	(269,514)	100%	(230)	(20,481)	99%
	(98,444)	135,174	-173%	(31,773)	(295,830)	89%	(43,160)	(279,386)	85%
EBITDA	(248,253)	45,364	-647%	(260,584)	(136,561)	-91%	(257,191)	(717,650)	64%
Amortization & depreciation	72,975	40,409	81%	31,352	15,064	108%	5,100	19,187	-73%
Interest Expense	79,721	6,230	1180%	3,241	4,056	-20%	889	7,015	-87%
Loss Before Tax	(400,949)	(1,276)	31334%	(295,177)	(155,681)	90%	(263,180)	(743,852)	-65%
Income tax expense (recovery)	(66,774)	3,337	-2101%	(17,957)	(5,281)	-240%	(24,081)	(25,147)	-4%
Net loss for the year	(334,175)	(4,613)	7145%	(277,220)	(150,400)	84%	(239,099)	(718,704)	-67%

Cash flow statement

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

Cash Flow Statement									
CAD ($'000)	Production			Development			Exploration		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Number of companies	15	13		34	16		51	71	
Net loss for the year	(334,175)	(4,613)	7145%	(277,220)	(150,400)	84%	(239,099)	(718,704)	-67%
Non-cash items	218,590	313,317	30%	135,013	97,714	-38%	62,842	484,029	87%
Working capital changes	(91,653)	(4,526)	-1925%	(9,849)	(19,605)	50%	(10,617)	(22,257)	52%
Other operating activities	160,852	(90,140)	278%	(3,287)	(5,396)	39%	59,108	2,037	2802%
Cash provided by (used in) operating activities	(46,386)	214,038	-122%	(155,343)	(77,688)	-100%	(127,766)	(254,895)	50%
Capital expenditures	(267,454)	(356,452)	-25%	(301,887)	(581,775)	-48%	(267,082)	(560,157)	-52%
Sale of property, plant & equipment	257	36,891	-99%	790	57,422	-99%	1,131	15,366	-93%
Cash acquisitions (net of cash acquired)	(118,122)	(32,712)	261%	(43,778)	(10,862)	303%	(108,228)	(16,493)	556%
Investment in marketable & equity securities	11,506	57,510	-80%	(4,581)	(65,320)	93%	737	13,420	-95%
Other investing activities	(9,292)	(4,022)	131%	(15,588)	(20,751)	-25%	(49,425)	14,478	441%
Cash used in investing activities	(383,104)	(298,786)	28%	(365,043)	(621,287)	-41%	(422,866)	(533,386)	-21%
Debt issued	376,780	92,343	308%	22,519	576	3811%	3,136	69,398	-95%
Debt repayment	(259,338)	(285,071)	-9%	3,588	(2,099)	-271%	(4,668)	(30,251)	-85%
Net issue of shares	519,458	221,051	135%	571,126	575,578	-1%	1,139,716	682,902	67%
Dividends paid	(884)	(6,760)	-87%	–	–	–	–	–	–
Other financing activities	(259,869)	62,306	-517%	126,268	47,643	165%	(32,574)	(19,861)	-64%
Cash provided by financing activities	376,147	83,868	348%	723,502	621,697	16%	1,105,610	702,187	57%
Effect of exchange rate	(9,621)	(15,345)	37%	7,046	(2,542)	373%	1,770	4,215	-58%
Net increase (decrease) in cash and cash equivalents	(62,964)	(16,225)	-288%	210,160	(79,819)	363%	556,747	(81,879)	780%

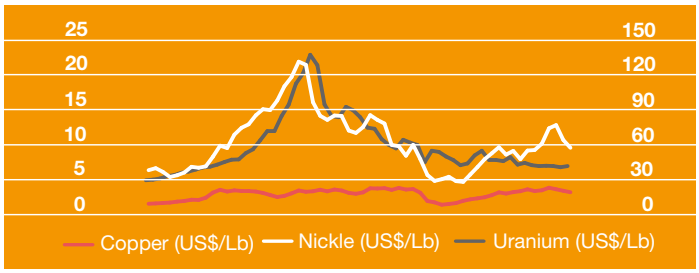
Balance sheet

Aggregated balance sheets for the top 100 companies as at June 30.

Balance Sheet									
CAD ($'000)	Production			Development			Exploration		
	2010	2009	Change	2010	2009	Change	2010	2009	Change
Number of companies	15	13		34	16		51	71	
Current Assets									
Cash & ST investments	226,160	285,570	-21%	452,576	213,880	112%	726,179	807,664	-10%
Accounts receivable	131,991	100,630	31%	21,390	48,490	-56%	26,334	64,047	-59%
Inventory	117,726	73,488	60%	9,133	12,894	-29%	3,490	52,247	-93%
Other current assets	44,084	45,530	-3%	15,470	33,679	-54%	11,313	31,072	-64%
Total current assets	519,962	505,218	3%	498,569	308,942	61%	767,316	955,030	-20%
Non-Current Assets									
Property, plant & equipment	2,998,915	1,883,648	59%	1,387,676	1,081,999	28%	1,544,091	2,180,780	-29%
Investments	12,308	5,208	136%	37,994	8,793	332%	11,606	26,864	-57%
Other non-current assets	220,176	177,735	24%	73,521	19,504	277%	33,303	225,143	-85%
Total non-current assets	3,231,398	2,066,591	56%	1,499,192	1,110,297	35%	1,589,000	2,432,797	-35%
Total Assets	3,751,359	2,571,809	46%	1,997,760	1,419,239	41%	2,356,316	3,387,827	-30%
Current Liabilities									
Accounts payable and accrued liabilities	172,960	185,272	-7%	71,418	44,261	61%	48,482	102,622	-53%
Current borrowing	82,094	67,488	22%	31,099	48,455	-36%	13,770	29,615	-54%
Other current liabilities	155,662	46,126	237%	19,335	24,020	-20%	8,644	27,887	-69%
Total current liabilities	410,717	298,887	37%	119,994	116,736	3%	70,895	160,124	-56%
Non-Current Liabilities									
Long-term debt	762,187	73,647	935%	24,386	96,842	-75%	25,871	114,567	-77%
Other non-current liabilities	947,991	644,239	47%	215,596	23,728	809%	164,986	221,505	-26%
Total liabilities	2,120,894	1,016,773	109%	359,977	237,307	52%	261,752	496,196	-47%
Total equity	1,630,465	1,555,036	5%	1,637,784	1,181,932	39%	2,094,564	2,891,632	-28%
Total liabilities & shareholder's equity	3,751,359	2,571,809	46%	1,997,760	1,419,239	41%	2,356,316	3,387,828	-30%

Figure 7: Gold/silver prices July 1, 2005 – June 30, 2010

Figure 8: Copper, nickel and uranium commodity price index, July 1 2005 – June 30, 2010



Further notes on reporting

We made some estimates and adjustments in order to arrive at a common format and aggregation of financial information as at, and for the years ended, June 30. For the few companies who had yet to file their June 30th, 2010 financial statements, we used the twelve months ending March 31, 2010. Consistent with 2009, the data was broken down into three categories of companies (exploration, development and production) in order to be comparable year over year.

For balance sheets, we converted foreign currencies to Canadian dollars using the closing exchange rate on June 30, 2010. For income and cash flow statements, we used the average exchange rate for the year ended June 30, 2010.

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

Growth

Total revenue for the top 100 increased by 20% to $800 million for the year ended June 30, after a 60% gain in 2009. The steady growth is attributed to improving precious metals prices as well as a rebound in most other commodities after the recession of 2008-09.

Since almost two thirds of the top 100 companies report gold (56) and silver (8) as their principal commodity, movements in precious metal prices have a direct impact on overall revenue for the group. Gold and silver prices were both higher for the year ended June 30, 2010 compared to the year before.

Three companies, Iberian Minerals ($222 million), Anooraq Resources ($133 million) and Rusoro Mining ($105 million) accounted for 63% of the total revenue. Iberian has copper operations in Spain and Peru. Anooraq is a platinum group metals producer in South Africa. Rusoro Mining is a gold producer, with a large land position in the prolific Bolivar State mining region in southern Venezuela.

While the primary objective of certain companies is in exploring and developing their projects, a number also have some operating mines. These have still been classified as development and exploration companies. Development and exploration companies recorded a 52% and 77% drop in revenue respectively. Development companies were lower as the two main revenue producers in the category (SouthGobi Energy Resources and Gold Wheaton) moved up to the TSX. Likewise in the exploration category, many of 2009's main revenue producers such as Fortuna Silver Mines and Magindustries have moved up to the TSX in addition to the 28% drop in the number of companies in the category this year.

2010 has seen only $95 million of write-downs of mineral and exploriation properties, a reduction of 87% from the prior year.

Production costs continued to rise for the fifth straight year, cutting into revenues. The overall rise in costs for the sector was a relatively modest 12%. But since 2006, the first year of our junior mining review, the cost of production for our top 100 has more than quadrupled from $162 million to $705 million.

Exploration expense fell for the second year in a row by 29% to $66 million. Decreases in the development (down 62%) and exploration (down 20%) categories were slightly offset by increases in the production category as San Gold ($8.6 million) and other companies reported exploration and drilling costs in addition to their production expenses. An increasing number of companies are favouring acquisition over higher risk exploration as a means of growth.

Figure 9: Mining revenues and production costs for top 100 companies, 2009-2010

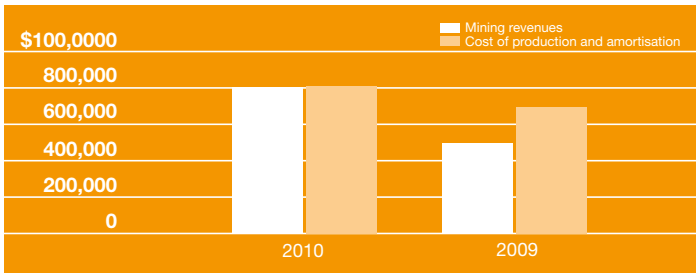
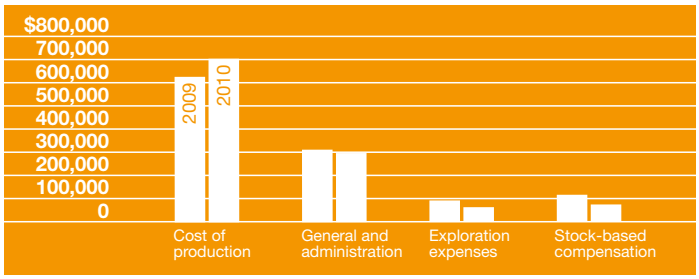


Figure 10: Key expenses for top 100 companies from 2009-2010



Stock compensation also declined for the second year in a row, falling 34% to $77 million while G&A remained relatively steady across the sector as a whole.

EBITDA (earnings before interest expense, taxes, depreciation and amortization but after writedowns of assets) remained in negative territory in 2010, though losses diminished by 5% or $43 million as revenues increased. Companies in the exploration category were able to cut their losses by $460 million as a result of fewer writedowns on mineral properties and exploration, even as erosion continued in the development and production categories. In the production category, write downs were $405 million lower (primarily related to a $394 million write down by Iberian Minerals in 2009) were offset by higher 'Other gains' including foreign currency gains.

Production (a $294 million decrease) and development (a $124 million decrease) companies were hit by greater losses in the "other" category, including disposition of assets, derivative items, foreign exchange, investments. Most of the "other" losses in the production category were the result of a $113 million currency exchange loss by one company.

The total net loss for the top 100 group was $850 million, a 3% improvement over the $874 million loss in 2009. The red ink was somewhat offset by an 87% decline in writedowns on properties and exploration and increased revenue across the sector.

The financing environment improved significantly in 2010. Debt financing was up 148% to $402 million as the appetite for risk increased and credit markets loosened. Share issues jumped 51% to $2.2 billion as juniors tapped into a more welcoming equity market, especially for gold projects. The exploration category accounted for half of all of the money raised through share issues. The top issuers over all categories were Lucara Diamonds ($249 million), Romarco Minerals ($213 million) and Sandstrom Resources ($102 million).

Although the top 100 increased their debt repayments significantly in 2009, slightly less debt ($260 million) was repaid in the year ended June 30, 2010, mostly as a result of different debt repayment schedules.

In 2010, only one company paid a dividend, consistent with 2009. Overall dividend payments dropped 91% in 2009 and another 87% in 2010 to $0.9 million.

Cash Flow

The top 100 cut their net losses slightly in 2010 as a result of lower writedown expenses and higher revenue.

For the third year in a row, non-cash items did not offset losses because expenses paid with cash such as exploration, G&A and especially production costs were considerably higher. The net cash used in operating activities was $329 million, more than double the $119 million spent in 2009. Before 2008 non-cash items tended to offset net losses, resulting in positive net cash provided by operating activities.

Overall spending declined by 44% as capital expenditures plummeted, likely due to long lead times for mining equipment and an uncertain future for world markets and commodity prices. Bucking this trend were cash acquisitions, which soared by 350% to $270 million as purchasers moved to acquire assets before prices recovered from the downturn. The acquisitions were dominated by a couple of high profile deals, including Anooraq's purchase of a 51% interest in the Lebowa mine in South Africa and Lucara Diamond's purchase of a 70% interest in the AK6 project in Botswana from De Beers.

Assets & Liabilities

Better access to equity financing helped the top 100 junior companies build their cash positions and investments by 7% to $1.4 billion in 2010. For example, Romarco Minerals improved its cash holdings by $150 million to $167million. The increase was mainly the result of a bought deal offering of common shares that raised net proceeds of US$130.2 million in April 2010. Companies in the development category were particularly successful, increasing their cash positions by 112%.

Non-current assets, mostly property, plant and equipment (PP&E), saw modest increases overall as the economy recovered from the downturn. The major increases in PP&E came from Anooraq Resources and Medoro Resources. Anooraq increased its PP&E by $925 million mostly as a result of the $725 million acquisition of a 51% interest in the Lebowa platinum mine in July 2009 and capitalized expenses. Medoro made several acquisitions in February 2010 to increase its PP&E by $135 million.

As a result of improved cash positions, higher inventories, and spending on PP&E, total assets for the top 100 juniors gained 10% to $8.1 billion.

Current liabilities were lower for exploration companies, relatively unchanged in the development category, but increased 37% for the production group, largely as a result in changes in other current liabilities which contained $115 million related to hedging derivatives.

Overall, liquidity (the current ratio) for the top 100 remained relatively constant year over year, falling slightly to 3.0 from 3.1 in 2009. But it is still well below the high of 5.4 noted in our 2007 report.

Long-term debt soared 185%, mostly as a result of debt financing in the production category, especially by Anooraq Resources ($600 million) and Iberian Minerals Corp ($139 million). Anooraq used the debt to buy the Lebowa mine interest, an acquisition that also resulted in a $200 million increase in long term deferred tax liability that boosted "other" non-current liabilities for the development category.

As a result, total liabilities jumped 57% to $2.7 billion, while total equity fell by 5%. The development category increased its equity by 39% to $1.6 billion led by two offerings by Sandstorm Resources which raised $75 million, but overall increases in debt and long-term liabilities offset theses gains resulting in a higher debt to equity ratio for the top 100 of 0.5 compared to 0.3 in 2009.

A Golden Road Ahead

Gold and other precious metals will continue to dominate the top 100 for the foreseeable future provided precious metal prices. Fears about the value of currencies and rampant monetary reflation are bullish for precious metals, which are considered an alternative to paper.

Gold has been widely predicted to breach the US$1500 per oz level before year end and gold equities are poised to begin outperforming bullion as operating margins improve. Higher margins, in turn, should trickle down to junior explorers and developers in the form of better market capitalizations.

Other commodities are also showing strength as the world recovers from recession and China and India continue to require raw materials to feed their growth. Investors are jumping on the commodity bandwagon in increasing numbers, giving our top 100 juniors better access to the funds they need to explore and develop their properties.

However, the trend towards less spending threatens the prospects for growth in the sector. To create a pipeline of new prospects, investors would have to show more of an appetite for higher risk, early stage exploration. Post June 2010 share price increases in TSX-V companies suggests more investors are willing to support the junior sector.

Political risk is also a growing concern as governments around the world seek to benefit from increasing commodity prices. Several major projects were threatened this year with new taxes or royalties in West Africa, Chile and even Australia. As a result, an increasing number of companies will be acquiring and exploring properties in jurisdictions that they perceive to be relatively lower risk.

Overall, the junior mining sector is poised for continued recovery as demand increases in an era of dwindling supply of world class mineral deposits. Those focusing on the gold sector may benefit from continuing high demand for the metal. Companies with robust base metal and other mineral deposits in stable jurisdictions also stand to benefit over the longer term as urbanization in China continues to provide demand for such metals resulting in an increased desire to secure the raw materials necessary to build infrastructure.

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