

# Goldletter INTERNATIONAL

*the international independent information and advice bulletin for gold and related investments*



## Nonferrous exploration budgets suffered a 42% decline to \$ 7.32 billion in 2009

In Metals Economics Group's 2009 analysis, the planned nonferrous exploration budgets of the 1,846 companies included in Corporate Exploration Strategies (CES) totaled \$ 7.32 billion for the year – down from a record \$ 12.6 billion in 2008 and the largest one-year decline in the past two decades.

It is estimated that the company budgets in the study (using a \$ 100,000 cut-off) accounted for more than 95% of worldwide commercially oriented nonferrous expenditures. Including the remaining 5%, planned expenditures for commercial nonferrous metals exploration reached \$ 7.7 billion.

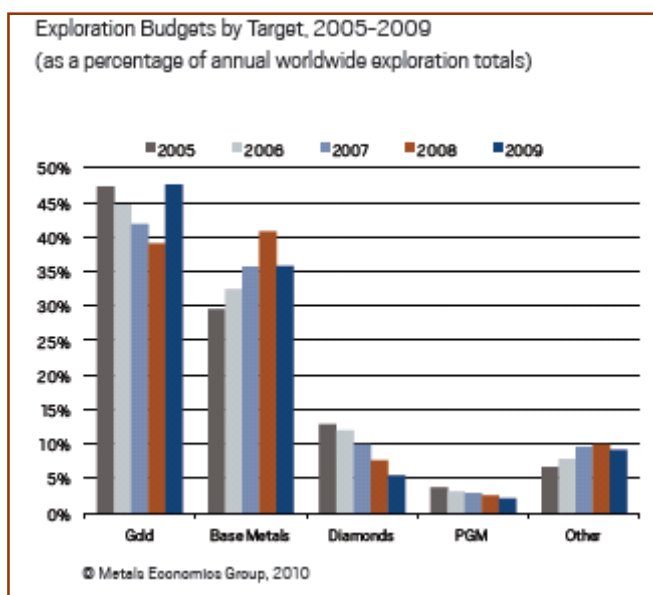
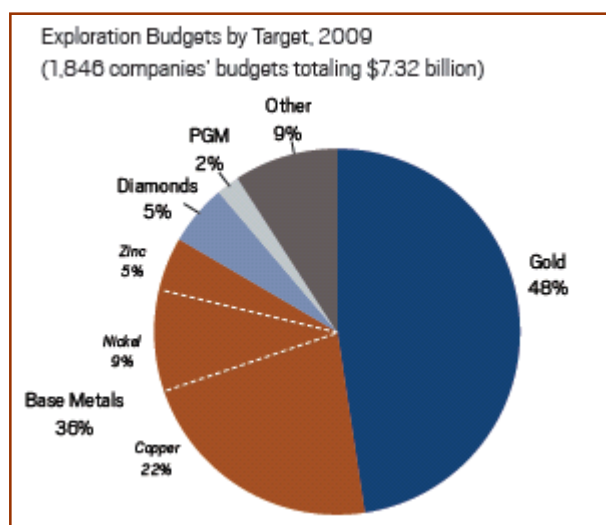
In addition, the CES began including uranium budgets in 2007. The 2009 study included aggregate uranium budgets, totaling more than \$ 660 million down from \$ 1.15 billion in 2008. Including uranium budgets the total number of companies covered rose to 1,998 and the aggregate exploration budget increased to more than \$ 7.98 billion, compared with \$ 13.75 billion in 2008.

After one year, as the top exploration target, with a record 41% share of overall exploration spending, aggregate base metals allocations (copper, nickel and zinc) fell by almost half to represent more historically consistent 36% of the total.

Gold allocations also felt in 2009, but the decline was much less steep, and as a result gold's percentage of total spending rose from an all-time low of 39% in 2008 to 48% in 2009, to regain its position as the top exploration target after dropping below base metals in 2008 for the first time in the 2-year history of the MEG study.

Worldwide nonferrous exploration budgets steadily increased through the early 1990s to crest a \$ 5.2 billion in 1997 before falling for 5 straight years to a 12-year low of \$ 1.9 billion in 2009 - an overall decline of more than 63%.

The initial increase in worldwide exploration from the bottom of the cycle in 2002 resulted from a combination of increased spending by the junior sector on the back of higher gold prices and rising investor interest, increased spending by the majors as they recognized a dearth of new projects moving up the pipeline, and significantly reduced industry consolidation from the high levels of 2000 and 2001.



As the gold price continued to rise and prices for most other metals enjoyed their multiyear bull runs to the peak levels reached in 2007 and early 2008, yearly budget increased by the majors and the meteoric rise in junior budgets, pushed the worldwide exploration total to a new high of \$ 13.2 billion in 2008 (excluding uranium).

The boom times enjoyed by the mining industry for several years came to a screeching halt in September 2008, however, as the world fell into the worst economic and financial downturn in decades. Widespread forecasts of a deep and protracted global recession painted a grim outlook for near-term global commodities demand, pushing metal prices in a steep decline and prompting most companies to slash their capital spending and investment plans for 2009 and beyond, some by choice and some just to survive.

These cuts resulted in the postponement and cancellation of numerous mine developments and significantly contributed to the 42% (about \$ 5.5 billion) drop in worldwide nonferrous exploration from the 2008 high, suffering the steepest one-year decline in more than 20 years.

### Strongest decline in grassroots budgets

Grassroots budgets decreased the most in 2009 (down 48%), followed by late stage (down 43%), to account for about 32% and 41% of the worldwide budget respectively, while mine site budgets decreased their share of the global total to just over 27%.

Late-stage spending outweighed grassroots for the fifth consecutive year, continuing the steady erosion in the proportion of budgets allocated to early-stage work from a peak of 53% in 1996 to the 2009 nadir.

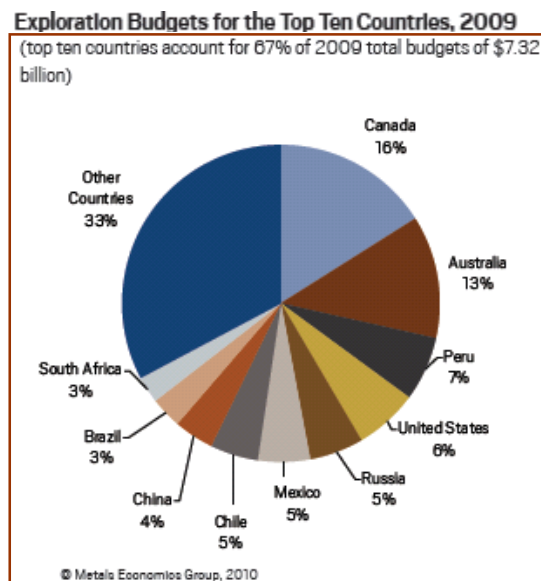
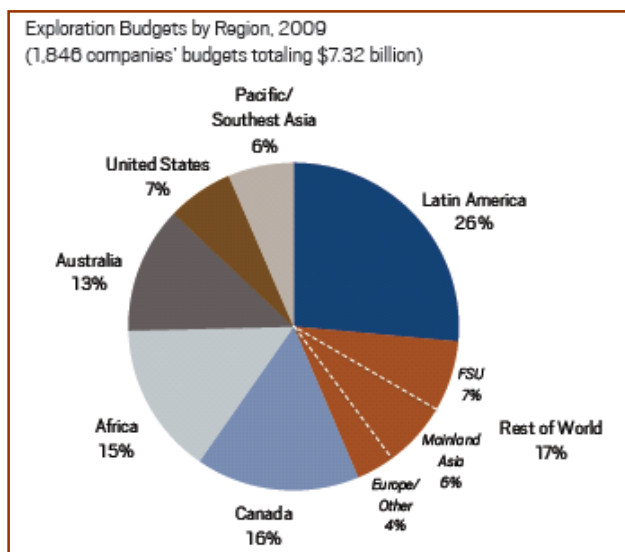
Consequently, mine site's 27% share of the total was its highest since the CES studies began in 1989, continued to rise from the previous high of 22% reached in 2008.

Late-stage allocations remained relatively stable at 40%-43% since surpassing grassroots in 2005.

While companies in all sectors cut their grassroots exploration, the junior sector accounted for the largest share of decline, with juniors accounting for 41% of the total grassroots budget in 2009, compared with 55% in 2008, as the average junior grassroots budget dropped by more than half.

Since surpassing the majors in 2002, the junior sector has accounted for the largest share of late-stage spending and more than half of the annual late-stage spending and more than half of the annual late-stage spending since 2003.

However, since accounting for a high of 65% in 2005, the juniors' share has continually decreased, sliding to 53% in 2009.



All regions experienced decreased allocations in 2009; the largest decreases in dollar terms were in Canada and Latin America, and the smallest were in Pacific/Southeast Asia and the United States.

**Latin America** remained the most popular exploration destination, a position it has held since 1994m with about 82% of its 2009 allocations directed to the traditional big 5 countries in Peru, Mexico, Chile, Brazil and Argentina.

Allocations in a total of 23 Latin American countries fell by less than the 42% worldwide average, increasing the region's share of overall expenditures to more than 26, its highest percentage since 2001.

**Canada** experienced the largest decrease of any region in 2009, falling by more than half, dropping to to third place with 16% of worldwide allocations. Canada gas held the second spot since overtaking Australia in 2002.

For the first time ever, MEG's **rest-of-the-world region** (including Russia, China and Mongolia), which together accounted for almost two-thirds of the region's total, and 37 other countries (Europe, mainland Asia, and the Middle East) moved into second place.

Planned expenditures in this region were down just a third from 2008, increasing its share of worldwide exploration to 17%.

**Africa** dropped from third to fourth position in 2009, its share remaining at 15%. Major exploration destinations on the continent included South Africa, Democratic Republic of Congo, Angola, Ghana and Tanzania.

**Australia** appeared firmly entrenched in fifth place, with almost 13% of the total.

The **United States** remained in sixth place, with almost 7% of the global total, its lowest percentage ever.

The **Pacific/Southeast Asia** region experienced the smallest drop (32%) in spending in 2009. Allocations represented more than 6% of the worldwide total and were only a few million dollars behind the United States. The traditional big three in Indonesia, the, the Philippines and Papua New Guinea attracted almost three-quarters of the regional total.

