

# Is the exploration industry on the brink of a rebound?

A report by S&P Global Market Intelligence (S&P) prepared for the recent PDAC International Convention held in Toronto in early March suggests that the exploration industry could be on the mend after suffering a meltdown over the past several years.

The report – *Worldwide Mining Exploration Trends* – points out that in 2016 the mining industry “slashed its budget on the search for metals to barely one-third of the record high of US\$21,5 billion allocated in 2012.” It notes that exploration spend has now dropped for four consecutive years and that the average 2016 exploration budget among surveyed companies was US\$4,4 million, the lowest since 2009, and the median budget was US\$800 000, the smallest in more than a decade.

S&P nevertheless sees grounds for optimism, noting that since around March last year “exploration companies have increasingly been able to raise funds, which represents a marked improvement over recent years.” It goes on to say that it is “cautiously optimistic for the near term, and expects corporate exploration this year to be flat”, with a small predicted uptick in the majors’ budgets in 2017 being offset by a slightly lower level of spending by juniors.

I should point out that this S&P report prepared for PDAC essentially summarises S&P’s latest *Corporate Exploration Strategies (CES)* report for 2016, which is based on an analysis of the non-ferrous exploration budgets of 1 580 companies.

Interestingly, at the individual company level, Freeport-McMoRan had the largest budget decrease in 2016, down 49 % from the US\$102 million actually spent – as opposed to budgeted – in 2015, and was closely followed by Brazilian major Vale, with an exploration allocation in 2016 that was US\$46 million less than its exploration spending in 2015.

At the other end of the scale, South African-headquartered Gold Fields recorded the largest budget increase in 2016, up 22 % from the US\$102,7 million budgeted in 2015. Most of Gold Fields’ spend was for near-mine exploration, with most of it going to the group’s Australian operations.

Although all regions of the world showed lower allocations in 2016, Latin America’s share remained at 28 % of the global total while Canada was the most popular national target, attracting 14 % of all exploration dollars.

Regrettably, Africa recorded the second largest percentage decline, with the continent accounting for only 13 % of total expenditure, with just over half of this being dedicated to exploration for gold. The most significant African exploration destinations were the DRC, South Africa, Burkina Faso, Mali and Tanzania.

I personally would be curious to know which companies active in Southern Africa were the big exploration spenders in 2016 but the PDAC report does not go to this level of detail. Certainly, Ivanhoe would be near the top of the list, as its Kamoakakula copper project in the DRC has at least 14 rigs on site.

Other Southern African projects that have had an intense focus on exploration over the past couple of years are Cupric Canyon’s Khoemacau copper project in Botswana, which had as many as 27 diamond drilling rigs active in 2015, and Platinum Group Metals’ Waterberg project in South Africa.

A useful complement, incidentally, to S&P’s report is one by Richard Schodde, the highly regarded MD of Australia’s MinEx Consulting, who presented at this year’s PDAC on *Recent Trends and the Outlook for Global Exploration*. I was not myself at PDAC but his presentation and a written summary are on the MinEx website and make for interesting reading. He says that exploration spending peaked in 2012 at US\$33 billion – a figure which differs somewhat from S&P’s estimate – and that it dropped to US\$10,2 billion in 2016.

Among the interesting observations that Schodde makes is that historically around 70 to 80 moderate sized – or larger – discoveries were made each year in the world. This figure peaked at 149 discoveries in 2007 and has fallen dramatically since then.

Schodde also highlights the importance of juniors in the exploration cycle. He estimates that they now account for approximately 70 % of the total number of deposits found and 50 % of the value created.

What of the future for exploration? Schodde is very positive on the outlook and predicts that global exploration spend could rise by up to 60 % over the next four years. Let’s hope that he’s correct in his forecast. It’s a cliché but nevertheless true that exploration is the lifeblood of mining. The sooner we get back to ‘normal’ levels of expenditure, the better for our industry and indeed the global economy.

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