Early stage exploration at crisis levels

Exploration / Development > Discovery

6 March 2019 – Kristie Batten

Global exploration budgets are expected to rise for a third consecutive year, albeit at a slower rate, according to S&P Global Market Intelligence.

The World Exploration Trends 2018 report was released this week to coincide with PDAC in Toronto.

Exploration budgets for 2018 jumped by 19% to US$10.1 billion, and are expected to rise by another 5-10% in 2019.

S&P associate research director Mark Ferguson said the smaller rise was likely due to an emphasis on late-stage exploration as the industry remained risk-averse.

"We expect some volatility to persist in the exploration metrics in 2019 as uncertainty still abounds over the sustainability of economic growth between the US and China," he said.

"Nevertheless, we should see a general upward trend as the positive underlying fundamentals for most metals encourage increased activity.

"The industry, however, remains short of critical new discoveries and metals such as copper will see widening deficits without additional investment in exploration for the mines of the future."

Despite 2018 budgets being less than half of the $21 billion-plus peak in 2012, global drilling activity surpassed 2012, with a 14% year-on-year increase in the number of holes reported.

Grassroots exploration as a share of total budgets fell to an all-time low of 26% last year.

S&P said the trend would have to be rectified to address a thinning pipeline of projects.

Surprisingly the major miners still outspend juniors on early stage exploration, but it accounts for just 0.4% of revenue, an all-time low and well below 1997's peak of 2%.

The majors are allocating just 1.6% of revenue to exploration, up from 1.4% but still close to the historical low.

The majors still dominate exploration budgets overall, accounting for nearly half of the total.

All global regions had higher exploration budget allocations in 2018, except Pacific/Southeast Asia, which recorded an 8% decrease in allocations.

Latin America's global budget share slipped from a record 30% in 2017 to 28% and the region remained the most popular exploration destination with gold and base metals sharing the bulk of the spend equally.

"Rest of the world" covering Europe and Asia was second with 17%, Canada was third with 15% and Australia rose one place (past Africa) to fourth with 14%.

"Australia and Canada are seeing the largest benefit from the recovery in budgets due to the number of smaller companies investing in their backyard," S&P senior analyst Kevin Murphy said.

Canadian-domiciled companies were the biggest spenders, with allocations rising 34% to

$3.52 billion, followed by Australian companies, whose spend rose 20% to $1.71 billion.

Gold accounted for 56% of Australian budgets, with base metals rising from 21% to 27%.

Overall, gold accounted for half of global exploration budgets, up 18% over 2017 to $4.85 billion, while base metals exploration, dominated by copper, jumped by $606 million to $3.04 billion or 29%.

Budgets for lithium exploration hit a new high of $247.1 million, while cobalt exploration budgets tripled to $110.8 million.