

SE SNL Metals and Mining Research; Exclusive  
HD Larger players account for 40% of global exploration budgets  
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As part of the 25th edition of the "Corporate Exploration Strategies" study, a corporate exploration profile of each company budgeting at least US\$50 million for exploration is available on the SNL company briefing books.

In 2014, detailed profiles of 35 major mining companies are provided, along with more concise profiles of four additional companies, one each from the other four categories — junior (Ivanhoe Mines Ltd.), intermediate (Philex Mining Corp.), government (China National Gold Group Corp.) and other (Sumitomo Metal Mining Co. Ltd.). These 39 larger players budgeted a total of US\$4.33 billion and accounted for 40% of the US\$10.74 billion worldwide exploration total.

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The top 10 explorers in 2014 include one copper producer (Antofagasta Plc), three diversified majors (Vale SA, Rio Tinto and BHP Billiton Ltd.), five major precious metal producers (Barrick Gold Corp., AngloGold Ashanti Ltd., Goldcorp Inc., Newmont Mining Corp. and Fresnillo Plc) and one diamond miner (OJSC ALROSA).

Chile-based copper producer Antofagasta has the world's largest nonferrous exploration budget in 2014 at US\$249 million. Its allocation is 36% less than the US\$390 million budgeted by BHP Billiton Ltd., the top explorer in 2013. On par with US\$250 million spent in 2013, Antofagasta's 2014 program is growth-oriented, with late-stage and feasibility work featured at 45% of the budget. A strong grassroots effort, budgeted at US\$75 million, includes programs in the Americas, Europe, Africa and Australia.

In second place, Vale is the largest explorer among the diversified majors; allocations of US\$227 million are focused largely on Latin America and Brazil in particular, with an emphasis on late-stage work. Vale continues to challenge OJSC MMC Norilsk Nickel for the title of world's top nickel producer; its output of 260,200 tonnes in 2013 was just 25,000 tonnes short of the 285,000 tonnes produced by the Russian miner. Vale also considers copper one of its core commodities, although production growth has been more gradual. Significant exploration expenditures are also directed to fertilizers in Brazil and Peru.

Mexico's silver-gold producer Fresnillo is third with US\$225 million, comprising US\$157 million for gold and US\$68 million for silver. Formed through a spinoff of Industrias Peñoles SAB de CV's precious metals assets, Fresnillo is the world's largest primary silver producer and one of Mexico's largest gold producers. Directed almost entirely to Mexico, Fresnillo's budget is spread fairly evenly between all stages of exploration, with a slight emphasis on advancing several pipeline projects.

Toronto-based Barrick Gold is in fourth place with allocations of US\$220 million. Although the world's largest gold miner has unsparingly trimmed its portfolio of mines and development projects, its 2014 budget is down 29% from last year's allocation (only slightly more than the 26% global decrease), but is an increase from US\$201 million actually spent in 2013. Barrick is directing about 50% of its exploration effort to North America, mainly toward its Goldrush discovery in Nevada, and 25% to South America, with a focus on Argentina and Chile.

Rounding out the world's top five explorers is Russian diamond producer ALROSA, with US\$215 million for all stages of exploration, almost entirely in Russia. One of the world's two largest diamond miners, ALROSA produces about 28% of the world's rough diamonds by value, and holds about a third of the world's total diamond reserves.

In sixth place, London-based Rio Tinto's 2014 exploration program emphasizes grassroots work, with this accounting for 64% of the total (minesite exploration is accounted for by individual operating units). Although its 2014 exploration budget is down about 20% year over year, the US\$211 million allocation is up 15% from the US\$183 million actually spent in 2013. Rio Tinto takes a long view regarding exploration, with horizons spanning 20 years or more. Its program is designed to identify low-cost, large-scale new operations, known as Tier 1 discoveries, embracing a broad range of commodities. The exploration group aims to recoup 100% of its greenfields expenditure through the sale of smaller, Tier 2 deposits.

BHP Billiton dropped from first to seventh place as it reduced its exploration budget 47% to US\$205 million. The company cut minesite expenditures by just 16%, while slashing late-stage work by 73% and grassroots programs by 59%. By maintaining strict financial discipline and increasing internal competition for capital, BHP Billiton intends to create a more capital-efficient organization. As it becomes more focused on its major basins, fewer projects will pass through its investment tollgates, and prospective returns for its favored projects will increase.

The three remaining top 10 explorers are major gold miners, but the focus of each exploration program differs significantly. AngloGold Ashanti's US\$195 million budget favors late-stage development, while Goldcorp's US\$190 million allocation is focused on replacing ounces at producing mines. Newmont Mining's US\$186 million budget emphasizes brownfields work, although it has this year's largest grassroots gold allocation at US\$67 million.

Nine of the top 10 explorers from 2013 remain on the list in 2014, although the rankings have shifted considerably. Joining the top 10 this year is Vancouver, Canada-based Goldcorp, its US\$190 million budget down just 4% year on year. With three significant development projects coming online, Goldcorp's production is expected to increase by as much as 50% over the next two years. It remains focused on exploration at and around its existing mines, with minesite work garnering 80% of the 2014 budget. Goldcorp performs only minimal early stage exploration — budgeted at US\$18 million in 2014 — preferring to let juniors or joint-venture partners identify and advance grassroots discoveries through the pre-feasibility stage.

Dropping from 10th to 13th place was Freeport-McMoRan Inc., with a 50% decrease in its 2014 exploration budget. Although it continues to favor near-mine exploration in the large mineral districts where it currently operates, its US\$52.9 million grassroots budget emphasizes exploration in Europe, the Americas, Pacific/Southeast Asia and Africa.

The largest percentage drop in allocations within the larger players came from Johannesburg-based Gold Fields Ltd. The company's US\$85 million budget, weighted heavily toward brownfields work almost entirely in Australia, was down by more than 53% year on year, lowering its ranking from 12th to 19th place. Gold Fields shuttered its Growth and International Projects division in November 2013, and announced a drastic cutback of its greenfields exploration portfolio. A highly focused prioritization process now ranks growth projects located at or near its existing producing assets.

Newcrest Mining Ltd.'s US\$78 million budget was down 51%, dropping it to 23rd place from 14th. Allocations were cut across the board, with the breakdowns by target and stage left largely unchanged. After the company booked an A\$2.2 billion loss in fiscal 2014, Newcrest CEO Sandeep Biswas outlined three areas of focus going forward: operating discipline, free cash flow and profitable growth. According to Biswas, "Cash is king, and time is money, and these are the things that are being pushed throughout the organization."

Four companies with sharply higher budgets entered the "larger players" group in 2014 — Philex Mining (up 100%), Southern Copper Corp. (up 66%), Saudi Arabian Mining Co. (up 57%) and Oz Minerals Ltd. (up 25%). Lima, Peru-based Compañía de Minas Buenaventura SAA's allocation increased by 66%, raising it to 14th place from 32nd.

Other companies with increased budgets include French uranium giant AREVA SA (up 36%) and Ivanhoe Mines Ltd. (up 13%). Several companies dropped from the list due to dramatic cutbacks in their budgets, including Cliffs Natural Resources Inc. (down 85%), Sabina Gold & Silver Corp. (down 70%), Votorantim Industrial SA (down 64%), Cameco Corp. (down 53%) and Hochschild Mining Plc (down 46%).

Together, the larger players contributed 40% of the worldwide exploration total in 2014, with gold representing 41%, copper 32% (41% base metals) and 7% each for diamonds and other targets, including silver, potash, phosphates and manganese. Two of the larger players, ALROSA and De Beers SA, accounted for 69% of worldwide diamond exploration. The 25 larger players with gold exploration budgets were responsible for 39% of worldwide gold allocations. In the middle, the group's copper explorers accounted for just over half of the total copper budget.

Conventional wisdom holds that the major companies leave grassroots exploration to the juniors. It may therefore be surprising that the larger players contributed 40% of all greenfields allocations in 2014. A persistent financing drought has squeezed juniors' budgeting to the point that the majors have become the biggest drivers of early stage exploration. Similarly, the larger players traditionally dominate minesite spending; in 2014, however, they account for only 51% of the near-mine work as their investors demand improved returns over growth. It is also interesting to note that the major players are responsible for just 32% of late-stage exploration and feasibility work.

Geographically, the larger players allocated their budgets somewhat differently than the overall group of 1,961 companies. The top 10 target countries for the larger players were the same as for the overall group; however, for the larger players Chile replaced Canada as the primary exploration destination, as their Chilean budgets accounted for a much larger share (12%) than the entire industry's share (6.6%), reflecting the significant presence of major **copper** miners in the relatively secure Latin American country.

Two mature jurisdictions, Canada and Australia, garnered much smaller percentages (10% and 7.5% respectively) of the larger players' budgets than the shares allocated by the entire industry (14% and 12% respectively), as junior and intermediate companies contributed a considerable portion of the exploration dollars spent in these countries. The United States also dropped in the rankings, although budgets by the larger players accounted for a greater share (8.4%) of the total than the share allocated by the group of 1,961 companies (7.1%). Russia moved up in the rankings, from eighth to fourth place, with 79% of its total allocations coming from larger major players. Conversely, **China**, where 56 companies with allocations of less than US\$20 **million** contributed 53% of the total, dropped from sixth to 10th place.

**CO** antofg : Antofagasta PLC | bari : Barrick Gold Corp | bkhlp : BHP Billiton Ltd | chgold : China National Gold Group Corp | goldi : Goldcorp Inc | inapsp : Ivanhoe Mines Ltd. | newmnt : Newmont Mining Corp | phlxm : Philex Mining Corp | smtmm : Sumitomo Metal Mining Co., Ltd. | vaal : AngloGold Ashanti Ltd | bltpic : BHP Billiton PLC | lksic : Grupo Luksic

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