Minerals and petroleum exploration activity recovering – minerals get a helping hand from government

Gold and base metals drive minerals revival


The trend-estimate for mineral exploration expenditure increased by 6.6% ($26.4m) to $428.5m in the June quarter 2017. The actual expenditure rose 31.8% ($107.3m) to $444.9m. Of the $449m total, Western Australia accounted for 65% ($291m), followed by Queensland with $57.6m, and New South Wales with $45.3m.

This is the highest quarterly figure since September 2014 and, although well below the record of $1062m in June 2012, the numbers show a consistent increase since the $295m figure for the March 2016 quarter (see Figure 1). Notice how the petroleum numbers now are almost the same as the minerals numbers, which was also the case in 2005.

The two main drivers for the increase in minerals investment have been gold and all the selected base metals (copper, silver, lead, zinc, nickel and cobalt). Gold exploration reached $193m in the June quarter. This is the highest it has been since the September quarter of 2012 and 23% higher that the June 2016 quarter. The gold price has hovered around US$1300/oz during the past five years (see Figure 2), so gold explorers are no doubt relying on it being in the $1100–US$1400/oz range for the next few years. However, as you can see in Figure 2, although the gold price has been in this range it can be quite volatile and is still a lot lower than the peak of US$1896 it reached in 2012.

All the main base metals are now in demand with exploration expenditure on...
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them rising from $54.8m to $94.8m from the June quarter in 2016.

All the other indicators were positive with the number of metres drilled rising from 1795 km in the June quarter of 2016 to 2299 km in the June 2017 quarter. Furthermore, the increases were in both existing deposits – up from 1376 km to 1616 km, and in areas of new deposits – up from 418 km to 683 km. And, exploration on areas of new deposits rose 32.1% ($33.0m) and expenditure on areas of existing deposits rose 31.6% ($74.1m). But that is not all!

**Australian Government commits $100 million to encourage mineral exploration**

As well as the encouraging numbers for the minerals exploration, there is also a helping hand from the Australian Government. On 2 September 2017, the Government announced that:

“It will commit $100 million to secure additional private investment in vital greenfield mineral exploration to drive the next wave of mineral discoveries crucial to the resources sector and the Australian economy."

“It will provide tax incentives for junior exploration companies to encourage investment and risk taking which are needed to underpin the future strength of our resources sector and the Australian economy."

To quote from the Prime Minister’s media release:

**Petroleum exploration investment also rises – but only just**

According to the Australian Bureau of Statistics the trend-estimate for total petroleum exploration expenditure rose 0.9% ($3.0m) to $345.8m in the June quarter 2017. Exploration expenditure on production leases rose 35.1% ($14.5m) and exploration expenditure on all other areas fell 3.6% ($10.8m). The seasonally adjusted estimate for total petroleum exploration expenditure rose 4.7% ($16.1m) to $355.6m in the June quarter. Exploration expenditure on production leases rose 53.1% ($22.2m) and exploration expenditure on all other areas fell 2.0% ($6.0m). Western Australia remains the premier petroleum state for exploration and it accounted for $108m of the $336m. However, as can be seen in Figure 3, it is difficult to see any increase in investment levels that are now back to where they were in 2005. With the oil price remaining close to US$50/barrel it is also difficult to see Australia as an attractive offshore exploration area.

**Figure 3.** Onshore and Offshore petroleum exploration investment 2005–2017. All data have been normalised to June 2017 A$, using the CPI. The raw data were supplied courtesy of the Australian Bureau of Statistics. See: [http://www.abs.gov.au/ausstats/abs@.nsf/mf/8412](http://www.abs.gov.au/ausstats/abs@.nsf/mf/8412).

“These tax incentives will encourage ‘junior explorers’ to take risks and to have a go at discovering the next large-scale mineral deposit.”

“We want to turnaround the greenfields minerals exploration expenditure that have declined by almost 70 per cent over the past five years.

Under the new $100 million Junior Mineral Exploration Tax Credit scheme, Australian resident investors of junior explorer companies will receive a tax credit where the exploration company chooses to give up a portion of their losses relating to their greenfields exploration expenditure in an income year.

The ability to immediately distribute tax credits to investors will make investing in a ‘junior explorer’ more immediately attractive and encourage investment in small exploration companies undertaking greenfields mineral exploration in Australia.”

The devil might be in the detail, but:

“only newly issued shares relating to capital raising for investment in new greenfields exploration activity will be eligible for these tax credits.

This will help maximise the incentive for additional investment in minerals exploration.

Tax credits of up to $100 million over four years will be made available from this financial year on a first-in first served basis consistent with arrangements to be administered by the Australian Taxation Office.”

The media release did not define Junior Explorers, but it is a very welcome step in the right direction.

When I was President of the Australian Geoscience Council in the late 1990s we tried to persuade the government that such a scheme would be a good investment. It’s good to see it happening, even if it did take 20 years!