Investing in exploration juniors: lottery or gamble?

By Peter Walker, Consulting Geologist

There are myriads of exploration juniors quoted on the stock exchanges of the world, most of them highly risky investments with few expected to get past the property acquisition and initial exploration stage. Even fewer will get to do a feasibility study, and a minute number will get into production and reward their investors with regular dividends and orders of magnitude increase in the price of their shares.

That is the nature of investing in mineral resource exploration — very high risk, very high reward. To the uninformed exploration is a lottery. Others learn that by applying key criteria to sound judgement, intuition and experience they can better their odds and turn a lottery into a gamble. What are the key criteria that give a mineral explorer improved odds to succeed in this gamble with nature?

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Geological favourability

Often referred to as "being in elephant country", however, the really huge rewards come from those explorationists who apply new ideas or technologies in new areas. Chuck Fipke's Dia Met Minerals went from being C$0.25c a share to C$66.00 a share after discovering diamondiferous kimberlites in the Canadian North Western Territories. There weren't any known "elephants" until Fipke's discovery. The key to backing Dia Met was knowing that they were exploring on a craton and recognizing the significance of their recovery of G10 garnets - which few people appreciated at the time. These factors, in hindsight to most, pointed to the likelihood that they would find kimberlites, and that there was a good chance that these would be diamondiferous.

Political favourability

Trying to operate in politically unstable countries with poor infrastructure, poor legal systems, high levels of corruption, low skill levels and no previous track record in the mining industry is akin to trying to swim upstream in a torrent – it can be done, but it's exhausting.

Competent people

Lateral thinking, experienced, hard working, business-like, positive and persistent are some of the key characteristics of the successful technical manager applying sound scientific methods. When this is backed by a professionally directed and administered organization spending is directed towards the primary objective of finding and evaluating the deposit in the shortest possible time. There are plenty of juniors that exist to provide well-paid work to their promoters. One of the ways of judging this is to ascertain the level of employee investment in the company: Do they have their money on the line? Other questions to be answered are: Do they have a track record of technical competence? Are the directors overseeing operations with honesty and diligence?

Ground holding

It's no use coming second. Truly competitive juniors act swiftly before the theory is proved. The company must not only be the best technically, but be the best first. A monopoly position on highly prospective ground with a credible model or new technology is the ideal situation.

Perseverance and luck

Persevere while the concept, model, theory and technology is still sound and untested. There is a tendency to bail out when some target cost has been reached, but this is wrong. Enough is only spent when the idea has failed or has been tested in all its possibilities. And as for luck? Successful explorationists will tell you that the more they persevere the luckier they get.

Commodity cycles

Commodity prices are cyclical and very unpredictable, with some commodities being struck off the list for long periods. Uranium, tin and tungsten are some of the recent examples of unfashionable minerals and exploring for these or turning known deposits to account requires a combination of courage, high grades and low-cost mining. An investor gets better odds by putting money into exploring for high-demand commodities such as the staple minerals oil, coal, iron, and base metals. Other in-demand minerals are the "wealth hedges" like precious metals and stones. ❁