



Exploration Incentive Scheme Co-funded Exploration Drilling Program

by

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In early April 2009 in fulfillment of an election commitment, the Western Australian government announced funding of a five-year, \$80 million Exploration Incentive Scheme (EIS). The objective of EIS is to encourage exploration within Western Australia, particularly in minerals greenfields areas and frontier petroleum basins, and maintain it at the levels needed for the long-term sustainability of the State's resources sector. The scheme also provides some shorter term stimulus for the exploration industry during the exploration downturn caused by the global financial crisis. Importantly, the funding of a large exploration incentive package at this time signals that the WA Government is serious about fostering investment in the State's resources sector and is concerned about the sustainability of resource production if discovery rates are not increased.

A major component of the scheme is the Government Co-funded Exploration Drilling Program allocated \$20.5 million out of EIS funding of \$80 million. The aim of this program is to encourage high-quality, technically and economically sound projects that promote new exploration concepts and new exploration technologies.

Applications are called once a year for drilling projects that will take place in the following financial year. The first round of Co-funded drilling in 2009–10 was highly competitive with over 160 applications submitted requesting \$15 million of co-funding. A total of 35 grants were made from the \$3 million available to support projects in 2009–10. Although all the successful applicants were searching for mineral commodities the program welcomes applications from petroleum and geothermal explorers. More than \$5 million will be available to fund projects to be undertaken during 2010–11.

In 2010, applications will be accepted online between 22 February 2010 and 19 March 2010 for drilling to be undertaken in 2010–11. The applications are evaluated by a team of experienced independent exploration geologists all of whom are members of one of the peak professional bodies and are bound by confidentiality agreements with the Department as well as by their own professional bodies' codes of ethics.

The applications are evaluated against a number of criteria, including potential to advance exploration activity in under-explored areas, testing areas of previous ineffective drilling and return of data in the form of core and subsequent

analyses. In 2009–10, multi-phase programs where the second and subsequent phases were solely dependent on the success of the previous phase were considered for funding of the first phase only.

Feedback from industry has meant that some changes have been made to the 2010–11 program. These have been ratified by the Drilling Advisory Committee, which is made up of representatives of all the industry bodies in WA. This committee has a mandate to provide recommendations on the broad policy framework of the Co-funded drilling program as well as annually reviewing the operations of the program and recommending amendments to the guidelines.

Successful applicants can receive refunds of up to 50% of their direct drilling costs capped at \$150 000 for a multi-hole project or at \$200 000 for a single deep hole. This funding is paid by the Department of Mines and Petroleum (DMP) in two tranches, the first payment being made after completion of the drilling and receipt of the interim drilling report, with final payment after submission of the final report including all promised data and core.

Core collected by companies that gain Co-funding will be made available on open-file access in the relevant core library after a short six-month confidentiality period. Final reports of the drilling programs will also be released online via the WAMEX database after a similar confidentiality period.

Although multiple applications are welcome from explorers, it is recognized that some companies could gain a significant advantage by virtue of the remote location of tenement holdings and could gain multiple grants for drilling programs on contiguous or co-located tenements. Although one of the aims of the program is to encourage exploration in remote underexplored areas, it is also important to ensure a good spread of commodities and recipients. The Drilling Advisory Committee has recommended that if a company that has submitted multiple applications (regardless of location or commodity) is successful with one application, all its subsequent applications in a funding round will be burdened with a small handicap in the rating assigned to the applications. If the applications are competitive despite the handicap they will still be successful in attracting a grant.

Special provision has also been made for bona fide prospectors. A pool of funding, up to \$200 000, has been

allocated for distribution to applicants who submit competitive applications. Prospectors' grants will be capped at \$20 000 funding per project with funding being paid similarly to the refund model of the general grant. Additionally 25% of funding of a prospector's grant will be required to be spent on analysis of samples collected from the drilling, unless the drilling is cored and the core submitted to DMP. Prospectors are not precluded from applying for funding with a higher cap under the potentially more competitive general round of applications.

Although the criteria for success in this program is activity undertaken and data submitted, there are already indications of both commercial and geological gains coming from the

first round with drilling finding good gold intercepts in the west Musgrave, pointing to a new gold province in what has previously been regarded as a nickel area.

The Co-funded Drilling Program will run for the full term of EIS, with further co-funding of nearly \$6 million being made available in 2011–12 and again in 2012–13. Further details can be found at: <www.dmp.wa.gov.au/eis>.