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The Chairman
Australian Accounting Standards Board
P.O. Box 204
Collins Street West
M&SOURNE VIC 8007

Dear Sir

ED130 - Request or Comment on IASB ED6 — Exploration for and Evaluation of Mineral Resources

The purpose of this letter is to set out some key comments in relation to the above exposure drafts.

Northern Gold NL

By way of background, Northern Gold NL ("Northern Gold") is a junior public Australian gold explorer and developer listed on the Australian Stock Exchange with a current market capitalisation of A\$45 million. Northern Gold has been an active participant in the Australian exploration sector since the mid-1980s and is currently developing a gold mining operation in the far north of Australia. We have reasonable internal cash resources at hand, but are reliant on capital markets (both equity and debt) to supplement these resources as we move forward towards production commencement.

Northern Gold - Existing Accounting Policy

Consistent with all Australian junior gold companies, Northern Gold capitalises its exploration and evaluation costs on its balance sheet, subject to satisfying the tests required under current Australian GAAP. As you would be aware, these tests are either that (1) such costs are expected to be recoverable (through sale or ultimate development) or that (2) such costs relate to early or partially-completed exploration activities, the outcome of which is not yet able to be reasonably assessed and exploration activities are continuing.

Comments in relation to ED130/ED6

Northern Gold understands that ED130/ED6 is an interim measure pending the development of a more comprehensive accounting standard for companies operating in the extractive industries. However, notwithstanding that ED6 is only an interim measure, we believe it fails to meet certain of its objectives as detailed below in response to the specific questions outlined in the IASB's request for comment.

1 Definition and Additional Guidance

Northern Gold is generally satisfied with the definitions contained within paragraphs 7 and 8 of ED6, except for the exclusion of administrative and other general overhead costs in exploration/evaluation costs. For a junior company such as Northern Gold, and indeed for the vast majority of Australian and international exploration companies, much of their administration and overhead cost base relates directly to field offices and specific exploration programs. Accordingly, these costs in our view (and per current standard industry practice) are rightly considered directly related to the exploration programs we undertake. We therefore request that the words "*other than those which are directly attributable to the activities*" be added to paragraph 8(b).

2 Method of Accounting for Exploration for and Evaluation of Mineral Resources

- (a) Initial assessment - It is considered anomalous that the requirement to test exploration/evaluation expenditure under the "Cash Generating Unit" approach must be undertaken on first time adoption of the standard, when after this time such testing is required only where an "impairment trigger" has occurred. Accordingly, we request that the standard should make it clear that, on adoption, the requirement to test exploration/evaluation costs under the "Cash Generating Unit" approach is necessary only when an "impairment trigger" is in existence at that adoption date.
- (b) Expectations of recoverability - Paragraph 13(f) applies a far tougher "impairment trigger" than paragraphs 13(a) to (e) for exploration companies. As presently drafted, paragraph 13(t) effectively deems an "impairment trigger" to be in existence when "*the entity does not expect the recognised exploration and evaluation assets to be reasonably capable of being recoverable...*". In order to make this test more reasonable and realistic for an exploration company, we request for paragraph 13(f) to be amended to read as a negative assurance as follows: "*based on the information available at balance date, the entity does not have any reason to expect that the recognised exploration expenditure is not capable of being recoverable...*",

If such an amendment is not made to the draft standard, then we would suggest the need for ED6 is materially reduced, because it will bring the rule for testing the impairment of exploration/evaluation expenditure in line with the more generalised approaches under Australian GAAP, a scenario which fails to adequately recognise the special nature of the exploration business.

3. Cash Generating Units for Exploration and Evaluation Assets

Northern Gold believes the 'Cash Generating Unit' approach for exploration companies is flawed. Exploration companies typically have no source of cashflow which can be attached to exploration and evaluation costs for the purpose of assessing impairment. Such companies rely on the equity market for their capital requirements. If impairment testing is required to be undertaken via the "Cash Generating Unit" approach, all exploration companies will be forced to write-off their deferred exploration/evaluation balances and/or subject themselves to expensive regular (i.e. at least 6 monthly) valuation exercises. The effect of writing-off exploration/evaluation balances will be expected to lead to numerous problems with respect to: meaningless book equity values; poor investor understanding of exploration assets and company financials; potential negative market reaction; and breaches of stock exchange listing rules.

4. Identifying Impaired Exploration and Evaluation Assets

We believe the "impairment triggers" identified in paragraphs 13(a) to (e) are appropriate and consistent with current Australian market practice. Our (serious) concerns in relation to the "impairment trigger" set out in paragraph 13(f) have been discussed above.

5. Disclosure

Northern Gold believes the disclosure requirements are appropriate and reasonable.

Summary

In summary, Northern Gold clearly supports the use of global accounting standards but, as a company operating in one of the world's most active exploration sectors, does not believe the practices imposed by ED6 are appropriate or reflect the special circumstances of entities and investors within the exploration sector.

We trust the above sets out clearly our response to the questions raised by the LASB in ED130/ED6

Yours faithfully



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