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Dear Mr Fleming

**ED6 Exploration for and evaluation of mineral resources**

We refer to the above exposure draft and the invitation for responses to the proposals.

We understand the apparent intention of the draft is to improve accounting practices for exploration expenditures without making major changes prior to a more general review of the accounting for mineral extraction activities.

The draft applies to all extractive industries, even though, in our view, there is a clear differentiation, in both activities and current reporting, between oil and gas extraction and other extraction activities. Whilst some may feel the need for a common approach, the two sectors are viewed entirely differently by stakeholders and analysts alike.

There is currently a degree of conformity within the oil and gas sector relating to the treatment of exploration expenditure and, pending a more detailed review of extractive industry accounting in general, it is questionable whether the proposed piece-meal change to exploration accounting can serve any useful purpose save to produce additional confusion and uncertainty in accounting practices.

We have the following more specific concerns with the exposure draft:

Exploration expenditure by its nature represents the first stage in the process of determining whether commercial reserves are in place. Exploration involves a number of risks and the success or otherwise of any one particular element of expenditure will largely depend on future activities or events. In the early stages of exploration the income generation from such activity will be entirely dependant on future actions and reasonable quantification of future cash flow is all but impossible. We therefore believe that an annual review of exploration costs against cash generating units is inappropriate. The current practice of splitting expenditure between that which is evaluated and that which is not is the more appropriate. Evaluated expenditure can then be tested for impairment in accordance with the criteria set out in IAS 36. Unevaluated expenditure can be reviewed to ensure that future activities are expected to generate sufficient cash flow to support the carried expenditure. It should also be necessary to demonstrate that the evaluation of such expenditure is continuing. This approach provides an on going review of exploration costs and allows a natural movement of expenditure from unevaluated to evaluated as uncertainties are eliminated.

Exploration expenditure can be incurred in a number of ways, either directly by the company itself; as part of a joint venture consortium, or contracted out to a third party. The third party's administration and overhead would be included in the basic price paid under the third option whereas such costs could be separately identified under the first two options. The exposure draft would appear to suggest that administration and overhead costs should not be capitalised under the first two options whereas they would be capitalised by default under the third option. The total cost in all cases may well be the same and the asset created would be identical. We believe this anomaly would be avoided if administration and overhead costs that directly relate to exploration activities continue to be capitalised as part of those activities.

In conclusion we can see no grounds for the changes that can be expected to result from the exposure draft. The impairment rules are not well thought out, will add considerably to the uncertainty concerning the calculation of impairment and will be of little or no benefit to users of company accounts.

The IASB has already accepted that the extractive industry can continue to follow existing local GAAP pending a full and more detailed review of extractive industry accounting in general. We believe this is the best interim approach, particularly as there is already a strong degree of uniformity across the oil and gas sector under existing local GAAP.

We therefore strongly recommend that you withdraw the exposure draft or at least make significant changes to avoid both the uncertainties it creates and the changes that are unnecessary in the light of the more extensive longer-term review.

Yours sincerely

Roy Franklin
for and on behalf of Paladin Resources plc