



# Kingsgate

Consolidated Limited

ABN 42 000 837 472

27 August 2004

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins St West  
Vic 8007  
Australia

Dear Sir

## **Request for comment on ED 6 Exploration for and Evaluation of Mineral Resources**

We support the decisions which have been made as a result of the deliberations between the IASB and the extractive industry, as follows:

The recommendation that exploration and evaluation assets shall be assessed for impairment when and only when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, and the provision of guidance as to when those circumstances are likely to occur, will greatly assist ongoing comparability with existing practice in many countries.

The deletion of the prohibition on the inclusion of administrative and other general overhead costs in capitalised exploration and evaluation costs will likewise ensure a greater level of consistency with current practice. We believe that the inclusion of such costs in exploration and evaluation when they are directly attributable to those activities is, and continues to be, appropriate. It is common practice for mineral resource companies to allocate such overheads on a proportionate basis to exploration activities in particular areas of interest, thereby ensuring that expenditure commitments on exploration licences can be met.

- We concur with the board's intention that entities should be able to test impairment at the level of the cost centre for extractive industries. In light of the clarification provided to date in relation to the circumstances in which impairment testing should be carried out, we believe that the way that this can be achieved is to eliminate the special Cash Generating Unit (CGU) and require all entities recognising exploration and evaluation assets to test those assets for impairment using IAS 36, or where it is not appropriate to test a specific asset, for a general definition CGU.

Specific clarification should be provided within ED 6 and the resultant IFRS as to the definition of an "asset" as it applies to exploration and evaluation costs. To achieve the IASB/s stated objective of grandfathering existing practice, we suggest that the appropriate definition of an asset would be consistent with the area of interest definition embodied in current Australian standards: "an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit, or an oil or natural gas field".

We would expect that for those pure exploration companies who do not yet have development or production assets, that there would be no attempt to aggregate to a general definition of CGU. Rather, testing would be done at the asset level as defined above.

This will enable those junior exploration companies who do not yet have a current source of operating cash flows to assess exploration and evaluation costs on a basis which is consistent with current common practice in Australia, hence the main aims of achieving "grandfathering" of existing practice will be achieved. It will also improve comparability across senior and junior entities in the extractive industry.

Should you wish to discuss the comments raised in this letter, please do not hesitate to contact me.

Yours faithfully



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