WRITE-OFFS OF EXPLORATION AND EVALUATION ASSETS IN AUSTRALIAN MINING DEVELOPMENT STAGE ENTITIES: DETERMINANTS AND STOCK PRICE REACTIONS

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CERTIFCIATE OF AUTHORSHIP/ORIGINALITY

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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ABSTRACT

This thesis explores write-offs in exploration and evaluation (EE) assets reported by the pre-production Australian Mining Development Stage Entities (MDSEs). The financial reporting of MDSEs is subject to a specific principles-based accounting standard AASB 6, *Exploration for and Evaluation of Mineral Resources* which allows for multiple accounting choices to record EE assets. This reporting flexibility gives rise to managerial discretion in recording assets and can have a potential impact on asset quality. This study primarily evaluates different accounting choices in reporting EE costs at the firm level. This disclosure of information ultimately has a bearing over the impairment of the EE assets and the valuation of the firms.

To begin with, this thesis is the first comprehensive analysis on accounting choices under AASB6 since the Lourens and Henderson (1972) survey. It provides evidence of current accounting choices made by MDSEs to capitalise or to expense EE costs. This study further examines the determinants and market reactions of write-offs amongst MDSEs in the Australian mining sector. The latter signals a demarcation when uncertainty is resolved.

It is observed that capitalisation remains the dominating accounting choice for MDSEs. This descriptive finding holds in both the pre- and post-IFRS adoption periods. Based on descriptive statistics, firms choosing capitalization method, tend to have weaker financials with low cash balances, lower profitability and lower levels of equity funding. The expensing method tends to be used by firms with stronger financials with high cash balances, larger asset base, higher profitability and more equity funding.

In terms of the propensity to impair EE assets, impairment is more likely to occur amongst firms with a high proportion of non-exploration spending relative to

exploration-related spending, high cash burn rates, before obtaining project debt financing, during the mining boom. However, firms holding large EE assets with high book to market ratios, using non–Big 4 specialist auditors are associated with higher write-offs reported.

In assessing the impact of write-offs on equity valuation, on the announcement date, negative short windows (event date and 3 to 5-day abnormal buy-and-hold returns) are observed following price sensitive announcements, when information is derived from 'preliminary final' reports[1].

[1] Preliminary final report must be lodged with Australian Stock Exchange as required by the listing rules while mining and oil and gas exploration companies are not mandatory. The preliminary final report contains statement of comprehensive income, financial position and cash flows and can be audited and unaudited.

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