



FINANCIAL REPORTING

***IFRS 6: Exploration for and
Evaluation of Mineral
Resources***

OBJECTIVE OF THE STANDARD

To specify the financial reporting for the exploration for and evaluation of mineral resources.

The standard requires:

- Entities that recognize exploration and evaluation assets,[#] to assess such assets for impairment in accordance with this IFRS and measure any impairment in accordance with IAS 36 Impairment of Assets.
- Limited improvements to existing accounting practices for exploration and evaluation expenditures.
- Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.

SCOPE OF THE STANDARD

Applied by an entity to exploration and evaluation expenditures that it incurs. However, the standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

The standard shall not be applied to expenditures incurred:

- Before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

RECOGNITION OF EXPLORATION AND EVALUATION ASSETS

An entity shall determine an accounting policy specifying which expenditures are recognized as exploration and evaluation assets and apply the policy consistently.

In making this determination, management of an entity uses judgement by considering the degree to which the expenditure can be associated with finding specific mineral resources.

MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

Initial measurement:

At initial recognition, exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

They include but not limited to the following:

- Acquisition of rights to explore
- Topographical, geological, geochemical and geophysical studies
- Sampling
- Exploratory drilling
- Trenching
- Expenditures incurred in activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

However, expenditures relating to the development of mineral resources shall not be recognized as exploration and evaluation assets as these have recognition and measurement guidance in IAS 38: Intangible Assets.

An entity shall recognize any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources. The entity shall apply IAS 37 in accounting for such obligations.

MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

Subsequent measurement:

After initial recognition, an entity applies either the **cost model** or the **revaluation model** to the exploration and evaluation assets.

PRESENTATION OF EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets shall be classified as tangible or intangible according to the nature of the assets acquired and apply the classification consistently. Intangible exploration and evaluation assets may include drilling rights.

IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

Entities recognizing exploration and evaluation assets are required to perform an impairment test on those assets when specific facts and circumstances outlined in the standard indicate an impairment test is required.

When the facts and circumstances suggest that the asset is impaired, the entity shall measure, present and disclose any resulting impairment loss in accordance with IAS 36.

Facts and circumstances may include but not limited to the following;

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

DISCLOSURES

IFRS 6 requires disclosure of information that identifies and explains the amounts recognized in its financial statements arising from the exploration for and evaluation of mineral resources, including:

- Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
- The amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.