IFRS 6 *Exploration for and Evaluation of Mineral Resources*

Last updated: March 2017

SCOPE

- **Applies to exploration and evaluation (E&E) expenditures incurred:**
  - Search for mineral resources, including oil, natural gas, and similar non-regenerative resources after the entity obtained legal rights to explore.
  - Determining the technical feasibility and commercial viability of extracting a mineral resource.
- **Not applicable to expenditures incurred:**
  - BEFORE the entity obtained the legal right to explore.
  - AFTER the technical feasibility and commercial viability of extracting mineral resources are demonstrable.

CLASSIFICATION

Classification based on nature of asset and applied consistently.

TANGIBLE ASSETS

- E.g. vehicles and drilling rigs.
- Apply IAS 16.

INTANGIBLE ASSETS

- E.g. drilling rights.
- Apply IAS 38.

RECOGNITION & INITIAL MEASUREMENT

- Determine accounting policy to specify which expenditures are recognized as E&E assets (vs. expensed) and apply the policy consistently.
  - Accounting policy based on management judgment to provide users of the financial statements with relevant and reliable information (per IAS 8.10).
  - Consider degree to which expenditure is associated with finding resources.
  - Exempt from requirements of IAS 8 to look to other IFRSs on similar and related issues and definitions, recognition criteria and measurement concepts in the *Framework* when developing accounting policy for E&E assets.
- Types of expenditures to recognize as E&E assets are not prescribed by IFRS; examples of expenditures that may be included as part of E&E assets:
  - Acquisition of rights to explore;
  - Topographical, geological, geochemical and geophysical studies;
  - Exploratory drilling, trenching, and sampling; and
  - Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.
- Other considerations:
  - Entity may change its E&E accounting policy only if the change results in more relevant and no less reliable, or more reliable and no less relevant financial statements (change applied in accordance with IAS 8).
  - Expenditures related to development of mineral resources are NOT recognized as E&E assets (see IAS 38 *Intangible Assets* and the *Framework* for guidance).
  - Obligations for removal and restoration as a consequence of E&E activities are recognized in accordance with IAS 37.

SUBSEQUENT MEASUREMENT

Subsequent measurement consistent with classification (i.e., apply IAS 16 when tangible asset and IAS 38 when intangible).

Apply either:

COST MODEL

- Carry at cost less accumulated depreciation/amortizatio n and impairment.
- Residual value, useful life and depreciation method reviewed at least at each financial year-end.

REVALUATION MODEL

- Carry at revalued amount, being FV at date of revaluation, less subsequent depreciation/amortization.
- Tangible - FV must be reliably measurable.
- Intangible – FV must be based on active market (rare for this to exist).
- Revaluations should be carried out regularly (carrying amount should not differ materially from fair value).

RECLASSIFICATION

- E&E asset no longer classified as such when technical feasibility and commercial viability is demonstrable.
- Assessed for impairment before reclassification.

IMPAIRMENT

- When facts/circumstances suggest carrying amount of an E&E asset exceeds its recoverable amount, measure, present and disclose impairment in accordance with IAS 36.
  - Accounting policy required for allocating E&E assets into cash-generating units (CGUs) or groups of CGUs for testing impairment; each CGU shall be no larger than an operating segment.
- Impairment indicators specific to E&E assets:
  - Right to explore expired/will expire in near future and not expected to be renewed.
  - Further exploration and evaluation neither budgeted nor planned.
  - No discoveries of commercially viable quantities of resources and decision to discontinue exploration.
  - Although development is likely to proceed, carrying value of E&E asset is unlikely to be recovered in full.

DISCLOSURE

- Disclose information that identifies and explains amounts recognized arising from E&E.
- Required to disclose:
  - Accounting policies for E&E expenditures, including the recognition of E&E assets.
  - Amounts of assets, liabilities, income, expenses and operating and investing cash flows arising from E&E activities.
  - Treat E&E assets as separate class and make disclosures required by IAS 16 and/or IAS 38 based on classification.

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