## 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.

## 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.

## 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.

## Subsequent Measurement

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

**Cost Model**

- Carry at cost less accumulated depreciation/amortization 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.

This communication contains a general overview of the topic and is current as of March 31, 2017. The application of the principles addressed will depend upon the particular facts and circumstances of each individual case. Accordingly, this publication is not a substitute for professional advice and we recommend that any decisions you take about the application or not of any of the information presented be made in consultation with a qualified professional, who can address any variance that may be required to reflect your circumstances. Please contact your local MNP representative for customized assistance with the application of this material. MNP LLP accepts no responsibility or liability for any loss related to any person’s use of or reliance upon this material. © MNP LLP 2017. All rights reserved.