IFRS 6 Exploration for and Evaluation of Mineral Resources

MNP

SCOPE

- This IFRS specifies the financial reporting for exploration and evaluation ("E&E") of mineral resources. An entity shall apply the IFRS to E&E expenditures that it incurs.
- An entity shall not apply the IFRS to expenditures incurred:
  a. 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.
  b. after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

RECOGNITION AND MEASUREMENT OF E&E ASSETS

- When developing its accounting policies, an entity recognizing E&E assets shall apply paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors*.
- Paragraphs 11 and 12 of IAS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IFRS applies specifically to that item. This IFRS exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of E&E assets.

Measurement at Initial Recognition

- E&E assets shall be measured at cost.
- An entity shall determine an accounting policy specifying which expenditures are recognized as E&E assets and apply the policy consistently. In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources.
- The following are examples of expenditures that might be included in the initial measurement of E&E assets:
  - acquisition of rights to explore.
  - topographical, geological, geochemical, and geophysical studies.
  - exploratory drilling.
  - Trenching.
  - Sampling, and
  - activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.
- Expenditures related to the development of mineral resources shall not be recognized as E&E assets.
- An entity recognizes 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.

Measurement After Recognition

After recognition, an entity shall apply either the cost model or the revaluation model to the E&E assets. If the revaluation model is applied (either the model in IAS 16 *Property, Plant, and Equipment* or the model in IAS 38 *Intangible Assets*) it shall be consistent with the classification of the assets.

Changes in Accounting Policies

An entity may change its accounting policies for E&E expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in IAS 8.

PRESENTATION

Classification

- An entity shall classify E&E assets as tangible and intangible according to the nature of the assets acquired and apply the classification consistently.
- Some E&E assets are treated as intangible (i.e. drilling rights), whereas others are tangible (i.e. vehicles and drilling rigs).
- To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Reclassification

- An E&E asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
- E&E assets shall be assessed for impairment, and any impairment loss recognized, before reclassification.

IMPAIRMENT

Recognition and Measurement

- E&E assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount.
- When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present, and disclose any resulting impairment loss in accordance with IAS 36.

Specifying the Level at which E&E Assets are Assessed for Impairment

- An entity shall determine an accounting policy for allocating E&E assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment.
- Each cash-generating unit or group of units to which an E&E asset is allocated shall not be larger than an operating segment determined in accordance with IIFRS 8 *Operating Segments*.

DISCLOSURE

- An entity shall disclose information that identifies and explains the amounts in its financial statements arising from the exploration for and evaluation of mineral resources.
- An entity shall disclose:
  a. its accounting policies for E&E expenditures including the recognition of E&E assets.
  b. the amounts of assets, liabilities, income, and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.
- An entity shall treat E&E assets as a separate class of assets and make the disclosures required by either IAS 16 or IAS 38 consistent with how assets are classified.