IFRS 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 6 is applicable for annual reporting periods commencing on or after 1 January 2005.

OBJECTIVE

IFRS 6 specifies the financial reporting for the exploration for and evaluation of mineral resources.

SCOPE

IFRS 6 shall apply to exploration and evaluation expenditures incurred. This standard does not apply to expenditures incurred:

- before the exploration for and evaluation of mineral resources, e.g. 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 AND MEASUREMENT

Exploration and evaluation assets shall be measured at cost at recognition.

The following are examples of expenditures that might be included in the initial measurement of exploration and evaluation assets (the list is not exhaustive):

- acquisition of rights to explore
- topographical, geographical, geochemical and geophysical studies
- exploratory drilling
- trenching
- sampling
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource

After recognition, an entity shall apply either the cost model or the revaluation model to the assets.

The assets shall be classified as tangible or intangible according to the nature of the assets acquired.

Examples of tangible and intangible exploration and evaluation assets are:

- **Tangible:** vehicles and drilling rigs
- **Intangible:** drilling rights

DERECOGNITION

An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

The assets shall be assessed for impairment before the accounting reclassification, and the impairment loss shall be recognised in profit or loss.

IMPAIRMENT

Impairment testing shall be undertaken when facts and circumstances suggest that the carrying amount of the exploration and evaluation asset may exceed its recoverable amount. The impairment loss shall be measured, presented and disclosed in accordance with IAS 36.

One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation asset for impairment (the list is not exhaustive):

a. 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;

b. substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

c. exploration for and evaluation of mineral resources in the specific areas 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; or

d. 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 assets is unlikely to be recovered in full from the successful development or by sale.

DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IFRS 6 disclosure requirements.

DEFINITIONS

Exploration and evaluation assets	Exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.
Exploration and evaluation expenditures	Expenditures incurred by an entity in connection with exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
Exploration for and evaluation of mineral resources	The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources *after* the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 6 *Exploration for and Evaluation of Mineral Resources* and is applicable for annual reporting periods commencing on or after 1 January 2005.

Treatment of exploration and evaluation expenditures

An entity's treatment of the exploration and evaluation expenditures for each area of interest shall be either:

i. expensed as incurred, or

ii. partially or fully capitalised and recognised as an **exploration and evaluation asset** if specified conditions are met.

An exploration and evaluation asset shall be recognised if the following conditions are satisfied:

a. the rights to tenure of the area of interest are current, and

b. at least one of the following two conditions is also met:

   i. the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation, or by sale; or

   ii. exploration and evaluation activities in the area of interest have not at the reporting date reached a stage of reasonable assessment to determine the recoverable reserves, but active operations are continuing

(Note: An area of interest refers to an individual geological area whereby the presence of mining deposits or equivalent is considered favourable or has been proved to exist.)

Additional guidance is provided in AASB 6 regarding costs to be capitalised as part of the asset.

ADDITIONAL DEFINITIONS:

Area of interest	An individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or an oil or natural gas field, or has been proved to contain such a deposit or field.
Economically recoverable reserves	The estimated quantity of product in an area of interest that can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

c. Tier 1: Australian Accounting Standards; and

d. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

When developing AASB 1053, the AASB concluded that the Australian Government and state, territory and local governments should be subject to Tier 1 requirements. The AASB also decided that General Government Sectors of the Australian Government and state and territory governments should continue to apply AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, without the reduction in disclosures provided by Tier 2. Other public sector entities are able to apply Tier 2 reporting requirements.

Disclosure requirements under Tier 2 are the same as those under Tier 1 for this Standard.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IFRS 6.23	Has the entity disclosed information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources?		
IFRS 6.24	To give effect to the above has the entity disclosed: a. its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets; and b. the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of internal resources?		

OTHER MATTERS

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