

Compiled Accounting Standard

AASB 6

Exploration for and Evaluation of Mineral Resources

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2007. Early application is permitted. It incorporates relevant amendments made up to and including 30 April 2007.

Prepared on 19 October 2007 by the staff of the Australian Accounting Standards Board.



Australian Government

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BASIS FOR CONCLUSIONS ON IFRS 6
(available on the AASB website)

Australian Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources* (as amended) is set out in paragraphs 1 – Aus27.1 and in Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 6 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

COMPILATION DETAILS

Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 July 2007. It takes into account amendments up to and including 30 April 2007 and was prepared on 19 October 2007 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 6 (December 2004) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	Date made	Application date (annual reporting periods ... on or after ...)	Application, saving or transitional provisions
AASB 6	9 Dec 2004	<i>(beginning)</i> 1 Jan 2005	
AASB 2007-3	26 Feb 2007	<i>(beginning)</i> 1 Jan 2009	not compiled*
AASB 2007-4	30 Apr 2007	<i>(beginning)</i> 1 Jul 2007	see (a) below
AASB 2007-8	24 Sep 2007	<i>(beginning)</i> 1 Jan 2009	not compiled*

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual reporting periods beginning on or after 1 July 2007.

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
9	amended	AASB 2007-4 [23]

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 6 and IFRS 6

AASB 6 as amended is equivalent to IFRS 6 *Exploration for and Evaluation of Mineral Resources* as issued and amended by the IASB. Paragraphs that have been added to this Standard (and do not appear in the text of the equivalent IASB standard) are identified with the prefix “Aus”, followed by the number of the relevant IASB paragraph and decimal numbering.

Compliance with IFRS 6

Entities that comply with the requirements of AASB 6 as amended will simultaneously be in compliance with the requirements of IFRS 6 as amended.

AASB 6 and IPSASs

International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

There is no specific IPSAS dealing with accounting for exploration and evaluation activities at present.

ACCOUNTING STANDARD AASB 6

The Australian Accounting Standards Board made Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources* under section 334 of the *Corporations Act 2001* on 9 December 2004.

This compiled version of AASB 6 applies to annual reporting periods beginning on or after 1 July 2007. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 30 April 2007 (see Compilation Details).

ACCOUNTING STANDARD AASB 6

EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

Objective

- 1 The objective of this Standard is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.
- 2 In particular, the Standard requires:
 - (a) limited improvements to existing accounting practices for *exploration and evaluation expenditures*;
 - (b) entities that recognise *exploration and evaluation assets* to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with AASB 136 *Impairment of Assets*; and
 - (c) disclosures that identify and explain the amounts in the entity's financial report arising from the exploration for and evaluation of mineral resources and help users of those financial reports understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

Application

- Aus2.1** This Standard applies to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial reports of each other reporting entity; and
 - (c) financial reports that are, or are held out to be, general purpose financial reports.
- Aus2.2** This Standard applies to annual reporting periods beginning on or after 1 January 2005.
[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]
- Aus2.3** This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.
- Aus2.4** The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- Aus2.5** When applicable, this Standard supersedes:
- (a) AASB 1022 *Accounting for Extractive Industries* as notified in the *Commonwealth of Australia Gazette*, No S 338, 30 October 1989; and
 - (b) AAS 7 *Accounting for the Extractive Industries* issued in November 1989.
- Aus2.6** AASB 1022 and AAS 7 remain applicable until superseded by this Standard.
- Aus2.7** Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 507, 13 December 2004.

Scope

- 3 An entity shall apply the Standard to exploration and evaluation expenditures that it incurs.

- 4 The Standard does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.
- 5 An entity shall not apply the Standard 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; and
 - (b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Recognition of Exploration and Evaluation Assets

Temporary exemption from AASB 108 paragraphs 11 and 12

- 6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and paragraphs Aus7.1 and Aus7.2 below.
- 7 Paragraphs 11 and 12 of AASB 108 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no Standard applies specifically to that item. Subject to paragraphs 9 and 10 below, this Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

Treatment of exploration and evaluation expenditures

- Aus7.1 An entity's accounting policy for the treatment of its exploration and evaluation expenditures shall be in accordance with the following requirements. For each *area of interest*, expenditures incurred in the exploration for and evaluation of mineral resources shall be:
- (a) expensed as incurred; or
 - (b) partially or fully capitalised, and recognised as an exploration and evaluation asset if the requirements of paragraph Aus7.2 are satisfied.

An entity shall make this decision separately for each area of interest.

- Aus7.2 An exploration and evaluation asset shall only be recognised in relation to an area of interest 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 conditions is also met:
 - (i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
 - (ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of *economically recoverable reserves*, and active and significant operations in, or in relation to, the area of interest are continuing.
- Aus7.3 An area of interest refers to an individual geological area whereby the presence of a mineral deposit or an oil or natural gas field is considered favourable or has been proved to exist. It is common for an area of interest to contract in size progressively, as exploration and evaluation lead towards the identification of a mineral deposit or an oil or natural gas field, which may prove to contain economically recoverable reserves. When this happens during the exploration for and evaluation of mineral resources, exploration and evaluation expenditures are still included in the cost of the exploration and evaluation asset notwithstanding that the size of the area of interest may contract as the exploration and evaluation operations progress. In most cases, an area of interest will comprise a single mine or deposit or a separate oil or gas field.

Measurement of Exploration and Evaluation Assets

Measurement at recognition

- 8 Exploration and evaluation assets shall be measured at cost at recognition.**

Elements of cost of exploration and evaluation assets

- 9 An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation 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 exploration and evaluation assets (the list is not exhaustive):

- (a) acquisition of rights to explore;
- (b) topographical, geological, geochemical and geophysical studies;
- (c) exploratory drilling;
- (d) trenching;
- (e) sampling; and
- (f) activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

- Aus9.1 In accordance with paragraph 9, where an entity recognises exploration and evaluation assets, direct and indirect costs associated with the exploration for and evaluation of mineral resources and which specifically relate to an area of interest are allocated to that area of interest. In making this allocation, no distinction is drawn between costs incurred within the entity and the cost of services performed by outside contractors or consultants on behalf of the entity.
- Aus9.2 The costs of acquiring leases or other rights of tenure in the area of interest are included in the cost of the exploration and evaluation asset if they are acquired as part of the exploration for and evaluation of mineral resources.
- Aus9.3 Indirect costs that are included in the cost of an exploration and evaluation asset include, among other things, charges for depreciation of equipment used in exploration and evaluation activities.
- Aus9.4 General and administrative costs are allocated to, and included in, the cost of an exploration and evaluation asset, but only to the extent that those costs can be related directly to operational activities in the area of interest to which the exploration and evaluation asset relates. In all other cases, these costs are expensed as incurred. For example, general and administrative costs such as directors' fees, secretarial and share registry expenses, and salaries and other expenses of general

management are recognised as expenses when incurred since they are only indirectly related to operational activities.

- 10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework for the Preparation and Presentation of Financial Statements* and AASB 138 *Intangible Assets* provide guidance on the recognition of assets arising from development.
- 11 In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* an entity recognises 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

- 12 After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in AASB 116 *Property, Plant and Equipment* or the model in AASB 138), it shall be consistent with the classification of the assets (see paragraph 15).

Changes in accounting policies

- 13 **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial report 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 AASB 108.**

Aus13.1 Notwithstanding paragraph 13, any change in an entity's accounting policy for exploration and evaluation expenditures shall also remain in accordance with paragraphs Aus7.1 and Aus7.2.

- 14 To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial report closer to meeting the criteria in AASB 108, but the change need not achieve full compliance with those criteria.

Presentation

Classification of exploration and evaluation assets

- 15 An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.
- 16 Some exploration and evaluation assets are treated as intangible (e.g. drilling rights), whereas others are tangible (e.g. 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 of exploration and evaluation assets

- 17 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. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

Impairment

Recognition and measurement

- 18 **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation 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 AASB 136, except as provided by paragraph 21 below.**
- 19 For the purposes of exploration and evaluation assets only, paragraph 20 of this Standard shall be applied rather than paragraphs 8-17 of AASB 136 when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit.

- 20 One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets 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 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;
 - (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 asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with AASB 136. Any impairment loss is recognised as an expense in accordance with AASB 136.

Specifying the level at which exploration and evaluation assets are assessed for impairment

- 21 An entity shall determine an accounting policy for allocating exploration and evaluation 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 exploration and evaluation asset is allocated shall not be larger than a segment based on either the entity's primary or secondary reporting format determined in accordance with AASB 114 *Segment Reporting*.**
- 22 The level identified by the entity for the purposes of testing exploration and evaluation assets for impairment may comprise one or more cash-generating units.
- Aus22.1 Notwithstanding paragraphs 21 and 22, the level identified by the entity for the purposes of testing exploration and evaluation assets for impairment shall be no larger than the area of interest to which the exploration and evaluation asset relates.

Disclosure

- 23 An entity shall disclose information that identifies and explains the amounts recognised in its financial report arising from the exploration for and evaluation of mineral resources.**
- 24 To comply with paragraph 23, an entity shall disclose:
- (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 mineral resources.
- Aus24.1 In addition to the disclosure required by paragraph 24(b), an entity that recognises exploration and evaluation assets for any of its areas of interest shall, in disclosing the amounts of those assets, provide an explanation that recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.
- 25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either AASB 116 or AASB 138 consistent with how the assets are classified.

Effective date of IFRS 6

- 26 [Deleted by the AASB]

Transitional Provisions

- 27 If it is impracticable to apply a particular requirement of paragraph 18 to comparative information that relates to annual reporting periods beginning before 1 January 2005, an entity shall disclose that fact. AASB 108 explains the term 'impracticable'.
- Aus27.1 For annual reporting periods beginning before 1 January 2006, an entity applying the Standard shall disclose the fact that it is applying the Standard, being the Australian equivalent to IFRS 6.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of AASB 6.

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 the 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.

Additional Australian Defined Terms

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.

APPENDIX B

Amendments to other Australian Accounting Standards

The following amendments are made by AASB 2004-1 Amendments to Australian Accounting Standards. In this appendix, new text is underlined and deleted text is struck through.

- B1 In AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, a heading and paragraph 36B are added as follows:

Exemption from the requirement to provide comparative disclosures for AASB 6

36B In its first Australian-equivalents-to-IFRSs financial report, an entity that adopts Australian equivalents to IFRSs before 1 January 2006 need not present the disclosures required by AASB 6 *Exploration for and Evaluation of Mineral Resources* for comparative periods.

- B2 In AASB 116 *Property, Plant and Equipment*, paragraph 3 is amended to read as follows:

3. This Standard does not apply to:
- (a) property, plant and equipment classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
 - (b) biological assets related to agricultural activity (see AASB 141 *Agriculture*); ~~or~~
 - (c) the recognition and measurement of exploration and evaluation assets (see AASB 6 *Exploration for and Evaluation of Mineral Resources*); or
 - (~~d~~e) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in (b) ~~and~~ (ed).

B3 In AASB 138 *Intangible Assets*, paragraph 2 is amended to read as follows:

2. **This Standard shall be applied in accounting for intangible assets, except:**
 - (a) **intangible assets that are within the scope of another Australian Accounting Standard;**
 - (b) **financial assets, as defined in AASB 139 *Financial Instruments: Recognition and Measurement*;**
 - (c) **the recognition and measurement of exploration and evaluation assets (see AASB 6 *Exploration for and Evaluation of Mineral Resources*); and**
 - (~~d~~) **~~mineral rights and expenditure on the exploration for,~~ ~~or~~ ~~development and extraction of,~~ minerals, oil, natural gas and similar non-regenerative resources.**