

ACCOUNTING STANDARD

AASB 6
December 2004

Exploration for and Evaluation of Mineral Resources



Australian Government

**Australian Accounting
Standards Board**

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BASIS FOR CONCLUSIONS ON IFRS 6

(available to AASB online subscribers or through the IASB)

Australian Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources* 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.

PREFACE

Reasons for Issuing AASB 6

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB's Standards are being changed to adopt the IASB Standards effective at that date by replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB intends to use the IASB Standards as the "foundation" Standards to which it will add material detailing the scope and applicability of a Standard in the Australian environment. It is intended that additions will be made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards; and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations approved by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Standard is not permitted.

First-time Application and Comparatives

Application of this Standard will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Standard had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period. However AASB 1 (paragraph 36B) provides an exemption from presenting comparative information that relates to reporting periods beginning before 1 January 2005.

Main Requirements

This Standard:

- (a) requires Australian entities to apply “area of interest” accounting to their exploration and evaluation expenditures (generally this will enable exploration and evaluation expenditures to be treated in the same manner as they were under AASB 1022 / AAS 7¹ *Accounting for the Extractive Industries* subject to any impairment testing requirements);
- (b) requires entities recognising exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount; and
- (c) permits impairment of exploration and evaluation assets to be assessed at a cash-generating unit or group of cash-generating units level. The level is not to be larger than the lesser of an area of

¹ Unless otherwise stated, other references to AASB 1022 are considered to also be a reference to AAS 7.

interest or a segment (based on either the entity's primary or secondary reporting format under AASB 114 *Segment Reporting*).

Accounting for other phases of extractive activity operations

This Standard is an activities-based Standard, dealing solely with the treatment of exploration and evaluation expenditures. In contrast, AASB 1022 is an industry-based Standard that also contains requirements and guidance relating to other phases of extractive activity operations. As AASB 1022 is being superseded by this Standard, entities engaged in other phases of extractive activity operations will also have to apply other Australian Accounting Standards. Table 1 identifies some of the other Australian Accounting Standards that may need to be applied in accounting for aspects previously addressed by AASB 1022.

Table 1 – Other aspects previously covered in AASB 1022

<i>Phase of operation / transaction or event</i>	<i>Relevant Standards²</i>
Activities that precede exploration for and evaluation of mineral resources ³	<i>Framework</i> <i>AASB 116 Property, Plant and Equipment</i> <i>AASB 138 Intangible Assets</i>
Development and construction costs	<i>AASB 116 Property, Plant and Equipment</i> <i>AASB 138 Intangible Assets</i>
Amortisation of capitalised costs	<i>AASB 116 Property, Plant and Equipment</i>
Inventories	<i>AASB 102 Inventories</i>
Revenue recognition	<i>AASB 118 Revenue</i>

² Some issues related to extractive activities are not specifically dealt with in other Australian Accounting Standards. Consequently, entities may need to refer to the AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* hierarchy in determining their accounting policies in those cases.

³ Paragraphs BC10 - BC13 of the Basis for Conclusions to IFRS 6 *Exploration for and Evaluation of Mineral Resources* provide some guidance on the treatment of expenditures incurred before the exploration for and evaluation of mineral resources.

Restoration costs	<i>AASB 137 Provisions, Contingent Liabilities and Contingent Assets</i> <i>AASB 116 Property, Plant and Equipment</i> <i>Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>
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Long-term extractive activities project

This Standard has been issued to facilitate the introduction of Australian equivalents to IFRSs in respect of the treatment of exploration and evaluation expenditures, pending the completion of a comprehensive project on accounting for extractive activities.

The IASB is currently progressing the comprehensive project which is focusing on the financial reporting of reserves and resources. The AASB is closely involved with this project. It is expected that the outcome will be a revised extractive activities standard that will replace this Standard.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 6 and IFRS 6

AASB 6 is equivalent to IFRS 6 *Exploration for and Evaluation of Mineral Resources*. 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 will simultaneously be in compliance with the requirements of IFRS 6.

AASB 6 and IPSASs

The International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee 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 makes Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources* under section 334 of the *Corporations Act 2001*.

Dated 9 December 2004

D.G. Boymal
Chair – AASB

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.
- 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 a 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~~e) ~~mineral rights and expenditure on the exploration for,~~ ~~or~~ development and extraction of, minerals, oil, natural gas and similar non-regenerative resources.**