

Exploration for and Evaluation of Mineral Resources



Australian Government

**Australian Accounting
Standards Board**

Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
E-mail: publications@aaab.gov.au
Website: www.aasb.gov.au

Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aaab.gov.au

COPYRIGHT

© Commonwealth of Australia 2015

This AASB Standard contains IFRS Foundation copyright material. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to The Director of Finance and Administration, Australian Accounting Standards Board, PO Box 204, Collins Street West, Victoria 8007.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Australia should be addressed to the IFRS Foundation at www.ifrs.org.

ISSN 1036-4803

Contents

COMPARISON WITH IFRS 6

ACCOUNTING STANDARD

AASB 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

	<i>from paragraph</i>
OBJECTIVE	1
SCOPE	3
RECOGNITION OF EXPLORATION AND EVALUATION ASSETS	
Temporary exemption from AASB 108 paragraphs 11 and 12	6
Treatment of exploration and evaluation expenditures	Aus7.1
MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS	
Measurement at recognition	8
Elements of cost of exploration and evaluation assets	9
Measurement after recognition	12
Changes in accounting policies	13
PRESENTATION	
Classification of exploration and evaluation assets	15
Reclassification of exploration and evaluation assets	17
IMPAIRMENT	
Recognition and measurement	18
Specifying the level at which exploration and evaluation assets are assessed for impairment	21
DISCLOSURE	23
EFFECTIVE DATE	26
TRANSITIONAL PROVISIONS	27
COMMENCEMENT OF THE LEGISLATIVE INSTRUMENT	Aus27.1
WITHDRAWAL OF AASB PRONOUNCEMENTS	Aus27.2
APPENDICES	
A Defined terms	
B Australian defined terms	

AVAILABLE ON THE AASB WEBSITE

Basis for Conclusions on IFRS 6

Australian Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources* is set out in paragraphs 1 – Aus27.2 and Appendices A – B. 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 of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. 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.

Comparison with IFRS 6

AASB 6 *Exploration for and Evaluation of Mineral Resources* incorporates IFRS 6 *Exploration for and Evaluation of Mineral Resources* issued by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IFRS 6) are identified with the prefix “Aus”. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB 6 also comply with IFRS 6.

Not-for-profit entities’ compliance with IFRS 6 will depend on whether any “Aus” paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IFRS 6.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

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 7 August 2015

Kris Peach
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*.
 - (c) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

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.
 - (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 end of the reporting period 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.**

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* (as identified in AASB 1048 *Interpretation of Standards*) 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 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 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 statements 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 (eg drilling rights), whereas others are tangible (eg 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 an operating segment determined in accordance with AASB 8 *Operating Segments*.**
- 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 statements 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.
 - (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

- 26 An entity shall apply this Standard for annual periods beginning on or after 1 January 2016. Earlier application is encouraged for periods beginning on or after 1 January 2014 but before 1 January 2016. If an entity applies the Standard for a period beginning before 1 January 2016, it shall disclose that fact.

Transitional provisions

- 27 If it is impracticable to apply a particular requirement of paragraph 18 to comparative information that relates to annual periods beginning before 1 January 2005, an entity shall disclose that fact. AASB 108 explains the term 'impracticable'.

Commencement of the legislative instrument

- Aus27.1 For legal purposes, this legislative instrument commences on 31 December 2015.

Withdrawal of AASB pronouncements

- Aus27.2 This Standard repeals AASB 6 *Exploration for and Evaluation of Mineral Resources* issued in December 2004. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.

[Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

Appendix A Defined terms

This appendix is an integral part of the Standard.

**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.

Appendix B Australian defined terms

This appendix is an integral part of the Standard.

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