ED 6 Exploration for and Evaluation of Mineral Resources

Comments to be received by 16 April 2004
Exposure Draft

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Basis for Conclusions (see separate booklet)
INVITATION TO COMMENT

The International Accounting Standards Board invites comments on any aspect of this Exposure Draft of its proposed IFRS Exploration for and Evaluation of Mineral Resources and the related Basis for Conclusions. It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing so as to be received no later than 16 April 2004.

Until an IFRS based on this Exposure Draft becomes effective, existing International Financial Reporting Standards, including International Accounting Standards, remain in effect.

Question 1 – Definition and additional guidance

The proposed IFRS includes definitions of exploration for and evaluation of mineral resources, exploration and evaluation expenditures, exploration and evaluation assets and a cash-generating unit for exploration and evaluation assets. The draft IFRS identifies expenditures that are excluded from the proposed definition of exploration and evaluation assets. Additional guidance is proposed in paragraph 7 to assist in identifying exploration and evaluation expenditures that are included in the definition of an exploration and evaluation asset (proposed paragraphs 7 and 8, Appendix A and paragraphs BC12-BC14 of the Basis for Conclusions).

Question 2 – Method of accounting for exploration for and evaluation of mineral resources

(a) Paragraphs 10-12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specify sources of authoritative requirements and guidance an entity should consider in developing an accounting policy for an item if no IFRS applies specifically to that item. The proposals in the draft IFRS would exempt an entity from considering the sources in paragraphs 11 and 12 when assessing its existing accounting policies for exploration and evaluation expenditures by permitting an alternative treatment for the recognition and measurement of exploration and evaluation assets. In particular, the draft IFRS would permit an entity to
continue to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements.

(b) The Exposure Draft proposes that an entity would continue to use its existing accounting policies in subsequent periods unless and until the entity changes its accounting policies in accordance with IAS 8 or the IASB issues new or revised Standards that encompass such activities (proposed paragraph 4 and paragraphs BC8-BC11 of the Basis for Conclusions).

Are these proposals appropriate? If not, why not?

Question 3 – Cash-generating units for exploration and evaluation assets

[Draft] IAS 36* requires entities to test non-current assets for impairment. The draft IFRS would permit an entity that has recognised exploration and evaluation assets to test them for impairment on the basis of a ‘cash-generating unit for exploration and evaluation assets’ rather than the cash-generating unit that might otherwise be required by [draft] IAS 36. This cash-generating unit for exploration and evaluation assets is used only to test for impairment exploration and evaluation assets recognised under proposed paragraph 4 (see proposed paragraphs 12 and 14 and paragraphs BC15-BC23 of the Basis for Conclusions).

Are the proposals appropriate? If not, why not? If you disagree with the proposal that exploration and evaluation assets should be subject to an impairment test under [draft] IAS 36, what criteria should be used to assess the recoverability of the carrying amount of exploration and evaluation assets?

Question 4 – Identifying exploration and evaluation assets that may be impaired

The draft IFRS identifies indicators of impairment for exploration and evaluation assets. These indicators would be among the external and internal sources of information in paragraphs 9-13 of [draft] IAS 36 that an entity would consider when identifying whether such assets might be impaired (paragraph 13 and paragraphs BC24-BC26 of the Basis for Conclusions).

* In Exposure Draft of Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets (December 2002)
Are these indicators of impairment for exploration and evaluation assets appropriate? If not, why not? If you are of the view that additional or different indicators should be used in assessing whether such assets might be impaired, what indicators should be used and why?

**Question 5 – Disclosure**

To enhance comparability, the draft IFRS proposes to require entities to disclose information that identifies and explains the amounts in its financial statements that arise from the exploration for and evaluation of mineral resources (proposed paragraphs 15 and 16 and paragraphs BC32-BC34 of the Basis for Conclusions).

Are the proposed disclosures appropriate? If not, why not? Should additional disclosures be required? If so, what are they and why should they be required?
[Draft] International Financial Reporting Standard X *Exploration for and Evaluation of Mineral Resources* ([draft] IFRS X) is set out in paragraphs 1-17 and Appendices A and B. All the paragraphs have equal authority. Paragraphs in bold type state the main principles. Terms defined in Appendix A are in italics the first time they appear in the [draft] Standard. Definitions of other terms are given in the Glossary of the International Financial Reporting Standards. [Draft] IFRS X should be read in the context of its objective and the Basis for Conclusions, the Preface to *International Financial Reporting Standards* and the Framework for the Preparation and Presentation of Financial Statements. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.
INTRODUCTION

Reasons for issuing the [draft] IFRS

IN1 The exploration for and evaluation of mineral resources are excluded from the scope of IFRSs that would otherwise be relevant (eg IAS 16 Property, Plant and Equipment and [draft] IAS 38 Intangible Assets). The International Accounting Standards Board is concerned that accounting practices for such activities are diverse and differ not only between sectors of the extractive industries but also from the requirements in IFRSs for activities that may be thought to be similar and related.

IN2 It is not feasible for the Board to complete a comprehensive project on accounting and financial reporting issues for the extractive industries in time for the many entities that may wish or are required to adopt IFRSs in 2005. Therefore, the Board wishes to provide guidance on the treatment of exploration and evaluation expenditures that will enhance comparability between entities while avoiding unnecessary disruption to the application of those treatments, pending more complete consideration of the accounting issues involved.

Application of IFRSs to entities engaged in the exploration for and evaluation of mineral resources

IN3 The [draft] IFRS applies to all entities incurring exploration and evaluation expenditures.

IN4 All IFRSs are applicable to entities that are engaged in the exploration for and evaluation of mineral resources that make an unreserved statement of compliance with IFRSs in accordance with IAS 1 Presentation of Financial Statements. Consequently, each IFRS must be applied by all such entities except to the extent that an IFRS provides a specific exclusion from its scope.

* In Exposure Draft of Proposed Amendments to IAS 36, Impairment of Assets, and IAS 38, Intangible Assets (December 2002)
Main features of the [draft] IFRS

IN5 The [draft] IFRS permits an entity to continue the accounting policies applied in its most recent annual financial statements for exploration and evaluation expenditures, including the recognition and measurement of exploration and evaluation assets. In addition, it permits an entity to use an alternative level of aggregation for exploration and evaluation assets when testing such assets for impairment in accordance with [draft] IAS 36.

IN6 The definition of exploration for and evaluation of mineral resources distinguishes exploration and evaluation expenditures from other expenditures that may be regarded as similar (for example, research expenditures).

IN7 The [draft] IFRS exempts entities from some requirements of other IFRSs and the IASB Framework. Instead of requiring entities engaged in the exploration for and evaluation of mineral resources to consider the various sources of authoritative requirements and guidance in developing an accounting policy for such activities, the [draft] IFRS permits those entities the alternative of continuing their existing accounting treatment in specified circumstances. In particular, paragraph 4 provides that an entity may continue to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements.

IN8 The [draft] IFRS permits an entity that has recognised an exploration and evaluation asset to test that asset for impairment on the basis of a ‘cash-generating unit for exploration and evaluation assets’ rather than the cash-generating unit that might otherwise be required by [draft] IAS 36. However, entities are not necessarily permitted to continue existing practices with respect to the impairment test itself. Rather, the consequence of the amendment is that the [draft] IAS 36 impairment test may be applied at a level different from that otherwise required by [draft] IAS 36.

IN9 Paragraph 13 sets out indicators of impairment for exploration and evaluation assets. These are among the external and internal sources of information in paragraphs 9-13 of [draft] IAS 36 to be used by entities when identifying whether such assets might be impaired.

IN10 The [draft] IFRS requires disclosure about:

(a) the amounts in the entity’s financial statements that arise from exploration and evaluation expenditures.
(b) the level at which the entity assesses exploration and evaluation assets for impairment.

11. The [draft] IFRS should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.
[Draft] International Financial Reporting Standard
IFRS X

Exploration for and Evaluation of Mineral Resources

OBJECTIVE

1 The objectives of this [draft] IFRS are:
   (a) to make limited improvements to accounting practices for exploration and evaluation expenditures, without requiring major changes that may need to be reversed when the Board undertakes a comprehensive review of accounting practices used by entities engaged in the exploration for and evaluation of mineral resources.
   (b) to require entities that recognise exploration and evaluation assets to test such assets for impairment in accordance with [draft] IAS 36 Impairment of Assets. An entity that has recognised exploration and evaluation assets may test such assets for impairment on the basis of a cash-generating unit for exploration and evaluation assets rather than the cash-generating unit that might otherwise be required by [draft] IAS 36.
   (c) to require entities engaged in the exploration for and evaluation of mineral resources to disclose information about exploration and evaluation assets, the level at which such assets are assessed for impairment and any impairment losses recognised.

SCOPE

2 An entity shall apply this [draft] IFRS to exploration and evaluation expenditures that it incurs.

3 This [draft] IFRS does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources. Except to the extent that an IFRS provides an exclusion from its scope, all IFRSs (including International Accounting Standards and Interpretations) are applicable to entities engaged in such activities that make an unreserved statement of compliance with IFRSs in accordance with IAS 1 Presentation of Financial Statements.
RECOGNITION OF EXPLORATION AND EVALUATION ASSETS

Temporary exemption from some other IFRSs

4 When an entity first applies this [draft] IFRS, it may elect to continue to recognise and measure exploration and evaluation assets in accordance with the accounting policies it applied in its most recent annual financial statements, except as provided in paragraph 8.

5 Paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors 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. Subject to paragraph 8, this [draft] IFRS permits an entity, rather than considering the sources specified in IAS 8, to continue its accounting policies for the recognition and measurement of exploration and evaluation assets.

MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

Measurement at recognition

6 Exploration and evaluation assets shall be measured at cost.

Elements of exploration and evaluation assets

7 Expenditures related to the following activities may be included in the initial measurement of exploration and evaluation assets:
   (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 technical feasibility and commercial viability of extracting a mineral resource.
Expenditures that shall not be included in the initial measurement of exploration and evaluation assets are:

(a) the development of a mineral resource once technical feasibility and commercial viability of extracting a mineral resource have been established; and

(b) administration and other general overhead costs.

An entity applies IAS 37 Provisions, Contingent Liabilities and Contingent Assets to the costs of 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 (see IAS 16 Property, Plant and Equipment and [draft] IAS 38 Intangible Assets) to its exploration and evaluation assets.

Changes in accounting policies

An entity that elects in accordance with paragraph 4 to continue to use its previous accounting policies for exploration and evaluation assets shall change those policies if, and only if, the change makes the financial statements more relevant to the decision-making needs of users and reliable, judged by the criteria in IAS 8.

IMPAIRMENT

Recognition and measurement

Except as provided in paragraph 14, an entity that has recognised exploration and evaluation assets shall assess those assets for impairment annually and recognise any resulting impairment loss in accordance with [draft] IAS 36.
Identifying an exploration and evaluation asset that may be impaired

Draft IAS 36 provides guidance on identifying assets that may be impaired and requires an entity to consider specified external sources of information. In the case of an entity that has recognised an exploration and evaluation asset, in addition to the sources specified in [draft] IAS 36, such information includes:

(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) further exploration for and evaluation of mineral resources in the specific area are neither budgeted nor planned for in the near future;
(c) significant changes with an adverse effect on the main assumptions, including prices and foreign exchange rates, underlying approved budgets or plans for further exploration for and evaluation of mineral resources in the specific area;
(d) the decision not to develop the mineral resource in the specific area has been made;
(e) the entity plans to dispose of the asset at an unfavourable price; and
(f) the entity does not expect the recognised exploration and evaluation assets to be reasonably capable of being recoverable from a successful development of the specific area, or by its sale.

Cash-generating unit for exploration and evaluation assets

When an entity first applies this [draft] IFRS, it shall elect to test exploration and evaluation assets for impairment on the basis of either a ‘cash-generating unit’ or a ‘cash-generating unit for exploration and evaluation assets’. Any assets other than exploration and evaluation assets included within the cash-generating unit for exploration and evaluation assets shall continue to be subject to separate impairment testing in accordance with [draft] IAS 36, which is performed before testing for impairment the cash-generating unit for exploration and evaluation assets.
DISCLOSURE

15 An entity shall disclose information that identifies and explains the amounts recognised in its financial statements that arise from the exploration for and evaluation of mineral resources.

16 To comply with paragraph 15, 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, if it presents its cash flow statement using the direct method, cash flows) arising from the exploration for and evaluation of mineral resources.

(c) the level at which the entity assesses exploration and evaluation assets for impairment.

EFFECTIVE DATE

17 An entity shall apply this [draft] IFRS for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this [draft] IFRS for a period beginning before 1 January 2005, it shall disclose that fact.
Appendix A
Defined terms

This appendix is an integral part of the [draft] IFRS.

cash-generating unit
The smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

cash-generating unit for exploration and evaluation assets
The smallest identifiable group of assets that, together with exploration and evaluation assets, generates cash inflows from continuing use on which impairment tests were performed by an entity under the accounting policies applied in its most recent annual financial statements. A cash-generating unit for exploration and evaluation assets shall be no larger than a segment.

exploration and evaluation assets
Exploration and evaluation expenditures recognised as assets.

exploration and evaluation expenditures
Expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources.

exploration for and evaluation of mineral resources
The search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource before the decision to develop the mineral resource.
Appendix B
Amendments to other IFRSs

The amendments in this [draft] appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this [draft] IFRS for an earlier period, these amendments shall be applied for that earlier period.

Amendment to IAS 16

B1 Paragraph 3 of IAS 16 Property, Plant and Equipment is amended to read as follows:

…

(a) biological assets related to agricultural activity (see IAS 41 Agriculture);

(b) exploration and evaluation assets (see [draft] IFRS X Exploration for and Evaluation of Mineral Resources); or

(c) mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

Amendment to [draft] IAS 38

B2 Paragraph 1 of [draft] IAS 38 Intangible Assets is amended to read as follows:

…

(c) expenditure on the exploration for and evaluation of mineral resources (see [draft] IFRS X Exploration for and Evaluation of Mineral Resources)

(d) expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources; and

...