

IFRS 6 EXPLORATION FOR & EVALUATION OF MINERAL RESOURCES.

Disclaimer:

This communication contains general information only, and none of M Al Ali Auditing, its member firms, or their related entities (collectively, the “M Al Ali Auditing network”) is, by means of this communication, rendering professional advice or services. No entity in the M Al Ali Auditing network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

IFRS 6 Exploration for & Evaluation of Mineral Resources.

SCOPE

IFRS 6 applies to all entities incurring **exploration and evaluation expenditure** of mineral resources

The IFRS does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources.

IFRS shall not apply where 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

ELEMENTS OF COST IN EXPLORATION AND EVALUATION ASSETS

An entity determines an accounting policy specifying which expenditures are recognized as exploration and evaluation assets

The following are examples:

- ❖ Acquisition of rights to explore
- ❖ Topographical, geological, geochemical and geophysical studies
- ❖ Exploratory drilling
- ❖ Trenching
- ❖ Sampling
- ❖ Activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource

PRESENTATION & DISCLOSURE

An entity treats exploration and evaluation assets as a separate class of assets and makes the disclosures required by either IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets depending upon how the assets are classified.

IFRS 6 requires disclosure of following information:

- ❖ its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets
- ❖ the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

IMPAIRMENT

IFRS 6 indicates following facts and circumstances for an entity to test impairment:

- ❖ The period for which the entity has the license 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.
- ❖ No further budgeted or planned substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is observed.
- ❖ Entity has decided to discontinue the operations of exploration for and evaluation of mineral resources in the specific area by reason of non-discovery of commercially viable quantities of mineral resources.
- ❖ Sufficient data exists 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.

An entity determines 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

EXEMPTIONS

An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant and no less reliable to the economic decision-making needs of users, or more reliable and no less relevant to those needs.