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**FINANCIAL  
REPORTING STANDARD**

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**FRS 106**

**Exploration for and Evaluation  
of Mineral Resources**

Note: This draft FRS 106, pending adoption by the CCDG, is provided solely as a reference for the ED Proposed Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*.

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Financial Reporting Standard 106 *Exploration for and Evaluation of Mineral Resources* (FRS 106) is set out in paragraphs 1-27 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 Standard. FRS 106 should be read in the context of its objective, the Preface to Financial Reporting Standards and the Framework for the Preparation and Presentation of Financial Statements. FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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### INTRODUCTION

#### Reasons for issuing the FRS

- IN1 The Financial Reporting Standard (FRS) on exploration for and evaluation of mineral resources was developed because:
- (a) until now there has been no FRS that specifically addresses the accounting for those activities and they are excluded from the scope of FRS 38 *Intangible Assets*. In addition, 'mineral rights and mineral resources such as oil, natural gas and similar non-regenerative resources' are excluded from the scope of FRS 16 *Property, Plant and Equipment*. Consequently, an entity was required to determine its accounting policy for the exploration for and evaluation of mineral resources in accordance with paragraphs 10-12 of FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
  - (b) there are different views on how exploration and evaluation expenditures should be accounted for in accordance with FRSs.
  - (c) accounting practices for exploration and evaluation assets under the requirements of other standard-setting bodies are diverse and often differ from practices in other sectors for expenditures that may be considered analogous (e.g. accounting practices for research and development costs in accordance with FRS 38).
  - (d) exploration and evaluation expenditures are significant to entities engaged in extractive activities.
  - (e) an increasing number of entities incurring exploration and evaluation expenditures present their financial statements in accordance with FRSs.
- IN2 [Not used]
- IN3 [Not used]
- IN4 The objectives for this phase of the extractive activities project are:
- (a) to make limited improvements to accounting practices for exploration and evaluation expenditures, without requiring major changes that might be reversed when a comprehensive review of accounting practices used by entities engaged in the exploration for and evaluation of mineral resources is undertaken.
  - (b) to specify the circumstances in which entities that recognise exploration and evaluation assets should test such assets for impairment in accordance with FRS 36 *Impairment of Assets*.
  - (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.

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### **Main features of the FRS**

IN5 The FRS:

- (a) permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of FRS 8. Thus, an entity adopting FRS 106 may continue to use the accounting policies applied immediately before adopting the FRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.
- (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 the assets may exceed their recoverable amount.
- (c) varies the recognition of impairment from that in FRS 36 but measures the impairment in accordance with that Standard once the impairment is identified.

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# Financial Reporting Standard 106

## Exploration for and Evaluation of Mineral Resources

### OBJECTIVE

- 1 The objective of this FRS is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.
- 2 In particular, the FRS 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 FRS and measure any impairment in accordance with FRS 36 *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 FRS to exploration and evaluation expenditures that it incurs.
- 4 The FRS 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 FRS 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 FRS 8 paragraphs 11 and 12

- 6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 7 Paragraphs 11 and 12 of FRS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no FRS applies specifically to that item. Subject to paragraphs 9 and 10 below, this FRS exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

### MEASUREMENT OF EXPLORATION AND EVALUATION ASSETS

#### Measurement at recognition

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

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### **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.
- 10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Framework* and FRS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.
- 11 In accordance with FRS 37 *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 FRS 16 *Property, Plant and Equipment* or the model in FRS 38) 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 FRS 8.**
- 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 FRS 8, 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.

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### **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 FRS 36, except as provided by paragraph 21 below.**
- 19 For the purposes of exploration and evaluation assets only, paragraph 20 of this FRS shall be applied rather than paragraphs 8-17 of FRS 36 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 FRS 36. Any impairment loss is recognised as an expense in accordance with FRS 36.

#### **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 FRS 14 *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.



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### **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.
- 25 An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either FRS 16 or FRS 38 consistent with how the assets are classified.

### **EFFECTIVE DATE**

- 26 **An entity shall apply this FRS for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies the FRS for a period beginning before 1 January 2006, 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 2006, an entity shall disclose that fact. FRS 8 explains the term 'impracticable'.

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### Appendix A

#### Defined terms

*This appendix is an integral part of the FRS.*

<b>exploration and evaluation assets</b>	<b>Exploration and evaluation expenditures</b> recognised as assets in accordance with the entity's accounting policy.
<b>exploration and evaluation expenditures</b>	Expenditures incurred by an entity in connection with the <b>exploration for and evaluation of mineral resources</b> before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
<b>exploration for and evaluation of mineral resources</b>	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.

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### Appendix B

#### Amendments to other FRSs

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this FRS for an earlier period, these amendments shall be applied for that earlier period. In the amendments, new text is underlined and deleted text is struck through.*

- B1 In FRS 101 *First-time Adoption of Financial Reporting Standards*, a heading and paragraph 36B are added as follows:

#### **Exemption from the requirement to provide comparative disclosures for FRS 106**

36B An entity that adopts FRSs before 1 January 2006 and chooses to adopt FRS 106 *Exploration for and Evaluation of Mineral Resources* before 1 January 2006 need not present the disclosures required by FRS 106 for comparative periods in its first FRS financial statements.

- B2 In FRS 16 *Property, Plant and Equipment* (as revised in 2004 and amended by FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*), 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 FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*;
  - (b) biological assets related to agricultural activity (see FRS 41 *Agriculture*); ~~or~~
  - (c) the recognition and measurement of exploration and evaluation assets (see FRS 106 *Exploration for and Evaluation of Mineral Resources*); or
  - (de) 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 FRS 38 *Intangible Assets* (as revised in 2004), 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 Standard;***
  - (b) ***financial assets, as defined in FRS 39 *Financial Instruments: Recognition and Measurement*;***
  - (c) ***the recognition and measurement of exploration and evaluation assets (see FRS 106 *Exploration for and Evaluation of Mineral Resources*); and***
  - (de) ~~***mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources.***~~