

## STAFF PAPER

October 2020

## IASB Meeting

Project	Extractive Activities		
Paper topic	Accounting policies developed applying IFRS 6		
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**Background and objective**

1. The Board has received feedback that accounting policies developed by entities in the extractives industry that apply IFRS 6 *Exploration for and Evaluation of Mineral Resources* lack consistency and comparability both between jurisdictions and within jurisdictions.
2. Consequently, at its September 2019 meeting, the Board asked staff to perform additional research to develop further the Board's understanding about (see *Agenda Paper 19*):
  - (a) whether local accounting requirements exist that differ from the requirements in IFRS 6; and
  - (b) the diversity of accounting policies developed applying IFRS 6.
3. This paper presents our research findings about the diversity in current practice of accounting policies developed for exploration and evaluation expenditure within the scope of IFRS 6. We have not considered the merits of our research findings and whether we think they provide evidence that there is a problem that needs to be addressed by standard-setting. We will provide the Board with an analysis of all research findings when the Board is asked to decide on the scope of the research project to replace or amend IFRS 6.

## Overview

4. This paper is structured as follows:
  - (a) Key findings (paragraphs 5-7);
  - (b) Extent of IFRS 6 application (paragraphs 8-15);
    - (i) Methodology (paragraphs 8-10);
    - (ii) Research findings (paragraphs 11-15);
  - (c) Accounting policies developed applying IFRS 6 (paragraphs 16-32);
    - (i) Methodology (paragraphs 16-21);
    - (ii) Research findings (paragraphs 22-32);
  - (d) Feedback from stakeholders (paragraphs 33-38);
  - (e) Question for the Board;
  - (f) Appendix A—Demographic information;
  - (g) Appendix B—Accounting policy methods;
  - (h) Appendix C—Extract from IFRS 6;
  - (i) Appendix D—Examples of accounting policy disclosures for exploration and evaluation expenditure extracted from the financial statements sampled.

## Key findings

5. Accounting policies developed for exploration and evaluation expenditure applying the requirements of IFRS 6, or accounting requirements equivalent to IFRS 6, are diverse (see [July 2020 Agenda Paper 19B](#)). Furthermore, our research indicates that the source of this diversity is primarily due to:
  - (a) the extent to which an entity decides to recognise exploration and evaluation expenditure incurred during the reporting period as an asset—ie how much of its exploration and evaluation expenditure the entity decides to capitalise and from what point it starts capitalisation; and

- (b) the unit of account that an entity decides to apply to its exploration and evaluation expenditure asset.
6. There are some geographical trends in the accounting policies developed for exploration and evaluation expenditure, applying IFRS Standards, accounting requirements equivalent to IFRS, or local accounting requirements. These arise because some jurisdictions require entities to apply a specific accounting policy. For example:
- (a) oil and gas entities reporting in the United States of America (US) using US GAAP are required to apply either the successful efforts or full cost method to exploration and evaluation expenditure;
  - (b) oil and gas entities reporting in China are required to apply the accounting requirements as described in Accounting for Business Enterprises No. 27 *Extraction of Oil and Natural Gas*; and
  - (c) entities applying the Australian Accounting Standard, AASB 6 *Exploration for and Evaluation of Mineral Resources* are required to use an ‘individual geological area of interest’ as the unit of account when accounting for exploration and evaluation expenditure.
7. There are also some industry trends. For example, successful efforts and full cost accounting policy methods are primarily applied by entities operating in the oil and gas industry (see paragraph 15).

## **Extent of IFRS 6 application**

### ***Methodology***

8. Staff researched 177 jurisdictions (this was based on the jurisdictions analysed on the IFRS website at the time we commenced our research). For each jurisdiction, staff identified those jurisdictions that:
- (a) require IFRS Standards to be applied by domestic public entities;
  - (b) permit IFRS Standards to be applied by domestic public entities; and

- (c) require or permit IFRS Standards to be applied for listings by foreign entities.
9. For each jurisdiction we then researched the extent of application of IFRS Standards, for example, if IFRS Standards are applied as issued by the Board or if IFRS Standards are modified. Where modifications had been made, we researched whether IFRS 6 has been modified.
  10. Finally, we researched those jurisdictions where IFRS Standards are not required to be applied by all domestic public entities. In particular, we sought to:
    - (a) identify those jurisdictions that specify their own requirements for accounting for exploration and evaluation expenditure; and
    - (b) if such requirements exist, how these requirements differ from the requirements of IFRS 6 (ie if these requirements are equivalent to the requirements of IFRS 6).

**Research findings**

11. Of the jurisdictions researched in which IFRS Standards are required or permitted to be used, including those jurisdictions that have incorporated IFRS into their local financial reporting standards:
  - (a) almost all of those jurisdictions apply IFRS 6 as issued by the Board;
  - (b) a few jurisdictions apply IFRS 6 as issued by the Board at a specified date, for example, IFRS Standards as issued in 2008 in Venezuela; and
  - (c) we identified only one jurisdiction that has modified the requirements of IFRS 6. The Australian equivalent of IFRS 6 (being AASB 6 *Exploration for and Evaluation of Mineral Resources*) includes additional guidance and requirements for entities complying with Australian Accounting Standards (AASBs), including requiring entities to use an individual geological area of interest as the unit of account for exploration and evaluation expenditure. Staff understand that an entity complying with AASB 6 would also be considered to comply with IFRS 6.

12. For those jurisdictions in which IFRS Standards are not required to be applied by all domestic public entities and that specify their own accounting requirements, we were not always able to locate English translations, or those requirements were not available online. Consequently, for those jurisdictions we were not always able to determine:
- (a) whether the jurisdiction has requirements for exploration and evaluation expenditure; and if so
  - (b) whether the jurisdiction’s requirements for exploration and evaluation expenditure differ materially from the requirements of IFRS 6.
13. However, despite these limitations, for the jurisdictions that specify their own accounting requirements we observed that:
- (a) a few jurisdictions have accounting requirements for exploration and evaluation expenditure that might not align with IFRS 6 or have a different scope to IFRS 6, for example:
    - (i) China’s Accounting for Business Enterprises No. 27 *Extraction of Oil and Natural Gas* addresses the accounting for extractive activities relating to oil and natural gas (there is no equivalent for other mineral resources); and
    - (ii) US GAAP includes specific accounting requirements for mining (Topic 930 *Extractive Activities—Mining*) and oil and gas (Topic 932 *Extractive Activities—Oil and Gas*);
  - (b) a few jurisdictions have accounting requirements that are equivalent to IFRS 6 such as India<sup>1</sup> and Thailand; and
  - (c) a few jurisdictions have no equivalent accounting requirements for exploration and evaluation expenditure—for example, because they have no extractives industry or because the extractives industry is not significant to their economy.

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<sup>1</sup> The Institute of Chartered Accountants of India has also issued *Guidance Note on Accounting for Oil and Gas Producing Activities* to provide additional guidance to companies that prepare their financial statements in accordance with Indian Accounting Standards.

14. A few jurisdictions permit the application of other national accounting standards in addition to the IFRS Standards. For example, a few jurisdictions permit entities to apply US GAAP.
15. Recent feedback from oil and gas preparers indicated that they find the flexibility to develop the most appropriate accounting policy for exploration and evaluation expenditure in IFRS 6 to be useful. This is because the requirements of IFRS 6 allow them to develop accounting policies that are consistent and comparable with oil and gas entities in other jurisdictions such as the US and, in their view, this reduces diversity in the accounting policies developed in that industry.

## Accounting policies developed applying IFRS 6

### **Methodology**

16. Staff used the financial research database Alphasense to identify accounting policy disclosures related to exploration and evaluation expenditure for entities applying IFRS Standards, or accounting requirements equivalent to IFRS 6.
17. We searched the database for filings made in jurisdictions that require or permit IFRS Standards and made in 2018 (ie for financial reports filed in the 2018 calendar year). To identify the relevant accounting policies staff then searched the database using a keyword search. We decided on applying such search parameters because:
  - (a) it would be unlikely that entities without exploration and evaluation expenditure would include such keywords in their financial statements; and
  - (b) we wanted to be able to capture, as part of our sample, those entities that have differing financial year-ends. Furthermore, year-end filings were most likely to contain the relevant accounting policy information.
18. Our search used the following string of keywords:

*'exploration and evaluation expenditure' OR 'exploration and evaluation expense' OR 'exploration and evaluation cost' OR 'exploration expenditure' OR 'exploration expense' OR 'exploration cost'*

19. We did not include in the search variations of ‘evaluation expenditure’ as those results which relate to keywords including ‘evaluation’ would be less likely to provide relevant data (for example, using the keyword ‘evaluation’ would not primarily result in relevant data about entities with extractive activities).
20. Applying this methodology, staff narrowed the sample size to 1,531 entities.
21. We researched all 1,531 entities and their annual reports and developed a database noting the following characteristics:
  - (a) industry subsector—being ‘minerals’ and ‘oil and gas’ and ‘other’<sup>2</sup>;
  - (b) company—being the name under which the entity is listed;
  - (c) exchange on which the entity is listed—being the jurisdiction in which the entity is listed. For example, when a single jurisdiction had multiple exchanges these were allocated to a single jurisdiction. Similarly, when an entity was listed on more than one exchange, one jurisdiction was selected for that entity;
  - (d) type of extractive activity in which the entity engages—being exploration and evaluation, development, production, or a combination of multiple types of extractive activities; and
  - (e) the accounting policy method applied—being:
    - (i) capitalisation—area of interest (exploration and evaluation expenditure is accounted for by area of interest)<sup>3</sup>;

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<sup>2</sup> For example, being entities that state compliance with US GAAP only or other national accounting standards that are not equivalent to IFRS Standards, entities for which we were unable to locate their annual reports, entities with no accounting policy for exploration and evaluation expenditure and for which no extractive activities were evident from the annual report and entities that operate adjacent to minerals and oil and gas entities (ie service providers to entities operating in those subsectors).

<sup>3</sup> Paragraph Aus7.3 of the Australian Accounting Standard AASB 6 *Exploration for and evaluation of Mineral Resources* defines an area of interest as 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.

- (ii) capitalisation—full cost (all exploration and evaluation expenditure incurred is capitalised, regardless of whether new minerals or oil and gas reserves are located; costs are accumulated into large cost pools, for example by country);
- (iii) capitalisation—successful efforts (only exploration and evaluation expenditure associated with successfully locating new minerals or oil and gas reserves is capitalised; costs are generally accumulated by well and are initially deferred to the balance sheet until the results of drilling are known);
- (iv) capitalisation—unknown (no specific accounting policy method, such as those listed in (e)(i)-(iii), is specified. These policies may provide details of how the costs are accumulated and may in some cases be equivalent of one of those three accounting policy methods);
- (v) expense—as incurred (all exploration and evaluation expenditure is recognised as an expense as incurred including property acquisition costs);
- (vi) expense—subsequent expenditure (all exploration and evaluation expenditure is recognised as an expense as incurred excluding property acquisition costs which are capitalised);
- (vii) unknown—either because no accounting policy was disclosed but the entity had incurred exploration and evaluation expenditure or it was unclear what accounting policy was applied (ie we were unable to determine, from the accounting policy disclosed, how the entity accounts for exploration and evaluation expenditure).

## **Research findings**

### *Demographic information*

22. Appendix A presents information about the sampled entities using the following demographic information:
- (a) geographical region; and
  - (b) industry subsector.



23. Of those entities that incurred exploration and evaluation expenditure, a majority were entities listed on stock exchanges located in the geographical regions of Europe (including Russia), North America and Oceania (see Appendix A). However, this result is not necessarily indicative of the size of the extractives industry in each of the regions. For example, the extractives industry is significant for Africa, however we observed that entities that engage in extractive activities in Africa were often listed in other regions (such as Oceania or North America).
24. Of the 1,531 entities sampled, 76% operate in the minerals industry (see Appendix A). This is because the minerals industry encompasses a vast range of minerals (for example, gold, diamonds, semi-precious gemstones, coal, etc) while the oil and gas industry is not as diverse. In other words, the range of minerals means that there are generally many more entities engaged in extractive activities for minerals than there are for oil and gas.
25. Furthermore, we observed that there were more entities engaged in only exploration and evaluation activities than entities engaged in a combination of extractive activities (ie exploration and evaluation, development and/or production activities). Of the 1,531 entities sampled, 63% were engaged in exploration and evaluation activities only. This is because of the nature of the extractives industry—overall, the industry tends to be dominated by a limited number of large entities which have access to the resources to engage in all extractive activities (ie exploration and evaluation, development and production activities). However, there are many smaller entities that engage in exploration and evaluation activities only and seek to either sell their successful projects, or become a competitor, to those larger entities. This is particularly the case in Australia and Canada, where the sample is dominated by a large number of small exploration and evaluation entities listed in those jurisdictions, and is also particularly the case in the minerals industry.

#### *Accounting policy methods*

26. Appendix B presents information of the sampled entities by the following categories:
- (a) accounting policy method applied; and
  - (b) accounting policy method applied by industry subsector.

27. Our research indicates that the accounting policies developed and applied by entities in the extractives industry are diverse (see Appendix B). However, we observed the following:
- (a) Forty-seven percent of the entities applied the area of interest accounting policy method (of which 87% operated in the minerals industry). Of that 47%, 76% were listed on the Australian Stock Exchange (ASX)—ie 36% of the entities sampled were listed on the ASX and applied the area of interest accounting policy method. This is as a result of Australia’s equivalent standard to IFRS 6—AASB 6—which requires entities to apply the area of interest accounting policy method (specifically the individual geological area of interest) when accounting for exploration and evaluation expenditure (see paragraph 11(c)).
  - (b) Of the entities that applied the successful efforts or full cost accounting policy methods, almost all (97%) operated in the oil and gas industry. This is likely because, to support comparability with their peers in the industry, they elect to adopt accounting policies which are more consistent with US GAAP requirements for oil and gas entities.
  - (c) Of the 1,531 entities sampled, 13% capitalised exploration and evaluation expenditure related only to the acquisition of minerals or oil and gas properties (ie all other subsequent exploration and evaluation expenditure was expensed as incurred) and 6% expensed all exploration and evaluation expenditure. Our research did not necessarily support more recent feedback which suggested that larger minerals entities would be more likely to expense their exploration and evaluation expenditure (see paragraph 34). Instead, the entities that applied one of the expense accounting policy methods were diverse.
  - (d) Considering the subsectors separately, minerals entities (24%) are more likely to adopt an accounting policy of expensing all exploration and evaluation expenditure, or only capitalising the acquisition of minerals or oil and gas properties, than oil and gas entities (5%).

28. Following our review of the accounting policies of all 1,531 entities, we think accounting policy diversity predominantly arises from the following:
- (a) extent of capitalisation of exploration and evaluation expenditure—IFRS 6 only provides a list of examples of the types of expenditure that could be considered to be exploration and evaluation expenditure, and that list is not exhaustive (see Appendix C and paragraph 31). An entity applies judgement in determining:
    - (i) how much of the exploration and evaluation expenditure incurred is capitalised as an exploration and evaluation asset (see paragraph 31(a)); and
    - (ii) when capitalisation of exploration and evaluation expenditure starts (see paragraph 31(b)).
  - (b) unit of account—IFRS 6 is silent about the unit of account an entity should apply when accounting for exploration and evaluation expenditure. Consequently, an entity applies judgement to determine the most appropriate unit of account unless the national standard-setter or regulator requires entities to use a specific unit of account. For example, AASB 6 requires entities to use an individual geological area of interest as the unit of account for exploration and evaluation expenditure (see paragraph 30).
29. Paragraphs 30-32 illustrate some examples of this accounting policy diversity. This diversity can also lead to diversity within accounting policy methods, such that, for example, the successful efforts method applied by one entity differs to the successful efforts method applied by another entity.
30. For the unit of account, there were differing terms for these and numerous different units of account that we observed as part of the sample, for example:
- (a) oil and gas well;
  - (b) field (for oil and gas);
  - (c) exploration area;
  - (d) block area;
  - (e) licence;

- (f) service contract;
  - (g) project;
  - (h) property;
  - (i) prospect;
  - (j) geological area of interest; and
  - (k) geographic area.
31. For entities that applied a capitalisation accounting policy method (see paragraph 21(e)), we observed that:
- (a) the exploration and evaluation expenditure capitalised as an asset often varied by whether geological and geophysical costs were included in the costs that were capitalised; and
  - (b) the point at which capitalisation of exploration and evaluation started also varied. Although the majority of entities sampled capitalised exploration and evaluation costs from the point of acquiring the property licence, we observed that a number of entities started to capitalise exploration and evaluation expenditure at a later point, for example:
    - (i) some entities expensed all exploration expenditure and capitalised only evaluation expenditure;
    - (ii) some entities expensed all exploration and evaluation expenditure until a resource (compliant with their jurisdiction's classification system) had been identified. Subsequent exploration and evaluation expenditure was then capitalised prior to determining the technical feasibility and commercial viability of the resource;
    - (iii) some entities capitalised exploration and evaluation expenditure when management concluded that economic benefits would be more likely than not to be realised;
    - (iv) some entities expensed 'greenfield' expenditure (ie general exploration expenditure that is not project specific) but capitalised 'brownfield' expenditure (typically occurring in

areas surrounding known deposits and/or re-exploring older mines using new technologies); and

- (v) some entities applied different accounting policy methods (eg either an expense-all or a capitalisation policy) to their properties on a property by property basis such that different properties owned by an entity may have different accounting policy methods applied to them.

32. To help further demonstrate the accounting policy diversity, we have included a few examples of accounting policy disclosures from the financial statements sampled in Appendix D.

### Feedback from stakeholders

33. As part of recent outreach, we asked stakeholders about exploration and evaluation expenditure accounting policy diversity and whether they thought it was a matter that needed to be addressed by standard-setting. Feedback from this outreach was presented to the Board at its March 2019, September 2019 and June 2020 meetings (see [March 2019 Agenda Paper 19](#), [September 2019 Agenda Papers 19-19F](#) and [June 2020 Agenda Paper 19A](#)).

34. The feedback suggested:

- (a) larger minerals entities are more likely to recognise exploration and evaluation expenditure as an expense as it is incurred. This is because exploration and evaluation activities of larger minerals entities are likely to be immaterial to their operations, or the information generated from exploration and evaluation activities may not be useful enough to justify capitalising the related expenditure.<sup>4</sup>
- (b) smaller entities, such as those engaged only in exploration and evaluation activities, are more likely to capitalise some or all exploration and evaluation expenditure. This is because such entities find exploration and evaluation assets to be a useful tool in communicating with users of their

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<sup>4</sup> Mineral or oil and gas exploration and evaluation has a very low probability of success (success being that the mineral or oil and gas property can be mined).

financial statements. For example, movements in exploration and evaluation assets can provide evidence to support an entity's shift from a 'resource' classification to a 'reserve' classification.

35. Feedback from preparers relating to the accounting policy they apply to their exploration and evaluation expenditure reflects the findings in paragraphs 26-32—in other words, examples of accounting policies provided by preparers as part of recent outreach showed similar diversity to that observed in our research.
36. Feedback from preparers also indicates that users rarely question them about how they account for exploration and evaluation expenditure. Instead, preparers observed that users are usually more interested in the development and production of minerals and oil and gas properties, and ask questions about non-GAAP and cash measures that preparers voluntarily disclose in addition to the requirements of IFRS Standards (see [June 2020 Agenda Paper 19A](#)).
37. Feedback from users of financial statements indicates that how an entity accounts for exploration and evaluation expenditure is not considered to be a priority.<sup>5</sup> While a few users said the diversity in accounting policy methods applied is not helpful and the Board should consider resolving this, they did not identify the diversity as a primary concern. Instead, users thought the Board should focus on considering the information that users of financial statements say they lack today for making informed decisions about an entity with extractive activities. This information goes beyond the scope of IFRS 6. For example, these users said the financial statements of entities with extractive activities lack information about (see [September 2019 Agenda Paper 19A](#) and [June 2020 Agenda Paper 19A](#)):
- (a) the effects of climate change on an entity's operations;
  - (b) environmental issues and obligations related to an entity's extractive activities;
  - (c) the economic life of the mineral or oil and gas property;

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<sup>5</sup> This is consistent with research that was conducted for the 2010 Discussion Paper *Extractive Activities* through detailed individual interviews with 34 professional users who focused on entities in the extractive industries. One of the main findings was that the historical cost information on minerals or oil and gas properties in the statement of financial position does not generate useful information. This was true whether the accounting method was full cost, successful efforts or area of interest.

- (d) alternative performance measures (non-GAAP) such as costs of production and reserve replacement ratios; and
  - (e) reserve and resource information.
38. Feedback from national standard-setters indicates that there are mixed views about accounting policy diversity of exploration and evaluation expenditure. For example:
- (a) one national standard-setter said that feedback from users of financial statements in their jurisdiction indicated that the users held the view that an accounting policy choice should not be permitted. However, this national standard-setter also said that many of the preparers they consulted opposed removing the option to capitalise exploration and evaluation expenditure because recognising it as an expense could affect some entities' ability to raise capital. A few national standard-setters also said feedback from their stakeholders suggested that a project on extractive activities is needed to promote consistent and comparable disclosure of exploration and evaluation expenditure, which is currently not present unless an entity voluntarily makes additional disclosures in their financial statements.
  - (b) however, one national standard-setter reported that users in their jurisdiction said that disclosures outside the financial statements (for example, non-IFRS information such as reserve and resource information and technical reports on mineral or oil or gas projects) provide the information they need to make decisions. This national standard-setter also said that the diversity in accounting policies applied to exploration and evaluation expenditure is not a significant problem in their jurisdiction and that users of financial statements manage the diversity well (see [September 2019 Agenda Paper 19A](#)).

### Question for the Board

#### Question

Does the Board have any comments on the findings about accounting policy diversity?

## Appendix A—Demographic information

### *Geographical region*

A1. This table illustrates the breakdown of the sample of 1,531 entities by geographical region of their stock exchange listing (see paragraphs 22-25):

<b>Region</b>	<b>% of sample</b>
Africa	1
Asia (incl. the Middle East)	6
Europe (incl. Russia)	12
Latin America and the Caribbean	1
North America	32
Oceania	48
<b>Total</b>	<b>100</b>

### *Industry subsector*

A2. This table illustrates the breakdown of the sample of 1,531 entities by industry subsector (see paragraphs 22-25):

<b>Industry subsector</b>	<b>% of sample</b>
Minerals	76
Oil and gas	20
Other	4
<b>Total</b>	<b>100</b>



## Appendix B—Accounting policy methods

### *Accounting policy methods*

B1. This table illustrates the percentages of entities in the sample of 1,531 applying each of the accounting policy methods listed in paragraph 21(e):

<b>Accounting policy method</b>	<b>Minerals %</b>	<b>Oil &amp; Gas %</b>	<b>Other %</b>	<b>% of sample</b>
Capitalisation—area of interest	41	6	-	<b>47</b>
Capitalisation—full cost	-	1	-	<b>1</b>
Capitalisation—successful efforts	-	5	-	<b>5</b>
Capitalisation—unknown	15	7	-	<b>22</b>
Expense—as incurred	5	1	-	<b>6</b>
Expense—subsequent expenditure	13	-	-	<b>13</b>
Unknown	2	-	-	<b>2</b>
Not applicable	-	-	4	<b>4</b>
<b>Total</b>	<b>76</b>	<b>20</b>	<b>4</b>	<b>100</b>

**Accounting policy method by industry subsector**

B2. This table illustrates the percentage of (a) minerals entities, (b) oil and gas entities and (c) other entities in the sample of 1,531 applying each of the accounting policy methods listed in paragraph 21(e):

<b>Accounting policy method</b>	<b>Minerals (%)</b>	<b>Oil and gas (%)</b>	<b>Other (%)</b>
Capitalisation—area of interest	53	30	-
Capitalisation—full cost	-	4	-
Capitalisation—successful efforts	-	23	-
Capitalisation—unknown	20	35	-
Expense—as incurred	7	3	-
Expense—subsequent expenditure	17	2	-
Unknown	3	3	-
Not applicable	-	-	100
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Appendix C—Extract from IFRS 6

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### *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.
- 10 Expenditures related to the development of mineral resources shall not be recognised as exploration and evaluation assets. The *Conceptual Framework for Financial Reporting* and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.
- 11 In accordance with IAS 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.

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## Appendix D—Examples of accounting policy disclosures for exploration and evaluation expenditure extracted from the financial statements sampled

### *Example 1—Capitalisation—area of interest*

Exploration and evaluation expenditure is written off as incurred. Costs of acquisition of prospects are capitalised and only carried forward to the extent that rights to tenure of the area of interest are current and at least one of the following conditions is met:

- a) the exploration and evaluation expenditure is expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
- b) 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 areas of interest are continuing.

### *Example 2—Capitalisation—full cost*

Under the full cost method of accounting, all costs of exploring for and evaluating oil and gas properties, whether productive or not are accumulated and capitalised by reference to appropriate cost pools. Such cost pools are based on geographic areas and are not larger than a segment.

Exploration and evaluation costs may include costs of license acquisition, directly attributable exploration costs such as technical services and studies, seismic data acquisition and processing, exploration drilling and testing, technical feasibility, commercial viability costs, finance costs to the extent they are directly attributable to financing these activities and an allocation of administrative and salary costs as determined by management. All costs incurred prior to the award of an exploration license are written off as a loss in the year incurred.

### *Example 3—Capitalisation—successful efforts*

Exploration costs are accounted for under the successful efforts method: exploration costs are recognised in income when incurred, except that exploratory drilling costs, including in respect of operating leases, are included in property, plant and equipment pending determination of proved reserves. Exploration costs capitalised in respect of exploration wells that are more than 12 months old are written off unless: (a) proved reserves are booked; or (b) (i) they have found commercially producible quantities of reserves and (ii) they are subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project.

*Example 4a—Capitalisation—unknown*

Exploration and evaluation costs, including the costs of acquiring licenses, farming into or acquiring rights to working interest and directly attributable general and administrative costs, initially are capitalised either as tangible or intangible Exploration & Evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

*Example 4b—Capitalisation—unknown*

Pre-exploration costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognised and capitalised, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

If the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as ‘mines under construction’.

*Example 5—Expense—as incurred*

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of mineral property rights, property option payments and exploration and evaluation activities. Once a project has been established as commercially viable, technically feasible and the decision to proceed with development has been approved by the Board of Directors, related development expenditures are capitalised.

*Example 6—Expense—subsequent expenditure*

Exploration costs for mineral resources are expensed as incurred. Costs related to acquired exploration rights are allocated to the relevant areas and capitalised. An area represents a unit that may be utilised based on shared infrastructure and may include several licenses. Exploration rights are transferred to mine development cost when development starts. Exploration rights related to undeveloped areas remain on the balance sheet as intangible assets (mineral rights) until a development is decided or a decision not to develop the area is made.