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IPSAS[®]

*Proposed International Public Sector Accounting
Standard[®]*

Exploration of and Evaluation of Mineral Resources

IPSASB

International Public
Sector Accounting
Standards Board[®]



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IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Exploration of and Evaluation of Mineral Resources*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by [DATE].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “**Submit a Comment**” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

EXPOSURE DRAFT XX, EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

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Objective

1. The objective of this ~~IFRS [draft] Standard~~ is to specify the financial reporting for the exploration for and evaluation of mineral resources.
2. In particular, the ~~IFRS [draft] Standard~~ requires:
 - (a) ~~limited~~Limited improvements to existing accounting practices for exploration and evaluation expenditures.
 - (b) ~~entities~~Entities that ~~recognise~~recognize exploration and evaluation assets to assess such assets for impairment in accordance with this ~~IFRS[draft] Standard~~ and measure any impairment in accordance with ~~IAS 36~~IPSAS 26, Impairment of Cash-Generating Assets.
 - (c) ~~disclosure~~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~~recognized.

Scope

3. An entity ~~that prepares and presents financial statements under the accrual basis of accounting~~ shall apply ~~the IFRS to~~this [draft] Standard to exploration and evaluation expenditures that it incurs.
4. ~~The IFRS~~This [draft] 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 ~~this the IFRS[draft] Standard~~ to expenditures incurred:
 - (a) ~~before~~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~~After the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Definitions

6. The following terms are used in this [draft] Standard with the meanings specified:

Exploration and evaluation assets means ~~E~~exploration and evaluation expenditures recognized as assets in accordance with the entity's accounting policy.

Exploration and evaluation expenditures means ~~E~~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 means ~~T~~he 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.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards and are reproduced in the Glossary of Defined Terms published separately.

Recognition of Exploration and Evaluation Assets

7. ~~6.~~ When developing its accounting policies, an entity ~~recognising~~recognizing exploration and evaluation assets shall apply paragraph ~~40~~12 of ~~IAS-8~~IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Temporary ~~e~~Exemption from ~~IAS-8~~IPSAS 3 paragraphs ~~41~~14 and ~~42~~15

8. ~~7.~~ Paragraphs ~~41~~14 and ~~42~~15 of ~~IAS-8~~IPSAS 3 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no ~~IFRS~~IPSAS applies specifically to that item. Subject to paragraphs ~~9~~10 and ~~40~~11 below, this ~~IFRS~~[draft] Standard exempts an entity from applying those paragraphs to its accounting policies for the recognition and measurement of exploration and evaluation assets.

Measurement of ~~e~~Exploration and ~~e~~Evaluation ~~a~~Assets

Measurement at ~~r~~Recognition

9. ~~8.~~ Exploration and evaluation assets shall be measured at cost.

Elements of cost of exploration and evaluation assets

10. ~~9.~~ An entity shall determine an accounting policy specifying which expenditures are ~~recognised~~recognized 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) ~~A~~Aacquisition of rights to explore;
 - (b) ~~T~~Topographical, geological, geochemical and geophysical studies;
 - (c) ~~E~~Exploratory drilling;
 - (d) ~~T~~Trenching;
 - (e) ~~S~~Sampling; and
 - (f) ~~A~~Aactivities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.
11. ~~40.~~ Expenditures related to the development of mineral resources shall not be ~~recognised~~recognized as "exploration and evaluation assets". *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities and ~~IAS-38~~IPSAS 31, Intangible Assets* provide guidance on the recognition of assets arising from development.
12. ~~41.~~ In accordance with ~~IAS-37~~IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* an entity recognizes 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

13. ~~42.~~ After recognition, an entity shall apply either the historical cost model or the current value revaluation model to the exploration and evaluation assets. If the current value revaluation model is

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applied (either the model in ~~IAS 16~~IPSAS 45, *Property, Plant and Equipment*, or the model in ~~IAS 38~~IPSAS 31) it shall be consistent with the classification of the assets (see paragraph ~~45~~16).

Changes in accounting policies

14. ~~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 ~~IAS 8~~IPSAS 3.**
15. ~~44.~~ 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 ~~IAS 8~~IPSAS 3, but the change need not achieve full compliance with those criteria.

Presentation

Classification of exploration and evaluation assets

16. ~~45.~~ 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.
17. ~~46.~~ 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.

Reclassification of exploration and evaluation assets

18. ~~47.~~ 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 recognized, before reclassification.

Impairment

Recognition and Measurement

19. ~~48.~~ **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 or recoverable service amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount or recoverable service amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with ~~IAS 36~~IPSAS 26, except as provided by paragraph ~~24~~23 below.**
20. ~~49.~~ For the purposes of exploration and evaluation assets only, paragraph ~~22~~24 of this [draft] Standard shall be applied rather than paragraphs ~~8-17~~25-29 of ~~IAS 36~~IPSAS 26 when identifying an exploration and evaluation asset that may be impaired. Paragraph ~~21~~10 uses the term 'assets' but applies equally to separate exploration and evaluation assets or a cash-generating unit, in the case of cash-generating assets per ~~IAS 36~~IPSAS 26.

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21. ~~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 ~~IAS 36~~ IPSAS 26. Any impairment loss is recognized as an expense in accordance with ~~IAS 36~~ IPSAS 26.

Specifying the level at which exploration and evaluation assets are assessed for impairment

22. ~~24.~~ 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 determined in accordance with ~~IFRS 8 Operating Segments~~ IPSAS 18, Segment Reporting.
23. ~~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.

Disclosure

24. ~~23.~~ An entity shall disclose information that identifies and explains the amounts recognized in its financial statements arising from the exploration for and evaluation of mineral resources.
25. ~~24.~~ To comply with paragraph ~~23~~ 24, 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, revenue and expense, and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.
26. ~~25.~~ An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either ~~IAS 16~~ IPSAS 45 or ~~IAS 38~~ IPSAS 31 consistent with how the assets are classified.

Effective Date and Transition

Effective Date

27. ~~26—~~An entity shall apply this **IFRS [draft] Standard** for annual ~~periods—financial statements covering~~ periods beginning on or after [DATE]. **Earlier application is permitted.** If an entity applies ~~the IFRS~~ this [draft] Standard for a period beginning before [DATE], it shall disclose that fact and shall apply [draft] IPSAS [Y], *Natural Resources*, at the same time.
- ~~26A—~~Amendments to References to the Conceptual Framework in IFRS Standards, issued in 2018, amended paragraph 10. An entity shall apply that amendment for annual periods beginning on or after 1 January 2020. Earlier application is permitted if at the same time an entity also applies all other amendments made by Amendments to References to the Conceptual Framework in IFRS Standards. An entity shall apply the amendment to IFRS 6 retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, if an entity determines that retrospective application would be impracticable or would involve undue cost or effort, it shall apply the amendment to IFRS 6 by reference to paragraphs 23–28, 50–53 and 54F of IAS 8.
28. When an entity adopts the accrual basis IPSAS of accounting, as defined in IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs), for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS.

Transition

29. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3.**
- ~~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. IAS 8 explains the term ‘impracticable’.

Appendix A**Stripping Costs in the Production Phase of a Surface Mine**

*This Appendix is an integral part of **ED XX**.*

Introduction

1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.
2. During the development phase of the mine (before production begins), stripping costs are usually capitalisszed as part of the depreciable cost of building, developing and constructing the mine. Those capitalisszed costs are depreciated or amortisszed on a systematic basis, usually by using the units of production method, once production begins.
3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.
4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.
5. This Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

6. This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').
7. This Interpretation addresses the following issues:
 - (a) Recognition of production stripping costs as an asset;
 - (b) Initial measurement of the stripping activity asset; and
 - (c) Subsequent measurement of the stripping activity asset.

Consensus*Recognition of production stripping costs as an asset*

8. To the extent that the benefit from the stripping activity is realisszed in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IAS 2/IPSAS 12, Inventories. To the extent the benefit is improved access to ore, the entity shall recognissze these costs as a non-current asset, if the criteria in paragraph 9 below are met. This Interpretation refers to the non-current asset as the 'stripping activity asset'.
9. An entity shall recognissze a stripping activity asset if, and only if, all of the following are met:

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- (a) ~~It~~ is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
 - (b) ~~The~~ entity can identify the component of the ore body for which access has been improved; and
 - (c) ~~The~~ costs relating to the stripping activity associated with that component can be measured reliably.
10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as *part* of an existing asset.
 11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.
13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body, and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:
 - (a) ~~Cost~~ of inventory produced compared with expected cost;
 - (b) ~~Volume~~ of waste extracted compared with expected volume, for a given volume of ore production; and
 - (c) ~~Mineral~~ content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

14. After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amorti~~se~~zation and less impairment losses, in the same way as the existing asset of which it is a part.
15. The stripping activity asset shall be depreciated or amorti~~se~~zed on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.
16. The expected useful life of the identified component of the ore body that is used to depreciate or amorti~~se~~ze the stripping activity asset will differ from the expected useful life that is used to depreciate or amorti~~se~~ze the mine itself and the related life-of-mine assets. The exception to this are those limited

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circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix B

Amendments to Other IPSAS**Amendments to IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)***

Paragraphs 62F, 62G, and 154Q are added. New text is underlined, and deleted text is struck through.

...

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

...

[draft] IPSAS [X], *Exploration for and Evaluation of Mineral Resources*

62F. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to exploration and evaluation assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

62G. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45, it is not required to recognize exploration and evaluation assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

...

Effective Date

...

154Q. Paragraphs 62F and 62G were added, and paragraph 64 was amended by [draft] IPSAS [X], *Exploration for and Evaluation of Mineral Resources*, issued in [DATE]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [DATE]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [DATE], it shall disclose that fact and apply [draft] IPSAS [X], *Natural Resources* at the same time.

...

Amendments to IPSAS 45, *Property, Plant, and Equipment*

Paragraph 3 is amended, and paragraph 87C is added. New text is underlined, and deleted text is struck through.

3. This Standard does not apply to:

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...

- (d) The recognition and measurement of exploration and evaluation assets (see [draft] IPSAS [Y], *Exploration for and Evaluation of Mineral Resources* ~~the relevant international or national accounting standard dealing with measurement of exploration and evaluation assets~~).

...

Effective Date

...

87C. Paragraph 3 was amended by [draft] IPSAS [X], *Exploration for and Evaluation of Mineral Resources*, issued in [DATE]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [DATE]. Earlier application is permitted. If an entity applies the amendments for a period beginning before [DATE], it shall disclose that fact and apply [draft] IPSAS [X], *Natural Resources* at the same time.

...

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED [XX]).

Background

- BC1. The IPSASB's IFRSs Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities.
- BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the Comparison with IFRS included in each IPSAS. The Comparison with IFRS 6 references the December 31, 2004 version of IFRS 6.

Comparison with IFRS 6

[draft] IPSAS [X] (ED [XX]), *Exploration for and Evaluation of Mineral Resources* is drawn primarily from IFRS 6, *Exploration for and Evaluation of Mineral Resources* (issued in 2004).

The main differences between [draft] IPSAS [X] (ED [XX]) and IFRS 6 are as follows:

- [draft] IPSAS [X] (ED [XX]) uses different terminology, in certain instances, from IFRS 6. The most significant examples are the use of the terms “historical cost model”, “current value model”, “impairment of cash-generating assets”, and “The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” in [draft] IPSAS [X] (ED [XX]). The equivalent terms in IFRS 6 are “cost model”, “revaluation model”, “impairment of assets”, and “The Conceptual Framework for Financial Reporting.”

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Comparison with GFS

In developing [draft] IPSAS [X] (ED [XX]), *Exploration for and Evaluation of Mineral Resources*, the IPSASB considered Government Finance Statistics (GFS) reporting guidelines.

Key similarities and differences with GFS are as follows:

- [draft] IPSAS [X] (ED [XX]) uses the term “Exploration for and evaluation of mineral resources”. The equivalent term in GFS is “mineral exploration and evaluation”.
- Both [draft] IPSAS [X] (ED [XX]) and GFS require an entity to recognize exploration and evaluation assets. However, [draft] IPSAS [X] (ED [XX]) uses accounting terminology whereas GFS uses economic terminology, which may have a similar meaning.
- On initial recognition, [draft] IPSAS [X] (ED [XX]) requires measurement at cost. As GFS requires the use of market prices, the same valuation can result.
- On initial recognition, [draft] IPSAS [X] (ED [XX]) requires that exploration and evaluation assets shall be classified as either tangible or intangible assets. GFS requires the classification as intellectual property products.
- On subsequent measurement, [draft] IPSAS [X] (ED [XX]) allows the historical cost or current value model, which is dependent on the classification of the asset, in terms of either IPSAS 45 or IPSAS 3, as applicable. In GFS, assets should be measured at market values, so the same valuation can result if the market approach is used as the measurement technique.
- On subsequent measurement, [draft] IPSAS [X] (ED [XX]) requires exploration and evaluation assets to be assessed for impairment and impaired when the carrying amount exceeds the recoverable amount. In GFS, consumption of the asset is the decline in the current value of the asset.
- [draft] IPSAS [X] (ED [XX]) includes disclosure requirements that are not present in GFS.

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