

Exposure Draft 86  
January 2024  
*Comments due: May 31, 2024*

IPSAS®

*Proposed International Public Sector Accounting  
Standard®*

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*Exploration for and Evaluation  
of Mineral Resources*

IPSASB

International Public  
Sector Accounting  
Standards Board®

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In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

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## REQUEST FOR COMMENTS

This Exposure Draft (ED) 86, *Exploration for 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 May 31, 2024.**

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](http://www.ipsasb.org). The approved text is published in the English language.

### Objective of this Exposure Draft

The objective of this ED is to specify the financial reporting for the exploration for and evaluation of mineral resources. This guidance aims to increase the consistency in accounting by public sector entities, involved in extractive activities, for their expenditure incurred during the exploration and evaluation phase of a mine. The ED is aligned with IFRS 6, *Exploration for and Evaluation of Mineral Resources*, issued by the International Accounting Standards Board in December 2004.

### Guide for respondents

The IPSASB welcomes comments on all matters discussed in this ED. 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.

The Specific Matter for Comment requested for the ED is provided below.

### Specific Matter for Comment 1:

The IPSASB decided to propose an IFRS 6-aligned Standard in ED 86 (see paragraphs BC2–BC7). Do you agree that amendments to IFRS 6, for the public sector, are limited to terminology and other IPSASB-specific formatting and consistency amendments (see paragraph BC8)?

If not, please explain your reasons, stating clearly what further amendments are necessary and why.

**EXPOSURE DRAFT 86, EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES****CONTENTS**

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## Objective

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

## Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard to exploration and evaluation expenditures that it incurs.
4. 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 [draft] Standard 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.

## Definitions

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

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

**Exploration and evaluation expenditures** means 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 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.

Any other 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. **When developing its accounting policies, an entity recognizing exploration and evaluation assets shall apply paragraph 12 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

### Exemption from IPSAS 3 paragraphs 14 and 15

8. Paragraphs 14 and 15 of 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 IPSAS applies specifically to that item. Subject to paragraphs 10 and 11 below, this [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 Exploration and Evaluation Assets

### Measurement at Recognition

9. **Exploration and evaluation assets shall be measured at cost.**

### Elements of cost of exploration and evaluation assets

10. An entity shall determine an accounting policy specifying which expenditures are 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) 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.
11. Expenditures related to the development of mineral resources shall not be recognized as exploration and evaluation assets. *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and IPSAS 31, *Intangible Assets* provide guidance on the recognition of assets arising from development.
12. In accordance with 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. After recognition, an entity shall apply either the historical cost model or the current value model to the exploration and evaluation assets. If the current value model is applied (either the model in

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

### **Changes in accounting policies**

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

## **Presentation**

### **Classification of exploration and evaluation assets**

16. 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. 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. 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. **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 IPSAS 26, except as provided by paragraph 22 below.**
20. For the purposes of exploration and evaluation assets only, paragraph 21 of this [draft] Standard shall be applied rather than paragraphs 25–29 of IPSAS 26 when identifying an exploration and evaluation asset that may be impaired. Paragraph 21 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 IPSAS 26.

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

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

22. 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 IPSAS 18, *Segment Reporting*.
23. 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. **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. To comply with paragraph 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. An entity shall treat exploration and evaluation assets as a separate class of assets and make the disclosures required by either IPSAS 45 or IPSAS 31 consistent with how the assets are classified.

### **Effective Date and Transition**

#### **Effective Date**

27. **An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after [MM DD, YYYY] Earlier application is permitted. If an entity applies this [draft] Standard for a period beginning before [MM DD, YYYY], it shall disclose that fact.**



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. If it is impracticable to apply a particular requirement of paragraph 19 to comparative information that relates to annual periods beginning before [MM DD, YYYY], an entity shall disclose that fact. IPSAS 3 explains the term 'impracticable'.

## Appendix A: Amendments to Other IPSAS

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

Paragraphs 62F, 62G, and 154P 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

...

154P. Paragraphs 62F and 62G were added by [draft] IPSAS [X], *Exploration for and Evaluation of Mineral Resources*, issued in [MM DD, YYYY]. An entity shall apply this amendment for annual financial statements covering periods beginning on or after [MM DD, YYYY]. Earlier application is encouraged. If an entity applies the amendment for a period beginning before [MM DD, YYYY], it shall disclose that fact.

...

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

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

3. This Standard does not apply to:

...

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

...

**Effective Date**

...

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

...

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 86).*

### Objective (see paragraphs 1 and 2)

BC1. This Basis of Conclusions summarizes the IPSASB's considerations in reaching the conclusions on [draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources*. This [draft] Standard is based on IFRS 6, *Exploration for and Evaluation of Mineral Resources* published by the IASB on December 31, 2004, including amendments up to March 2018. This Basis for Conclusions outlines only those areas where [draft] IPSAS [X] (ED 86) departs from the requirements of IFRS 6.

### Background

BC2. IFRS 6 was issued by the IASB in December 2004. It allows a policy choice when accounting for expenditure during the exploration phase of a mine. IFRS 6 also prescribes the financial reporting if the entity chooses an accounting policy that recognizes and measures the exploration and evaluation expenditure as an asset. Prior to the issuance of this [draft] Standard there were no equivalent requirements in IPSAS for the financial reporting for the exploration for and evaluation of mineral resources.

BC3. The IPSASB published the Consultation Paper, *Natural Resources*, in May 2022, which proposed the development of guidance aligned with IFRS 6. Respondents to the Consultation Paper agreed with the IPSASB's proposal and the IPSASB decided that a separate [draft] Standard aligned with IFRS 6 should be developed.

### Exploration for and Evaluation of Mineral Resources in the Public Sector

BC4. An entity will typically need to conduct exploration and evaluation activities to determine if a site should be developed. Before this [draft] Standard, there was no specific guidance on exploration and evaluation activities in IPSAS.

BC5. The IPSASB determined that guidance on exploration and evaluation costs should be based on IFRS 6. In reaching this conclusion, the IPSASB determined that a number of resource-rich jurisdictions had entered into production sharing or co-production agreements with private companies, rather than the traditional mining licensing or royalty agreements. The IPSASB found that from the public sector entity's perspective, such agreements may fall within the scope of IPSAS 37, *Joint Arrangements*, and it is possible for the resulting joint operation or joint venture to incur exploration and evaluation costs.

BC6. The IPSASB noted that an entity may explore for mineral resources due to other rights, e.g., sovereign rights, without needing a license (a legal right). The IPSASB determined that, in such instances, the exploration and evaluation expenditures are within the scope of this [draft] Standard.

BC7. Respondents to the IPSASB's Consultation Paper, *Natural Resources* generally agreed with the IPSASB's approach to develop the [draft] Standard aligned with IFRS 6.

BC8. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRS 6 in the development of this [draft] Standard, except for terminology and other IPSASB-specific formatting and consistency amendments. The IPSASB decided to retain the terminology of

economic benefits used in IFRS 6 as it considered that this would be a relevant concept to public sector entities who use the [draft] Standard.

**Comparison with the Conceptual Framework**

- BC9. The IPSASB noted that where an entity chooses an accounting policy that recognizes and measures the exploration and evaluation expenditure as assets, that policy may not be consistent with the definition of an asset in the Conceptual Framework. Recent outreach by the IASB noted that private sector constituents generally agreed that IFRS 6 resulted in information that was useful to both preparers and users of IFRS financial statements. The IPSASB noted that guidance which is aligned with IFRS 6 should also result in useful information for preparers and users in the public sector and concluded that the exemption from applying paragraphs 14 and 15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provided for in paragraph 8 of the [draft] Standard is acceptable.
- BC10. The IPSASB also noted that the IASB concluded its project on Extractive Activities in September 2023, and no further changes to the accounting and disclosure requirements in IFRS 6 are expected, which supports the conclusion on the usefulness of information per BC8.

### **Comparison with IFRS 6**

[draft] IPSAS [X] (ED 86), *Exploration for and Evaluation of Mineral Resources* is drawn from IFRS 6, *Exploration for and Evaluation of Mineral Resources*, including amendments up to March 2018.

The main differences between [draft] IPSAS [X] (ED 86) and IFRS 6 are as follows:

- [draft] IPSAS [X] (ED 86) uses different terminology from IFRS 6. For example, [draft] IPSAS [X] (ED 86) uses the terms: “historical cost model”, “current value model”, and “impairment of cash-generating assets”, while IFRS 6 uses the terms “cost model”, “revaluation model”, and “impairment of assets”.

### Comparison with GFS

In developing [draft] IPSAS [X] (ED 86), *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:

- When an entity elects to capitalize exploration and evaluation expenditure, both [draft] IPSAS [X] (ED 86) and GFS require an entity to account for the expenditure as exploration and evaluation assets.
- [draft] IPSAS [X] (ED 86) requires the classification of exploration and evaluation assets as either tangible or intangible assets. GFS requires their classification as a type of intellectual property products.
- On initial recognition, the elements of cost in [draft] IPSAS [X] (ED 86) do not include a return to fixed capital used in the exploration and evaluation activity, while GFS does include a return to fixed capital.
- On subsequent measurement, [draft] IPSAS [X] (ED 86) allows the historical cost or current value model. 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 86) 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 86) includes disclosure requirements that are not present in GFS.

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