IFRS 6

Exploration for and Evaluation of Mineral Resources

An Interim Standard for the Extractives Sector — Updated for IFRS 18

A Digital CFO Solutions Signature Presentation

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ROADMAP

What This Presentation Covers

Five building blocks — from scope and policy choice through to the interim-reporting consequences of IFRS 18.

1. Foundations

Objective, scope, and defining the exploration and evaluation phase.

2. Recognition & Measurement

The temporary policy exemption, elements of cost, and measurement after recognition.

3. Presentation & Reclassification

Tangible vs. intangible classification, and reclassifying out of E&E assets.

4. Impairment

IFRS 6's own impairment indicators, and specifying the CGU for testing.

5. Disclosure & Amendments

Required disclosures, the IFRS 18 consequential change, and why IFRS 6 stays “interim.”

Key Takeaways

A one-page summary to anchor everything covered.

SECTION 1 / 5

PART ONE

Foundations of Exploration & Evaluation Accounting

Objective, scope, and where the exploration and evaluation phase begins and ends.

OBJECTIVE & SCOPE

A Deliberately Narrow, Interim Standard

IFRS 6 specifies financial reporting for expenditure on the exploration for and evaluation of mineral resources — minerals, oil, natural gas, and similar non-regenerative resources — pending a fuller review by the IASB.

1 **Permits continuation of existing accounting policies**

An entity may develop an E&E accounting policy without specifically applying the hierarchy in IAS 8 paragraphs 11–12, so long-standing industry practices can generally continue.

2 **Requires an impairment test trigger specific to E&E assets**

IFRS 6 sets out when entities recognising E&E assets must test them for impairment under IAS 36 — using indicators tailored to the exploration context.

3 **Requires disclosures about E&E assets and impairment**

Including the accounting policies applied, the amounts recognised, and the level at which impairment is assessed.

SCOPE BOUNDARIES

What IFRS 6 Does Not Cover

IFRS 6's scope is limited strictly to the exploration and evaluation phase — activity before and after that phase falls under other standards entirely.

Pre-exploration activities

Expenditure incurred before the legal right to explore a specific area is obtained is outside IFRS 6's scope — typically expensed under general IFRS principles.

Development and production

Once technical feasibility and commercial viability are demonstrable, subsequent development and production expenditure is accounted for under IAS 16 or IAS 38, not IFRS 6.

General extractive-activity accounting

IFRS 6 does not address broader extractive-industry accounting questions — it is limited to the recognition, measurement, and disclosure of E&E expenditure itself.

DEFINING THE BOUNDARIES

The Exploration and Evaluation Phase

E&E assets are expenditures recognised for the search for mineral resources, and the determination of their technical feasibility and commercial viability, before the legal right to extract has been obtained and development has begun.

Obtain legal right to explore ▶ **Search for mineral resources (E&E)** ▶ **Assess technical & commercial feasibility** ▶ **Reclassify — development begins**

The Phase Ends Once Technical Feasibility and Commercial Viability Are Demonstrable

This is the trigger for reclassifying E&E assets out of scope of IFRS 6 and into IAS 16 or IAS 38 — the assessment is judgemental and entity-specific, but marks the boundary of IFRS 6's entire scope.

THE POLICY CHOICE IFRS 6 PRESERVES

Successful Efforts vs. Full Cost

Because IFRS 6 exempts E&E policies from the usual IAS 8 hierarchy, two long-standing industry approaches both remain acceptable.

	Successful Efforts	Full Cost
Costs of unsuccessful wells/prospects	Expensed as incurred, on a field-by-field or well-by-well basis	Capitalised within a large cost pool (often a country or region)
Costs of successful discoveries	Capitalised and carried forward as E&E, then reclassified	Capitalised within the same cost pool as unsuccessful costs
Volatility of reported results	Higher — dry-hole costs hit profit or loss immediately	Lower — costs are smoothed across the pool

IFRS 6 does not mandate either method — it simply permits an entity to continue whichever policy it already applied before adopting the Standard.

SECTION 2 / 5

PART TWO

Recognition & Measurement

The temporary policy exemption, elements of cost, and measurement after recognition.

A Temporary Exemption From the Usual Policy Hierarchy

IAS 8 normally requires an entity, absent a specific IFRS, to develop a policy using judgement, referencing similar IFRS requirements and the Conceptual Framework. IFRS 6 sets this aside for E&E assets.

1. **An entity may continue its pre-adoption E&E policy**
   Even if that policy would not otherwise satisfy the IAS 8 hierarchy, provided it results in relevant and reliable information.

2. **Changes in accounting policy are still governed by IAS 8's other requirements**
   An entity may change its E&E accounting policy only if the change makes the financial statements more relevant and no less reliable, or equally relevant and more reliable.

3. **The exemption is deliberately labelled “temporary”**
   It reflects the IASB's decision to issue an interim standard rather than complete a full review of extractive-industry accounting in one step.

What Belongs in the Cost of an E&E Asset

E&E assets are measured at cost on initial recognition. IFRS 6 gives a non-exhaustive list of expenditure types that may be included.

Acquisition of exploration rights

Costs of acquiring the rights to explore a specific area.

Topographical, geological & geochemical studies

Including geophysical studies used to identify prospective areas.

Exploratory drilling and trenching

Physical exploration activity, including sampling.

Activities evaluating technical feasibility

Studies assessing the commercial viability of extracting the resource.

A proportion of related overheads

Directly attributable administration and overhead costs, consistent with the entity's capitalisation policy.

Cost Model or Revaluation Model — An Explicit Choice

After initial recognition, IFRS 6 permits an entity to apply either the cost model or the revaluation model, consistent with the underlying nature of the asset.

Cost Model

The E&E asset is carried at cost less accumulated depreciation/amortisation and accumulated impairment losses

The dominant approach in practice, given the inherent measurement uncertainty in unproven E&E assets

Revaluation Model

Available if the asset is tangible (per IAS 16) or intangible with an active market (per IAS 38)

Requires the same revaluation frequency and rigour as the underlying standard — rarely used in practice for E&E assets given the lack of an active market

NUMERICAL ILLUSTRATION 1

Capitalising E&E Expenditure Under the Successful Efforts Method

An entity incurs the following costs in obtaining and exploring a licence area during the year, applying the successful efforts method.

Item ($'000)	Treatment	Capitalised	Expensed
Licence acquisition cost	Capitalise as E&E asset	3,200	—
Geological & geophysical studies	Capitalise as E&E asset	1,850	—
Exploratory well A — dry hole	Expense (unsuccessful)	—	4,600
Exploratory well B — commercial discovery	Capitalise as E&E asset	5,400	—
General corporate overhead (unallocated)	Expense (not directly attributable)	—	900

Total E&E asset recognised: $10,450,000. Total expensed to profit or loss: $5,500,000. Under the full cost method, well A's $4,600,000 would instead be capitalised within the cost pool.

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PART THREE

Presentation & Reclassification

Tangible vs. intangible classification, and reclassifying out of E&E assets.

PRESENTATION

Classify Each E&E Asset by Its Nature

An entity classifies each E&E asset as tangible or intangible according to the nature of the asset acquired, and applies that classification consistently.

	Tangible E&E Assets	**Intangible E&E Assets**
Typical examples	Vehicles, drilling rigs, and other equipment used in exploration	Drilling rights, exploration and evaluation permits, and similar rights
Consumed in developing an intangible asset?	Yes — the amount of that consumption is part of the cost of the intangible asset	N/A
Underlying framework once reclassified	IAS 16 Property, Plant and Equipment	IAS 38 Intangible Assets

Where a tangible asset is used to develop an intangible E&E asset, the amount of that use is included in the cost of the intangible asset — the tangible asset itself is not reclassified.

Reclassifying Once Feasibility Is Demonstrable

An E&E asset is reclassified out of IFRS 6 as soon as the technical feasibility and commercial viability of extracting the mineral resource can be demonstrated.

1. **Impairment is assessed immediately before reclassification**
   IFRS 6 requires any impairment loss to be recognised before the asset moves into IAS 16 or IAS 38 — reclassification cannot be used to sidestep a required impairment test.

2. **The asset then follows the destination standard's rules**
   Once classified as development or production property, ordinary IAS 16/IAS 38 recognition, measurement, depreciation and impairment requirements apply going forward.

3. **This is a one-way transition**
   Assets do not move back into E&E classification once reclassified — the transition reflects a fundamental change in the nature of the activity, not a temporary status change.

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PART FOUR

Impairment

IFRS 6's own impairment indicators, and specifying the CGU for testing.

WHEN TO TEST

Impairment Indicators Specific to E&E Assets

IFRS 6 replaces IAS 36's general indicators with a list tailored to the exploration and evaluation context — any one of these triggers an impairment test.

Right to explore has expired or will soon expire

And is not expected to be renewed.

No further exploration or evaluation is budgeted or planned

In the area covered by the E&E asset.

Exploration and evaluation has not led to a discovery

And the entity has decided to discontinue such activities in the specific area.

Sufficient data exists that carrying amount is unlikely to be recovered in full

Even if development continues, or the asset is sold.

TESTING LEVEL

Specifying the Cash-Generating Unit for E&E Impairment

IFRS 6 permits an accounting policy for how E&E assets are grouped into cash-generating units (or groups of CGUs) for impairment testing — a departure from IAS 36's usual approach.

The CGU May Be Larger Than IAS 36 Would Otherwise Allow

Each CGU or group of CGUs must not be larger than an operating segment determined under IFRS 8

This reflects the practical reality that E&E assets rarely generate independent cash inflows on their own

Testing Mechanics Follow IAS 36 Once the Level Is Set

Once the appropriate CGU level is determined under the entity's policy, the impairment loss is measured, presented and disclosed by applying IAS 36 in the usual way — comparing carrying amount to recoverable amount, and recognising any shortfall in profit or loss.

NUMERICAL ILLUSTRATION 2

Applying an Impairment Trigger to an E&E Asset

An entity holds an E&E licence in Block 14 with a carrying amount of $18,000,000. The exploration permit expires in three months, and management has decided not to renew it after two consecutive dry wells.

Assessment	Conclusion
Indicator present?	Yes — the right to explore will expire and is not expected to be renewed
Impairment test required?	Yes — tested at the CGU level under the entity's E&E policy, no larger than the relevant operating segment
Recoverable amount of the Block 14 CGU	$4,500,000 (value in use — no active market for the licence)
Impairment loss	$13,500,000, recognised in profit or loss immediately

The impairment test is required before the licence lapses — waiting until expiry would understate the loss recognised in the current period.

SECTION 5 / 5

PART FIVE

Disclosure, Amendments & Practical Application

Required disclosures, the IFRS 18 consequential change, and why IFRS 6 stays “interim.”

Explaining the Policy Choices Made

Because IFRS 6 permits significant policy variation, its disclosure requirements are designed to make those choices transparent to users.

1. **The accounting policies applied to E&E expenditure**
   Including the policy for recognising E&E assets — for example, successful efforts or full cost.

2. **The amounts recognised from E&E activities**
   Disclosed by class of asset — for example, separately for exploration rights, plant and equipment, and other categories relevant to the entity.

3. **The information required by IAS 16 or IAS 38**
   Once an E&E asset is classified as tangible or intangible, the disclosure requirements of the relevant destination standard also apply.

DISCLOSURE REQUIREMENTS

Quantifying the E&E Balance and Its Movements

Beyond policy narrative, IFRS 6 requires entities to disclose the amounts recognised in the financial statements arising from exploration and evaluation of mineral resources.

The level at which CGUs are grouped

For the purpose of assessing E&E assets for impairment, and the reasons why that level was chosen.

Impairment losses recognised and reversed

In accordance with IAS 36, applied at the CGU level determined under the entity's IFRS 6 policy.

Continuity of E&E asset balances

In practice, most entities present a roll-forward of E&E assets — additions, disposals, impairment, and reclassification — even though IFRS 6 does not itself mandate the exact format.

THE NEW REQUIREMENT

A Minor but Real Consequential Change

IFRS 18 Presentation and Disclosure in Financial Statements, issued April 2024 and effective for annual periods beginning on or after 1 January 2027, makes IFRS 6 one of several standards receiving a consequential amendment.

What Changes in Practice

Cross-references that previously pointed to IAS 1 for statement of profit or loss presentation are updated to point to IFRS 18

Impairment losses on E&E assets, like other operating impairment charges, fall within IFRS 18's operating category of the restructured income statement

Plan This Alongside the Wider 2027 Transition

IFRS 6 itself is not substantively redesigned by IFRS 18 — but preparers in the extractives sector should still confirm that E&E impairment charges are correctly classified within the new operating/investing/financing structure, and that any segment-level E&E disclosures under IFRS 8 reconcile to the applicable IFRS 18 subtotal.

STANDARD-SETTING CONTEXT

Two Decades on, Still Labelled "Interim"

IFRS 6 was issued in December 2004 as a short-term solution while the IASB considered a comprehensive review of extractive-industry accounting — that fuller review has not yet displaced it.

- The Standard's own introduction acknowledges its relief from IAS 8's policy hierarchy might be reversed once a comprehensive review is undertaken — that review remains outstanding.
- In practice, this has allowed considerable diversity to persist between entities and jurisdictions, particularly around the successful efforts and full cost methods.
- Extractive-industry preparers should watch the IASB's research agenda for any signal that a fuller standard is being developed, since it could ultimately narrow the policy choices IFRS 6 currently preserves.

APPLICATION CHALLENGES

Where E&E Accounting Commonly Goes Wrong

Most IFRS 6 errors trace back to the boundaries of its narrow scope, or to skipping the tailored impairment indicators.

Capitalising post-feasibility costs

Continuing to apply E&E accounting after technical feasibility and commercial viability are demonstrable.

Missing an IFRS 6-specific indicator

Applying only the general IAS 36 indicators and overlooking the E&E-specific triggers, such as an unrenewed exploration right.

Grouping CGUs too broadly

Combining E&E assets into a CGU larger than the relevant IFRS 8 operating segment.

Delaying impairment until reclassification

Reclassifying an E&E asset into IAS 16/IAS 38 without first testing it for impairment as IFRS 6 requires.

Inconsistent classification

Classifying similar E&E items as tangible in one period and intangible in another without a documented policy change.

Overlooking the IFRS 18 cross-reference update

Continuing to describe impairment presentation by reference to IAS 1 once the 2027 effective date applies.

READINESS CHECKLIST

Getting the E&E Accounting Policy Documentation Current

A practical sequence for finance teams in the extractives sector maintaining or reviewing their IFRS 6 policies.

1. **Document the E&E accounting policy explicitly**
   State whether successful efforts or full cost is applied, and confirm it has been applied consistently with the entity's pre-IFRS 6 practice or a properly evaluated change.

2. **Confirm the CGU grouping policy for impairment testing**
   Ensure the documented policy does not group E&E assets into a unit larger than the relevant IFRS 8 operating segment.

3. **Review all four E&E-specific impairment indicators each period**
   Do not rely solely on the general IAS 36 indicators — walk through each IFRS 6 trigger explicitly at every reporting date.

4. **Update cross-references ahead of the 2027 IFRS 18 effective date**
   Confirm E&E impairment charges are correctly classified within the new statement of profit or loss structure.

BRINGING IT TOGETHER

Key Takeaways

The essentials to carry forward from this session.

A Narrow, Interim Standard

IFRS 6 covers only the exploration and evaluation phase — and deliberately preserves pre-existing policy diversity.

Cost Elements Are Broad but Bounded

Acquisition, geological studies, drilling, and feasibility studies all qualify — general overheads only if directly attributable.

Impairment Uses Its Own Indicators

Four E&E-specific triggers apply, tested at a CGU no larger than the relevant IFRS 8 operating segment.

IFRS 18 Brings a Cross-Reference Update

A narrow but real consequential change — confirm E&E impairment sits correctly within the new income statement structure from 2027.

ABOUT THE AUTHOR

A Career Built on Making IFRS Understandable

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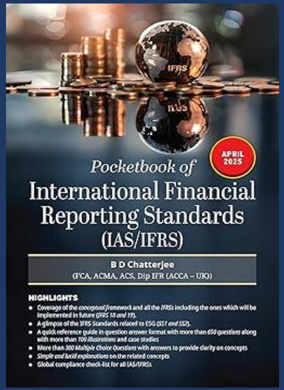

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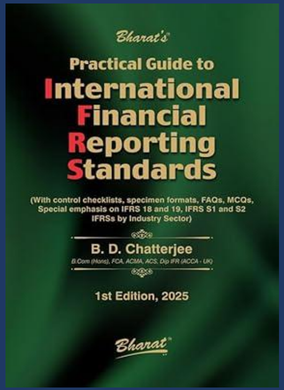

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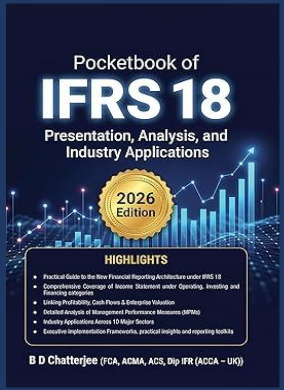

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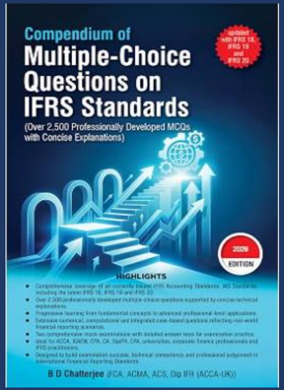

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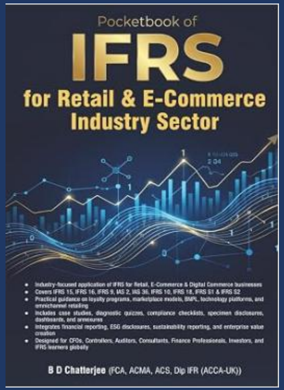

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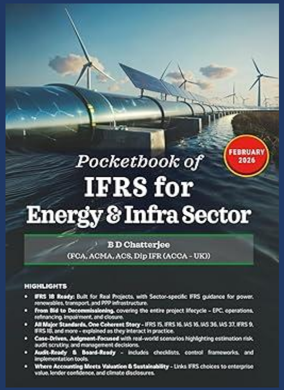

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