

Indian Accounting Standard (Ind AS) 106

Exploration for and Evaluation of Mineral Resources

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Objective

- 1 The objective of this Indian Accounting Standard (Ind AS) is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.
- 2 In particular, the Ind AS requires:
 - (a) limited improvements to existing accounting practices for *exploration and evaluation expenditures*.
 - (b) entities that recognise *exploration and evaluation assets* to assess such assets for impairment in accordance with this Ind AS and measure any impairment in accordance with Ind AS 36, *Impairment of Assets*.
 - (c) disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognised.

Scope

- 3 An entity shall apply this Ind AS to exploration and evaluation expenditures that it incurs.
- 4 This Ind AS 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 Ind AS to expenditures incurred:
 - (a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
 - (b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Recognition of Exploration and Evaluation Assets

Temporary exemption from Ind AS 8 paragraphs 11 and 12

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

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

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 *Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards* issued by the Institute of Chartered Accountants of India and Ind AS 38, *Intangible Assets*, provide guidance on the recognition of assets arising from development.
- 11 In accordance with Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, an entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken the exploration for and evaluation of mineral resources.

Measurement after recognition

- 12 After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in Ind AS 16, *Property, Plant and Equipment*, or the model in Ind AS 38) it shall be consistent with the classification of the assets (see paragraph 15).

Changes in accounting policies

- 13 **An entity may change its accounting policies for exploration and evaluation expenditures if the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An entity shall judge relevance and reliability using the criteria in Ind AS 8.**
- 14 To justify changing its accounting policies for exploration and evaluation expenditures, an entity shall demonstrate that the change brings its financial statements closer to meeting the criteria in Ind AS 8, but the change need not achieve full compliance with those criteria.

Presentation

Classification of exploration and evaluation assets

- 15 An entity shall classify exploration and evaluation assets as tangible or intangible according to the nature of the assets acquired and apply the classification consistently.

- 16 Some exploration and evaluation assets are treated as intangible (eg drilling rights), whereas others are tangible (eg 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

- 17 An exploration and evaluation asset shall no longer be classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets shall be assessed for impairment, and any impairment loss recognised, before reclassification.

Impairment

Recognition and measurement

- 18 **Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity shall measure, present and disclose any resulting impairment loss in accordance with Ind AS 36, except as provided by paragraph 21 below.**
- 19 For the purposes of exploration and evaluation assets only, paragraph 20 of this Accounting Standard shall be applied rather than paragraphs 8-17 of Ind AS 36 when identifying an exploration and evaluation asset that may be impaired. Paragraph 20 uses the term ‘assets’ but applies equally to separate exploration and evaluation assets or a cash-generating unit.
- 20 One or more of the following facts and circumstances indicate that an entity should test exploration and evaluation assets for impairment (the list is not exhaustive):
- (a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
 - (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.

- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- (d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In any such case, or similar cases, the entity shall perform an impairment test in accordance with Ind AS 36. Any impairment loss is recognised as an expense in accordance with Ind AS 36.

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

- 21 An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with Ind AS 108, *Operating Segments*.**
- 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

- 23 An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.**
- 24 To comply with paragraph 23, an entity shall disclose:
 - (a) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
 - (b) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

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

Appendix A

Defined Terms

This Appendix is an integral part of the Ind AS.

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

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 106 and the corresponding International Financial Reporting Standard (IFRS) 6, Exploration for and Evaluation of Mineral Resources, issued by the International Accounting Standards Board.

Comparison with IFRS 6, *Exploration for and Evaluation of Mineral Resources*

1. The transitional provisions given in IFRS 6 have not been given in Ind AS 106, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards*, corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*.