Sri Lanka Accounting Standard – SLFRS 6

Exploration for and Evaluation of Mineral Resources

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A Defined terms

Sri Lanka Accounting Standard – SLFRS 6
Exploration for and Evaluation of Mineral Resources

Sri Lanka Accounting Standard SLFRS 6 *Exploration for and Evaluation of Mineral Resources* is set out in paragraphs 1–27 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for Sri Lanka Accounting Standards. SLFRS 6 should be read in the context of its objective, the *Preface to Sri Lanka Accounting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1 The objective of this SLFRS is to specify the financial reporting for the *exploration for and evaluation of mineral resources*.

2 In particular, the SLFRS 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 SLFRS and measure any impairment in accordance with LKAS 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 the SLFRS to exploration and evaluation expenditures that it incurs.

4 The SLFRS 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 the SLFRS 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 LKAS 8 paragraphs 11 and 12

6 When developing its accounting policies, an entity recognising exploration and evaluation assets shall apply paragraph 10 of LKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

7 Paragraphs 11 and 12 of LKAS 8 specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no SLFRS applies specifically to that item. Subject to paragraphs 9 and 10 below, this SLFRS 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 *Conceptual Framework for Financial Reporting* and LKAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development.

11 In accordance with LKAS 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 LKAS 16 *Property, Plant and Equipment* or the model in LKAS 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 LKAS 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 LKAS 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 LKAS 36, except as provided by paragraph 21 below.

19 For the purposes of exploration and evaluation assets only, paragraph 20 of this SLFRS shall be applied rather than paragraphs 8–17 of LKAS 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 LKAS 36. Any impairment loss is recognised as an expense in accordance with LKAS 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 SLFRS 8 *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 LKAS 16 or LKAS 38 consistent with how the assets are classified.

Effective date

26 An entity shall apply this SLFRS for annual periods beginning on or after 1 January 2012. Earlier application is encouraged. If an entity applies the SLFRS for a period beginning before 1 January 2012, it shall disclose that fact.

26A *Amendments to References to the Conceptual Framework in SLFRSs*, 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 SLFRSs*. An entity shall apply the amendment to SLFRS 6 retrospectively in accordance with LKAS 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 SLFRS 6 by reference to paragraphs 23–28, 50–53 and 54F of LKAS 8.

Transitional provisions

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 2012, an entity shall disclose that fact. LKAS 8 explains the term ‘impracticable’.

Appendix A
Defined terms

This appendix is an integral part of the SLFRS.

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.