UNIT 3:
INDIAN ACCOUNTING STANDARD 106 : EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the Need, Objective and Scope of Ind AS 106
- Explain the meaning of Exploration for and Evaluation of Mineral Resources
- Recognise the Exploration and Evaluation Assets
- Appreciate the Temporary exemption in the recognition of Exploration and Evaluation Assets
- Measure the Exploration and Evaluation Assets at initial and subsequent recognition
- Determine the accounting policy and situation where changes in accounting policies is possible
- Present the Exploration and Evaluation Assets through its classification and reclassification
- Assess the impairment of Exploration and Evaluation Assets
- Comply with the disclosure requirements.
UNIT OVERVIEW

Ind AS 106

Recognition of E&E Assets

Measurement of E&E Assets at recognition
  • Determination of Accounting Policy
  • Elements of Cost

Measurement of E&E Assets after recognition
  • Change in the policy

Presentation
  • Classification of E&E Assets
  • Reclassification of E&E Assets

Disclosure

© The Institute of Chartered Accountants of India
3.1 OBJECTIVE

The purpose is to specifically address some of the accounting issues for those activities by specifying the financial reporting for the expenditure incurred in the exploration for and evaluation of mineral resources.

The need for issuance of a separate standard arises due to various reasons including the following:

- The activities relating to the mineral rights and mineral resources are specialised in nature and thus give rise to peculiar issues.
- Exploration and Evaluation (E&E) expenditures are significant to entities engaged in extractive industries.
- Expenditures on these activities are excluded from the scope of Ind AS 38, *Intangible Assets*. Mineral rights and mineral resources are also excluded from the scope of Ind AS 16, *Property, Plant and Equipment*.
- Absence of guidance would result in diverse practices for such expenditure.

3.2 SCOPE

Ind AS 106 addresses the recognition, measurement and disclosure only of exploration and evaluation (E&E) expenditures incurred by entities engaged in the exploration for and evaluation of mineral resources. Ind AS does not address other aspects of accounting by such entities.
E&E expenditure is defined in the Standard as “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”.

For the above purpose, exploration for and evaluation of mineral resources is defined as “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”.

Thus, an entity shall not apply the Standard to expenditures incurred in activities that precede the exploration for and evaluation of mineral resources (pre-exploration activities), such as expenditure incurred before obtaining the legal rights to explore a specific area. Similarly, the Standard does not apply to expenditure incurred after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable (development activities).

The Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards issued by the ICAI and Ind AS 38, Intangible Assets, provide guidance on the recognition of assets arising from development. The term ‘development’ refers to the phase when an identified mineral resource is prepared for production or extraction (e.g., construction of access to the mineral resources). Thus, the term has a different meaning than when used in relation to activities of research and development.

The chart below depicts the scope of Ind AS 106:
Accordingly, an entity must develop a separate accounting policy for expenditure related to each of:

- E&E activities.
- pre-exploration activities.
- development activities.

Ind AS 106 provides no guidance or exemptions for pre-exploration and development activities. As such it also does not define pre-acquisition or pre-exploration expenditures. However, it clarifies that expenditures before the entity has obtained legal rights to explore in a specific area are not exploration and evaluation expenditures. Such expenditure should be accounted for in accordance with applicable Ind AS. The expenditure incurred before the exploration for and evaluation of mineral resources cannot usually be associated with any specific mineral property and thus are likely to be recognised as an expense as incurred. However, such expenditures need to be distinguished from expenditures on infrastructure - for example access roads necessary for the exploration work to proceed. Such expenditures should be recognised as property, plant and equipment in accordance with Ind AS 16.

### 3.3 EXCLUSIONS FROM OTHER STANDARDS

The application of Ind AS 106 provides partial or complete exemptions from the application of certain other Ind AS as follows:

- Ind AS 16, *Property, Plant and Equipment*, does not apply to the recognition and measurement of E&E assets but does apply to property, plant and equipment used to develop or maintain E&E assets. The presentation requirements of Ind AS 16 do apply to E&E assets that are also property, plant and equipment.
- Ind AS 16 does not apply to mineral rights and mineral reserves. However, the Standard does apply to property, plant and equipment used to develop or maintain such assets.
- Ind AS 38, *Intangible Assets*, does not apply to the recognition and measurement of E&E assets. The presentation requirements of IAS 38 do apply to E&E assets that are also intangible assets.
- Ind AS 38, *Intangible Assets*, does not apply to expenditure on the development and extraction of mineral and similar resources.

Ind AS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, Paragraphs 11 and 12 (which 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) do not apply for accounting policies for recognition and
measurement of exploration and evaluation assets. In other words, to permit some flexibility, Ind AS 106 suspends certain requirements of Ind AS 8 concerning the selection of accounting policies for E&E expenditure. In particular, in developing a policy for recognition and measurement of E&E expenditure, management need not consider other Ind AS (by analogy) and need not refer to the definitions in the Framework.

Ind AS 103, Business Combinations, is applied to combinations in which an entity acquires a business whose activities include exploration and evaluation. Subsequent to initial recognition, E&E assets acquired in a business combination are expected to be within the scope of Ind AS 106.

### 3.4 INITIAL RECOGNITION AND MEASUREMENT OF E&E ASSETS

- Exploration and evaluation assets shall be measured at cost.
- An entity shall determine an accounting policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently. In other words, for each type of E&E expenditure, an entity adopts a policy either of immediate expense or of capitalisation as an E&E asset.
- In making this determination, an entity considers the degree to which the expenditure can be associated with finding specific mineral resources. Management must apply its judgment to develop and apply a policy that results in relevant and reliable information.

### 3.5 EXPENSES THAT CAN BE INCLUDED IN E&E ASSET

#### 3.5.1 Specific cost

The following are examples (provided by the Standard) of expenditures that might be included in the initial measurement of exploration and evaluation asset (the list is not exhaustive):

(a) acquisition of rights to explore; (e.g., exploration licences)
(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.

© The Institute of Chartered Accountants of India
Specific expenditures included in the list above may, but need not always, be considered as E&E expenditure eligible for capitalisation. The list of examples provided is not exhaustive and an entity may identify other E&E expenditures that would qualify for capitalisation as E&E assets.

As an accounting policy, capitalisation or immediate expense of each type of E&E expenditure is applied consistently between periods and to similar items and activities.

E&E expenditure that is not recognised as an E&E asset is expensed when incurred. E&E expenditure of a type that is not sufficiently closely related to a specific mineral resource to support capitalisation also is expensed as incurred. For example, general seismic data costs may not be sufficiently closely related to a specific mineral resource to be capitalised as an E&E asset.

**Example:**

Success Ltd. applied to the Board regulating coal mines for acquiring rights to explore land which it owns, and paid a fee of ₹ 4 crore. After the legal rights were acquired, the Company then hired an expert to conduct topographical studies to determine the site for drilling of the mine for ₹ 5.5 crore. After receiving the study report, the Company finalised a site for and began with the exploratory work which took 5-6 months. The total expense incurred during such period is ₹ 15 crore (which includes expense of ₹ 4 crore incurred for digging trenches during the exploration stage and ₹ 8 crore for extracting, distribution and testing samples and ₹ 3 crore is other exploratory cost). After extracting the first batch of coal incurred ₹ 3.5 crore for evaluating the technical feasibility and commercial viability of extracting the coal. The amount to be recognised in the books of Success Ltd. as E&E asset is as follows:

<table>
<thead>
<tr>
<th>Particulars of amount incurred</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquiring rights to explore land</td>
<td>₹ 4 crore</td>
</tr>
<tr>
<td>Topographical studies to determine the site for drilling of the mine</td>
<td>₹ 5.5 crore</td>
</tr>
<tr>
<td>Amount spent on digging of trenches</td>
<td>₹ 4 crore</td>
</tr>
<tr>
<td>Extracting, distribution and testing samples</td>
<td>₹ 8 crore</td>
</tr>
<tr>
<td>Other exploratory work</td>
<td>₹ 3 crore</td>
</tr>
<tr>
<td>Evaluating the technical feasibility and commercial viability of extracting the coal</td>
<td>₹ 3.5 crore</td>
</tr>
<tr>
<td><strong>Total E&amp;E asset to be recognized</strong></td>
<td><strong>₹ 28 crore</strong></td>
</tr>
</tbody>
</table>

**Illustration 1**

CR Ltd. incurred legal expenditure of ₹ 2 crores for acquiring land before obtaining the legal rights for exploration. What is appropriate accounting treatment of such legal expenditure?
Solution

₹ 2 crores should be expensed in the period in which it is incurred.

Illustration 2

*XYZ Ltd. has completed the activity of exploration and drilling of coal mine. It has also established the commercial viability of extracting coal. Can the subsequent expenditure be accounted for E&E asset under Ind AS 106?*

Solution

All expenses incurred after this point cannot be treated as E&E asset.

Illustration 3

*Tactful Ltd. has incurred Rs 1.5 crores to increase the grade of coal which they have extracted from the mine. Can the expenditure to increase the grade be treated as E&E expenditure?*

Solution

The expenditure incurred to increase the grade of extracted coal cannot be treated as E&E expenditure because it has been incurred after demonstrating technical feasibility and commercial viability i.e., it does not represent expenditure on exploration and evaluation activity and is instead an expenditure on development activity.

3.5.2 Administrative and other general overhead costs

- Ind AS 106 requires an entity to adopt an accounting policy of either expensing administrative and other general overhead costs or of capitalising them in the initial recognition and measurement of an E&E asset. While not stated by the Standard, the appropriate approach would be that the selected policy should be consistent with the approach in Ind AS to such costs incurred in relation either to inventories (Ind AS 2), intangible assets (Ind AS 38) or property, plant and equipment (Ind AS 16).

- If an entity elects an accounting policy for administration and other general overhead costs consistent with the treatment of property, plant and equipment, then administrative and overhead costs will not qualify for initial recognition as E&E assets; instead, they would be expensed as incurred.

- A policy based on the treatment of inventories or intangibles would require the capitalisation of administrative and general overhead costs that are directly attributable to the asset. In such a case it seems that, the following administrative and other general overhead costs may qualify for inclusion as an E&E asset:
  - payroll-related costs attributable to personnel working directly on a specific project, including the costs of employee benefits for such personnel;
certain management costs if their roles are specific to a project;

- sign-up bonuses paid to contractors involved in a particular project;

- legal or other professional costs specific to the project, for example, costs in respect of obtaining certain permits and certifications.

(The above list is not exhaustive)

The policy for administrative and other general overhead costs is applied consistently to comparable costs and between reporting periods. Any subsequent change is treated as a change in accounting policy.

### 3.5.3 License acquisition costs

An entity may follow an accounting policy of recognising an exploration license as an E&E asset. In such a case it would be appropriate that the cost of that license includes the directly attributable costs of its acquisition such as non-refundable taxes and professional and legal expenses incurred in obtaining the license.

### 3.5.4 Borrowing costs

Though not specifically stated in the Standard, it would be appropriate to include the borrowing costs on qualifying E&E assets as part of such assets in accordance with Ind AS 23, Borrowing Costs.

### 3.5.5 Decommissioning/Site restoration liability

- In accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, 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 should be recognised.

- Under Ind AS 37, decommissioning obligations are measured at the best estimate of the expenditure to be incurred, discounted when material. The obligation for decommissioning or site restoration is provided for in full immediately when the event occurs that gives rise to the decommissioning obligation – the installation of the asset or preparation of the site. For example, a provision is recognised for the expected cost of dismantling a test drilling rig when it is installed.

**Example:**

On January 1, 20X1, a mining company signs a contract with the Government pursuant to which it is given the permission to carry out its excavating operations for five years, at the end of which the mine has to be filled up again and the entire land has to be landscaped. The present value of the cost of such landscaping is expected to be ₹ 20.6 crore.
The liability of ₹ 20.6 crore has to be provided for when the mining company began its excavation work. It cannot be provided gradually over the five years of the mining operations or in the fifth year because a liability has to be recognised as soon as the entity performs any operations affected by these environmental laws.

Decommissioning obligations are measured at the best estimate of the expenditure to be incurred, discounted when material i.e., ₹ 20.6 crore in this case.

### 3.6 CLASSIFICATION OF E&E ASSETS

Ind AS 106 requires an entity to classify separately each exploration and evaluation asset as tangible or intangible based on the nature of the asset and apply this classification consistently. Many identifiable exploration and evaluation assets will be clearly tangible (e.g., vehicles, drilling rigs) and other clearly intangible (e.g., exploration licences). The split of the assets into tangible and intangible is to be applied consistently.

An intangible asset is defined in Ind AS 38 as an identifiable non-monetary asset without physical substance. There is no requirement that the asset be held for a particular purpose. Examples of E&E assets that may be classified as intangible in accordance with this definition include drilling rights, acquired rights to explore, costs of conducting topographical, geological, geochemical and geophysical studies.

Ind AS do not define ‘tangible’. However, most tangible assets will be identifiable items of property, plant and equipment. These are defined as items that are held for use in the production or supply of goods and services, for rental to others or for administrative purposes; and are expected to be used during more than one period. Based on this definition, examples of E&E assets that may be classified as tangible assets include, but are not limited to:

- equipment used in exploration, such as vehicles and drilling rigs;
- piping and pumps;
- tanks.

To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption may be part of the cost of the intangible asset created. However, the asset being used remains a tangible asset.
Example:
If a drilling rig is used only in the exploratory phase, then the equipment is tangible in nature and will be classified as such. The depreciation expense recognised on the drilling rig represents the consumption of the tangible asset in developing an intangible E&E asset, being the exploratory well. The depreciation should be considered for capitalisation as part of the cost of the mine shaft or well.

3.7 MEASUREMENT AFTER RECOGNITION

After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets.

Tangible E&E assets and intangible E&E assets with a finite life are depreciated/amortised over their useful lives. Intangible E&E assets with an indefinite useful life are not amortised. However, due to the nature of the assets, it is expected that it will be extremely rare for an intangible E&E asset to be assessed as having an indefinite useful life. Both tangible and intangible E&E assets should be tested for impairment.

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. There are some differences in the revaluation models for tangible and intangible assets under Ind ASs (see Ind AS 16 and Ind AS 38 respectively). These revaluation models permit the revaluation of
assets only when specified requirements are met. The revaluation model in IAS 38 can be used only if the asset’s fair value can be determined by reference to an active market; the revaluation model in IAS 16 refers only to ‘market-based evidence’.

If an entity establishes that the criteria for the revaluation of tangible and intangible E&E assets are met and elects to apply the revaluation model, then revaluations are made with such regularity that the carrying amount of these assets does not differ materially from the fair value at the reporting date. The frequency of revaluation will depend on the volatility of the fair value of the E&E asset being valued.

### 3.8 CHANGES IN ACCOUNTING POLICIES

Ind AS 106 permits a change in an entity’s accounting policies for E&E expenditures only if the change makes the financial statement more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. In making such a change, an entity should judge the relevance and reliability using the criteria in Ind AS 8.

As per Ind AS 8, in the absence of an Ind AS that specifically applies to a transaction, other event or condition, the management should use its judgment in developing and applying an accounting policy that results in information that is:

(a) relevant to the economic decision-making needs to users; and

(b) reliable, in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of the transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, i.e., free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

To justify changing its accounting policies for exploration and evaluation expenditures, an entity should 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.

While not stated in the Standard, it seems that this requirement would preclude entities in the oil and gas sector that account for exploration and development activities using the successful-efforts method from changing to the full-cost method. It can be argued that in this case the change in policy is not considered to result in more relevant and/or reliable information to the user of financial statements as it may result in capitalisation of unsuccessful costs; for example, costs related to
dry wells that do not represent future economic benefit. Conversely, a change in policy from the full-cost method to one based upon the successful-efforts method or from capitalisation of all E&E expenditures to expensing (at least some) costs as incurred would seem to be acceptable.

### 3.9 RECLASSIFICATION OF EXPLORATION AND EVALUATION ASSETS

Ind AS 106 requires that an entity should no longer classify an exploration and evaluation asset as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration and evaluation assets should be assessed for impairment, and any impairment loss recognised, before reclassification. E&E assets may be reclassified either as tangible or intangible development assets. The reclassification of E&E assets to development assets is an accounting policy choice that must be applied consistently.

### 3.10 IMPAIRMENT

Ind AS 106 requires an entity to apply Ind AS 36, *Impairment of Assets*, to measure, present and disclose the impairment of E&E assets.

However, Ind AS 106 does provide some relief from the general requirements of Ind ASs on assessing whether there is any indication of impairment. Under Ind AS 106, E&E assets are assessed for impairment only when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Unlike other assets, there is no requirement to assess whether an indication of impairment exists at each reporting date, until an entity has sufficient information to reach a conclusion about commercial viability and the feasibility of extraction.

This is because in case of exploration-only entities, there is insufficient information about the mineral resources in a specific area for an entity to make reasonable estimates of exploration and evaluation assets’ recoverable amount. As the exploration for and evaluation of the mineral resources has not reached a stage at which information sufficient to estimate future cash flows is available to the entity. Without such information, it is not possible to estimate either fair value less costs to sell or value in use, the two measures of recoverable amount in Ind AS 36. This would lead to an immediate write-off of exploration assets in many cases. Thus, until the entity had sufficient data to determine technical feasibility and commercial viability, exploration and evaluation assets need not be assessed for impairment. However, when such information becomes available, or other facts and circumstances suggest that the asset might be impaired, the exploration and evaluation assets must be assessed for impairment.

Ind AS 106 includes industry-specific examples of facts and circumstances that, if one or more are present, indicate that an entity should test an E&E asset for impairment. These indicators are:
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.

Substantive expenditure on further exploration and evaluation activities in the specific area is neither budgeted nor planned.

The entity has not discovered commercially viable quantities of mineral resources as a result of E&E activities in the area to date and has decided to discontinue such activities in the specific area.

Even if development is likely to proceed, the entity has sufficient data indicating that the carrying amount of the asset is unlikely to be recovered in full from successful development or by sale.

The list of impairment indicators is not exhaustive, and there may be additional facts and circumstances that would suggest that an entity review E&E assets for impairment. Other impairment indicators may include, for example, significant adverse changes in commodity prices and markets or changes in the taxation or regulatory environment.

### 3.11 LEVEL AT WHICH IMPAIRMENT IS ASSESSED

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. 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.

### 3.12 DISCLOSURE

An entity is required to disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources. This would require an entity to disclose:

- Its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
- The amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

Further, an entity should 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.
PQ Gas Ltd. is engaged in exploration, production and refining of crude oil. The company has two exploration sites - Site A and Site B; the two sites form part of a single operating segment in accordance with Ind AS 108, Operating Segments.

The company has recently acquired rights to explore the two sites and has paid ₹1 crore for permission from authorities, legal expense to acquire the land were ₹20 crores. Consultation fee paid to a topographical expert was ₹10 crores. Other expenses incurred by the company are digging trenches ₹2 crores, sample testing ₹30 crores, drilling expenses ₹70 crores, present value of cost of dismantling the test drilling rig is ₹30 crores, materials and fuel used ₹3 crores, employee costs ₹1.1 crores, administrative overheads ₹0.5 crore, payments made to contractors ₹2 crores, expenses paid to a consultant to determine the commercial viability of the extraction is ₹1.5 crores.

Company has purchased two vehicles - Vehicle A and Vehicle B for each of the two sites, to transport persons engaged in exploratory drilling of mine amounting to ₹4 crores.

During the year, there is a change in taxation rules, which has adversely affected the management estimate of future prices. The recoverable amount of the each site is as follows:

Site A: ₹60 crores
Site B: ₹40 crores

How should the above expenses incurred be accounted for in the books of PQ Gas Ltd. (including classification, measurement and recognition) assuming that the company accounts for evaluation and development expenditure is accounted for using the successful efforts method of accounting, and follows the cost model for subsequent measurement of E&E assets?

**Answer to Practical Question**

(a) Since the company is in exploration phase, it needs to establish its accounting policy as to which all cost needs to be capitalised under successful efforts method, based on the above facts.

- However expense that can be capitalised under Ind AS 106 are:

<table>
<thead>
<tr>
<th>Particulars of amount incurred</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible E&amp;E assets</strong></td>
<td></td>
</tr>
<tr>
<td>Acquiring rights to explore land</td>
<td>₹1.00 crores</td>
</tr>
</tbody>
</table>
Fee paid to topographical expert ₹ 10.00 crores
Amount spent on digging of trenches ₹ 2.00 crores
Samples testing costs ₹ 30.00 crores
Drilling expenses ₹ 70.00 crores
Charges paid to consultant for evaluating the technical feasibility and commercial viability of extracting the coal ₹ 1.50 crores
Costs directly associated with an exploration well (material, labour, payment to contractors, administrative overheads) ₹ 6.60 crores

**Tangible E&E assets**

| Vehicles (A and B ) | ₹ 4.00 crores |

| **Total E&E assets capitalised (if all items stated in (a) above are capitalised)** | ₹ 125.10 crores |

- **Expense that should be expensed off:**
  
  Legal expense to acquire the land (before acquisition of exploration rights) – ₹ 20 crores

(b) **Decommissioning liability**

Provision should be recognised for the expected cost of dismantling a drilling rig of ₹ 30 crores. The amount of present value of decommissioning liability should be capitalised at initial recognition along with the cost of related asset (as part of intangible E&E asset). Thus, total E&E asset capitalised (if all items stated in (a) above are capitalised) will amount to ₹ 125.1 crores + ₹ 30 crores i.e., ₹ 155.1 crores.

(c) **Subsequent measurement**

- **Intangible E&E assets** are subject to review for indicators of impairment at least once a year.

  No amortisation is charged during the exploration and evaluation phase.

- **Tangible E&E assets** are depreciated on straight line basis over the management estimate of useful life of 5 years. Hence a depreciation of ₹ 80 lakhs is recognised in the statement of profit or loss every year (assuming it cannot be capitalised as part of intangible E&E asset).

(d) **Impairment:** Since the change in tax laws has adversely affected the management expectations of future mineral prices, it has resulted in an indicator of impairment which will trigger impairment testing.

  The E&E assets thus should be tested for impairment, the two sites together can be considered
as a single CGU since they are reported as a single operating segment as per Ind AS 108, Operating Segments. The recoverable value of the CGU (two sites together) is ₹ 100 crores while the carrying value is ₹ 125.1 crores, thus an impairment loss of ₹ 25.1 crores (₹ 125.1 crores - ₹ 100 crores) should be recognised in the statement of profit or loss and the carrying amount of E&E assets should be reduced accordingly.