

PwC reviews AIM's top 50

PRICEWATERHOUSECOOPERS (PwC) has earmarked accounting of exploration expenditure as a key area for disclosure improvement by AIM-listed mining and exploration companies.

In its 'Junior Mine' paper published this week, in which the 2004 performance of AIM's top 50 companies in the mining sector by market capitalisation is reviewed, PwC points to the difficulties in analysing the underlying trends in exploration expenditure, owing to a lack of clarity in disclosure of operating expenses and to diverging methods for accounting for exploration expenditure.

PwC says Canadian-incorporated companies trading on AIM tend to capitalise their exploration expenditure, even if it relates to early-stage, greenfield work. Some companies reporting under UK and Australian accounting standards follow a similar practice, but many charge exploration expenditure to their profit and loss accounts until projects are

at an advanced stage.

The adoption of International Financial Reporting Standards by AIM-listed companies in 2007 (*MJ*, September 17, 2004, p20) is unlikely to improve consistency in this area, argues PwC, as the new guidelines allow companies to carry forward their existing policies for the accounting treatment of exploration expenditure.

Operating expenses by AIM's top 50 mining and exploration companies totalled US\$652 million in 2004, an increase of some 74% compared with 2003. This reflects higher energy and raw-materials costs, but also much higher charges for exploration expenditure. Revenue rose by 46%, to US\$639 million, owing to higher commodity prices and an increase in production amongst AIM's top mining companies.

Capital expenditure increased significantly in 2004, reflecting the positive economic environment for mineral

resource companies. Cash spent on investing activities rose to US\$799 million, up from US\$296 million in 2003. This was financed predominantly through capital raisings, with the proceeds from share issues rising more than three-fold, to US\$970 million.

This appears to reflect growing investor confidence in mining and exploration equities, although PwC warns investors to be mindful of the possibility that funds are being spent on projects that may have been rejected in less buoyant times.

"The challenge now facing AIM mining companies is whether they can convert these investment projects into successful producing mines which deliver acceptable returns even in the lower points of the commodities cycle," said Brian Taylor, PwC's UK mining leader. "There must be a risk that funds are being channelled into projects that would have been rejected a few years ago."