

The 13th Annual
Americas School of Mines
IFRS, Including IASB Extractive
Industries Discussion Paper

Extractive Activities Research Project
IFRS Implementation for Mining

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IASB project team

Background

- IFRSs do not address unique extractive issues
 - IFRSs do address common issues e.g. revenue, inventory
 - Differences in accounting practices
 - IFRS 6 a temporary fix
- Research project as first stage of developing a standard
 - Project team
 - Advisory panel
 - Discussion paper

Key Issue – Accounting for Extractive Activities on Mineral Properties

When should an asset relating to mineral and oil & gas reserves and resources be recognised?

How should this asset be measured?

What information about mineral and oil & gas reserves and resources should be disclosed in financial statements?

How should mineral and oil & gas reserves and resources be defined?

User Survey

Findings

- existing financial reporting of minerals/oil & gas assets (at historical cost) not useful
- little interest in having fair value of minerals or oil & gas assets in financial statements
- want information to input into own models
- disclosures are key

Asset Recognition

Existing practice: expense/capitalise based on activity (e.g. exploration, development)

- not based on asset/liability definition
- depends on definition of exploration, development
- Differences between mining and oil & gas
- area of interest, full cost, successful efforts
- Junior exploration companies more likely to capitalize exploration

Asset Recognition - Conclusion

Single asset that evolves from initial exploration through production of minerals

- exploration rights: recognize as an asset
- exploration/evaluation adds to the asset
- development adds to the asset
- derecognize if determine there is not an asset

Asset is the right to explore for, develop, extract the minerals

Asset presented as

- exploration property
- development property
- producing property

Asset Recognition – Unit of Account

Geographic: boundary initially defined by exploration rights

- reduces as exploration, evaluation and development activities occur
- no greater than a contiguous area that is
 - defined by the legal rights
 - managed separately
 - expected to generate largely independent cash flows.
 - typically a mine site – could include two orebodies in close proximity that are jointly managed and use common infrastructure.....

Plant and equipment: IAS 16 Components approach determines which plant and equipment assets are recognised separately

Asset Recognition – Implications

All exploration etc rights are assets

- existing practice does not recognize all assets
- E&E costs would not be expensed as incurred

Potential for unrecoverable amounts on balance sheet

- depends if measure at cost or current value
- if measure at cost, need robust impairment test

Asset Measurement

Historical cost

- objective (?)
- not useful – no correlation between exploration costs and future cash flows

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Fair Value

- more meaningful in principle
- subjective – depends on assumptions re future prices, reserve quantities, future production profile etc
- work effort, time, cost/benefit
- users generally not looking for FV in financial statements

Asset Measurement – Project Team Conclusion

Measure at historical cost

- neither cost or current value provide significant benefit to users
- expensing all exploration understates earnings
- cost is less costly for preparers

Robust impairment process is a challenge

- Is disclosure about exploration properties with capitalized exploration the answer?

Disclosures

Disclosure is KEY

- Users need information to estimate future cash flows from reserves and resources
- Measurement does not provide useful information

Existing disclosure requirements vary by industry and jurisdiction

Significant information often provided through (inconsistent) voluntary disclosures

Disclosures, (continued)

Proved and probable reserve volumes

- disaggregated by commodity type
- disaggregated by significant risk attributes
 - political, geological etc
- explanation of changes in reserve volumes
- key assumptions associated with the estimate of reserve volumes
- sensitivity analysis for changes in key assumptions
- reserve volumes for subsidiaries and investments presented on the same basis that applies to the accounting in consolidated financial statements

Other Disclosures

- current value measurement and the key assumptions necessary for a user to make use of that measurement
 - disaggregated disclosure and year-on-year reconciliations
- production revenues by product
- time series of actual exploration, development and operating cash outflows
 - over a defined period, such as five years

Disclosure of Payments to Governments

PWYP concerned that mineral wealth not benefiting citizens of many mineral-rich countries

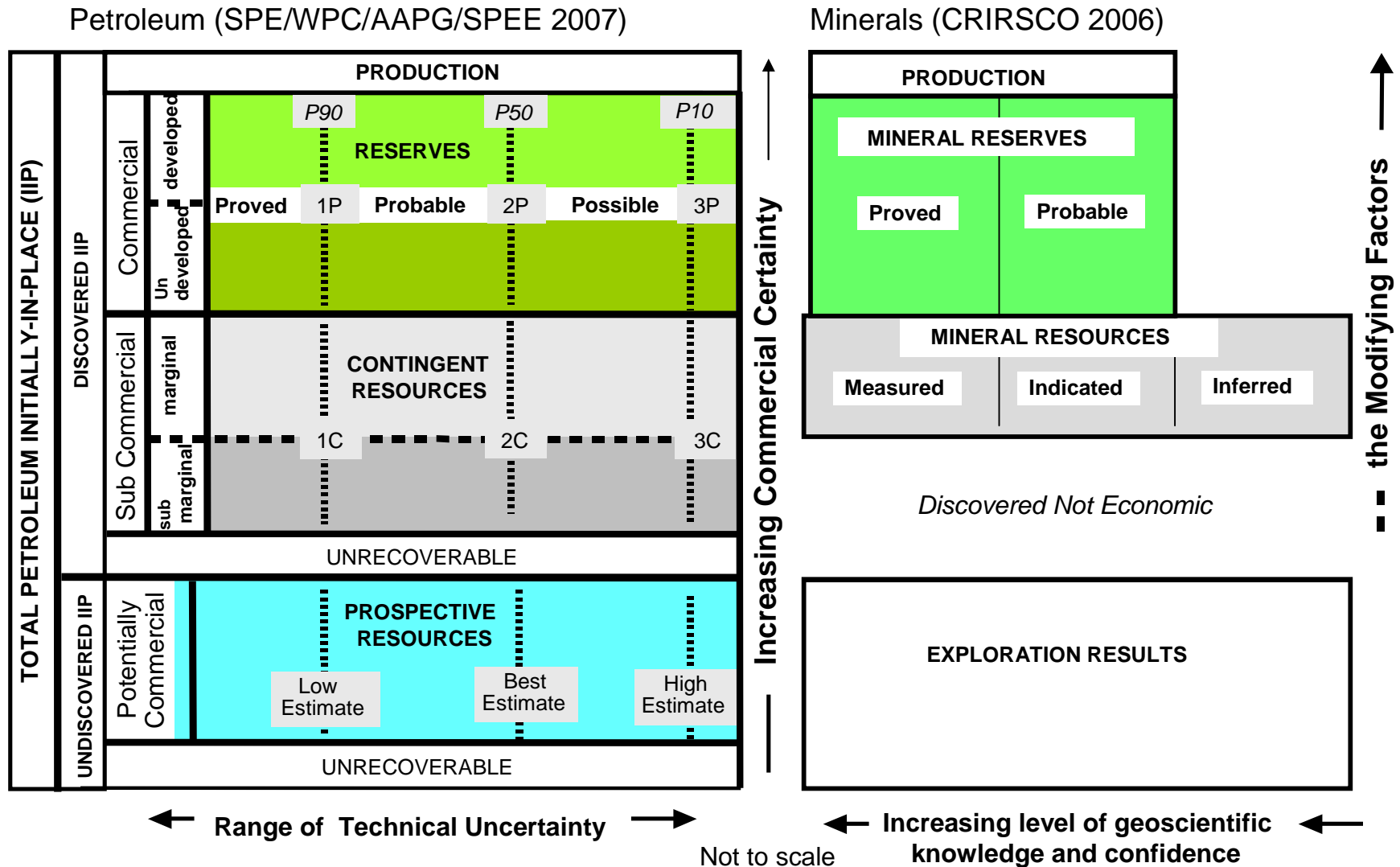
Request for disclosure by country of

- Payments to governments
- Reserves, production etc

Some users say will help evaluate political and reputational risk

Comments requested

Comparison of Definitions



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Project Timing

Draft of discussion paper on IASB website now

Discussion paper to be formally issued early 2010 for comment

- initial due process document for an IASB standard on extractive activities
- likely to affect US companies as US either adopts IFRSs or continues process of convergence with IFRSs

Industry responses are critical

Thank you