RON GAGEL TACKLES THE INTRICACIES OF MINING UNDER THE IFRS

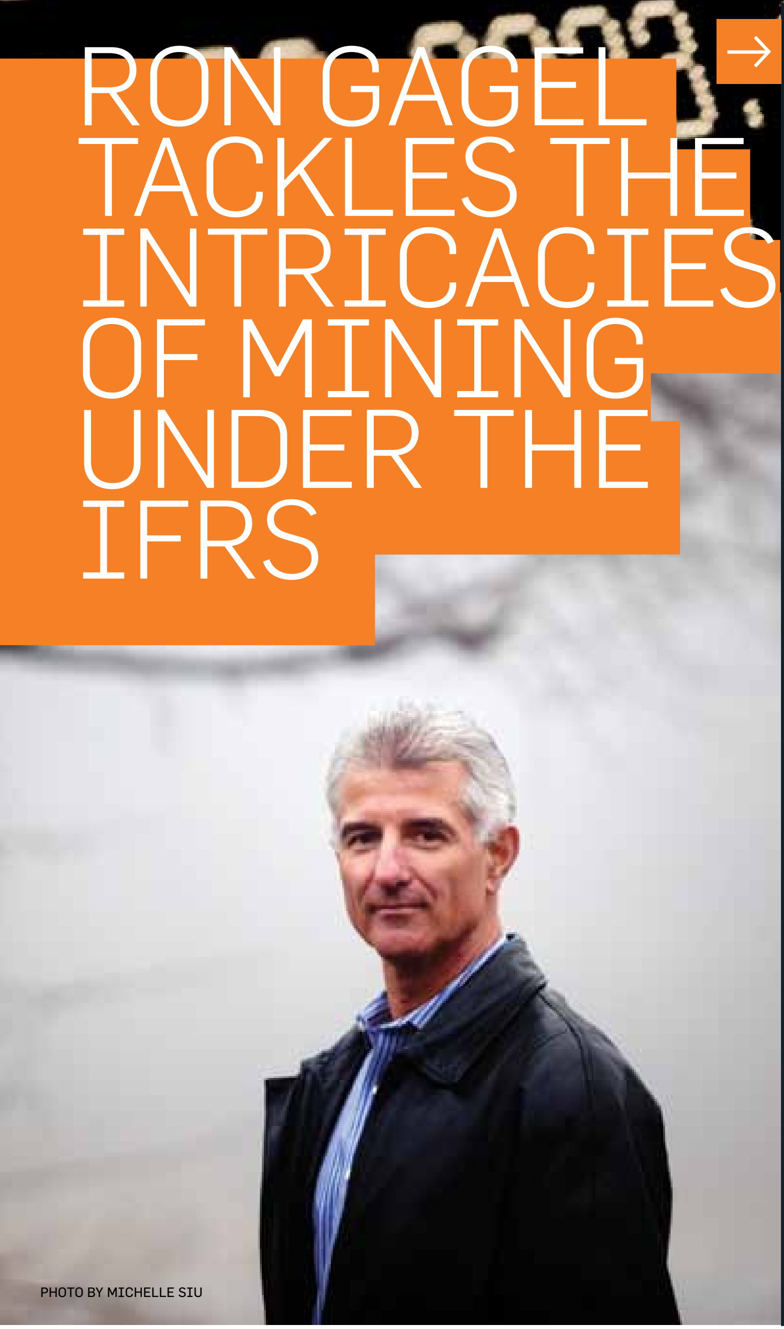
PHOTO BY MICHELLE SIU

ACCOUNTING FIRMS MAY POSSESS the expertise required to interpret the International Financial Reporting Standards (IFRS) adopted by Canadian public companies in 2011, but it's people like Ron Gagel who have the real life experience to deal with the unusual accounting issues facing the mining industry—especially the junior sector that is so prolific in Canada.

That's why the PDAC chose Gagel, a chartered accountant who has worked in the industry for more than a quarter of a century and been a PDAC board member since 1997, to assist the more than 1,000 juniors that make up the bulk of the PDAC membership as they transition to the IFRS accounting standards that took effect on January 1, 2011. The standards, which were initially implemented in Europe to harmonize accounting practises across the European Union, are designed to make company accounts understandable and comparable across international boundaries.

Gagel chairs a mining task force established by the PDAC and the Canadian Institute of Chartered Accountants (CICA) to respond to mining specific issues where the IFRS provides little guidance around such topics as how to account for flow-through, a financing vehicle unique to Canada. The task force does not publish pronouncements—only the International Accounting Standards board can do that—but does produce "Viewpoints" that juniors lacking accounting depth can use to determine how to proceed when they hit a snag under the new rules.

"Being the only chartered accountant on the board of the PDAC at the time, it was felt that I was the person who was most technically qualified from a financial perspective," says Gagel, the former CFO of FNX Mining, which merged with Quadra Mining in 2010. "I've been with juniors that have gone from nothing to producing, so I've seen almost everything that's involved from an accounting perspective when it comes to the junior side of the business."

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Another added bonus is that throughout the initial set-up of the task force, and until he recently joined TMAC Resources as their Executive Vice President and CFO, Gagel was not affiliated with one mining company or accounting firm, although he did sit on the boards of Adriana Resources, Dalradian Resources and Stonegate Agricom.

The rest of the task force is made up of representatives from the largest Canadian public accounting firms, including KPMG, Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young, Raymond Chabot Grant Thornton and BDO Canada.

Given several years to prepare before the January 2011 conversion date, the majority of Canada's public mining companies have made the switch to IFRS, a set of accounting principles used in most countries, the United States being the most significant exception. But that doesn't mean that all the wrinkles have been ironed out.

"Mining has a lot of unique issues associated with it. For example, going underground and digging shafts and tunnels makes for an unusual business," says Gagel. "The IFRSs do not contemplate the nuances of the extractive industries. Even mining and oil and gas, though both are extractive industries, are very different."

As a result, the PDAC-CICA mining task force has developed nine "Viewpoints" on various issues that range from how to define the beginning of commercial production, to determining functional currency, to guidance on farm out arrangements for exploration properties. And they are working on more.

"This is a value-added service to the PDAC membership," says Gagel. "The PDAC is trying to do something for its members by providing the guidance they and their auditors need to account for certain unusual aspects of mining accounting."

Some issues have been contentious, while others, such as mining royalties, have been shelved because they are "too complex and varied," says Gagel. The IFRS is already investigating the principles for royalties from a broader, multi-industry perspective.

But although adopting IFRSs has not been without its challenges, Gagel says the new accounting system gives Canadian companies globally comparable metrics that should help them attract capital.

"Capital flows to where it has the best return," says Gagel. "But if you have country-specific accounting, there is an element of risk and confusion that reduces the efficiency of the capital markets."

The mining task force is important to the transition process because of the lack of guidance from the IFRS about an industry that most of the financial world sees as a "rounding error in size" and not the economic powerhouse that it represents in Canada.

Even though, after all is said and done, a junior mining company's balance sheet may look the same under IFRS (where it is referred to as a "Statement of Financial Position") as it did under Canada's Generally Accepted Accounting Principles (GAAP), there is a great deal of training and documentation required for companies to make the switch.

At least GAAP and IFRS are both principles-based, which means that they both begin with standards that can be interpreted according to the situation. This is different from the more rules-based type of system that the United States clings to, which resembles a Napoleonic code.

"Principles-based accounting permits some flexibility in interpreting rules, so the IFRSs are written at a high level and don't necessarily get into minutia, especially industry-specific minutia," says Gagel. "We're always asking which principle are we talking about, and that's where you get interpretations of accounting."

Gagel says IFRS issues continue to arise in the mining sector, such as how to account for gold-linked financing, resource depletion and the reopening of a previously closed mine.

"There are still a lot of issues out there that need to be addressed. Accounting is continuously evolving so I don't see an end to the mining industry IFRS task force in the foreseeable future."

— By Virginia Heffernan