

VIEWPOINTS: Applying IFRSs in the Mining Industry

BACKGROUND

Expenditures incurred in the development phase¹ are generally capitalized to the cost of a mine by analogy to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*. Furthermore, net proceeds from saleable mineral material produced in the development phase while bringing the mine to the condition necessary for it to be capable of operating in the manner intended by management are deducted from the cost of the mine.

When a mine moves into the production phase, expenditures of an operating nature generally cease to be capitalized to the cost of the mine (even if the mine is operated at less than full planned capacity). Instead, these expenditures either form part of the cost of inventory or are expensed. Expenditures of a capital nature (e.g., mining equipment) continue to be capitalized. Furthermore, it is at this point that depletion of the mine begins.

The development phase ends and the production phase begins when the mine is in the condition necessary for it to be capable of operating in the manner intended by management. The point at which the development phase ends and the production phase begins is commonly referred to as the *commencement of commercial production*.

ISSUE

How does an entity determine when commercial production commences? In other words, when is the mine in the condition necessary for it to be capable of operating in the manner intended by management?

¹ For more information, download *Background on Different Phases of Activities of a Mining Entity* from www.cica.ca/ifrs.

Mining Industry Task Force on IFRSs

Canada's move to International Financial Reporting Standards (IFRSs) creates unique challenges for junior mining companies. Financial reporting in the sector is atypical due to significant differences in characteristics between junior mining companies and other types of companies. The Canadian Institute of Chartered Accountants (CICA) and the Prospectors and Developers Association of Canada (PDAC) created the Mining Industry Task Force on IFRSs to share views on IFRS application issues of relevance to junior mining companies. The task force's views are provided in a series of papers that are available through free download. These views are of particular interest to chief financial officers, controllers and auditors.

The views expressed in this series are non-authoritative and have not been formally endorsed by the CICA, PDAC or the organizations represented by the task force members.

VIEWPOINTS

Determining when a mine is in the condition necessary for it to be capable of operating in the manner intended by management is a matter of judgement. Depending on the specific facts and circumstances, the following factors may indicate that commercial production has commenced:

- all major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed;
- the completion of a reasonable period of testing of the mine plant and equipment;
- the ability to produce saleable product (e.g., the ability to produce concentrate within specifications);
- the mine has been transferred to operating personnel from internal development groups or external contractors;
- the mine or mill has reached a pre-determined percentage of design capacity;
- mineral recoveries are at or near the expected production level;
- the ability to sustain ongoing production of ore (i.e., the ability to continue to produce ore at a steady or increasing level).

The taking of a bulk sample, however, does not demonstrate the ability to sustain ongoing production of ore.

This list is not exhaustive. Other factors may indicate that commercial production has commenced. Furthermore, the ordering of this list is not intended to suggest that certain factors are more important than others.

It is important to note that there is no clear definition of what constitutes a mine. This is a matter of judgment based on an assessment of the specific facts and circumstances. An entity may define a mine using a phased-in approach as certain milestones (e.g., capacity, ore, grade and metal produced) are achieved. For example, an entity developing an open pit deposit and an underground deposit on a single property at the same time may need to determine when commercial production commences for each deposit separately.

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For more information on IFRSs visit:

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