

VIEWPOINTS: Applying IFRSs in the Mining Industry

BACKGROUND

IFRS 6, *Exploration for and Evaluation of Mineral Resources*, provides guidance on the accounting for expenditures incurred in the exploration and evaluation (E&E) phase.¹ IFRS 6 provides a temporary exemption, which permits an entity to develop an accounting policy for the recognition and measurement of E&E assets without specifically considering the requirements in IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, that specify sources of authoritative requirements and guidance that management is required to consider in developing an accounting policy for an item if no IFRS applies specifically to that item.

ISSUE

How are E&E expenditures accounted for under IFRS 6?

VIEWPOINTS

IFRS 6 applies only to E&E expenditures, which are defined 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. IFRS 6 does not apply to expenditures incurred:

- (a) before the exploration for and evaluation of mineral resources, such as expenditures incurred before an entity has obtained the legal rights to explore a specific area.
- (b) after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

For each type of E&E expenditure, an entity is required by IFRS 6 to determine an accounting policy specifying which expenditures are capitalized as E&E assets and apply the policy consistently. Expenditures not capitalized as E&E assets would be expensed as incurred.

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.

According to IFRS 6, the following expenditures may be included in the initial measurement of E&E assets:

- (a) acquisition of rights to explore;
- (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.

Expenditures for studies, drilling and sampling may be incurred in the exploration phase or the evaluation phase.

IFRS 6 clearly states that this list is not exhaustive. For example, the following (to the extent related to the E&E phase) may also be included in the initial measurement of E&E assets:

- premiums paid to gain access to areas of interest;
- amounts paid or payable to third parties to acquire interests in existing projects;
- administrative and other general overhead costs directly attributable to E&E activities; and
- depreciation of equipment used in exploration.

IFRS 6 prohibits expenditures related to the development of mineral resources from being recognized as E&E assets.

It is important to note that a Canadian mining entity adopting IFRS 6 may continue to use the accounting policy it applied to E&E expenditures in accordance with pre-changeover accounting standards, provided that this policy is in accordance with all of the requirements in IFRS 6.

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For more information on IFRSs visit:

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