

Basics of IFRS – Mining accounting throughout the Americas

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IFRS throughout the Americas



Country	Year	GAAP
Canada	2011	IFRS (IASB)
US	!	US GAAP
Mexico	2012	IFRS (IASB)
Dominican Republic	2012	IFRS (IASB)****
Colombia	N/A	Local GAAP
Ecuador	2011	IFRS (IASB)***
Peru	2012	IFRS (IASB)**
Brazil	2010	IFRS and CPC
Argentina	2012	IFRS (IASB)*
Chile	2009	IFRS (IASB)

Agenda

The Life Cycle of a Mining Operation

- Exploration and Evaluation
- Development
- Production activities
- Closure and rehabilitation

Ownership

- Business vs. asset acquisitions
- Joint Arrangements

Functional currency

Impairment of long-lived assets

Objectives

What are the top 3 things you are hoping to get out of the session this afternoon?

Exploration & Evaluation (E&E) activities



Exploration & Evaluation activities

Concepts

- Industry specific standard - IFRS 6
 - Starts with acquiring the legal rights to explore
 - Ends with development of the mine
- Capitalise versus Expense
 - Pre-IFRS existing policy roll-over
 - Extractive industries project

E&E: Recognition and measurement

Recognition:

- Tangible versus intangible asset
- License costs and renewals
- General and Administrative costs

Measurement:

- Cost or revaluation

E&E: Impairment

Impairment:

- 4 specific criteria related to internal indicators
- Market capitalisation of junior mining companies

Recoverable amount:

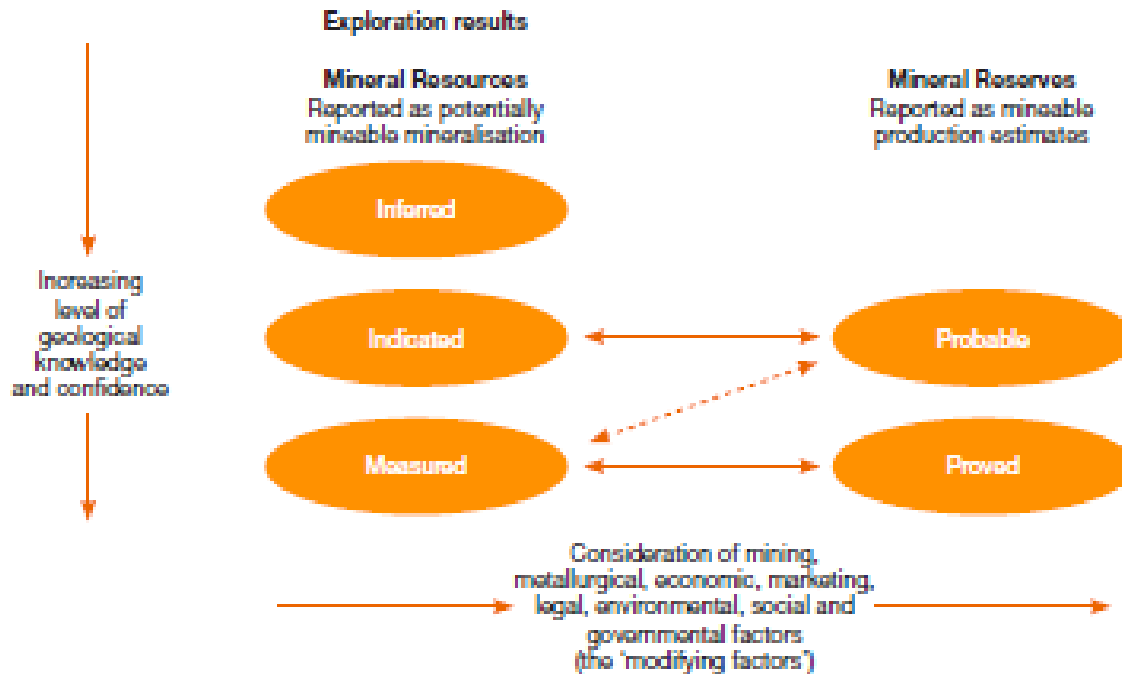
- Based on IAS 36
- Stand alone E&E versus Grouping

Transfer out to Development stage of life cycle:

- Impairment requirement

Reserves and Resources

Figure 1. Relationship between Exploration Results, Mineral Resources and Mineral Reserves



Development activities



Development activities

Financing the project

- Existing company cash flows
- Equity, Debt, Streaming
- Hedge security and off-take agreements

Borrowing costs

- MUST capitalise borrowing costs to qualifying assets
- Start, suspend, stop
- Similar definition but not the same as US GAAP interest costs

Development activities

Capitalisation of costs

- Falls in scope of IAS 16, PP&E

Commencement of commercial production

- Timing of commercial production
- Net Revenue earned
- Re-opening of an old mine

Production activities



Question - Time!

Part 1. What is the number of equivalent gold bars that has ever been produced in the world?



Part 2. What is the number of Olympic-sized swimming pools you would need in order to fit all these gold bars?



Revenue recognition

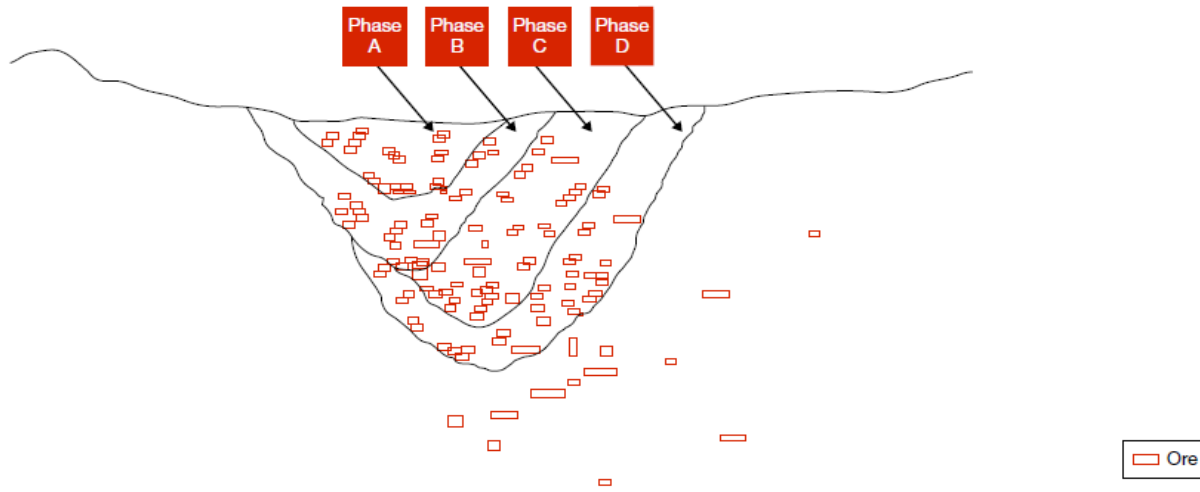
- Revenue recognition – basic principles
 - Legal title
 - FOB vs. CIF
- Provisional pricing arrangements
 - Price and quantity true-up... embedded derivative
- Tolling arrangements
 - Risks and rewards retained versus Ore purchase arrangement

Depreciation

- IAS 16 – systematic allocation of depreciable amount of an asset over its useful life
- Cost of assets
- Units of Production vs. Straight line
- Reserve and resource base
- Annual re-assessment required

Deferred Stripping costs (in production phase)

Component of the ore body

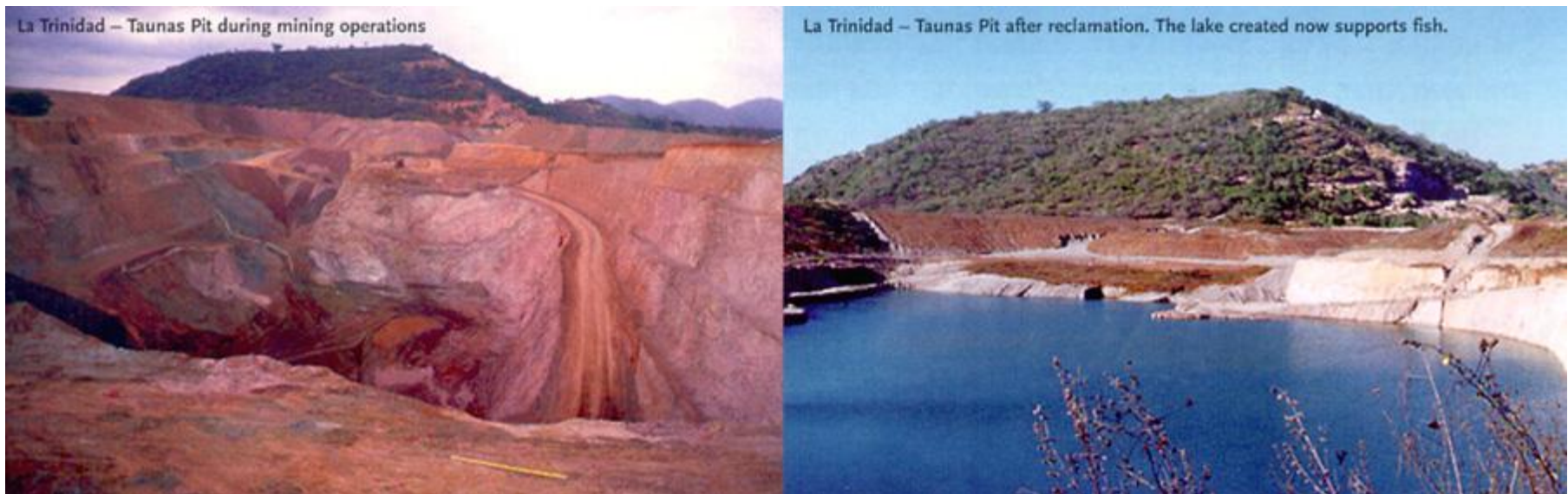


- IFRIC 20 came into effect for 2013 (retrospective to Jan 1, 2012)
- Capitalize costs of each phase
- Amortize over all ore that will benefit from the stripping asset
- US GAAP = expense all production phase stripping costs

Inventory

- Inventory under IAS 2: Production inventories v. stores inventories
- Measurement difficulties:
 - Work in progress
 - Stockpiles
 - Heap leach pad
- Lower of Costs and Net Realisable Value
- Joint products and by-products allocation considerations: value versus volume?

Closure and Rehabilitation



Provision for Environmental Rehabilitation (PER)

- Legal or Constructive obligations to decommission assets and restore lands
- Measure at time obligation arises – present value of future cash flows
- Judgments
 - Timing of cash flows
 - Discount rate and inflation
- Subsequent changes in the liability...
- What to do with the debit?

Ownership



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Asset acquisition vs. business combination

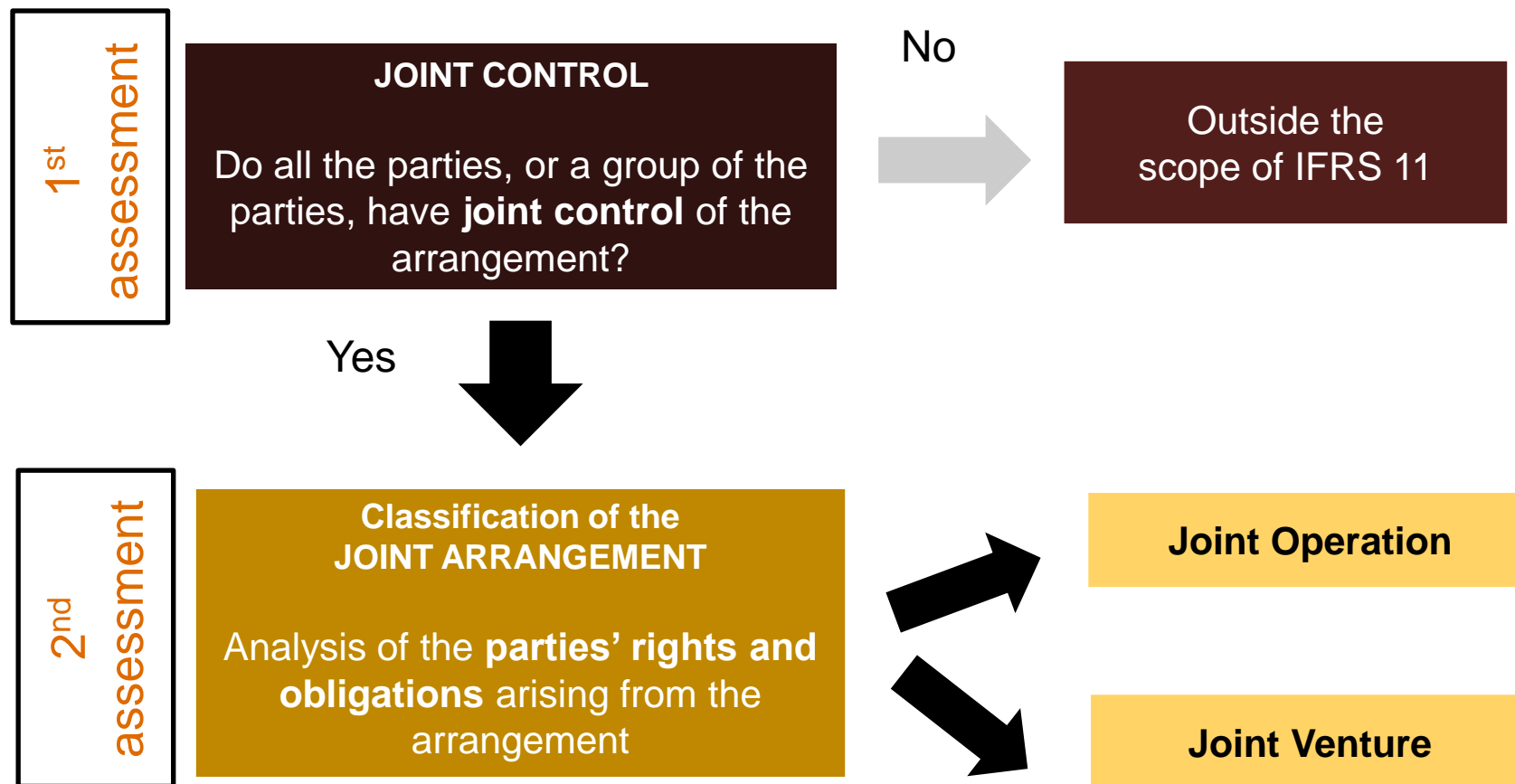
- IFRS 3, *Business Combinations*, applies to a transaction or other event in which an acquirer obtains control of one or more businesses.
- Alternative accounting of acquisition of an asset under IAS 16.
 - Key: Definition of a business?
 - Inputs
 - Processes
 - Outputs

Other acquisition issues

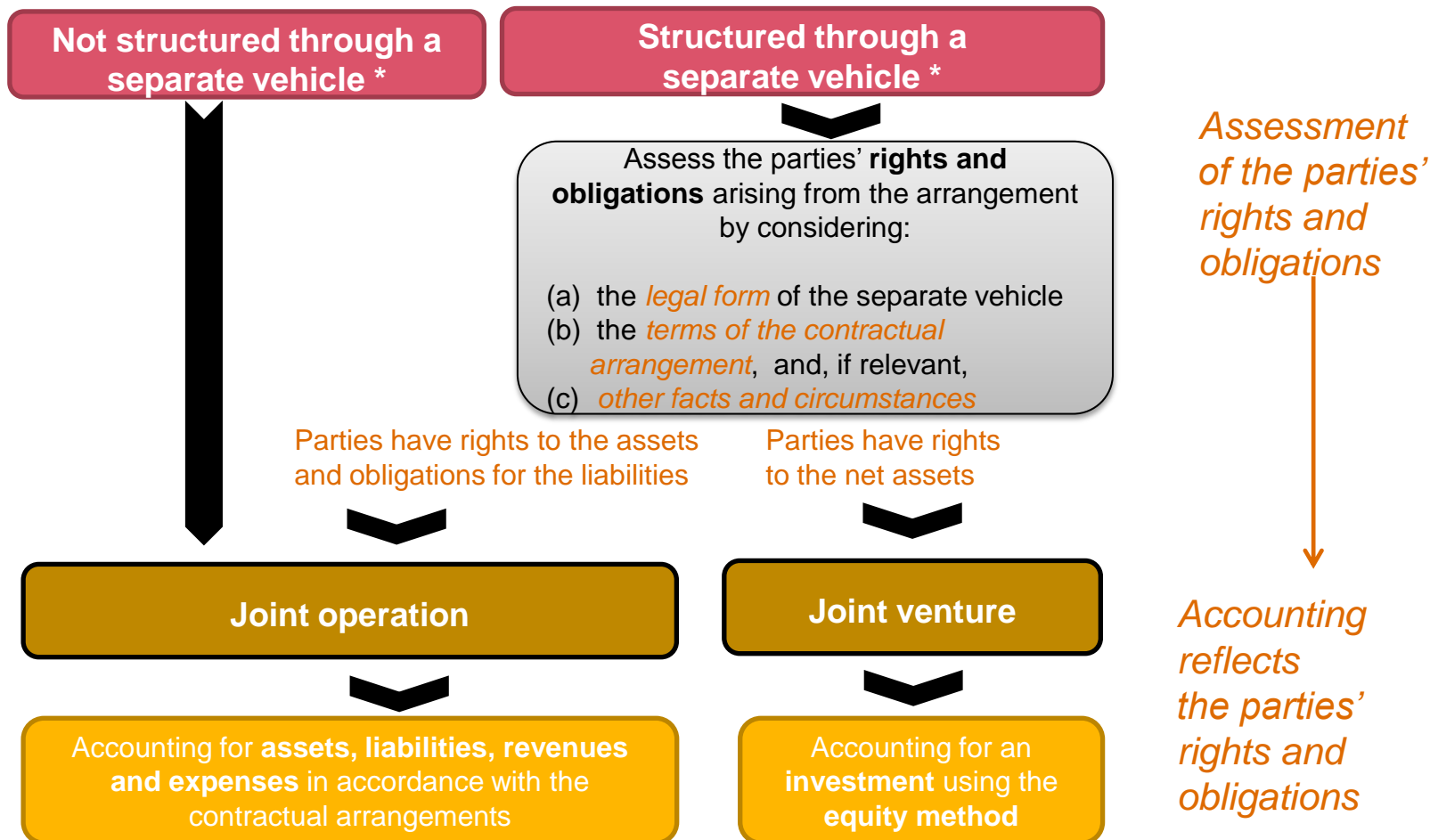
- Contingent consideration – measure at fair value at acquisition and adjust through P&L
- Royalty consideration... retained interest?
- Goodwill in the mining context
 - Buyer specific synergies
 - Access of new markets, an assembled workforce
 - Optionality of metals price
- Has the value of mineral property and exploration been fully valued?

Joint Arrangements

IFRS 11: The assessments required



Classification of the arrangements



(*): A *separate vehicle* is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

Foreign Currency



Foreign Currency – General Principles

- Entity by entity assessment of ‘functional currency’ – the currency of the primary economic environment.
 - Primary then secondary indicators
- Different to Presentation currency
 - Cumulative Translation Account

Example 1 – Operating Mine

Company A, a wholly owned US subsidiary of a Canadian-based gold producer, operates a gold mine in Nevada.

- Revenue from gold sales is generated in US\$, operating costs are largely incurred in Canadian dollars.
- The Company has a C\$ loan from its parent company which requires quarterly C\$ principal repayments.
- Proceeds from gold sales are maintained in US\$.
- US subsidiary has both US\$ and C\$ bank accounts.

What is the functional currency: US\$ or C\$?

Example 2 – Exploration Subsidiary

Company B, a wholly owned Chilean subsidiary of a Canadian-based exploration company, is undertaking exploration activities in Chile.

- Company B has no revenue, salary costs are paid in Chilean pesos, exploration costs including drilling are largely incurred in US\$.
- Company B receives US\$ funding advances from its Canadian parent.
- Funds are maintained in a combination of US\$ and Chilean pesos.

What is the functional currency: US\$, C\$, peso?

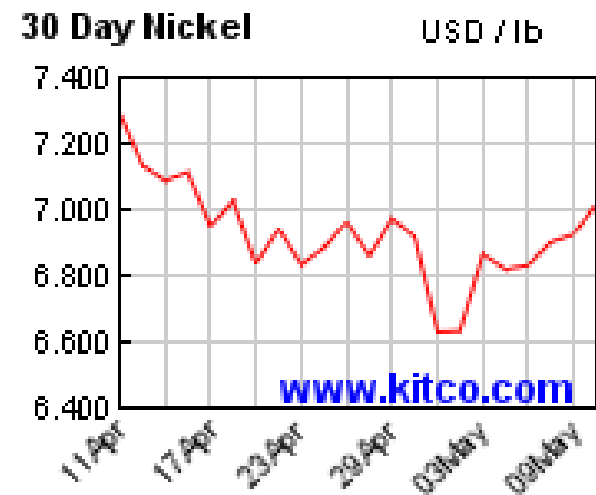
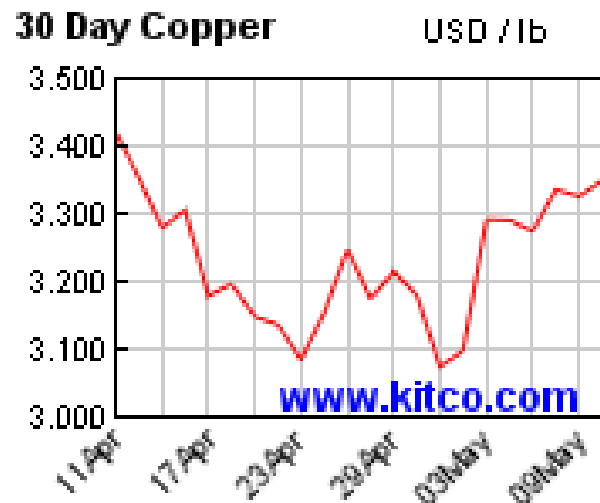
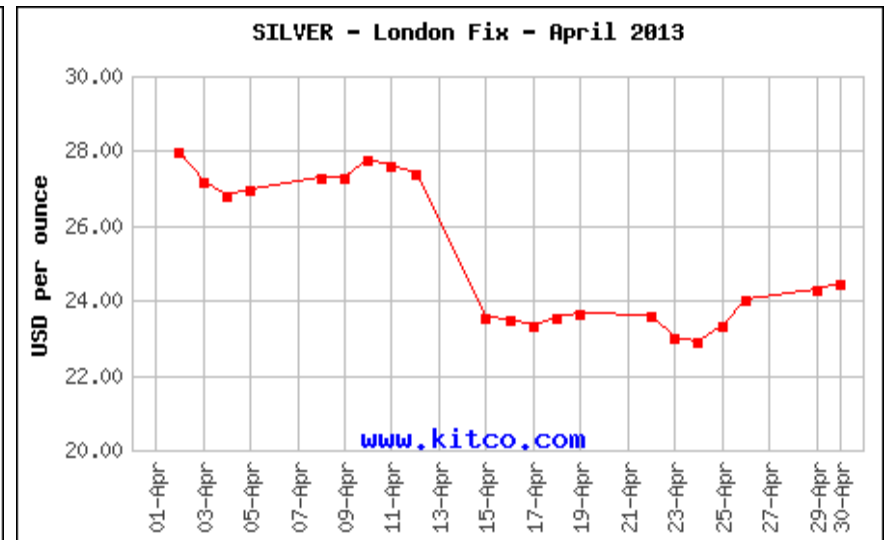
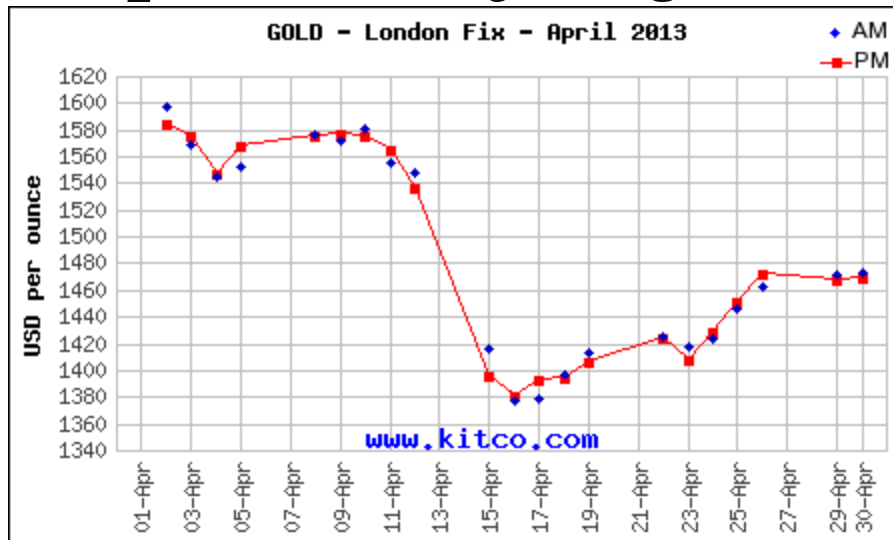
Example 3 – Corporate parent company

Company C, is a Canadian-based junior exploration company. Company C has a subsidiary in Brazil. No exploration work is undertaken in Canada.

- Company C has no revenue; salary and administrative costs are paid in C\$.
- The Argentina subsidiary has a peso functional currency as most expenses are in peso.
- Company C generates all funds from the issuance of equity in C\$.
- Exploration activities in Brazil are funded by way of US\$ loans which are converted into peso to the subsidiary entity.

What is the functional currency: US\$, C\$ or peso?

Impairment of long-lives assets



Impairment of Assets

- IAS 36 covers impairment of long-lived assets
 - Goodwill
 - PP&E
 - Equity investments in joint ventures
- Assessment required when there is evidence that the fair value is less than the recoverable amount of the asset (and annually for goodwill)
- Recoverable amount is the higher of the amount to be realized through the asset's use or sale (FVLCS or VIU)
- Reversals of impairments other than goodwill

Available for sale equity securities

IFRS impairment of AFS equities if objective evidence:

- “Significant” decline in value below cost, regardless of duration, or
- “Prolonged” decline in value below cost

Subsequent decline after an impairment is automatically a further impairment (P&L)



Debrief

Did we accomplish addressing the top 3 things you hoped to get out of the session this afternoon?

Thank you

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