ACCOUNTING FOR MINERAL RESERVES ON THE BALANCE SHEET

By George Nyawo

Mineral Resource Management (MRM) is an important aspect in the mineral and extractive industry of South Africa as well as on a global level. This is due to increasing competition in today's global economy and players in the financial markets are seeking ways to manage skills, resources and internal processes to reduce the operating costs and increase efficiency of operations. The Mineral Reserve is the most valuable asset of a mining company, but one you will not easily identify on the balance sheet.

The mining industry is characterized by a need for large up-front investment, with low success rates on exploration spending and long lead times on new projects. It also faces significant back-end costs, when mines are eventually closed, in terms of decommissioning the processing facilities, rehabilitating the sites, dealing with residual environmental issues and managing obligations to the workforce and local communities.

It is now widely accepted that the task of interpreting and applying International Financial Reporting Standards (IFRS) will be a continual challenge, rather than a once-off issue arising on first-time adoption. It has become more apparent that the move to treating the mineral asset like an asset is being paid more attention in the mining and extractive industry. Unlike other industries the mineral asset is finite and is a wasting asset over time. There are implications when treating the mineral asset as a balance sheet item:-

- there is no single global standard for valuation of mineral resources and reserves;
- large up-front investment with low success rates on exploration expenses and long lead times on new projects;
- high back-end costs at mine closure, in terms of decommissioning the processing facilities and rehabilitating the sites;
- the issue of capitalization is a major concern in exploration and evaluation of Mineral Resources and Reserves because some mining entities capitalize all exploration and evaluation costs whilst others write off the costs as an expense until a decision is made that economic extraction is feasible;
- how are revenues and costs incurred during the commissioning phase accounted for;
- annual charge of depreciation and amortization under IAS 36; and
- use of USD as the determinant currency.

The question that arises is, "Why are reserves not included on the balance sheet if they constitute the mining business asset and how can they be best valued?"

For further debate please call **George Nyawo**