

Mineral exploration and mineral deposits

Issues under discussion by the
Canberra II Group on non-
financial assets

Outline

- Process of update of the 1993 SNA
- Mineral exploration in the 1993 SNA
- Issues discussed
 - Terminology
 - Mineral exploration and deposits one or two assets?
 - Valuation of exploration
 - Valuation of mineral deposit
 - Payments to the owner
 - In the balance sheet of which unit should the

Mineral exploration and deposits in 1993 SNA

- Mineral exploration is a produced intangible fixed asset
- Mineral deposits are tangible non-produced assets

Issues with current treatment

- Does it make sense to have discovery activity separate from the value of the resource?
- How should the exploration activity be measured?
- How should the deposit be valued and avoid double counting?
- In the balance sheet of which unit should the resource be recorded?

Recommendations for change

- Terminology

- Use “mineral exploration and evaluation” rather than “mineral exploration”
- Clarification of what expenditures should be included as part of mineral exploration and evaluation on the basis of recommendations from IASB.

Coverage of expenditures very similar to 1993 SNA

Mineral exploration and deposits - One asset or two?

- Should mineral exploration and deposits be combined in one asset “developed natural asset”?

Implication: The combined asset becomes produced asset \Rightarrow value of the deposit recorded as a produced asset

Only few countries supported this proposal

Valuation of exploration

- 1993 SNA: Seems to imply that the exploration should be valued at cost, even if carried out on behalf of a separate enterprise.
- SEEA-2003:
 - Own account \Rightarrow Valued at cost;
 - By a separate enterprise \Rightarrow valued at market price (full amount charged, including operating surplus)

Recommendations of the SEEA-2003 adopted

Valuation of mineral deposit

- Net present value of the resource rent
- Resource rent is the part of gross operating surplus not accounted for by the return to the fixed assets used by the exploiter, including mineral exploration and evaluation

Same as in SEEA-2003.

Payments to the owner

- Should be recorded as property income
 - Sometimes the government (often the owner of the deposit) does not recover the full resource rent
- ⇒ discrepancy between the valuation of the deposits based on NPV and that based on the revenues received by the owner.

Similar discussion in the SEEA-2003.

Attribution of the value of the deposit in the balance sheet

Option 1: extractor has a financial lease on the deposit.

Deposit recorded in the balance sheet of the extractor with matching financial loan from the owner to the extractor.

Option 2: Economic ownership of the asset is partitioned between the owner and extractor on the basis of how the resource rent is apportioned.

No agreement.

Do we have something to contribute to this discussion?

- Should we suggest to expand the definition of deposit to include not only “possible” but also “probable” and possible reserves?
- Other?