

November 29, 2010

(sent electronically to www.ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

**Re: Draft IFRIC Interpretation “Stripping Costs in the Production Phase
of a Surface Mine”.**

This letter is the response of the Canadian Accounting Standards Board to the IFRS Interpretations Committee’s Draft Interpretation, Stripping Costs in the Production Phase of a Surface Mine, dated August 2010. The Appendix to this letter has been prepared by the AcSB staff and includes detailed comments on the proposals in the Draft Interpretation.

The views expressed in this letter take into account comments from Canadian Accounting Standards Board members and staff following consultations with members of the Canadian mining industry, but do not necessarily represent a common view of the Board. Views of the Canadian Accounting Standards Board are developed only through due process.

The Canadian Accounting Standards Board strongly supports the development of an IFRIC Interpretation on this topic in order to eliminate the current diversity in practice. We agree that costs of activities that “create a benefit, namely improved access to the mineral ore body” (BC 8)

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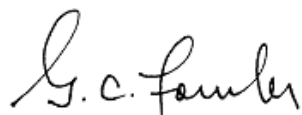
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should be capitalized. In our view the often-used accounting policy of deferring stripping costs based on a life-of-mine stripping ratio is a “smoothing” technique and is not consistent with the Framework definitions of assets and liabilities.

However we are concerned that the Draft Interpretation, as written, may result in the expensing of amounts that “create a benefit” by providing access to reserves to be produced in future periods, because the definition of a stripping campaign is not met. Ore bodies come in many shapes and entities’ understanding of them, together with the related mine plans, changes over time. Consequently we think that the Interpretation should clearly state the principles to be followed but leave the application of those principles to be applied by management based on the specific facts and circumstances for each mine. The key principles should be that the cost of activities that contribute to future production should be capitalized in accordance with the Framework and subsequently amortized as that production occurs.

We would be pleased to provide more detail if you require. If so, please contact Mark Walsh, Principal, Accounting Standards at +1 416 204-3453 (e-mail mark.walsh@cica.ca).

Yours truly,



Gordon C. Fowler, FCA
Chair
Accounting Standards Board
gord.fowler@cica.ca
+1 416 204 3490

Appendix

Comments of the Canadian Accounting Standards Board (AcSB) staff on the August 2010 Draft Interpretation, “Stripping Costs in the Production Phase of a Surface Mine”

Question 1 – Definition of a stripping campaign

It is not clear why the Draft Interpretation introduces the term “stripping campaign”. We recommend that the concept of a stripping campaign be eliminated and replaced by a focus on whether the stripping activity results in an asset (or a component of an asset) in accordance with the Framework.

Paragraph 7 states that an entity “creates a benefit by undertaking stripping activity (and incurring stripping costs). It goes on to identify three criteria, based on the Framework, that must be met for this benefit to be recognized (as part of an existing asset). However paragraphs 8 and 9 then restrict capitalization to the costs of a stripping campaign. Paragraph BC13 recognizes that “there will be some circumstances when routine stripping may create a benefit that will be realized in a future period” but goes on to say that the Committee “decided that the costs of such routine stripping should not be recognized as part of an asset”. No rationale for this decision is provided. Restricting capitalization in this manner is inconsistent with the Framework definition of an asset.

It is possible this restriction was included for cost/benefit reasons. A mining company will normally strip ahead of production and at the end of an accounting period will have removed some waste material in order to access ore in the next period. In many cases the costs involved will not be material and they may be relatively consistent from period to period. The benefit of such stripping activities (the asset) is very short-lived. Capitalization of stripping costs in these circumstances may not meet a cost-benefit test. We think that companies would apply the

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materiality concept (as they do in deciding whether to capitalize other amounts) and that it is not necessary to restrict the application of capitalization principles in the Interpretation. An arbitrary restriction (or rule) is likely to have unwanted consequences. The Basis could note that the Committee considered this issue and decided to leave it to management's judgment.

An additional concern is the difficulty in defining the term "stripping campaign" in a useful manner. The first sentence in paragraph 4 states "A stripping campaign is a systematic process undertaken to gain access to a specific section of the ore body, which is a more aggressive process than routine waste clearing activities". For this definition to be operational requires determining what are "routine waste clearing activities" and what is a "more aggressive process". Neither "routine" nor "aggressive" are defined. In our view both these words are difficult to define in a way that makes the definition of a stripping campaign clear. Without definitions people are likely to use these terms in their "plain English" sense which provides latitude for differing application and inconsistent practice. Greater clarity would be provided by replacing the concept of a stripping campaign with a focus on whether the stripping activity creates an asset (or an additional component of an existing asset) in accordance with the Framework.

Question 2 – Allocation to the specific section of the ore body

We agree that capitalized stripping costs should be depreciated/amortized over the production from the portion of the ore body that benefits from the stripping rather than, for instance, over the entire ore body. However, paragraph 17 is more restrictive in that it requires depreciation or amortization over "the expected useful life of the specific section of the ore body that becomes directly accessible as a result of the stripping campaign".

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In some cases stripping is justified by a combination of (a) the portion of the ore body that is directly accessible as a result of the stripping, and (b) a further part of the ore body. The first part of the ore body needs to be mined and further stripping done to access the second part of the ore body. However the second part of the ore body is not directly accessed as a result of the initial stripping. While the first part of the ore body results in production of significant mineral ore, this may not be sufficient in itself to justify the stripping to access that part of the ore body. That stripping is only justified because of the access that will be gained to the second part of the ore body. We suggest that the draft interpretation state the principle that capitalized stripping costs be depreciated/amortized over production from the portion of the ore body that benefits from the stripping. Management should apply this principle to the facts and circumstances for each mine.

The illustrative examples provided show a uniform egg-shaped ore body. In practice ore bodies come in many shapes, usually irregular. The examples do not address the complexity of typical ore bodies and oversimplify the issues in accounting for stripping costs. While we recognize that the examples are not part of the Interpretation, we are concerned that they will be treated as authoritative and strongly recommend they not be included in the final Interpretation.

We agree that the units of production method should be used for depreciation/amortization, unless another method is more appropriate.

Question 3 – Disclosures

We agree that no additional disclosure requirements are required. Since the capitalized stripping costs are an addition to or enhancement of an existing asset, the disclosures required for that existing asset are sufficient.

Question 4 – Transition

We agree that retrospective application will generally not meet a cost/benefit test for the reasons stated in paragraph BC 22. We generally agree with the proposed transition requirements.

However, paragraph 22 states that when there is no identifiable section of the ore body to which the component can be directly associated the balance shall be recognized in profit or loss at the beginning of the earliest period presented. We suggest that the balance might more appropriately be recognized as an adjustment to equity at the beginning of the earliest period presented, consistent with IAS 8. Also, there may be some entities that wish to apply the Interpretation retrospectively and we suggest that this be permitted.

Other comments

- Paragraph 10 on the classification of the stripping campaign component as tangible or intangible seems redundant since paragraph 8 states that the component is an addition to an existing asset.
- Paragraph 19 states that the stripping campaign component should be considered for impairment in accordance with IAS 36. This raises the question of whether, under IAS 36, a component of an asset can be tested for impairment separately from the asset itself and whether a component of an asset can generate cash inflows that are largely independent of cash inflows from other assets (or components)? We agree that if extraction of the ore specifically associated with the stripping campaign is terminated the stripping costs should be written off, but see this as derecognition of the component rather than impairment.
- The scope of the proposed Interpretation refers to surface mining activity during the production phase of a mine. Paragraph BC 6 states that the Committee decided not to

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include oil and natural gas extraction. This leaves it unclear whether oil sands operations are within the scope, since they extract oil by surface mining. We see no reason to exclude oil sands operations from the scope of the Interpretation and suggest that paragraph BC 6 be clarified.