

IFRIC 20

Stripping costs in the production phase of a surface mine

REFERENCES

- IAS 1 Presentation of financial statements
- IAS 2 Inventories
- IAS 36 Property, plant and equipment
- IAS 38 Intangible assets

ISSUE

In surface mining operations, entities may need to remove mine waste materials (referred to as “overburden”) corresponding to the layer of soil removed during stripping operations. However, this layer may sometimes be valuable and contain varying proportions of usable ore. The entity may therefore derive two benefits from stripping operations:

- usable ore that may be exploited by the entity to produce inventories;
- improved access to additional quantities of ore that will be mined in future periods.

This interpretation indicates when to assess, how to assess, and the manner of assessing these two benefits, initially and subsequently.

POSITION ADOPTED

The asset generated from stripping activity must be recognized **as an addition or improvement of an existing asset**, if the three following criteria are met:

- the asset conveys future economic benefits (improved access to the ore body) for the entity;
- the entity can identify the part of the ore body to which it has improved access;
- the related costs of the stripping activity can be measured reliably.

The **initial measurement** of the stripping activity asset is at cost, namely:

- + Costs directly incurred in carrying out stripping activity which gives improved access to the identified part of the ore body (excluding costs relating to incidental operations)

- + Share of the indirect costs directly attributable to the asset.

When the costs of the stripping activity asset and the cost of the inventories produced **are not separately identifiable**, the stripping costs incurred during the operation phase are allocated between inventory produced and the stripping activity asset, by drawing on the relevant production data such as: the cost of the inventories produced compared to the forecast cost, the volume of the overburden extracted compared to the expected volume, the ore content versus the expected content, etc.

The **subsequent measurement** of the stripping activity asset is cost or revalued amount, less depreciation, amortization and impairment losses (the same treatment as the existing asset of which it is a part).