

# A GUIDE TO TRANSITION FROM EXPLORATION TO DEVELOPMENT AND PRODUCTION

ENERGY & RESOURCES



A deep dive into the **accounting, tax and finance** implications as you transition from exploration through development and ultimately, production.



# Foreword

The transition from exploration to production is an exciting journey however, it can be extremely challenging. For each company the challenges are unique, and the circumstances can vary significantly depending on where you are in the journey. The Transition to Production guidebook has been created to help Australian mining companies navigate the myriad of accounting, tax and financing challenges that will present themselves along the journey. This guide will focus on the development and production stages of the mining lifecycle and will highlight the primary accounting, tax and finance challenges that are faced by companies during these stages.

Once companies have determined a proven amount of mineral resource that is economically viable to mine, they enter one of the most exciting and challenges moments: the development stage. The pre-development and development stages present a significant number of accounting, tax and finance challenges, including:

- Determining and applying the appropriate accounting policies in order to accurately account for revenues and costs;
- Creating appropriate tax structures to ensure tax positions are optimised and companies are meeting their tax compliance requirements; and
- Negotiating with lenders and investors to ensure that the project is fully funded under the optimal capital structure to maximise returns for stakeholders.

When companies transition to production, focus shifts to the safe and efficient extraction of the mineral. Sales contracts, revenue recognition, and mine and resource management become the main focus from an accounting and tax perspective. From a financing point of view, a mine going into production is a major milestone and significantly decreases the risk profile of the project and management, which allows companies to reassess their capital structure.

We have created this valuable guidebook to help you through the development and production transition journey, drawing attention to some of the major challenges we have seen other companies experience along the way.

For more information, please reach out to your local Grant Thornton contact to discuss any questions you may have. We can work together to not only identify any potential issues, but to provide you with practical solutions.

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# Introduction

As your mining project moves through the core stages, your needs change. This document is for senior executives, directors and finance teams to help manage your accounting, tax and finance matters as you transition and grow. To ensure this document is easy for you to navigate, all contents pages are hyperlinked so you can jump to the sections relevant to your company.

In addition to the accounting, tax and finance complexities, there are a number of other current issues facing the Australian mining industry. Below we have broken down both the development and production phases of the mining lifecycle and included some core considerations that may be affecting your operations.

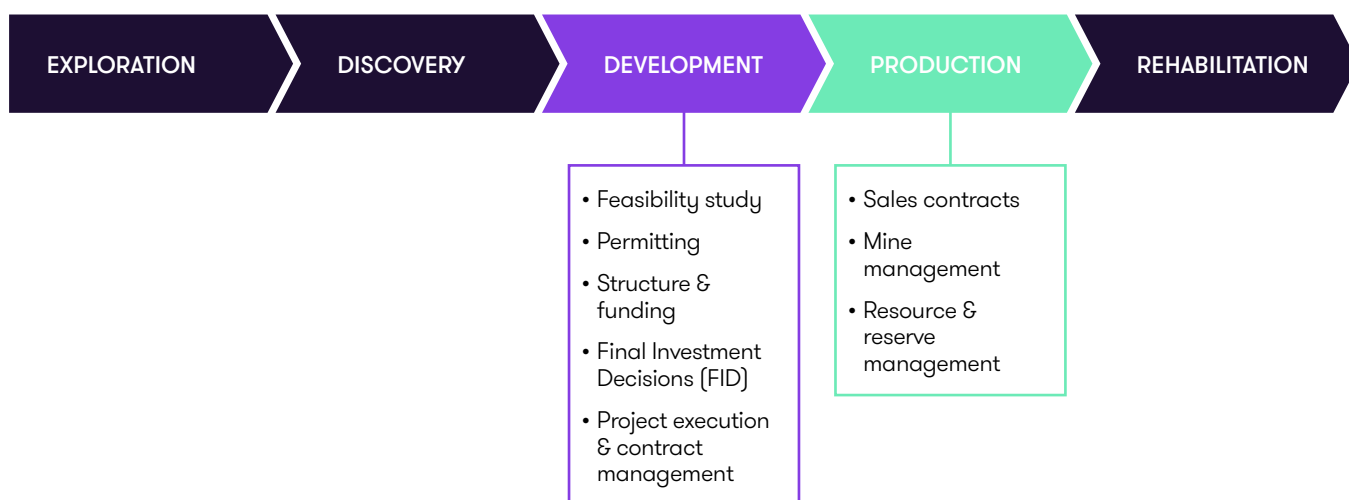
## Development activities

In the Development phase, activities and expenditures grow at an ever increasing rate. Your organisation has determined its mineral reserves and resources have value, but you initially need a plan to commercialise them. Once completed and approved, you commence building your project to extract, gather, treat, transport and store the minerals.

At this stage you may also face a raft of financial challenges. These range from feasibility studies, permitting, funding, investment decision making through to building the project. These challenges coupled with COVID-19 induced pressures resulting in staff shortages, increased demand for workforce in the mining sector, and record high construction and transport costs. As a result of all these factors, it's crucial for your organisation to have a firm understanding of financial reporting, taxation, financing and cash flow opportunities and issues.

## Moving into production

As organisations progress from development to production, mining projects become more transactional in nature with the objective to optimise profitability. This will involve proactive management of your commodity sales contracts, mine plan, resource management, and operating model. Given the inherent variability of commodity prices and operating costs, organisations need to efficiently manage their operations in conjunction with a broad understanding of accounting, tax, financing and cash flow opportunities and issues which arise through this phase.





# Industry snapshot



The mining industry must be at the forefront of applying technology to improve efficiency and reduce emissions as a significant driver toward achieving the 2050 net-zero carbon targets set out by Australia's Long Term Emissions Reduction Plan.



The Australian mining industry generated \$29.7bn in wages from 2017-2022\*.



Capital expenditure has declined -2 per cent from 2017-2022 however, due to higher commodity prices capital expenditure is expected to rise.



The 2022 Federal Budget has committed \$250 million to the critical minerals sector to become more globally competitive.



Growing demand from export markets and an increase in domestic production from iron ore mining has boosted industry revenue. Earnings are expected to rise a further 8 per cent to \$334bn in 2021-22, and then fall back to around \$300bn in 2022-23.



Mining entities with a strong Environmental, Social and Corporate Governance (ESG) plan experienced a 10 per cent higher than average market index with a total shareholder return of 34 per cent over the past three years.



The rise of technology has increased the demand for lithium and Rare Earth minerals. Australia has around 30 per cent of the global lithium reserves which is a huge opportunity for Australian companies to exploit and process these reserves.



Australia remains attractive to foreign investors with low sovereign risk, and economic and political stability. Grant Thornton's recently released 2022 Dealtracker report found that overseas purchasers comprised 30 per cent of transactions, up from 29 per cent.



Australia's mining sector was the largest economic contributor in 2020 with a \$202bn GDP.



In 2020, mining represented a 10.4 per cent share of the Australian economy.

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# Development Implications



## DEVELOPMENT IMPLICATIONS

# Feasibility study

### FINANCIAL REPORTING

#### Capitalisation vs expense

When completing a feasibility study, you need to decide whether you expense or capitalise these costs. Currently there is a divergence of practice within industry. Often the accounting for feasibility studies will follow the accounting for exploration costs. If exploration costs are capitalised, often the feasibility costs are capitalised. When exploration costs are expensed the feasibility costs are often expensed. All project costs should be capitalised after final investment decision (FID).

### TAX CONSIDERATIONS

#### Deductibility of feasibility expenditure

There is a specific provision in Tax Law that provides for an outright tax deduction for expenditure on exploration or prospecting. As a company transitions into the development and production phases this provision becomes decreasingly applicable, and it becomes increasingly important for companies to consider the exact nature of mining associated expenditure and its tax treatment.

Although a 'decision to mine' such as FID can be an indicator as to whether expenditure is exploration in nature or not, it is not a 'hard and fast' rule, and the specific expenditure must be analysed.

Feasibility studies in themselves do not have an innate nature (e.g. revenue deductible outright or capital deductible overtime), rather a company must look to what is being specifically studied. The costs are more likely to have a revenue nature where the studies value the ongoing process by which the business operates to obtain regular returns, such as 'how to mine'. Alternatively, feasibility studies may take on a more capital nature where the objective of the studies is to establish, or expand the source of those profits (e.g. beneficiation or downstream processing).

Where feasibility study expenditure is required to be depreciated over time, consideration needs to be given to which project asset the cost relates, which in turn dictates the rate at which the costs are depreciated / amortised for tax.

#### Categorisation of mining expenditure when undertaking feasibility studies

Development of the definitive or Bankable Feasibility Study (BFS) will require detailed cash flow forecasting to be made in respect of various forms of capital and mine development expenditure to be incurred over the life of mine, with varying tax profiles depending on the underlying nature of the expenditure or asset. Expenditure could be deductible outright, deductible over five years, depreciable over the life of mine, a longer period of time or not deductible (e.g. a CGT asset). Given the significant potential tax benefit this expenditure gives rise to over the life of mine, the timing of deductions can have a material impact on forecasting of tax cash flows for financial modelling purposes. These inputs should be required in detail to ensure tax cash flows within DFS / BFS financial models are optimised to reflect their correct tax profile.

#### Availability of tax losses' impact on Net Present Value (NPV)

The financial modelling within feasibility studies often includes a significant NPV benefit attributable to a deduction for tax losses previously incurred by the company delaying the payment of tax for a period post production. The ability for a company to deduct its prior year tax losses is subject to the Continuity of Ownership (COT) or the Business Continuity Test (BCT). Often these tax losses date back a number of income years and potentially a number of iterations of corporate strategy.

The BCT is much more subjective in nature and as a result provides a level of uncertainty regarding the availability of tax losses where a company must rely on the BCT to deduct its tax losses. Of note, concessionary tax loss testing rules apply for listed and widely held companies that make the satisfaction of, and testing requirements for the COT simpler than for non-listed, non-widely held companies.

The deferral of tax payments due to the use of prior year losses can have a significant impact on overall project cash flow. As part of the feasibility process, detailed analysis should be undertaken in respect of prior year losses to provide comfort regarding the present availability of historic tax losses and provide an opportunity to appropriately address such issues in any financial modelling where reliance on the BCT is required.

## FINANCING / CASH FLOW ISSUES

### Introduction to the Definitive Feasibility Study (DFS)

To raise debt finance for a project the project will require as a minimum a definitive feasibility study (DFS). The DFS is typically prepared to an accuracy of approximately 10-15 per cent, although it should be noted mining projects do not have a great track record of delivery with many projects running over budget and experiencing delays over and above the DFS margin of error. It is for this reason that financiers have a strong focus on 'completion risk' and how cost overruns / delays will be funded. A reasonable benchmark for the cost of preparing a DFS is around 2.5 per cent of project costs.

### Importance of the DFS

From a financing perspective this will be a very important document. It will be used to support discussions with off takers, equity investors, and lenders, and importantly will be reviewed by the banks' Independent Technical Engineer (ITE) during the due diligence process if debt project finance is sought.

### Features of a strong DFS

- Strong management team important to steer and coordinate consultants to drive commercial outcomes.
- Granular (bottom up) modelling of costs including transparent and reasonable assumptions such as: diesel price, labour costs and steel costs (which usually are inputs to most cost elements).
- No two deposits are the same so it is essential to be able to support decisions around the processing flow sheet with real world data through testing and pilot plants using material from your specific deposit.
- Maintain practical mindset not necessarily focussed on extracting every last dollar of NPV.

### Inflationary pressures

A current issue being faced by companies preparing feasibility studies is how to deal with inflationary pressures on costs. These pressures are being experienced through: labour shortages / increased labour costs; high steel prices; higher transport (import) costs; COVID-19; more recent geopolitical events; and high oil prices. Currently these pressured combined have led to an unpredictable environment, and while it is generally expected these inflationary pressures will be transitory, they are very real at the moment and there is no consensus around when costs will return to pre-COVID levels.





## DEVELOPMENT IMPLICATIONS

# Permitting

### FINANCIAL REPORTING

#### Tenement ownership

Tenement ownership often requires environmental permits, exploration and mining licenses and native title / landowner agreements. In addition, there are increasing ESG (environment, sustainability, governance) expectations with respect to tenement ownership. Costs incurred prior to obtaining tenement ownership are expensed, as they do not meet the definition of an asset since you do not have legal title to the tenement. Costs incurred to maintain ownership of the tenement can be capitalised until management determines the tenement does not have any economic value, then the capitalised costs are impaired.

### TAX CONSIDERATIONS

#### Intangible exploration / mining assets

Companies in the development phase will often look to acquire neighbouring properties to concentrate ownership in the area and maximise opportunities for exploration upside. Intangible exploration / mining licences and accompanying mining information are considered depreciable assets for tax purposes. The cost of acquiring these intangible assets from third parties other than exploration licences acquired from government agencies is required to be depreciated over either the life of the proposed mine situated on the property (if known) or 15 years. Entitlement to depreciation deductions in respect of these intangible mining assets can also arise where they are acquired via the acquisition of shares in companies holding the underlying intangible assets by a tax consolidated group.

#### Treatment of native title and landowner arrangements

Payments required to be made by miners to traditional owners under native title arrangements can give rise to a variety of outcomes for tax purposes depending on the nature of the payment – ranging from being immediately deductible, deductible of time or for certain payments, no deduction being available at all. The nature of proposed payments should be carefully considered and reviewed throughout the negotiation process with traditional owners to ensure payments are structured tax effectively.

### FINANCING / CASH FLOW ISSUES

#### Timing of financing process

All required permits (e.g. mining licence and environmental approvals) will need to be in place before debt financing can be secured. If there are potentially contentious issues that may lead to a licence not being granted for a project, it may be difficult to get lenders or other financiers to commence material work without permits being in place or a clear line of sight to their granting.

# Structure & funding

## FINANCIAL REPORTING

### Joint ventures / joint operations

Joint arrangements describes all arrangements where two or more parties have joint control. There are two types of joint arrangements being joint operations and joint ventures. The contractual rights and obligations drive the categorisation of a joint arrangement as a joint operation or joint venture. Unanimous consent must be present over the financial and operating decisions for joint control to exist. To be a joint operation parties must have rights to the assets and obligations for the liabilities relating to the arrangement. To be a joint venture parties must have rights to the net assets of the arrangement.

Determining the type of joint arrangement can be a complex assessment as legal structure, contractual arrangements, governance structure, and other factors all affect the assessment. If determined to be joint operations each party records its share of revenue, expenses, assets and liabilities. If determined to be a joint venture you apply equity accounting, where each party records the initial investment at cost and records their share of profits and losses, and distributions received.

### Equity structures

Project owners may decide to undertake commercial arrangements with their customers. This may be in the form of an off taker purchasing equity in the project, providing financial support for project completion or prepayments of products / commodities. These arrangements often reduce project risk and are requirements for a bankable project. These types of commercial arrangements result in the need to assess the accounting treatment for difference structures like joint operation, incorporated joint ventures, un-incorporated joint venture, equity investment or some other form of ownership.

### Hedging

When establishing the funding model for your investment a key issue is whether you enter into hedging arrangements to manage exposure to financial risks. The most common hedging arrangements are the use of derivatives to manage commodity price risk, foreign exchange risk, or interest rate risk. Hedging requires a company to enter into a derivative transaction with a counterparty with the objective to reduce the risk that unfavourable movements in price, foreign exchange or interest rates. The overall objective of accounting for hedges should be consistent with the objectives of the hedging transaction, being to eliminate or reduce the specific risks that may have an adverse impact on your financial position or results. There are many complexities with respect to accounting for hedges as there are many different derivative products available on the market. The most common hedging is commodity price cash flow hedges.

### Share issue costs

The costs associated with raising new equity are allocated to share capital. When new equity is raised as part of an Initial Public Offering (IPO) or debt structures with a combination of debt and equity, it is often difficult to determine the allocation of costs associated with raising new equity as all other costs are expensed. With respect to an IPO there is a need to allocate costs between raising new equity (charged to equity) and those associated with the IPO process (expensed). Often the allocation is determined based on the ratio of number of shares on issue prior to IPO compared to new shares issued through the IPO process.

## TAX CONSIDERATIONS

### Debt vs equity classification

The tax impact of the funding of a project must be carefully considered prior to determining the nature and specifics of a projects' funding. First and foremost, it should be determined whether equity or debt funding is most commercially appropriate (or a combination of the two).

Where equity is the funding means (assuming shares), consideration should be applied to:

- the level at which the equity is injected (head company vs operating subsidiary) particularly within a tax consolidated group; and
- the impact that the change in the shareholder base has on the company's availability to retain and utilise tax losses generated during the exploration phase.

Where debt is the funding means, consideration should be applied to:

- which entity that takes on the borrowing and claims the tax deduction;
- the application of the taxation of financial arrangement rules; and
- whether the borrowing in fact meets the definition of a debt interest for tax purposes, allowing for a tax deduction on interest and borrowing costs.

Specific funding matters need to be considered where the mining company is part of a global group, including the:

- interest rate being applied to the loan (for related party borrowings);
- leverage ratio of the company (i.e. thin capitalisation); and
- application of the withholding tax rules.

### Incorporated vs un-incorporated joint ventures

Consideration needs to be given to the vehicle in which the funding is arranged. There are different tax consequences between investing in an unincorporated JV, which is similar to investing in an asset, and investing in an incorporated JV, similar to partial investment in a company. These differences can have impact on key tax areas such as the use of a participants tax legacy losses against project profits and franking credit flow through, influencing overall project value.

### GST joint ventures (sale of product vs share of product)

Where development of the project occurs via an unincorporated joint venture significant administration efficiencies can be realised where a GST joint venture is formed by the joint venture parties. These concessions enable transactions occurring between the joint venture and its members to be disregarded for GST purposes – removing the need for GST to be applied at both levels. There are a number of requirements which must be satisfied in order to qualify and to ensure GST obligations are appropriately considered, the terms of the joint venture agreement should be reviewed in detail prior to execution – in particular evaluating the commercial purpose of the joint venture (e.g. share of product vs sale of product).

### Tax losses availability

The raising of project financing can potentially have adverse implications in respect of a company's ability to deduct its prior year losses. The raising of equity capital could result in a change in the shareholder base and impact the company's availability to retain and utilise tax losses generated during the exploration phase.

The raising of equity capital can also reduce the rate at which certain 'transferred' tax losses can be recovered. This can restrict the amount which can be deducted in an income year, creating a cap on the net tax benefit available – potentially diminishing their value to the company and bringing forward cash tax payments.

### Tax consolidation issues

Where a tax consolidated group exists, it's imperative to understand the level at which the funding is to be injected. Issues can arise where funding is intended to be injected at the operating subsidiary level, meaning that entity exits the tax consolidated group, particularly where all the tax losses generated in prior income years are deemed to be held by the non-operating holding company of the group under tax law. Under this scenario the previously generated tax losses held by the holding company will not be eligible to be utilised to offset future taxable income generated by the operating entity that has exited the group. Tax events can also occur on exit of the subsidiary which need to be carefully planned for as part of the transaction.

## Cross border borrowing – thin capitalisation and withholding tax (WHT)

When the Australian mining company is part of a global group, consideration must be applied to the thin capitalisation rules. Broadly, these rules operate to limit the debt funding capacity of an Australian miner, using a prescribed ratio based on the market value of the net assets held by the miner. Where prescribed thresholds are breached, a proportion of the interest deductions are denied.

When funding is provided by an overseas party, consideration must also be given to whether and when interest withholding tax applies. Of importance, WHT does not only apply to actual payment, but can apply to construed payments (e.g. capitalised or derred interest).

## Royalty funding arrangements

Royalty funding agreements can act as an attractive non-dilutive financing alternative involving a miner granting a right to an agreed share in gross proceeds arising from production of a particular mineral project in exchange for an upfront payment (e.g. override royalty).

For tax purposes the proceeds received from these financing transactions in most instances give rise to amount of assessable income upfront, with subsequent payments then being deductible. This upfront tax event can potentially give rise to adverse tax implications for miners and the terms of any royalty funding arrangements should be carefully considered to ensure the tax consequences of the arrangement are quantified prior to execution.

## Natural resource WHT

Australia's tax system contains provisions which imposes obligations on Australian mining companies to withhold WHT on 'natural resource payments' made to foreign residents. These provisions cover any payment calculated by reference to the value of resources produced or recovered and generally take the form of an override royalty.

The obligation to withhold are also influenced by any relevant Double Tax Agreement (DTA) in place between the relevant countries – with payments made to certain countries not being subject to these requirements. This withholding is also not at a specified fixed rate, instead parties are obliged to request a withholding rate from the Commissioner. Depending on the terms of these agreements, the net cost of this WHT could ultimately be payable by the payer and not the recipient.

## FINANCING / CASH FLOW ISSUES

### Factors that determine the attractiveness of a project to investors / lenders

For a company with a single major asset, the financing of the project is a key challenge. There are a range of factors that determine the attractiveness of a project to investors / lenders, including: country location of project (how does it rate in terms of ease of doing business and political risk?); project location (proximity to power, infrastructure, workforce, etc.); commodity (what is the spot price? what is the outlook for the commodity – surplus or deficit); projects competing for the same capital and their relative features; project return metrics like IRR and NPV; position on the 'cost curve'; experience and track record of the management team.

## Sources of funding

It is important to consider and maximise all funding sources, these include:

- **Project finance debt** – Although it depends on the modelling, projects can often support a gearing level of 50 to 60 per cent of the project costs. This reduces the equity requirements to fund the construction. All of the major Australian banks provide these types of facilities, along with quite a few international banks with teams here in Australia or Asia.
- **Export Credit Agency (ECA) debt** – most countries now have ECAs representing their local companies and assisting them with securing contracts overseas. ECAs are a great source of liquidity for a mining project and their funding can take the form of ‘tied’ (linked to the supply of a particular product or service) or ‘united’ (linked to securing an offtake contract where the ECAs home jurisdiction is a recipient of the product). They can also either lend directly to the project (as a bank would) or provide guarantees to the commercial banks in the deal.
- **Australian Government funding sources** – increasing number of government sources for funding locally. Export Finance Australia (EFA), Northern Australia Infrastructure Facility (NAIF) \$5bn, Clean Energy Finance Corporation (CEFC) \$10bn, Modern Manufacturing Industry (MMI) grant \$1.3bn, Critical Minerals \$2bn.
- **Equity – Strategic Investor** – strategic equity investors include large producing miners and / or off takers. The benefits a strategic investor brings are their development / construction capability, strong balance sheet to underpin financing, and political and industry connections.
- **Equity – Public Markets** – stock broker led and usually from existing and new shareholders, institutions and retail investors.
- **Alternative Financing** – including prepayments, royalties, streams, mezzanine debt, and convertible notes.

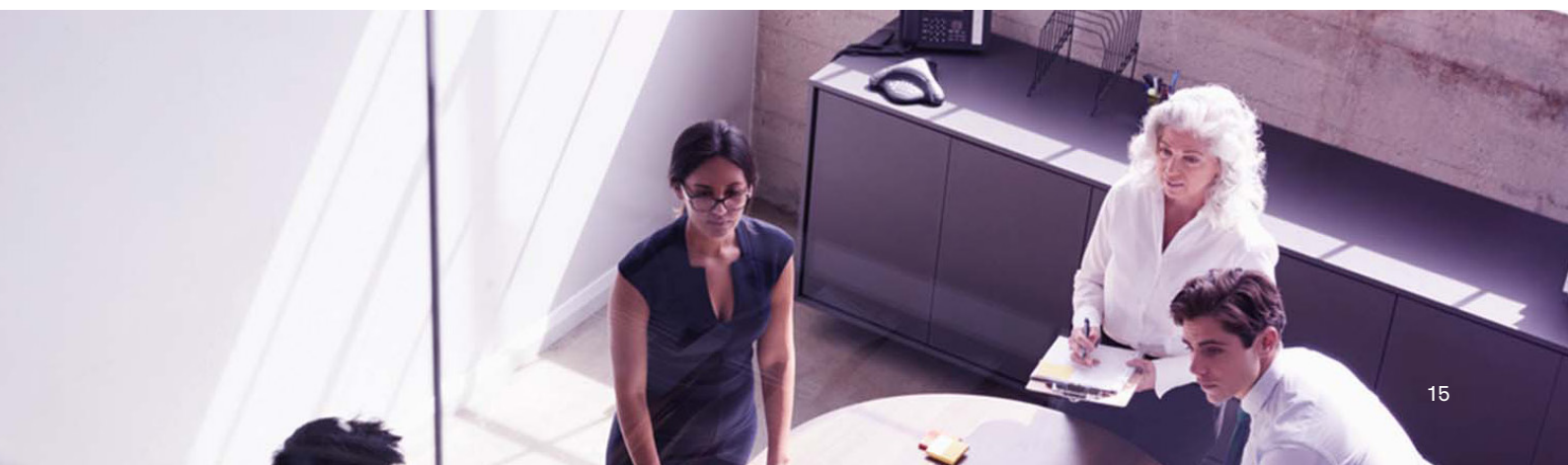
## Raising debt – key risks considered by banks and what is ‘bankable’

What is ‘bankable’ is actually quite a grey area. There are a number of areas listed below that will require consideration, but depending on the overall mix of these elements and the qualities of the project itself, or the identity of the sponsor, what is bankable for one sponsor / project may be different for another project. The main risks to be considered include:

- Financing risk
- Financial metrics
- Construction and completion risk
- Market risk
- Country and political risk

## Offtake contract key terms

- **Counterparty** – banks will focus on the ‘credit-worthiness’ of the off taker. Are they recognised companies with significant balance sheets? Are they existing customers of the bank? Who is the entity contracting with the project (and what is their connection with their parent / own financial standing)?
- **Contract term** – banks will typically want to see contract tenors at least as long as their debt (so perhaps 5 year offtake contracts for a 7 year door to door facility).
- **Pricing mechanisms** – depending on the commodity, banks may require floor or fixed pricing, at least for a portion of the offtake volumes.





## DEVELOPMENT IMPLICATIONS

# Final Investment Decisions (FID)

### FINANCIAL REPORTING

#### Reclassification from exploration to development

Exploration assets are reclassified from exploration to development when evaluation procedures have been completed and you have a commercially viable project. Upon reclassification, you are required to complete an impairment test. The outcome of this assessment is usually positive, as management would not approve FID unless the project was commercially viable. However, the reclassification process may identify some exploration tenements which are no longer required and / or relinquished. Since these tenements have no value they are written off to the profit and loss. Industry practice is the asset re-classification generally occurs at FID.

#### Presentation & functional currency

Management needs to determine the presentation and functional currency of the reporting entity. The functional currency for a mining company with assets only in Australia would typically be Australian dollars as this is the home' currency. However, if a company have US Dollar sales revenue, USD debt, and expenditure in different currencies its functional currency may be USD. Companies with significant international assets often apply USD functional currency (e.g. the large Australian mining companies). For companies with mining assets in foreign countries the determination of functional currency can be complex. A further issue is managing the financial impact of multiple currencies and movements in foreign exchange rates.

A company's presentation currency, being the currency applied in the annual report, is at the discretion of the Directors.

#### Lump sum vs cost plus contracts

A major decision of management is whether to enter into lump sum or cost -plus contract to build the project. Often major projects have a combination of both types of contracts. A key accounting issues for lump sum contracts is the effective management of potential project cost variances, which can be both complex and material. This issue needs to be managed both on real time basis and accounted for each reporting period. Cost plus contracts bring uncertainty, increases risk, therefore the ability to manage and control the forecasted projected costs.

#### Operating contractual arrangements

Management need to finalise material operating contracts at FID to enable the project NPV / economics to be determined. These contracts can include mine management, blasting, material movement, road / rail transport, storage of dangerous goods, access to water and electricity to name a few. Contracts are structured in different ways, including fee for service arrangement, fixed and variable components, lease arrangement, or a profit share arrangement. These type of contracts have different accounting implications and need careful consideration when structuring. An example of an unexpected outcome could be the provision of mining services equipment by a third party being considered a lease arrangement thus the need to apply lease accounting, which would result in lease assets and liabilities being recorded on the balance sheet.



## Recognition of tax losses

Often companies in the development stage have unutilised tax losses which are not recognised for accounting purposes due to the uncertainty of future taxable revenue. Once a project reached FID the uncertainty of future taxable revenue decreases, and management need to consider recognition of tax losses as a deferred tax asset. Whether the tax losses are recognised at FID or first production or some other point in time depends on individual company circumstances.

### TAX CONSIDERATIONS

#### Deductibility of expenditure

The 'decision to mine', although not absolute, is an important element in determining whether expenditure is exploration in nature, or represents capital expenditure that forms part of the structure of a project. Once the decision to mine has been made (often evidenced through the FID), consideration has to be applied to how the project costs are treated from a tax perspective going forward.

Broadly, general business operation costs are deductible outright. This typically includes mineral extraction, processing, overburden removal and some haulage road costs.

Costs associated with the establishment, extension and improvement of a project, or assets connected to the project are generally capital in nature. Where the costs are specific to an asset, the cost is included in the cost base of the asset, and depreciated over the asset's effective life (i.e. Which may not be the same effective life of the project).

Where costs are not in respect to a separately identifiable asset, or are deductible under another provision of the Tax Act, but relate to capital expenditure directly connected with the carrying on of mining and quarrying operations that may form part of a 'project pool' and are generally depreciated over the life of the project. There are specific types of project pools, namely a mining capital expenditure pool (capital expenditure connected to the mining sit and associated infrastructure) and a transport capital expenditure pool (capital expenditure connected with the transport of minerals).

Of note, although land is not a depreciating asset, improvements to land, such as site improvement of an open pit mine can be, and are therefore eligible for depreciation over the improvement's effective life.

## Fuel tax credit entitlement

A considerable amount of diesel and petrol fuel will be consumed through the use of specialised mining equipment, heavy yellow-cat machinery and light vehicles during the carrying on of mining operations. A per litre fuel tax 'credit' is potentially available in respect of fuel used on site. The entitlement to this credit will be dependent on who is taken to have 'purchased' the relevant fuel.

The requirements in respect of the purchase or provision of site fuel are often covered under the relevant mining services agreements and therefore entitlement to fuel tax credits determined as a result. Where a miner is not entitled to claim fuel tax credit for fuel used on site, it should ensure the benefit of this credit is passed on by the relevant contractor to the miner via a reduction in cost.

## Contractor vs employee considerations

The introduction of various contractors through the FID process gives rise to additional areas of risk in respect of the company's employee obligations. While the intent of the parties may be for no employee relationship to exist, the specific terms of contractor arrangements can trigger a number of 'deeming' provisions which impose employee tax obligations (e.g. PAYG, superannuation, payroll tax and insurances) on the payments made to the contractor. The terms of contracts should be reviewed in detail as part of the FID tax review to ensure any employee type obligations are identified and their impact quantified or restructure.

### FINANCING / CASH FLOW ISSUES

This is a major decision for the board of directors and will trigger the spending of significant funds to commence the project and start ordering long lead items. Typically, the Directors will want to see a credit approved term sheet from the bank group in order to support the FID decision.

## DEVELOPMENT IMPLICATIONS

# Project execution & contract management

### FINANCIAL REPORTING

#### Capitalisation of borrowing & foreign exchange costs

The cost of borrowing money (primarily interest costs) to build a capital project can be capitalised to the project if the assets are considered qualifying assets. Qualifying assets are those assets requiring a substantial period to get ready for their intended use. Borrowing costs can include either specific borrowing costs to finance the project or those costs avoided if the qualifying asset had not been made (e.g. the company uses corporate funding facilities instead of project funding). If corporate funding is used you apply an average cost of borrowing times project expenditure to determine the quantum of interest to capitalise. Typically, foreign exchange gains and losses on project debt cannot be capitalised to the project. However, in limited circumstances, foreign exchange movements may result in an adjustment to the effective interest rate of the debt facility and indirectly these costs are capitalised.

#### Removal of overburden and waste rock / deferred stripping costs

Overburden removal or deferred stripping costs incurred in the initial development of the mine should be capitalised as part of the mine asset. Once production commences these costs are depreciated over the economic life of the mine applying the unit of production method.

#### Pre-production sales

During the period of plant, commissioning production is increased gradually towards design capacity and the pre-production product is sold. Past practice has generally been to credit these sales proceeds against the cost to the project asset as the test production was considered necessary to complete the project. Recent amendments to accounting standards prohibit the crediting of pre-production sales to the mine or property plant and equipment asset balances. Pre-production sales are now revenue. The challenge is to determine the costs incurred to generate the revenue. Given production accounting, systems and workflows are often not finalised during a build stage, and costs incurred would be from a number of different sources, difficulties will arise in determining the cost of sales.

### TAX CONSIDERATIONS

#### Contract management costs

The specific nature of the execution costs needs to be individually analysed to determine if the costs are deducted outright (operational), amortised over the life of a particular asset, or amortised over the life of the mine.

Whether the costs are undertaken internally or through contract management does not generally change the nature of the payment for tax purposes. Consideration should however be applied to the contract arrangement to determine if there are any employment tax obligations for the mining company in engaging the contracted party.

Further, the timing of deductibility of costs may be different where the engagement nature is different (i.e. a fixed fee engagement vs time cost engagement) and where components of the contract are contingent, such as production performance bonuses.

#### Capital expenditure tax incentives

The 2020 Federal Budget introduced the Temporary Full Expensing (TFE) provisions to encourage the acquisition of capital assets by providing an outright deduction for the costs of assets acquired prior to 30 June 2022, which has recently been extended to 2023. These provisions enable a miner to realise the full benefit of capital expenditure in the year of spend, rather than over the asset life.

There are a number of conditions which must be satisfied to access the concessions including turnover eligibility requirements and restrictions regarding second hand assets. There are also a number of carve outs which have particular application to the mining industry. The choice to apply these provisions and trigger the tax benefit upfront should be carefully reviewed to identify any potential adverse flow on consequences arising from the choice – (e.g. where it results in tax losses which may not be available or adversely impact the company's desired capital management strategies).

## Remuneration structuring, expatriate / Fly-In Fly-Out, FBT matters

The journey to production will generally require a substantial increase in the company's workforce in order to inject additional technical and specialist capabilities and the scale necessary to bring the project online. Given the increasing competition for talent in the mining sector, the structuring of tax effective and attractive remuneration packages during the recruitment phase provides an opportunity to attract and retain potential employees globally. The nature of the mining industry provides access to a number of specific fringe benefit and personal tax concessions which, when structured appropriately, can result in an increase in an employees after tax remuneration without an increase in cost to the miner.

## Overburden and haulage roads costs

Costs incurred in undertaking the overburden removal process are generally outright deductible for tax purposes, which can give rise to a substantial tax benefit early in the mine life prior to the generation of profits. However, once the surface of the orebody has been revealed, it may be necessary to apportion costs between extractive operational activities (e.g. drill and blast) and the capital development of the mine (e.g. some haul roads), which is depreciable. Where the overburden removal process and commencement of mine development all occur within a single income year, this requires careful consideration of the expenditure to ensure the correct position is applied for tax purposes.

The tax treatment often varies significant from the treatment of such costs for financial reporting purposes and as a result separate tax specific analysis is required. To assist with this analysis the ATO have published guidance on the apportionment methodology, which requires management to work with their mining engineers to appropriately apportion costs to the construction of these mine assets based on their actual underlying design.

## FINANCING / CASH FLOW ISSUES

### Construction – conditions precedent to drawing down on project debt facilities

The financing documents may be agreed and signed, but in order to actually draw down on the debt facility the following conditions will need to be satisfied:

- Due diligence complete
- Key project contracts (e.g. EPC and offtake agreements in place)
- Legal opinion from Bank's lawyers on loan agreements and project documents
- Equity has been spent
- Security package is in place
- Insurance in place
- Cost overrun facility is in place
- Cost and time to complete tests

### Operations – project 'Completion'

Once ramp-up is completed the project will then be subjected to 'completion tests', which are heavily negotiated, and can include:

- Physical completion – receive a completion certificate (from bank ITE) (e.g. plant operating at >90 per cent of nameplate capacity)
- No Event of Default
- Debt service coverage ratios are passed
- Security in place and representations remain valid





# Production Implications

# Sales contracts

## FINANCIAL REPORTING

### Revenue recognition

The supply of commodities in exchange for consideration is revenue. A number of different contractual arrangements are available including partnerships, agency arrangements, transportation arrangements, provisionally priced commodity sales contracts and long-term take-or-pay arrangements. The complexities together with a relatively new accounting standard on revenue recognition can make the decision on when to recognise revenue a bigger challenge.

The new revenue accounting standard replaces existing practice that varied between companies. To determine the timing of transfer of control of a commodity you complete a 5-step revenue recognition process being:

1. Identify the contract
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue

### Provisional pricing arrangements

Sales contracts for commodities often include provisional pricing, where the price received on delivery date is subsequently adjusted. These adjustments arise due to price structure terms and conditions like sales contracts applying average pricing, or price measurement date is subsequent to delivery date and / or quantity or quality adjustments where the purchaser completes assay or volume certification. The provisional price on delivery date is recorded as revenue but adjusted each reporting period to the estimated price based on the best available market or contract information.

### Offtake arrangements or long - term contracts

To achieve FID, you often require some certainty of revenue inflows. Companies enter into long term sales contracts, often referred to as offtake agreements and take-or-pay contracts. The accounting for these contracts is similar to other sales contracts, but adjustments may be required if the contracts stipulate set volume of product at an agreed price, or includes price adjustments based on a price index, production or transport cost adjustments, or changing commercial or market conditions. These types of contracts may include imbedded derivatives which are accounted for separately.

A further issue is to ensure the offtake creditor can make the payments (credit worthiness) for product when purchased.

### Embedded derivatives on sales contracts

Long-term sales contracts may include pricing adjustments based on a commodity or index other than the commodity you are selling to your customers. In these situations, you may have an embedded derivative requiring separate accounting for the sales contract and the embedded derivative.

## TAX CONSIDERATIONS

### Timing of income

Generally, companies derive income for tax purposes where that income represents a recoverable debt under the applicable contract. Essentially, this is where the company receiving the income has completed its contractual obligations making it legally entitled to that income.

This time will often differ from the accounting revenue point. It's important the underlying terms of the contract be reviewed to establish when income is derived for tax purposes (e.g. who takes ownership and when) and therefore when the timing of tax liabilities are triggered.

## Overseas marketing hubs

The ATO are currently targeting ‘marketing hubs’ as they are deemed a major risk to Australia not capturing its appropriate amount of tax from Australian mining companies. Marketing hubs are overseas companies (generally related to the Australian miner) that provide marketing and sales functions for goods or commodities that are produced in Australia and sold offshore. The ATO are concerned that profits attributed to the hubs exceed the true value provided by such hubs.

## GST and export

The sale of mineral product is generally GST free where they are exported from Australia within 60 days of the earlier of the miner receiving payment for the product or issuing a tax invoice for the sale. Where these requirements are not satisfied, the miner will have an obligation to remit GST to the ATO at the rate of 10%. Accordingly, the terms of offtake agreement with an overseas party should be reviewed in detail to identify the timing of the supply for GST purposes, the export timing requirements and the administration process of the parties in the event a shipment does not meet the GST free requirements.

## Custom duty

Where the offtake partner is located overseas, the export of mineral product under the offtake agreement will as a consequence generally involve the importation of shipments into a foreign jurisdiction. In most instances this will require the payment of customs duties or tariffs to facilitate the discharge of the shipment from the port. Accordingly, the terms of offtake agreement with an overseas party should carefully reviewed to identify the relevant importer of record, administration obligations of the parties in respect of duties and any indemnification granted between the parties.

## FINANCING / CASH FLOW ISSUES

### Capital structure optimisation

Once a project successfully enters production and is profitable, the project is substantially de-risked. At this point in time the company should re-consider its capital structure and a potential re-financing of the debt facilities raised for construction, as you are likely to secure more favourable terms including interest rate and tenor.

### Ongoing reporting and management

The company will need to be aware of its reporting obligations to the lenders, which will include regularly providing key financial information (annual and half yearly reports, updated financial model) and management reports, and also reporting on the financial covenant levels (likely semi-annually or quarterly).





## PRODUCTION IMPLICATIONS

# Mine management

### FINANCIAL REPORTING

#### Operating segments

Management needs to determine whether the new operating mine constitutes a separate segment or can be included within an existing segment. The primary focus is on how operating results are reported to the chief operating decision maker (CODM). That is, if each mine financial and operating results are reported separately to the CODM this suggests that each operating mine is a separate segment. A further issue is whether exploration assets are a separate segment to operating mine assets. Typically, the exploration assets are a separate segment. However, near mine exploration costs may be part of the same segment depending on how the mine plan intends to utilize the resource / reserve.

#### Production stripping costs

A company undertaking overburden removal in the production phase is referred to as production stripping costs. In practice there are two alternative accounting options applied: the inventory method and life of mine ratio method. Under the inventory method all costs associated with overburden removal are charged to production costs. Under the life of mine ratio method, the company capitalises the stripping costs to the extent that the current stripping ratio is higher than the forecasted average stripping ratio over the life of the mine. These deferred production-stripping costs are then amortised to production costs when the actual stripping ratio falls below the forecasted average stripping ratio. The objective of deferring production-stripping costs is that higher overburden costs are often incurred earlier rather than later in the project mine plan. The inventory method generally results in a more volatile expense as cost of overburden removal can vary significantly one year to the next. The life of mine ratio method results in a closer matching cost recognition to production volumes and is the most common method applied.

#### Inventory costing and net realisable value

Mining product inventory includes run-of-mill (ROM) ore, work in progress or ore in circuit and finished goods. Issues that need to be considered when accounting for inventory including:

- allocation of costs applying weighted average costs or first in first out (FIFO) methods
- accounting for costs including fixed costs, variable costs, and administration costs as all costs required to bring the inventory to its current condition need to include in inventory costs.
- the impact of joint or by products have on cost measurement
- accounting for low grade or long -term stockpiles
- the requirement to record inventory at the lower of cost and net realisable value.

Accounting for product inventory can be a complex issue.

#### Consumable and capital spare Inventory

Most consumable spare parts are carried at costs and recognised as an expense as consumed. The accounting for these spare parts is relatively straightforward with the key issues being the need to write off obsolete, damaged or surplus inventory.

Spare parts purchased and held as replacement parts for equipment as part of a longer-term asset replacement programme or for key equipment breakdown, are referred to as capital or insurance spares. In most cases, these costs are capitalised to property, plant and equipment and depreciated over the effective life of the capital spare.

## Joint and by products

Often a mine will produce more than one metal by the same mining process (e.g. gold and silver are often contained in the same ore body). In these situations, you need to determine whether they are joint-products or one metal is a by-product. In simple terms if the metal produced is not significant it can be a by-product. For joint products, you need to allocate the production costs between the metals based on a systematic and rational basis. If applying by-product accounting, a common approach is to not determine the cost of production for each product, but to account for inventory at net realisable value, with the movement in inventory value charged to cost of sales.

## Mining contractors and lease arrangements

Often the owner of a mine employs mine contractors to manage or provide specific services to the mine. Services they provide may include drill and blast, excavation, load and haul, crush, and transportation. These service contracts can be a combination of payment for fixed and variable costs for both services and assets provided and often are based on volume targets (e.g. contracted dollar amount for ore crushed). Often the physical equipment allocated by the contractor to the mine is dedicated to a mine which may result in the mine owner having to account for components of this contract as a lease.

### TAX CONSIDERATIONS

#### Production costs

Once in the production phase, there tends to be less costs connected to the development of the mine and acquisition of capital equipment and more extraction and operations costs. Thus, a greater proportion of the costs are deductible outright.

This is also when the mine generates the bulk of its revenue and profits, so it is increasingly important to test the availability of the tax losses to ensure they are eligible for use and determine the timing of the derivation of the income.

Where the Australian miner is part of a broader global group, consideration must be applied to the profit allocation attributable to the Australian business and arms length nature of any inter-company dealings.

## Trading stock

For tax purposes trading stock can be valued using different valuation methods. There is the ability to change the valuation method annually and for different classes of stock. The accounting for the production of mineral trading stock for tax purposes can differ from that required under the accounting standards. Trading stock costing should be carefully considered to ensure the tax benefit of certain processing areas which are deductible outright for tax purposes are not inadvertently realized over the life of mine as required under the accounting standards. Consideration should be applied to the tax impact of the different valuation methods and companies need to ensure that where substantiation is required for the chosen method that it is prepared accordingly.

## Franking of dividends

The ability for any dividends proposed to be paid by the company to its shareholders to be 'franked' will be limited to balance of the company's franking account. Due to tax losses and the various exploration and mining concessions available which effectively bring forward deductions, the amount of tax profits generated by a company (and therefore cash tax paid) at the time of their maiden dividend may be substantially lower than the accounting profits generating from mining and the resulting dividend proposed to be paid therefrom.

Depending on the company's target pay-out ratio, the amount of cash tax paid could be significantly less than that required to fully frank dividends intended to be paid in the income years shortly after production commences. Effective cash tax and franking account forecasting should be developed and implemented by management to provide their board with visibility regarding the company's capacity to frank shareholder returns over time.

## Availability of R&D

The operating phase of a mine brings several operational and geological technical challenges as management look to deliver the mine plan and recover the resource as efficiently and safely as possible. Given each resource is unique, these challenges often require the development of new ideas, new processes or the application of new technology to overcome.

The R&D tax incentive encourages companies to engage in R&D benefiting Australia by providing a tax offset for eligible R&D activities. In executing their mine plan, companies can invest considerable funds and resources in internal R&D to develop new intellectual property – sometimes without even realising their activities might qualify for this incentive.

The R&D tax offset provides for net tax benefit of 8.5 per cent to 18.5 per cent on expenditure undertaken on eligible R&D activities.



## PRODUCTION IMPLICATIONS

# Resource and reserve management

### FINANCIAL REPORTING

#### Depreciation and amortisation

The capitalised costs of a mine are amortised annually over the expected life of the mine. The most common method is the unit of production (UOP) method where amortisation expense is the annual production volumes divided by the estimate life of economically recoverable reserves from the mine. This information is extracted from the mine plan. The most common UOP approach is to use product output (e.g. gold produced / mine plan gold reserves), but alternatives can be applied such as ore crushed. A further issue to consider is whether straight-line amortisation is more appropriate for assets that are consumed by the passage of time. An example of this would be a new processing plant which has an economic life in excess of mine life and the ability to either be moved or used to process third party ore.

An important consideration is to include all future development costs, being the costs required to extract the reserves included in the mine plan to the total capital cost when completing your depreciation / amortisation calculations.

#### Determination of reserve / resource base

For depreciation and amortisation calculations, management should use the reserve base consistent with mine plan and the volume of reserves they expect to extract. This requirement often results in proved and probable reserves used to determine the amortisation rate for accounting purposes since it represents the best estimate of the economic life of the mine. This practice excludes all inferred, indicated and measured resources given the economics of these resources have not been determined.

When management have a high degree of confidence that resources will be converted to reserves, they can be included in the amortisation calculations. This alternative accounting usually depends on the type of mineral and characteristics of the ore body. An example would be near surface alumina and coal where management have a high degree of confidence that the ore body exists. Conversion from resource to reserves is expected, but delayed to preserve cash flow as existing reserves are sufficient to meet near term mine plan requirements.

#### Change in reserve / resource

When the reserve base changes due to updates to the estimated quantities (e.g. an updated JORC review), the depreciation / amortisation calculations are updated to reflect this change. This is a change in estimate and depreciation / amortisation calculation are applied prospectively. The reserve base for amortisation purposes can also change because management believe an alternative assessment is more appropriate (e.g. from reserves only to reserves plus a portion of resources but continue to apply the same unit of production method). This change could be either a change in estimate or change in accounting policy, depending upon the circumstances. A change in estimate is made prospectively, compared to a change in accounting policy which is made retrospectively.

#### Cash generating unit

A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows generated from other groups of assets. In the mining industry, this typically results in each mine being a separate CGU as each mine has its own infrastructure. This issue becomes more complex if the mining company also is involved in smelting and refining its metal, (often these processes are separate CGU's). Another issue to consider is if a mine utilises shared infrastructure with other mines, companies or through joint venture arrangements, (e.g. processing ore, storage and ports). Depending on the contractual arrangements, these assets may be a separate CGU or part of the CGU where the physical reserves are located.

Determination of a CGU is important when completing an impairment assessment.

## Impairment of assets

Given the volatile nature of commodity prices and the changing quality and quantity of reserves over time, the potential impairment of mining assets is a key financial reporting issue. The first step is to determine whether any indicators of impairment exist, like a material reduction in commodity prices. If indicators of impairment exist management have an obligation to complete an impairment test.

If a company has recognised goodwill on its balance sheet, there is an obligation to complete an annual impairment test regardless of economic circumstances.

The typical impairment test applies either a fair value less cost of sales or value in use methodology. The most common impairment methodology applied in the mining industry is a value in use. An impairment is recorded if the recoverable amount (value) is less than the carrying value of the CGU (often determined to be the mine). The recoverable amount typically is the discounted cash flow generated over the economic life of the CGU. The carrying amount is the book value of the assets required to generate the future cash flows. This would include assets like capitalised mine costs, overburden assets, property, plant, equipment, sustaining capital costs, and working capital.

Completing an impairment assessment is a complex issue given the need to apply assumptions with respect to future events (e.g. commodity prices, production levels, sustaining capital required, reserves, operating costs, discount rates, inflation rates, working capital requirements etc).

## TAX CONSIDERATIONS

### Change in mine life

The life of a mine is key factor for a number of provisions throughout the tax legislation – in particular being the driver for determining depreciation deductions rates for tangible and intangible mining assets and the various pools of capitalised project expenditure (project pools).

Any change to the assessment of the operational life of a particular mine or project can require a reassessment of a company's assets or expenditure pools 'effective life' for tax purposes. This tax life reassessment process is generally required to be undertaken on an annual basis.

A change in an assets effective life directly influences the quantum of annual tax depreciation available and as a result the annual net cash tax benefit to be realised.

### Mine extension expenditure

Expenditure incurred in extending an open pit or underground mine requires careful analysis to determine the appropriate tax treatment – often varying significantly from how accounted for financial reporting purposes. Importantly this requires segregation of expenditure between that attributable to development of the mine structure (e.g. haul roads, portals, declines) and the extractive mining process, which can be deducted through absorption costing.

Mines are generally considered depreciating assets for tax purposes, with the expenditure incurred in constructing, developing and extending the structure of certain mines included in its depreciable base. The treatment of such expenditure can also varies between short life (1-2 years) and longer life projects (2+ years) – with short life expenditure often deductible outright.



## PRODUCTION IMPLICATIONS

# Rehabilitation

### FINANCIAL REPORTING

#### Recognition of liability

A liability for rehabilitation must be recorded when the company has a regulatory or legal obligation to rehabilitate the asset. This could include the tear down and removal of plant and equipment and the refurbishment of the mine site and pits. This provision needs to be recorded when the obligation exists to rehabilitate the asset. Closure provisions are measured at the present value of the expected future cash flows required to perform the decommissioning. The cost of the provision is recorded as an asset and depreciated over the useful life of that asset.

#### Revision to liability

Rehabilitation provisions should be updated on an annual basis to take into account the changes in circumstances and time value of money (discount rates). The changes in circumstances could include changes to the mine plan, cost estimates, and regulatory and legal requirements. These changing circumstances can often be complex and generally result in an increase in the rehabilitation provision as legal and regulatory requirements / expectations continue to increase.

#### Termination costs

The costs associated with termination of the mine staff, referred to as the redundancy costs, will be accounted for when management have completed the closure plan with respect to the mine. A liability is recorded when the closure plan includes both a redundancy plan and closure date, otherwise the costs are expensed as incurred.

### TAX CONSIDERATIONS

#### Timing of tax deduction

Rehabilitation costs are deducted as the costs are incurred, not as the relevant provision is expensed in the accounts. Consideration must be applied to whether these costs can be incurred at a time in which the company is income generating to ensure the losses are able to be utilised and not forgone.

#### Scrap asset provisions

Depreciating assets can be scrapped (written value deducted) in the absence of a disposal or physical scrapping where a company stops using the asset and it is expected that the asset will not be used again.

Undeducted project pool amounts may also be reduced when the project is deemed to be completed, but the project pool for tax purposes may apply a different 'life of mine' than is applied for accounting purposes.

Importantly, there is a tax benefit to claim mining costs as early in the project as possible to ensure the deduction is claimed during the year of the production of assessable income, or a prior income year to ensure it is of practical use.

#### Loss carry back provisions

As rehabilitation expenditure is typically incurred after the generation of profits from mining, this often results in the tax benefit of this expenditure either being deferred until the company brings other projects through to production or trapped indefinitely – as the expenditure simply increases tax losses generated during the post production period.

The loss carry back provisions enable losses made in an income year to be 'carried back' and applied against profits made in earlier income years – triggering an effective refund of tax paid in previous years. The loss carry back provisions potentially enable the tax benefit of expenditure occurring after the completion of mining operations to be realised against a company's mining profits, giving rise to a reduction in the life of mine effective cash tax rate. The loss carry back provisions apply to the 2020 – 2023 income years.



# Contributors



## **Brent Steedman**

Partner & National Leader – Energy & Resources

Brent joined Grant Thornton as an Audit partner in April 2020. Prior to this, he spent over 30 years working at KPMG providing audit and assurance services to a range of public listed and private companies with both international and domestic operations. Brent has extensive experience in many industries, but with a focus on - and passion for - the Energy and Natural Resources sector. He has provided professional services to companies operating in the mining, oil and gas, electricity, and renewables industries including upstream operations, development, and production and service companies.

Brent has built a reputation as a trusted advisor by supporting clients and advising companies on financial reporting, transaction and asset valuations, due diligence, mergers and acquisitions, joint venture arrangements, contract management and risk management to name a few. He has extensive understanding of different countries' economics, regulatory requirements, sovereign risks, opportunities and culture, and can assist clients to implement cost-effective ways to improve financial performance in response to market conditions.



## **Tom Paltridge**

Partner – Tax

With over fourteen years of experience with Grant Thornton as a specialist tax adviser, Tom has a strong focus on corporate and international tax issues for listed and large private companies. Tom leads the South Australian Energy & Resources team and is a core member of Grant Thornton's National E&R Industry Team. Tom leverages his extensive industry experience locally to assist our mining and exploration clients effectively navigate their project lifecycle. Tom partners with a wide range of clients to provide optimal tax outcomes for his clients and assists in managing their income tax and other corporate tax compliance obligations. His areas of specialisation include tax compliance, advisory and due diligence; Mergers & Acquisitions; and structuring and cross border investment for local and multi-national organisations.



**Mark Trehella**  
Partner – Tax

Mark is an experienced corporate tax practitioner with over 16 years of experience providing Australian taxation assistance for listed companies, large private entities and multinational groups. He has particular focus and experience in the Technology, Mining and Resources and Professional Services (particularly engineering and mining support services) industry sectors. Mark specialises in the provision of tax advisory, tax compliance, and tax due diligence work. Prior to joining Grant Thornton in 2012, Mark worked for Ernst & Young in its Perth and Sydney offices.



**Tom Williams**  
Director – Corporate Finance

Tom has over 16 years of corporate finance experience, both in Australia and the UK, executing Mergers & Acquisitions and fundraising assignments across a diverse range of industries and markets with strong expertise in private equity and debt transactions. Tom is also a leader in the Energy & Resources industry group and has a particular interest and focus on the mining sector.



**Elliot Cyrus Mills**  
Manager – Financial Advisory

Elliot joined Grant Thornton in 2020 and has a diverse background covering a number of industries including Logistics & Transportation, Natural Resources, Industrials and Financial Services. Specifically, Elliot has extensive experience in M&A, Financial Modelling and Project Finance, having been on engagements spanning the APAC and MENA regions. Elliot is a Certified Valuations Analyst, Certified Project Finance Analyst and holds a MBA with a concentration in Mineral and Energy Economics from Curtin University.

For more information, or to discuss any of your specific needs, please reach out to Brent Steedman, Partner & National Leader - Energy & Resources at Grant Thornton, or any of our key contributors.



# About Grant Thornton

Grant Thornton Australia is a member firm of the Grant Thornton global network – one of the world's leading independently-owned and managed accounting and consulting firms. Grant Thornton Australia has more than 1,300 people working in offices in Adelaide, Brisbane, Cairns, Melbourne, Perth and Sydney. We combine service breadth, depth of expertise and industry insight with an approachable 'client first' mindset and a broad commercial perspective.

At Grant Thornton Australia, care is just as important as capability because we believe that our clients' experience is as important as the outcome. We strive to provide a strikingly different experience – one that's more personal, proactive, authentic and agile. To achieve that, we focus on investing in and building our client relationships.

With our values at the core, we seek out diverse perspectives and challenge when necessary to deliver positive progress. No matter our client's industry, business lifecycle stage, market or growth plans, our experienced professionals are dedicated to achieving the best outcome for our clients and their stakeholders.

Care is at the heart of our organisation. Together, our purpose and values serve as our driving force and guidepost for all our interactions so that our clients, our wider community and people within our own organisation have a strikingly different experience. Our values underpin the purpose and are the guiding behaviours and actions to help realise it.



**\$272m**

Local revenue (AUD) at 30/06/21



**1,300**

People Nationally



**165**

Partners Nationally



**6**

Offices Nationwide



**\$6.6b**

Global revenue (USD) at 30/09/21



**62,000**

People Globally



**750+**

Offices Globally



**140+**

Markets

[Find out more →](#)



# Glossary

|             |  |
|-------------|--|
| <b>ATO</b>  | Australian Tax Office                    |
| <b>BCT</b>  | Business Continuity Test                 |
| <b>BFS</b>  | Bankable Feasibility Study               |
| <b>CEFC</b> | Clean Energy Finance Corporation         |
| <b>CGT</b>  | Capital Gains Tax                        |
| <b>CGU</b>  | Cash Generating Unit                     |
| <b>CODM</b> | Chief Operating Decision Maker           |
| <b>COT</b>  | Continuity of Ownership                  |
| <b>DFS</b>  | Definitive Feasibility Study             |
| <b>DTA</b>  | Double Tax Agreement                     |
| <b>ECA</b>  | Export Credit Agency                     |
| <b>EFA</b>  | Export Finance Australia                 |
| <b>EPC</b>  | Engineering, Procurement & Construction  |
| <b>ESG</b>  | Environment, Sustainability & Governance |
| <b>FBT</b>  | Fringe Benefits Tax                      |

|                |  |
|----------------|--|
| <b>FID</b>     | Final Investment Decision                  |
| <b>GST</b>     | Goods & Services Tax                       |
| <b>IPO</b>     | Initial Public Offering                    |
| <b>ITE</b>     | Independent Technical Engineer             |
| <b>JV</b>      | Join Venture                               |
| <b>MMI</b>     | Modern Manufacturing Industry              |
| <b>NAIF</b>    | Northern Australia Infrastructure Facility |
| <b>NPV</b>     | Net Present Value                          |
| <b>PAYG</b>    | Pay As You Go                              |
| <b>R&amp;D</b> | Research and Development                   |
| <b>ROM</b>     | Run-Of-Mill                                |
| <b>TFE</b>     | Temporary Full Expensing                   |
| <b>UOP</b>     | Unit Of Production                         |
| <b>WHT</b>     | Withholding Tax                            |

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