

**From development to
production: financial
management across
the mining lifecycle**

Executive summary

While the quality of the resource in the ground is critical, project success is also dependent by how well they are managed from exploration to production. This is where geological potential is realised from funding certainty, delivery capability and operational performance in increasingly challenging conditions.

This guide is designed to support that transition. It focuses on the key stages of the mining project life where assumptions, capital structure, tax settings and execution decisions intersect to impact value realisation. It brings together the accounting, tax and financing considerations that typically arise as projects move through feasibility and development to production.

In development, the main challenge is turning a resource into a financed and executable project. Feasibility work, cost estimates, permitting and funding structures all come under close scrutiny at the point of investment decision. At the same time, inflation, supply chain pressure and labour constraints continue to test assumptions and expose any weaknesses in project design and risk allocation.

Once Final Investment Decision (FID) is reached, the focus shifts to delivery. Contract structures, capitalisation decisions, and financing terms become locked into the project, meaning early choices have a direct impact on outcomes. At this stage, discipline in execution and governance is what turns planning into results.

In production, the focus moves to generating returns and managing volatility. Revenue recognition, inventory valuation, production stripping, depreciation and resource management all directly influence cash flow and reported performance. Operators are also balancing ongoing pressure from commodity price swings, cost inflation and regulatory and ESG expectations.

As your mining project moves through these core stages of its life, your needs change. This guide is for senior executives, directors and finance teams to help manage your accounting, tax and funding considerations as the mine transitions during its life.

If you would like to explore any of these topics further, please get in touch.

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Contents

Executive summary	2
Major developments	4
Development implications	6
Feasibility studies at the development stage	7
Permitting at the development stage	12
Structure & funding at the development stage	13
Final Investment Decisions at the development stage	20
Project execution & contract management at the development stage	22
Production implications	25
Sales contracts at the production stage	26
Mine management at the production stage	28
Resource and reserve management at the production stage	31
Rehabilitation at the production stage	33
Glossary	35
About Grant Thornton	36
Key contributors	37

HOW TO USE THIS GUIDE

This reference guide is structured around the mine life, covering development through to production, and the key accounting, tax and financing considerations that arise at each stage.

It can be used by stage to understand how issues evolve as a project moves from feasibility through to operations and how early decisions influence later outcomes. It can also be used as a reference point when specific issues arise across structuring, funding, reporting or operational phases.

The content highlights where complexity typically emerges, where assumptions are most often tested and where decisions can materially influence cash flow, reporting outcomes and overall project value. If you are working through similar issues in your own portfolio or projects, please reach out to discuss how these considerations are playing out in practice.

Major financial management developments

The Australian mining sector continues to attract investment across both established commodities and emerging critical minerals. However, higher capital requirements, evolving funding models, increasing reporting obligations and ongoing pressure on project economics are changing how projects are developed, financed and operated. As a result, the decisions made in development are having a greater influence on production outcomes, long-term value creation and investor confidence.

Financial reporting

As projects mature, accounting judgements become more visible to investors, lenders and other stakeholders. Many of the decisions made during development continue to influence reported performance long after production begins.



Reserve estimates drive depreciation and asset values.



Capitalisation policies affect earnings and cash flow metrics.



Impairment assessments become increasingly sensitive to commodity prices and mine plans.

Tax

Tax considerations often influence project economics well beyond compliance obligations. The timing and structure of key decisions can materially affect after-tax returns across the life of mine:



availability and utilisation of tax losses



treatment of development, production and rehabilitation expenditure



access to incentives and concessions supporting investment.

Funding

The range of funding options available to mining companies continues to expand. Selecting the right mix of capital increasingly depends on project maturity, risk profile and growth objectives:



government-backed funding supporting critical minerals and strategic projects



increased participation from private credit providers and specialist debt funds



growing use of royalty and streaming arrangements as alternative funding sources



contractor profit-sharing or joint venture models that align funding with project outcomes.

Sustainability reporting

Sustainability considerations are becoming more closely linked to project governance, access to capital and stakeholder expectations. The introduction of mandatory climate-related financial disclosures in Australia represents a significant change for the sector, requiring organisations to better understand, measure and report climate-related risks and opportunities.

Australia’s mandatory climate reporting regime

Australia introduced mandatory climate-related financial disclosures through amendments to the Corporations Act 2001 in September 2024. The regime applies to financial years commencing on or after 1 January 2025 and is being implemented in phases based on entity size, emissions profile and reporting obligations under the National Greenhouse and Energy Reporting (NGER) Scheme.

Group	Reporting period commencing on or after	Entities meeting at least 2 of the following criteria			NGER Registered entities
		Consolidated revenue	Consolidated gross assets	Employees (FTE)	
1	Start date: 1 January 2025	\$500m or more	\$1b or more	500 or more	Above NGER publication threshold
2	1 July 2026	\$200 or more	\$500m or more	250 or more	All NGER reporters
3	1 July 2027	\$50m or more	\$25m or more	100 or more	N/A

Key considerations include:

- In-scope entities must prepare an annual Sustainability Report in accordance with AASB S2 Climate-related Disclosures and lodge it with ASIC alongside their Annual Report.
- Reporting extends beyond greenhouse gas emissions to include governance, strategy, risk management, metrics and targets, climate scenarios and the financial impacts of climate-related risks and opportunities.
- Mandatory assurance requirements will increase over time, progressing from limited assurance to reasonable assurance across the Sustainability Report.
- While many exploration and smaller mining companies may not initially meet reporting thresholds, larger customers, financiers and joint venture partners are increasingly seeking climate-related information throughout the value chain.

Find out more

Development implications

A background image showing two miners in orange and black safety gear walking away from the viewer on a dirt path. The path is flanked by rocky terrain and leads towards a body of water in the distance. The entire image has a purple tint.

The development phase is where geological potential is converted into a fundable, executable project. It is also where complexity is at its highest. Technical confidence in the resource must be translated into a mine plan that holds up under financial, tax and delivery scrutiny, while permits, funding, contracts and execution pathways are locked in. At this point, small gaps in assumptions or structure can quickly flow through to cost overruns, delays or a weaker investment outcome.

Across feasibility, permitting, structuring, funding and FID, the key challenge is consistency. Technical inputs must align with financial models, tax settings must work within the chosen structure and jurisdiction, and the overall package must withstand investor and lender scrutiny on execution risk. At the same time, inflationary pressure, constrained labour markets and ongoing supply chain volatility continue to test cost assumptions and delivery timelines.

When these elements are aligned, the upside is significant. Strongly structured projects are better positioned to secure funding on favourable terms, attract strategic partners and embed tax and capital efficiencies that improve long-term returns. In a selective capital environment, disciplined execution at this stage is often what determines whether a project progresses or stalls.

Feasibility studies at the development stage

FINANCIAL REPORTING

Capitalisation vs expense

When completing a feasibility study, a key judgement is whether costs are expensed or capitalised. There's currently divergence in industry practice.

In many cases, accounting treatment follows the approach applied to exploration costs. When exploration costs are capitalised, feasibility costs are often also capitalised. When exploration costs are expensed through profit and loss, feasibility costs are often expensed. All project costs incurred after Final Investment Decision (FID) are typically capitalised.

TAX CONSIDERATIONS

Deductibility of feasibility expenditure

Tax legislation provides an outright tax deduction for expenditure on exploration or prospecting. As a company transitions into development and production, this provision becomes less relevant, and it becomes increasingly important to consider the exact nature of mining associated expenditure and its correct tax treatment.

Although a 'decision to mine', such as FID, can be an indicator as to whether expenditure is still exploration in nature, it isn't determinative. Each item of expenditure should be assessed on its specific characteristics.

Feasibility study costs do not have a single inherent tax character (e.g. revenue deductible outright or capital deductible overtime). Their treatment depends on the purpose of the study. Costs are more likely to be revenue in nature where they relate to the ongoing operation of the business, such as optimising the mining process. They are more likely to be capital in nature where they relate to establishing or expanding the source of profits, such as beneficiation or downstream processing.

Where feasibility study expenditure must be depreciated over time, the relevant asset must be identified first as this dictates the rate at which the costs are depreciated or amortised for tax.

Categorisation of mining expenditure when undertaking feasibility studies

Development of the definitive or Bankable Feasibility Study (BFS) requires detailed cash flow forecasting across various forms of capital and mine development expenditure over the life of mine. Each category carries a different tax profile depending on the underlying nature of the cost or asset. Expenditure may be immediately deductible, deductible over five years, over the life of mine, a longer period or not deductible (e.g. a CGT asset).

Given the tax outcomes materially affect project economics, the timing of deductions can significantly impact tax cash flow forecasts used in financial models. These inputs should be developed in detail to ensure Definitive Feasibility Study (DFS) or BFS financial models correctly reflect the tax profile of each cost category.

For companies subject to Australia's Global and Domestic Tax rules (Pillar Two), timing and categorisation of deductions must also reflect the 15 per cent minimum effective tax rate requirement.

For projects involving processing or refining of any of Australia's 31 listed critical minerals, the Critical Minerals Production Tax Incentive (CMPTI) should also be incorporated into BFS models. The CMPTI provides a 10 per cent refundable tax offset on eligible costs. It applies from 1 July 2027 to 30 June 2040, for up to 10 years per project. The offset is uncapped and refundable, and therefore directly impacts cash flows and Net Present Value (NPV).

Availability of tax losses' impact on NPV

Feasibility study financial models often include a significant NPV benefit attributable to the deduction of previous tax losses, which defer tax payments for a period post-production. The ability to deduct prior year tax losses depends on either the Continuity of Ownership (COT) or the Business Continuity Test (BCT). These losses may span several income years and reflect multiple iterations of corporate strategy.

The BCT is more subjective in nature and therefore introduces uncertainty where company rely on it to access tax losses. Concessionary tax loss testing rules apply for listed and widely held companies, simplifying the application and testing requirements compared to non-listed, non-widely held companies.

Deferring tax payments through prior year losses can materially improve project cash flow.

As part of feasibility work, companies should analyse historic tax losses in detail to confirm availability and reflect any uncertainty in financial models where reliance on the BCT is required.

In addition, the proposed reintroduction of the loss carry-back provisions from 1 July 2026 (for entities with aggregated turnover under \$1 billion) in the 2026-27 Federal Budget adds another NPV consideration. Prior year losses may be carried back up to two years, offsetting tax previously paid. However, the offset is limited to the lesser of income tax paid in those prior two years and the franking account balance at the end of the loss year, which may reduce the effective benefits where franked dividends are planned.



FINANCING / CASH FLOW ISSUES

Introduction to the DFS

Raising debt finance for a project generally requires a DFS at a minimum. DFS studies are typically prepared to an accuracy range of around 10-15 per cent. However, mining projects frequently exceed budgets and timelines beyond this margin, which drives financiers to have a strong focus on 'completion risk' and funding cost overruns or delays. A reasonable benchmark cost for preparing a DFS is around 2.5 per cent of project costs.

Importance of the DFS

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

Features of a strong DFS

The key elements below are commonly reviewed.

1 Geology & mineral resources

- Joint Ore Reserves Committee (JORC) / NI 43-101 compliant resource estimate with clear classification (Measured, Indicated, Inferred)
- Drilling density sufficient to support the resource classification
- Geological model clearly describes orebody geometry, grade distribution, continuity and structural complexity
- Reserve statement should be 'bankable', i.e. proven and probable only with modifying factors (mining, metallurgical, economic, environmental) applied
- Reconciliation data from any existing operations or trial mining to validate the resource model against real production

2 Mine design & plan

- Mining method (open pit or underground) clearly justified by orebody geometry and economics
- Sensible mine schedule with realistic ramp-up
- Realistic dilution and mining recovery factors
- Equipment fleet sized for planned production rates
- Adequate geotechnical testing and stability analysis for pit walls, stopes and underground development

3 Metallurgy & processing

- Metallurgical test work based on representative samples from the specific deposit not analogues
- Recovery assumptions should be grounded in batch or pilot plant test work with any deviation from test results clearly justified, as optimistic recovery assumptions are a common source of value overstatement; process flowsheet fully developed with mass balance (crushing, grinding, flotation/leaching, tailings)
- Ore variability and contaminants testing across the full range of the mine
- Realistic assumptions around reagent, water consumption and plant throughput

4 Infrastructure & logistics

- Secure and reliable water supply supported by required permits
- Power solution defined, including reliability and cost considerations
- Transport and logistics confirmed, including road, rail, port access where required
- Tailings storage facility designed to industry standards with capacity for full life of mine
- Workforce strategy defined, including accommodation requirements and labour availability

5 Environmental, permitting & ESG

- Environmental impact assessment (EIA / ESIA) completed or well-advanced
- Key approvals, licences and permits identified with realistic approvals timeline (mining, environmental, water, native title / land access)
- Rehabilitation and mine closure obligations fully costed
- ESG considerations incorporated into project design and operations plan
- Permitting and stakeholder risks clearly understood and managed

6 Capital cost estimates (CAPEX)

- Bottom up first principles cost build up with transparent assumptions and supporting documents
- Key input validated by supplier quotes or public pricing
- Appropriate contingency allowance (typically 10–15 per cent at DFS level)
- Clear distinction between development, sustaining and working capital requirements.
- Infrastructure scope fully defined, including off-site requirements
- Capital intensity benchmarked against comparable projects
- Construction schedule reflects procurement, mobilisation and seasonal constraints
- Owner's costs appropriately included

7 Operating cost estimates (OPEX)

- Bottom-up costing model supported by first-principles analysis
- Mining, processing and site support costs separately identified:
 - Mining: \$/t mined or \$/BCM, broken down by drill & blast, load & haul, ancillary; contract vs owner-operator compared
 - Processing: \$/t processed, broken down by crushing, grinding, reagents, maintenance, labour
- G&A and overhead costs appropriately reflected
- Escalation assumptions aligned to labour, energy and consumable market conditions
- All-in Sustaining Cost (AISC) benchmarked against industry cost curves

8 Financial model & economics

- Transparent DCF model with clearly stated assumptions (discount rate, commodity price deck, FX, inflation, tax, royalties basis – nominal or real)
- Commodity price assumptions supported by credible data
- NPV, IRR and payback metrics presented on both pre-tax and post-tax basis
- Sensitivity analysis completed across key value drivers (grade, recovery, commodity price, FX, capex, opex, etc.)
- Tax, royalties, and government charged accurately modelled for the jurisdiction
- Working capital and ramp-up funding requirements appropriately incorporated
- Funding structure clearly demonstrates how completion risk will be managed

Inflationary pressures

A key challenge in feasibility studies is how to reflect ongoing inflationary pressures within cost estimates. These pressures are driven by labour shortages and rising wages, elevated steel prices and higher transport and import costs, alongside broader geopolitical factors and sustained increases in energy prices. Collectively, these factors have created a volatile and uncertain cost environment. While some pressures are expected to moderate over time, there remains limited visibility on the timing or extent of any normalisation.



Permitting at the development stage

FINANCIAL REPORTING

Tenement ownership

Tenement ownership often requires environmental permits, exploration and mining licenses, and native title or landowner agreements. Costs incurred before securing tenement ownership are expensed in the profit and loss statement as they do not meet the definition of an asset due to the absence of legal title. Costs incurred to maintain ownership may be capitalised until management determines the tenement lacks economic value at which point impairment is required.

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 exploration upside. Intangible exploration and mining licences, together with accompanying mining information, are considered depreciable assets for tax purposes.

Acquisition costs from third parties (excluding government-issued licences) are depreciated over either the life of the mine (if known) or 15 years. Depreciation may also arise where assets are acquired through the acquisition of shares in companies holding the underlying intangible assets within a tax consolidated group.

Treatment of native title and landowner arrangements

Payments made by miners to traditional owners under native title arrangements can result in a variety of tax outcomes depending on their nature – ranging from being immediately deductible, time-based deductions or, in some cases, no deduction. Each arrangement should be carefully considered and reviewed throughout the negotiation process to ensure tax efficiency.

FINANCING / CASH FLOW ISSUES

Timing of financing process

All required permits (including mining licence and environmental approvals) must be in place before debt financing is secured. Where approvals are uncertain or contentious, it may be difficult to get lenders or other financiers to commence material work until there is certainty of approvals or a clear pathway to their granting.

Structure & funding at the development stage

FINANCIAL REPORTING

Joint ventures / joint operations

Joint arrangements cover all arrangements where two or more parties have joint control. There are two types of joint arrangements: joint operations and joint ventures. Classification is driven by contractual rights and obligations.

Unanimous consent over financial and operating decisions is required for joint control. A joint operation exists where parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture exists where parties have rights to the net assets.

Determining the appropriate classification can be complex, as legal structure, contractual arrangements, governance structure and other factors all affect the assessment. Where classified as a joint operation, each party records its share of revenue, expenses, assets and liabilities. If determined to be a joint venture, equity accounting applies – and the investment is recognised 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, including where an off taker purchases equity in the project, provides financial support for project completion or makes prepayments of products or commodities.

These arrangements often reduce project risk and are requirements for a bankable project. Depending on their design, they may result in different accounting treatment, including classification as a joint operation, incorporated or un-incorporated joint venture, equity investment or another form of ownership.

Hedging

When establishing the funding model, a key consideration is whether to use hedging to manage exposure to financial risks. Common hedging arrangements include derivatives to manage commodity price risk, foreign exchange risk or interest rate risk.

Hedging involves entering into a derivative transaction with counterparties to reduce exposure to unfavourable price or rate movements. The accounting objective is generally aligned with the economic objective: to reduce volatility financial position or results from identified risks.

Hedge accounting is complex due to the range of derivative products available on the market. The most common form applied in mining projects is cash flow hedges for commodity price exposure.

Share issue costs

The costs associated with raising new equity are allocated to share capital. When new equity is raised through an Initial Public Offering (IPO) or combined debt-equity structures, separating costs can be complex as certain costs are directly associated with raising new equity while other costs are expensed. In practice, allocation is often determined based on the proportion of shares issued prior to IPO relative to new shares issued through the IPO process.

TAX CONSIDERATIONS

Debt vs equity classification

The tax treatment of project funding must be considered early in the process. A key first step is determining whether equity, debt funding or a combination is most commercially appropriate



Where **funding is equity-based** (assuming shares), considerations include:

- the level of injection (head company vs operating subsidiary), particularly within a tax consolidated group, and
- the impact of changes in shareholders on the ability to retain and utilise tax losses generated during exploration.



Where **funding is debt-based**, consideration include:

- which entity incurs the borrowing and claims the tax deduction
- the application of the taxation of financial arrangement rules
- whether the borrowing meets the definition of a debt interest for tax purposes, allowing for a tax deduction on interest and borrowing costs, and
- whether the debt funding arrangement is subject to the Debt Deduction Creation Rule (DDCR), effective from 1 July 2024, which targets arrangements that artificially create or increase debt deductions within a group.



For **global groups**, additional considerations include:

- interest rate being applied to the loan (for related party borrowings)
- the application of the thin capitalisation rules, which from 1 July 2023 operates on an earnings-based framework, limiting debt deductions to 30 per cent of tax EBITDA under the default Fixed Ratio Test, with alternative tests available (Group Ratio Test and Third-Party Debt Test), and
- application of the withholding tax rules.



Incorporated vs un-incorporated joint ventures

The funding vehicle selected has important tax implications. Unincorporated joint ventures are generally treated similar to investing in an asset while investing in an incorporated joint venture is treated similar to partial investment in a company. These differences affect key tax outcomes, including the use of tax legacy losses against project profits and franking credit flow through, which can materially influence overall project value

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

Where a project is structured as an unincorporated joint venture, significant administration efficiencies can be realised by forming a GST joint venture. This structure allows transactions between the joint venture and its members to be disregarded for GST purposes – removing the need for GST to be applied at both levels. Eligibility criteria must be satisfied to ensure GST obligations are appropriately considered, and the terms of the joint venture agreement should be reviewed carefully prior to execution – particularly in relation to whether the structure is based on share of product or sale of product.

Tax losses availability

Raising project finance can potentially have adverse effects for a company's ability to deduct its prior year losses. Raising equity capital could result in changes to 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, effectively capping the available net tax benefit – and 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 funding will be injected. Issues can arise where funding is intended to be injected at the operating subsidiary level, resulting in that entity exiting the tax consolidated group, particularly where tax losses generated in prior income years are deemed to be held by the non-operating holding company.

Under this scenario, tax losses held by the holding company may 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 forms part of a global group, consideration must be given to the thin capitalisation rules. Broadly, these rules operate on an earnings-based framework that limits the amount of net debt deductions the entity can claim. Under the default Fixed Ratio Test, net debt deductions are capped at 30 per cent of tax EBITDA.

Alternative tests are available dependent on the group's circumstance, including the Group Ratio Test (based on worldwide net interest-to-earnings ratio) and the Third-Party Debt Test (for genuine arm's length third-party borrowings). Where the applicable threshold is exceeded, a proportion of the interest deduction is denied.

When funding is provided by an overseas party, consideration must also be given to whether and when interest withholding tax applies. Importantly, WHT does not only apply to actual payment, but can apply to construed payments, such as capitalised or deferred interest.

Cross-border funding arrangements should also take Australia's hybrid mismatch rules into account. These rules target tax arbitrage resulting from differences in how entities or financial instruments are characterised across different jurisdictions and broadly operate to counteract three types of mismatch outcomes:

- deduction / non-inclusion (where a payment is deductible in one jurisdiction and non-assessable in the other)
- double deduction (where the same payment is deductible in both jurisdictions), and
- imported mismatches (where receipts are indirectly sheltered from tax through hybrid outcomes elsewhere in the group).

Where a mismatch is identified, the rules operate to neutralise the outcome by either denying the Australian entity's deduction or including the amount as assessable income. The area has had increased scrutiny in recent years, with the ATO releasing TD 2024/4, which clarifies the scope of the 'liable entity' and 'hybrid payer' concepts.

Royalty funding arrangements

Royalty funding agreements can provide an attractive non-dilutive financing alternative. These arrangements typically involve a miner granting a right to an agreed share in gross proceeds from production from a particular mineral project in exchange for an upfront payment (for example, override royalty).

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

Natural resource WHT

Australia's tax system contains provisions that impose obligations on Australian mining companies to withhold WHT on 'natural resource payments' made to foreign residents. These provisions apply to 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 excluded from 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, financing the project is a key challenge. A range of factors influence the attractiveness of a project to investors and lenders, including the country in which the project is located (ease of doing business and political risk), project location (proximity to power, infrastructure and workforce), commodity exposure (current pricing and long-term supply and demand outlook), competing projects seeking capital, project return metrics (such as IRR and NPV), position on the 'cost curve' and the experience and track record of the management team.

Sources of funding

Mining projects are typically funded through a combination of equity, debt and alternative funding sources. The optimal funding structure will depend on the project's stage of development, risk profile, commodity, jurisdiction and the strength of the sponsor. Common funding sources include:

- **Equity – public markets:** Broker/investment bank led and usually from existing and new shareholders, institutions and retail investors.
- **Equity – strategic investor:** Strategic equity investors include large producing miners, end users of the commodity being mined and traders. The benefits a strategic investor brings are their development / construction capability, strong balance sheet to underpin financing, marketing capability to sell or consume the mines commodity and industry connections.

- **Project finance debt:** Although it depends on the project quality, projects can often support a gearing level of 50 to 60 per cent of the project costs, reducing the equity requirements to fund construction. All major Australian banks provide facilities, alongside some international banks with teams located in Australia or Asia. Historically, project finance was dominated by Australian banks with support from international banks. In recent years, private credit and hedge funds have emerged as alternative providers of capital, particularly in coal, where banks have retreated due to ESG-related lending restrictions. An example is Boab Metals' \$236 million debt facility for the Sorby Hills Project with Merricks Capital Pty Limited and Davidson Kempner Capital Management LP.
- **Royalty and streaming finance:** A large source of funding from the United States and Canada that is increasingly being adopted in Australia. An example was KGL Resources' US\$300 million gold and silver stream with Wheaton Precious Metals.
- **Mining contractor profit sharing or joint venture style arrangements:** Contractors contribute funding in exchange for a share of future profits or equity, aligning their interests with mine owners and offering exposure to commodity upside. Our [Mining contractors report: Preparing for the next phase of growth](#) includes insights from Mineral Mining Services, a leading provider of JV-style and profit-sharing contract models, on how these arrangements compare to traditional schedule of rate contracts and provide junior mine developers with a credible alternative to established debt and equity capital
- **Export Credit Agency (ECA) debt:** Most countries now have ECAs representing local companies and assisting them with securing contracts overseas. ECAs can provide a significant source of liquidity for a mining project. Funding can be either '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 lend directly to the project (as a bank would) or provide guarantees to the commercial banks in the deal.
- **Alternative financing:** Includes prepayments, royalties, streams, mezzanine debt and convertible notes.
- **Australian Government funding sources:** The funding landscape has expanded considerably in recent years specifically for critical mineral projects. Key programs include:
 - **Export Finance Australia (EFA):** Australia's export credit agency, providing loans, bonds, guarantees and equity participation. EFA also administers the Critical Minerals Facility (now \$5 billion). The facility is aligned with the Critical Minerals Strategy 2023–2030 and is available for projects considered in Australia's national interest, subject to due diligence.
 - **Northern Australia Infrastructure Facility (NAIF):** \$4.5 billion in investment decisions across 35 projects with \$3 billion deployed as at May 2026. NAIF provides concessional loans for infrastructure in northern Australia with \$855 million committed to critical minerals.
 - **Critical Minerals Strategic Reserve:** \$1.2 billion (announced April 2025). The program will invest in critical minerals through national offtake agreements and selective stockpiling.
 - **National Reconstruction Fund Corporation (NRFC):** \$15 billion (established September 2023). Provides debt, equity and guarantees across seven priority areas including resources.
 - **Queensland Investment Corporations:** Critical Mineral funding initiatives.

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

What constitutes a ‘bankable’ project is not a fixed standard. It is ultimately a judgement based on the overall mix of risk factors, the quality of the underlying project, and the identity and track record of the sponsor. A project that is bankable for one sponsor may not be for another.

Lenders will invariably engage an independent mining technical consultant (e.g. SRK, Xenith, Hatch, Wood) to prepare an Independent Technical Report (ITR) to assist with their credit assessment. The key risks considered include:

- **Resource risk:** Is there a sufficient reserve tail to ensure debt can be repaid, even in the event of disruptions, and what level of confidence exists in the resource base (i.e. is it predominantly proven reserves)? The ITR will assess the modifying factor applied to convert the resource to reserve including mining, metallurgical, economic, environmental, social, governmental and logistical considerations.

The key metric is the Reserve Life Coverage Ratio (RLCR), which measures the ratio of remaining reserve life to outstanding debt tenor. Lenders need to be satisfied that mine life comfortably exceeds the debt repayment period, typically requiring a minimum reserve tail of 20–30 per cent.

- **Cost position and price risk:** Where does the project sit on the global cost curve for that commodity? Lenders generally favour projects in the first or second quartile of the cost curve as these are more likely to remain cash flow positive through commodity price downturns. Third quartile are considered but at lower debt levels. Fourth quartile is best funded by equity with no debt. Key coverage ratios, including Debt Service Coverage Ratio (DSCR), Loan Life Coverage Ratio (LLCR) and Project Life Coverage Ratio (PLCR) must demonstrate adequate headroom under both base case and downside Price scenarios. Hedging requirements are also considered as part of this risk assessment.

- **Construction and completion risk:** Can the mine be built on time and on budget? Lenders generally prefer EPC (lump-sum turnkey) contracts, where the contractor assumes completion, cost and schedule risk, over EPCM arrangements where the owner retains most construction risk. The contractor’s quality and track record is critical. Lenders evaluate financial strength, experience on comparable projects, bonding capacity and subcontractor management capability.

The ramp-up period between mechanical completion and nameplate capacity is typically modelled conservatively, often supported by a dedicated ramp-up reserve account. Lenders also require robust cost overrun protection (typically including a 10–15 per cent contingency within the capex budget), a cost overrun facility or sponsor equity commitment, performance bonds, parent company guarantees and liquidated damages for delays or performance shortfalls. All key permits and approvals must be in place or near finalised before financial close.

- **Country and political risk:** Mining assets are immobile, making this assessment particularly important. Lenders focus on four key questions: can capital and profits be repatriated (capital controls and currency convertibility), can security over mining tenements be enforced in the event the borrower defaults, can the legal system be relied upon to deliver impartial outcomes, and is there a risk of adverse regulatory or fiscal change after you invest?

Australia’s AAA sovereign rating, independent judiciary, enforceable security framework and free movement of capital are key reasons it remains a preferred destination for mining investment. However, even tier-one jurisdictions are not immune to adverse fiscal change, as demonstrated in Queensland in 2022, when the State Government introduced three new progressive coal royalty tiers (up to 40 per cent above A\$300/t) without industry consultation, effectively making Queensland the highest coal royalty jurisdiction in the world.

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? Which entity is contracting with the project and what financial support, if any, is available from its parent company?
- **Contract term:** Lenders will typically want to see contract tenors that align with, or extend beyond, their debt tenor. For example, a five-year offtake contract may be required to support a seven-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.



Final Investment Decisions at the development stage (FID)

FINANCIAL REPORTING

Reclassification from exploration development

Exploration assets are reclassified from exploration to development when evaluation procedures have been completed and a commercially viable project has been established. Upon reclassification, management is required to complete an impairment test.

The outcome of this assessment is usually positive as management would not approve FID unless the project was considered commercially viable. However, the reclassification process may identify exploration tenements which are no longer required and/or have been relinquished. Since these tenements have no value, they are written off to the profit and loss. Industry practice is that asset re-classification occurs at FID.

Presentation & functional currency

Management needs to determine both the presentation and functional currency of the reporting entity.

For a mining company with assets only in Australia, the functional currency would typically be Australian dollars as this is the company's home currency. However, where a company has USD 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 jurisdictions, determining the functional currency can be complex. A further consideration is managing the fiscal 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 sign lump sum or cost-plus contracts to build the project. Often major projects have a combination of both types of contracts.

A key accounting issue 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 and economics to be determined. These contracts can include mine management, blasting, material movement, ore processing, road and rail transport, storage of dangerous goods and access to water and electricity.

Contracts are structured in a variety of ways, including fee for service arrangement, fixed and variable components, lease arrangement or a profit share arrangement. Each structure carries different accounting implications and needs careful consideration when structuring.

An example of an unexpected outcome is where the provision of mining services equipment by a third party is determined to constitute a lease arrangement. In these circumstances, lease accounting may be required, resulting in lease assets and liabilities being recorded on the balance sheet.

Recognition of tax losses

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

TAX CONSIDERATIONS

Deductibility of expenditure

While not absolute, the ‘decision to mine’ is an important element in determining whether expenditure is exploration in nature or represents capital expenditure that forms part of the project structure. Once the decision to mine has been made (often evidenced by FID), consideration must 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 expenditure is specific to an asset, the cost is included in the cost base of the asset and depreciated over its effective life – which may differ from the life of the project.

Where costs do not relate to a separately identifiable asset or are not deductible under another provision of the Tax Act, but relate to mining and quarrying operations, it may form part of a ‘project pool’ and generally be depreciated over the life of the project. There are specific types of project pools, including 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).

Although land is not a depreciating asset, improvements to land, such as site improvement of an open pit mine can be, can be depreciated over the improvement’s effective life.

Fuel tax credit entitlement

Mining operations consume a considerable amount of diesel and petrol with the use of specialised mining equipment, heavy yellow-cat machinery and light vehicles. A per litre fuel tax ‘credit’ may be available for fuel used on site with entitlement 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 as a result, these agreements will generally determine entitlement to fuel tax credits.

Where a miner is not entitled to claim fuel tax credit for fuel used on site, consideration should be given to ensure the benefit of this credit is passed on by the relevant contractor to through a reduction in cost.

Contractor vs employee considerations

The introduction of various contractors through the FID process can create additional risk in relation to employee tax obligations. While parties may intend that no employment relationship exists, the specific terms of contractor arrangements can trigger various ‘deeming’ provisions that impose employee-related tax obligations (e.g. PAYG, superannuation, payroll tax and insurances) on payments made to contractors.

Contract terms should be reviewed in detail as part of the FID tax review to identify any employee-type obligations, quantify their potential impact and whether restructuring is required.

From 1 July 2026, the introduction of Payday Super requires employers to pay superannuation contributions within seven business days of payday, rather than quarterly. In addition, penalties for non-compliance have increased significantly. These changes increase the importance of accurately classifying contractor arrangements at the outset as the financial consequences are more frequent and severe.

FINANCING / CASH FLOW ISSUES

A FID is a major decision for the Board of Directors and will trigger the commitment of significant funds to commence the project and start ordering long lead items.

Directors will generally want to see a credit approved term sheet from the lenders before supporting the FID decision, providing confidence that the proposed funding structure is available to support project execution.

Project execution & contract management at the development stage

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 (for example, where a company uses corporate funding facilities instead of project funding).

Where corporate funding is used, companies usually 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 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. Historically, industry practice has been to credit these sales proceeds against the cost to the project asset as the test production was considered necessary to complete the project.

Changes 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 recognised as revenue. The challenge is determining the costs incurred to generate the revenue. Given production accounting processes, information systems and workflows are often not fully established during the build stage, determining an accurate cost of sales can be complex.

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 obligation 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 Temporary Full Expensing (TFE) provisions, which provided an immediate deduction for the full cost of eligible capital assets, ceased to apply from 30 June 2023. Companies are now required to depreciate capital assets over their effective life in accordance with the general depreciation rules.

Small businesses with aggregated turnover of less than \$10 million are eligible to use the Instant Asset Write-Off (IAWO) provisions, which allows an outright deduction for assets costing less than \$20,000. Following the 2026-27 Federal Budget, this concession will be made permanent from 1 July 2026. However, this is unlikely to be materially beneficial for most mining companies due to the scale and cost of capital expenditure for the mining industry.

In the absence of the TFE provisions, the categorisation and effective life assessment of capital assets has become increasingly important. Careful analysis should be undertaken to ensure each asset has been correctly classified and depreciated.

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

The transition to production generally requires a substantial increase in workforce to bring in additional technical and specialist capabilities and the scale necessary to deliver the project. Given increasing competition for talent across the mining sector, structuring tax-effective and attractive remuneration packages presents an opportunity to attract and retain potential employees globally.

The nature of the mining industry provides access to a range of fringe benefit and personal tax concessions which, when structured appropriately, can increase an employee's after-tax remuneration without increasing cost to the miner.

Companies operating fly-in fly-out arrangements should be mindful of the Federal Court's decision in *Bechtel v Commissioner of Taxation* [2023] FCA 676, which found that employer-provided transport to site may not qualify for the 'otherwise deductible' rule where workers are rostered on at the work site rather than at the point of departure. As a result, flights and other transportation in these circumstances may be treated as private travel and attract FBT. Rostering structures should therefore be reviewed to assess the cost impact, FBT implications and whether restructuring is required.

Overburden and haulage roads costs

Costs incurred in undertaking overburden removal are generally deductible outright for tax purposes, which can provide a substantial tax benefit early in the mine life, often 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 overburden removal and commencement of mine development occur within a single income year, careful consideration is required to ensure expenditure is classified correctly for tax purposes.

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

FINANCING / CASH FLOW ISSUES

Construction – conditions precedent to drawing down on project debt facilities

Although financing documents may be agreed and signed, the debt facility will require a series of conditions to be satisfied before funds can be drawn.

This typically includes completion of due diligence, execution of key project contracts (such as EPC and offtake agreements), delivery of legal opinions from the bank's counsel regarding loan agreements and project documents and confirmation that required equity has been invested. In addition, they will require establishment of the security package and insurance, along with any cost overrun facilities, cost and time to complete assessments.

Operations – project 'Completion'

Following ramp-up, the project must pass a series of 'completion tests', which are heavily negotiated. These generally include confirmation of physical completion through a certificate from the bank ITE, often linked to the plant operating at >90 per cent of nameplate capacity. The project must also demonstrate no Event of Default, compliance with required debt service coverage ratios, maintain security in place and ensure representations remain valid.



Production implications

Once production begins, the focus shifts from building the asset to running it efficiently and protecting value. The operation becomes a live system where performance is driven by how well production is planned, costs are controlled and variability is managed in real time.

Key focus areas include mine planning, production stripping, inventory management, contracting arrangements and resource and reserve management. Each brings its own accounting and tax considerations, from depreciation and cash-generating unit assessments through to trading stock valuation, revenue recognition and dividend franking outcomes. These are increasingly influenced by operational realities such as ore variability, contractor performance, infrastructure constraints and workforce availability.

At the same time, production is where flexibility creates value. Strong operators can adjust mine plans, optimise processing routes, renegotiate contracts and refine capital structures now that development risk has largely been removed. This shifts the business from capital-intensive delivery mode into cash generation, where disciplined operational and financial decisions directly flow through to earnings and shareholder returns.

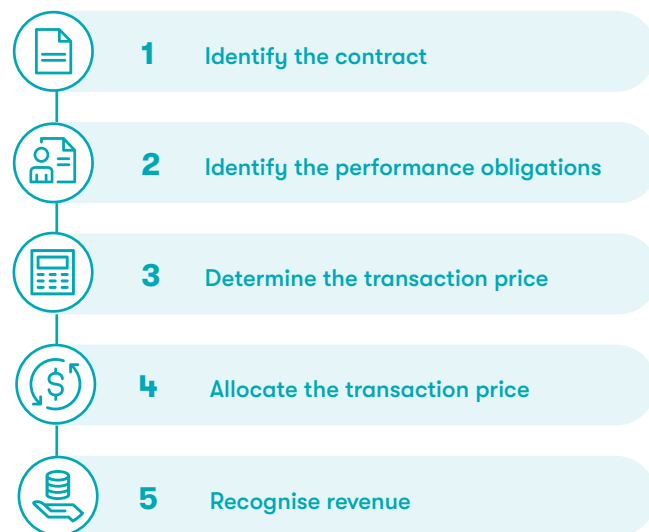
Sales contracts at the production stage

FINANCIAL REPORTING

Revenue recognition

The supply of commodities in exchange for consideration is recognised as revenue. While this can be a simple sale process to a third party, increasingly complex contractual arrangements are used, including profit-sharing arrangements with contractors or suppliers, agency arrangements, transportation arrangements, provisionally priced commodity sales contracts and long-term take-or-pay arrangements.

These arrangements can make the time of revenue recognition a challenge. Determining when control of a commodity transfers requires completion of a five-step revenue recognition process:



Provisional pricing arrangements

Commodity sales contracts often include provisional pricing, where the price received on delivery date is subsequently adjusted. These adjustments typically arise due to price structures such as average pricing arrangements, delayed pricing measurement beyond the delivery date or quantity and quality adjustments where the purchaser completes assay or volume certification. The provisional price at delivery is recorded as revenue and subsequently 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, companies often require certainty of revenue and cash inflows through long term sales contracts, including offtake agreements or take-or-pay contracts.

While these contracts are accounted for under the same principles as other sales agreements, additional complexity arises where they stipulate set volume of product at an agreed price, adjustments based on a price index, production or transport cost adjustments, or changing commercial or market conditions. Some arrangements may also contain embedded derivatives, which are accounted for separately.

A further consideration is to ensure the offtake creditor can make the payments and has adequate credit worthiness for products when purchased.

Embedded derivatives on sales contracts

Long-term sales contracts may include pricing adjustments based on a commodity or index other than underlying product being sold. In these situations, an embedded derivative requiring separate accounting for the sales contract and the embedded derivative may apply.

TAX CONSIDERATIONS

Timing of income

For tax purposes, companies derive income where that income represents a recoverable debt under the applicable contract. This typically occurs once the company receiving the income has completed its contractual obligations, making it legally entitled to that income.

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

Overseas marketing hubs

The ATO are increasingly focused on offshore 'marketing hubs' as an area of tax major for 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's concern is that profits attributed to the hubs exceed the true value provided by such hubs.

This focus has resulted in significant settlements in recent years – most notably from BHP (\$529 million in 2018) and Rio Tinto (\$1 billion in 2022). The introduction of the Global and Domestic Minimum Tax (Pillar Two) from 1 January 2024 adds an additional layer of scrutiny, as profits allocated to low-tax marketing hub jurisdictions may now incur a top-up tax to achieve the 15 per cent minimum effective tax rate.

GST and export

The sale of mineral product is generally GST free where the product is exported from Australia within 60 days of the earlier of receipt of payment or issuing a tax invoice. If these requirements are not met, GST may apply at the rate of 10 per cent.

Accordingly, offtake agreement with overseas parties should be reviewed in detail to confirm timing of the supply for GST purposes, export timing requirements and 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, export agreement will generally involve importation into a foreign jurisdiction. This may require customs duties or tariffs to facilitate the discharge of the shipment from the port.

Offtake agreement should be 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, risk levels reduce materially. At this point, companies typically reconsider their capital structure, including potential re-financing of the debt facilities raised for construction to secure more favourable terms, including interest rate and tenor.

Another common strategy is to divest a minority share of the project to a strategic offtaker – preferably at a re-rated higher project value to reduce debt. This can recycle equity into new projects and secure favourable offtake terms.

Ongoing reporting and management

Post-financing, companies remain subject to ongoing reporting obligations to lenders. These generally include periodic financial information reporting (annual and half yearly), updated financial models, management reports and covenant level reporting (semi-annually or quarterly).

Mine management

FINANCIAL REPORTING

Operating segments

Management needs to determine whether a new operating mine constitutes a separate segment or can be included within an existing segment. The primary focus is how operating results are reported to The Chief Operating Decision Maker (CODM). If the financial and operating results of each mine are reported separately to the CODM, this suggests that each operating mine is a separate segment.

A further consideration is whether exploration assets should be reported as a separate segment to operating mine assets. In most cases, the exploration assets are treated as a separate segment. However, near mine exploration costs may form part of the same segment, depending on how the mine plan intends to utilise the resource or reserve.

The acquisition of new mines also requires an assessment of whether the acquired mine should be reported as a separate operating segment or integrated into an existing segment. A key consideration will be the extent of shared infrastructure.

Production stripping costs

Overburden removal undertaking in the production phase is referred to as production stripping costs. In practice, two accounting options are commonly 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, stripping costs are capitalised 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 typically 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. Key considerations when accounting for inventory include the allocation of costs using weighted average costs, or first in first out (FIFO) methods, as well as accounting for costs – including fixed costs, variable costs and administration costs. All costs required to bring the inventory to its current condition must be included in inventory costs.

Management must also consider the impact joint or by-products have on cost measurement, the accounting for low grade or long-term stockpiles and the requirement to record inventory at the lower of cost and net realisable value.

Consumable and capital spare Inventory

Most consumable spare parts are carried at cost and recognised as an expense as consumed. Accounting for these spare parts is straightforward with the key consideration 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

Many mines produce more than one metal through the same mining process. For example, gold and silver are often contained in the same ore body. In these situations, management must determine whether they are joint products or whether one metal should be treated as a by-product.

Where production of a metal is not significant, it can be treated as a by-product. For joint products, production costs are allocated between the metals using a systematic and rational basis.

When applying by-product accounting, a common approach is to not determine the cost of production for each product. Instead, inventory is measured at net realisable value with movements in inventory value charged to cost of sales.

Mining contractors and lease arrangements

Mine owners commonly employ contractors to manage or provide specific services, including 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, such as a contracted rate per tonne for ore crushed. In some cases, the physical equipment allocated by the contractor is dedicated to a specific mine, which may require the mine owner to account for components of this contract as a lease.

Joint venture contracting model

The mining industry is increasingly using joint venture style arrangements under which contractors provide the capital to mine owner in exchange for a share of future profits or equity. This model enables smaller mines to raise the required funding for mine development while aligning the interest of mine owners and contractors in optimising performance and share in commodity price increases.

Depending on the structure of the joint venture arrangement, this could result in complex accounting considerations – including whether the mine owner controls the joint venture, has an equity interest in the joint venture or a share of assets and liabilities of the joint venture.

For more information on this type of arrangement, please refer to our [Mining Contractors report](#).

Third party processing of ore

Recent increases in gold prices have made some historically marginal mines economic. An increasingly common processing method is for miners to use a third-party mill to process ore into gold bullion and pay a tolling charge for the service.

These tolling charges often have variable rates depending on processing volumes, commodity prices, ore grades and/or profit-sharing arrangements after allowing for costs. Depending on their complexity, these arrangements can require significant accounting estimates and judgements in relation to revenue and cost recognition.

TAX CONSIDERATIONS

Production costs

Once a mine enters production, expenditure typically shifts from mine development and acquisition of capital equipment towards extraction and operations costs. As a result, a greater proportion of the costs become immediately deductible.

This phase is also when the mine generates the majority of its revenue and profits. It is therefore increasingly important to confirm the availability of the tax losses to ensure they are eligible for use, while also determining the timing of the derivation of the income.

Where the Australian miner is part of a broader global group, consideration must also be given to the profit allocation attributable to the Australian business and arm's length nature of any intercompany dealings.

Trading stock

For tax purposes, trading stock can be valued using different valuation methods. Companies may change valuation methods annually and can apply different methods to different classes of stock.

The tax treatment of mineral trading stock can differ from that required under the accounting standards. Trading stock costing should therefore be carefully considered to ensure the tax benefit of certain processing areas that are immediately deductible for tax purposes are not inadvertently realised over the life of mine as required under the accounting standards. Companies should also assess the tax impact of the different valuation methods and ensure that any required substantiation for the chosen method is prepared accordingly.

Franking of dividends

The ability for any dividends proposed to be paid by the company to its shareholders and to be 'franked' will be limited to the balance of the company's franking account.

Due to tax losses and the various exploration and mining concessions available – which effectively bring forward deductions – taxable profits and 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.

Companies must also consider the franking credit integrity provisions, which can result in the denial of franking credits where a distribution is funded by a capital raising. Careful consideration should be given to the timing and sequencing of capital raisings and how they are articulated in public releases to avoid these provisions.

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 activities. In executing their mine plan, companies can often invest considerable funds and resources in internal R&D to develop new intellectual property – sometimes without realising those activities may qualify for this incentive.

The R&D tax offset provides for net tax benefit of 8.5 to 18.5 per cent on expenditure undertaken on eligible R&D activities. The 2026-27 Federal Budget proposed changes effective from 1 July 2028 that would see the turnover threshold for a refundable offset raise from \$20 million to \$50 million. Additionally, a broader Strategic Examination of Australia's R&D System (SERD) is also underway and may result in further changes to the incentive.

Resource and reserve management at the production stage

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, under which an amortisation expense is determined by the annual production volumes relative to the estimated economically recoverable reserves from the mine.

This information is extracted from the mine plan. The most common UOP approach uses product output (e.g. gold produced / mine plan gold reserves), although alternative measures can be applied such as ore crushed.

A further consideration is whether straight-line amortisation is more appropriate for assets that are consumed by the passage of time. An example is a processing plant with an economic life greater than the mine life and which may be moved to a new site 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 or amortisation calculations.

Determination of reserve / resource base

For depreciation and amortisation calculations, management should use the reserve base consistent with the mine plan and the volume of reserves they expect to extract. In practice, this typically results in proved and probable reserves being 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 has 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.

Change in reserve / resource

When the reserve base changes due to updates to the estimated quantities, such as an updated JORC review, the depreciation and amortisation calculations should be updated to reflect this change. This is generally treated as a change in estimate, and depreciation and amortisation calculation is applied prospectively.

The reserve base for amortisation purposes can also change where management determines an alternative assessment is more appropriate – for instance, they may move from reserves only to reserves plus a portion of resources but continue to apply the same unit of production method.

Depending on the circumstances, this may represent either a change in estimate or change in accounting policy. A change in estimate is made prospectively, whereas a change in accounting policy applies 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, each mine is often treated as a separate CGU as each mine has its own infrastructure. This issue becomes more complex if the mining company also participates in smelting and refining its metal as often these processes constitute separate CGUs.

Another complexity can arise where mines share infrastructure either between companies or through joint venture arrangements. Examples include shared processing of ore, storage infrastructure and ports access.

Depending on the contractual arrangements, these assets may be a separate CGU or part of the CGU where the physical reserves are located. Determining the appropriate CGU is a critical step 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 remains a key financial reporting consideration.

The first step is to determine whether any indicators of impairment exist, such as 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, an annual impairment test is required 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 is typically the discounted cash flow generated over the economic life of the CGU. The carrying amount reflects the book value of the assets required to generate the future cash flows.

This commonly includes 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, including commodity prices, production levels, sustaining capital required, reserves, operating costs, discount rates inflation rates, and working capital requirements.

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, it influences 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.

Changes to an asset's effective life directly influences the amount 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 and can vary significantly from the accounting treatment applied for financial reporting purposes. A key step is segregating 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 bases. The treatment of this expenditure can also vary between short life (1-2 years) and longer life projects (2+ years) – with short life expenditure often deductible outright.

Rehabilitation at the production stage

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 regularly to consider changes in circumstances and time value of money (discount rates). Key drivers include changes to the mine plan, cost estimates and regulatory and legal requirements.

These changing circumstances can often be complex and result in an increase in the rehabilitation provision as legal and regulatory requirements, as well as expectations, continue to increase.

Termination costs

Staff termination and redundancy costs are recognised when management has 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.

Companies should consider 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, with the 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 to be used again.

Undeducted project pool amounts may also be reduced when the project is deemed to be completed. However, the project life applied for tax purposes may differ from the 'life of mine' applied for accounting purposes.

Importantly, there is a tax benefit in claiming 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, the tax benefit of this expenditure may be deferred until other projects enter production or remain trapped indefinitely – as the expenditure simply increases tax losses generated during the postproduction 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. These provisions can enable the tax benefit of expenditure occurring after the completion of mining operations to be realised against a company’s mining profits, reducing the life of mine effective cash tax rate.

The loss carry back provisions were originally applied for the 2020-2023 income years and were reintroduced in the 2026-27 Federal Budget from 1 July 2026. Under the proposal, companies with aggregated global turnover of less than \$1 billion would be able to carry losses back up to two prior income years. However, the offset is limited to the lesser of the income tax paid in those prior years and the company’s franking account balance at the end of the loss year. Claiming the offset does create a corresponding franking debit.

The proposed reintroduction of these provisions is particularly significant for mining companies in the rehabilitation phase as it provides a mechanism to recover the tax benefit of post-production expenditure that may otherwise had been lost indefinitely.



GLOSSARY

ATO	Australian Tax Office	GST	Goods & Services Tax
BCT	Business Continuity Test	IPO	Initial Public Offering
BFS	Bankable Feasibility Study	ITE	Independent Technical Engineer
CEFC	Clean Energy Finance Corporation	ITR	Independent Technical Report
CGT	Capital Gains Tax	JORC	Joint Ore Reserves Committee
CGU	Cash Generating Unit	JV	Join Venture
CODM	Chief Operating Decision Maker	MMI	Modern Manufacturing Industry
COT	Continuity of Ownership	NAIF	Northern Australia Infrastructure Facility
DFS	Definitive Feasibility Study	NPV	Net Present Value
DTA	Double Tax Agreement	PAYG	Pay As You Go
ECA	Export Credit Agency	R&D	Research and Development
EFA	Export Finance Australia	ROM	Run-Of-Mill
EPC	Engineering, Procurement & Construction	TFE	Temporary Full Expensing
ESG	Environment, Social & Governance	UOP	Unit Of Production
FBT	Fringe Benefits Tax	WHT	Withholding Tax
FID	Final Investment Decision		



About Grant Thornton

Our values, purpose and strategy

At Grant Thornton, care is just as important as capability because we believe that your experience is as important as the outcome.

Shape better futures

We ignite the potential within our people and clients to create enduring success and positively shape the communities around us.

CARE values as guiding principles

Our CARE values of collaboration, authenticity, responsibility and excellence underpin the purpose and are the guiding behaviours and actions to help realise it.

Living our brand promise

Our brand promise is our aspiration we strive to live up to everyday.

We have the scale to meet your changing needs – while retaining the agility required to keep you one step ahead. In Australia, we now have over 1,500+ people across five states, each with the freedom to drive change.

With our values at the core, we seek out diverse perspectives and challenge established practice when necessary to deliver positive progress for your business. Our commitment to our brand promise, Reach for Remarkable, is delivered through proven expertise, principled execution, and personalised experience. No matter your industry, business lifecycle stage, market or growth plans, our experienced professionals are dedicated to achieving the best outcome for you and your stakeholders.

PEOPLE NATIONALLY

1,500+

NATIONAL REVENUE (AUD)

\$396m

PARTNERS NATIONALLY

190

OFFICES NATIONWIDE

6

PEOPLE GLOBALLY

76,000+

GLOBAL REVENUE (USD)

\$8.0b

OFFICES GLOBALLY

750+

MARKETS

156+

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