



Article

June 2026

# LET'S TALK ENR

Energy &  
Natural Resources

## Mine development assets

Author: [Karabo Moreroa](#)

### In this article

- 1 Capitalisation Criteria and Asset Classification
- 2 Treatment of Indirect Costs
- 3 DMRE Compliance Requirements
- 4 Incidental Extraction and Production Revenue



## Developing a mine is a capital-intensive process.

The mining industry is highly complex, not just in its physical operations, but also in the financial judgments required to ensure accurate and careful accounting. To avoid the complex and robust disclosure requirements of IAS 8 in the event of accounting errors or policy changes, preparers of financial statements must carefully consider all judgements made during the preparation process and ensure that significant judgements are sufficiently disclosed in the financial statements.



Mines are established for the purpose of mineral extractions, however the important thing to note is that the aim is to obtain ore at a quality head grade that is sellable. To get to the desired ore there are infrastructures that are built to get to the ore and only when the mine starts stoping “**a process of extracting desired ore or other mineral**”, it is only then when the mine is determined to be in production, as the mine will be in operational as intended by management.

Developing a mine is a capital-intensive process.

In this article we will touch on some of critical IAS16 considerations an entity would have to make when they are in a mine that is still under development, to clearly indicate how essential it is for an entity to have a more accurate and detailed definition of a directly attributable cost. We will also highlight some pitfalls management have to consider in the application of IAS 16.

Under **IAS 16 Property, Plant and Equipment**, all direct costs incurred to bring an asset into the location and condition necessary for its intended use must be capitalised as Mine Development Assets until the operation reaches commercial production.

The development phase of a mining project requires distinct accounting treatments, strict cost categorisations, and compliance with local statutory requirements. Below is an overview of some considerations in terms of IAS 16 applications for both underground and surface mining assets.

## 1 Capitalisation criteria and asset classification

In accordance with IAS 16.16, the cost of a Mine Development Asset includes all costs directly attributable to bringing the mine to the point of commercial production.

➤ **Surface mining:** Development primarily involves waste removal, often referred to as pre-production stripping. The costs incurred to remove the overburden and expose the first sections of the ore body are capitalised as a Mine Development Asset.

➤ **Underground mining:** Development requires structural investments like vertical shafts, decline ramps, ventilation raises, and horizontal drives. Once the asset reaches the specified ore body, initial costs are typically reclassified into distinct depreciable components (e.g., mine infrastructure, main haulages).

Once the mine is ready for its intended use, capitalisation ceases. The asset is subsequently transferred to depreciable mining assets and depreciated, commonly using the **Units of Production (UoP)** method, which aligns the depreciation charge with the extraction of the estimated mineral reserves.

## 2 Treatment of indirect costs

While direct costs (materials, labour, contractor fees) are easily traceable, indirect costs require rigorous assessment to determine if they qualify for capitalisation:

➤ **Eligible indirect costs:** IAS 16 allows the capitalisation of overheads that are **directly attributable** to the construction or development of the mine. This includes depreciation of equipment used to develop the mine, an appropriate allocation of engineering and site-supervisor salaries, and specific health and safety costs.

➤ **Excluded costs (abnormal spoilage):** Capitalisation of general administrative overheads is strictly prohibited unless it can be directly tied to the construction process. Furthermore, under IAS 16.22, any abnormal costs—such as wasted materials, labour, or excessive power usage due to operational inefficiencies—must be expensed in profit or loss as they are incurred.



### 3 Capitalisation criteria and asset classification

For mines located in South Africa, compliance with the Department of Mineral Resources and Energy (DMRE) is a legal prerequisite for operations and heavily impacts financial reporting:

- **Environmental rehabilitation and decommissioning:** Development assets must include the initial estimate of the costs required to dismantle and rehabilitate the mining site at the end of its life. In terms of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a corresponding provision is recognised at the present value of the future obligation and added to the cost of the Mine Development Asset, which is then depreciated over the mine's life.
- **Capitalising compliance-driven assets:** Items acquired for safety or environmental compliance (e.g., ventilation shafts, dust suppression systems, or water treatment facilities) qualify for recognition as assets under IAS 16.11 because they are necessary to derive future economic benefits from the overall mining operation.
- **Social and Labor Plans (SLPs):** SLP compliance costs (e.g., building schools or clinics) typically cannot be capitalised under IAS 16 because they do not directly provide future economic benefits to the mine's own operations, though exceptions exist if the entity retains control over the asset.
- **Delays in approvals:** If development is delayed due to awaiting DMRE permits or environmental authorisations, costs during the delay period do not qualify for capitalisation and must be expensed as holding costs.

Development assets must include the initial estimate of the costs required to dismantle and rehabilitate the mining site at the end of its life.

## 4 Incidental extraction and production revenue

During the development phase, you may inevitably extract usable or even sellable product (e.g., extracting coal or gold-bearing rock while driving an underground decline or stripping a box-cut).

It is common for mining companies to extract and process saleable minerals during the development phase (e.g., processing rock excavated during shaft sinking).

Historically, mining companies deducted the net proceeds of these incidental sales from the cost of the Mine Development Asset. However, mandatory compliance with the **Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)** completely overhauled this practice.

- **The rule:** You can no longer offset incidental revenue against the capitalised cost of the mine.
- **Accounting treatment:** The proceeds from selling these incidental items, along with the associated cost of producing them, must be recognised directly in **Profit or Loss in accordance with applicable Standards**. These production costs are measured in accordance with IAS 2 Inventories.



## Potential pitfalls in relation to accounting treatment

Management often overlooks or mismanages several accounting pitfalls during the development phase:

- **Premature capitalisation:** Capitalising costs after construction is technically complete but while the asset is operating below capacity. Initial operating losses should be expensed, not capitalized.
- **Failing to capitalize compliance assets:** Treating statutory environmental assets as mere expenses rather than capitalising them, which understates the overall asset base.
- **Arbitrary capitalisation of overheads:** Allocating general head-office or administrative overheads to mine development assets. Only directly attributable technical and operational costs qualify.
- **Inappropriate construction:** When in the development process where costs arise from items not appropriately constructed (therefore there is a need to demolish and re-construct), the cost incurred due to lack of quality will never represent an asset therefore the correct treatment would be to expense together with the costs of demolishing (identified as incidental costs) as these costs are no longer enhancing the economic life of the mine asset and no longer meets the definition of a directly attributable costs as they will not be part of the costs of bring the asset to its intended use.
- **Improper assessment of “available for use”:** Management delaying the cessation of capitalisation to artificially depress depreciation charges or hide early operational losses in the balance sheet. Capitalisation of development costs must cease when the asset is capable of operating in the manner intended by management, regardless of whether commercial production has been officially declared.



## Conclusion

Managing mine development assets requires carefully balancing operational realities, environmental regulations, and rigid IFRS standards. Correctly separating development from production, thoroughly evaluating indirect costs, and appropriately recognising incidental revenues in the income statement are vital steps to ensure transparent financial reporting in the mining sector.

## Contributor to this article



**Karabo Moreroa**

Manager

Karabo.Moreroa@sng.gt.com

For general enquiries please contact us at [info@sng.gt.com](mailto:info@sng.gt.com)



© 2026 SNG Grant Thornton - All rights reserved.

“Grant Thornton” refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. SNG Grant Thornton is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.