



# Workshop on the Provisions of Chapter Four of the Mining Investment Regulations (Financial Provisions)

Class (A) Minerals Investors



## Objectives of This Training Workshop

- 1 Provide an overview of the Mining Investment Law in the Kingdom and its Executive Regulations.
- 2 Offer a detailed explanation and clarification of the provisions included in Chapter Four of the Executive Regulations of the Mining Investment Law (Financial Provisions).
- 3 Enhance participant engagement by presenting practical examples that contribute to better understanding of concepts.



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exporting minerals and ores

# Key Terms Used in This Training Workshop

The Kingdom

The Kingdom of Saudi Arabia

The Ministry

Ministry of Industry and Mineral Resources

Esnad

Saudi Mining Services Company

Regulations

Executive Regulations of the Mining Investment Law (1444 AH)

Investor / Licensee

Investor \ licensee exploiting Class (A) minerals

Reference Article

Article number within the executive regulations being referenced

# Overview of the Mining Investment Law and its Executive Regulations

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# Overview of the Mining Investment Law and its Executive Regulations

## Mining Investment Law

Issued by Royal Decree No.  
M/140 dated 19 Shawwal 1441  
AH

## Executive Regulations of the Mining Investment Law

Issued under Ministerial  
Resolution No. 3293/1/1444  
dated 5/6/1444 AH

## Guidelines

Issued by the Ministry and  
Esnad

# What types of licenses are available in the Kingdom for Class (A) minerals?

## Reconnaissance License

Preliminary geological survey to identify the geological environment and surface indicators of minerals and ores in general before beginning exploration.

- License area: Open
- License duration: Up to 2 years, renewable for an additional period not exceeding 2 years.

## Exploration License

A detailed activity aimed at discovering minerals and ores to determine their presence, extensions, quantities, qualities, and feasibility of mining.

- License area: Up to 100 km<sup>2</sup>
- License duration: Up to 5 years, renewable for periods not exceeding 5 years each, provided the total duration including renewals does not exceed 15 years.

## Mining License

Extraction and exploitation of class (A) and (B) minerals, with the ability to transport and sell the extracted minerals with full operational rights.

- License area: Up to 50 km<sup>2</sup>
- License duration: Up to 30 years, renewable for another period not exceeding 30 years.

## Small Mine License

Extraction and exploitation of Class (A) and (B) minerals, with the ability to transport and sell the extracted minerals with full operational rights.

- License area: Up to 1 km<sup>2</sup>
- License duration: Up to 20 years, renewable for another period not exceeding 20 years.

## General Purpose License

Granted to holders of a Mining License or Small Mine License to:

- ✓ Establish facilities or use land outside the licensed area for purposes related to the license.
- ✓ Continue using facilities located on the site of a previous mining license after its expiration.

# **Licensee Obligations under Chapter Four of the Regulations**

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## Key Points



**Before starting any development or mining activity on the licensed land, the licensee must obtain all required approvals and permits.**



**The licensee is the primary party accountable before the Ministry for all operations conducted within the license site, including financial obligations.**



**The licensee must maintain complete and detailed records of conducted operations according to the license type to support their mining declaration and provide them for inspection when requested by the Ministry.**

# Main Obligations of the Licensee

License holders are subject to several obligations, most notably:

Payment of surface  
rent

Financial compensation  
calculation

Record-keeping and  
quantity accounting  
requirements

Submission of  
mining declarations  
and payment of  
financial  
compensation

## Payment of surface rent

## Financial compensation calculation

## Record-keeping and quantity accounting requirements

## Submission of Declarations and Payment

Surface rent is a fee paid by the licensee for leasing the land included in the license (Mining License, Small Mine License, General Purpose License).

### Payment timeframe

Within 30 days from the due date; first-year rent must be paid before license issuance.

### Frequency

Annually from the license issuance date.

### Calculation method

License area in km<sup>2</sup> (or part thereof) × Surface rent value (10,000 SAR per km<sup>2</sup> or part thereof).

### Notes

Any fraction of a km<sup>2</sup> is rounded up to a full km<sup>2</sup>.

### Exception

Privately owned land is excluded.

# Main Obligations of the Licensee

Reference Article: 114

## Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

Submission of Declarations and Payment

Surface Rent for Exploration  
Licenses

### Calculation formula:

License area in km<sup>2</sup> or part thereof × Surface rent value

Appendix (5) of the Regulations defines the rent rate per km<sup>2</sup> (or part thereof) for each license year.

## Payment of surface rent

## Financial compensation calculation

## Record-keeping and quantity accounting requirements

## Submission of Declarations and Payment

### Practical Example: Surface Rent Payment for an Exploration License

Al-Ma'dan Al-Thameen Company applied for an exploration license for land covering 10,140,000 m<sup>2</sup> (License area), of which 115,000 m<sup>2</sup> is privately owned by the company and the remainder is state-owned.

Task: Calculate the surface rent for the first five years and determine payment due dates, noting that the expected license issuance date is January 15, 2020.

**First.** Surface rent is paid only for state-owned land; no rent is charged for privately owned land.

**Second.** Determine the area subject to surface rent:  $(10,140,000 - 115,000) = 10,025,000 \text{ m}^2 / 1,000,000 = 10.025 \text{ km}^2$

**Third.** The fractional part of a square kilometer is considered a full square kilometer, and therefore:

First year: 11 square kilometers \* 0 SAR = 0 due before January 15, 2020.

Second year: 11 square kilometers \* 10 SAR = 110 SAR due from January 15, 2021, to February 14, 2021.

Third year: 11 square kilometers \* 15 SAR = 165 SAR due from January 15, 2022, to February 14, 2022.

Fourth year: 11 square kilometers \* 20 SAR = 220 SAR due from January 15, 2023, to February 14, 2023.

Fifth year: 11 square kilometers \* 30 SAR = 330 SAR due from January 15, 2024, to February 14, 2024.

# Main Obligations of the Licensee

Reference Article: 114

## Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

Submission of Declarations and Payment

### Practical Example: Surface Rent Payment for an Exploitation License (Case 1)

Al-Ma'dan Al-Thameen Company applied for an exploitation license for state-owned land with an area of 10,140,000 m<sup>2</sup>, on August 7, 2021, with the license expected to be issued on December 1, 2021.

Required: Calculate the surface rent due for the first two years and determine the payment due dates.

1. Area subject to surface rent:  $10,140,000 \text{ m}^2 \div 1,000,000 = 10.14 \text{ km}^2$

2. The fractional part of a square kilometer is considered a full square kilometer, and therefore the area will be 11 km<sup>2</sup> and the surface rent = 110,000



First Year Rent

110,000 SAR  
Due before  
December 1,  
2021

Second Year Rent

110,000 SAR  
Due between  
December 1, 2022  
and December 31,  
2022

# Main Obligations of the Licensee

Reference Article: 114

## Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

Submission of Declarations and Payment

Practical Example: Surface Rent Payment for an Exploitation License (Case 2)

Al-Ma'dan Al-Thameen Company applied for an exploitation license for land with a total area of 10,140,000 m<sup>2</sup> (License area), of which 2,115,000 m<sup>2</sup> is privately owned by the company and the rest is state-owned. The application was submitted on August 7, 2021, and the license is expected to be issued on December 1, 2021.

Required: Calculate the surface rent due for the first two years and determine due dates.

**First. Surface rent applies only to state-owned land; no rent is charged on land owned by the investor.**

**Second. Area subject to surface rent:**

$$(10,140,000 - 2,115,000) = 8,025,000 \text{ m}^2 \div 1,000,000 = 8.025 \text{ km}^2$$

**Third. The fractional part of a square kilometer is considered a full square kilometer, and therefore, the area will be 9 km<sup>2</sup> and the surface rent = 90,000.**

First Year Rent

90,000 SAR  
Due before  
December 1,  
2021

Second Year Rent

90,000 SAR  
Due between  
December 1, 2022  
and December 31,  
2022

# Main Obligations of the Licensee

Reference Article: 114

**Payment of surface rent**

Financial compensation calculation

Record-keeping and quantity accounting requirements

Submission of Declarations and Payment

Practical Example: Surface Rent Payment for an Exploitation License (Case 3)

Al-Ma'dan Al-Thameen Company applied for an exploitation license for land with an area of 10,140,000 m<sup>2</sup>, fully owned by the investor (private ownership). The application was submitted on August 7, 2021, and the expected license issuance date is December 1, 2021.

Required: Calculate the surface rent due for the first two years and determine payment dates.

**No surface rent is due for licenses on land owned by the investor (privately owned land).**

# Main Obligations of the Licensee

Reference: Penalties Table

## Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

Submission of Declarations and Payment

Late Payment of Surface Rent Results in Penalties as Shown Below:

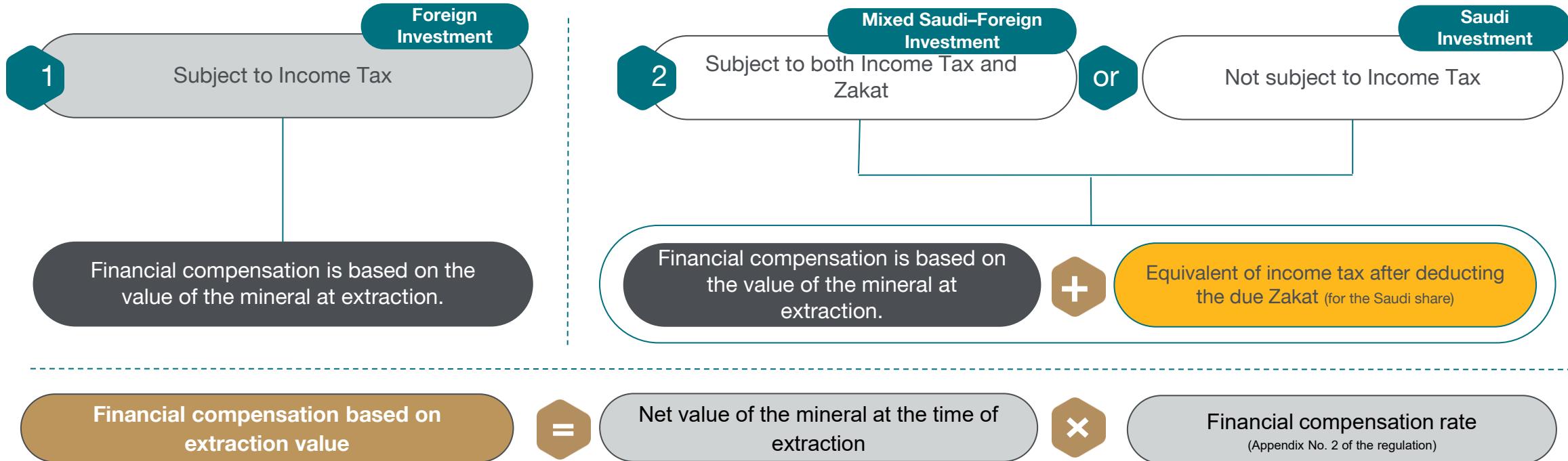
| Mineral Class | Violation   | First Penalty     | Second Penalty   | Third Penalty   | After 180 days from invoice issuance                                |
|---------------|---|-------------------|--|---|---|
| A             | Delay in payment of surface rent for exploration licenses | Warning (30 days) | Violation notice (30 days). If not resolved within the notice period, a fine of 10% of the surface rent is imposed | A fine of 10% of the surface rent value shall be imposed for every 30 days of delay, calculated from the date of the fine notice. | Referred to the Violations Committee to determine further penalties |
|               | Delay in payment of surface rent for exploration licenses | Warning (30 days) | Violation notice (30 days). If not resolved within the notice period, a fine of 5% of the surface rent is imposed  | A fine of 5% of the surface rent value shall be imposed for every 30 days of delay, calculated from the date of the fine notice.  | Referred to the Violations Committee to determine further penalties |

# Main Obligations of the Licensee

Reference: Penalties Table



The financial compensation is the value owed for the actual extracted mineral that is usable or saleable. The calculation of the financial compensation is made according to the company's ownership structure.



Payment of surface rent

## Financial compensation calculation

Record-keeping and quantity accounting requirements

Submission of Declarations and Payment

### Practical Example: Calculation of Financial Consideration (Brief)

Al-Sharq Minerals Company is a Saudi company with full Saudi ownership.

- The licensed mineral is high-grade bauxite (Bauxite / Aluminum ore  $\text{Al}_2\text{O}_3 > 40\%$ ) with a net mineral value of 200 million SAR.
- Zakat due = 12 million SAR for the year
- Calculated income tax equivalent = 9 million SAR for the year

**According to Article 115 of the Regulations, the company is liable for income tax as if it were fully taxable ( $9,000,000 / 100\% = 9,000,000$  SAR) for the entire year.**

The following financial compensation will be due:

Financial compensation = Financial compensation on the net value of the mineral at extraction + Income tax equivalent  
= (Net value of the mineral at extraction  $\times$  Financial compensation rate (according to Appendix No. 2 of the regulation)) + (Income tax equivalent – Due Zakat)

Therefore, Financial compensation =  $(200,000,000 \times 2.5\%) + (9,000,000 - 12,000,000) = 5,000,000 + (-3,000,000) =$  Due financial compensation 5,000,000 SAR.

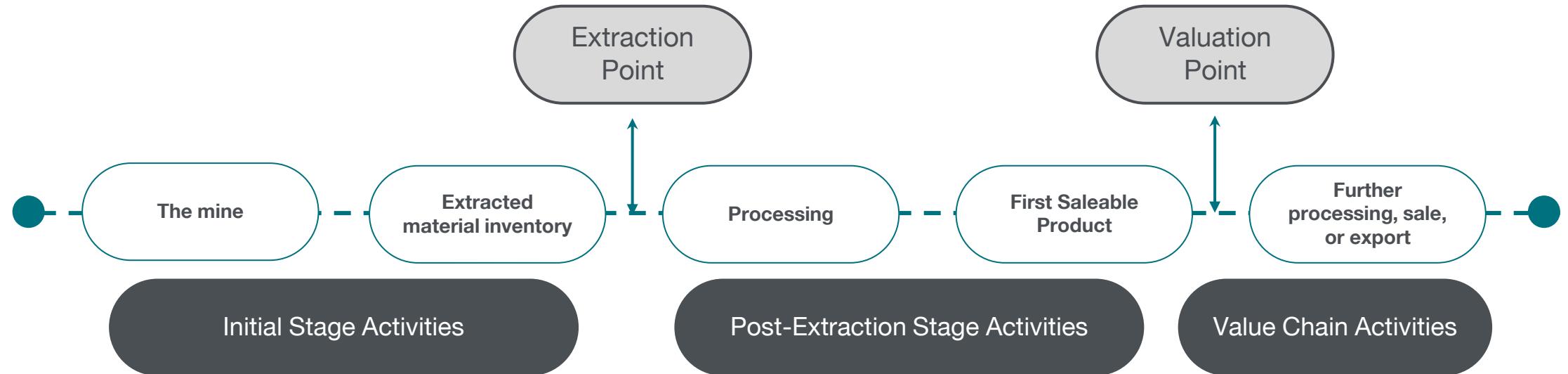
The negative result of the income tax equivalent, amounting to 3,000,000 SAR, will be carried forward to calculate the income tax equivalent for the following year.

# Calculation of financial compensation

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# Financial compensation Calculation – Explanation & Application Examples

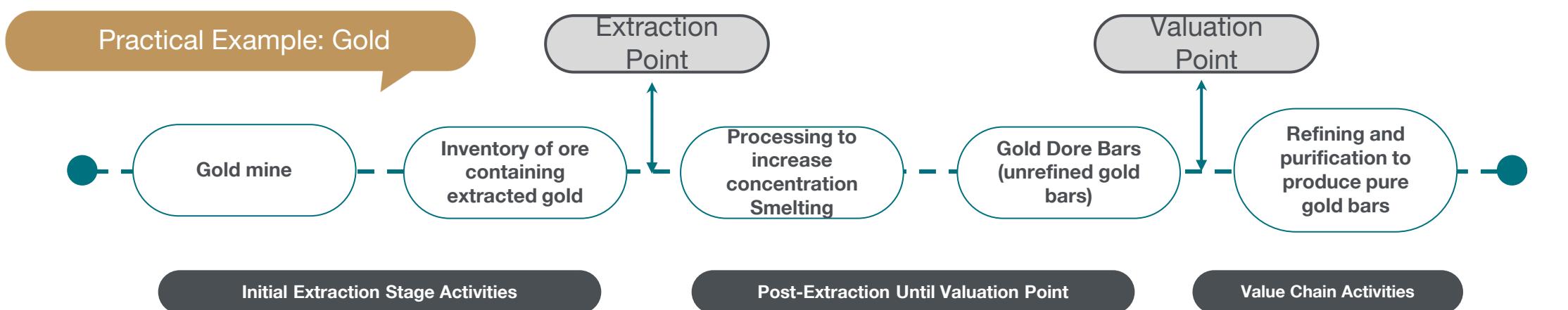
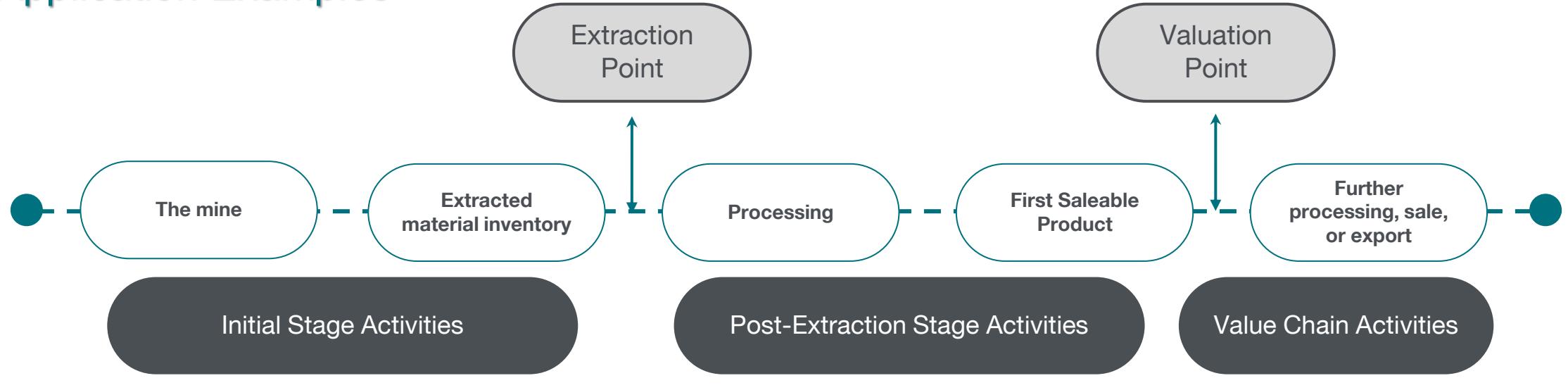
Reference Article: 121



- **Extraction Point:** The point immediately after initial or supplementary mining operations.
- **Valuation Point:** The point at which the first saleable product is achieved, or revenue is generated through sale, export, or use of the mineral—at which financial compensation becomes due.
- **Initial Stage Activities:** Primary or supplementary operations are carried out before reaching the extraction point.
- **Primary Processing:** Operations on ore that do not change its chemical or physical properties, such as crushing, sorting, screening, or washing.
- **Post-Extraction Stage Activities:** Processing operations after the extraction point and before reaching the valuation point.
- **Advanced Processing:** Operations that alter chemical or physical properties using treatment units such as smelting, roasting, separation, or mineral concentration.
- **Difference between Mining and Industrial Activity:** Industrial activity begins once the first saleable product is achieved—mining activity ends at that point.

# Financial compensation Calculation – Explanation & Application Examples

Reference Article: 121



# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Calculation of financial compensation based on mineral value at extraction point

| Statement / Details   | Table | Amount |
|---|-------|--------|
| (I) – Total revenues from minerals extracted during the year  |       |        |
| (II) – Less: Total operating expenses for the year            |       |        |
| (III) – Add: Total non-allowable operating expenses           |       |        |
| (IV) – Less: Total estimated return on capital                |       |        |
| (V = I – II + III – IV) – Net value of minerals at extraction |       |        |
| Financial compensation based on mineral value at extraction   |       |        |

# Financial compensation Calculation – Explanation & Application Examples

## Calculation of Financial compensation

### Calculation of financial compensation based on mineral value at extraction point

| Statement / Details   | Table | Amount |
|---|-------|--------|
| (I) – Total revenues from minerals extracted during the year  |       |        |
| (II) – Less: Total operating expenses for the year            |       |        |
| (III) – Add: Total non-allowable operating expenses           |       |        |
| (IV) – Less: Total estimated return on capital                |       |        |
| (V = I – II + III – IV) – Net value of minerals at extraction |       |        |
| Financial compensation based on mineral value at extraction   |       |        |

# Financial compensation Calculation – Explanation & Application Examples

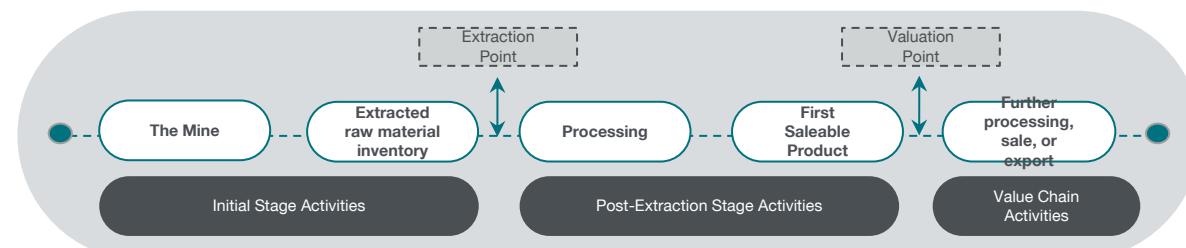
Reference Article: 119

## 1. Determining Total Revenue: The method of determining revenues varies depending on the Valuation Point, as follows:



**If not sold: Quantity of first saleable mineral product × applicable reference price**

- Reference price: Globally recognized price (internationally accepted mineral market or Ministry-approved bulletin during the financial consideration period).
- Commercial price: Price determined commercially through neutral, free-market transactions without preferential treatment.



If the investor has more than one mineral (e.g., gold and silver), revenue and expenses must be calculated separately for each mineral.

# Financial compensation Calculation – Explanation & Application Examples

Reference Article: 119

1. Determining Total Revenue: The method of determining revenues varies depending on the Valuation Point, as follows:

## Practical Example: Calculating Total Revenue

Investor (**Al-Gharbia Company**) exploits gold (Au). The following data were observed during the financial year:  
A quantity of ore was extracted from the mine and subjected to advanced processing operations to produce the first saleable product, and the following was observed:

- 6,000 ounces of Gold Dore Bars (selling price 6,500 SAR/oz, reference price 7,000 SAR/oz)
- 1,000 tons of copper concentrates (selling price 31,000 SAR/ton)
- 5,000 tons of zinc concentrates (selling price 4,000 SAR/ton)
- 85,000 ounces of silver concentrates (selling price 90 SAR/oz)

All products were fully sold except for 5,000 ounces of Gold Dore Bars, which remained unsold.

### **Required:**

Determine total revenue per mineral.

# Financial compensation Calculation – Explanation & Application Examples

Reference Article: 119

1. Determining Total Revenues: The Valuation Point is the production of the first saleable product.

## 1- In determining total revenues for each mineral:

- Gold Dore Bars ==> Total revenues = 5,000 ounces \* 6,500 SAR + 1,000 ounces (unsold) \* 7,000 SAR = 32,500,000 SAR + 7,000,000 SAR = 39,500,000 SAR
- Copper concentrates ==> Total revenues = 1,000 tons \* 31,000 SAR = 31,000,000 SAR
- Zinc concentrates ==> Total revenues = 5,000 tons \* 4,000 SAR = 20,000,000 SAR
- Silver concentrates ==> Total revenues = 85,000 ounces \* 90 SAR = 7,650,000 SAR

Therefore, the total revenues amounted to **98,150,000 SAR.**

# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Financial compensation Calculation based on mineral value at extraction point

| Statement / Details   | Table | Amount            |
|---|-------|-------------------|
| (I) – Total revenues from minerals extracted during the year  |       | <b>98,150,000</b> |
| (II) – Less: Total operating expenses for the year            |       |                   |
| (III) – Add: Total non-allowable operating expenses           |       |                   |
| (IV) – Less: Total estimated return on capital                |       |                   |
| (V = I – II + III – IV) – Net value of minerals at extraction |       |                   |
| Financial compensation based on mineral value at extraction   |       |                   |

## 2. Basic Method | Determining Expenses: **Operating expenses allowable for deduction**



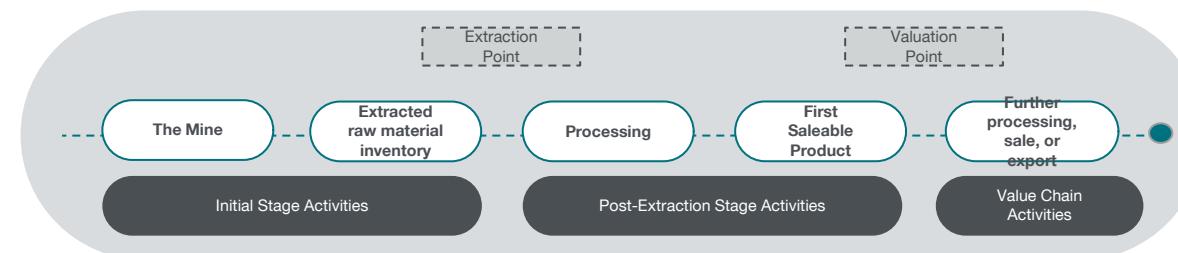
### **Allowable operating expenses** (deductible from revenue for post-extraction activities):

These are any expenses, according to accounting principles for the financial consideration period, related to the following:

- **Carrying out activities related to the minerals** covered by the license during the financial compensation period, which are performed after the Extraction Point and before the Valuation Point.
- **Transporting the mineral** in its form after the Valuation Point.
- **Insurance for transporting the mineral** in its form after the Valuation Point.

In addition:

- **Depreciation expenses** if the licensee owns or leases the asset (financial lease) and uses it, or installs or constructs an asset for use in carrying out post-extraction activities related to the mineral covered by the exploitation license:
  - The depreciation amount of the asset during the financial compensation period is calculated according to accounting principles, excluding depreciation for periods when the asset is not used in post-extraction activities.
  - If the asset is leased (financial lease) or purchased in installments, it is treated as an owned asset when calculating depreciation (with financing or leasing costs treated as non-allowable expenses).



## 2. Basic Method | Determining Expenses: **Operating expenses allowable for deduction**

### Practical Example: Determining Allowable and Non-Allowable Expenses

The investor (**Al-Gharbia Company**), which invests in gold (Au) exploitation, provides the following data regarding its operating expenses during the financial year:

- Operating expenses (excluding depreciation) amounted to 6,750,000 SAR, incurred after the Extraction Point and up to the Valuation Point, except for 450,000 SAR related to exploration activities.
- Mineral transportation expenses after the Valuation Point amounted to 850,000 SAR.
- Insurance expenses for transporting the mineral after the Valuation Point amounted to 125,000 SAR.
- Assets owned by the investor with a value of 35,000,000 SAR were used, with annual depreciation of 3,500,000 SAR, used for post-extraction activities up to the Valuation Point. 15% of these assets were used for another license investment, and 8% for advanced industrial activities during the current financial year. The assets have been owned for 6 years.
- Machinery was rented under an **operating** lease with an annual value of 150,000 SAR and was used only for post-extraction activities up to the Valuation Point (not included in the above operating expenses).
- Machinery was purchased 3 years ago on a five-year installment plan, with an annual installment of 220,000 SAR, including 10,000 SAR annual interest. The machinery is fully capitalized and used for post-extraction activities up to the Valuation Point, noting that it was unused for 3 months annually.
- The investor incurred fines of 175,000 SAR and income tax of 320,000 SAR during the financial year.
- The investor incurred financing loan interest of 280,000 SAR per year.

#### **Requirements:**

1. Determine the value of expenses allowable for deduction from total revenues.
2. Determine the expenses excluded from deduction for post-extraction activities up to the Valuation Point.

# Financial compensation Calculation – Explanation & Application Examples

## 2. Basic Method | Determining Expenses: **Operating expenses allowable for deduction**

### **1- Determining the value of expenses allowable for deduction from total revenues**

The value of expenses allowable for deduction is determined as follows (for post-extraction activities up to the Valuation Point):

- Operating expenses (excluding depreciation of owned assets) 6,750,000 SAR – 450,000 SAR = **6,300,000 SAR**
- Mineral transportation and insurance expenses after the Valuation Point 850,000 SAR + 125,000 SAR = **975,000 SAR**
- Depreciation of assets owned by the investor =  $3,500,000 \text{ SAR} \times (100\% - 15\% - 8\%) = 3,500,000 \times 77\% = 2,695,000 \text{ SAR}$
- Expenses for rented operational assets with an annual lease of 150,000 SAR = **150,000 SAR**
- Depreciation of assets purchased on installments and fully capitalized =  $((220,000 - 10,000 \text{ annual interest}) \times 5 \text{ years}) / (5 \text{ years}) \times 9/12 = (1,050,000 / 5) \times 9/12 = 210,000 \times 9/12 = 157,500 \text{ SAR}$

**Therefore, the total value of expenses allowable for deduction from total revenues = 10,277,500 SAR, which is distributed among the minerals according to the table below.**

| Mineral                          | Gold Dore Bars | Copper Concentrates | Zinc Concentrates | Silver Concentrates | Total      |
|----------------------------------|----------------|---------------------|-------------------|---------------------|------------|
| Allowable Expenses for Deduction | 4,136,500      | 3,246,000           | 2,095,000         | 800,000             | 10,277,500 |

# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Financial compensation Calculation based on mineral value at extraction point

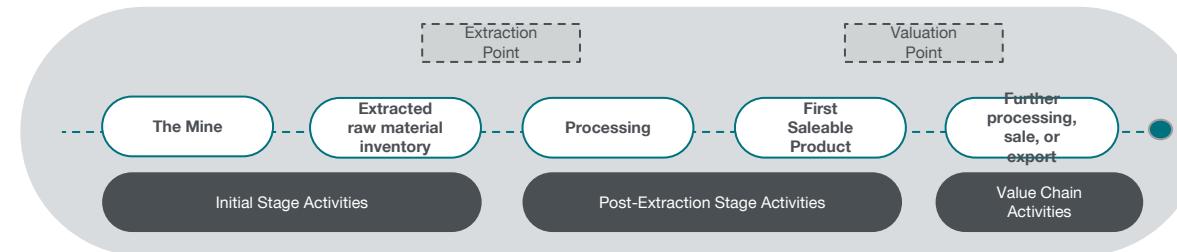
| Statement / Details   | Table | Amount            |
|---|-------|-------------------|
| (I) – Total revenues from minerals extracted during the year  |       | 98,150,000        |
| (II) – Less: Total operating expenses for the year            |       | <b>10,277,500</b> |
| (III) – Add: Total non-allowable operating expenses           |       |                   |
| (IV) – Less: Total estimated return on capital                |       |                   |
| (V = I – II + III – IV) – Net value of minerals at extraction |       |                   |
| Financial consideration based on mineral value at extraction  |       |                   |

## 2. Basic Method | Determining Expenses: Non-Allowable Operating Expenses



### Excluded Expenses – Not Allowable for Deduction (even if they are operating expenses for post-extraction activities)

- Financing costs, share issuance costs, repayment of assets and loan interests, dividend distribution, share buybacks or redemptions, and similar expenses.
- Hedging or currency exchange agreements if related to derivative contracts or foreign currency hedging.
- General administrative and office expenses and similar costs incurred outside Saudi Arabia.
- Zakat and income tax.
- Any amounts paid by court order, fines paid or due for any penalty under local regulations, and interest related to fines, under international laws.
- Payments for leased assets and finance lease expenses.
- Installment purchase payments for assets and installment purchase fees.



## 2. Basic Method | Determining Expenses: Non-Allowable Operating Expenses

### 2- Determining Expenses Excluded from Deduction for Post-Extraction Activities up to the Valuation Point

The value of non-allowable expenses is determined as follows:

- Annual installment for machinery purchased on installments, including financing interest = **220,000 SAR**
- Fines = **175,000 SAR**
- Income tax from the previous year = **320,000 SAR**
- Financing loan interest = **280,000 SAR**

Therefore, the expenses excluded from deduction for post-extraction activities up to the Valuation Point = **995,000 SAR**, which are distributed among the minerals according to the table below.

| Mineral                          | Gold Dore Bars | Copper Concentrates | Zinc Concentrates | Silver Concentrates | Total   |
|----------------------------------|----------------|---------------------|-------------------|---------------------|---------|
| Expenses Excluded from Deduction | 401,000        | 314,500             | 202,000           | 77,500              | 995,000 |

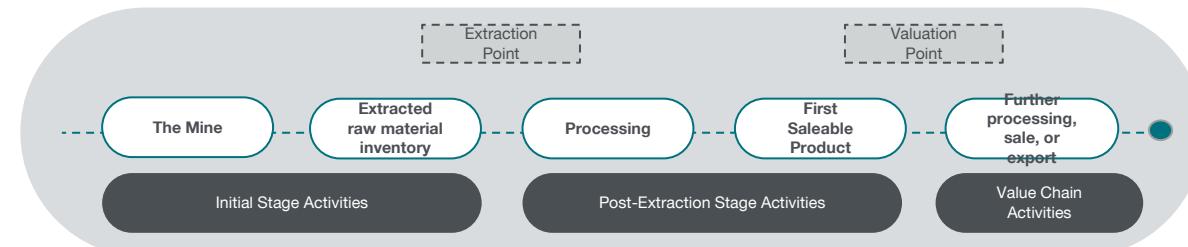
# Financial compensation Calculation – Explanation & Application Examples

Reference Articles:  
128

3. Alternative Method: The regulations allow the investor to use an alternative method to calculate allowable expenses deducted from revenue, based on the assumption that an independent third party performs the activities between the extraction point and the valuation point.

**The alternative method** can be used to determine the mineral value at extraction under the following conditions:

- Post-extraction activities are performed by a party other than the licensee (**a third party**), including the use of all assets (third-party assets).
- The relationship with the third party is **completely independent**.
- The third party has no direct or indirect interest in the mineral.
- There is a competitive market for the third party's product. The market is considered competitive if the return earned by the third party is proportional to the invested capital, considering the non-diversifiable risks associated with such activities.



## 3. Alternative Method for Determining Expenses

Operating costs



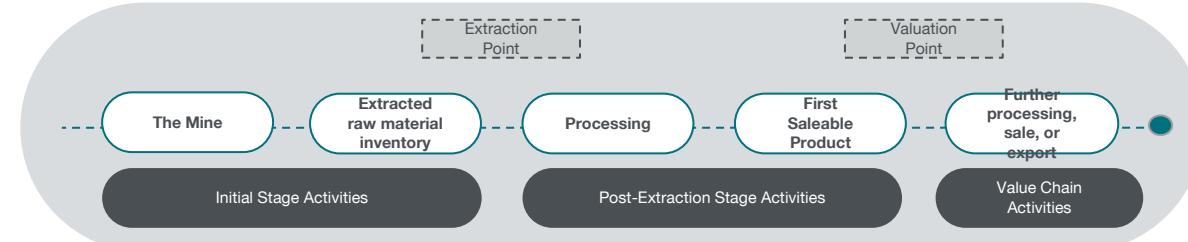
Expenses equivalent to the depreciation of assets used by the third party.



Estimated return on capital for the third party.



Costs reimbursed or deducted by the buyer later.



# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Financial compensation Calculation based on mineral value at extraction point

| Statement / Details   | Table | Amount         |
|---|-------|----------------|
| (I) – Total revenues from minerals extracted during the year  |       | 98,150,000     |
| (II) – Less: Total operating expenses for the year            |       | 10,277,500     |
| (III) – Add: Total non-allowable operating expenses           |       | <b>995,000</b> |
| (IV) – Less: Total estimated return on capital                |       |                |
| (V = I – II + III – IV) – Net value of minerals at extraction |       |                |
| Financial consideration based on mineral value at extraction  |       |                |

# Financial compensation Calculation – Explanation & Application Examples

Reference Article:  
122

## 2. Basic Method | Determining Expenses: Estimated Return on Capital

Estimated  
Return on  
Capital



Book value of  
assets at the  
beginning of the  
period



Long-term bond  
rate <5%



Days in financial  
consideration  
period/ 365



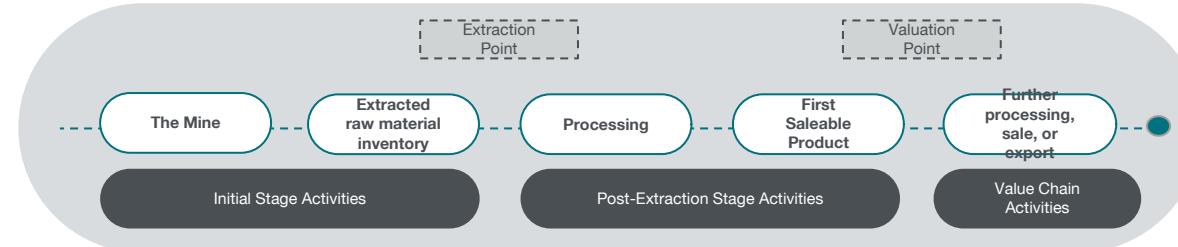
Assets considered are those used in post-extraction activities until the valuation point.



The bond rate is the average yield of 10-year Saudi government bonds.



The Ministry will publish it and make it available to investors.



Practical Example

# Financial compensation Calculation – Explanation & Application Examples

## 2. Basic Method | Determining Expenses: Estimated Return on Capital

### Practical Example: Determining the Estimated Return on Capital

The investor (**Al-Gharbia Company**), which invests in gold (Au) exploitation, provides the following data regarding its assets used in mining activities during the financial year. The Saudi Ministry of Industry and Mineral Resources has set the government bond rate at 4.7% annually:

- Assets owned by the investor with a value of 35,000,000 SAR were used for post-extraction activities up to the Valuation Point. 15% of these assets were used for another license investment, and 8% for advanced industrial activities.

**Book value of owned assets =  $35,000,000 - (3,500,000 \times 6) \times 77\% = (35,000,000 - 21,000,000) \times 77\% = 14,000,000 \times 77\% = 10,780,000$  SAR**

Machinery was rented under an operating lease with an annual value of 150,000 SAR and was used only for post-extraction activities up to the Valuation Point. **These are not disclosed in financial statements due to their operational, not financial, nature.**

- Machinery purchased 3 years ago on installments and fully capitalized, with a capitalized value of  $210,000 \times 5$  years = 1,050,000 SAR. These machines were unused for 3 months annually.

**Book value of capitalized assets =  $[1,050,000 - (210,000 \times 3 \text{ years})] \times 9/12 = [1,050,000 - 630,000] \times 9/12 = 420,000 \times 9/12 = 315,000$  SAR**

Total book value of assets = 11,095,000 SAR

**Estimated return on capital =  $11,095,000 \times (4.7\% + 5\%) \times 365/365 = 1,076,215$  SAR, which is distributed among the minerals according to the table below.**

| Mineral                     | Gold Dore Bars | Copper Concentrates | Zinc Concentrates | Silver Concentrates | Total     |
|-----------------------------|----------------|---------------------|-------------------|---------------------|-----------|
| Estimated Return on Capital | 433,000        | 340,000             | 219,000           | 84,215              | 1,076,215 |

# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Financial compensation Calculation based on mineral value at extraction point

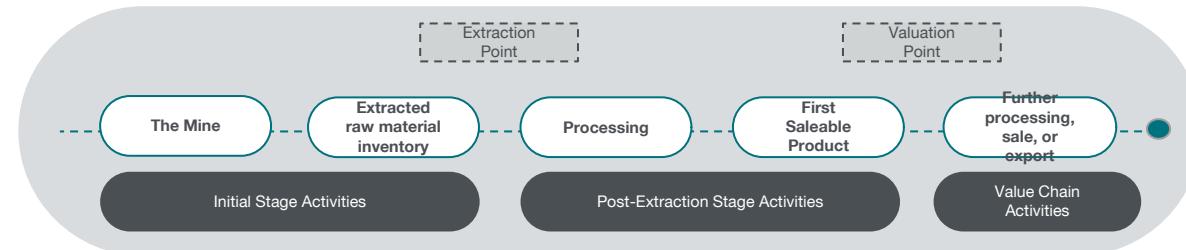
| Statement / Details   | Table | Amount           |
|---|-------|------------------|
| (I) – Total revenues from minerals extracted during the year  |       | 98,150,000       |
| (II) – Less: Total operating expenses for the year            |       | 10,277,500       |
| (III) – Add: Total non-allowable operating expenses           |       | 995,000          |
| (IV) – Less: Total estimated return on capital                |       | <b>1,076,215</b> |
| (V = I – II + III – IV) – Net value of minerals at extraction |       |                  |
| Financial consideration based on mineral value at extraction  |       |                  |

# Financial compensation Calculation – Explanation & Application Examples

Reference Article:  
121

## Calculation of Net Mineral Value at Extraction

Net mineral value at extraction: Net revenue the licensee achieves from selling the mineral at the extraction point. Does not include transport or insurance costs.



# Financial compensation Calculation – Explanation & Application Examples

## Calculation of Net Mineral Value at Extraction

### Practical Example: Net Mineral Value at Extraction

The investor (Al-Gharbia Company) invests in gold (Au) exploitation. The Calculation of Net Mineral Value at Extraction is as follows:

Net mineral value at the Extraction Point = Total revenues – Operating expenses including depreciation + Excluded expenses – Estimated return on capital

Net mineral value at the Extraction Point = 98,150,000 SAR – 10,277,500 SAR + 995,000 SAR – 1,076,215 SAR = 87,791,285 SAR, according to the following table:

| Mineral                       | Gold Dore Bars | Copper Concentrates | Zinc Concentrates | Silver Concentrates | Total      |
|-------------------------------|----------------|---------------------|-------------------|---------------------|------------|
| Revenue                       | 39,500,000     | 31,000,000          | 20,000,000        | 7,650,000           | 98,150,000 |
| – Allowable Expenses          | 4,136,500      | 3,246,000           | 2,095,000         | 800,000             | 10,277,500 |
| + Non-Allowable Expenses      | 594,500        | 314,500             | 202,000           | 77,500              | 995,000    |
| – Estimated Return on Capital | 433,000        | 340,000             | 219,000           | 84,215              | 1,076,215  |
| Net Value at Extraction       | 35,331,500     | 27,728,500          | 17,888,000        | 6,843,285           | 87,791,285 |

# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Financial compensation Calculation based on mineral value at extraction point

| Statement / Details   | Table | Amount            |
|---|-------|-------------------|
| (I) – Total revenues from minerals extracted during the year  |       | 12,295,000        |
| (II) – Less: Total operating expenses for the year            |       | 10,277,500        |
| (III) – Add: Total non-allowable operating expenses           |       | 995,000           |
| (IV) – Less: Total estimated return on capital                |       | 1,076,215         |
| (V = I – II + III – IV) – Net value of minerals at extraction |       | <b>87,791,285</b> |
| Financial consideration based on mineral value at extraction  |       |                   |

# Main Obligations of the Licensee

Reference Article:  
115 and 118



Financial compensation based on extraction value

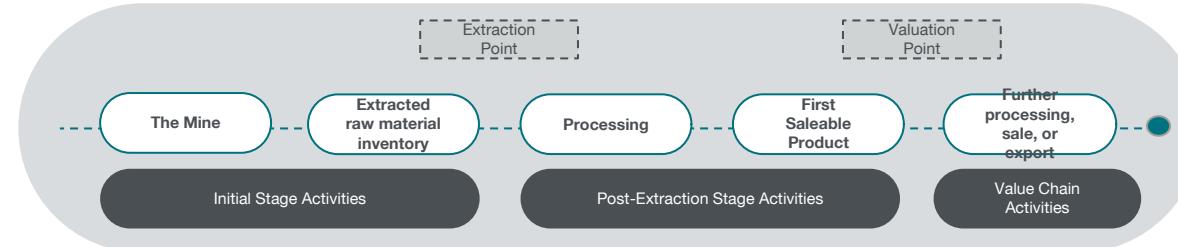


Net mineral value at extraction



Financial compensation rate

Appendix No. (2) of the regulation specifies the financial compensation rates for each type of mineral for class (A), which must be used for the calculation of financial compensation on the value of the mineral at extraction.



# Financial compensation Calculation

## Financial compensation Based on Mineral Value at Extraction

Practical Example: Financial compensation Based on Mineral Value at Extraction

The investor (**Al-Gharbia Company**) invests in gold (Au) exploitation. The Calculation of Financial compensation on the Mineral Value at Extraction is as follows:

Financial compensation Based on Mineral Value at Extraction = (Net Mineral Value at Extraction × Financial compensation Rate (according to Appendix No. (2) of the regulation, which specifies the financial compensation rates for each type of mineral for Class (A)))

**Financial compensation on the mineral value at extraction = 1,406,309 SAR, calculated according to the table below for each mineral separately:**

| Mineral   | Gold Dore Bars | Copper Concentrates | Zinc Concentrates | Silver Concentrates | Total      |
|---|----------------|---------------------|-------------------|---------------------|------------|
| Net mineral value at extraction                         | 35,331,500     | 27,728,500          | 17,888,000        | 6,843,285           | 87,791,285 |
| Financial compensation rate according to Appendix No. 2 | 1.5%           | 1.5%                | 2%                | 1.5%                |            |
| Financial compensation based on extraction value        | 529,973        | 415,928             | 357,760           | 102,649             | 1,406,309  |

# Financial compensation Calculation – Explanation & Application Examples

## Financial compensation Calculation

### Financial compensation Calculation based on mineral value at extraction point

| Statement / Details   | Table | Amount           |
|---|-------|------------------|
| (I) – Total revenues from minerals extracted during the year  |       | 12,295,000       |
| (II) – Less: Total operating expenses for the year            |       | 10,277,500       |
| (III) – Add: Total non-allowable operating expenses           |       | 995,000          |
| (IV) – Less: Total estimated return on capital                |       | 1,076,215        |
| (V = I – II + III – IV) – Net value of minerals at extraction |       | 87,791,285       |
| Financial consideration based on mineral value at extraction  |       | <b>1,406,309</b> |

# Determining Financial compensation for Income Tax Equivalent

| Calculation of Financial compensation for Income Tax Equivalent  |  |   |
|--|--|---|
| Net income (profit/loss) from mining activity  |  |   |
| Add: Total additions to net income (profit/loss)   |  | - |
| Less: Total deductions from net income (profit/loss)   |  | - |
| Adjusted net profit/loss for tax purposes  |  |   |
| Tax on adjusted profit   |  | - |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  |   |
| Total income tax equivalent  |  | - |
| Total income tax equivalent  |  |   |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |   |
| Financial compensation for income tax equivalent   |  | - |
| Deferred Zakat balance for next financial year   |  | - |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  | - |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

### Practical Example: Financial compensation for Income Tax Equivalent

The investor (Al-Gharbia Company) is a mixed company with 50% Saudi ownership, investing in gold (Au) exploitation. Its net income from mining activities related solely to the gold exploitation license is calculated in accordance with the Income Tax Law and regulations in the Kingdom, assuming the investor is a resident company subject to income tax. The following data are provided:

- Net income from mining activities = 5,250,000 SAR
- Income tax due = 725,000 SAR
- Zakat due = 210,000 SAR
- Depreciation according to accounting rates = 4,750,000 SAR
- Depreciation according to tax rates = 3,550,000 SAR
- Total used from provisions = 1,150,000 SAR
- Provisions created during the period = 2,650,000 SAR
- Repairs and improvements exceeding the statutory limit in the tax regulations = 850,000 SAR
- Expenses incurred with related parties exceeding the prevailing market rates = 550,000 SAR
- Doubtful debt provisions = 1,350,000 SAR
- Acceptable financial loan interest = 750,000 SAR

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

| Net income (profit/loss) from mining activity  |  |  |
|--|--|--|
| Add: Total additions to net income (profit/loss)   |  |  |
| Less: Total deductions from net income (profit/loss)   |  |  |
| Adjusted net profit/loss for tax purposes  |  |  |
| Tax on adjusted profit   |  |  |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  |  |
| Total income tax equivalent  |  |  |
| Total income tax equivalent  |  |  |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |  |
| Financial compensation for income tax equivalent   |  |  |
| Deferred Zakat balance for next financial year   |  |  |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |  |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

Net income (profit/loss) from mining activity

Net Income: 5,250,000 SAR

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |                  |
|---|--|------------------|
| Net income (profit/loss) from mining activity   |  | <b>5,250,000</b> |
| <b>Add: Total additions to net income (profit/loss)</b>   |  |                  |
| Less: Total deductions from net income (profit/loss)  |  |                  |
| Adjusted net profit/loss for tax purposes   |  |                  |
| Tax on adjusted profit  |  |                  |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                             |  |                  |
| <b>Total income tax equivalent</b>  |  |                  |
| <b>Total income tax equivalent</b>  |  |                  |
| Less: Zakat payable for the current financial year (attach supporting documents)  |  |                  |
| Financial compensation for income tax equivalent  |  |                  |
| Deferred Zakat balance for next financial year  |  |                  |
| <b>Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent)</b> |  |                  |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

Net income (profit/loss) from mining activity

Add: Total additions to net income (profit/loss)

| Additions to Net Profit / Loss  | Totals           |
|---|------------------|
| Depreciation according to accounting rates  | 4,750,000        |
| Repairs and improvements exceeding the statutory limit in the regulation (Note b) | 850,000          |
| Provisions created  | 2,650,000        |
| Other additions   | 550,000          |
| <b>Total Additions</b>  | <b>8,800,000</b> |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |                  |
|--|--|------------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000        |
| Add: Total additions to net income (profit/loss)   |  | <b>8,800,000</b> |
| <b>Less: Total deductions from net income (profit/loss)</b>  |  |                  |
| Adjusted net profit/loss for tax purposes  |  |                  |
| Tax on adjusted profit   |  |                  |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  |                  |
| Total income tax equivalent  |  |                  |
| Total income tax equivalent  |  |                  |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |                  |
| Financial compensation for income tax equivalent   |  |                  |
| Deferred Zakat balance for next financial year   |  |                  |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                  |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |           |
|---|--|-----------|
| Net income (profit/loss) from mining activity |  | 5,250,000 |
|---|--|-----------|

|  |  |           |
|--|--|-----------|
| Add: Total additions to net income (profit/loss) |  | 8,800,000 |
|--|--|-----------|

|  |  |  |
|--|--|--|
| Less: Total deductions from net income (profit/loss) |  |  |
|--|--|--|

| Deductions from net profit/loss:    | Totals           |
|-------------------------------------|------------------|
| Total Used from Provisions          | 1,150,000        |
| Depreciation according to tax rates | 3,550,000        |
| Other deductions                    | 2,100,000        |
| <b>Total Deductions</b>             | <b>6,800,000</b> |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |                  |
|--|--|------------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000        |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000        |
| Less: Total deductions from net income (profit/loss)   |  | <b>6,800,000</b> |
| <b>Adjusted net profit/loss for tax purposes</b>   |  |                  |
| Tax on adjusted profit   |  |                  |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  |                  |
| Total income tax equivalent  |  |                  |
| Total income tax equivalent  |  |                  |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |                  |
| Financial compensation for income tax equivalent   |  |                  |
| Deferred Zakat balance for next financial year   |  |                  |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                  |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |           |
|--|--|-----------|
| Net income (profit/loss) from mining activity        |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)     |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss) |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes            |  |           |

**Adjusted Net Profit / Loss for Tax Purposes** = Net income (profit/loss) from mining + Total additions to net income (profit/loss) – Total deductions from net income (profit/loss)

$$\text{Adjusted Net Profit / Loss for Tax Purposes} = 5,250,000 + 8,800,000 - 6,800,000 = 7,250,000$$

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |                  |
|--|--|------------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000        |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000        |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000        |
| Adjusted net profit/loss for tax purposes  |  | <b>7,250,000</b> |
| <b>Tax on adjusted profit</b>  |  |                  |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  |                  |
| Total income tax equivalent  |  |                  |
| Total income tax equivalent  |  |                  |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |                  |
| Financial compensation for income tax equivalent   |  |                  |
| Deferred Zakat balance for next financial year   |  |                  |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                  |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |           |
|--|--|-----------|
| Net income (profit/loss) from mining activity        |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)     |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss) |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes            |  | 7,250,000 |
| <b>Tax on adjusted profit</b>                        |  |           |

**Tax on Adjusted Profit = Adjusted Net Profit / Loss for Tax Purposes × 20%**

**Tax on Adjusted Profit = 1,450,000 = 7,250,000 × 20% SAR**

# Determining Financial compensation for Income Tax Equivalent

| Calculation of Financial compensation for Income Tax Equivalent  |  |                  |
|--|--|------------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000        |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000        |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000        |
| Adjusted net profit/loss for tax purposes  |  | 7,250,000        |
| Tax on adjusted profit   |  | <b>1,450,000</b> |
| <b>Less: Income tax payable to Zakat, Tax and Customs Authority<br/>(for non-Saudi companies or partially foreign-owned companies)</b>           |  |                  |
| Total income tax equivalent  |  |                  |
| Total income tax equivalent  |  |                  |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |                  |
| Financial compensation for income tax equivalent   |  |                  |
| Deferred Zakat balance for next financial year   |  |                  |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                  |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |           |
|--|--|-----------|
| Net income (profit/loss) from mining activity  |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes  |  | 7,250,000 |
| Tax on adjusted profit   |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority<br>(for non-Saudi companies or partially foreign-owned companies) |  |           |

**Income tax payable to the Zakat, Tax, and Customs Authority: 725,000 SAR**

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |                |
|--|--|----------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000      |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000      |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000      |
| Adjusted net profit/loss for tax purposes  |  | 7,250,000      |
| Tax on adjusted profit   |  | 1,450,000      |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  | <b>725,000</b> |
| <b>Total income tax equivalent</b>   |  |                |
| Total income tax equivalent  |  |                |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |                |
| Financial compensation for income tax equivalent   |  |                |
| Deferred Zakat balance for next financial year   |  |                |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |           |
|---|--|-----------|
| Net income (profit/loss) from mining activity   |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000 |
| Tax on adjusted profit  |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies) |  | 725,000   |
| <b>Total income tax equivalent</b>  |  |           |

**Total Income Tax Equivalent = Tax on Adjusted Profit – Income Tax Payable to the Zakat, Tax, and Customs Authority = 1,450,000 – 725,000 = 725,000 SAR**

# Determining Financial compensation for Income Tax Equivalent

| Calculation of Financial compensation for Income Tax Equivalent  |  |                |
|--|--|----------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000      |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000      |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000      |
| Adjusted net profit/loss for tax purposes  |  | 7,250,000      |
| Tax on adjusted profit   |  | 1,450,000      |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  | 725,000        |
| <b>Total income tax equivalent</b>   |  | <b>725,000</b> |
| <b>Total income tax equivalent</b>   |  |                |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |                |
| Financial compensation for income tax equivalent   |  |                |
| Deferred Zakat balance for next financial year   |  |                |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |           |
|---|--|-----------|
| Net income (profit/loss) from mining activity   |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000 |
| Tax on adjusted profit  |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies) |  | 725,000   |
| Total income tax equivalent   |  | 725,000   |
| <b>Total income tax equivalent</b>  |  |           |

**Zakat carried forward from the last financial year = Zero**

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |           |
|--|--|-----------|
| Net income (profit/loss) from mining activity  |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes  |  | 7,250,000 |
| Tax on adjusted profit   |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  | 725,000   |
| Total income tax equivalent  |  | 725,000   |
| Total income tax equivalent  |  | 0         |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  |           |
| Financial compensation for income tax equivalent   |  |           |
| Deferred Zakat balance for next financial year   |  |           |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |           |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |           |
|---|--|-----------|
| Net income (profit/loss) from mining activity   |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000 |
| Tax on adjusted profit  |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies) |  | 725,000   |
| Total income tax equivalent   |  | 725,000   |
| Total income tax equivalent   |  | 0         |
| Less: Zakat payable for the current financial year (attach supporting documents)  |  |           |

**Zakat due for the current financial year: 210,000 SAR**

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |                |
|---|--|----------------|
| Net income (profit/loss) from mining activity   |  | 5,250,000      |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000      |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000      |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000      |
| Tax on adjusted profit  |  | 1,450,000      |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                             |  | 725,000        |
| Total income tax equivalent   |  | 725,000        |
| Total income tax equivalent   |  | 0              |
| <b>Less: Zakat payable for the current financial year (attach supporting documents)</b>   |  | <b>210,000</b> |
| Financial compensation for income tax equivalent  |  |                |
| Deferred Zakat balance for next financial year  |  |                |
| <b>Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent)</b> |  |                |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |                |
|---|--|----------------|
| Net income (profit/loss) from mining activity   |  | 5,250,000      |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000      |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000      |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000      |
| Tax on adjusted profit  |  | 1,450,000      |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies) |  | 725,000        |
| <b>Total income tax equivalent</b>  |  | <b>725,000</b> |
| Total income tax equivalent   |  | 0              |
| Less: Zakat payable for the current financial year (attach supporting documents)  |  | 210,000        |
| <b>Financial compensation for income tax equivalent</b>   |  |                |

The financial compensation for the income tax equivalent = Total income tax equivalent - Zakat carried forward from the last financial year - Zakat due for the current financial year  
 $= 725,000 - 0 - 210,000 = 515,000 \text{ SAR}$

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|  |  |                |
|--|--|----------------|
| Net income (profit/loss) from mining activity  |  | 5,250,000      |
| Add: Total additions to net income (profit/loss)   |  | 8,800,000      |
| Less: Total deductions from net income (profit/loss)   |  | 6,800,000      |
| Adjusted net profit/loss for tax purposes  |  | 7,250,000      |
| Tax on adjusted profit   |  | 1,450,000      |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                      |  | 725,000        |
| <b>Total income tax equivalent</b>   |  | <b>725,000</b> |
| Total income tax equivalent  |  | 0              |
| Less: Zakat payable for the current financial year (attach supporting documents)   |  | 210,000        |
| <b>Financial compensation for income tax equivalent</b>  |  | <b>515,000</b> |
| <b>Deferred Zakat balance for next financial year</b>  |  |                |
| Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent) |  |                |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |           |
|---|--|-----------|
| Net income (profit/loss) from mining activity   |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000 |
| Tax on adjusted profit  |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies) |  | 725,000   |
| Total income tax equivalent   |  | 725,000   |
| Total income tax equivalent   |  | 0         |
| Less: Zakat payable for the current financial year (attach supporting documents)  |  | 210,000   |
| Financial compensation for income tax equivalent  |  | 515,000   |
| Deferred Zakat balance for next financial year  |  |           |

Deferred Zakat balance for next financial year = 0

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |           |
|---|--|-----------|
| Net income (profit/loss) from mining activity   |  | 5,250,000 |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000 |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000 |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000 |
| Tax on adjusted profit  |  | 1,450,000 |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies) |  | 725,000   |
| Total income tax equivalent   |  | 725,000   |
| Total income tax equivalent   |  | 0         |
| Less: Zakat payable for the current financial year (attach supporting documents)  |  | 210,000   |
| Financial compensation for income tax equivalent  |  | 515,000   |
| Deferred Zakat balance for next financial year  |  | 0         |
| <b>Total financial compensation payable</b>   |  |           |

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

**Total financial compensation payable = Financial compensation based on mineral value at extraction + Income tax equivalent compensation**

**Total financial compensation payable = 1,406,309 + 515,000 = 1,921,309 SAR**

**Total Financial compensation Payable**

# Determining Financial compensation for Income Tax Equivalent

## Calculation of Financial compensation for Income Tax Equivalent

|   |  |                  |
|---|--|------------------|
| Net income (profit/loss) from mining activity   |  | 5,250,000        |
| Add: Total additions to net income (profit/loss)  |  | 8,800,000        |
| Less: Total deductions from net income (profit/loss)  |  | 6,800,000        |
| Adjusted net profit/loss for tax purposes   |  | 7,250,000        |
| Tax on adjusted profit  |  | 1,450,000        |
| Less: Income tax payable to Zakat, Tax and Customs Authority (for non-Saudi companies or partially foreign-owned companies)                             |  | 725,000          |
| Total income tax equivalent   |  | 725,000          |
| Total income tax equivalent   |  | 0                |
| Less: Zakat payable for the current financial year (attach supporting documents)  |  | 210,000          |
| Financial compensation for income tax equivalent  |  | 515,000          |
| Deferred Zakat balance for next financial year  |  | 0                |
| <b>Total financial compensation payable (Financial compensation for mineral value at extraction + financial compensation for income tax equivalent)</b> |  | <b>1,921,309</b> |

Payment of surface rent

Financial compensation calculation

Record-keeping and quantity  
accounting requirements

Submission of Declarations and Payment

## Key Obligations

1

Do not transfer, allow transfer, or sell any minerals extracted from the license site except via a document issued by the licensee for the carrier for each load, proving that the minerals were legally extracted, and retain copies.

2

Maintain accounting books and production records for the license according to mining and related commercial activities supporting the mining declaration, and allow Ministry representatives to inspect these records upon request.

3

Comply with Ministry-approved methods for calculating quantities of minerals produced at the license site.

# Main Obligations of the Licensee

Reference Article:  
70

Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

**Submission of Declarations and Payment**

## Who Must Submit the Mining Declaration?

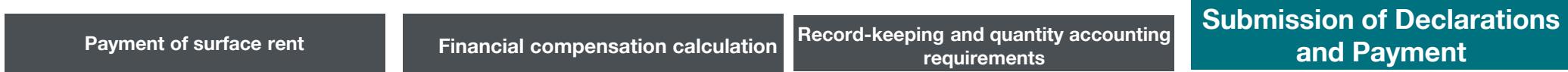
✓ Licensee of exploitation license

Quarterly mining declaration

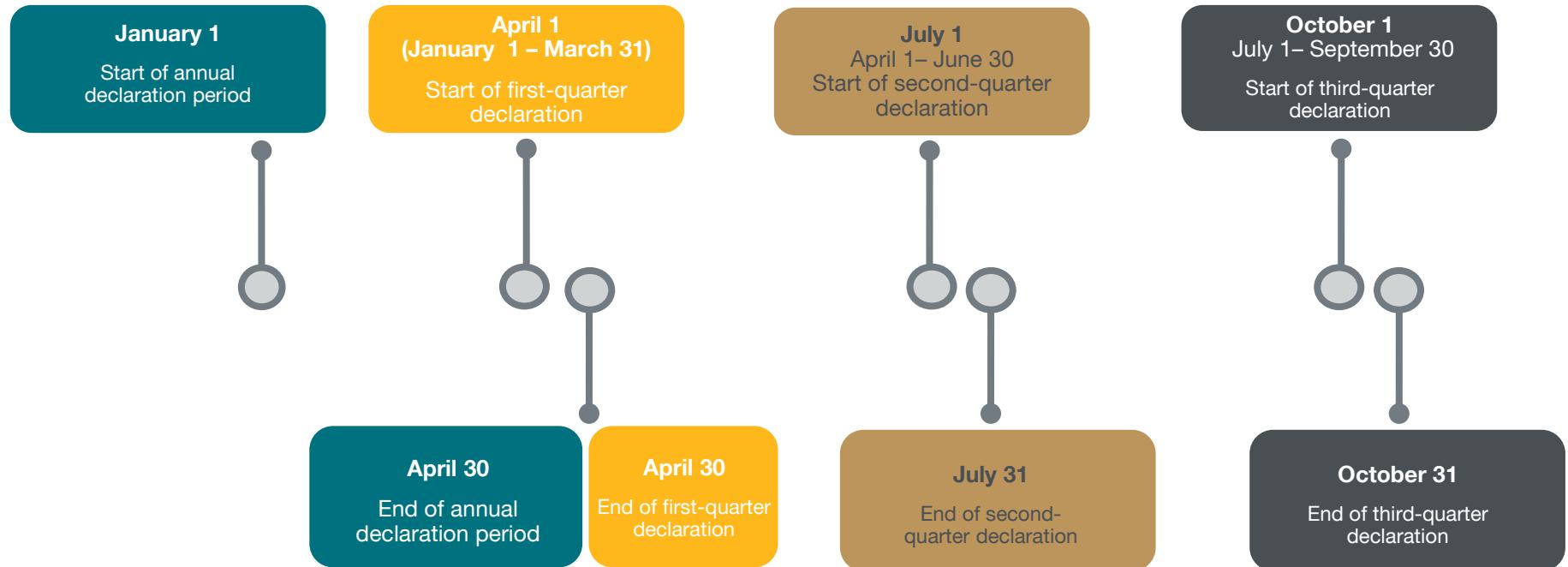
Annual mining declaration, reviewed by a certified public accountant

# Main Obligations of the Licensee

Reference Article:  
70



## When must the mining return be filed and the financial compensation\* be paid?



\* The payment deadline is the same as the declaration submission deadline.

# Main Obligations of the Licensee

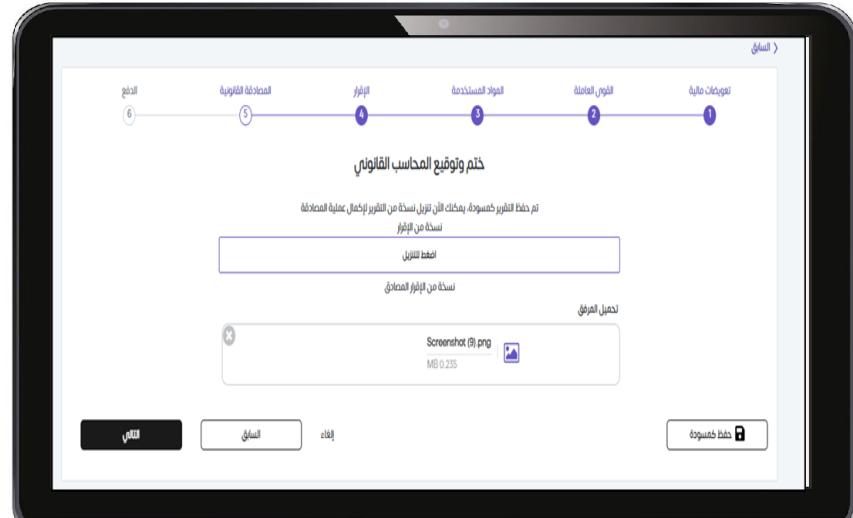
Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

**Submission of Declarations and Payment**

## How to Submit the Mining Declaration



1

Click “Periodic Reports” from the main menu

2

Click “Submit New Report”

3

“Periodic Reports” screen displays all licenses automatically pulled from the system

4

Select the license; the system displays license info and reports automatically

5

Select “Annual” report; click “Start” to open the “Financial compensation” screen

6

Fill in fields gradually

7

Click “Calculate” to compute financial compensation

8

Enter data in “Commitments” and click Next to proceed to the “Legal Certification Report”

9

Click Next to display “Report submitted successfully”

# Main Obligations of the Licensee

Fields to Fill  
according to  
slide 44)

**Financial Compensation**

Is there is exploitation?  Yes  No

Exploitation Procedure

Select your Exploitation Mineral \*Minerals is mandatory  
Select...

**Computation of Severance Fees of Minerals Upon Extraction**

|  |   |   |
|--|---|---|
| 1. Total Revenue of Minerals Extracted During the Period   | 0 | ▼ |
| 2. Total Operation Expenses<br><small>The expense associated with the Post-Extraction Activities and before the revenues are generated at the valuation point.</small> | 0 | ▼ |
| 3. Total Disallowable Operational Expenses   | 0 | ▼ |
| 4. Total Estimated Return on Capital   | 0 | ▼ |

# Main Obligations of the Licensee

These fields should be filled in according to what is stated in Slide No. 74.

Select your Exploitation Mineral \*Minerals is mandatory

Select...

Computation of Severance Fees of Minerals Upon Extraction

|   |   |   |
|---|---|---|
| 1. Total Revenue of Minerals Extracted During the Period  | 0 | ▼ |
| 2. Total Operation Expenses<br><small>The expense associated with the Post-Extraction Activities and before the revenues are generated at the valuation point</small> | 0 | ▼ |
| 3. Total Disallowable Operational Expenses  | 0 | ▼ |
| 4. Total Estimated Return on Capital  | 0 | ▼ |
| 5. Net Value of Minerals Upon Extraction  | 0 | ▼ |
| 6. Severance Fee for the Value of Minerals Upon Extraction (SAR)  | 0 | ▼ |

Computation of Severance Fees of Income Tax Equivalent

|  |     |   |
|--|-----|---|
| Net Income / Loss From Mining Activity         | 0.0 |   |
| 7. Total Additions to Net Income / Loss        | 0   | ▼ |
| 8. Total Deductions From Net Income / Loss     | 0   | ▼ |
| 9. Severance Fees as per Income Tax Equivalent | 0   | ▼ |

# Main Obligations of the Licensee

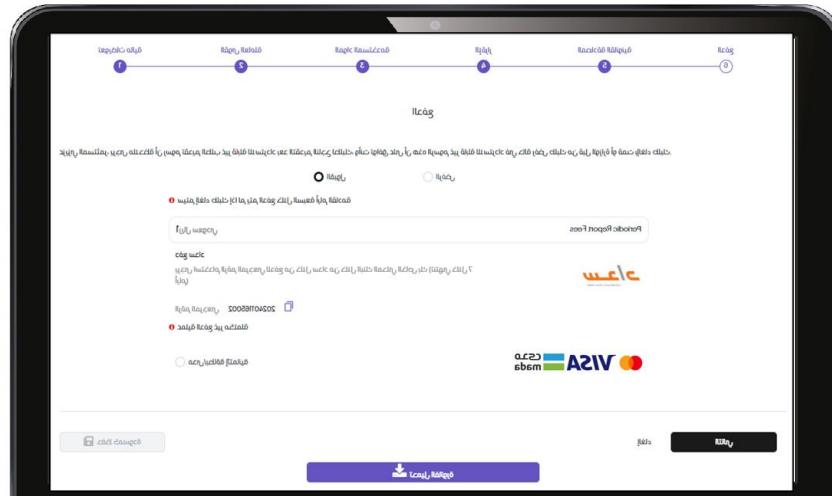
Payment of surface rent

Financial compensation calculation

Record-keeping and quantity accounting requirements

**Submission of Declarations and Payment**

How is payment made?



1

Complete all declaration fields.

2

Click the “Next” button to move to the “Payment” screen.

3

Payment can be made via Mada or bank account.

4

Once the payment page is reached and the payment is accepted, the application status becomes “Pending Payment.”

# Penalties

Delaying the submission of the mining declaration, submitting it incompletely using the approved forms, or delaying the payment of financial compensation exposes the violators to the following penalties:

| # | Mineral Category | Violation  | First Penalty     | Second Penalty   | Third Penalty  | After 180 days from the end of the statutory period for declaration submission: |
|---|------------------|--|-------------------|--|--|---|
| 1 | A                | Delay in submitting annual mining declaration or submitting incomplete data as per Ministry-approved forms | Warning (30 days) | Violation notice (30 days). If not resolved within the notice period, a fine of 15,000 SAR.  | A fine of 15,000 SAR shall be imposed for every 30 days of delay, calculated from the date of the fine notice.   | Referred to the Violations Committee to determine further penalties             |
| 2 |                  | Delay in submitting annual mining declaration or submitting incomplete data as per Ministry-approved forms | Warning (30 days) | Violation notice (30 days). If not resolved within the notice period, a fine of 15,000 SAR.  | A fine of 15,000 SAR shall be imposed for every 30 days of delay, calculated from the date of the fine notice.   | Referred to the Violations Committee to determine further penalties             |
| 1 |                  | Delay in paying the full or partial financial compensation due   | Warning (30 days) | Violation notice (30 days). If not resolved within the notice period, a fine of 5% of unpaid financial compensation, not exceeding 100,000 SAR | A fine of 15,000 SAR Or 5% of unpaid financial compensation shall be imposed for every 30 days of delay, calculated from the date of the fine notice. not exceeding 100,000 SAR per period | Referred to the Violations Committee to determine further penalties             |

# Incentives Related to Financial Compensation

04

# 1. Incentives on Financial compensation for Mineral Value at Extraction

## 1- Exemption from the financial compensation:

Reference Article:  
115

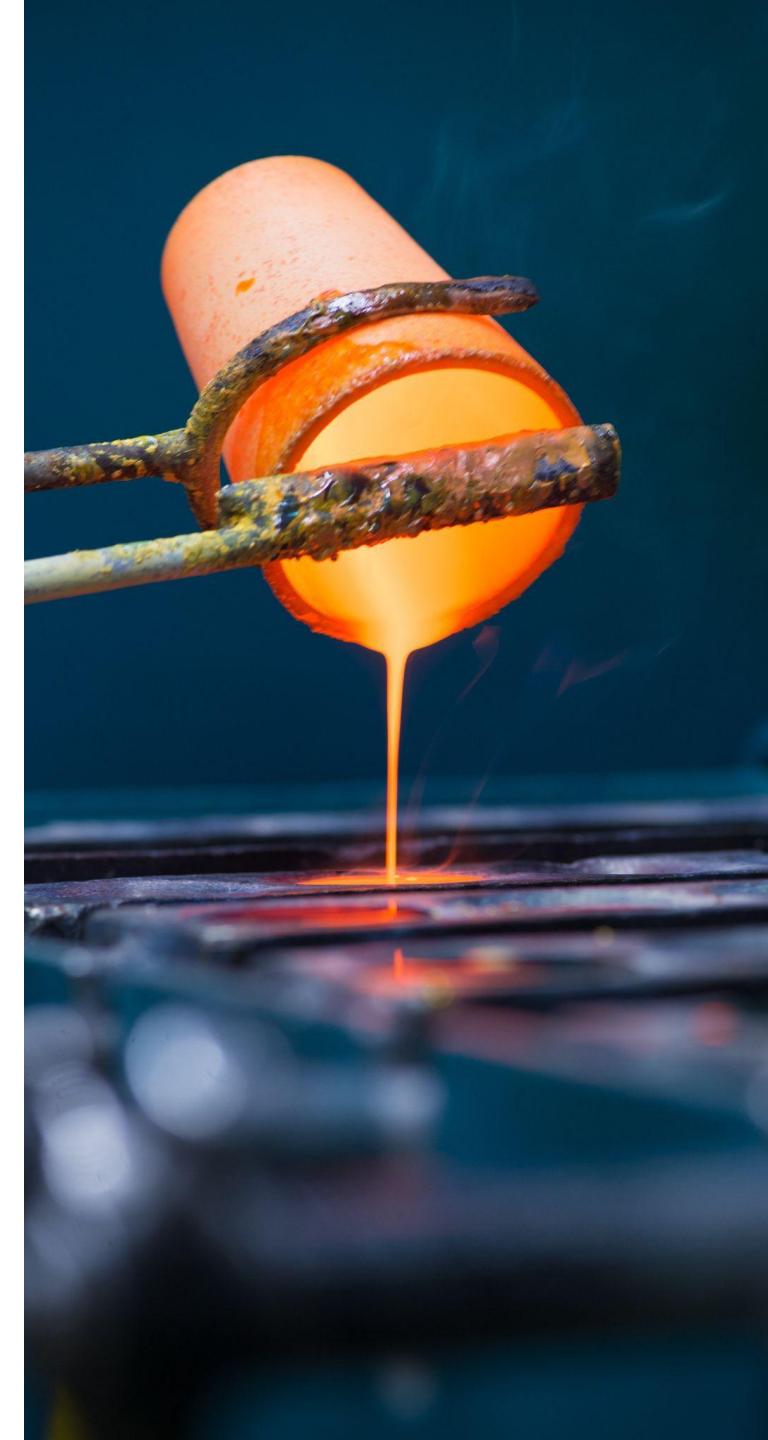
The licensee is exempt from paying the financial compensation for the mineral at extraction during **the first five years** from the date of license issuance.

## 2- Reduction of the financial compensation:

Reference Article:  
132

The investor may obtain a 30% reduction in financial compensation for processed minerals eligible for export, applied to quantities used in each stage of additional mineral processing within Saudi Arabia's value-added chains. This applies whether processing is done by the licensee or an independent industrial party, provided the licensee meets the following **conditions**:

- The additional processing stage occurs within Saudi Arabia.
- The processing and manufacturing produce a marketable product within the value-added chain.
- The reduction for a particular stage may be increased up to 50%.
- Note: The reduction applies only to minerals used in manufacturing stages, not mining stages, as per Ministry-approved studies.



## 2. Incentives in Calculating Financial compensation for Income Tax Equivalent

Reference Article:  
133

### Determining Net Income Tax Equivalent

It must be paid by the Saudi investor or the mixed-nationality investor (Saudi/foreign) according to the Saudi share.

**Elements of Income Tax Equivalent (per Income Tax Law) are the net of:**

- Revenues from mining activity\*
- Expenses related to mining activity\*\*

*\*Mining activity is defined as activities after which the investor determines the first saleable product.*

*\*\*Shared expenses between mining activity and other activities are allocated based on revenue, following the same basis used for distributing Zakat among licenses and different activities.*

**Other elements of income tax equivalent mentioned in Chapter 4 of the Mining Investment Regulation include:**

- Loss carryforward
- Depreciation of assets
- Depreciation of prior balances of depreciable asset groups
- Revenue from disposal of depreciable assets and from exploration license transfers

## 2. Incentives in Calculating Financial compensation for Income Tax Equivalent

Reference Article:  
134

### Net Income Tax Equivalent | When Can Losses Be Carried Forward?

**Losses can be carried forward when determining the income tax equivalent under the following conditions:**

The loss carryforward occurs at the time of license issuance or acquisition, assuming the company is headquartered in Saudi Arabia and is subject to the Income Tax Law.

The losses arise from expenditures or consumption, or are related to exploration and prospecting activities, as well as other preparatory and developmental work for exploiting natural resources associated with exploration or prospecting licenses.

The losses have not been previously carried forward.

It is permitted to deduct carried-forward losses for determining the income tax equivalent for any year, provided that the conditions stipulated in the relevant tax laws for allowing such carryforward and deduction are met.

## 2. Incentives in Calculating Financial compensation for Income Tax Equivalent

Reference Article:  
135

### Net Income Tax Equivalent | Depreciation

Depreciation applies to assets and income from disposal of assets for balances of depreciable asset groups.

If the asset is used only for mining activities

As for if

The asset is used for mining and other activities or other licenses

the asset cost (or its book value) is fully allocated to allowable depreciation.

the asset cost is allocated proportionally after excluding the portion used for other activities or licenses.

**In case of any change in the use of the asset for another activity, another exploitation license, or disposal of the asset, this change is assumed to be proportionally excluded from the asset value when calculating annual depreciation or disposal proceeds for each license.**

## 2. Incentives in Calculating Financial compensation for Income Tax Equivalent

Reference Article:  
136

### Net Income Tax Equivalent | Previous Balances of Depreciable Asset Groups

Previous balances of depreciable asset groups refer to:

Balances of depreciable assets related to exploration, prospecting, and developmental or preparatory activities associated with these activities.

Expenses related to exploration and prospecting activities.

Provided that the expenses:

Were incurred after the Mining Law came into effect

Were incurred after the issuance of the exploitation license

The investor may transfer these balances to: The balances of depreciable asset groups for the exploitation license they hold,

or

Any other exploitation license they hold.

## 2. Incentives in Calculating Financial compensation for Income Tax Equivalent

Reference Article:  
137

### Net Income Tax Equivalent | Proceeds from Disposal of Depreciable Assets and Exploration Licenses

Proceeds from the disposal or compensation received from disposing of a license (e.g., sale, abandonment, or transfer) are added to taxable income.

Provided that their value does not exceed

the amounts previously deducted related to:

Carried-forward losses

+

Expenses

+

Depreciation

+

Balances of excluded depreciated asset groups

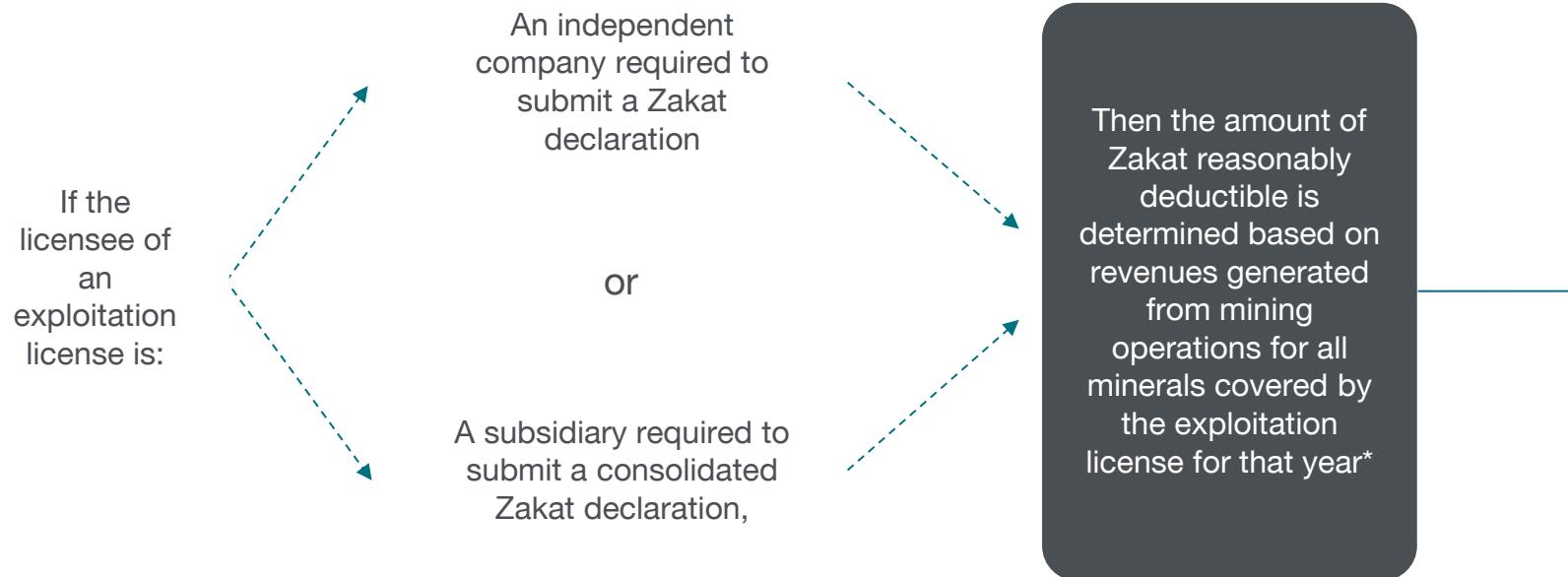
+

Balances of depreciable asset groups related to exploration activities

## 2. Incentives in Calculating Financial compensation for Income Tax Equivalent

Reference Article:  
138

### Net Income Tax Equivalent | Zakat Payable Deductible from Income Tax Equivalent



The principle of transfer pricing is considered in determining the Zakat amount, assuming:

- The entity performing exploration, processing, and production is a separate entity from the licensee.
- It has no interest in the extracted mineral.
- It operates independently and competitively relative to the licensee's activities.

\* Zakat is allocated between licenses or between mining and other activities based on revenues achieved for each license or activity.

# Terms and Conditions for Mineral Export

05

**Class “A” minerals cannot be exported for commercial purposes in their natural state or after primary processing; they must undergo advanced processing.**

Procedures and Requirements for  
Export permit Application

Submit the export  
application using the  
designated form.

The license rights must be  
valid.

The applicant must not be  
overdue in paying any  
amounts due to the Ministry  
related to any license, fines,  
or other obligations.

Submit a report to the  
Ministry detailing the stages  
and methods of ore  
processing or  
manufacturing.

# Terms and Conditions for Mineral Export

Reference Article:  
140

## Export Application Procedures

Esnad will review the export application within 30 days and take one of the following actions:

Approve the request, issue the export permit, and notify the licensee.

Reject the request and notify the licensee of the reasons for rejection.

# Terms and Conditions for Mineral Export

Reference Article:  
140

| # | Cases for Exporting Class “A” Minerals  | Accepted | Rejected |
|---|---|----------|----------|
| 1 | Request to export a mineral after primary processing  |          | X        |
| 2 | Request to export a mineral in its natural state  |          | X        |
| 3 | Request to export a mineral after advanced processing, license expired and no renewal application submitted or renewal rejected by the Ministry   |          | X        |
| 4 | Request to export a mineral after advanced processing, license expired but renewal application submitted and pending Ministry decision            | ✓        |          |
| 5 | Request to export a mineral after advanced processing, investor did not submit the mining declaration within the legal deadline                   |          | X        |
| 6 | Request to export a mineral after advanced processing, investor has outstanding financial dues that were not paid within the legal deadline       |          | X        |
| 7 | Request to export a mineral after advanced processing, investor has outstanding financial dues but the legal payment deadline has not yet expired | ✓        |          |
| 8 | Request to export a mineral after advanced processing, investor has overdue surface rent not paid within the legal deadline                       |          | X        |
| 9 | Request to export a mineral after advanced processing, investor has surface rent due but the legal payment deadline has not yet expired           | ✓        |          |

# External Document

This guide is prepared for awareness and educational purposes only. Its content is subject to change at any time. It does not constitute any binding obligation on the part of the Saudi Mining Services Company (Esnad), nor should it be considered legal advice. It cannot be relied upon as a legal reference by itself. Users must always refer to the relevant provisions in the applicable legislation. Every person subject to the mining investment system must verify their own legal duties and obligations and is solely responsible for complying with the provisions of the applicable laws. The Saudi Mining Services Company (Esnad) shall not be liable in any way for any damage or loss incurred by the investor due to failure to comply with applicable regulations and legislation.



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# THANK YOU