
A photograph of a tunnel interior, likely a subway or metro system. The tunnel has a ribbed, arched ceiling and concrete walls. Numerous yellow cables are bundled together and run along the ceiling. A yellow train car is visible on tracks in the distance. A sign above the tracks reads "POCZATEK STACJI OSOBOWEJ".

Chile's mining
and metals
investment guide
2023

The EY logo, consisting of the letters "EY" in a bold, white, sans-serif font, with a yellow chevron shape above the "Y".

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About this mining and metals investment guide

This mining and metals investment guide has been structured to serve as an initial step in the process of evaluating the mining landscape in Chile. As such, it will be useful to those who contemplate the possibility of making long-term investments in the exploration and development of new mines in the country.

This publication has brought together several of the mining industry's leading professionals from EY Chile, with a mix of legal, tax, economic and accounting backgrounds, to share their unique insights and explain the key elements for a successful expansion by international mining and metals companies into Chile.

Within this guide we have examined various aspects usually taken into consideration by miners and investors from around the world before making critical decisions on the development of new mining operations.

Included in this guide is an overview of Chile's political structure, business environment, macroeconomic profile, key indicators and outlook for the coming years, geological potential, mining and metals sector trends and recent developments.



Alicia Domínguez
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The guide also provides access to essential information to assist foreign investors in understanding the regulations governing investment and in particular the legal, taxation and regulatory requirements to operate in Chile's mining sector.

This guide has been designed to be easily consulted and to offer a balanced and objective account of areas of potential interest to foreign mining investors.

We have included the most recent data available and additional commentary on a variety of critical topics, as well as information about major reforms that were recently approved and are currently being discussed.

The aim is to supply international exploration and mining companies (majors and juniors) with a fact base and critical information to facilitate and support their investment-making discussions and decisions. We hope that this new material will be useful in the efforts to attract greater flows of foreign direct investment (FDI) and that the flows in turn will benefit the country.



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Background information

1.1

Overview

1.1.1 Form of government

Chile has had a stable democracy since the end of the Pinochet government in 1990. It has a republican system of government comprising three separate and independent branches: executive, legislative and judicial.

The executive branch is headed by the president, who is elected by a popular vote for a single four-year term. The president appoints the cabinet and is advised by cabinet ministers. In the 2021 elections, Gabriel Boric was elected as president (the youngest in the history of the country). The legislative powers are vested with the Government and the Chilean Congress.

The legislative branch is made up of a Senate (with 50 senators) and the Chamber of Deputies (with 155 deputies).

The judicial branch is an independent body, headed by the Supreme Court and supported by regional courts of appeal. The president has the power to appoint supreme court judges.

Chile is divided into 16 regions. Regions are subdivided into provinces, which are headed by an elected governor. These provinces are further subdivided into municipalities, which are governed by a democratically elected mayor.

On September 4, 2022, Chilean voters resoundingly rejected in a referendum a proposed new constitution. This new version was the result of a constitutional reform process that had been presented as a solution proposal to address the problems manifested during the social outbreak of 2019. On January 11, 2023, Chile's Congress approved a second constitutional process. This time the document will be prepared by group of experts together with a popularly elected body and will be submitted to a new referendum to be held on December 2023.

Government overview

Government type

Constitutional republic

Legal system

Based on Civil Law

Executive branch

- ▶ Chief of state and head of government: President Gabriel Boric (since March 2022)
- ▶ Elections: Every four years by popular vote (non-consecutive reelection); next elections: November 2025
- ▶ Cabinet: Council of Ministers appointed by the President

Legislative branch

- ▶ Bicameral Congress
- ▶ Senate: 50 seats
- ▶ Chamber of Deputies: 155 seats
- ▶ Next elections: November 2025

Judicial branch

Supreme Court judges are appointed by the President and ratified by the Senate. The Court provides the list of candidates.

International relationships

- ▶ The country is an associated member of Mercosur and the Andean Community of Nations and a full member of the Asia-Pacific Economic Cooperation (APEC) forum and the Pacific Alliance.
- ▶ Chile has been a full member of the OECD since 2010

1.1.2 Geography

Chile extends for 4,270 kilometers (km) (or 2,670 miles) along the west coast of South America bordering the Pacific Ocean and is 175km wide on an average. Chile's primary territory shares a border with Peru to the north, Bolivia to the northeast and Argentina to the east. Chile also has the Easter Island in Oceania and territory in Antarctica.

Chile's geography is extremely diverse and varies significantly from the north to the south. Chile can be divided into three geographic zones:

- ▶ Most of the northern region is arid and is composed of the 600-mile-long Atacama Desert. This region provides Chile with salt, nitrates, lithium, iron and most of its copper, molybdenum, gold and silver mining. Other productive economic activities include fishing, fish meal and fish oil industries, fruit and wine production, as well as tourism.
- ▶ The central part of the country, often referred as the Central Valley, is devoted primarily to industry, agriculture and mining activities. Most of Chile's business activities are concentrated in this region. Santiago, Chile's capital, and other major cities are located in the central region, which has the highest population density in the country. From the Central Valley, Chile expanded during the late 19th century to include the northern and southern regions of its current national territory.
- ▶ The southern region of Chile features rich grazing lands and forests, as well as many lakes and a series of volcanoes. This region is the center of the forestry industry and salmon industry. Cattle and sheep farming are also significant activities. Petroleum and natural gas are found in the far south.

1.1.3 People

Chile had an estimated population of 19.2 million people in 2020.

The predominant religion is Roman Catholic and the official language is Spanish. English is the second most important language in the country but is not widely spoken. In Chile, the availability of bilingual personnel is limited.

People overview 2022¹

Population 19.2 million	Growth rate 3.35%
Age structure <ul style="list-style-type: none">▶ 0-14 years: 29.2%▶ 15-64 years: 68.5%▶ Over 65 years: 12.2%	Fertility rate 1.5 births per woman
Urban/Rural population 89%/11%	Life expectancy at birth 80 years

1.2

Introduction to the Chilean economy

Chile is traditionally considered one of the strongest Latin American countries in terms of institutionalism and fiscal policies. According to the World Bank, it has been one of Latin America's fastest-growing economies in recent decades, allowing the country to significantly reduce poverty.

However, recent years have been complex not only because of the pandemic and the international scenario, but also because of factors specific to the nation.

After 2021, in which the Gross Domestic Product (GDP) grew 11.7%, the expectations for the coming months are much lower. In 2022, an expansion of only 2.4% is expected while a shrink between -1.75% and -0.75%² is expected for 2023.

Moreover, accumulated inflation has already reached double-digit levels, something to what Chile is not used to. The annual inflation rate in Chile reached 12.8 percent in December of 2022. The main reasons for the sharp rise in prices are the significant boost in spending during 2021 and the global inflation, added to the lack of recovery of global supply chains and the war between Russia and Ukraine. However, experts expect that the economic slowdown will help inflation converge to the 3% target over the next two years³.

In the first months of 2023, inflation has already begun to slow down. Chile's annual inflation rate slowed for a third month to 11.9% in February 2023.

Likewise, by 2024, macroeconomic imbalances are expected to be resolved and growth to resume its potential rate (between 2% and 3%).

Also as presented above, the country underwent a major process of change in its constitution and a series of regulatory reforms are under discussion, which has led to greater uncertainty.

In this sense, and despite the significant local uncertainty and international risks, the International Monetary Fund, during its last technical visit in March 2022, considered that "the great solidity of economic fundamentals and public policy frameworks promote Chile's resilience and its capacity to respond to shocks"³.

In addition, in another report the international organization said that it expects Chile's GDP per capita to increase and exceed US \$ 30,000 in 2024, being the first country in South America to reach this milestone⁴.

1.3 Economic Situation

1.3.1 Overview

Chile has been one of the countries with the highest GDP per capita in Latin America on a sustained basis in recent years.

The International Monetary Fund highlights the country's resilience thanks to its very solid economic fundamentals and policies, which have allowed it to recover from recent shocks. Likewise, it highlights that

“the country's policy frameworks are anchored in the inflation target regime, the structural fiscal balance rule, a freely floating exchange rate and a sound financial system backed by effective supervision and regulation”⁶.

The United Nations Human Development Index places Chile as 42nd in the world in 2022⁷, being the leader among Latin American countries.

Main economic indicators

Indicator	Chile
Gross Domestic Product 2022 (Current prices, USD, million) ⁸	\$310.866
Gross Domestic Product 2022 (Current prices, Purchasing power parity, International dollars, million) ⁹	\$575.516
Per Capita Gross Domestic Product 2022 (Current prices, Purchasing power parity, International dollars) ¹⁰	\$24.550
International Reserves 2022 (USD, million) ¹¹	\$39.154
Foreign Debt 2022 (USD, million) ¹²	\$233.909
Foreign Debt 2022 (% of GDP) ¹³	84,0%
Total Public Debt, september 2022 (USD, million) ¹⁴	\$105.324
Total Public Debt, september 2022 (% of GDP) ¹⁵	39,1%
Unemployment Rate (moving quarter of October to December 2022) ¹⁶	7,9%
Population below poverty line 2020 ¹⁷	14,2%
Minimum Monthly Wage (USD) ¹⁸	\$521

1.3.2 Per capita

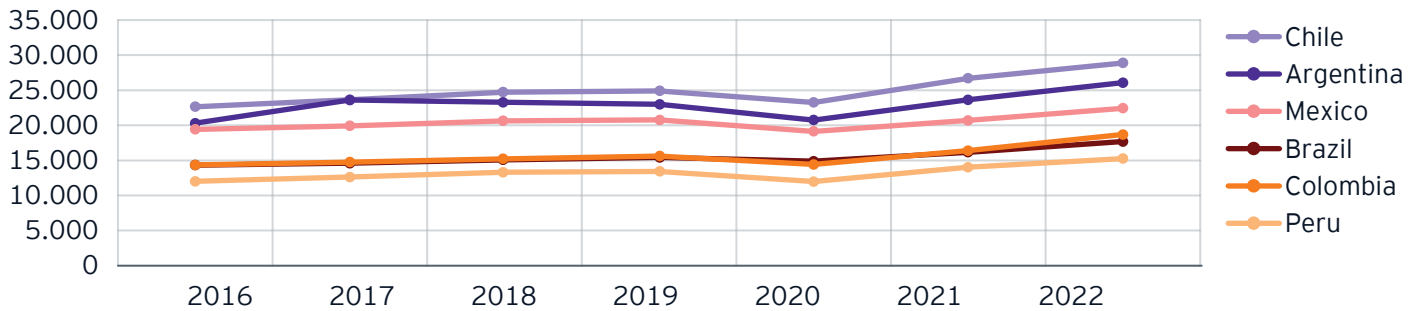
IMF expects that in 2024 Chile's GDP per capita will reach US\$30,000, measured at purchasing power parity (PPP), making the country, together with Uruguay, the first in South America to reach that

figure¹⁹. The agency advanced this goal by a year, despite the pandemic.

Nevertheless, the consequences of the pandemic, inflationary pressures and geopolitical risks could affect these figures.

Figure 1:
Per capita gross domestic product. Purchasing power parity. International dollars.

Source: World Economic Outlook Database. October 2022. International Monetary Fund.



1.3.3 Growth expectations

After a 2021 in which the economy rebounded growing 11.7%, its largest annual increase since the data has been recorded, a significant slowdown is expected. The Central Bank of Chile expects the GDP to close at 2.4% in 2022 and to shrink between -1.75% and -0.75% by 2023²⁰.

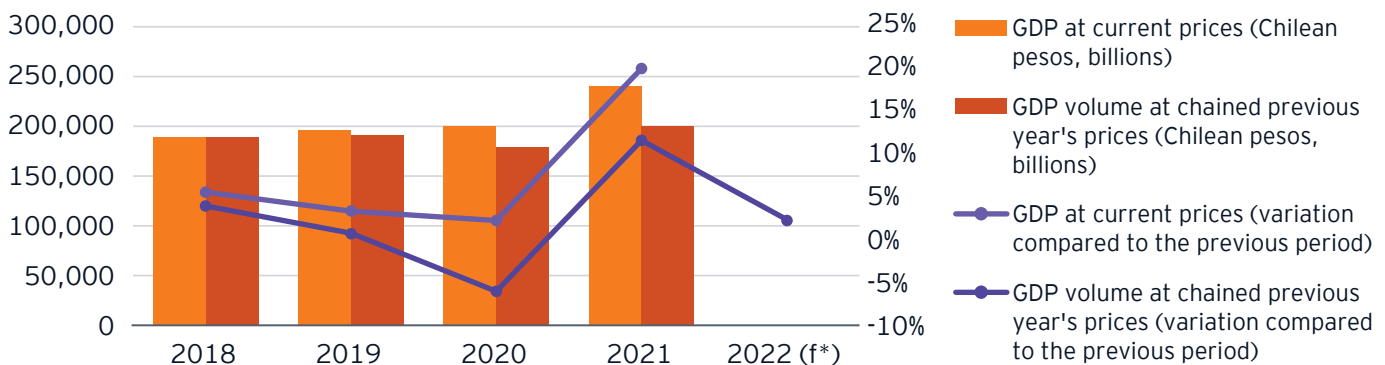
The Chilean economy has continued with its adjustment process following the major imbalances it accumulated during 2021. The Monthly Index of Economic Activity for 2022 (IMACEC) grew 2.7%²². In December of 2022 the index fell -1%, compared to the same month of 2021.

This is in line with other estimates of international organizations such as the International Monetary Fund (IMF), which, for the same years, considers a variation of 2% and -0.9% respectively²¹.

In the October-December 2022 quarter, national unemployment rate reached 7.9%, increasing 0.7 percentage points (pp.) in year over year²³.

Figure 2:
Gross Domestic Product, Levels and Growth

Source: National Account, Central Bank of Chile



*(f) Forecast.



1.3.4 Inflation

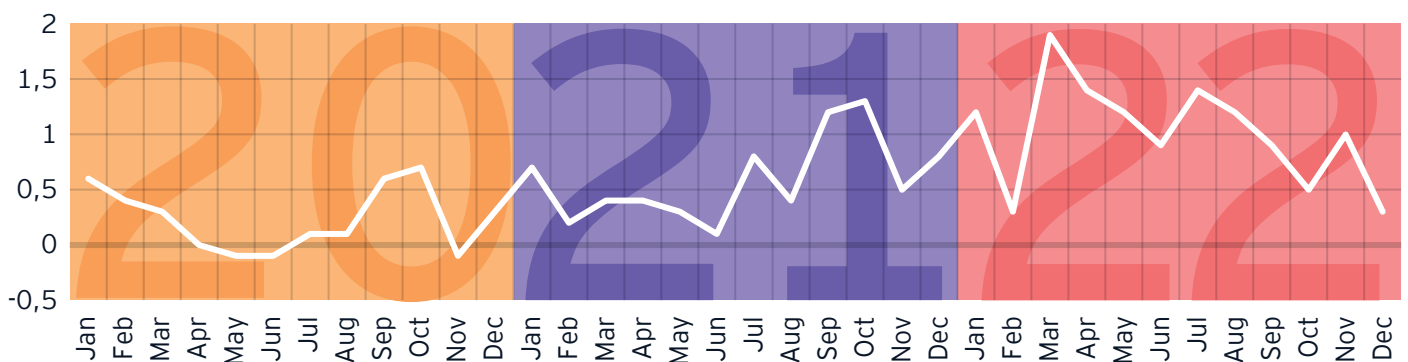
In Chile, the Central Bank is the agency in charge of ensuring low and stable inflation over time. It structures its monetary policy within a conceptual framework of targets and uses instruments to ensure that the annual variation in inflation is around 3% annually with a tolerance range of one percentage point. This policy is complemented by a flexible exchange rate regime.

The country closed 2022 with an annual inflation of 12.8%²⁴, the highest in 31 years, driven by domestic demand. Inflationary pressures of domestic origin have worsened with the international scenario. By 2023, total inflation is projected to average 6.6%, ending the year at 3.6%²⁵.

Given this, the Central Bank has increased the monetary policy interest rate (MPR) consistently since July 2021, reaching 11,25% in December 2022.

Figure 3:
General CPI 2018 = 100. Monthly Variation

Source: CPI and underlying measures. Central Bank of Chile.





1.3.5 Exchange rate

Chile adopted a fully flexible exchange rate regime in the late 1990s and since then, the Central Bank only intervenes in the foreign exchange market occasionally.

In recent times, both internal and external uncertainty factors have led the Chilean peso to increase its volatility.

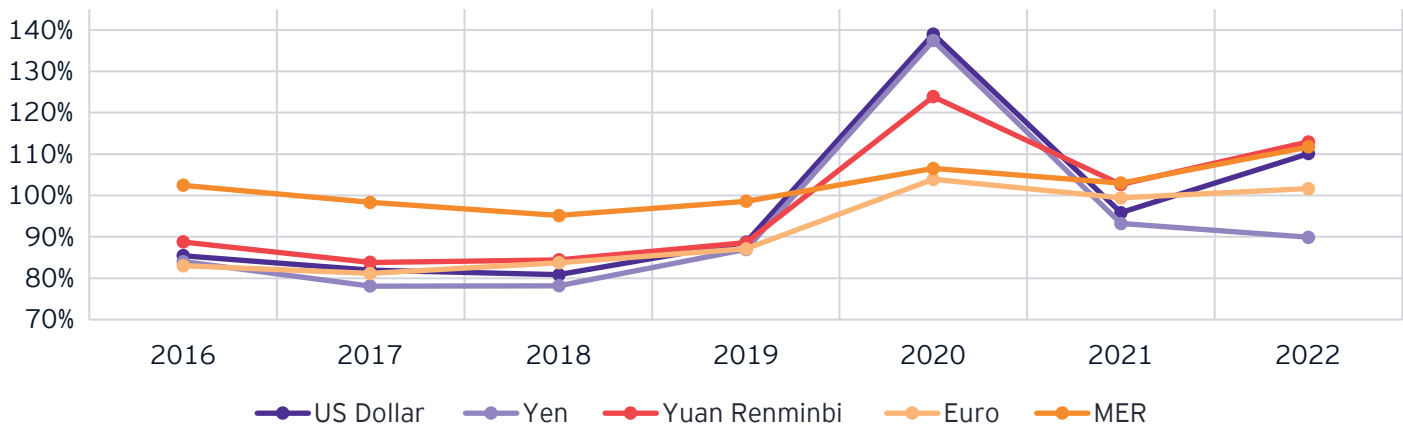
After a strong devaluation in 2022, in the first months of 2023 the Chilean peso has had a significant appreciation.

Multilateral Exchange Rate (MER²⁶) and Foreign Currencies²⁷

Currency	2017	2018	2019	2020	2021	2022
US Dollar	649.33	640.29	702.63	792.22	759.27	872.33
Euro	732.44	755.74	786.35	902.68	897.37	917.59
Yen	5.79	5.8	6.45	7.42	6.91	6.67
Yuan Renminbi	96.15	96.86	101.61	114.72	117.74	129.54
MER	106.11	102.68	106.4	114.95	111.16	120.59

Figure 4:
Evolution of Multilateral Exchange Rate (MER) and International Currencies (baseline 2014=100)

Source: Central Bank of Chile



1.3.6 Fiscal accounts

Since 2001, Chile's fiscal policy has been guided by a rule based on a cyclically adjusted balance (CAB), better known as the Central Government's structural balance rule complemented by a sovereign stabilization fund. This policy puts the focus of the Treasury's situation in a medium-term perspective, instead of its current situation.

However, in recent years, Chile suffered a deterioration in its fiscal accounts. Nevertheless, at the end of 2022, the effective fiscal balance of the Central Government

represented 1.1% of the Gross Domestic Product (GDP). It was the first surplus in a decade and the largest in 11 years²⁸.

Still, the year 2022 ends with a level of public debt of 37.3% of GDP, the highest since 1991, mainly due to the extensive fiscal transfers of the pandemic period, among other things. The debt is expected to reach a maximum of 41.7% in 2025 and then decrease to 40.4% in 2027²⁹. These numbers are still much lower than most of the region and most developed countries (e.g., the Euro Area's is 95.6%).

Figure 5:
Fiscal balance: previous results and forecast percentage of GDP

Source: Budget office (Dipres)

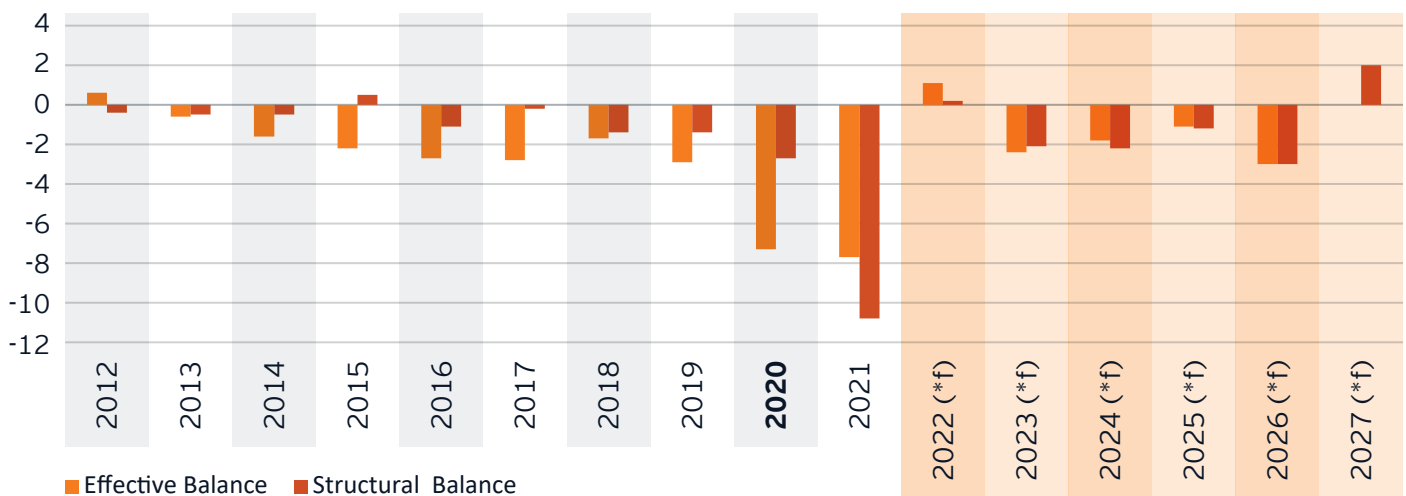
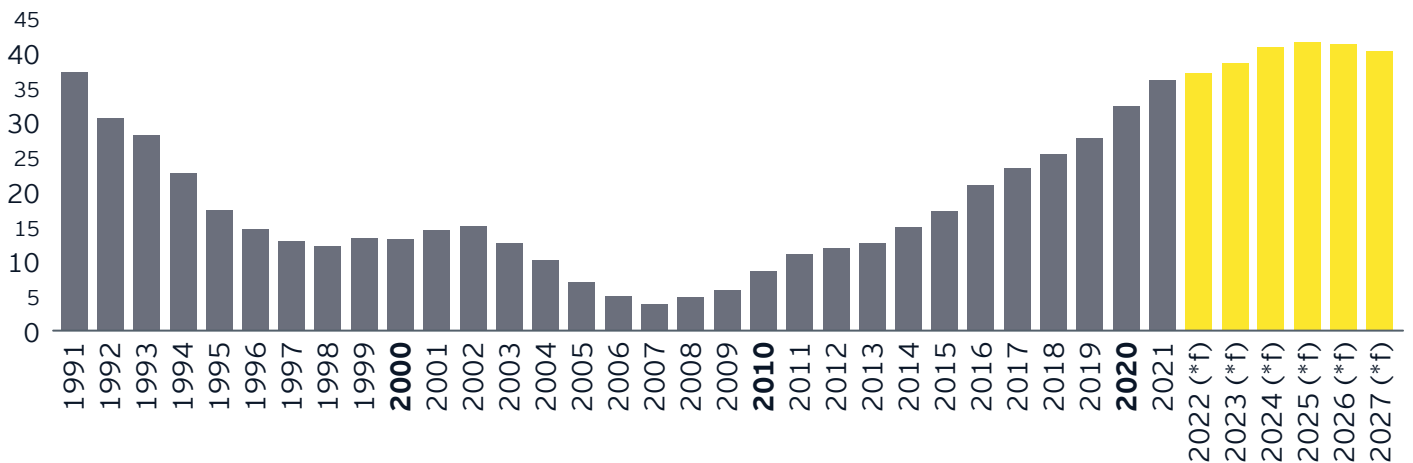


Figure 6:
Public debt percentage of GDP

Source: Budget office (Dipres)



1.3.7 Foreign investments

Preliminarily, the Central Bank reported that the flow of foreign direct investment (FDI) received between January and December 2022 reached US\$ 17,105 million.

According to InvestChile, the amount is 12% higher than that accumulated in the same period of 2021, 36% higher than the average of the last five-year period (US\$ 12,617 million) and 23% higher than the average of the historical series 2003-2022 (US\$13,921 million)³⁰.

Figure 7:
Foreign Investment

Source: Foreign Investment in Chile. Central Bank of Chile

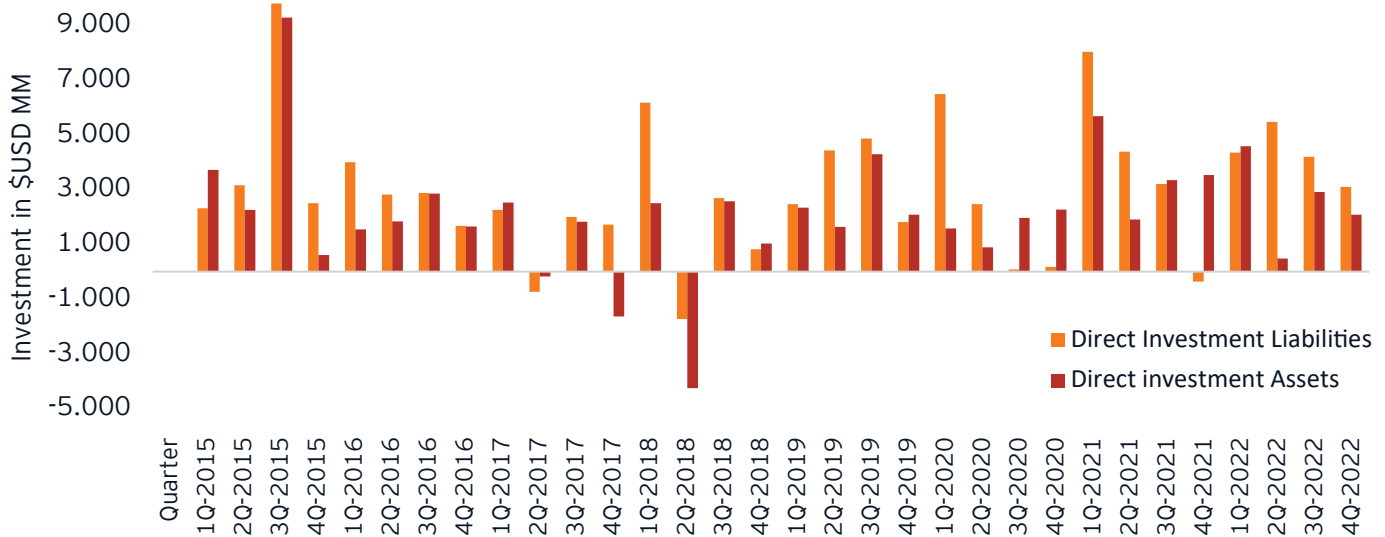
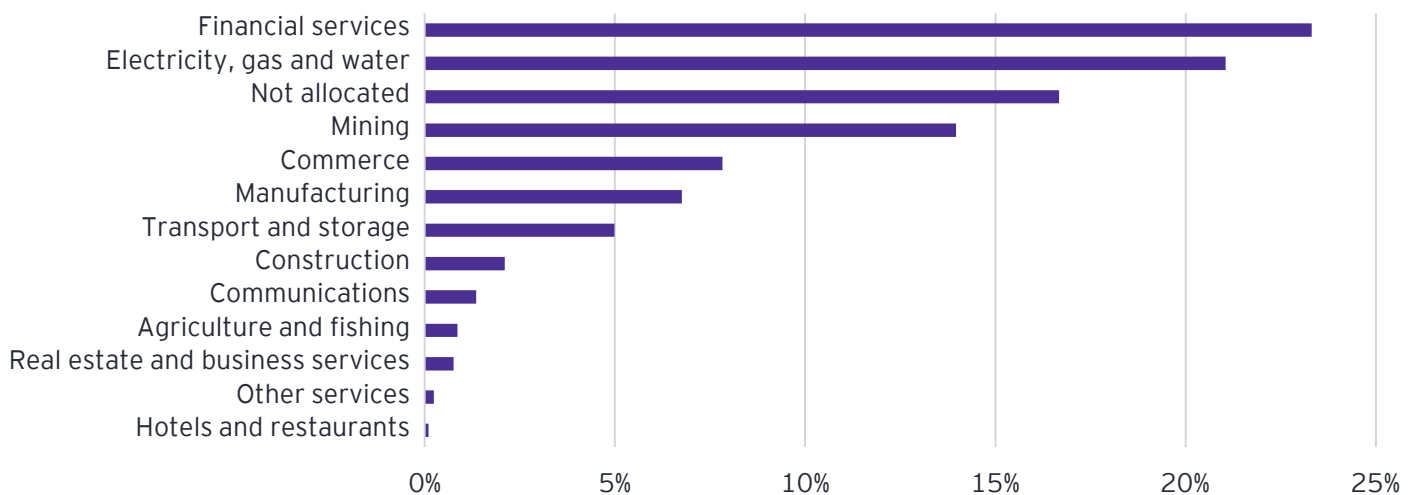


Figure 8:
Foreign direct investment flows 2012-2021, percentage of total

Source: Foreign Investment in Chile. Central Bank of Chile



1.4 Economic Sectors and Balance of Trade

1.4.1 Main economic sectors

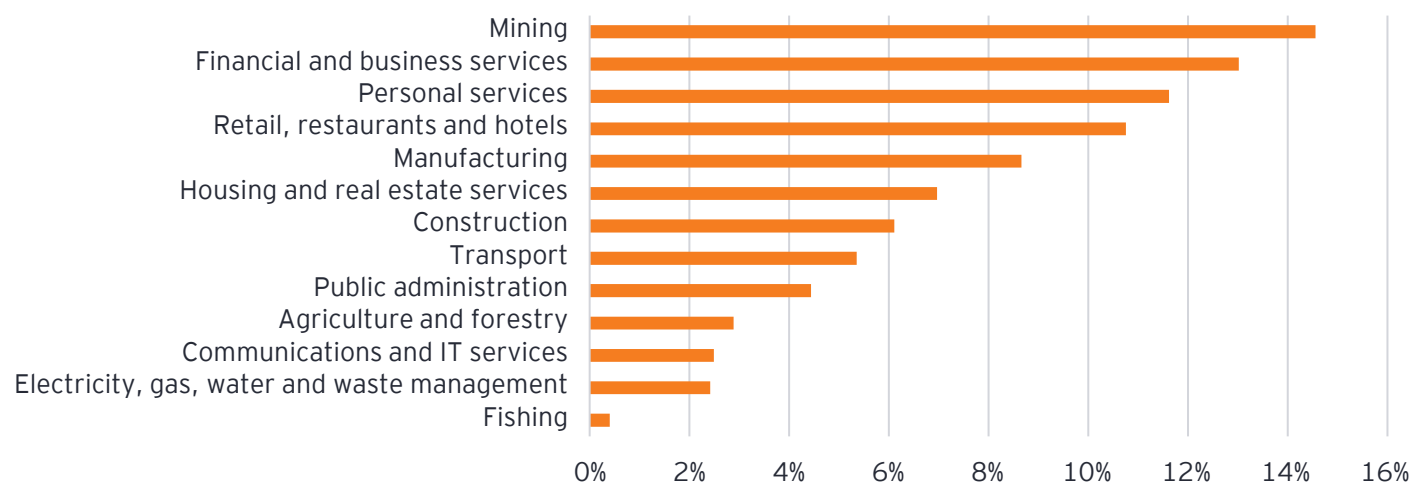
Chile is the world's leading producer of copper and its GDP growth is driven by exports of minerals, wood, fruit, seafood and wine.

In 2021 all economic sectors had a positive performance with the exception of mining (-0.7%)³¹. The biggest contributors to GDP growth were trade and personal services, due to the reopening following health restrictions and strong domestic demand.

However, in 2022 the economy began to show a significant slowdown. As of December 2022, economic activity fell 1%, which is explained by the decrease in commerce (-6.4%) and manufacturing industry (-5%) sectors. On the other hand, the services sector ended with an increase of 2.3% and the mining sector with a growth of 1.2%, which helped to moderate the drop in general terms in the economic activity³².

Figure 9:
GDP by economic sector, 2021, percentage of GDP

Source: Gross domestic product by class of economic activity. Central Bank of Chile



1.5

Regional leader

Chile continues to be the country in the region with the lowest credit risk and the best rating from risk rating agencies. Although the global situation poses an uncertain scenario for all economies, the country continues to show leadership in terms of payment conditions, with solid legal and political institutions.

Debt rating in Latin America³³

Country	Moody's	S&P	Fitch
Chile	A2	A	A-
Peru	Baa1	BBB	BBB
Mexico	Baa2	BBB	BBB-
Colombia	Baa2	BB+	BB+
Uruguay	Baa2	BBB	BBB-
Brazil	Ba2	BB-	BB-
Bolivia	B2	B	B
Ecuador	Caa3	B-	B-
Argentina	Ca	CCC+	CCC-

Chile is the leader in Latin America in several international rankings. It has the first position in Latin America in the Economist Intelligence Unit's Business Environment Ranking and is also first in the region according to the 2022 Index of Economic Freedom, Heritage Foundation.

In 2022 it maintained its position as leader of all the Latin American countries in the World Competitiveness Ranking, carried out by Switzerland's Institute for Management Development (IMD) and the Faculty of Economics and Business at the Universidad de Chile.

Risk rating description³⁴

Quality	Moody's	S&P	Fitch
Highest quality	Aaa	AAA	AAA
High quality	Aa1	AA+	AA+
High quality	Aa2	AA	AA
High quality	Aa3	AA-	AA-
Upper-medium-grade	A1	A+	A+
Upper-medium-grade	A2	A	A
Upper-medium-grade	A3	A-	A-
Lower-medium-grade	Baa1	BBB+	BBB+
Lower-medium-grade	Baa2	BBB	BBB
Lower-medium-grade	Baa3	BBB-	BBB-
Speculative non-investment grade	Ba1	BB+	BB+
Speculative non-investment grade	Ba2	BB	BB
Speculative non-investment grade	Ba3	BB-	BB-
Highly speculative	B1	B+	B+
Highly speculative	B2	B	B
Highly speculative	B3	B-	B-
Substantial risk	Caa1	CCC+	CCC+
Substantial risk	Caa2	CCC	CCC
Substantial risk	Caa3	CCC-	CCC-
Extremely speculative	Ca	CC	CC
Extremely speculative			C
Little prospect of recovery		SD	RD
In default	C	D	D
In default			DD
In default			DDD
Not rated	WR	NR	

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Mining in Chile

2.1 Importance of Chile's mining sector

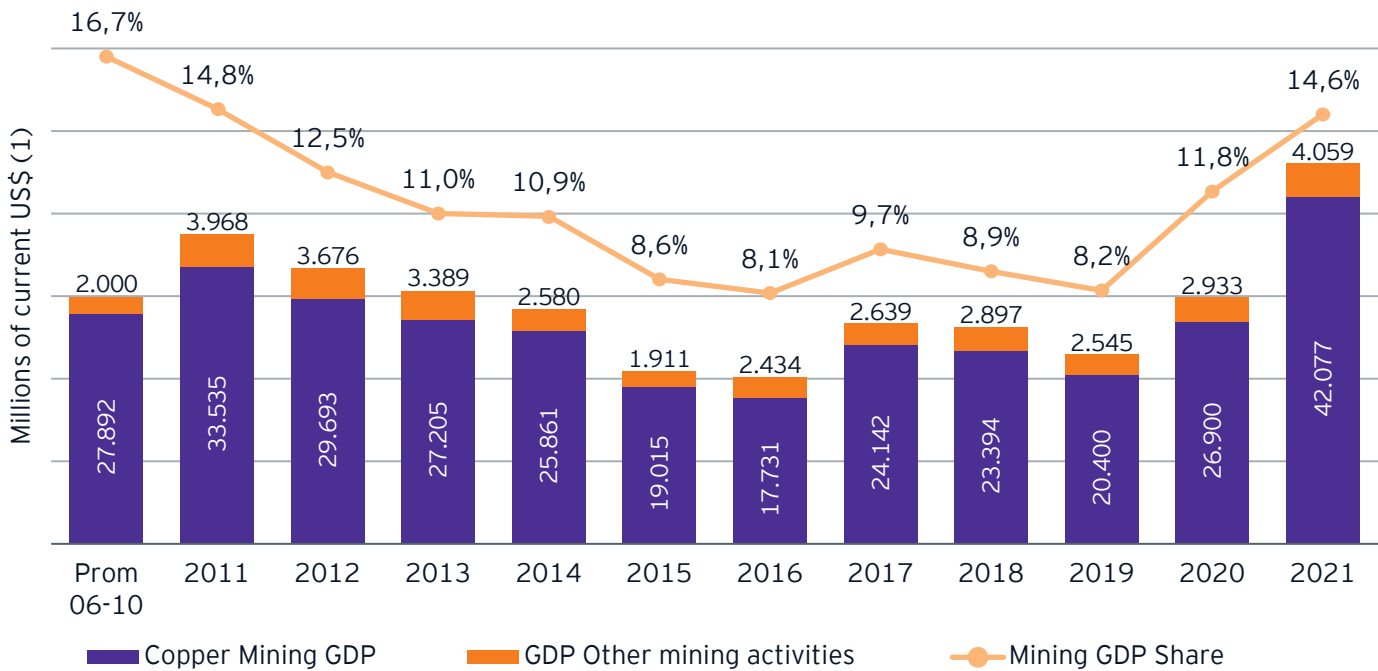
2.1.1 Contribution of mining to the Chilean economy

Mining is a key economic activity in Chile and one of the main drivers of the country's economic development. Mining has contributed an average of 10% of the

country's jobs and 10.4% to Chile's GDP over the last 10 years, with a positive growth trend of ~3% per year since 2019 and reaching highs of 14.6% in 2021.

Figure 10: **GDP of the mining sector and its participation in the national GDP**

Source: Mining Council based on information from the Central Bank of Chile, 2022.



(1) The 2018-2021 figures were updated according to the corrections made by the Central Bank of Chile.

Over the past two decades, the mining industry has accounted for an average of 56% of Chile's export revenues and has been the economic sector with the largest contribution to fiscal revenues, more than doubling the average of the previous five years and reaching an impressive 12% of total fiscal revenue by 2021.

Chile is a very attractive mining destination due to its privileged mineral endowment with large deposits, often at high altitudes and in isolated locations; its investor-friendly regulations and overall economic and political stability; its maturity as a mining jurisdiction with developed roads and port infrastructure, and qualified human resources.

In the last decade, mining was responsible for an average of 16% of investments in the country and is the economic sector with the largest stock of foreign direct investment (FDI): US\$ 65bn. In 2022, FDI accounted for 50.3% of Chile's mining investment.

2.1.2 Mining tradition

Chile has a long mining tradition, with coal and silver mines dating back to the 18th century. Saltpeter (a set of nitrogen-containing compounds, including potassium nitrate) began to be mined in the late 19th century, leading to Chile's first mining boom. Between 1900 and 1920, saltpeter contributed about 30% of the country's GDP, and exports rose from US\$6.3 million in 1880 to US\$70 million in 1928. Chile's first open-pit copper mines – El Teniente and Chuquibambilla – began operating in the early 20th century and are still in operation.

2.1.3 Copper mining

Copper drove the next mining boom in Chile in the 1990s, when industrialization and urbanization, mainly in China, led to a sharp increase in its demand. China accounted for 55% of global copper demand in 2022¹. Chile's copper production has steadily increased over the last decades, but its share of the global copper market has been declining. Nevertheless, Chile has maintained its position as the world's largest producer, contributing 26% of global copper production in 2021 and 2022. Cochilco's copper production projections for 2025 are higher than 6Mt, since it expects that 2023 should represent a recovery of the production cycle that was lost as a consequence of Covid pandemic².

2.1.4 Lithium production

Lithium production in Chile began in the 1980s and the country surpassed U.S. production in 1995, being the largest producer until 2010, when Australia took the lead. Chile holds 36% of the world's lithium reserves and is currently the second biggest producer, with 25% of global production.

Lithium demand had a boost in the last decade related to the larger lithium-ion batteries used in electric vehicles, which currently use 41% of all lithium production and is estimated to grow 73% by 2030. According to Chile's Department of Studies and Public Policy, lithium production in Chile is expected to have a composed annual growth of 21% until 2030 and 16% for global figures. The same institution foresees that lithium demand will surpass the supply in 2027, generating a production deficit.

The current administration is focused on building an institutional framework around lithium and defining how the public and private sectors will collaborate in the future.

2.1.5 Other Mining activities

Chile is also one of the main producers of molybdenum (2nd in the world) and silver (4th). The country also has gold and iron ore production, but they are less relevant when compared to other minerals.

Molybdenum is a by-product of copper mining. Silver and gold are contained in copper ores as well but are also mined separately.

2.1.6 Mining companies in Chile

Chile, one of the main mining locations, hosts the operations of the world's largest miners. These include Albemarle, Anglo American, Barrick Gold, BHP Billiton, Freeport McMoRan, Glencore, KGHM, Rio Tinto and Teck Resources, among others.

- ▶ Chilean mining companies backed by national capital are led by state-owned Codelco, which is the world's largest copper producer, accounting for more than 30% of Chilean copper production and one of the main molybdenum producers, accountable for 43% of Chilean molybdenum production. Other relevant companies backed by domestic capital are: Antofagasta Minerals (AMSA): Chile's fourth-largest

copper producer, with almost 15% of Chilean copper production.

- ▶ Sociedad Química y Minera de Chile (SQM) is the world's second largest producer of iodine, lithium carbonate, and potassium nitrate, and is responsible for approximately half of Chile's lithium production.
- ▶ Compañía Minera del Pacífico (CMP) and other mining operations of Compañía de Aceros del Pacífico (CAP) control virtually all of Chile's ferrous metals production.

There are also many medium - and small-scale producers in Chile that rely on the support of the Empresa Nacional de Minería (ENAMI) to smelt and sell their concentrate production. In total, they represent less than 15% of the national copper production.

2.1.7 Future of mining sector

Chile's mining sector is expected to continue to play an important role in the country's economy, as demand from emerging economies for base metals, such as copper, is expected to remain strong for the foreseeable future. In addition, the strong trend to reduce GHG emission and the electrification of vehicles, which will require a boost in copper and lithium production in the next decades will further its demand. Copper by-products, such as gold, silver and molybdenum, will also contribute to support growth, but with lower relevance.

However, operating in Chile has its own challenges. These include lower grades and high production costs. Some of these challenges will be discussed later in this paper exploring the risks and opportunities for the Chilean mining sector.

2.2 Mining potential

2.2.1 Reserves and production

Chile not only has the largest reserves of copper (190Mt, 23% of global) and lithium (9.3Mt, 36% of global) in the world³, but also significant deposits of other commodities.

Chile's main deposits are in the north, where most of its copper, gold, silver and iron ore mines are located. Lithium reserves are concentrated in the Antofagasta and Atacama regions and are found in brine deposits and caliche minerals contained in salt flats and arid zones, respectively.

Mineral	Ranking in world production	Share in world production	Production in Chile in Metric Tons	Share in world reserves
Copper	1	26%	5.624 millions TM	23%
Lithium	2	25%	26 millions TM	36%
Molybdenum	2	17%	49.427 TM	9%
Silver	4	7%	1.280,60 TM	5%
Gold	>15	1%	34.3 TM	7%
Iron	>15	0,75%	12 millions TM	n.d.

Source: Mining Council based on information from the US Geological Survey, from Sernageomin and from Cochilco, 2021. Participation of gold reserves 2017.



The country is by far the world's largest copper producer, with 27% (5.6Mt) of global production, followed by its neighbor, Peru, with 10% of global production. Chile is home to the two largest mines in the world: Escondida (7% of global production) and Collahuasi (3%). Five other mines are among the top 15 producers, accounting approximately for 2% of world production each: El Teniente (10th), Chuquibambilla, Los Bronces and Los Pelambres (tied in 11th) and, finally, Radomiro Tomic (15th)⁴.

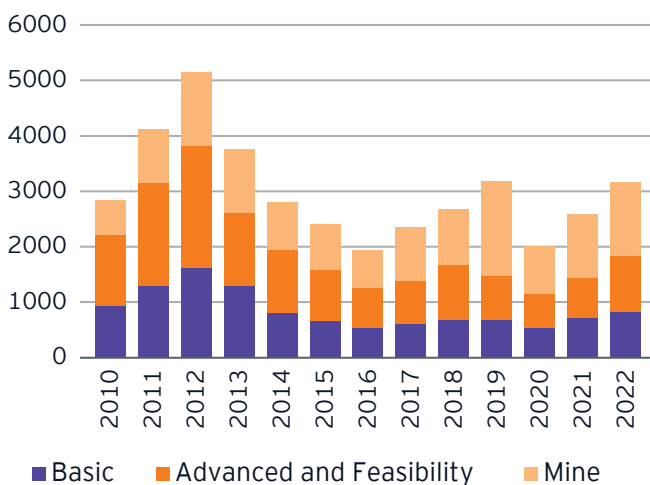
Between 1995 and 2010, Chile was the top lithium producer and currently ranks in second position, with 25% (26kt) of global lithium production, right behind Australia (52%) and followed by China (13%). Albemarle Corporation is the world's largest lithium producer and operates in the north of Chile in partnership with the

second biggest producer, SQM (Sociedad Química y Minera de Chile), a private owned company. Salar de Atacama is home to almost a quarter of the world's current lithium supply and has been operating since the 1980s⁵.

2.2.2 Exploration projects

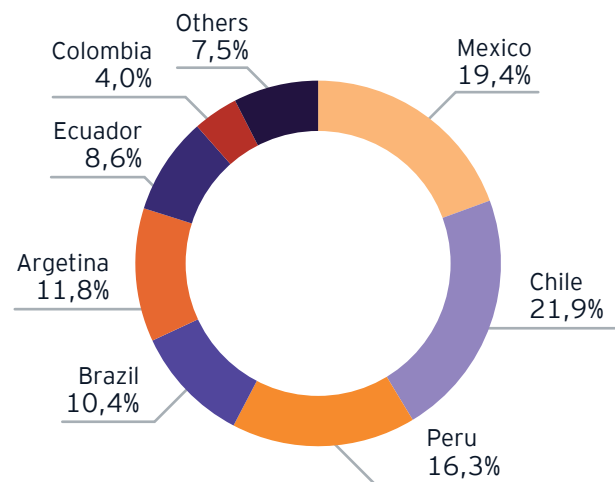
The rise in mining and metals commodity prices experienced in 2020 and relative price stability in 2021, associated with softer COVID-19 restrictions, motivated a recent global increase in the 2022 exploration budget, reaching US\$13bn globally. Chile registered an exploration budget of US\$ 713M (5.5% of the global budget) in 2022, ranking 4th globally, behind the US, Canada, and Australia. Chile is the main exploration destination in LATAM (21.9% of the regional budget), followed by Mexico (19.4%) and Peru (16.3%).

Figure 11:
Exploration budget in Latin America according to progress status in USD million



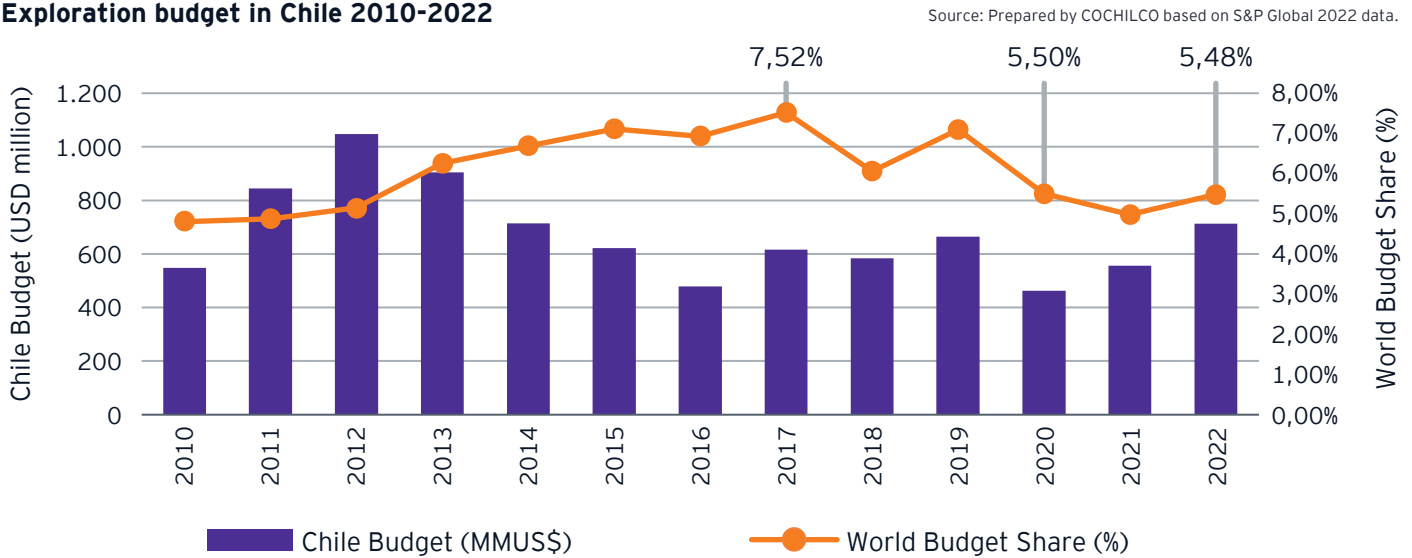
Source: Prepared by COCHILCO based on S&P Global 2022 data.

Figure 12:
Exploration budget country share 2022 in Latin America: USD million 3,261.4



Source: Prepared by COCHILCO based on S&P Global 2022 data.

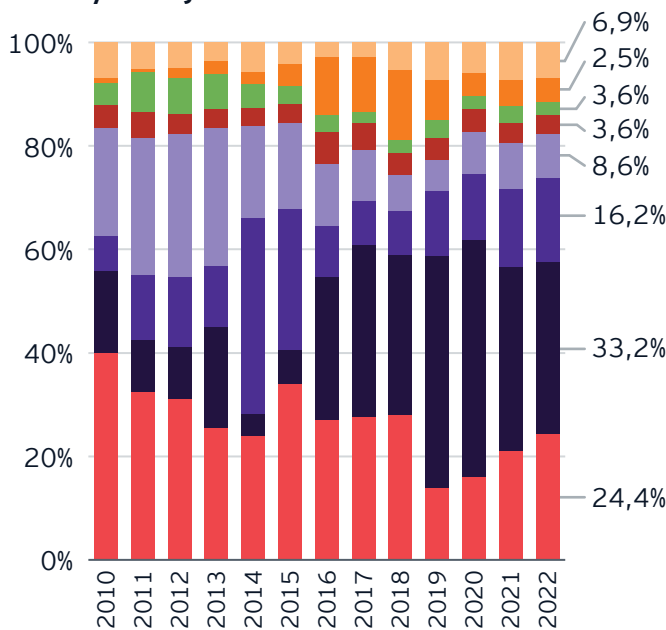
Figure 13:
Exploration budget in Chile 2010-2022



In 2022, Copper continued to be the most relevant mineral with 74% of the Chilean exploration budget, followed by gold (21.1%) and other minerals with the remaining 4.9%.

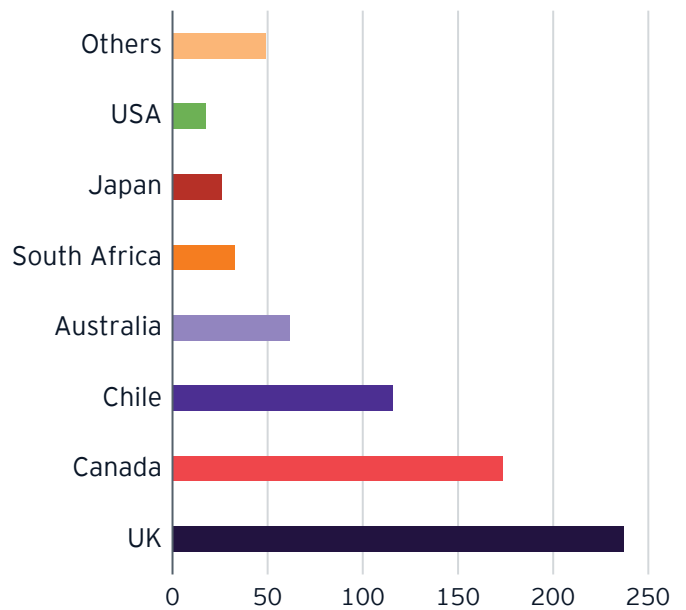
UK based companies represented the highest investment in explorations in Chile in 2022, accounting for 33.2% of the exploration budget, followed by Canadian companies (24.4%) and local companies (16.2%).

Figure 14:
Share of the exploitation budget in Chile by country of origin 2010-2022



Source: Prepared by COCHILCO based on S&P Global 2022 data.

Figure 15:
Exploration budget in Chile by country of origin 2022 in USD million



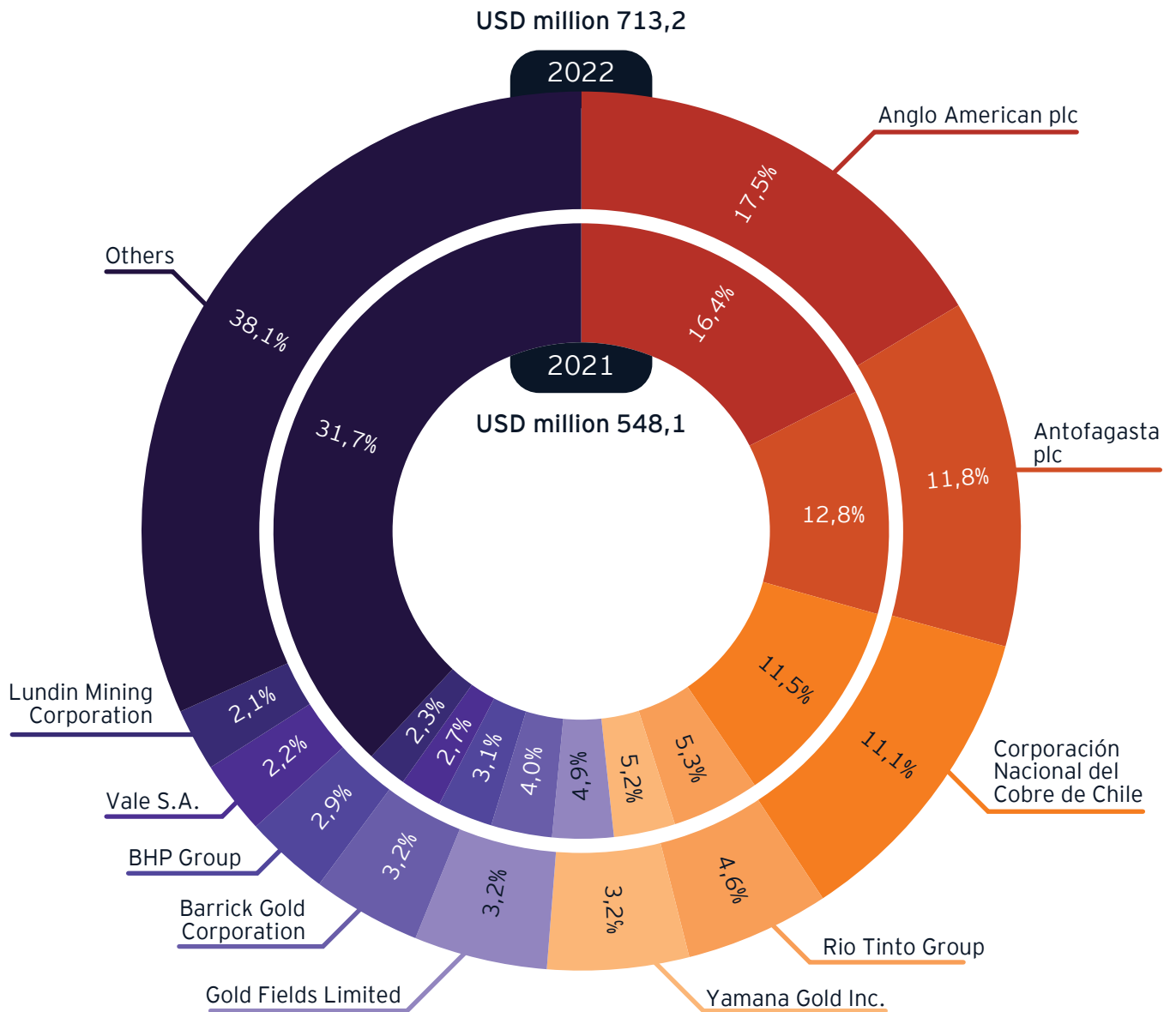
Source: Prepared by COCHILCO based on S&P Global 2022 data.

Anglo American was the company with the highest exploration budget (16,4%), followed by Antofagasta Minerals (12,8%) and CODELCO (11,5%).

Regarding exploration initiatives, more than half (52.5%) had copper as a target mineral, followed by gold (28.1%) and lithium (9.7%)⁶.

Figure 16:
Participation by mining company in the exploration budget in Chile

Source: Prepared by COCHILCO based on S&P Global 2022 data



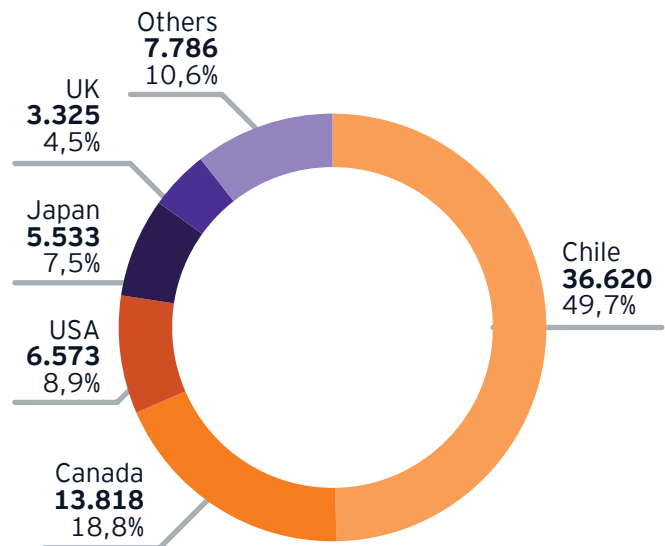


2.2.3 Projects portfolio

The Chilean mining project portfolio considering initiatives to be materialized between 2022 and 2031 is composed by 53 initiatives valued at US\$74bn, 55.6% greenfield and 44.4% brownfield. US\$ 46bn of the portfolio will be invested until 2026 when 45/53 projects will be commissioned and the remaining US\$15bn will be invested between 2027 and 2031. The majority of the investments are by private companies (US\$54bn, 73%) while public companies are investing 27% (US\$20bn).

Almost half of the funds come from Chilean based companies, with Codelco and AMSA responsible for most of the national investments. Canadian companies Teck, Capstone Copper, Los Andes Copper and Kinross are accountable for 18.8% of the investments. Newmont and Freeport McMoRan are the main U.S. investors, who in total represent 8.9%. Japan is the fourth largest investor with 7.5% of the funds coming mainly from Sumitomo Metals and Mitsubishi Corp. Anglo American places the United Kingdom in fifth position, with 4.5%. The remaining 10.6% was invested by companies based in Switzerland, Australia, Poland, South Africa, Korea, China and Taiwan.

Figure 17:
Total investment by country of origin (USD million)



Source: COCHILCO

(*) The "Others" group corresponds to Switzerland, Australia, Poland, South Africa, Korea, China and Taiwan

2.3

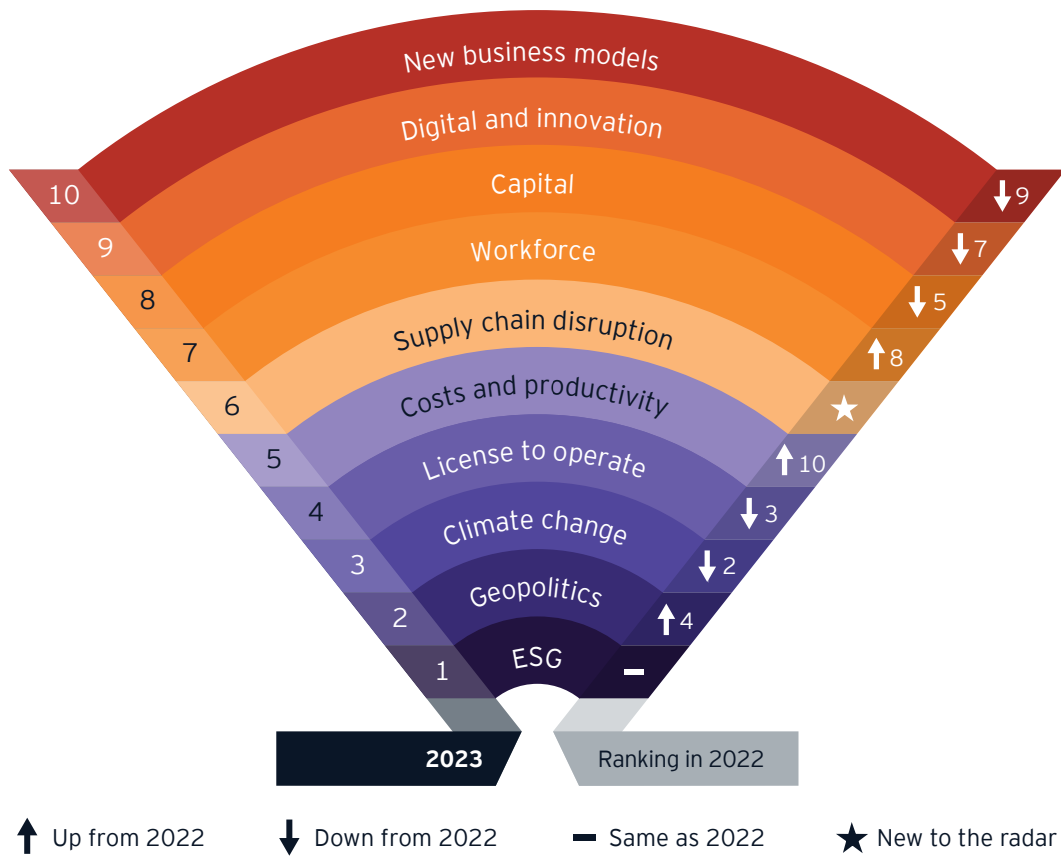
EY Top 10 risks and opportunities 2023 - Implications for Chile

EY's Top 10 Mining Risks and Opportunities report is an annual publication based on research, data analysis, and expert interviews, which provides insights into industry trends and informs strategic decision-making for mining companies and stakeholders. For 2023, the report shows rising expectations around ESG, climate change and license to operate, as well as a more

uncertain geopolitical environment. These issues will top the agenda for mining and metals leaders. Global disruption will also put additional pressure on costs, productivity, and workforce, prompting companies to explore opportunities to reimagine business models and accelerate innovation.

Figure 18:
Top 10 mining risks and opportunities 2023

Source: EY



Trend 1: Environmental, social and governance

The ESG scope, already an integral part of the companies' strategy, is expanding, and the pressure to improve reporting and transparency is growing. ESG remains the top risk and opportunity for mining and metals companies in 2023. The issue is now firmly integrated within corporate strategies due to its impact on almost every aspect of operations.

Some of the main areas for ESG improvement are not new: improving diversity, equity and inclusion remains a major challenge, and mine closures and rehabilitation require a more strategic and longer-term view.

From the Chilean perspective, water management and decarbonization are the current hot topics.

Despite mining being responsible for only 4% of water consumption in Chile, dealing with communities neighboring mining operations has been a constant challenge, especially because they are often located in areas with drought problems. Decreasing inland water consumption in copper mining in recent years has been a predominant trend, especially for sulphate ore, with continental water consumption decreasing by 46% per produced copper tonnage from 2010 to 2021. The share of seawater used in copper mining increased from 2% to 33% in the same period.

Currently, 73% of water is recycled in the mining process and by 2032, it is estimated that seawater will

account for 68% of new water inflows in copper mining. There are 14 desalination plants and seawater pipeline facilities that supply the mining sector in Chile and 11 additional projects are expected to be commissioned by 2027. Some of the most important desalination plants in operation are those of BHP Spence's (1,000 + 600 l/s) and AMSA Los Pelambres' (400 l/s), both being fairly new. Most prominent projects are Codelco's (850 + 1,956 l/s), Collahuasi's (525 + 1,050 l/s) and Teck QB2's (850 - 1,200 l/s).

Trend 2: Geopolitics

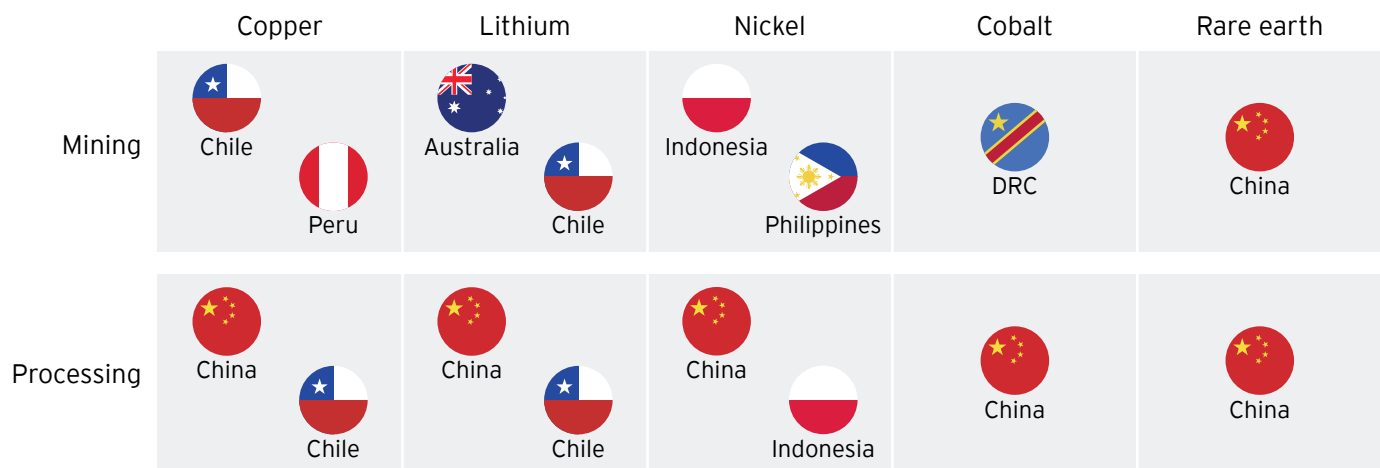
Global conflict and trade tensions highlight opportunities to strengthen relationships. "Geopolitics" move up in the ranking as miners feel the impact of the war in Ukraine, as well as U.S.-China tensions and rising resource nationalism. Geopolitical risk should now be integrated into broader strategic planning, with clear ownership of this risk within the organization.

Globally, with the current boom in battery electric vehicles, Chile is positioned as one of the leaders in mining and processing of BEV required minerals.

Domestically, there are ongoing discussions about changes in the mining royalty rules, in addition to the new constitution process that started in 2020 and should end in December 2023, generating uncertainty in Chile's main economic activity. These topics will be detailed in the following chapters.

Figure 19:
Concentration of battery mineral and processing

Source: IEA



Domestically, there are ongoing discussions about changes in the mining royalty rules, in addition to the new constitution process that started in 2020 and should end in December 2023, generating uncertainty in Chile's main economic activity.

Trend 3: Climate change

Net-zero reduction targets have already been set, but achieving them will require a realistic and balanced strategy. An accelerated decarbonization agenda, and greater focus on emissions reporting, creates a new urgency around better mitigation of climate change risk.

An increasing number of mining companies are setting net-zero ambitions, but the pathways to achieve this goal are sometimes unclear. Most large mining companies in Chile have net-zero emissions targets for 2040/2050, with intermediate milestones set for 2030⁷.

Replacing current energy sources for renewable ones is the action with the most significant impact in decreasing scope 1 & 2 emissions. Concentration and

lixiviation plants consume 39% of the energy used by the copper mining sector in Chile (29% concentration and 13% for LX/SX/EEW), being 91% sourced by electric energy and 9% by fossil fuels. Copper mining consumes 35% of the electrical energy produced in Chile and 55.6% of the electrical energy produced in Chile comes from renewable sources.

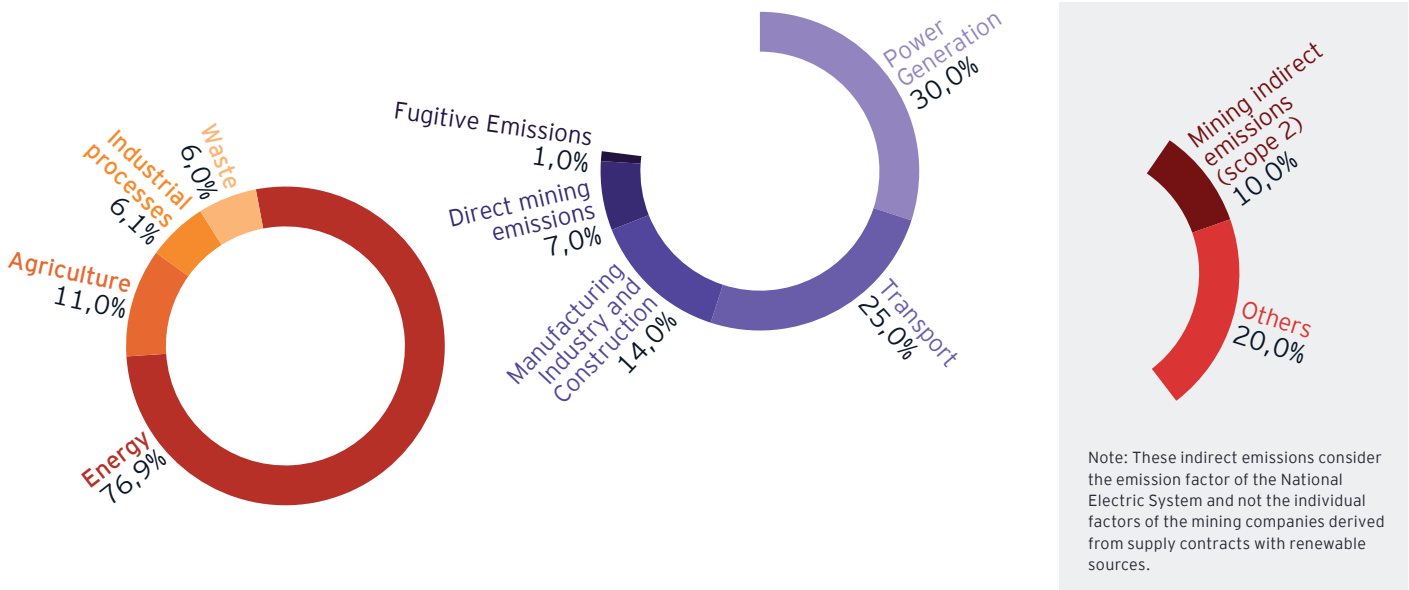
Moreover, open-pit mining consumes 39% of the energy used in the mining sector in Chile, 93% of which comes from fossil fuels. Fleet electrification is the second more relevant measure to reduce scope 1 & 2 emissions, but the availability of enough renewable sourced electric energy is a major risk to effectively decrease emissions: according to Cochilco, electricity consumption could almost double by 2030 if compared to 2020. There are also other risks associated to the Chilean fleet electrification programs related to supply chain and logistics, technological maturity, infrastructure, and human resources which are becoming more evident as the Chilean mining companies begin to detail and implement their electrification plans.

Trend 4: License to operate (LTO)

Figure 20:

Participation of mining in the country's greenhouse gas emissions

Source: Chile's Long-Term Climate Strategy, 2021.



Anchoring the brand to long-term impact can strengthen LTO. Miners face new expectations, such as contributing to livability and protecting cultural heritage. Long-standing challenges, such as strengthening indigenous trust, require a more concerted effort. Organizations must go beyond what is required by law and make a real commitment to promote truth and reconciliation.

Ultimately, miners need to reframe LTO around long-term value creation, anchoring the brand to this positive impact.

Trend 5: Productivity and costs

Chile's copper production cost (237cUS\$/lb) is 16% higher than average global cost (204cUS\$/lb). As ROM grades decreased from 1.1 in 2003 to 0.6 in 2021, copper productivity has constantly decreased from 49 to 20 tons/employee while average salary (in US\$) has increased 255% and energy cost (in US\$) has more than doubled.

According to the World Bank, in 2022, Chile faced its highest annual inflation rate since 2008 driven by strong demand pressures, commodity price increases, supply disruptions, and the peso depreciation, increasing production costs even more. However, the Chilean central bank is foreseeing a decrease in inflation by 2023, returning to the 3% goal for 2024, the average inflation rate of the last 30 years.

With costs likely to remain high, more innovative approaches to managing variability are needed. Improved modeling and digital twins for asset management can unlock real productivity gains.

Trend 6: Supply chain

Recent disruption creates new urgency to accelerate supply chain transformation.

Supply chain disruption is new to the rankings amid recent pressures, but it is an issue that mining and metals companies have long grappled with. Organizations are intensifying efforts to transform supply chains, to better weather current volatility and find new opportunities to boost efficiency, resilience and transparency.

Miners are exploring more innovative, sophisticated approaches to mitigate supply chain risk, including stronger relationships with suppliers and collaborative

contracting. With the pandemic exposing weaknesses in the "just-in-time" model, we expect to see a mix of "just-in-case" and "just-in-time" supply strategies as miners find a way to balance supply chain resilience with costs.

Trend 7: Workforce

Purposeful branding and a greater focus on reskilling can help overcome the talent shortage.

Mining and metals companies are facing their biggest talent shortage in their history following a massive wave of retirements and resignations. Replacing these workers and finding talent with critical skills will require a radical rethink of the industry's approach to attracting, retaining and nurturing talent. With younger workers deterred by the mining's image, companies must double down on efforts to build a purposeful brand that aligns with today's values.

Historical higher comparative salaries, allied to the recent initiatives of the Chilean mining sector on gender equity and life balance, are strong arguments to attract talent, especially for the young ones. Digital innovation (discussed on trend 9) and ESG related matters discussed in the first trends are also valuable tools.

Woman's participation in Chilean mining sector has constantly increased since 2014 from 7.5% to 11.8% in 2020 due to a conscious effort of mining companies to improve gender equity. A good example is BHP that reached 32% women participation on its payroll in 2022⁸, with an even higher share in leadership roles. AMSA, reached 17% in 2022 and 25% in leadership roles⁹. Codelco currently has 12%, but aims to achieve 35% of women participation by 2027¹⁰.

Mining sector in Chile has salaries that, on average, more than double the national average. It has the lowest accident rate in Chile (62% lower than average) and a constant decreasing trend in mortality reaching 0.02 fatalities per million hours worked, an 83% reduction since 2010.

The Chilean government is promoting a gradual reduction in weekly worked hours from the current 45 to 40 by 2027, but the public mining company Codelco has already committed to reducing them even faster,¹¹ while other companies are proposing a lower reduction compensated with more vacation days¹².

Trend 8: Capital

Changing demand and investor expectations are shifting capital allocation strategies. Miners are maintaining their focus on capital discipline but are also looking at how to invest in growth and transformation. The energy transition is changing demand and companies are responding by divesting coal assets and investing more in “future-facing” commodities, such as copper and lithium, making Chile a perfect place to land.

Such decisions are not only motivated by a desire to adapt to an evolving market, but also to meet investor expectations around ESG performance. Organizations’ access to capital is increasingly linked to their ability to show how they create value beyond the bottom line.

Trend 9: Digital innovation

Investment in digital innovation leads to better and faster decisions. According to Alta Ley corporation, in Chile, mining suppliers are the leaders in digital maturity, the most advanced in terms of organizational change and right behind retail and telecom in terms of digital adoption. The rise of remote and integrated operations centers and the adoption of autonomous equipment are proof of this.

In 2019, BHP launched its CIO (Integrated Operations Center, from Spanish) operating Escondida and Spence from its corporate office in Santiago. In 2020, Codelco started operations of its CIO-E (strategic integrated operations center, from Spanish) in Santiago, supporting operations of Andina’s CIO-T (tactical integrated operations center, from Spanish) launched in 2010, located in Los Andes and El Teniente’s CIO-T launched in 2014, located in Rancagua. Later in 2022, Ministro Hales and Chuquicamata CIO-T, originally placed in Santiago, was relocated to DMH’s civic district, not exactly in the city but also not inside the industrial area, as an initial phase of the North District CIO program to be placed in Calama corporate office, integrating with the remaining north divisions of Codelco: Radomiro Tomic and Gabriela Mistral. In 2021, Anglo American launched its Los Bronces iROC (Intelligent Remote Operation Center) placed in Santiago. In 2022, AMSA Centinela launched its GIO (Integrated Operations Management, from Spanish) placed in Antofagasta city¹³.

AMSA, Anglo American, Codelco, Collahuasi and Teck already have AHS (autonomous haulage systems) trucks

operating for open pit and underground equipment, placing Chile in a prominent position in terms of the use of this technology. Fleet electrification plans, discussed in trend 3, might accelerate AHS adoption in Chile.

Digital innovation is also linked to trend 7, workforce, since new ways of mining will require new skills and improving workers conditions will help the mining sector to attract talent.

Trend 10: New business models

With increasing demand for certain commodities and the growing importance of sustainability, it is time for organizations to rethink their business models. We see miners analyzing where optimal value can be found and then designing their business models to capture it. Whether companies decide to reshape models to rationalize, grow and transform – or consider a strategic combination of all three – those that act now to future-proof their business will best withstand disruption, navigate changing commercial relationships and ultimately gain competitive advantage.

Once again, copper and lithium play a key role for Chile, which should attract attention of battery and BEV manufactures, acquiring or partnering with locally operating mining companies.

1. Cochilco
2. Idem
3. Mineral Commodity Summaries 2023, USGS
4. Which countries produce the most copper? Dec 2022, WEF
5. Visualizing 25 Years of Lithium Production, by Country, Dec 23, 2022, Visual Capitalist
6. Cochilco
7. Consejo Minero
8. Consejo Minero
9. AMSA: Hacia fines de este año, 1 de cada 5 personas que trabaje en el grupo minero será mujer, March 2022, Minería Chilena
10. Codelco, Nov. 2022
11. Codelco, Jan 2023
12. “Jornada laboral en minería chilena: Presentan propuesta para reducción a 40 horas”, Aug., 2023, Tiempo Minero
13. EY Chile Mining Center of Excellence analysis.



Mining Legislation



Chile's legal mining framework is based on three pillars:

- The Constitution (1980)
- The Organic Constitutional Law on Mining Concessions (1982)
- The Mining Code (1983)

The Chilean Constitution grants the State absolute and exclusive ownership of all mines, including guano deposits, mineral sands, salt mines, coal and hydrocarbon deposits, and other fossil substances, except for surface clays.

Mining concessions and activities are regulated by the Organic Constitutional Law on Mining Concessions (1982) and the Mining Code. Any private party or legal entity can apply and obtain the right to explore and exploit most mineral substances.

However, liquid or gaseous hydrocarbons, lithium or deposits of any kind in maritime waters under national jurisdiction or deposits of any kind entirely or partly located in areas legally classified as important to national security are excluded from mining concessions.

Mining concessions are granted to applicants by a Judicial Ruling in a Civil Court and are registered in the Public Mines' Registry. There are exploration concessions and exploitation concessions. It is not necessary to hold an exploration concession prior to an exploitation one. Mining concessions are legally considered property and are independent from property rights over surface tenements.

The holder of exploration or exploitation concessions has exclusive rights to explore and exploit minerals within the limits of the concession. Mining concessions are granted on a "first come, first served" basis.

The owner of a mining concession is entitled by the Mining Code to use water found within the limits of the concession, as long as the water is required for exploration and/or exploitation processes.

3.1

Security of tenure

The legal property rights of a titleholder of a mining concession are protected by the constitutional guarantee of private property rights.

Exploitation concessions are indefinite, provided that the holder pays an annual fee (patent).

Exploration concessions are granted for two years, renewable for another two years and are also subject to the payment of an annual fee (patent).

On February 4, 2022, the Law 21,420 was published, establishing several changes impacting the mining sector. Later, on January 26, 2023, Law 21,536 postponed such effects until January 1, 2024.

Most of the modifications were related to the incorporation of new requirements for the filing of new site reports; the change of coordinates to the geodetic reference system for Chile (also known as "SIRGAS"); new information obligations for mining concessionaires; an increase in the term of exploration concessions and the elimination of their extension, among other changes.

However, it is important to emphasize that one of the changes that was also postponed corresponds to the increase in the amounts of the patents for exploration and exploitation concessions contemplated in the Mining Code. This means that with the approval of this regulation, the patent payment will not increase as from February 4, 2023, as foreseen, but as from January 1, 2024.

As of January 1, 2024, the exploration concession will last 4 years, without renewal. And the exploitation concession will remain indefinite.

One of the main substantial changes incorporated by the new regulations is the incorporation of the requirement of start the work and continue it. Accordingly, and different to the existing regime in Chile, to the extent that the mining concessions are being exploited or workable in due course, no increase in the amounts of the mining patents would apply (both exploration and exploitation patents).

In the case of the exploration concession, the amount of such patent for each full hectare will be equivalent to three fiftieths ($3/50$) of a monthly tax unit (circa USD 4.68) for each year the concession is in effect.

In the case of the exploitation concession, the amount of the patent for each hectare consists of a progressive scale that is modified according to the course of the years, which is maintained during the first five years of the concession and increases depending on the total number of years of each concession.

Based on current legislative discussions, and the public information available in the media, it is expected that additional changes would come into force within 2023 regarding the amount of mining patents.

Mining companies that have been granted with the 11ter stability rights recognized by the DL 600 in Chile, will be protected from any changes to the mining patents as soon as the requirements to invoke the 11ter stability rights are fulfilled.

3.2 Mineral and surface land ownership

Although the State has ownership of all mineral resources, the titleholders of mining concessions have ownership of the extracted mineral resources.

Chilean Law differentiates between surface tenements and the natural resources below the surface. It is often the case that the titleholders of mining concessions (who have the right to explore and mine underground resources) are not the owners of the surface land.

There are clear administrative procedures to gain access to privately owned land to avoid potential conflicts. Mining concession holders have preferred rights to request mining easements to gain access over surface land. The easements can either be negotiated and agreed-upon with the surface landowner or granted by Court if no agreement is reached. The Courts grant the easement and set the compensation amount.

3.3 Right to transfer mining rights

Mining rights can be freely transferred by their private titleholders. The transaction must be performed through a public deed and registered with the public mining register.

3.4 Size of concession rights

Exploration rights are granted for a minimum of 100 hectares and a maximum of 5,000 hectares per concession. Exploitation rights are for a minimum of 1 hectare and a maximum of 10 per concession, with the possibility of filing numerous concession applications at the same time.



3.5 Government policies on the sale of mineral products

The sale of mineral products is unrestricted, both domestically and abroad. Mine operators are not under any obligation to satisfy the internal market before exporting minerals, nor are they obligated to sell them at official prices or terms.

All producers and trading companies exporting copper from Chile, without distinguishing between publicly held or private companies, are required by law to provide information in respect to the contracts and prices of copper and its derivatives in Chile. This information must be provided to the Comisión Chilena del Cobre (Cochilco) and duly updated if the terms of said agreements change in the due course of the year.



3.6 Environmental matters

In recent years, Chile has enacted a new regime of environmental laws, which establishes the main environmental guidelines and principles in the Country. These laws and related regulations significantly increased the level of environmental regulation and established several environmental management standards, in addition to other sectorial regulations and guidelines related to environmental aspects such as emission of particulate matter in the air, water quality, exploration, discharge of tailings and water, sanitation issues, native forest regulations, odor contamination, etc.



3.7

Water rights

Water is considered a national good for public use and its usage rights are granted to private individuals by the General Directorate of Water (Dirección General de Aguas or DGA in Spanish), for titleholders to use, enjoy and have access to consumptive and non-consumptive water rights, according to the current legal framework.

These regulations are mainly governed in the Chilean Water Code, which grants permanent and transferable water rights to individuals to achieve an efficient distribution of water throughout the country. Water rights can be used for any activity the right holder determines.

The DGA is the public agency with the overall responsibility for use planning, protection and development of water resources and basins. Among other things, DGA is responsible for granting new water rights (consumptive and non-consumptive) for the supervision of water users and the approval of all major hydraulic works.

After 11 years of discussion in Congress, a wider reform was approved through Law N° 21,425 to the Chilean Water Code, enacted in Chile on April 6th, 2022. Within the different modifications incorporated by this new regulation, it is possible to highlight the following: (a) reaffirms that water rights are real rights; (b) time limitation for water rights granted post Reform (30 years); (c) concept of "public interest" as a requirement for the granting of new water rights; (d) all water rights are now subject to termination by effective lack of use; (e) priority or preference for water use for human consumption or public health; (f) creation of non-extractive water rights for environmental conservation or sustainable purposes (which would not be subject to the non-use taxes frameworks); among others.

From a mining perspective, the Mining Code states that the mining concession holder has, by the sole operation of the Law, the right to use the waters found in the work of the concession, to the extent that such waters are necessary for the exploration, exploitation, and



benefit of the respective concession. These rights are inseparable from the mining concession and will expire with it.

In addition, the Mining Code establishes that the use of other waters necessary for the exploration and exploitation of mineral substances, will be subject to the provisions of the Water Code and other applicable Laws, being the general regulations applicable to mining companies without a special tenure.

3.8

Lithium regulations in Chile

Chile has one of the largest lithium reserves in the world (57%). From 1979 lithium has been constitutionally declared as of "National Interest" and a non-concessionable mineral reserved primarily for the State. This non-metallic mineral is subject to an exceptional regulation, different from the one applicable to most minerals in Chile.

Lithium regulations are contained in the Organic Constitutional Law on Mining Concessions (1982), the Decree Law 2,886 and in the Chilean Mining Code (1983).

As per the current regulations, lithium can be explored or exploited only by the State, directly or through its companies (i.e., Codelco, Enami, CORFO, etc.) or by civilians or non-governmental companies in two cases:

- a) When an administrative concession or a Special Operation Contract ("CEOL" for its acronym in Spanish) has been granted, subject to requirements and conditions to be defined, in each case, in a Supreme Decree issued by the President of Chile; or,
- b) When the mining concession over the area where the lithium is located was granted prior to 1979 (period in which the legal framework applicable to lithium changed in Chile).

Aside of the fact that the property is reserved for the State of Chile, currently CORFO (Chilean Economic Development Agency) is the agent in Chile that has the exclusive right to exploit the lithium reserves existing in the territory.

Currently, two private companies are exploiting lithium in Chile in the Salar of Atacama, SQM and Albemarle. These entities negotiated their most recent CEOLs in 2016 (Albemarle) and 2018 (SQM) and which main elements include the following: (a) obligations to pay a variable and progressive royalty linked to the lithium's sale price; (b) obligation for the construction of high investment plants under certain and specific characteristics; (c) equitably distribution of income from

exploitation between the regional authorities and direct payments to communities; (d) preferential sale price of lithium for local producers in respect to the 25% of the total exploitation; (e) direct contribution for R&D and public programs to promote productivity in the country; and (f) reporting obligations regarding operational and financial information of the companies.

Due to the high price of lithium in 2022, both companies, SQM and Albemarle, paid royalties to the State of Chile for an amount that doubled the taxes paid by Codelco (the state-owned Chilean copper company) to the Treasury.


In order to develop Chile's potential in lithium and to promote public-private partnerships between the government or its companies (Codelco, Corfo and Enami) with private companies that have the capabilities to explore and exploit lithium, an alternative is currently being conducted by CORFO that consists on a tender to call companies (whether Chilean or foreign) to promote private investment in lithium projects and develop the production in Chile for lithium value-added products, generate qualified jobs and local value, with environmental responsibility, in exchange for lithium supply at a favorable price. The term for the tender is the period between August 31st, 2022 and August 31st, 2023 - subject to lithium product availability.

The tender was envisaged in the context of a special agreement between CORFO and SQM Salar S.A. for lithium production at Salar de Atacama and ensures the supply of lithium at a favorable price until 2030.

All of the above goes alongside with the proposal of the Government in Chile, through the Ministry of Mining, to incorporate a public-private partnership in the exploration and exploitation of lithium through the incorporation of a state-owned company specifically dedicated to the exploitation of lithium with a joint-venture with private companies. The Government has not yet announced the details of how this is expected to be implemented.



General Tax System



Even though there are certain specific considerations and rules (described and noted throughout this document), mining activity in Chile is subject to the general tax regime applicable to taxpayers in general. However, mining companies are subject to a Specific Tax on Mining Operations (as described over below sections) and other specific rules connected to the characteristics of the mining industry.

Chile has no special incentives for specific industries other than those available for all taxpayers. However, mining companies, such as exporters and fixed-asset investors, can apply for special Value Added Tax (VAT) exemptions, early recovery systems and benefit from the accelerated depreciation method, which could result relevant in annual taxable income determination.

In Chile, taxes are set forth by law and are regularly imposed at national level. There are no provincial, regional or municipal taxes, despite certain exceptions. The most important taxes set forth in the Chilean tax system are the Income Tax and the Value Added Tax (VAT).

4.1

Income Tax

4.1.1 Corporate Income Tax (CIT) Regime

In general, a CIT rate of 27% is applied to annual net income earned. Under the Partially Integrated Regime, shareholders, owners, or partners of entities subject to CIT will be taxed only on effective distribution of dividends or profits. Such shareholders, owners or partners will be subject to the final taxes, i.e., the Additional Tax (AT), a withholding tax at 35% rate, in case of foreign residents; or the Global Income Tax (GIT) at rates between 0% and 40%, in case of Chilean resident individuals.

The distribution of dividends or profits among CIT taxpayers is not subject to incremental CIT. The CIT regime allows shareholders, owners and partners subject to AT or GIT to use the CIT paid by the entity distributing such dividends or profits as credit in the AT or GIT determination. In general, 65% of the CIT paid by the entity distributing dividends or profits may be used as a credit to offset the amount of AT or GIT payable. As a result, the higher overall income tax burden would be 44.45%.

In the case of foreign shareholders, owners or partners resident in a country that has a double taxation treaty in force with Chile (DTT Country), 100% of the CIT paid over the distributed dividends or profits would be available as CIT credit if: (i) qualifies as a tax resident in a DTT Country and is able to obtain a tax residence certificate from the tax authorities; (ii) is not considered a fiscally transparent entity; and (iii) is the beneficial owner of the dividends.

However, under SME Regime, the CIT rate is 25%, which applies in the case of small and medium size entities, to the extent they fulfill strict requirements. The same 25% rate applies to non-profit entities (e.g., Foundations, Unions, etc.)

4.1.2 Capital Gains Regime

In the case of corporate income taxpayers, capital gains are considered as an ordinary income and are therefore subject to the corresponding CIT rate (27% or 25% depending on the taxpayer as noted in the section above) on annual accrued basis.

In the case of Chilean resident individuals, as a rule, GIT rates (i.e., progressive rates between 0% and 40%) are applied on an accrual basis. However, there are exemption rules applicable to capital gains generated by the disposal of certain assets (shares, social rights, real estates, among others) under certain and specific conditions.

Further, there are also exemption provisions applicable to certain assets under capital market rules. Considering this, the sale of publicly traded shares is subject to a sole 10% tax rate, fulfilling strict conditions.

Finally, foreign residents who obtain a capital gain from disposal of Chilean assets, whether direct or indirectly, are regularly subject to the 35% AT rate. Certain tax treaties may reduce this rate.

4.1.3 Expenses

4.1.3.1 General Considerations

CIT must be declared and paid annually by means of an Annual Income Tax Return to be filed in April every year.

The Annual Taxable Income or Net Taxable Income (NTI) is determined by the taxpayer, based on income obtained in the calendar year prior to the Annual Income Tax Return.

NTI subject to CIT is determined based on earnings, costs and expenses recorded in the financial statements of the taxpayer prepared by December 31st each year, plus several adjustments that must be made to such income and expenses/deductions, to determine the base over which the CIT will be applied. These

adjustments are established in the Chilean Income Tax Law (CITL).

The main adjustments to the financial results obtained by a given taxpayer are those applied to certain recognition of income from subsidiaries, depreciation, amortization, provisions, recognition of certain payments to foreign related parties (which can be deducted on a cash basis and to the extent that the corresponding AT has been declared and paid), amongst others. Those positive/negative adjustments could result in temporary or permanent differences between financial and income tax results.

In case of expense deduction, CITL mandates to recognize those that: (i) have the ability or are capable to generate income, in the same or future years; (ii) are connected to the interest, development or maintenance of the business; (iii) have not been previously deducted as part of the direct cost of goods or services required to obtain the income; (iv) were effectively paid or indebted/owed within the commercial year, and (v) are duly proved to the tax authorities.

Some expenses are also subject to a set of specific requirements that must be fulfilled, as shown in the following section.

4.1.3.2 Particular Requirements

The Chilean ITL establishes a list of special expenses that can be deducted as such. The most relevant are explained below:

a) Depreciation: A yearly depreciation quota for the use of tangible fixed assets is allowed as a deductible expense. The depreciation percentage is determined by applying a straight line method on the useful life of the assets without considering a residual value and determined by the Chilean tax office for each category of assets. Once fully depreciated, assets are recorded at a nominal value of CLP 1.

According to the CITL, taxpayers are entitled to opt for an accelerated depreciation regime, understood as the establishment of a useful life for new or imported fixed assets, equivalent to one third (1/3) of the useful life established by "Servicio de Impuestos Internos", the Chilean IRS.

Accelerated depreciation can only be used to compute the taxable income for CIT purposes. The excess depreciation, corresponding to the difference between the accelerated depreciation allowance and a notional normal depreciation allowance, is recaptured for purposes of GIT or AT applied to dividends or profits paid to shareholders, owners, or partners.

Fixed assets that become unusable before the end of their expected useful life may be depreciated twice as fast as originally contemplated under their applicable regime.

b) Tax losses: Losses derived from the commercial activities of the Chilean entity in the relevant commercial year, may be deducted as expense for tax purposes.

Accumulated tax losses, duly adjusted by inflation, may be carried forward indefinitely. If there is a qualified change of ownership, the accumulated tax losses may not be deducted from income generated after the ownership change. No qualified change of ownership occurs between entities belonging to the same economic group. The Chilean IRS and Supreme Court rulings have also established that tax loss audit faculties to be exercised by the Chilean IRS are not subject to any statute of limitation.

c) Interests: Interests are deductible, to the extent that the conditions set forth in the CITL are met. Related party interest is only deductible on cash basis and to the extent the corresponding withholding tax has been declared and paid to the Chilean Treasury.

d) Corporate Social Responsibility: Disbursements incurred due to environmental requirements are deductible. Likewise, the CITL establishes two additional cases that include situations of disbursements associated to the social license to operate (going beyond environmental mandatory requirements):

- ▶ Those incurred by the holder by virtue of environmental commitments included in the study or in the environmental impact assessment, regarding to a project or activity that has or must have, in agreement with the current environmental legislation, a resolution issued by the competent authority approving such project or activity.

- Those made for the benefit of the community, and which involve a benefit of a permanent nature, such as expenses associated with the construction of works or infrastructure for community use, their equipment or improvement, the financing of specific educational or cultural projects and other contributions of a similar nature.

In both cases, expenses would be deducted to the extent that: (i) are paid to nonrelated parties; (ii) have been agreed in a contract signed with a state administration agency or authority; and (iii) to the extent the limits incorporated in the CITL are not exceeded. Any disbursements that go beyond these limits can not be deducted for tax purposes.

Other expenditures like royalties, scientific and technological research, uncollectible accounts, remunerations, and benefits granted to employees, among others, also have a special treatment for tax purposes that must be considered.

4.1.3.3 Mining specific expenditures

Mining companies should follow the same general and specific requirements to deduct expenses from a tax perspective, however a list of special situations can occur for mining companies depending on each stage of the mining lifecycle. The most relevant for the mining industry will be explained below.

- Prospecting and Exploration

One of the objectives of these stages is to identify large tracts of land with mining potential. The aim is also to define and characterize the deposit's potential by conducting studies of mineral resources and their quality. Machinery is acquired and workers and suppliers are hired.

As a rule, during this stage only mining license fees and sometimes land taxes are paid. These disbursements are deducted from a CIT perspective.

Disbursements incurred during this phase must always be considered as organization and start up expense, which may be amortized in up to six years, starting from the date expenses were incurred or when the mining company earns income from its main activity, if later.

- Infrastructure and construction

The construction of the mine, the processing plant, and the associated infrastructure such as water systems, concentrate pipelines and ports are the main expenditures of this stage. The latter will include mechanisms for the protection of the area's biodiversity and the mitigation of the impact of the project on the environment.

Mine infrastructure disbursements should be treated as an investment in fixed assets subject to depreciation according to the rules contained in the CITL, even if expended before the operation.

Other infrastructure disbursements incurred in third-party properties and according to the tax authority instructions, shall be considered in certain cases as organization and start-up expenses, which may be amortized in up to six years starting from the date expenses were incurred or when the mining company earns income from its main activity, if later.

Special consideration should be given to the tax treatment applicable to Engineering, Procurement, and Construction (EPC) and Engineering, Procurement, Construction and Management (EPCM) contracts, as well as to the deduction of interests associated to the financing of the investment.

- Operation: Exploitation and Expansion

During this stage, the project starts operating and generating income associated to the extraction, processing and commercialization of the mining products.

From this stage onwards, mining operations begin generating taxable income. Thus, mining companies start determining and paying CIT and Specific Tax on Mining Industry (depending on the operating profit margin of the company).

Exploitation disbursements associated to the preparation of the units or sector that will be exploited, alongside the direct costs of exploitation, such as the direct labor spendings, raw materials and supplies directly related to the goods, shall be considered as part of the costs of the minerals under

the terms regulated in the CITL. Therefore, the cost of the minerals will have an impact in the results of the company upon its sale or export.

Regarding to pre-stripping costs, they shall be treated as organization and start-up expenses, which may be amortized in up to six years starting from the date expenses were incurred or when the mining company earns income from its main activity, if later.

Expansion projects may arise alongside the exploitation phase aiming to expand the mine's production capacity and sometimes its useful life. Expenditures that improve infrastructure, production capacity or the useful life of the assets, could be seen as investment in fixed assets subject to depreciation tax rules.

Maintenance disbursements shall be considered as expenses of the year in which such disbursements occurred and following the general requirements for its deduction, from a tax perspective. Repairs, if they extend the life of the respective asset, shall be considered as an investment in fixed assets subject to depreciation tax rules.

4.1.3.3.1 Closure of the mine

This stage involves mitigation measures, compliance with environmental commitments, the removal of machinery and infrastructure, as well as the rehabilitation of the site in accordance with plans approved by the Chilean mining authorities.

Accordingly, the mining project stops generating income and focuses on complying with a regulated process of mine closure, the cost of which has been previously provisioned during the mine's life under the terms of Law 20,551.

According to Law 20,551, the amount that has been guaranteed before the mining authorities for the closure plan of the mining site, could be deducted for tax purposes within the last third of life of the mining project.

This is different to the general tax deductibility rules, since Law 20,551 authorizes the deduction of a representative amount of disbursements that the mining company will make in the future, in connection

with the closure activities. Therefore, any changes in the effective disbursements incurred or in the useful life of the mine could affect and impact the tax results finally determined.

This law also allows the recovery of the VAT credit arising from acquiring goods and providing services related to the closure of the mine.

4.1.3.3.2 Depletion of mining properties

In general terms, the CITL states that the cost of the extracted mineral must include part of the acquisition cost of the mining property in an amount equivalent to the proportion that the extracted mineral represents in the total amount of mineral that has been technically estimated for such mining property. In other words, a percentage of the acquisition cost of the mining property is included in the cost of the extracted mineral.

For these purposes, the acquisition cost includes the price paid for the mining property (or group of properties that constitute a single ore deposit) and the interest on the unpaid balance or loans associated with the acquisition accrued or paid until exploitation of the mine is brought into operation.

4.1.4 Withholding taxes (WHT) on payments abroad

As a general rule, cross border payments made from Chile are subject to 35% WHT rate, unless is otherwise provided by the CITL or DTT provisions.

It is relevant to consider that payments made upon interest, royalties, and services to related parties can only be deducted by the Chilean taxpayer if they were effectively paid and provided the applicable WHT is duly declared and paid.

4.1.4.1 Dividends

In general, a 35% tax rate applies over the distribution of dividends or profits to foreign shareholders, owners, or partners of Chilean CIT taxpayer entities (AT).

As explained under section (4.1.1. above), in general, 65% of the CIT paid by the entity distributing dividends or profits may be used as a credit to offset the amount



of payable AT. As a result, total tax burden would be 44.45%. In turn, foreign shareholders, owners, or partners resident in a DTT Country may claim as credit 100% of the CIT paid over the distributed dividends or profits, to the extent that: (i) qualifies as a tax resident in a DTT country and is able to obtain a tax residence certificate from the Tax Authorities; (ii) is not considered a fiscally transparent entity; and (iii) is the beneficial owner of the dividends.

4.1.4.2 Interests

In general, interest paid abroad are subject to a 35% WHT on the gross amount. However, the CITL establishes a reduced rate of 4% on interest payments where the creditor (among other specific cases) is a foreign bank or financial institution.

Likewise, reduced tax rates may apply in case of interests paid to DTT Country residents.

In the case of interest paid to foreign related parties, thin capitalization rules are applicable. Under such, interest and other disbursements paid abroad at reduced tax rates (4% or as established by a DTT), will be subject to a 35% penalty tax, in case the Chilean company breaches the excess indebtedness ratio (3:1). Reduced withholding tax paid may be deducted from the 35% penalty tax.

All debt and liabilities shall be considered for computing the debt figure. This includes foreign and local debt as well as related and third-party debt. Only short-term debt (i.e., <90 days) with third-party is excluded from the debt computation. The 3:1 ratio shall be measured at the end of every year in which interest is paid. Chilean ITL lists several cases where a relationship exists, starting from the most obvious cases (i.e., when both parties are part of the same business group or when one of them has an ownership interest in the other) to more sophisticated deemed relationship rules.

4.1.4.3 Royalties

Royalties are generally subject to WHT at 30% rate. Such rate is reduced to 15% in case of use, benefit, or exploitation of software. However, standard software in which the rights transferred are limited to those necessary to allow the use of such software, but

not its commercial exploitation or its reproduction or modification, are exempt from WHT. In case of payments to entities located in preferential tax regime jurisdictions, the WHT turns into 30%. Under certain DTTs, the maximum rate for royalties is 10% or 15%.

4.1.4.4 Technical or engineering work or professional services

Technical or engineering work or professional services are subject to a 15% WHT rate. In case of payments to entities located in preferential tax regime jurisdictions the WHT turns into 20%. Reduced rates may apply under DTT provisions.

4.1.4.5 Other services

The general rule is that services rendered abroad are subject to a 35% WHT rate. Under certain DTT, services are usually covered by Article No. 7 and thus considered Business Profits, exempt from WHT.

4.1.5 Stamp Tax (ST)

In general terms, all documents evidencing monetary credit operations are subject to ST at the time of its issuance. Monetary credit operations consist in the delivery or commitment to deliver an amount of cash, and the commitment by the recipient to reimburse it at a different time. Foreign monetary credit operations, even if there is no document, are subject to ST.

ST is levied on the principal amount established in the corresponding documents. The rates are: (i) 0.066% of the principal for each month or fraction thereof between the issuance of the loan and its maturity, capped at 0.8%; (ii) 0.332% on the principal in case of loans repayable on demand or without a specific maturity date. ST is paid once per loan, in general.

Stamp Tax is an allowed expense for CIT purposes.

4.1.6 Municipal Tax

Under Law Decree 3,063 the Municipal Tax corresponds to an annual tax to be paid to the Municipality of the territory in which a commercial-business activity is performed. Secondary and tertiary activities are

affected; primary activities are exempt in general (those are expressly defined by the Law).

The rate is applied in ranges between 0.25% and 0.5% over the company's Tax Equity (company's assets at tax value less liabilities at tax value). Such Tax Equity is also adjusted by deducting all investments in other companies that pay Municipal Tax.

The amount of Municipal Tax range is between 1 UTM (circa USD 77) and 8,000 UTM (circa USDk \$617) per year. Municipal Tax is usually paid in two installments, one payable during July and the other during January.

Mining companies (and other entities developing primary activities) are liable for the Municipal Tax once the mineral starts to be sold.

4.1.7 Property Tax

Under Law 17,235, a Property Tax, at a rate ranging from 1% to 1.4% on yearly basis, is applied to real estate property. The rate to be imposed depends on the real estate's qualification as agricultural or nonagricultural. This rate is calculated on the fiscal value of the real estate.

The Property Tax Law provides the following surtaxes:

- ▶ Global surtax: Applicable over the sum of fiscal values of all the real estates owned by the same taxpayer and correspond to progressive rates ranging between 0% (to overall fiscal value lower than USD 616k) to 0.425% (to overall fiscal value equal or higher than USD 1.3m).
- ▶ Nonagricultural real estate surtax: Applicable to nonagricultural real estates, to the extent that they are located in urban territory and are undeveloped or abandoned or correspond to ballast wells.

Chilean Law grants certain taxpayers the opportunity to use the sums paid on account of Property Tax as credit against the CIT. If the conditions set forth by the Law to use the Property Tax as credit are not met, such tax may be deducted for income tax purposes.

On the other hand, there are benefits and exemptions available for qualified taxpayers or real estate.

4.1.8 Contribution for Regional Development

Law 21,210 establishes a Contribution for the Regional Development (CRD), which has a rate of 1% and is applied on the acquisition value of all the physical goods of the fixed assets in the part that exceeds the amount of USD 10 million.

It applies to CIT taxpayers who are taxed based on effective income, determined according to full accounting records, who made investments in projects:

- a) That comprise the acquisition, construction, or importation of physical goods of the fixed assets for a total value equal to or greater than USD 10 million; and
- b) That must be submitted to the environmental impact assessment system according to article 10 of the Law 19,300.

The contribution is accrued from the first fiscal year in which the project generates operational income, provided that the definitive reception of work has been obtained by the respective Municipal Works Directorate, or if the referred reception is not applicable to the project, that the Superintendence of the Environment has been informed by the management.

The CRD must be declared and paid to the Chilean Treasury, in April of the following year of the accrual of the contribution, or, in up to 5 annual instalments from the time of its accrual.

4.1.9 General Anti-Avoidance Rules (GAAR)

Substance over form rules is currently under effect. These rules empower the tax authority to challenge transactions performed under abuse of juridical forms or simulation and to request payment of the relevant taxes that would have applied. GAAR rules do not prevent the IRS from exercising criminal actions.

There is a presumption of good faith on behalf of taxpayers and the tax authority must prove their arguments (burden of proof), in Tax Courts.

4.1.10 Value Added Tax

In general, the VAT is levied upon the recurrent sale of movable property, certain fixed assets, or even real

estate assets (excluding land), services regardless of their recurrence, imports and other transactions, with a 19% rate.

In case of services, a recent tax reform, in force since January 1st, 2023, onwards, modified the VAT system applicable to services, by including all kind of services within VAT scope (unless expressly exempt).

The VAT levied on the acquisition of goods or services and imports gives the acquirer/recipient the right for VAT credit, as long as the taxpayer is engaged in the sale of good or the provision of services subject to VAT.

VAT credit equals the VAT charged in the invoices supporting acquisitions of goods, utilization of services, import or other operations subject to VAT.

When said taxpayer sells goods or renders services subject to VAT, the VAT so charged becomes a VAT debit, which may be offset with the carried-forward VAT credit.

As per VAT methodology, the VAT credits offset the VAT debits, being the positive difference, the VAT owed. If VAT credits remain after offsetting the VAT debits, this balance could be carried forward indefinitely.

In general, exportation of goods performed by Chilean taxpayers are exempt from VAT. However, exporters are specially allowed to recover any VAT paid related to their export activities. Specific VAT credit recovery mechanisms are available, pre and pos exports.

In addition, VAT taxpayers that maintain VAT credit for at least 2 months, arising from the acquisition of fixed assets or services considered to be part of the cost of such fixed assets, can either be offset against any tax liability or request its cash refund.

4.1.11 Specific Tax on Fuels

Law 18.502 regulates the specific tax on fuels. The rate of this tax corresponds to a Base Component plus a Variable Component.

Thus, the Base Component of the tax is established in Monthly Tax Units, converted to USD as follows:

- Motor gasoline: USD 470 per m³
- Diesel oil: USD 115 per m³
- Compressed natural gas: USD 150 per 1,000 m³

- Liquefied petroleum gas: USD 110 per m³

In turn, the Variable Component consists of a mechanism integrated by specific variable rate taxes or tax credits that will increase or decrease the Base Component and, therefore, the applicable specific tax. Within the Variable Component is the so-called Mechanism for the Stabilization of Fuel Sales Prices (MEPCO) that seeks to stabilize the fluctuations in the value of fuel.

This tax is accrued at the time of the first sale or importation of the products indicated in the Law and shall affect the producer or importer thereof. Producers must pay this tax within the first 10 working days following the week in which the transfers were made, and importers before the withdrawal of the goods from Customs and as a prior condition for this purpose.

According to the current rules, certain VAT taxpayers and exporters (as the case of mining companies) may recover up to 100% of this tax, to the extent that it is not used in vehicles destined to transit by road.

4.1.12 Green Tax on Fixed Sources

As of January 1st, 2023, the Green Tax on Fixed Sources will be levied on Particular Matter (PM), NO_x, SO₂ and CO₂ emissions into the air produced by establishments whose emitting sources, individually or collectively, emit 100 or more tons of PM per year, or 25,000 or more tons of CO₂ per year. Excluded from the application of the tax are emissions associated with hot water boilers used in services linked exclusively to personnel and generators with a power of less than 500 kWt.

From February 25th, 2023, taxpayers subject to the green tax on fixed sources, may offset all or part of their taxable emissions for purposes of determining the amount of tax payable through the implementation of projects to reduce emissions of the same pollutant (or comparably known as "offsets"), subject to such reductions being additional, measurable, ascertainable and permanent.

It should be noted that the reduction projects or offsetting must be additional to the obligations imposed by prevention or decontamination plans, emission standards, environmental qualification resolutions or any other legal obligation.

To proceed with an abatement project, an application must be filed with the Ministry of the Environment. In addition, to accredit the reduction of emissions, the projects must be certified by an external auditor authorized by the Superintendency of the Environment.

This tax is accrued annually and must be paid in Chilean pesos in April of each year.

In the case of PM, NO_x and SO₂ emissions, the tax will be equivalent to 0.1 per each ton emitted based on a formula, or the corresponding proportion, of such pollutants, multiplied by the amount resulting from the application of a mathematical formula that includes the social cost of pollution per capita considering the amount of population of the corresponding Municipality.

Regarding these same pollutants, if the establishment is located within a Municipality that is also part of a zone declared as "saturated zone" or "latent zone" due to concentration of PM, NO_x or SO₂ in the air, an additional factor consisting of the air quality coefficient will be applied to the tax rate per ton of pollutant.

In the case of CO₂ emissions, the tax will be equivalent to USD 5 for each ton of CO₂ emitted. However, the tax on CO₂ emissions will not apply to emitting sources that operate based on non-conventional renewable means of generation whose primary energy source is biomass energy.

In December 2022, the Ministry of Finance in Chile announced a public consultation process to collect information that will be used for the purposes of submitting a tax reform bill to Congress incorporating new corrective taxes and make changes to the current green tax on fixed sources. This tax reform bill is expected to be submitted before the Congress in March-April 2023.



4.2

Transfer Pricing

4.2.1 General Considerations

Chilean transfer pricing (TP) regulations are in line with the Organisation for Economic Co-operation and Development (OECD) TP guidelines.

Acceptable transfer-pricing methods include the following:

- Comparable uncontrolled price
- Resale price
- Cost-plus
- Profit-split
- Transactional net margin

Any other method may be used if none of the above can be applied to the transaction under analysis. The most suitable method should be used, considering the facts and circumstances of each related-party transaction under analysis.

Taxpayers must file annual sworn statements identifying related party transactions and transfer-pricing methods and providing other information requested by the Chilean IRS through its regulations. In addition, taxpayers must keep all relevant information supporting compliance with the transfer-pricing rules.

County-by-Country (CbC) regulations have been in force in Chile since 2017.

In addition, CbC, Master File and Local File Sworn Statements must be submitted to the Chilean tax office if certain conditions are met.

4.2.2 Mining Industry

Mining industry has been traditionally one of the most audited industries in Chile for transfer pricing matters. The type of transactions under scrutiny are usually sale or purchase of products that, depending on the case, have public price references in the markets (national or international); intercompany services received and financial intercompany transactions like loans or similar are usually audited too.

For that reason, many players of this industry are very interested in signing Advance Pricing Agreements (APAs) with the tax administration, to gain certainty for their intercompany transactions. There are currently some APAs signed with entities belonging to this industry and it is expected that there will be many more cases in the near future.

Currently, Chile is the leading country regarding signed APAs within the South American region. The tax administration, as well the Customs Agency have specific teams dedicated to APA processes and Mutual Agreement Procedures (MAP).



4.3

Taxes solely applied to the mining industry in Chile

Notwithstanding the general tax regulations applicable to all business activities in Chile, there are some special tax regulations for the mining industry derived from its particular characteristics.

4.3.1 Mining Patents

An annual fee is required to keep the mining properties in good standing. In the cases of mines in operation, the Mining Patent corresponds to a tenth of a monthly tax unit (circa USD 7.87) per each complete hectare included in the property.

As of January 1st, 2024, in the case of exploration concessions, the amount of such patent for each full hectare will be equivalent to three fiftieths (3/50) of a monthly tax unit (circa USD 4.7) for each year the concession is granted.

In the case of the exploitation concession, the amount of the patent for each hectare consists of a progressive scale that increases according to the course of the years of the concession. It starts with fourth tenths (4/10) of a monthly tax unit, and goes up to twelve (12) monthly tax unit (circa USD 936).

Those properties that have begun the work and continue it, or that have not begun to work but have received an environmental license ("RCA") or have initiated an environmental impact assessment, will be subject to a specific rate per full hectare it comprises.

When the exploitation of the mine begins, Mining Patents are not deductible for tax purposes but can be treated as monthly provisional tax payments (i.e., as a credit), and also can be imputed against some specific tax obligations, provided that some legal requirements are met.

4.3.2. Specific Tax on Mining Operation

The Specific Tax on Mining Operation is levied on mining exploiters. It is applied over the operational mining income of the taxpayer.

Rate varies depending on the amount of the annual sales and the mining operational margin of the taxpayer.

- a) If annual sales are less than the equivalent of 12,000 refined copper tons: exempt.
- b) If annual sales are superior to the equivalent of 12,000 but less than the equivalent of 50,000 refined copper tons: from 0.5 to 4.5%; and
- c) If annual sales exceed the equivalent of 50,000 refined copper tons: effective rate varies from 5 to 14% depending on the mining operational margin. Mining operational margin is defined as the ratio of the net operating mining income divided by the mining revenues.

To determine the tax rate, it is important to consider that sales made by related entities are attributed to the taxpayer.

The refined copper ton value is informed on a yearly basis by the Chilean Copper Commission.

This tax must be filed and paid annually, although provisional monthly payments applicable toward the annual tax liability must be made at a 0.3% rate over monthly sales of the mining product. The advance payment rate may be adjusted year to year to consider the actual annual tax liability.

Additionally, the Specific Tax on Mining Operation is a deductible expense for CIT purposes.

The net operational mining income is determined on the basis of the net taxable income of the company for CIT purposes with the following adjustments:

Deductions

- ▶ Revenue not related to the sale of mining products
- ▶ Depreciation quota under the normal depreciation method
- ▶ Start-up expenses quota under a six-year amortization method
- ▶ Additions
- ▶ Expenses and costs associated with revenue not related to the sale of mining products
- ▶ Interests
- ▶ Net operating losses
- ▶ Depreciation quotas under the accelerated depreciation method
- ▶ Start-up expenses amortized in less than six years
- ▶ Payments made for the right to exploit the mining property owned by a third party and royalty or smelter rights paid in connection to the acquisition of the mining operation.

Holders of a Foreign Investment Contract as of December 1st, 2004, protected by a general tax stability and/or a tax stability under Article 11 bis of the Foreign Investment Statute (or DL 600) were not affected by this specific mining tax when it was introduced in 2006.

However, most of the largest mining companies that had tax stability regimes chose to waive this right and elect for the Article 11 and become subject to the Special Tax on Mining Activity at a 4% rate for 12 years.

Due to the modifications introduced by Law 20,469 in October 2010, holders of any stability regime reflected above were given the option to waive that stability regime and elect a new one that would imply a higher specific tax rate for 2010-12 (rates ranging from 4% to 9%) but would provide for an extended stability period of six years under the new rates (5% to 14%) from the moment that the original stability regime would have been considered ended.

According to public information available and given the respective stability terms included in the respective agreements between private companies and the State of Chile, up to 70% of the private mining production companies will lose their stability regimes during 2023.

4.3.3 Mining royalty bill

From 2018, a tax reform bill has been discussed in Chile to establish a new Mining Royalty for the mining industry.

According to the last draft of the bill, approved by the Energy and Mining Commission of the Senate in January 2023, there are certain distinctions to make, to determine the regime and tax rates involved for each respective mining company.

Tax rate is generally determined and based on the operating margin. The calculation of the operating margin considers the deduction of certain expenses (including depreciation of fixed assets but excluding start-up costs).

- ▶ Ad-valorem component. 1% ad-valorem tax rate shall apply to mining companies producing and selling more than 50,000 tons of fine copper. If the operating margin of the company is negative, this tax will not be payable.



- ▶ Margin component. The margin component will be differentiated depending on the sales and annual production of copper.
 1. Mining operators which income derives in 50% or more from copper sales and production is more than 50,000 tons of fine copper, will pay a tax rate that fluctuates between 8% and 26%. This will be determined based on the operating margin.
 2. Mining Operators which income derives less than 50% from copper sales, will be subject to the following tax rates based on their annual sales of fine copper:
 - ▶ Less than equivalent of 12,000 refined copper tons: Exempt.
 - ▶ More than the equivalent of 12,000 refined copper tons but less than 50,000: Tax rate fluctuates between 0.5% and 4.5%.
 - ▶ More than the equivalent of 50,000 refined copper tons: Progressive tax rates ranging between 5% and 14% that depends on the operating margin.

Mining operators shall apply the respective tax rates on the “Adjusted Mining Operational Taxable Income”, which considers the CIT taxable base of the company subject to certain adjustments.

The Mining Royalty is expected to be in force from January 1st, 2024. If so, the Specific Tax on Mining Operation would be repealed.

4.4

Incentives

There are no special tax incentives for the mining industry. However, there are some benefits generally established for all taxpayers. For instance, VAT refunds for exporters, tax incentives for investment and development, among others.

In this regard, Law 20,241 that “Establishes a Tax Incentive for Private Investment in Research and Development” (R&D Law), establishes a tax incentive for private investment in R&D that can be used by CIT taxpayers that declare their effective income determined according to full accounting records.

The modalities of this tax incentive could be: (a) R&D certified contracts with a registered research center; and (b) R&D in-house activities.

This benefit is in effect until 2025 and has the following characteristics:

- a) Tax credit imputable to the CIT, corresponding to 35% of the total disbursements in R&D projects duly certified by CORFO (in-house) or for payments to certified research centers. The maximum amount of the credit, per year and per each legal person or tax ID, cannot exceed 15,000 monthly tax units (approx. USD 1.2 million). This tax credit is non-refundable. However, it can be carry-forward indefinitely.
- b) Deduction as a tax expense of the remaining 65% of the R&D disbursements certified by CORFO for in-house activities or associated with R&D certified contracts entered with a registered research center, even if such disbursements are not necessary to produce income for the respective business (deductible in up to 10 years).

It should be noted that R&D projects may be carried out by taxpayers with their internal capacities or with third parties being able to associate for the presentation of such projects (subcontracting third parties to conduct the R&D). However, according to the Law, the only restriction is that at least 50% of these expenses must

correspond to activities carried out within the national territory.

An exceptional pre-step approval process is recognized in the Law through which taxpayers can file an affidavit before CORFO informing that they are keen to file a R&D project. According to this procedure, taxpayers would be able to prepare a project that must be filed within 18 months. As soon as certain formal and substantial requirements are met, all disbursements incurred from the date in which the affidavit was filed, would be counted for the tax incentives.

Tax incentives are claimed annually through the annual tax filings of the company. This form must be completed in April of the year following the year when the disbursement took place, to the extent the respective resolution from CORFO is issued.

Currently, there is a draft bill under discussion at Congress that proposes the following changes to the R&D Law:

- Makes the tax incentives permanent (currently until 2025).
- Increase the cap of the amount of this tax credit from 15,000 to 45,000 UTM (approx. USD 3.5 million).
- Eliminates the certified research centers.
- Allows Small and Medium Enterprises (SME) to get a refund of the tax credit in certain cases.
- Increases the percentage of the credit from 35% to 50% in case the R&D projects have a green positive impact or involve advanced human capital (i.e., PhD).

4.5

Foreign Investment Statutes

4.5.1 DL 600

The regulatory framework for foreign investment in Chile has been subject to different changes within the last years. In this regard, up to December 31st, 2015, the Decree Law 600 (DL600) was the main legal body for foreign investments' protection in Chile.

Law 20,780 repealed the Foreign Investment Statute regulated by the DL600 as of January 1st, 2016. Said statute allowed foreign investors to subscribe investment contracts with the State of Chile ensuring for a certain period a set of rights related with their investment, including tax stability.

The DL600 established a foreign investment regimen that provided access to the official foreign exchange market and offered, among others, the following benefits:

- ▶ Different type of tax stabilities.
- ▶ Nondiscrimination under articles 9 and 10 of the DL600.
- ▶ Alternative mechanism of calculating the tax basis in case of capital gains associated to foreign investments in Chile.
- ▶ Access to the formal exchange market.
- ▶ Among others.

Notwithstanding this regime was repealed, some of the rights granted by DL600 contracts (including the tax stability for mining taxes) are still claimable. The tax stability protection of many mining companies will end in 2023 according to the public information available.

4.5.2 New Foreign Investment Regime (Law 20,848)

The Law 20,848 was published in the Official Gazette on June 25, 2015, and regulates investments made by

any natural or legal person incorporated overseas, not residing or domiciled in Chile, whose investment is equal to or greater than USD 5 million, or the equivalent to said sum in other foreign currencies.

The application of the rights granted to foreign investors by this framework requires for the investment to be made in a Chilean company, granting the investor with the direct or indirect control over, at least, 10% of the company's voting shares or an equivalent percentage in the corporate equity, if it is not a stock-based company or in the assets of the respective entity.

To qualify as a foreign investor and access the rights available under this framework, it is necessary to request a certificate before the Agency for the Promotion of Foreign Investments.

According to the above, the Law provides a list of granted rights to the foreign investors, which can be described as follows:

- ▶ Overseas repatriation, at any time, of the invested capital and net profits once the applicable tax obligations have been fulfilled.
- ▶ Access to the Formal Exchange Market to liquidate currencies that comprise the investment and to acquire the necessary currencies to repatriate the invested capital and net profits.
- ▶ Non-discrimination right, whether directly or indirectly, according to the legal regime that is applicable to local investors.
- ▶ Right to VAT exemption in the import of capital assets, if they comply with certain special requirements and procedures.

It is relevant to consider that these regulations do not set forth the possibility that foreign investments can be granted with a tax stability regime, as was the case of the previous foreign investment regime established by the DL600.

4.5.3 Foreign Exchange Regulations of the Central Bank of Chile

Under the provisions of Chapter XIV of the Compendium of Foreign Exchange Regulations of the Central Bank of Chile (Chapter XIV), foreign investors may bring capital into Chile under the terms and considerations applicable to foreign loans, deposits, investments, and capital contributions for a total amount equal or higher than USD 10,000 that is transferred into Chile from abroad.

To that end, pursuant to the current foreign exchange regulations, all transfer of funds into Chile from abroad must be brought through the Formal Exchange Market if the amount involved in the operation is over USD 10,000 and be informed to the Central Bank of Chile.

Most of the reporting obligations are carried-out by the bank or financial company assisting in the transfer of funds through the Formal Exchange Market.





Business Legislation

5.1

Starting a business in Chile

Types of companies

Foreign investors can do business in Chile as individuals or through entities governed by the corporate and commercial laws. These entities include:

- ▶ Corporations (sociedad anónima or SA)
- ▶ Limited liability company (sociedad de responsabilidad limitada or SRL)
- ▶ Branch of a foreign corporation (agencia)
- ▶ Limited liability or silent company (asociación or cuentas en participación or sociedad en comandita simple or sociedad en comandita por acciones)
- ▶ Limited liability individual company (empresa individual de responsabilidad limitada or EIRL)
- ▶ Stock corporation (sociedad por acciones or SpA)
- ▶ Contractual mining partnership (sociedad contractual minera or SCM)
- ▶ Legal mining partnership (sociedad legal minera or SLM).

Foreign investors generally conduct business activities using the following types of entities.

5.1.1 Corporations (sociedades anónimas or SA)

Corporations are companies with a legal personality separate from that of its owners, which may be of three types: privately held, publicly held or special. Corporations are ruled by Law 18,046 on corporations (the Corporations Law) and by Decree 702 of the Ministry of Finance (2012) on corporations.

Publicly held and special corporations are subject to more regulation than privately held corporations and are under the supervision of the Financials Markets Commission, known as “Comisión para el Mercado Financiero” (CMF).

Publicly held corporations are those that have voluntarily or mandatorily registered their shares in the securities registry kept by the CMF.

The corporations that are obliged to register their shares are those that have one or more of the following attributes:

- ▶ They offer their shares to the public;
- ▶ They have 500 or more shareholders; or
- ▶ At least 10% of their subscribed share capital is held by a minimum of 100 shareholders (excluding individual shareholders that directly or indirectly exceed that percentage).

Special corporations are those that, whether they offer their shares to the public or not and regardless of the number of shareholders, are subject to the supervision of the CMF because of the particular purpose of their businesses. Examples of special corporations are insurance companies and mutual funds, among others.

Privately held corporations are not subject to supervision by the CMF.

The following are the main characteristics of a privately held corporation.

5.1.1.1 Number of members

The members or owners of a corporation are shareholders, and a corporation must have at least two of them.

5.1.1.2 Contributions

Contributions made by each shareholder to the corporation are represented by shares, which are freely transferable.

However, the bylaws of a privately held corporation may establish restrictions on the transfer of shares.

These restrictions are usually established in private agreements between two or more shareholders.

Shareholders' contributions may be in cash or other types of tangible or intangible assets.

Any contributions other than cash must be valued by an expert unless the shareholders unanimously agree upon its value. Contributions may not consist of a shareholder's services or labor.

5.1.1.3 Share capital

The bylaws must establish the specific amount of the company's share capital (it may not be variable or imprecise).

Chilean laws do not require a minimum share capital for the company to be incorporated, nor is it required to be totally or partially paid before the company begins operations.

However, the original share capital must be fully paid within three years of the incorporation of the company.

Otherwise, the share capital is reduced to the amount actually paid.

5.1.1.4 Shareholder liability

Shareholders are only liable up to the amount of the contributions committed by each of them to the corporation.

Shareholders are not liable for the corporation's liabilities, with some exceptions, such as those established in Law 20,393 on liability of legal entities with respect to the crimes of money laundering, financing of terrorism, and bribery.



5.1.1.5 Administration

Corporations are represented, managed and administrated by a board of directors whose members must be appointed by the shareholders in the first board meeting (interim directors may be appointed in the bylaws on the incorporation). The Corporations Law grants the board of directors the administrative authority necessary to develop the company's business. The only limitations are those stipulated in the company's bylaws, which are drawn up by the shareholders.

The board of directors may only act through meetings held in accordance with the Corporations Law. However, the board may delegate some of its authority to senior executives, managers or lawyers of the company, to one or more directors and, in the case of specific purposes, to others. The number of board members depends on the bylaws. However, a privately held corporation must have a minimum of three board members.

The bylaws must establish the term that the directors serve, which may not be longer than three years, after which the whole board must be reelected. Board members can be reelected indefinitely.

However, board members can be removed at any time by the shareholders (the only restriction is that the whole board be removed, not just certain directors).

Board members may or may not be compensated for their duties, depending on the bylaws. The amount of the compensation must be decided annually at the ordinary shareholders' meeting.

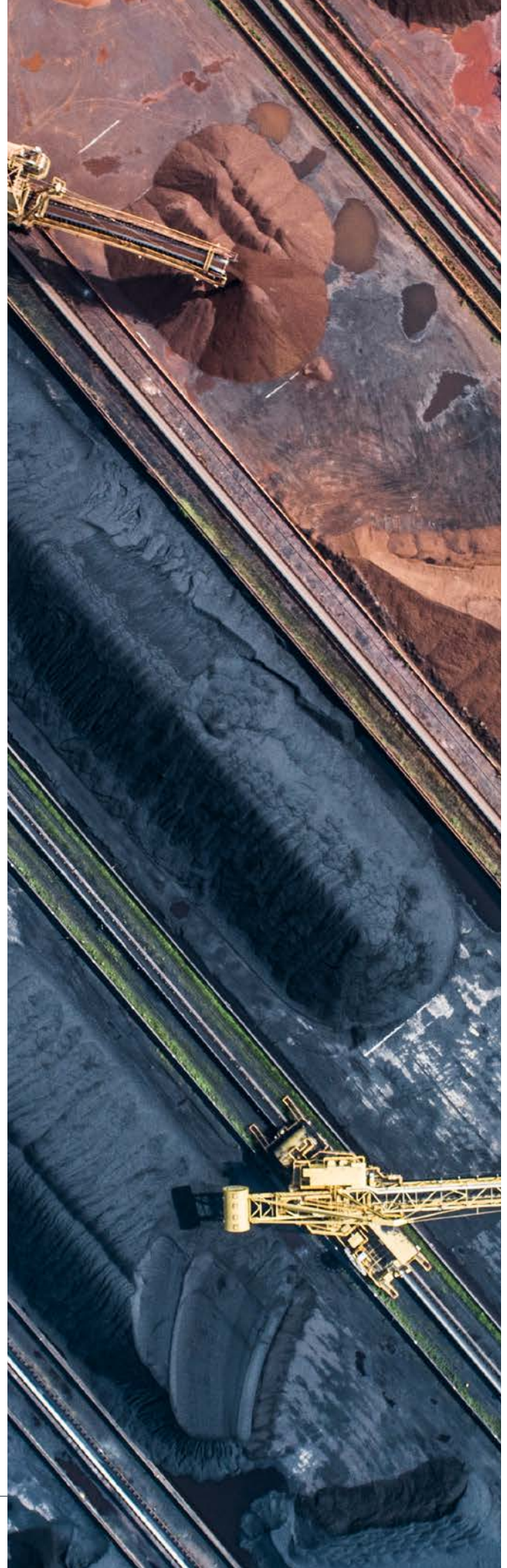
5.1.1.6 Incorporation

Corporations are incorporated by means of a public deed signed by the original shareholders before a notary public.

The deed must contain the bylaws. A summary of the deed must be registered in the Registry of Commerce where the company is domiciled and published in the official gazette within 60 days of signing the deed.

5.1.1.7 Amendment of the company's bylaws

Any amendment to the company's bylaws must be approved by a special shareholders' meeting held before a notary public. The minutes of this meeting



must be transcribed in a public deed and a summary must be registered in the Registry of Commerce and published in the official gazette within 60 days.

5.1.1.8 Dissolution and liquidation

A privately held corporation is dissolved by:

- Expiration of the term of the company
- The possession of all the company shares by one shareholder for more than 10 days
- An agreement at a special shareholders meeting
- A court judgment, if it is requested by shareholders representing at least 20% of the company's share capital; the shareholders must prove the existence of a "serious cause" for dissolving the company; this could be a violation of the law that causes damage to the company or its shareholders, bankruptcy of the company or fraudulent administration
- Other causes established in the bylaws

A dissolved corporation subsists as a legal entity during its liquidation, but only for the purpose of conducting the liquidation, with all its bylaws remaining in force. The words "en liquidación" (in liquidation) must be added to the company's name during this period and the entity is managed by a liquidation committee or by a sole person acting as the liquidator.

5.1.2 Stock corporations ("Sociedades por acciones" or SpA)

Stock corporations or SpA are companies with a legal personality separate from that of its owners. SpAs are ruled by Articles No. 424 to No. 446 of the Code of Commerce and by the SpA's own bylaws.

On all matters not expressly regulated by those, SpA are governed by the rules applicable to privately held corporations.

The advantage of the SpA is that it offers great flexibility in the determination of its corporate structure, since it is primarily ruled by its bylaws, which may be drafted to meet the particular needs of the company's owners. In addition, SpAs are the only legal entities in Chile that may be incorporated and exist with a single shareholder.

The following are the main characteristics of a SpA.

5.1.2.1 Members

The members or owners of a SpA are called shareholders and it may have just one shareholder or more. However, if for more than 90 consecutive days, the company has 500 or more shareholders or, if at least 10% of its subscribed share capital is held by a minimum of 100 shareholders (excluding individual shareholders exceeding that percentage), it automatically becomes a public corporation.

5.1.2.2 Contributions and share capital

Contributions made by each shareholder to the SpA are represented by shares, which are freely transferable. However, the bylaws may establish restrictions on the transfer of shares. The SpA's bylaws may establish a maximum or minimum amount or percentage of the share capital that may be directly or indirectly controlled by one or more shareholders.

Shareholder contributions follow the same provisions as a privately held corporation, unless the SpA's bylaws state otherwise.

As with corporations, the bylaws must establish the specific amount of the company's share capital (it may not be variable or imprecise), a minimum share capital is not required for the company to be incorporated, nor is it required to be totally or partially paid before the company begins its operations.

However, it must be fully paid within 5 years, or the lesser time frame established in the bylaws, or the share capital will be reduced to the amount actually paid.

5.1.2.3 Shareholder liability

Shareholders are only liable up to the amount of the contributions committed by each of them to the SpA.

Shareholders are not liable for the SpA's liabilities, with some exceptions such as those established in Law 20,393 on liability of legal entities with respect to the crimes of money laundering, financing of terrorism and bribery.

5.1.2.4 Administration

The owners may freely choose the SpA's administration system. For instance, the administration may correspond to one or more managers, with or without a board of directors, with simultaneous or subsidiary administrators or managers. The only requirement is that the administration system be established in the company's bylaws. Otherwise, the company by default has the same administration as a privately held corporation.

5.1.2.5 Incorporation

SpAs may be incorporated in either of the following ways:

- ▶ Through a public deed agreed upon by the original shareholders before a notary public, which must contain the bylaws of the company; or
- ▶ Through a private instrument agreed upon by the original shareholders, whose signatures be authorized by a notary public.

This private instrument must contain the company's bylaws and be registered in the public record of the same notary public that authorized the signatures of the original shareholders.

Within 30 days following the date of the public deed or of the registration of the private deed in the notary's public record, as applicable, an authorized abstract must be recorded in the Registry of Commerce corresponding to the company's domicile and published in the official gazette.

5.1.2.6 Amendment of the company's bylaws

Any amendment to the SpA's bylaws must be approved at a shareholder's meeting. The minute of this meeting must be reduced into a public deed or registered in a notary's public record. It is not necessary to hold a shareholders meeting, if the totality of the shareholders agree upon the amendment and it is documented in a public deed or a private instrument, in which the signatures of the shareholders are authorized by a notary public, registered in a notary's public record.

An authorized abstract of the deed or instrument with the amendment must be registered in the Registry of Commerce and published in the official gazette within

30 days following the date of the public deed or of the registration of the private deed in the notary public's record.

5.1.2.7 Dissolution and liquidation of a SpA

The same rules for the dissolution and liquidation of a privately held corporation apply to the SpA, unless the bylaws state something different. The only exception is that SpAs are not dissolved when all of their shares are held by only one shareholder, unless otherwise is established by the bylaws.

As for the liquidation of the company, the shareholders are free to rule in the bylaws the system of liquidation they deem appropriate.

5.1.3 Limited liability companies ("Sociedad de Responsabilidad Limitada, SRL")

Limited liability companies or SRLs are companies with a legal structure separate from that of its owners, and they are regulated by Law 3,918 and by some provisions in the code of commerce and the Chilean civil code.

5.1.3.1 Number of members

The SRL members are called partners, which must be at least 2 and a maximum of 50.

5.1.3.2 Equity capital and contributions

Partners' contributions may be in cash, assets or services. Contributions other than cash must be valued and agreed upon unanimously by the partners.

A partner's ownership is represented by equity rights, which may only be transferred through an amendment of the company's bylaws and approved by the totality of the partners.

5.1.3.3 Partners' liability

Partners are only liable up to the amount of the contributions committed by each of them to the SRL. In this respect, the general principle is that partners

are not liable for the company's liabilities, with some exceptions such as the ones established in Law 20,393 on liability of legal entities with respect to the crimes of money laundering, financing of terrorism and bribery.

5.1.3.4 Transfer of equity rights

The partners' ownership in an SRL is represented by equity rights or interests equivalent to percentages of the company's equity capital. These rights are not freely transferable by each partner, since these may only be transferred through an amendment of the company's bylaws, which requires the unanimous consent of the company's partners.

5.1.3.5 Administration

The partners may freely choose how the administration is organized. For instance, the company's administration could be given to one or more managers (who could be partners or third parties, individuals or legal entities) or to a board of directors. The only requirement is that the system of administration be established in the company's bylaws.

Except for some specific activities, the manager or administrative body will only have the specific authority granted by the bylaws. The manager or administrative body may delegate its power to act on behalf of the company to one or more attorneys.

5.1.3.6 Incorporation

SRLs are incorporated by means of a public deed agreed upon by the original partners before a notary public, which must contain the bylaws of the company.

Within the 60 days following the date of the public deed, an authorized abstract of this public deed must be recorded in the Registry of Commerce corresponding to the company's domicile and published in the official gazette.

5.1.3.7 Amendment of the company's bylaws

Any amendment to an SRL's bylaws shall be made by means of a public deed executed by all the company's partners. An abstract must be registered in the Registry of Commerce and published in the official gazette within 60 days of the date of the public deed.

5.1.3.8 Dissolution and liquidation of an SRL

An SRL is dissolved by the following events:

- Expiration of the term of the company
- Conclusion of the business for which the company was incorporated
- Declaration of bankruptcy
- Agreement of all the company's partners
- Possession of all the company's rights in one person
- Any other event established in the company's bylaws

A dissolved SRL subsists as a legal entity during its liquidation, but only for the purpose of conducting the liquidation. During this period all the applicable provisions of the bylaws remain in force.

5.1.4 Branches of foreign corporations

The incorporation of a Chilean branch of a foreign corporation is regulated by the Chilean Corporation Law, whereas the incorporation of a Chilean branch of a foreign company or legal entity, different than a corporation, is regulated by the Code of Commerce. Both statutes establish very similar rules.

When considering whether to incorporate a branch, it must be noted that unlike companies (such as a corporation, an SRL or a SpA), branches of foreign companies are not considered a different entity from the foreign company that owns the relevant branch. Therefore, the foreign entity is fully responsible for all the acts performed by its Chilean branch; it may not contract with the branch, and the branch may not be merged, spun-off, etc.

5.1.4.1 Establishment of a branch

According to the foreign branch regulations, in order for a foreign company or legal entity (the "parent company") to establish an agency in Chile, its agent or representative (the "agent") must register in the public record kept by a notary of the same domicile that the branch will have in Chile, both in Spanish and in the official language of the country of the parent company, the following legalized documents:

- ▶ Articles of association of the parent company, together with a certificate of good standing.
- ▶ Authorized copy of the updated bylaws of the parent company.
- ▶ General power of attorney granted by the parent company to the agent through public deed granted on the same date and before the same notary that registered the above documents in their public record. The agent should declare on behalf of the parent company, the following:
 - The name and business purpose of the branch
 - That the parent company knows the Chilean legislation and regulation that will apply to it and to its branch, actions, agreements and obligations
 - That the parent company's assets will be subject to Chilean Laws to fulfill the obligations for which it is liable in Chile
 - That the parent company assumes the obligation of keeping in Chile assets that can be easily converted into cash, to fulfill the obligations for which it is liable in Chile
 - The amount of capital that it will keep in Chile for the development of its business purpose, and the date and way in which this capital will be contributed to the branch
 - The branch's domicile in Chile.

Within the following 60 days, an authorized abstract of both the parent company's documents that were registered in the notary's public record and the referred public deed, shall be registered in the Registry of Commerce of the branch's domicile and published in the official gazette.

To amend any of the above documents or statements, the agent will have to follow the same steps previously described.

5.1.4.2 Administration

The branch is managed by the agent. Such agent is obliged to publish the annual financial statements of the branch in a newspaper of the branch's domicile, within four months of its financial year-end.



5.2

Special legal vehicles for mining

For the exploration or exploitation of mineral resources, the parties may establish companies and legal entities of those treated and regulated in other codes or special Laws, as the ones mentioned before, or they may also constitute mining companies as referred to in the Mining Code (Law 18,248 of 1983), which are divided into:

- Legal mining partnerships: created not by the agreement of the parties but when specific factual circumstances are met
- Contractual mining partnerships: created because of a contract

5.2.1 Legal mining partnership (“Sociedad Legal Minera”, or SLM)

An SLM is a legal vehicle conceived to grant legal personality to mining rights registered by more than one person.

The SLM is created by its enrollment in the Public Mine Register, following the inscription of the “Conservador de Minas”.

The company’s equity corresponds to the mining rights registered under its name (although it can be increased later on).

The capital is divided into 100 shares, allocated in the proportion in which the mining rights are held. The shares can be freely traded. The partners are liable for the amount of their corresponding contribution. It is administrated by a partnership board (“*Junta de socios*”) and an administrator.

5.2.2 Contractual mining partnership (“Sociedad Contractual Minera” or SCM)

If the parties do not register their mining rights together, they can form an SCM. In such a case, they must also comply with some formalities, such as a public deed, whose abstract must be enrolled in the Public Mine Register.

Their capital is divided into shares.

Regarding third parties, partners are liable for the amount of their corresponding contribution, but they will respond with their own assets for the contributions they agreed upon in the bylaws. Administration is freely determined by the partners, and it is usually organized as a corporation. The rules of the legal mining partnership shall apply to those matters not covered by the bylaws.

5.3 Joint ventures

Chilean Law does not categorize joint ventures. They are equivalent to de facto associations of individuals or entities.

5.4 Structures most often used by foreign investors

The structures most often used by foreign investors include corporations, wholly owned stock corporations and limited liability companies.

A branch is generally not used because a foreign company remains liable for the debts of its Chilean branch.

5.5 Customs Duties

5.5.1 Valuation and rates

Imported goods are subject to customs duties, expressed as percentages of their cost insurance freight (CIF) value, or to ad valorem customs taxes. Specific duties expressed in US dollars per unit of weight or measures are levied on certain goods.

The general rate of customs duties is 6%. However, given the number of commercial agreements currently in force (with more than 60 nations) the effective custom rate is under 1%.

The payment of customs duties may be deferred up to seven years on imported capital goods intended to produce export goods, if the importer signs a promissory note that guarantees payment of the customs duties. In addition, some capital goods are also exempted from customs duties.

5.5.2 Free-trade zones

Chile has free-trade zones, which provide certain benefits as described below.

Since 1975, free-trade zones have been set up and operate in the north and south of the country (Iquique and Punta Arenas, respectively).

While imported merchandise remains in the free-trade zones, no VAT or customs duties are applicable. Free-trade zones can be used for different purposes such as storage, sampling or exhibition, packing, sales, manufacturing and assembling.

Sales and services provided in free-trade zones are exempt from VAT and profits are exempt from the First Category Tax (FCT). There is no reduction or exemption for the case of the final taxes. Some of the free-trade zone benefits have been extended to the cities of Arica and Tocopilla, in the north of Chile.

5.5.3 Temporary admission and bonded warehouses

Temporary admission of certain goods, including foreign vehicles, machines, containers and cinema and television films, is allowed subject to terms and conditions determined by the customs authorities. A guarantee for the corresponding customs duties is normally required.

Foreign goods may be stored in bonded warehouses without paying customs duties until their formal import. The customs authorities control the bonded warehouses and may also designate a national factory or an industrial establishment as a bonded warehouse for raw materials and components for manufacturing.

5.5.4 International trade agreements

The main agreements executed by the Chilean State in order to gain access to international markets are the following:

- ▶ Andean Community (CAN): Chile benefits from the free-trade zone established by this agreement for its member countries (Bolivia, Peru, Colombia and Ecuador).
- ▶ Chile is a member of the Latin American Integration Association (ALADI), which promotes the economic and social development of the region with a view toward establishing a Latin American common market. The ALADI has preferential regional tariffs, regional agreements and agreements between particular member countries. Other members of the ALADI include Argentina, Bolivia, Brazil, Colombia, Ecuador, México, Paraguay, Peru, Uruguay and Venezuela.
- ▶ The European Free Trade Association (EFTA): In 2004, Chile signed a free-trade agreement (FTA) with this association constituted by Norway, Switzerland, Lichtenstein and Iceland.
- ▶ In 1976, Chile withdrew from the Cartagena Agreement (Andean Pact), but it continues to comply with certain decisions of the pact.
- ▶ Chile is a member of the General Agreement on Tariffs and Trade (GATT) and the Asia Pacific Economy Cooperative (APEC).

- ▶ Chile is associated with the Common Market of the South (Mercado Común del Sur or Mercosur).
- ▶ Chile has subscribed an association agreement with the European Union. Also, as of January 1st, 2021, there is an association agreement with the United Kingdom. The purpose of this convention is to obtain benefits from the financial environment, which, in general terms, translates in placing 90% of Chilean exports to the European market at zero rates in eight years at the utmost. In addition to progressively opening the country's economic relations by means of a free-trade zone for industrial and agricultural products, an investment agreement, competition rules, industrial property, etc.
- ▶ Chile has an association agreement as part of P4 group, formed by New Zealand, Singapore and Brunei Darussalam.
- ▶ Chile signed an FTA with South Korea in 2003 by eliminating customs duties on vehicles, television sets, cellular phones, computers manufactured in South Korea. Likewise, the tariffs affecting parts and spare parts of vehicles will also be eliminated within five years.
- ▶ Chile signed an FTA with the US in January 2004, allowing for 87% of the national products to reach that country at zero rates.
- ▶ An FTA was signed with China in 2005, with 1-, 5- and 10-year terms to eliminate custom tariffs on many products that this country exports to Chile. Also, many Chilean exports to China have terms of 1, 2, 5 and 10 years to eliminate tariffs.
- ▶ An FTA was subscribed with Japan in 2007 that eliminated 90% of tariffs of bilateral commerce between both nations.

Chile also has FTAs with the following places: Hong Kong, Vietnam, Malaysia, Turkey, Australia, Panama, Japan, China, Canada, Mexico, South Korea, Central America (Costa Rica, Salvador, Guatemala, Honduras, Nicaragua), Peru, Colombia, Argentina, Uruguay and Brazil.

5.6

Labor Legislation

5.6.1 Chilean labor contracting system

In Chile, labor relations between employees and employers are governed by Chilean labor laws, mainly contained in the Labor Code, which regulates the employment relationship between worker and employer, the employment contract, the various types of contracts, and the rights and obligations that emanate from the employment relationship for both parties, among others.

Article 7 of this Code defines the individual employment contract as “an agreement by which the employer and the employee reciprocally commit the latter to render personal services under the dependence and subordination of the former, and the former to pay a determined remuneration for these services.”

5.6.2 System applicable to all employees, whether national or foreign

Employment contracts can be classified based on their temporality. In this sense, there are three types of employment contracts:

5.6.2.1 Indefinite Contract

It is one whose term has not been previously fixed by the parties, being this type of contracting the general rule in this country. In this type of contract, a certain date or term of duration is not established, and the employment relationship can only be terminated by the application of certain causes contained in the Labor Code, generating relative stability for the employment.

5.6.2.2 Fixed Term Contract

It is one where the worker and employer enter an employment contract for a certain time, with a precise termination date. It has a maximum duration of one

year and exceptionally two years for managers or people who have a professional or technical degree granted by a higher education institution. The fixed term contract can be renewed for a single time. In case it is renewed for a second time, it will be automatically transformed into an indefinite contract. The same applies when the worker, with the knowledge of the employer, continues to provide services after the expiration of the agreed term or in the case when the worker has provided discontinuous services under more than two term contracts, for twelve months or more, in a period of fifteen months from the first hiring.

5.6.2.3 Contract for a Specific Work or Chore

In this case the duration of the contract will depend on the nature of the services for which the worker was hired and not on a term established by the parties. It is characterized by its short duration. Examples of these types of contracts are those in which the worker undertakes to execute a specific and determined material or intellectual work, whose validity is limited or limited to the duration of said work.

As regards the nature of the services provided by the worker, national legislation provides for other types of employment contracts, so-called “special”, in addition to regulating the outsourcing of labor and collective labor relations (trade unions and collective bargaining).

The Labor Code establishes that the employment contract is of a consensual nature, sufficing only the will of the parts for improvement.

Thus, when in a relationship the constituent elements of the employment contract concur, that is, the provision of personal services under subordination and dependence, said relationship will be of an employment nature.

Notwithstanding the foregoing, the law sets a deadline for the certification of the employment contract, a term

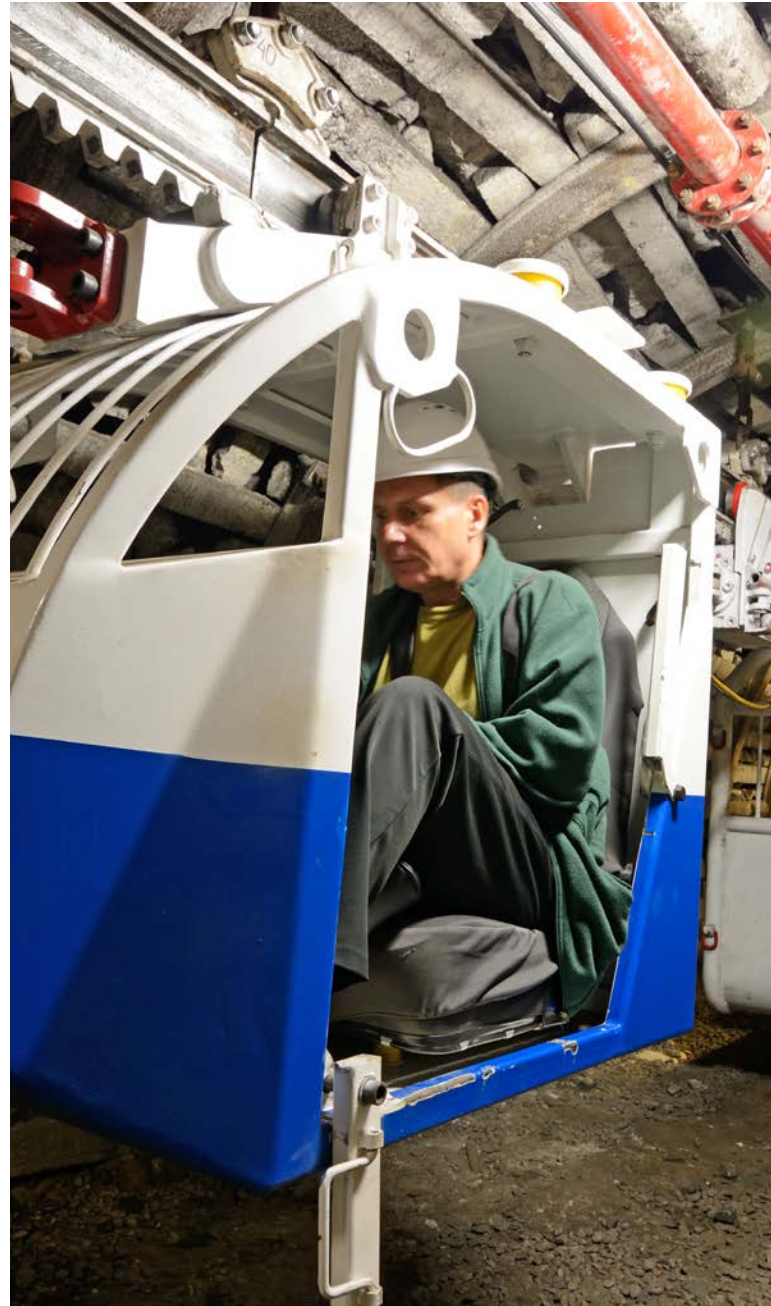
that will depend on the duration of the contract. In this regard, it should be noted that the certification of the contract is a formality that allows to prove the clauses agreed by the parties and constitutes an obligation of the employer sanctioned with administrative fines, without prejudice to which the contract maintains its consensual nature.

5.6.3 Principles governing employment

In Chile, employees dependent on an employer are entitled, among others, to the following mandatory and non-waivable employment benefits:

- ▶ **Holidays or vacation:** Employees with more than one year of service are entitled, as a rule, to an annual holiday of fifteen working days with full remuneration.
- ▶ **Distribution of profits in favor of employees or gratuities:** Companies that in accordance with the law must grant gratification, must distribute a percentage of their profits among all their employees. The employer, in order to comply with this obligation, may choose between two alternatives contemplated by law: a) distribute among the employees 30% of the liquid profits of the company, with some adjustments, or b) pay the employees 25% of their remuneration accrued in the respective business year, with a maximum limit of 4.75 minimum monthly wages per worker, independent of the liquid profits obtained. Likewise, the parties could agree or implement contractual systems of gratification, only if they are more favorable than the minimum established in the law.
- ▶ **Social security:** According to the Chilean social security system, all dependent employees have the obligation to contribute to the social security system.

The Chilean pension system includes mandatory contributions of 7% of the monthly remuneration for



health insurance (ISAPRE or FONASA) and 10% of the monthly remuneration for the pension fund (AFP) including a commission that varies according to each administrator.

For 2022 and 2023, both contributions have a monthly remuneration of CLF 81.6 as a taxable limit, which is readjusted annually according to the variation of the real remuneration index.

Additionally, there is a compulsory contribution for the invalidity and survivors' insurance of employees, equivalent to 1.55% of the taxable remuneration; the contribution for insurance against accidents at work and occupational diseases, whose basic rate is 0.90% and which can be increased up to 3.4% depending on the risk of the activities carried out by the company, and the contribution for insurance for the accompaniment of children, also called "SANNA Law", which is 0.03%. All these contributions are borne by the employer and have as a taxable limit a monthly remuneration of CLF 81.6.

There are also contributions for unemployment insurance, under which the worker contributes 0.6% of the gross monthly remuneration and the employer contributes 2.4% of it. For the years 2022 and 2023, the gross monthly remuneration that serves as the basis for these contributions has a monthly limit of CLF 122.6.

It should be noted that the distribution indicated only applies in cases where the employment contract is indefinite, varying in the case of contracts subject to term.

5.6.4 Taxes levied on wages

The general rule on the taxation in Chile of personal income is contained in Article 3 of the Income Tax Law, which states that "(...) Unless otherwise provided in this law, any person domiciled or resident in Chile shall pay tax on their income of any origin, whether the source of entry is located within the country or outside it, and persons not resident in Chile shall be subject to taxes on their income whose source is within the country." Notwithstanding the foregoing, during the first three years of stay in the country, foreign individuals are only taxed on their income from Chilean sources, considering income from Chilean sources that which is derived from

assets located in Chile or from activities carried out in the country.

According to the Chilean Tax Code, a resident is a person who remains in the country, uninterrupted or not, for a period or periods that in total exceed 183 days (about 6 months), within any period of twelve months.

For its part, the concept of domicile is defined in article 59 of the Civil Code, which establishes that this is "the residence, accompanied by the intention to remain in it". There are certain facts that allow to presume the above, such as being hired by a Chilean company or residing in Chile with the family, which is analyzed on a case-by-case basis by the Internal Revenue Service ("SII").

The remuneration received by a domiciled or tax resident for the provision of their services in Chile is classified as "income from dependent work" and is affected by the Second Category Single Tax ("IUSC"), on a monthly basis, which is established in progressive rates per tranche ranging from 0% to 40%.

The income received by taxpayers without domicile or residence in Chile will be affected by the Additional Tax, as a single one, whose general rate is 35%, applying lower rates in special circumstances that are regulated in current national regulations. This tax does not allow deductions.

5.6.5 Working hours

The general rule is that employees should not work more than 45 hours a week. Under exceptional circumstances, it is possible to agree on overtime, which cannot exceed 2 hours per day and must be authorized by the employer only for the attendance of temporary situations in the company. The overtime hours must be paid at the regular hourly rate, with a 50% increase.

The weekly work schedule must be distributed in no less than 5 days, not more than 6. The normal working day shall be continuous and shall not exceed 10 hours. Employees are entitled to at least half-an-hour break during their working day.

There are some employees that are exempted from the maximum weekly hours limit mentioned above;



for example, employees that render services for more than one employer, managers, administrators, representatives with management attributions, and all employees that work without immediate monitoring by a superior, salespersons, insurance agents, etc.

Sundays and holidays are rest days, except for certain activities in which working schedule may include those days as long as they are compensated according to special rules established in the Chilean Labor Code.

Additionally, given the nature of the services provided (e.g., mining activities), there are some exceptional working schedules that requires authorization by the Chilean Labor Authority to be implemented. These exceptions may include 7x7, 4x4 and 4x3 work shifts.

5.6.6 Labor unions

Labor unions will exist in a private sector company when they are created by virtue of a voluntary act of the employees (members) in accordance with the formalities, procedures and quorums required by law.

In general terms, legally constituted unions have the power to bargain collectively according to certain procedure rules. If the union starts this type of collective bargaining, the employer would be obliged to engage in that bargaining. Notwithstanding that, collective bargaining could also be voluntary initiated between one or more employers and one or more unions at any time and without restrictions of any nature.

According to the Chilean Labor Code, a collective bargaining agreement is a contract between employers and employees to establish common working conditions and remuneration (or other benefits in kind or in money) for a certain period of time in accordance with the rules provided in the Labor Code. Parties are free to agree on the conditions they freely decide, provided that the rights and obligations established by labor legislation are not infringed.

Finally, it is important to note strikes are common and allowed by Chilean law; however, the exercise of the right to strike is expressly regulated and subject to certain requirements and conditions.

5.6.7 Subcontracting and Transitory Service Providers

In Chile there is a specific legal framework mainly provided by the Law 20,123 that regulates the labor aspects of the two types of outsourcing regimes that exist in the country: a) Subcontracting regime, and b) transitory services regime.

A subcontracting regime consists of a company (contractor) that renders services with its own employees at its own expense and risk, at a client's premises, work or operation. Even though there is no labor relationship between the client (principal company) and the contractor's personnel, the first one will be jointly and severally liable for any and all unpaid labor and social security obligations of the contractor, unless it exercises certain rights according to the Chilean Labor Code ("right to information" and "withholding right").

Regarding the transitory services regime, it is important to note that personnel supply is not allowed under the Chilean labor laws, unless the user company (client) engages with a legal entity duly registered with the Labor Authority as a "Transitory Service Provider" (also known as EST) and only in exceptional time-bound circumstances that are established by the Labor Code.

5.6.8 Expiration or termination of the employment relationship

In Chile, the employment system gives relative stability regarding the termination of employment contracts. This means that to terminate an employment contract there must be a legal cause for it. The grounds are grouped into two main groups: those that generate a mandatory severance payment and those that do not:

► Causes for termination of the employment contract that do not generate the right of a mandatory severance payment: They derive from the decision of the parties or by natural causes, such as mutual agreement, death of the employee, expiration of the term of the contract or resignation of the employees.

Other grounds for termination that do not give rise to the obligation of severance payment include employee misconduct, such as lack of probity, sexual harassment, immoral conduct, incompatible negotiations, and, in

general, any conduct that may represent an intentional violation or serious breach of employment obligations.

However, when the employment contract ends while the worker has accrued legal holidays of which he has not made use, such a holiday must be compensated by the employer, regardless of the cause of termination.

► Causes for termination of the employment contract that generate the right to a severance payment and compensation in lieu of prior notice: The employer may unilaterally terminate labor relations, based on the needs of the company, such as those derived from the upgrading of services, a decrease in productivity, changes in the economy or in market conditions that may generate the need for a reduction in the number of employees. In the case of employees who have the power to represent the employer, such as managers or agents with general management powers, the employment contract may be terminated without the need to invoke any cause.

Additionally, there is compensation for dismissal and removal of immunity for a situation affecting the employer, established in article 163 bis of the Labor Code, on bankruptcy liquidation proceedings.

As for compensation for years of service, the conditions for its payment are that the employment contract has been in force for more than one year and the employer terminates it by application of the aforementioned grounds. The employer must pay a monetary compensation to the worker, equivalent to 30 days of the last monthly remuneration of the worker, with a limit of CLF 90 for each year of service or fraction greater than six months, with a maximum of 330 days or 11 months.

In addition, when the employer terminates the employment contract invoking company needs or eviction, it requires giving prior written notice to the worker at least 30 days in advance. If notice is not given, the employer must pay a substitute indemnity for the prior notice, equivalent to 30 days of the last remuneration, within the limits and conditions described above.

5.6.9 Legal considerations regarding foreign employees

When establishing an employment relationship with a foreign employee, the following should be considered:

5.6.9.1 Quotas

At least 85% of employees serving the same employer must be Chilean nationals. Employers with no more than 25 employees are exempt from this provision. For the purposes of this percentage, the following rules will be followed: (1) the total number of employees that an employer utilizes within the national territory will be taken into account and not that of the different branches separately; (2) the specialist technical staff is excluded (it must be proven by the employer before a possible inspection); (3) a foreigner whose spouse, civil partner or children are Chilean or who is a widower of a Chilean spouse shall be counted as Chilean and; (4) foreigners residing for more than 5 years in the country will be considered as Chilean.

5.6.9.2 Social Security

The Law 18,156 allows foreign technical employees to exempt themselves from contributing to Chile for the coverage of pension and health funds (maintaining in any case their obligation to contribute to unemployment insurance, occupational accident insurance and SANNA Law), provided that the following requirements are met, copulatively:

- ▶ The foreign worker must hold the status of “technician”, at least.
- ▶ The foreign worker must be affiliated to a social security or social security system outside Chile, which grants benefits at least in cases of illness, disability, old age and death.
- ▶ The employment contract must contain a clause relating to the maintenance of the worker’s affiliation to the social security system outside Chile.

It should be noted that foreign employees could also choose to avail by the social security agreements that are applicable between Chile, the worker’s country of origin and/or the country of provision of services. Currently, Chile maintains international social security

agreements with the following countries: Argentina, Australia, Austria, Belgium, Brazil, Canada, Colombia, Czech Republic, Denmark, Ecuador, Finland, France, Germany, Luxembourg, Norway, Paraguay, Peru, Portugal, Quebec, Republic of Korea, Spain, Sweden, Switzerland, United Kingdom, Uruguay, in addition to the existence of an Ibero-American Multilateral Agreement.

5.6.10 Immigration regulations

In the area of migration, it should be noted that the Law 21,325 of Migration and Aliens, regulates the entry, stay, residence and exit of foreigners from the country, as well as the exercise of rights and duties, without prejudice to those contained in other legal regulations.

Under the applicable immigration regulations, every foreign worker requires a special work permit or visa to carry out remunerated activities in the country. This implies having a permit granted by the competent authority, stamped on a valid passport, and that authorizes its bearer to enter the country and stay in it for the time determined and with the corresponding conditions according to the respective visa.

Regarding the rights and obligations of foreigners, equal rights and obligations are enshrined. It is also stipulated that the State shall promote due protection against discrimination and shall ensure compliance with the obligations stated in the Political Constitution of the Republic.

The law and its regulations determine the procedure for accessing residence or permanence permits, including data, documents and deadlines in which they must be submitted, as well as the specific requirements for obtaining them. The norm establishes the following migratory categories:

5.6.10.1 Temporary permanence

It is the permit granted by the National Migration Service to foreigners who enter the country without intention of settling in it, which authorizes them to remain in national territory for a limited period of 90 days, extendable for the same period only once, except cases of force majeure. Foreigners with temporary permanence will not be able to carry out remunerated activities in the country, except in qualified cases.



5.6.10.2 Official Residence

It is the residence permit granted to foreigners who are on an official mission recognized by Chile, and to their dependents. The granting and rejection of this residence permit shall be the responsibility of the Ministry of Foreign Affairs.

5.6.10.3 Temporary residence

It is the residence permit granted by the National Migration Service to foreigners who intend to settle in Chile for a limited time, and which enables them to carry out remunerated activities in the country. This permit is valid for up to 2 years, except in the case of seasonal employees, in which case it may be valid for up to 5 years when limited annual stay periods are established. This permit may be extended for up to two additional years.

5.6.10.4 Definitive residence

It is the permission to settle indefinitely in Chile, which authorizes to develop any lawful activity, without other limitations than those established by the legal and regulatory provisions. Permanent residence may only be granted to foreigners holding a temporary residence permit that expressly admits to applying for it and that complies with the requirements of the law, regulation, and supreme decree that establishes the subcategories. Holders of a definitive residence permit will not require prior authorization or visa to enter the country.

It should be noted that within each migratory category there are subcategories which determine the specific reason why a foreigner will enter and remain in Chile.

Finally, it is important to note that employers may only hire foreigners who have a residence or permanence permit that allows them to work or who are duly authorized to do so in accordance with the law.

5.6.11 Law on Remote Work and Telework

On April 1st, 2020, Law 21,220 became effective. It "amends the Labor Code on Remote Working," regulating its definition, working hours, rest periods, means and protection.

According to this law, remote working is work in which services are provided, either totally or partially, from the employee's home or another place or places other than the company's premises. It will be called Teleworking if the services are provided by the use of technological, IT or telecommunication means or if such services are to be reported through these means.

As a rule, remote working is subject to specific working hours. However, the regulations allow for more flexible working hours or even the exclusion of the working day limit in the case of teleworking. In such cases, the employee will have the right to disconnect from work for at least twelve continuous hours in a twenty-four-hour period, among other benefits.

The parties must agree on Remote Working or Teleworking in the employment contract or annex to the same, including special clauses required by the same regulation.

The employer will provide the equipment, tools and materials for Remote Working or Teleworking to the employee. Likewise, the costs of operation, functioning, maintenance and repair of equipment shall also be paid by the employer.

The specific safety and health conditions to which employees governed by the modality of remote work and telework must be subject are established by the Regulations of the Ministry of Labor and Social Welfare contained in the Decree No 18, published in July 2020, and in accordance with it, it is the employer who must communicate these safety and health conditions to employees, ensuring compliance.

5.6.12 Law on Modernization of the Labor Office

On April 30, 2021, Law 21,327 was published in the Official Gazette, which aims to modernize the Labor Office (DT) through the incorporation of new technologies and digitization of procedures.

One of its most important points is the Electronic Labor Registry, through which employers must register on the DT website all employment contracts, terminations of employment contracts and all documentation that is requested in its regulation -such as annexes of employment contracts, remuneration, Internal Regulations of Order, Hygiene and Safety, sanctions



against employees, collective instruments, among others.

This information will be used for the exercise of the legal powers of the Labor Office, such as audits, conciliations, mediations and ratification of settlements. It may also be used for statistical, research and dissemination purposes carried out by the Internal Revenue Service.

5.6.13 Other recent labor regulations

There are other matters that have recently been introduced or modified in the Chilean labor legislation, among which are the following:

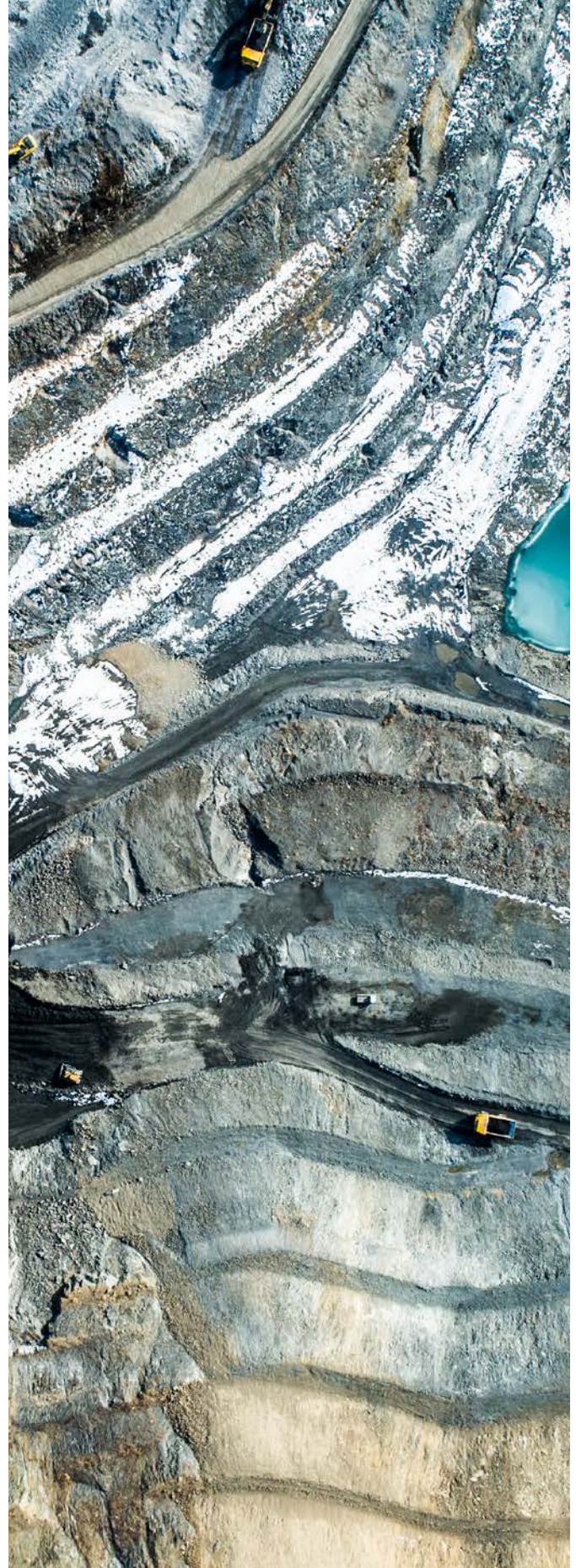
- a) Law that readjusts the amount of the minimum monthly income: The monthly minimum wage for employees between 18 and 65 years is CLP \$ 410,000, and it could be adjusted in May 2023.
- b) Universal Guaranteed Pension Law: The law establishes a guaranteed pension to which people who are 65 years of age or older may access, if they meet the other legal requirements, regardless of whether they are entitled to a pension or even whether they have retired or not. The amount of this benefit will amount to a maximum of CLP \$185,000.
- c) Law prohibiting employment discrimination against mutations or alterations of genetic material or genetic tests: The law establishes that no employer may condition the hiring of employees, their permanence or the renewal of their contract, their promotion or mobility in their employment, to the absence of mutations or alterations in their genome that cause a predisposition or a high risk to a pathology that may manifest itself during the course of the employment relationship, nor require for these purposes any certificate or examination that allows to verify that the worker does not have in his human genome mutations or alterations of genetic material that may lead to the development or manifest in a disease or physical or mental anomaly in the future.
- d) Law on electronic documents: The norm regulates electronic documents and their legal effects, the use of electronic signatures in them, the provision of certification services of these signatures and the accreditation procedure to which the providers of said certification service may be subject, to guarantee security in their use.
- e) Electronic labor documents law: Grants validity and regulates the subscription of the labor settlement, the resignation of the worker and the mutual agreement of the parties through electronic means.
- f) Law that establishes the modality of remote work or telework for the care of children and people with disabilities, in the cases indicated: The law establishes the possibility that the worker who has in his or her personal care a child in the preschool stage, a child under 12 years of age before the closure of a basic education establishment, or people with disabilities, may pact with their employer to telework under certain conditions.
- g) Law that creates a work permit so that every worker can be vaccinated, in the cases indicated: The law establishes that any worker who is within the target population of public immunization campaigns through vaccines or other means, for the control and prevention of communicable diseases, will be entitled to half a day of work leave for vaccination.
- h) Law that abolishes the age range to exercise the half-day work permit so that the worker, once a year and during the employment relationship, can undergo mammography and prostate examinations, respectively, and may include other preventive medicine benefits, such as the Pap smear, in the corresponding public or private health institutions.
- i) Law regulating paid leave for deaths of relatives: The law establishes that in the event of the death of a child, every worker will be entitled to ten calendar days of paid leave. In the event of the death of the spouse or civil partner, every worker shall be entitled to a similar leave for seven calendar days. The same leave shall apply, for seven working days, in the case of the death of a child in the gestation period, and for three working days, in the event of the death of the worker's father or mother.
- j) Law that establishes occupational health security protocol for the gradual and safe return to work within the framework of the health alert decreed on the occasion of the Covid-19 disease: The norm regulates the implementation of Covid-19 Occupational Health Safety Protocols and establishes the creation of Mandatory Individual Health Insurance

associated with said disease. It also establishes the obligation for the employer to implement the teleworking modality with certain employees, without reduction of remuneration, to the extent that the nature of the services allows it and that the worker consents to it.

5.6.14 Subjects currently under discussion

There are other aspects of labor legislation that are currently under discussion in the Chilean Congress, and that could lead to future legal modifications. Among these subjects are the following:

- a) Draft law aimed at reducing the weekly maximum limit on working hours.
- b) Draft law that amends the Labor Code by establishing a new system of legal profit sharing.
- c) Possible modification to the pension fund system. This project includes, among other aspects, the creation of new pension contributions and new possibilities of administration and destination for these.
- d) Draft Law on Compensation for Years of Service: The bill seeks to remove the 11-year cap on compensation for years of service.





Accounting standards

6.1

IFRS standards in Chile

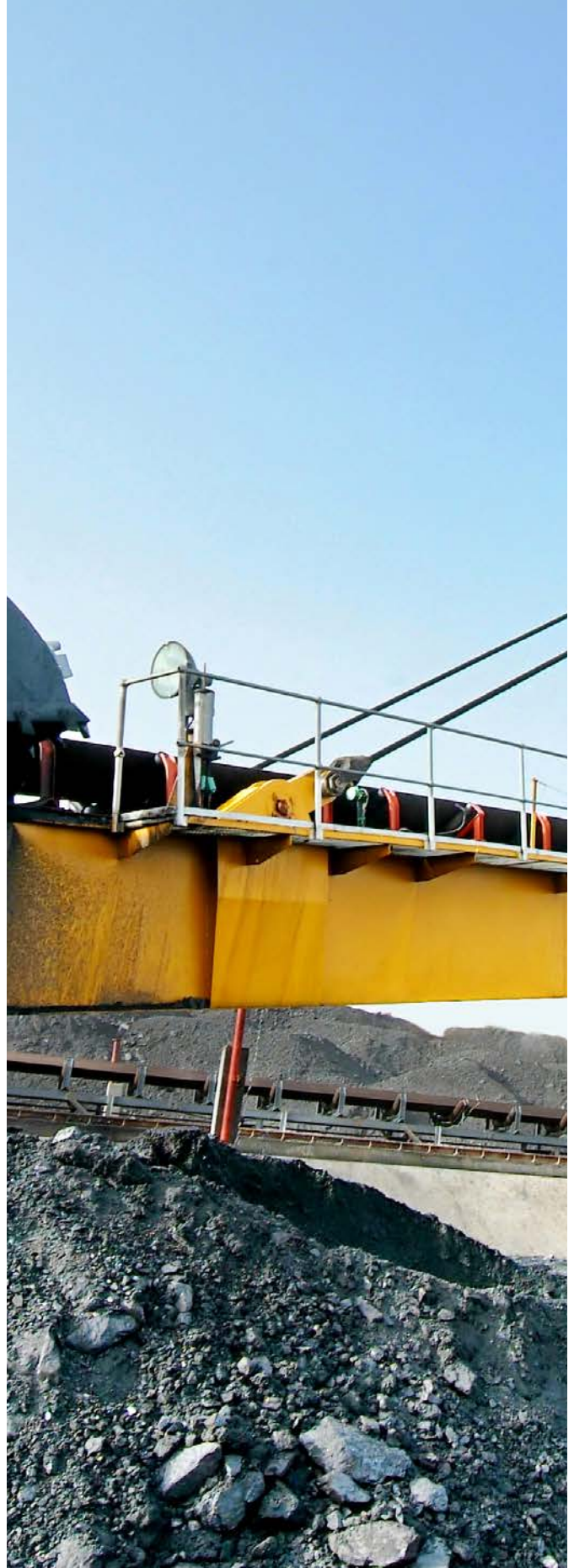
The adoption of IFRS in Chile is a fact for all process that began in 2009 and ended in 2015 with smaller companies. The main challenges post its implementation are given by the permanent need to reconcile the requirements of the local regulator – CMF – meant for the local reality, with the definitions of the International Accounting Standards Board (IASB).

An example of this is the issuance of Circular Letter 856 of 2014 which instructs the auditees that “differences in assets and liabilities for deferred taxes arising as a direct effect of the increase in the tax rate for corporate tax introduced by Law 20,780, will be registered in the respective year against equity,” changing in fact the frame under which the financial information was prepared and presented so far before the since the International Financial Reporting Standards (IFRS) need to be taken in full, explicit and unreserved manner. In practice, this meant that the financial statements issued to 31 December 2014 were prepared in accordance with guidelines and standards for the preparation and presentation of financial information issued by the CMF.

6.2

IFRS for mining entities

Although the following is not a comprehensive list of the issues in mining entities, it should contribute to the understanding of the main accounting topics impacting the financial statements of the mining entities.





6.3 Exploration and evaluation

There is diversity in acceptable accounting treatments. Some entities capitalize exploration and evaluation costs, while others record them as expenses when incurred.

6.4 Stripping costs

The interpretation of the IFRIC 20 addresses the “Accounting for Waste Removal Costs”. According to IFRIC 20:

- ▶ Costs incurred in undertaking stripping activities are considered to create two possible benefits: the production of inventory in the current period, and/or improved access to ore to be mined in a future period.
- ▶ Production stripping costs are to be capitalized as part of an asset, if an entity can demonstrate that economic benefits will be realized in a probable future, the costs can be reliably measured, and the entity can identify the component of an ore body for which access has been improved. The asset is called the “stripping activity asset.”



6.5 Impairment of assets

- ▶ It is performed at the cash generating unit (CGU) level.
- ▶ IFRS contains specific rules for the calculation of the value in use related to key assumptions such as prices, discount rate, exchange rates and capital expenditures.
- ▶ IFRS requires the reversal of impairment losses recorded in prior years for assets subject to depreciation and amortization.
- ▶ IFRS requires the performance of an annual impairment test for assets not subject to depreciation and amortization (for example, goodwill), independently of the existence or not of impairment indicators.

6.6 Depreciation of property, plant and equipment

- ▶ Assets must be depreciated using a components approach.
- ▶ There are potential risks in connection with the accounting treatment of major maintenances.
- ▶ Companies need to consider the use of the units of production method to depreciate or amortize their assets, instead of using the straight-line method.
- ▶ IFRS requires the estimation of the residual value of the fixed asset in order to determine the depreciable amount



6.7 Functional currency

Many companies keep their accounting records in the local currency and not in the functional currency.

6.8 Joint ventures

Normally, joint venture agreements contain clauses that grant options to increase or decrease participation, which can have a significant accounting impact.

6.9 Decommissioning liabilities

Normally, joint venture agreements contain clauses that grant options to increase or decrease participation, which can have a significant accounting impact.

6.10 Financing costs

- IFRS requires an entity to capitalize borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them.
- There may be difficulties in determining the borrowing costs to be capitalized, specifically the exchange difference that is regarded as an adjustment to interest costs.

6.11 Inventories

Critical spare parts are to be classified as property, plant and equipment and not as inventories. These items are subject to depreciation.



Appendix

7.1

Mining sector regulators and stakeholders

Regulators

Ministry of Mining

minmineria.gob.cl

The Ministry of Mining leads, formulates and assesses national policies in order to increase the mining sector's contribution to national development, by diversifying and making mining activities sustainable and efficient.

Ministry of Environment

mma.gob.cl

The Ministry of Environment carries out the following responsibilities:

- ▶ Designs and implements policies, plans and programs related to environmental matters
- ▶ Protects and preserves biodiversity, natural resources and water
- ▶ Promotes sustainable development and the integrity of environmental policies and regulation
- ▶ Oversees environmental evaluation system and environmental watchdog

Ministry of Energy

energia.gob.cl

The Ministry of Energy designs and coordinates plans, policies and regulations for the proper functioning and development of the sector, advising the Government on all matters related to energy.

National Geology and Mining Service - Sernageomin

sernageomin.cl

Sernageomin provides geological information and technical assistance to government, public and private interests; its principal duties are to:

- ▶ Maintain the registry of mining concessions
- ▶ Monitor compliance with safety regulations
- ▶ Evaluate and approve the construction and operation of waste dumps and tailings facilities
- ▶ Approve mine closure plans
- ▶ Maintain registry of tailings deposits
- ▶ Contribute to government programs and the development of mining and geology policies

Chilean copper commission - Cochilco

cochilco.cl

The duties of this specialized technical agency for the Chilean Government are to:

- ▶ Publish statistics on mineral production, projects and investment
- ▶ Conduct research and produces reports and studies on the mining industry
- ▶ Advise on the production of copper and copper byproducts, and metals and industrial minerals (except coal and fuels).

Environmental Evaluation Service - SEA

sea.gob.cl

SEA performs the following duties for the Chilean Government:

- ▶ Evaluates the environmental impact of projects
- ▶ Manages civil participation in the evaluation of projects
- ▶ Responds to civil observations and complaints

Superintendency of the Environment - SMA

portal.sma.gob.cl

The SMA performs the following activities:

- ▶ Supervises compliance with environmental regulations (land, air and water)
- ▶ Issues fines for noncompliance

Financial Market Commission (CMF)

cmfchile.cl

The Financial Market Commission (CMF) is a public institution of a technical nature. Its main objectives include safeguarding the correct functioning, development and stability of the financial market, facilitating the participation of market agents, and promoting the protection of public trust.

The CMF is responsible for ensuring that supervised persons or entities comply with laws, regulations, bylaws and other provisions that govern them from their inception to their winding-up. To this end, it may exercise the broadest supervision over all their operations.

Internal Revenue Service - SII

sii.cl

SII is the public entity in charge of tax collection and in charge of supervising and auditing the correct application of the tax regulations, as well as providing the administrative interpretation of all tax-related laws.

Stakeholders

National Mining Society - SONAMI

sonami.cl

SONAMI represents metallic and nonmetallic small, medium-and large-scale mining activities in Chile.

Mining Council

consejominero.cl

The Mining Council represents an association of the largest mining companies operating in Chile, including national and foreign companies, both private and state owned.

Center for Copper and Mining Studies - Cesco

cesco.cl

Cesco is an independent nonprofit think tank that contributes to public policies to promote mining and its role in economic development, particularly in Chile.

Mining Commission

comisionminera.cl

The Mining Commission has been involved in the following activities:

- ▶ Creation of a standard for public reporting of mineral resources and reserves in Chile
- ▶ Implementation of the concept of the competent persons and the requirements for the qualification
- ▶ Regulation and management of the registry of competent persons

Mining Competencies Council

ccm.cl

This entity provides information on projected human capital requirements in the mining sector in Chile. It also draws up technical profiles, training programs and certification system.

InvestChile

investchile.gob.cl

The government agency responsible for promoting Chile in the global market as a destination for foreign direct investment, serving as a bridge between the interests of overseas investors and the business opportunities the country offers.



7.2

Why EY in Mining & Metals

At EY, our purpose is Building a better working world. The insights and quality services we provide help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all our stakeholders

We live in an era of transformation. Rapidly advancing technology, globalization, the rise of emerging markets, and changing demographics are transforming business and society faster than ever. Traditional business models are changing, industries are converging, the workforce is in transition, and the global economy is becoming increasingly complex. Disruption is the new normal, and companies are disrupting or being disrupted.

Through one stop shop approach (Assurance, Consulting, Strategy and Transactions, Tax) and our deep knowledge of the sector, we help our clients capitalize on new opportunities and assess and manage risk to achieve responsible growth. Our high-performing, multidisciplinary teams help them meet regulatory requirements, keep investors informed, and meet stakeholder needs.

365,000+
people

150+
countries

700+
offices

\$40.4b
revenue (USD)
As of June 30, 2022

Source: FY22 global review

Why EY?

Because we are a global trusted partner to support you at every stage or challenge of your business

Our industry experience, global integration and one stop shop approach allows us to access the right people and resources, make quick decisions, execute the strategy, and deliver exceptional service to our customers.

We create long-term value for people, customers and society, helping them to protect, grow, transform and operate in a more effective way.

+ 80
years in Chile

4
cities in Chile

+2,000
clients in Chile

Our clientes have access to:

Industry experience

Our expertise in the mining industry, local and international resources and comprehensive vision of the business, allows us to deeply understand the ecosystem, our customers and their specific needs. This in turn helps us to identify opportunities, new developments, possible threats and create value quickly.

Innovation and technology

We help businesses constantly thrive and renew, experiment with new ideas, seize opportunities, and mitigate the risks that transformation creates. Our proprietary methodologies, platforms and approaches allow us to bring insights and respond quickly to different challenges.

Global integration

Working together globally allows us to offer our clients access to networks and communities, world class resources, connect with expert teams around the world and bring broad knowledge, insights, experiences, trends and new approaches in real time.

Comprehensive advisor

A unique one stop shop advisor for all assurance, legal, tax, labor, financial, technology, operations and strategic aspects of your business. We help you solve the challenges and requirements of management and those of the board.



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EY | Construyendo un mejor mundo de negocios

EY existe para construir un mejor mundo de negocios, ayudando a crear valor a largo plazo para los clientes, las personas y la sociedad, y construir confianza en los mercados de capital.

Mediante el uso de los datos y la tecnología, los diversos equipos de EY en más de 150 países brindan confianza a través de la seguridad y ayudan a los clientes a crecer, transformarse y operar.

Trabajando en auditoría, consultoría, leyes, estrategia, impuestos y transacciones, los equipos de EY formulan mejores preguntas para encontrar nuevas respuestas a los complejos problemas que enfrenta nuestro mundo hoy.

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