

Materials

Hot Chili Limited (HCH)

HCH acquire option over the San Antonio high-grade copper project, 20km trucking distance to Productora

30/08/17

Current Price: \$0.043

Key Points

The Strategy

- HCH has completed Phase I of its exploration drilling campaign targeting porphyry-copper style mineralisation immediately adjacent to the designed Productora open pit boundary. Selected intervals are awaiting assays before Phase II is finalised.
- HCH need to increase the mine-life beyond 10 years to achieve a more robust rate of return and NPV on the Project. Should the copper price be above US\$3.00/lb and additional mine life be added, HCH can elect to present its JV partner with the option to take an additional 30% of the project for between US\$80 – US\$110 million, subject to independent valuation.
- In parallel to the bulk-tonnage, porphyry-style, copper exploration opportunity, HCH are running a strategy to add potential mine feed from higher grade satellite projects within trucking distance of the proposed Productora processing plant.
- The objective of this strategy is to add a minor percentage of high-grade feed to materially increase the head-grade of the overall Productora operation. This would materially change the copper production profile and make a significant change to the economics.
- Ultimately, the strategy is to make Productora the regional hub for a number of projects that can take advantage of a very low-cost processing option that would offer materially better terms to project owners than the only other current option - a high cost, toll processing facility at the nearby town of Vallenar.
- To this end, HCH has executed a non-binding LOI over the nearby San Antonio Project, which marks the beginning of this strategy. The inference is that more projects are to follow.

San Antonio

- The San Antonio copper-gold project lies 20km east of the Productora Project at an altitude of just 800m. It is a relatively advanced exploration stage project with 9 historic drill holes and comprises 12 exploitation leases over an area of 1,566Ha. However, the project has been in private hands for several decades and modern exploration techniques have not been applied to the project.
- The mine infrastructure includes underground mine development over a strike length of 200m at to a depth of 130m. Approximately 2Mt of ore has been produced from the mine at an average grade of 2% copper and 0.3g/t gold with a 15g/t silver credit.
- The mine is hosted in a moderately dipping sandstone and within a limestone/andesite unit with skarn alteration and close to a granitic contact to the east.
- Mineralisation is hosted within the andesites at true widths between 7m and 30m (average 10m) and occurs as chalcopyrite, bornite, pyrrhotite and magnetite.

- The agreement is for a 90% interest and has been made in HCH's 100% subsidiary Sociedad Minera Frontera SpA (Frontera) and is not included in the Productora agreement with CMP/CAP.
- Terms involve the payment of US\$300,000 in 36 months and a final payment of US\$6.7m in 48 months. No payments or commitments are required for the first 3 years.
- Execution is subject to favourable legal due diligence and approval of final terms by the HCH Board.

In Conclusion

This should be received well by shareholders. Any additional of high grade material to the overall feed for Productora would materially lift the head grade and production profile. As with any operation, satellite operations can be developed for just incremental capex, where the hurdles for exploitation are much lower.

As an example, if you had base production from Productora of, say, 10Mt at an average head grade of 0.5% Cu, by adding just 1Mt at a grade of 2.5% would increase the head grade by 36%, to 0.68g/t. There are also the additional gold and silver credits to add to this. From the example above, we can see how important the addition of grade is to the overall economics of Productora.

Interestingly, this option, and indeed the whole satellite strategy is being conducted in a 100% subsidiary of HCH and therefore is not subject to the JV agreements with CMP/CAP. This could tip some leverage back into HCH's favour with respect to CMP. We will have to see how this plays out but our view is that a successful execution of this strategy could make a very significant impact, and arguably, thrust HCH into the most desirable and significant potential copper producer on the ASX. At the production rate of 66,000 tonnes of copper, as envisaged in the PFS, an additional 36% in head grade would translate into production of 90,000 tonnes. Second only to Oz Minerals (OZL) on the ASX.

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