

## Hot Chili Cracks The Exploration Nut In Chile

By Our Man in Oz

*Amusing company names have a habit of becoming less amusing over time. Hot Chili is yet to suffer that fate, though management will likely come under pressure as the company rises through the ranks of copper and uranium companies. Funny at its current market capitalisation of A\$46 million, Hot Chili will probably look less funny when its gets to a market capitalisation of A\$460 million, though any investor who avoids it because of its name will be kicking himself for missing what looks like a 10-bagger in the making. If that sounds somewhat optimistic, then apologies in advance. But having avoided getting too close to Hot Chili since it listed last May, in part because of the name, Minesite's Man in Oz found himself doing an about-face suddenly when the game plan was explained to him the other day by the company's chief executive, the very soberly-named Christian Easterday.*

It is only when someone who knows the story connects the dots that the value in the company starts to reveal itself to the outsider. But first, let's dispense with the name, which is an Australian play on the country in which it is working, Chile, and on the original target of its exploration, uranium. At this point you have permission to say "ho-ho". However, the joke is really on Hot Chili's management, because although it went to Chile to find uranium, it has started its life with a copper discovery. No prizes for suggesting a name change to "Red Chili" to reflect the discovery of the red metal for which Chile is famous, or indeed the red faces in the company's management ranks.

But enough about names, let's go directly to why Hot Chili's share price has more than doubled over the past three months, from A25 cents to recent trades at A51.5 cents. The double-barrelled reason for the rise is the sky-high copper price combined with the latest drill results from the Productora project, the first of three on the company's books. The best assay reported last week was a 53 metre-wide zone grading 1.1% copper equivalent (copper plus molybdenum, gold, uranium and cobalt), including a 17 metre slice at 1.4%. Those assays confirmed the presence of a wide-zone of copper-rich mineralisation running up the spine of Hot Chili's tenements, starting at depths of between 100 metres and 200 metres from surface.

"Those latest results confirm that there is mineralisation present over at least 2.5 kilometres, and that Productora remains open along strike", Christian said. "Drilling is continuing, including in-fill work aimed at having a JORC-code compliant resource ready by late in the second quarter." Analysts at the Australian stockbroking firm of D.J. Carmichael are one step ahead of Hot Chili, and come up with a best guess that the first resource calculation will show between 40 million and 60 million tonnes of ore-grade material worth between A\$117 million and A\$175 million, or equivalent to between A64 cents and A96 cents per Hot Chili share. Further drill results will confirm, or otherwise, the value in Productora, and in the other two projects Hot Chili controls at Los Mantos, where drilling is set to start soon, and Chile Norte, where not much happening, yet.

What happens at site is, believe it or not, almost secondary to the value already created by the original deals Hot Chili did. To understand that it's worth noting three things. First that most of Chile is controlled by the major miners. They pegged it decades ago. Second, that tenement entitlement is evergreen. There is no "use it, or lose it" rule. Third, those factors together have combined to stunt Chile's exploration sector. But what Christian and his team did was find a way through the historic impasse to negotiate a series of joint ventures with big and small miners by offering to apply modern exploration skills in an attempt to unlock mineral value not yet seen by the locals. And it's working.

Chilean partners that have signed up for a joint exploration deal with Hot Chili include Codelco, the world's biggest copper producer, and CMP, Chile's biggest iron ore miner. Those giants have agreed to let this small Australian explorer kick the rocks around some of their assets to see what might lie at depth. Even though it all sounds a bit far fetched, the truth about copper mining in Chile is that exploration has actually been too easy for too long, as the bigger companies have only had to punch down a series of fence-line drill holes at the end of an existing pit, classify that as exploration, and expand the mine.

Productora is the case study which illustrates Hot Chili's game plan. It's been three years in the making, though until Minesite's Man in Oz spoke with Christian he was struggling to understand how the deal worked. What's happened (the nutshell version) is that Hot Chili has done a deal with the long-term owners of a small underground copper mine called Productora, where about 250,000 tonnes of ore grading up to 1.3% copper has been extracted for many years. A classic small, family, mine. Hot Chili's offering, essential to get ground access, was an upfront fee, plus an agreed future buy-out price, in return for the right to apply modern exploration tools to see whether the breccia-style orebody extended beyond the small workings. It does.

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And those two words - "it does" - are key to understanding why savvy investors are taking a fresh look at Hot Chili. The latest drilling, which delivered that 53 metres at 1.1% copper equivalent, is a continuation of the original Productora orebody, and it could, in theory, run for miles, as a large extended block of steeply-plunging breccia measuring around 300 metres by 50 metres and grading more than 1% copper. Better still, because there is an existing mine on the tenement, Hot Chili's geologists have easy underground access to test what the drill rigs are discovering from the surface. Christian said the plan was to finalise the first-phase of drilling at Productora and then move over to the Los Mantos project which he believes is the company's best asset, and where a 10,000 metre drilling program is scheduled to test 2.5 kilometres of copper, gold and uranium mineralisation.

For investors, Hot Chili must be classified as an early stage explorer that comes with all the associated risks. But there is no doubt that it has already created value simply by finding a way into the tightly held world of Chilean mineral exploration, something bigger companies have singularly failed to do. By investing three years of jaw-boning with landowners, negotiating a pathway through Chile's legal system, and writing joint venture deals which suit all players, the company has positioned itself as a new style of explorer in a country stuffed to the gills with mineralised structures, courtesy of the up-thrusting Andes. It is for those reasons that full points should be awarded to Hot Chili for becoming the first junior explorer to negotiate a deal with a mining major in Chile for 23 years, and for proving at Productora that it has the skills to add value in its own unique way.