

Hot Chili Limited (HCH AU)

Price: A\$0.22 Market Cap: A\$76.5m

Site Visit

We provide a quick review of the Productora Copper Project, controlled by Hot Chili (HCH AU), which we visited recently in Chile. In common with many other copper development companies, Hot Chili is in the process of optimising the project for the current market conditions. This involves targeted improvements, including the evaluation of the development of in-pit copper oxide material that is included as waste within previous studies. Exploration is also underway to define additional copper oxides near the pit, as is testing for extensions of high-grade primary mineralisation towards the bottom of the planned pit. Exploration outside the current planned pit area is taking place for the first time in 18 months.

As the photo below illustrates, the site is impressive. A 3.5km pit area has been systematically drilled and a significant drill programme began in August. A total of 33,000m of RC and diamond drilling is planned as part of the PFS work programme, which is planned to deliver an updated resource and reserve statement, with the PFS expected by the end of 1H15.

The Productora Copper Project



The programme is designed to test a number of zones that are adjacent to (or close to) the current pit design. Drill planning has been assisted by the use of alteration mapping that has already helped locate a number of extensions at depth, including the Habanero zone, a high-grade, down-dip extension to the north-east, and the Rocoto zone, a high-grade, down-dip extension to the east from the centre of the deposit. The drill programme will test targets to the north and south of the existing pit area and also a highly prospective parallel zone to the west of the main north-south mineralised trend.

The most recent development study on the project was a concept/scoping study that was completed in February 2013. The study gave a range of financial inputs, including technical and financial parameters. Production was estimated at 55,000tpa of copper in concentrate, with operating costs of US\$1.20-1.50/lb net of gold credits. Capex was estimated at US\$500-700m. The target strip ratio was 4.1:1.

The study was based on the resource of February 2013, which contained a total of 920,000t of copper, of which 54% was in the Inferred category. Over the remainder of 2013 an infill drill programme was undertaken that increased the total resource (as reported in March 2014) by 12% to 1,029,000t of contained copper and the Indicated resource by 82% to 799,000t.

We note that the study pit contained 15Mt of oxide copper mineralisation that was accounted for as waste. The company is evaluating the development of a heap leaching project to treat this material and potentially other oxide deposits that lie to the north and south of the main pit. The processing of the in-pit copper oxide material would reduce the strip ratio and improve project economics.

The company hopes that the current drill programme will help expand the resource from the current 214Mt (at grades of 0.48% Cu and 0.10 g/t Au) towards a target of 300Mt, which could support an increase in the reserve from 90Mt to around 150Mt. If this is achieved it could increase the current reserve life for the planned 10Mtpa operation from nine to fifteen years.

Multi-purpose Drillrig at Productora



The company is set to complete a deal with CMP, a local iron ore company, under which CMP will contribute certain minority interests in some of the project licences and surface easement rights for infrastructure. In return for this CMP will be granted a 17.5% stake in the project. CMP will also pay US\$1.5m in cash for an option to purchase an additional 32.6% stake in the project (which could take its stake to 50.1%); this is exercisable on completion of the PFS (planned for 2Q15) at the higher of US\$80m or an independent valuation at the time of the PFS.

The company is well funded and had US\$11m in cash at the end of June 2014. It also had a debt facility from Sprott of US\$25m, of which US\$15m remained undrawn.

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