Hot Chili leads the Latin dance
Hot Chili Ltd’s PFS at its Productora copper project could be a game changer for many Australian companies in Latin America. “Hot Chili moving towards production, and also Metminco [Ltd] in southern Peru, validates being in Latin America in the first place. It validates the type of target that we are looking for – porphyry mineralisation – and we see the company’s successes as a fillip for us,” Peruvian-focused Inca Minerals Ltd managing director Ross Brown told Paydirt recently.

Zeff Reeves, managing director of fellow copper player Metallum Ltd, said Hot Chili’s success would help build confidence in the Australian market for Chilean projects. “It will prove to the Australian market that things can be done in Chile. Although Hot Chili has some challenges ahead in terms of access to infrastructure and the like and capital is potentially going to be restricted at some point, it is the same for all of us. But if they can get that project to work, get it permitted and prove to the ASX that it can be done, it is certainly going to benefit Australian companies in Chile,” Reeves said. The Australian investment market does not always fully appreciate the economics of large tonnage copper projects but Hot Chili can prove them beyond expectations when it releases the Productora PFS in the first half of 2015.

The IOCG deposit has been intensely drilled since 2010, with about 100,000m on a budget of $30 million completed in 2013 which delivered a maiden ore reserve in March 2014 of 90.5mt @ 0.48% copper, 0.1 g/t gold and 172 ppm molybdenum for 350,000t copper, 152,000oz gold and 9,000t molybdenum supporting a nine year mine life.

The addition of a large copper oxide opportunity within the central pit at Productora – originally treated as pre-stripe waste material – could add to the production mix. Hot Chili’s progress has proven to be one of the first genuine ASX exploration success stories in Latin America and although drilling was paused at the start of 2014 while ore estimates were calculated and PFS work ramped up, the latter half of the year saw Hot Chili restart the rigs with instant success.

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the fray and Hot Chili is working towards determining whether Alice hosts porphyry-style mineralisation.

Since the discovery hole – 151m @ 0.4% copper from 116m down-hole, including 54m @ 0.5% copper and 0.1 g/t gold from 128m down-hole – Alice’s potential has been confirmed with results of 26m @ 0.7% copper from 95m down-hole and 105m @ 0.4% copper from 175m down-hole.

At the time of print Hot Chili confirmed Alice is a porphyry-style deposit, with latest drilling results including 204m @ 0.6% copper and 0.1g/t gold within a broader intersection of 237m @ 0.5% copper and 0.1g/t gold from surface.

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“After the initial two years of exploration drilling we stopped to build the central pit and focused on getting reserves there and aggressively charging towards a decision to mine in a short amount of time at this very large project.”

Hot Chili only listed in May 2010 at which time Productora was believed to be Chile’s largest untapped uranium deposit.

The company raised $8 million at IPO and started drilling at Productora but when the IOCGU mineralisation began returning copper hits of 116m @ 0.92% copper equivalent including 23m @ 1.4% copper equivalent and 26m @ 1.61 copper equivalent including 5m @ 3.52% copper equivalent it got Hot Chili thinking there was potential for large tonnage copper resources at Productora.

To fast-track its understanding of Productora, north of Santiago, Hot Chili raised $4.65 million for further drilling which was well supported by institutional, sophisticated and experienced investors.

From the outset Hot Chili has demonstrated an ability to raise money (2011: $30 million-plus, 2012: $35.5 million, 2014: $US25 million (debt) via traditional and innovative means, regardless of market conditions for resources companies.

Major shareholders Compania de Aceros del Pacifico (CAP S.A.,11.8%), Taurus Funds Management (11.7%), Lundin Mining Corp (6.3%) and Exploration Capital Partners, an affiliate of Sprott (5.4%), have strongly supported Hot Chili on its journey.

Towards the end of 2014 Hot Chili had about $20 million cash at hand which Easterday wasn’t taking for granted.

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“However, Hot Chili managed to court Compañía Minera del Pacifico S.A. (CMP) in a joint infrastructure arrangement which will see the Chilean firm take a 17.5% stake in Productora.

“In return CMP, an arm of parent company CAP, will grant Hot Chili certain surface rights over the proposed mining area at Productora, easements for a water pipeline from Huasco to Productora and the remaining 35% interest in certain mining rights at Productora.

“Additionally, a tag along option for CMP to increase its interest in Productora to 50.1% for an exercise price of $US80 million (after completion of a PFS) was included in the MoU.

“CMP is required to pay Hot Chili $US1.5 million for the grant of the additional purchase option.

“Market wants to see progression to a shareholder vote. We are very confident that will be before our shareholders very shortly. That deal and funding are the two stable platforms we have put in place as a minimum and in a soft market, Hot Chili can remain quite buoyant about that,” Easterday said.

“Easterday hoped the CMP transaction, which was the culmination of negotiations that took Easterday

Hot Chili spent $30 million on exploration in 2013, predominantly on RC drilling
and his family permanently to Chile for the best part of two years, would receive shareholder approval sometime this year.

The company also expects an update on port access study negotiations for the Las Lomas port facility (owned by CAP) at Huasco, 40km west of Productora.

There remains work to do on infrastructure plans however Productora is situated in a known mining region, a boost as Hot Chili looks to achieve its goal of production in 2017/18.

CMP has two mines in close proximity – Los Colorados and El Algorobo – while the Pan American Highway abuts Productora.

Meanwhile, a transmission line from the Maitencillo power substation and water from Huasco are being proposed.

More details are expected to emerge when the PFS is released this year.

“We have been focusing on how we can be a lot smarter with our PFS, instead of going down the path of delivering the PFS and then talking about a re-optimisation phase in front of the DFS, the plan is to mover straight into the DFS,” Easterday said.

After organising a $US25 million debt facility with Sprott mid-2014, Hot Chili has the financial clout to kick start the DFS.

The debt funding was in place prior to Hot Chili’s infrastructure deal with CMP and both milestones can be seen as major endorsements for Productora; which has attracted $80 million in funding since 2010.

Hot Chili has committed about $100 million to its suite of assets in Chile over the past four years.

“Productora has attracted the bulk of our spend and we have pushed that into a position where we still believe we will be getting into production towards 2017/18 – a time where consensus points to certainly a supply deficit and higher demand level. At that time it will be very good to deliver a large-scale project for financing purposes and also for profitability for the beginning of mine life,” he said.

While the immediate focus is on bringing Productora into production, life exists outside Hot Chili’s flagship project.

Frontera, Banderas and the Los Mantos JV (with Codelco) copper projects are situated in Regions III and IV on Chile’s coast, north of Santiago, and make-up Hot Chili’s early-
stage projects.
A maiden resource from Frontera – 50.5mt @ 0.4% copper and 0.2 g/t gold for 187,000t copper and 356,000oz gold – was revealed in 2014.

However, Hot Chili’s priorities at Productora and strained capital markets means that limited money will be spent on these projects in the short term, Easterday said.
“Small discretionary funds will be budgeted for our other projects,” he said.
“For the drill-ready projects it will be about building them up to a value proposition which can be put to the board and we can assess what we are doing. Clearly the CMP transaction has an implied funding path and with $US10 million-plus and another $US15 million to draw down, we are not without capabilities. But, I am also not advocating on going out and hitting greenfields projects heavy in a market like this. The last thing we want and what we have spent a long time avoiding is going out to raise capital.”

While Easterday is happy to put the days of 100,000m drill campaigns behind the company, for now, he has not dismissed acquisition.
Late last year Lundin Mining Corp, a major shareholder in Hot Chili, provided the market with some encouragement in the copper space when it moved to acquire a controlling stake in the Candelaria mine in Chile from Freeport McMoran Inc for $US1.8 billion.

Such a deal is arguably out of Hot Chili’s league however its connections with CMP and appetite for acquiring ground gives it the best possible chance of landing something significant.
“I think there are a lot of people in trouble and I think there are a lot of boards looking for a life jacket to get thrown in the water,” Easterday said.
“I have only ever come across opportunities once in my career and that was during the GFC; that is when we built Hot Chili. We’re very keenly watching and participating in many data rooms in what I would classify as advanced projects, production assets and near-term development propositions.
“It is something that Hot Chili, our partners and our funding
groups that support the company like. It is certainly been the indication from all those stakeholders for Hot Chili to expand, we are not without capability to look at things that are a lot larger than our diminishing market cap [$54 million at the time of print] would suggest. We will wait and see what happens,” Easterday said.

Hot Chili’s position, allowing it to contemplate expansion plans, separates it from many of its peers from the “IPO Class of 2010”.

However, further judgement awaits the company when the Productora PFS is made public.

In the lead up to Christmas, 33,000m of drilling was under way in order to grow reserves to add in the PFS.

Diamond drilling at Alice has begun and is geared towards reserve grade status.

“That drilling will probably be the penultimate programme before we say ‘where to from here?’” Easterday said.

“Clearly we have a 200m core of very wide intersections near surface and we need to know how to expand that out efficiently. I’m sure the market will be very happy with what comes out this year and we will get that into indicated and drop a pit design over it. It is very exciting now to have a potential multi-deposit project with Alice sitting right next to the central pit.”

Hot Chili’s exploration success, including the Habanero and Rocoto discoveries at Productora in late 2013, has done little to excite anyone outside of the inner sanctum, with the company experiencing the same share price pain as others in the junior resources space.

Shortly after floating, the company’s stock soared to a high of 80c/share early in 2011 and it emerged as one of the standout juniors on the ASX.

Hot Chili shares were worth almost 50c/
"The next six months should be treated cautiously by all stakeholders in the resources sector and shareholders should be careful of throwing away the baby with the bath water."

– Mark Andrews

**HOT CHILI LTD ASX:HCH**

**Address:** First floor, 768 Canning Highway, Applecross, Western Australia 6153

**Phone:** +61 8 9315 9009

**Fax:** +61 8 9315 5004

**Email:** admin@hotchili.net.au

**Web:** www.hotchili.net.au

**52-week share price range:** 13c-50c/share

**Key people:** Murray Black (non-executive chairman), Christian Easterday (managing director), Michael Anderson (non-executive director), Allan Trench (non-executive director), Roberto de Andracia Adriasola (non-executive director)

**Comment:** Hot Chili has risen to prominence in Latin America as one of ASX’s best explorers. In four years the company has progressed the Productora copper project into PFS stage after a 2013 scoping study indicated the potential for a 55,000 tpa copper in concentrate project at a capex of $US500-700 million. In 2014, Hot Chili entered a MoU with Chilean majors Compania Minera del Pacifico S.A. (CMP) regarding a joint infrastructure arrangement which will help Hot Chili into production around 2017/18.