



**Hot Chili Limited** ACN 130 955 725

First Floor, 768 Canning Highway, Applecross, Western Australia 6153

PO Box 1725, Applecross, 6953, Western Australia

P: +61 8 9315 9009

F: +61 8 9315 5004

## ASX ANNOUNCEMENT

Thursday 29th January 2015

# Hot Chili and CMP ratify Productora joint infrastructure Memorandum of Understanding

Hot Chili (ASX: HCH) is pleased to announce that the Memorandum of Understanding (MOU) with Compañía Minera del Pacífico S.A. (CMP), that establishes the basis for the negotiations of the legal documentation for the key infrastructure and option agreement for the Productora copper project in Chile, has been ratified by both companies.

Under the MOU, CMP will emerge with a 17.5 per cent stake in Productora in return for contributing surface rights, easements and its mining rights related to Productora.

The deal is pivotal to Productora because the CMP assets will help save time and reduce costs associated with the infrastructure needed to underpin the project.

The MOU also establishes that Hot Chili will grant CMP an option to acquire an additional 32.6 per cent interest in Productora for a minimum cost of US\$80 million and maximum of US\$110 million (see details of the agreement as outlined below).

The transaction is subject to the approval of Hot Chili shareholders, the Productora project due diligence and the negotiations of the corresponding legal documentation. A Notice of Meeting to consider resolutions concerning the transaction is expected to be issued in the coming weeks.

Productora's current Mineral Resource base contains over 1Mt of copper and 675,000 ounces of gold.<sup>1</sup> This is set to grow ahead of the delivery of a Pre-feasibility Study (PFS).

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<sup>1</sup> Refer to ASX announcement dated 31 March 2014 and Qualifying Statements attached to this announcement.

### ASX Code

HCH

### Contact

Mr Christian Easterday  
Managing Director

E: [admin@hotchili.net.au](mailto:admin@hotchili.net.au)

[www.hotchili.net.au](http://www.hotchili.net.au)





Hot Chili chairman Murray Black said ratification of the MOU marked a major milestone in the development of Productora.

“We are excited at the prospect of working in co-operation with one of Chile’s most respected resource majors to develop a new copper business along the Chilean coastal range”,

“The proposed joint venture is a blueprint to deliver Productora at a lower cost and in a shortened timeframe by capturing substantial synergies for both Companies”,

“The Company now looks forward to progressing towards shareholder approval of the deal” Black said.

#### **Joint Infrastructure Agreement for CMP to Move to 17.5% Interest in Productora**

Productora is Hot Chili’s flagship project, and lies in the centre of CMP’s Huasco and Vallenar iron operations at low altitude, approximately 600km north of Santiago.

Since announcing the intention to form a joint venture to develop the Productora copper project in Chile, Hot Chili and CMP have spent considerable effort negotiating the basis of the deal that has now been ratified by the Boards of both companies.

The initial joint infrastructure component of the transaction remains as announced on the 6th August 2014.

CMP will exchange its assets at Productora for 17.5% of the total shares in Sociedad Minera El Águila SpA (SMEA SpA) - Hot Chili’s Chilean subsidiary company which holds the Productora Project. These assets include:

1. CMP controlled easements related to the proposed water pipeline route from Productora to the coast near Huasco (figure 1),
2. Certain surface rights over the proposed mining development area of Productora (figure 2), and
3. CMP mining rights related to the Productora project (figure 3)

SMEA SpA will become a special purpose joint venture vehicle for the purpose of conducting the Productora project.



In addition, CMP shall be free-carried to completion of a PFS - (within the meaning of the JORC Code). Following completion of a PFS, CMP will be responsible for funding its share of expenditure in accordance with its ownership in the shares of SMEA SpA.

### **Additional Purchase Option Agreement for CMP to Move to 50.1% Interest in Productora**

The second component of the deal involves the grant to CMP of an option (Additional Purchase Option) to acquire further shares in SMEA SpA such that upon exercise of the Additional Purchase Option CMP will be entitled to acquire a further 32.6% interest, taking its total holding up to 50.1% shareholding interest in SMEA SpA.

The issue price for the Additional Purchase Option is US\$1.5 million.

A number of revisions to this component of the deal have been accepted by both parties. The revisions have been made to include certain commercial requirements of both parties.

Revisions to the Additional Purchase Option component of the deal, since it was announced to the ASX on the 6th of August 2014, include:

1. The valuation of the additional 32.6% interest in SMEA SpA shall be a minimum value of US\$80 million and a maximum value of US\$110 million.
2. The Option will now be exercisable by CMP in two tranches, as follows:

First Tranche – exercisable within 90 days of the delivery of: the results of a completed PFS, an independent valuation report of SMEA SpA undertaken by a jointly appointed expert and Hot Chili making a preliminary decision to mine at the Productora Project.

Second Tranche – exercisable within 90 days of the delivery of: the results of a completed definitive feasibility study (DFS), project financing terms being finalised and Hot Chili taking a definitive decision to mine at the Productora Project.

3. First Tranche exercise payment shall be US\$26 million. CMP shall be issued additional shares in SMEA SpA equating to between 10.6% (based on the minimum valuation of 32.6% interest for US\$80 million) and 7.71% (based on the maximum valuation of 32.6% interest for US\$110 million). The actual number of shares will be determined by reference to an independent valuation of SMEA SpA, subject to these ranges.
4. Use of funds for the First Tranche exercise payment shall be wholly directed towards repayment of Hot Chili's existing loan with Sprott Resource Lending Partnership (Sprott) and funding of Hot Chili's interest of a DFS for Productora.



5. Following receipt of the First Tranche exercise payment, CMP shall provide a US\$13 million secured loan facility (Facility) to Hot Chili.
6. The Second Tranche exercise payment shall be the balance of the amount of the independent valuation. CMP will acquire the remaining interest in SMEA SpA that is required to take it to a fully diluted interest to 50.1%. At a minimum valuation, this would equate to CMP acquiring a further 22% interest for US\$54 million. At a maximum valuation, this would equate to CMP acquiring a further 24.89% for US\$84 million.
7. The Second Tranche payment shall also deduct any loan amount outstanding under the terms of the Facility and also the US\$1.5 million paid to Hot Chili by CMP as the option issue price.

Hot Chili is focused on delivering a PFS along with a revised Mineral Resource estimate and Ore Reserve statement for Productora during 2015. CMP's option to acquire an increasing interest in Productora aligns the interests of both parties to ensuring Productora has a clear funding path through its final stages of growth and development studies.

### **Next Steps in Completing the Infrastructure and Option Agreement for Productora**

Both companies are working in negotiating the final agreements of the transaction including a master agreement, shareholders agreement, option agreement, subscription and merger agreement, and a loan facility agreement.

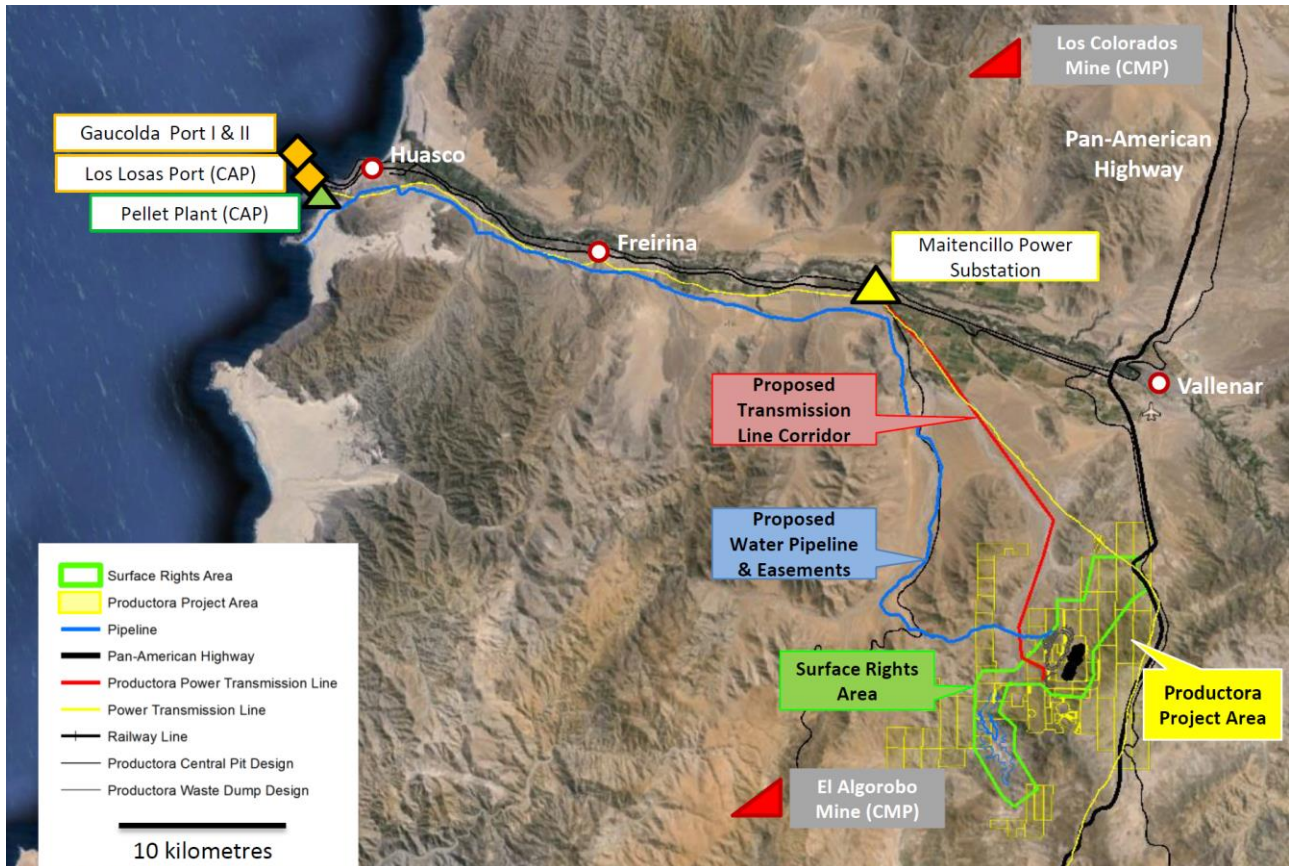
A Notice of Meeting is also currently being finalised in association with an Independent Experts Report. The transactions contemplated will be subject to shareholder approval at a General Meeting of Hot Chili following notification to shareholders.

**For more information please contact:**

**Christian Easterday** Tel: +61 8 9315 9009

Managing Director Email: christian@hotchili.net.au





**Figure 1. Location and existing infrastructure surrounding the Productora copper project, Region III Chile. Note the proposed water pipeline corridor from Productora to the coast near Huasco. CMP control several areas of easement required to facilitate this proposed pipeline route under the definition of the Joint Infrastructure agreement.**



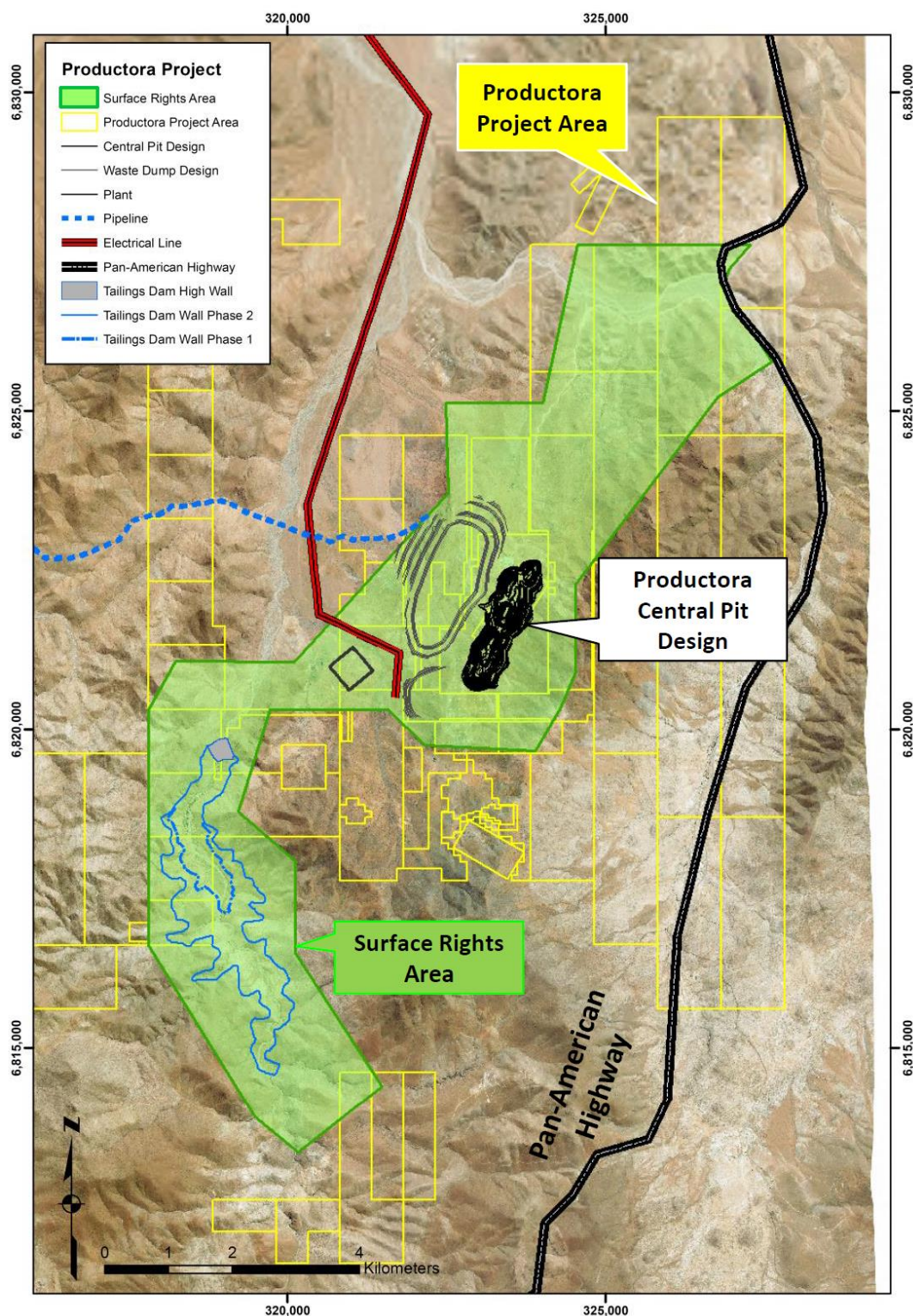
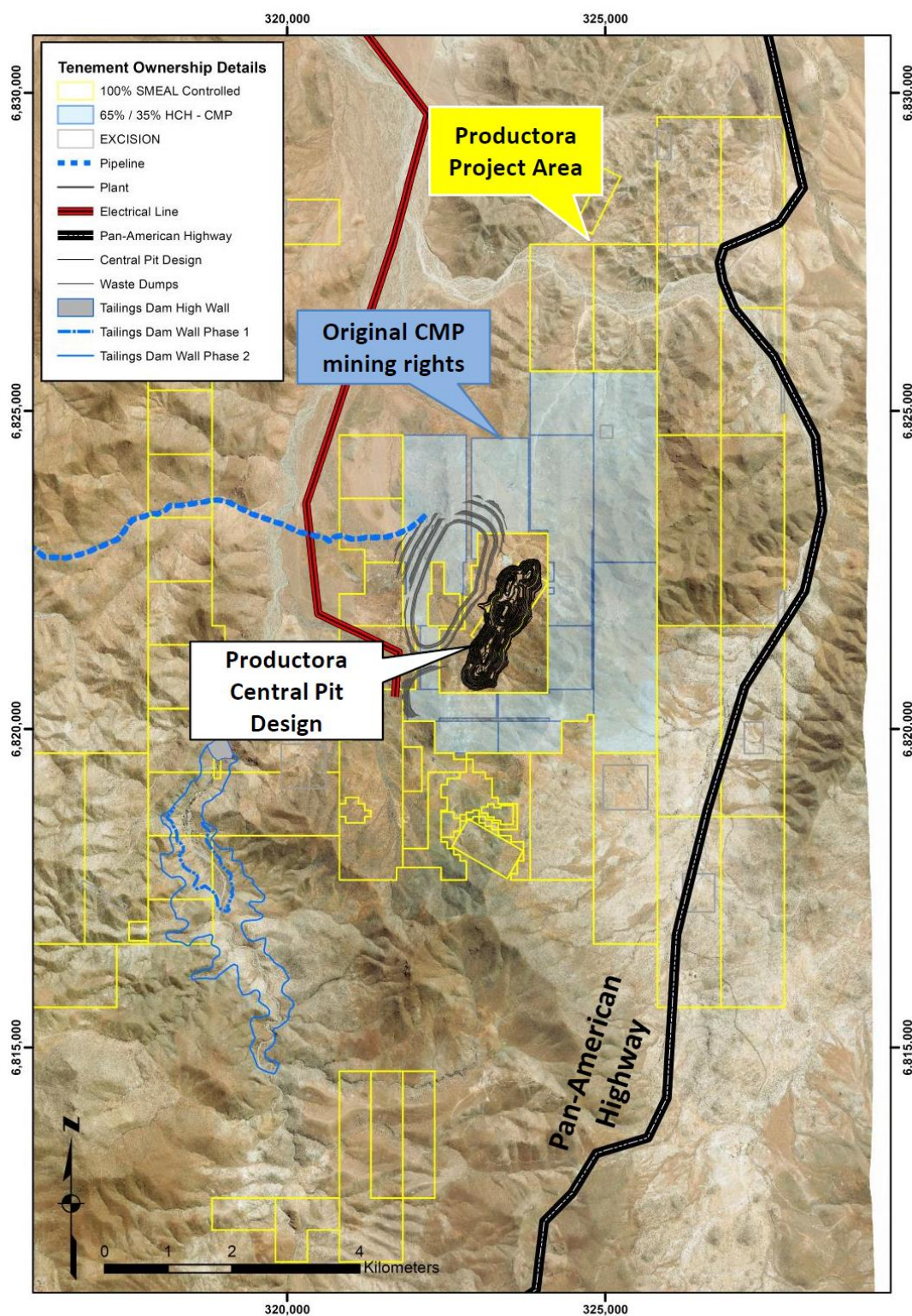


Figure 2. Defined surface rights to be transferred to SMEA SpA as a term of the Joint Infrastructure agreement





**Figure 3. The location of the original CMP mining rights at Productora which will be transferred to SMEA SpA as a term of the Joint Infrastructure agreement**



## Qualifying Statements

### JORC Compliant Ore Reserve Statement

Productora Open Pit Probable Ore Reserve Statement – Reported 31<sup>st</sup> March 2014

| Ore Type     | Category        | Tonnage<br>(Mt) | Grade       |             |            | Contained Metal |                |               | Payable Metal  |                |              |
|--------------|-----------------|-----------------|-------------|-------------|------------|-----------------|----------------|---------------|----------------|----------------|--------------|
|              |                 |                 | Copper      | Gold        | Molybdenum | Copper          | Gold           | Molybdenum    | Copper         | Gold           | Molybdenum   |
|              |                 |                 | (%)         | (g/t)       | (ppm)      | (tonnes)        | (ounces)       | (tonnes)      | (tonnes)       | (ounces)       | (tonnes)     |
| Transitional | Probable        | 10.2            | 0.54        | 0.10        | 128        | 55,000          | 34,000         | 1,300         | 27,000         | 13,000         | 1,000        |
| Fresh        | Probable        | 80.3            | 0.47        | 0.11        | 177        | 378,000         | 274,000        | 14,200        | 323,000        | 139,000        | 8,000        |
| <b>Total</b> | <b>Probable</b> | <b>90.5</b>     | <b>0.48</b> | <b>0.11</b> | <b>172</b> | <b>433,000</b>  | <b>308,000</b> | <b>15,500</b> | <b>350,000</b> | <b>152,000</b> | <b>9,000</b> |

Note 1: Figures in the above table are rounded, reported to two significant figures, and classified in accordance with the Australian JORC Code 2012 guidance on Mineral Resource and Ore Reserve reporting.

Note 2: Average recoveries applied to Probable Ore Reserve estimate are: Fresh Cu– 88.8%; Fresh Au - 65%; Fresh Mo - 60%, Transitional Cu- 50%, Transitional Au- 50% and Transitional Molybdenum- 50%. Payability factors applied for Cu- 96.5%, Au- 78% and Mo- 98%. The Probable Ore Reserve was estimated using price assumptions of US\$3.00/lb copper, US\$1,250/oz gold and US\$10/lb molybdenum and an exchange rate (AUD:USD) of 0.88.

### JORC Compliant Mineral Resource Statements

Productora Mineral Resource Statement – Reported 31<sup>st</sup> March 2014

| Classification<br>(+0.25% Cu) | Tonnage<br>(Mt) | Grade       |             |            | Contained Metal  |                |               |
|-------------------------------|-----------------|-------------|-------------|------------|------------------|----------------|---------------|
|                               |                 | Copper      | Gold        | Molybdenum | Copper           | Gold           | Molybdenum    |
|                               |                 | (%)         | (g/t)       | (ppm)      | (tonnes)         | (ounces)       | (tonnes)      |
| Indicated                     | 158.6           | 0.50        | 0.11        | 152        | 799,000          | 540,000        | 24,000        |
| Inferred                      | 55.6            | 0.41        | 0.08        | 97         | 229,000          | 133,000        | 5,000         |
| <b>Total</b>                  | <b>214.3</b>    | <b>0.48</b> | <b>0.10</b> | <b>138</b> | <b>1,029,000</b> | <b>675,000</b> | <b>29,000</b> |

Note 1: Figures in the above table are rounded, reported to two significant figures, and classified in accordance with the Australian JORC Code 2012 guidance on Mineral Resource and Ore Reserve reporting.

### Mineral Resource and Ore Reserve Confirmation

The information in this report that relates to Mineral Resources and Ore Reserve estimates on the Productora copper projects were originally reported in the ASX announcements “Maiden Ore Reserve at Productora Set for Strong Growth in 2014”, dated 31st March 2014. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.





### Forward Looking Statements

This announcement contains “forward-looking statements”. All statements other than those of historical facts included in this announcement are forward-looking statements including estimates of Mineral Resources. However, forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to, copper and other metals price volatility, currency fluctuations, increased production costs and variances in ore grade ore recovery rates from those assumed in mining plans, as well as political and operational risks and governmental regulation and judicial outcomes. The Company does not undertake any obligation to release publicly any revisions to any “forward-looking statement” to reflect events or circumstances after the date of this announcement, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws. All persons should consider seeking appropriate professional advice in reviewing this announcement and all other information with respect to the Company and evaluating the business, financial performance and operations of the Company. Neither the provision of this announcement nor any information contained in this announcement or subsequently communicated to any person in connection with this announcement is, or should be taken as, constituting the giving of investment advice to any person.