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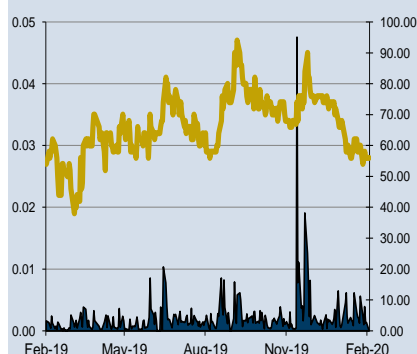
Financial Advisers | Stockbroking & Research | Special Situations Financing
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SPEC BUY

Current Price \$0.026
Valuation \$0.08

| | | | |
|------------------------------|--|---------|---------|
| Ticker: | HCH | | |
| Sector: | Non-Energy Minerals | | |
| Shares on Issue (m): | 1,722.8 | | |
| Market Cap (A\$m): | 48.2 | | |
| Debt (A\$m) | 4.56 | | |
| Cash (A\$m) | 1.4 | | |
| Enterprise Value (A\$m): | 51.4 | | |
| 52 wk High/Low: | 0.047 | 0.019 | |
| 12m Av Daily Vol (m): | 4.516 | | |
| Cash Flow (A\$m) | | | |
| | 2017A | 2018A | 2019A |
| Operating CF | (3.001) | (2.164) | (2.182) |
| Investing CF | (1.379) | (1.596) | (3.183) |
| Financing CF | 6.422 | 5.090 | 3.144 |
| Closing Cash | 2.403 | 3.657 | 1.378 |
| Directors | | | |
| Murray Edward Black | Non-Executive Chairman | | |
| Christian Ervin Easterday | Managing Director & Executive Director | | |
| Allan Trench | Independent Non-Executive Director | | |
| Michael Richard Anderson | Non-Executive Director | | |
| Roberto de Andraca Adriasola | Non-Executive Director | | |
| George Randall Nickson | Non-Executive Director | | |
| Major Shareholders | | | |
| | | | % |
| Black Murray Edward | | | 8.20% |
| Reserves (Probable) | | | |
| | Mt | % Cu | Mt |
| Productora | 166.9 | 0.43 | 562.9 |
| Resources (I&I) | | | |
| | Mt | % Cu | Mt |
| Productora (higher-grade) | 236.6 | 0.48 | 1.13 |
| Productora (lower-grade) | 218.0 | 0.16 | 0.34 |

Share Price Graph



Please refer to important disclosures at end of the report (from page 21)

Tuesday, 25 February 2020

Hot Chili

Cortadera packs a punch

Analysts: Jeff Sansom | Matthew Keane

Quick Read

Argonaut regards Hot Chili's (HCH) newly acquired Cortadera Project as one of the best undeveloped copper projects in the hands of a junior mining company. After acquiring the project in February 2019, HCH has rapidly shown the potential for a large scale, deep rooted copper porphyry system, mineralised from surface. We estimate that Cortadera could contain 2.0Mt of contained copper and 2.5Moz of contained gold, however with an IP anomaly to the immediate north, displaying similar characteristics to Cortadera, drilling activities could significantly increase the mineralised extents. The potential, for a major copper porphyry system at Cortadera, coupled with HCH's asset portfolio is likely to attract significant interest from major and mid-cap copper/gold and diversified miners. We assign a Speculative Buy recommendation with a \$0.08/sh target price.

Cortadera continues to grow | Positive

Transformative acquisition: The acquisition of Cortadera in 2019 marked a turning point for HCH. The transaction incorporated a staged US\$30m option agreement for the rights to four porphyry centres discovered across ~2km strike length. Following the acquisition, the Company immediately commenced drilling within Cortadera, primarily at Cuerpo 3. Through 2019, drilling results returned five of the best copper/gold porphyry intercepts in the world (since January 2018). The best intercept was 972m at 0.5% Cu and 0.2g/t Au from surface; including 412m at 0.7% Cu and 0.3g/t Au.

Building scale: Drilling has continued to extend known mineralisation of Cuerpo 3, the largest of the four porphyries. Based on preliminary estimates, Argonaut believes that Cortadera could hold ~460Mt of ore containing 2.0Mt Cu and 2.5Moz Au. We expect ongoing drilling to extend this prospect, which remains open in multiple directions. In particular, we look for growth from extensions at depth, with a potential connection to the neighbouring Cuerpo 2 porphyry and another discovery under an untested IP anomaly to the north of Cuerpo 3 (Cuerpo 3 North). On a consolidated basis, both Cortadera and Productora will likely comprise a mineral inventory in excess of 1Bt at grade of ~0.50% CuEq for ~5.0Mt contained CuEq.

High grade starter pits could fund bulk mine development: In addition to the large scale bulk tonnage operations, we see the potential for several smaller scale, high-grade starter open pits. These open pits could reduce the upfront capital requirement and generate near term cash flow to support the development of the larger, more capital intensive open pit and underground bulk mining scenario at Cortadera.

Recommendation

Argonaut values HCH on a sum of all parts basis incorporating an implied in-situ value/t CuEq for Cortadera and Productora (see page 3 for further details). We assign a Speculative Buy recommendation with a \$0.08/sh target price.

Investment thesis

The acquisition of Cortadera has bolstered HCH's portfolio of low altitude copper/gold assets...

Top tier mining jurisdiction

The recent acquisition of Cortadera for US\$30m (via three scheduled option payments) has significantly improved the portfolio of assets held by HCH. The assets are located within a mining friendly, low altitude region of Chile, surrounded by numerous large scale copper porphyry and IOCG style deposits operated by mid to large cap copper and diversified miners. ([READ MORE](#)).

Infrastructure advantage

Cortadera and Productora are located ~70kms to the east of an active port along a sealed highway with excellent access to rail, power and water infrastructure ([READ MORE](#)).

...with secured access to critical infrastructure and mining rights.

Under a current JV agreement, HCH has secured access to:

- shared infrastructure (port, power and water)
- surface rights;
- mining rights; and
- secured easements for the Productora and Cortadera projects.

Cortadera and Productora could hold 913Mt @ 0.52% CuEq...

Potential for a top tier operation

Based on recent drilling results, Argonaut has estimated that the four porphyry bodies (Cuerpo's) within Cortadera could hold a total of 460Mt of ore at an average CuEq grade of 0.5-0.6% with +2.5Mt CuEq with an in-situ metal value of ~\$17bn (based on US\$2.90/lb Cu price). If we include the known resources from Productora, the consolidated metal inventory is >900Mt of ore at a grade of ~0.5% CuEq ([READ MORE](#)).

...of sufficient scale to attract the attention of global majors.

Corporate appeal to attract major miners

Looking at Cortadera as a stand-alone asset, given Argonaut's mineral inventory estimates, we believe HCH represents a compelling early stage, growth copper opportunity. We expect a high level of interest from large cap, bulk tonnage underground copper and diversified miners with strong balance sheets looking for inorganic growth opportunities within mining friendly jurisdictions. We believe that HCH would prefer to identify an opportunity at a corporate level over a project level at this stage.

Given recent transactions in the copper space, we see that mid-tier producers are valuing companies based on an in-situ value of US\$215/t contained copper equivalent. In addition, on a fully diluted basis, we see HCH is trading cheaply compared to its peers. On an EV/contained copper basis, HCH trades on \$19.64/t CuEq ([READ MORE](#)).

The emerging copper thematic

Argonaut recently published [Copper to Lead the Charge in 2020](#), identifying copper as our key commodity pick for 2020, as well as identifying HCH as our top pick within the copper development space. With further positive drill results and as HCH continues to expand the extents of known porphyry mineralisation we see room for further value creation.

On a fully diluted basis, HCH is expected to have an EV of ~\$90m...

Valuation

Argonaut values Cortadera on a fully diluted projected EV/Resource basis. For this assumption, we have converted all of the 81,509 outstanding convertible notes (at a face value of \$100 per share) to derive an additional 244.6 million shares. We assume that the Company will require further equity in order to fund the final option payments of US\$10m (A\$14.5m) in July 2020 and US\$15m (A\$21.7m) in July 2021, however we believe that this may be satisfied through a range of options including investments by potential strategic partners. Subsequently, we model 1,967.3m shares on issue on a fully diluted basis. When including the remaining ~\$36m option payments for 100% of the Cortadera project, we calculate an enterprise value of ~\$90m.

Using a DCF valuation for Productora, at a 12% discount rate given the relative risks associated with the project, we achieve a standalone NPV₁₂ for Productora of \$0.08/sh. However, as Productora is less likely to be a standalone mine and processing facility, we feel that a more accurate reflection of value can be to determine a consolidated value based on in-situ value of contained copper equivalent metal (EV/Projected Resources).

According to S&P Market Intelligence, the average acquisition cost per in-situ tonne of copper since 2018 was ~US\$215/t contained copper and the average EV/Resource for listed copper developers (non-transactional) was A\$183/t of copper equivalent resources.

For Productora, given the lower grade nature of the project and the limited scale, we ascribe an in-situ copper equivalent value of A\$25/t. For Cortadera, due to the potential quality and scale of the project and accounting for the early stage nature, we ascribe an in-situ copper equivalent value of A\$50/t. We believe these multiples are conservative given the EV/Resource for developers and precedent transactions quoted above.

Table 1: Sum of parts valuation methodology

| Company | A\$m | A\$/sh |
|--------------|------------|-------------|
| Productora | 43 | 0.022 |
| Cortadera | 130 | 0.066 |
| Exploration | 25 | 0.013 |
| Corporate | (45) | (0.023) |
| Cash | 4 | 0.002 |
| Debt | 0 | 0.000 |
| Total | 157 | 0.08 |

Source: Argonaut

Based on our sum of the parts valuation methodology, we ascribe a value of \$0.08/sh.

Project Overview

Location

Cortadera lies 14km to the south east of HCH's Productora project in the low altitude (~800m elevation), coastal region of Chile, approximately 70km to the east of the Los Losas port and 700kms north of Santiago. Chile is a highly prospective IOCG and porphyry jurisdiction with a large number of active copper and copper gold systems. The Company also holds the highly prospective El Fuego prospects, which includes two potentially high-grade prospects located ~20kms from Productora, including San Antonio and Valentina.

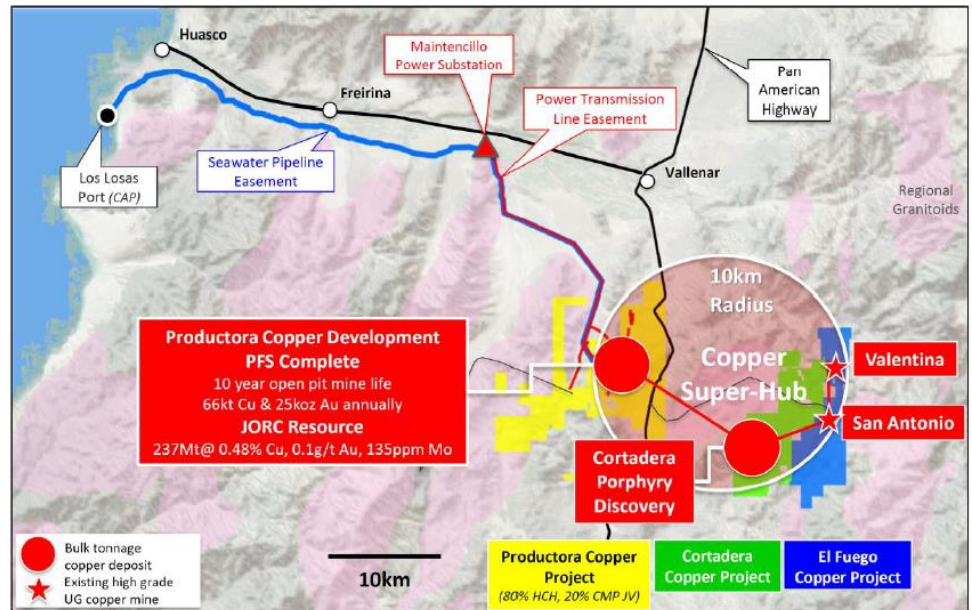
Figure 1: HCH portfolio of assets and surrounding infrastructure

... we value the sum of parts for HCH at \$0.08/sh.

HCH assets are located 70kms from port, close to a sealed highway.

Chile is a Tier 1 jurisdiction hosting many large Cu assets.

HCH holds the option to acquire 100% of Cortadera...



Source: HCH

According to the International Copper Study Group, in 2019 copper production from Chile was 5.6Mt, ~33% of world mine production. Chile hosts 7 of the top 20 largest copper producing assets, with Escondida and Collahuasi to the north of Cortadera, the largest and second largest copper producing mines in the world.

Transaction summary

In February 2019, HCH announced two acquisitions of two privately owned copper-porphyry assets, consolidating the Cortadera Project with mineralisation along a 2km strike, 14km to the south east of the Productora development project. The Cortadera project is approximately 70kms to the east of the Los Losas port, in central Chile.

Following 18 months of negotiations, HCH announced an agreement with a privately owned Chilean mining group, SCM Carola, for acquisition of 100% of the Cortadera Project which included the Cuerpo 2 and Cuerpo 3 discoveries. At the same time, HCH announced a second agreement was executed with another private Chilean group to acquire 100% of the Purisma mining right. The Purisma mining right is contiguous to the Cortadera Project and extends the strike length of the Cortadera project by 500m to the northwest and includes two additional porphyry bodies, Cuerpo 1 and 4. Total consolidated strike length of the Cortadera project is 2.3km, holding four identified porphyry bodies, Cuerpo 1 through to 4 with Cuerpo 3 being the largest at this stage.

Consideration for the two agreements include the following:

The Cortadera Project for US\$30m (A\$45m) payable in three instalments over 30 months.

- The first instalment of US\$5m has already been paid (H2 2019).
- The second instalment of US\$10m is payable in July 2020 and
- The balance of US\$15m is payable in July 2021;

The Purisma mining right consideration is US\$1.5m, of four instalments over 36 months.

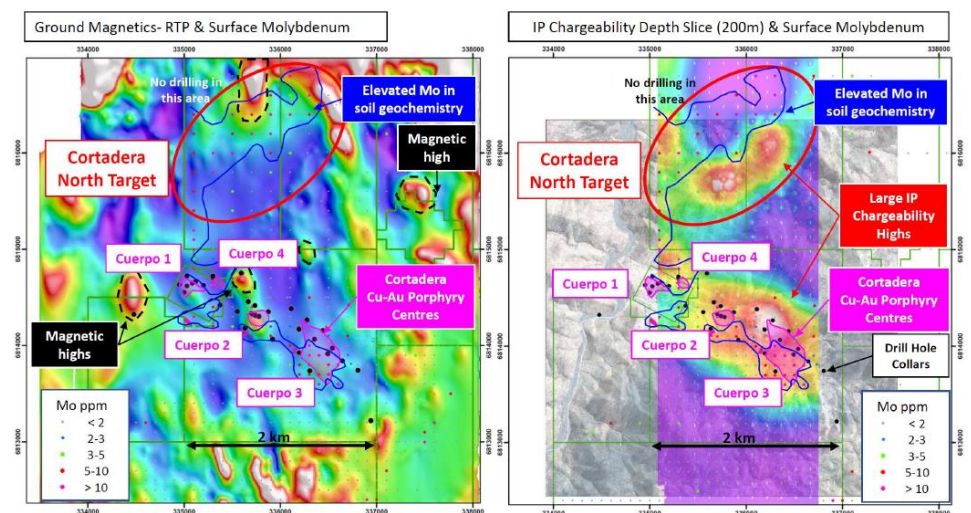
...an asset holding 4 porphyry structures over a 2km strike...

...following 3 option payments totalling US\$30m.

Cortadera also holds additional prospective IP targets.

Since its discovery in 2011, ~US\$15m has been spent on exploration activities across Cortadera, including 39 diamond drill holes for a total of 23,231 metres. Drilling has successfully identified low-grade copper/gold mineralisation extending from surface to approximately 1.2km depth (Cuerpo 3). Higher-grade sections had also been identified near-surface in association with chalcocite enrichment zones. In addition to the four identified porphyry structures (Cuerpo 1 through 4), HCH has identified an IP anomaly, approximately 2km to the north of Cortadera, of similar size and tenor to Cortadera. Drilling to test this anomaly is planned for the first half of 2020, which if successful could double the scale of Cortadera.

Figure 2: IP anomaly to the north of Cortadera – Cortadera North



Source: HCH

The initial strategy for the acquisition was to develop a “super-hub” with ore from both Productora and Cortadera transported to a central bulk tonnage processing facility. Exploration success has driven continued refinement of this strategy and it now appears that Cortadera has stand-alone potential, with Productora and El Fuego offering optionality to potentially improve the Cortadera economics by providing multiple ore source flexibility for high-grade blending.

Geology and drilling

The Cu-Au-Mo-Ag mineralisation at Cortadera is associated with a cluster of outcropping tonalitic porphyry bodies, which have been vertically intruded along a regionally significant NW-trending fault corridor, through a shallowly dipping sequence of intercalated felsic volcanoclastics and sediments. These porphyries have intruded into the early to mid Cretaceous Totorralillo and Nantoco Formations (variously stratified chemical sediments, volcanoclastics, bioclastics, volcanic breccias, and andesitic volcanic units) along an apparent NW structure.

A potentially large Cu-Au Type II Porphyry

Cortadera structures display characteristics of a Type II porphyry deposit with significant Cu-Au introduced in the transitional stage and late stage phyllic alteration without magnetite, indicating they are ‘soft in the middle’. The deposits also exhibit typical Cu-Au porphyry veining networks and associated alteration styles. As typical in porphyry deposits, Cu and Au are strongly related and higher-grade Cu and Mo are associated with

Cortadera displays Type II porphyry characteristics...

The core is indicated to be soft hosting higher Cu/Au grades...

...with deep zones of Cu/Au mineralisation from surface to ~1.2km depth.

high vein density. Other Type II porphyries include Chuquicamata, Oyu Tolgoi, Bingham Canyon and Grasberg.

The Cuerpo 3 deposit is oxidised to approximately 70m depth with transitional oxide/sulphide mineralisation extending to approximately 100m below surface. Copper is mainly associated with malachite and chalcocite within the oxide zone and chalcopyrite within the sulphide zone of the deposit.

Higher-grade copper mineralisation within the oxide zone is associated with chalcocite, while higher-grade copper mineralisation within the sulphide zones have been related to high-grade molybdenum.

Exploration identifies globally significant Cu-Au porphyry intercepts

Since the acquisition, HCH has focused its drilling activities within Cuerpo 3 to test for extensions of strike length and depth as well as to test for higher grade zones at depth.

Drilling has returned globally significant intersections...

Significant intersections from Cuerpo 3 include:

- 972m at 0.5% Cu and 0.2g/t Au from surface; including 412m at 0.7% Cu and 0.3g/t Au
- 848m at 0.4% Cu and 0.2 g/t Au from 112m; including 184m at 0.7% Cu and 0.3g/t Au
- 750m at 0.6% Cu and 0.2g/t Au from 204m; including 188m at 0.9% Cu and 0.4g/t Au
- 649m at 0.4% Cu and 0.1g/t Au from 330m; including 440m at 0.5% Cu and 0.2g/t Au
- 596m at 0.5% Cu and 0.2 g/t Au from 328m; including 184m at 0.7% Cu and 0.3g/t Au

...with Cuerpo 3 mineralised down to 1,200m across 750m length and 500m width.

Cuerpo 3 is interpreted to host wide, low-grade copper-gold mineralisation from surface and remains open at approximately 1.2km depth, with a higher-grade zone central core comprised of a blanket style chalcopyrite mineralisation at ~350m depth extending down to ~800m and is open up-dip and at depth. Cuerpo 3 has an interpreted strike length of 750m at an average width of 500m and is open at depth and laterally to the north and south.

Cortadera is located close to critical infrastructure...

Infrastructure and Logistics

Cortadera is located in the coastal range within Region III of Chile at ~800m elevation and 17km south of the township of Vallenar. The Productora and Cortadera projects are 14km apart and divided by the Pan-American Highway. The projects are adjacent to a sealed main road to the Las Lasos port and are adjacent to power line infrastructure and a rail corridor. The port is controlled by Productora Joint Venture (JV) partner Compania Minera del Pacifico S.A (CMP).

...and its JV agreement has secured access to shared infrastructure.

JV agreement secures access

In 2015, HCH announced a JV agreement with CMP, a significant, vertically integrated steel producer operating the El Alborrobo mine ~10km to the east of Productora. Under the JV, CMP earned 17.5% of the Productora project in return for access to shared infrastructure (port, power and water), secured surface and mining rights and secured easements for the Productora project. In 2016, CMP increased its stake in the project to 20% for an additional US\$1.5m. Under the JV agreement, HCH has secured access to established and critical future development infrastructure, which we believe will be leveraged in the development of the Cortadera project.

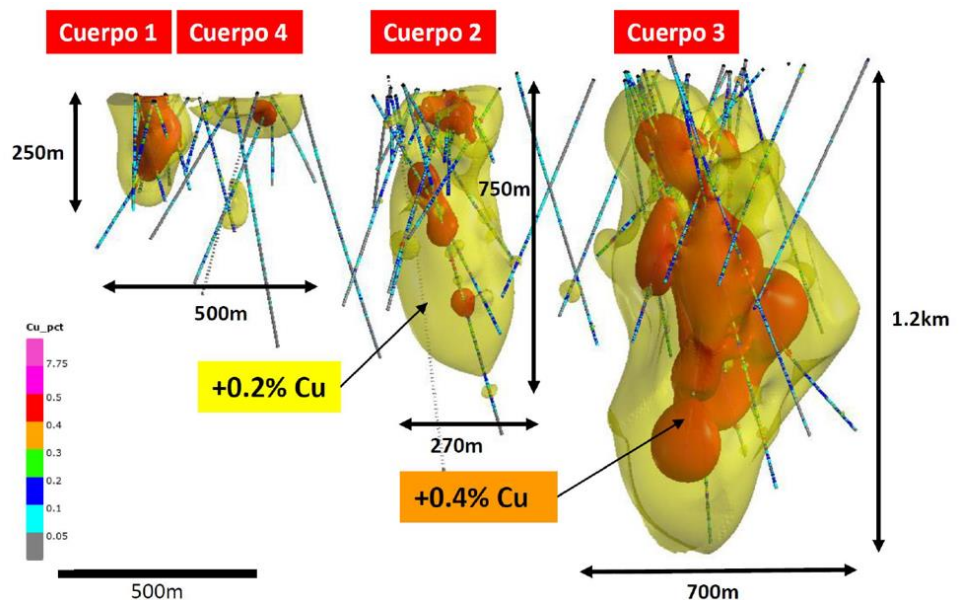
Scale potential

Drilling at Cortadera has improved HCH's understanding of the four porphyry structures.

Current estimate of Cortadera

Based on current drilling data, and assuming the orebody remains homogenous with continuity of grade and widths, it is reasonable to infer that mineralisation at Cuerpo 3 extends 1.2km deep with a strike length of 750m at an average width of 500m width. Cuerpo 2 is estimated at 750m deep with a strike of 550 and a width of 250m. Cuerpo 1 and 4 are estimated to be 250m deep with a strike of 500m and a width of 500m. Each of the porphyries appear to be comprised of a higher grade core surrounded by lower grade skarn.

Figure 3: Cortadera mineralisation envelopes



Source: HCH

All porphyries have a high grade core, surrounded by lower grades.

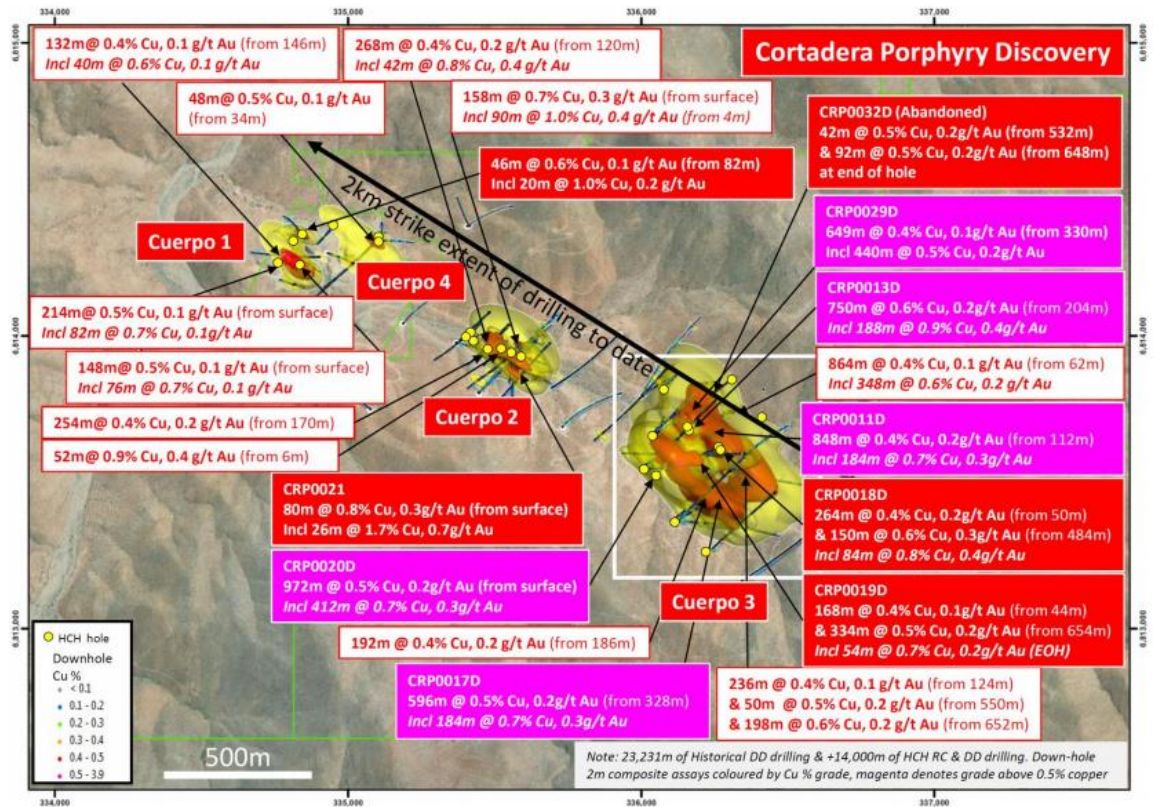
We calculate Cortadera could hold 460Mt of ore ...

Based on this, the Cortadera could be composed of 370Mt of higher grade mineralised ore at grades of 0.5% Cu and 0.2 g/t gold, roughly similar copper grades as Productora but with better a gold grade. The lower grade surrounding skarn is calculated to contain ~90Mt of mineralised ore at grades of 0.2% Cu and 0.05g/t gold. On the basis of this, we calculate Cortadera could hold a consolidated mineral inventory of 460Mt with 2.0Mt contained copper and 2.5Moz gold.

...distributed across 2km strike and four porphyries...

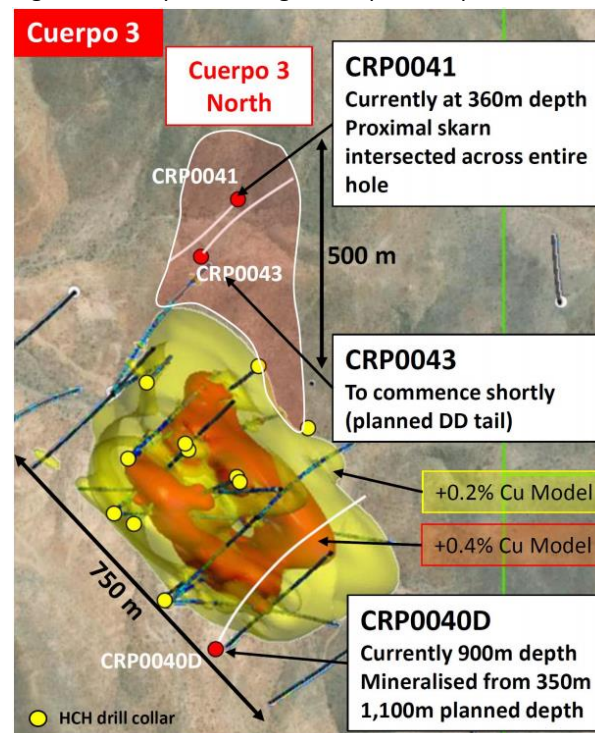
In the latest drilling update, HCH indicated that drilling has been successful in intersecting ~550m of mineralised to strongly mineralised porphyry from 330m down to 900m depth in a step out hole 100m to the south of the known extents of Cuerpo 3. Additionally, HCH has commenced drilling activities ~500m to the north of Cuerpo 3. Currently a reverse circulation hole has drilled to ~320m depth with visually identified skarn alteration intersected across the entire hole (thus far) indicating potential further growth of mining inventory.

Figure 4: Plan view of Cortadera recent drilling results



Source: HCH

Figure 5: Cuerpo 3 drilling and expansion potential



Source: HCH

...for a total of 4.7Mt CuEq...

On a copper equivalent basis (CuEq), at a copper spot price of \$2.90/lb and at gold spot price of US\$1,550/oz, we estimate, Cuerpo 3 could contain 2.1Mt CuEq, Cuerpo 2 could contain 0.2Mt CuEq and Cuerpo 1 and 4 could contain 0.2Mt CuEq for a total of ~2.6Mt CuEq at an average grade of 0.57% CuEq. This provides approximately 460Mt of mineralised ore. If we include Productora, Argonaut estimates that HCH holds 913Mt of mineralised ore containing ~4.7Mt CuEq. In context, on a tonnage and Au/Cu grade basis, HCH is positioned very competitively amongst peers.

...potentially extractable through a mixture of open pit and bulk underground mining methods.

Mining Proposition

Conceptually, we believe that Cortadera could hold a number of development options, including a mixture of open pit and bulk underground mining methods. Currently, Cuerpo 1 and 4 could represent open pit operations with starter open pit opportunities at Cuerpo 2 and 3. In its current form (ground conditions permitting), Cuerpo 3 could potentially support a block caving operation incorporating two lifts (600m each) with two blocks in each lift.

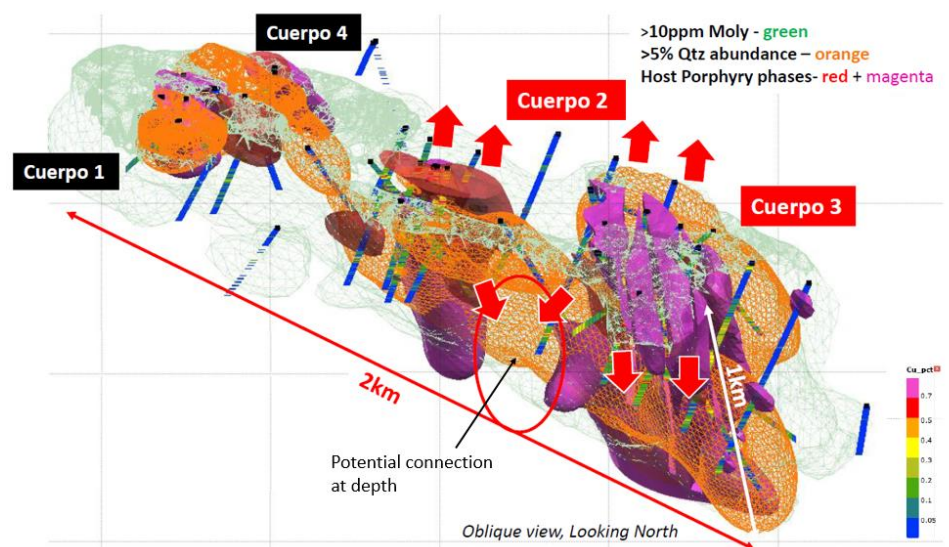
We value the in-situ metal at ~US\$17bn.

Based on a block caving operation and the associated tonnages, we take a simplistic approach and assume a conventional 20Mt flotation process plant that could produce 90kt pa copper concentrate and 110koz pa gold for nearly 23 years. This implies that Cortadera holds an in-situ metal value of ~US\$17b.

HCH have identified a potential linkage between Cuerpo 2&3...

Hot Chili has modelled historic drill data identifying a halo of lower-grade skarn alteration surrounding each porphyry structure. 'Orphan drill holes' between Cuerpo 2 and 3 have identified a potential link of skarn alteration between Cuerpo 2 and Cuerpo 3 and in the event that the linking structure holds economic copper grades at mineable widths, it could further increase the mineral inventory and significantly improve the economics of the overall Cortadera project.

Figure 6: Cortadera potential extensions highlighted in orange



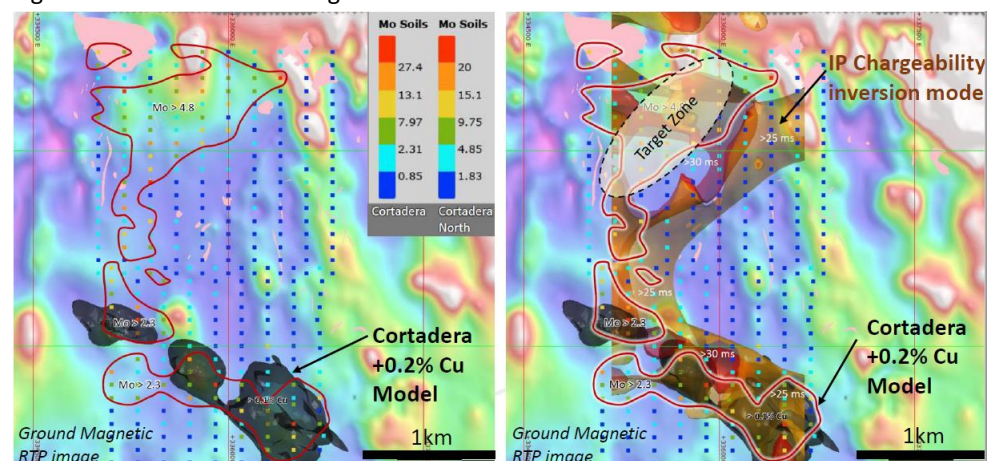
Source: HCH

... requiring further drilling but indicates potential upside.

Significant potential from IP anomaly

Approximately 2km to the north of Cuerpo 3, the Company has identified a major IP anomaly, approximately 1.5km in length and 500m wide displaying a similar chargeability and molybdenum soil geochemistry signature to Cuerpo 3. Drilling at Cortadera North is expected to commence after in 1H 2020 to test for the presence of mineralisation. Should drilling prove successful, Cortadera North could double the strike length of Cortadera.

Figure 7: Cortadera North target zone



Source: HCH

An IP anomaly to the north of Cuerpo 3 is further potential upside.

Development plans

Drilling has focused on Cuerpo 3, given its scale...

Since the acquisition in February 2019, the Company has focused the majority of its exploration activities on Cuerpo 3. Following a very successful preliminary drill campaign at Cuerpo 3, the Company expects drilling to focus on extending the broad, low-grade mineralisation at depth and along strike; extending the higher-grade mineralised zones through the central portion of Cuerpo 3 and also undertake preliminary testing of the Cortadera North IP anomaly.

Cuerpo 3 has been the focus

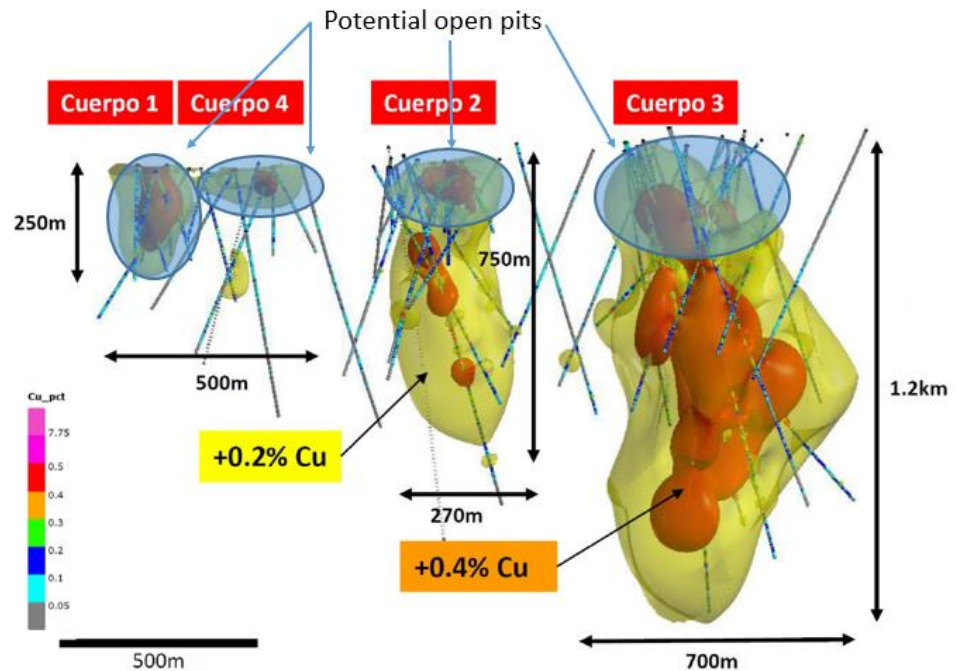
Extensional drilling at Cuerpo 3 is currently underway with the latest results providing another globally significant Cu-Au porphyry intercept including 649m at 0.4% copper and 0.1g/t gold from 330m including 440m at 0.5% copper and 0.2g/t gold from 472m, ending in mineralised porphyry.

Cortadera represents optionality

Given that HCH has identified a number of potential open pit opportunities within Cortadera, we believe that in the first few years, HCH could mine from several open pits at Cuerpo 1, 2, 3 and Cuerpo 4 and within the high-grade El Fuego deposits. Concurrent with open pit mining, HCH would develop through lower grade mineralisation at Cuerpo 3 to reach the beginning of the mineralised high-grade core (~350m below surface) where we expect that a block caving operation could commence. Any additional discoveries, i.e. Cortadera North, would provide further life extensions and ore from Productora could be transported in (conveyor or trucked) as a blending feedstock to further improve the mine life.

...however we believe Cortadera presents both open pit and underground opportunities...

Figure 8: Cortadera potential starter open pit opportunities



Source: HCH

...HCH development opportunities could include several starter high-grade open pits...

...with Cuerpo 1 through 4 all indicating potential open pits...

...to generate cash flows to support the development of the long-term UG mine at Cuerpo 3.

Exploration activities at Cuerpo 3 will continue throughout the first half of 2020 with the results collated into an initial resource estimate for Cortadera later in the year. As indicated above, we believe that this resource is likely to be significant, estimated by Argonaut to be ~460Mt.

Given the early nature of the discovery and the significant scale of the project, we believe that a development timeframe of six to ten years, akin to other similarly large scale porphyry projects such as Tujuh Bukit (MDKA:ID) in Indonesia.

Comparatives

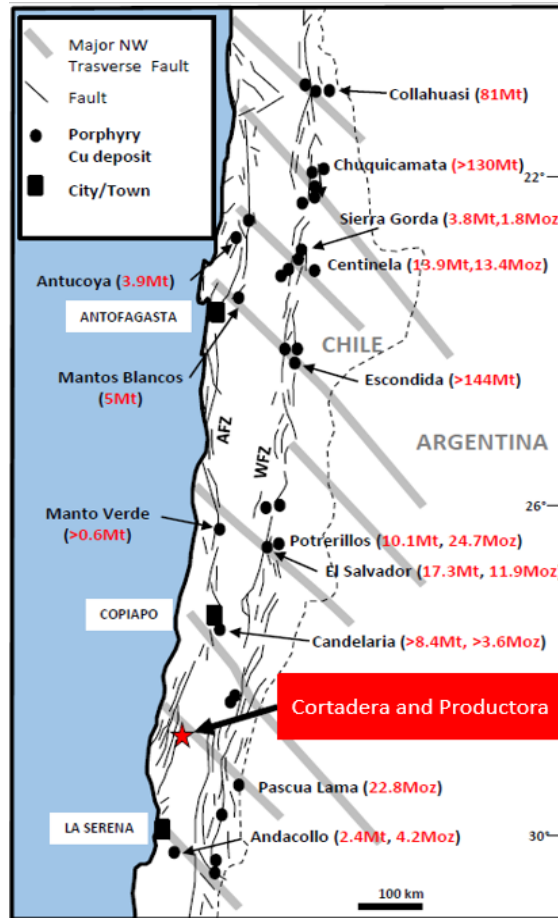
The US Geological Survey (USGS) has identified 277 giant porphyry-related mining camps in 41 countries across the world. The USGS identifies that Chile and Peru hold 44 of the largest (by tonnage) copper deposits, the smallest of which is San Rafael in Peru with 10.5Mt at 0.95% Cu to the largest, Chiniquimata (including Radomira Tomic, Exotica, Mansa Mina) in Chile holding 15.1Bt at 0.71% Cu and 0.01g/t Au.

HCH ranks favourably against giant porphyry style deposits.

Cortadera compares favourably to surrounding porphyry style camps

Based on Argonaut estimates, Cortadera could sit at 24th on this list with a copper grade broadly in-line with the average of 0.54% Cu. If Cortadera and Productora are consolidated, it would be the 15th largest (by tonnage).

Figure 9: Chile porphyry deposits surrounding Cortadera / Productora



Source: HCH

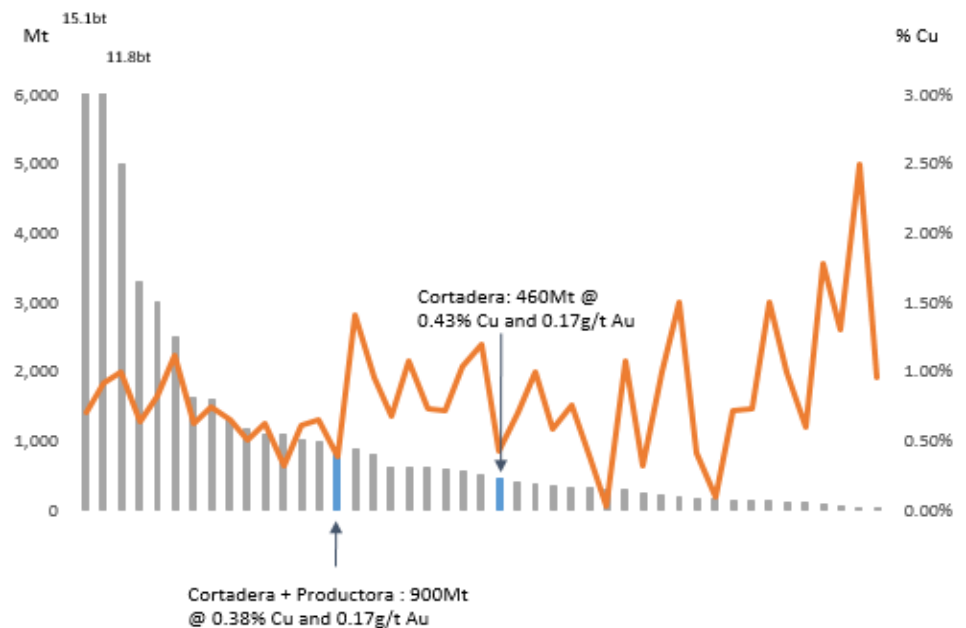
HCH is surrounded by large scale porphyry / IOCG mines...

...within a low altitude, mining friendly jurisdiction.

Jurisdictionally, Chile is one of the most sought after mining regions and according to the Fraser Index, of the 41 countries that host giant copper porphyries, Chile is ranked the best jurisdiction in terms of investment attractiveness and ranked fourth most transparent jurisdiction behind the United States, Australia and Canada on the Transparency Index.

Figure 10: Cortadera compared to other porphyry style camps in Chile and Peru

Productora and Cortadera are well placed amongst other deposits...



Source: HCH

...and trades cheaply.

Under Argonauts assumptions for Cortadera and Productora, HCH is trading on an EV/contained copper of \$19.64/t CuEq.

Table 2: Hot Chili and peer comparisons

| Company | EV/t contained CuEq |
|-------------------|---------------------|
| Hot Chili | \$19.64/t CuEq |
| SolGold | \$41.18/t CuEq |
| Regulus Resources | \$34.06/t CuEq |

Source: Argonaut, S&P Market Intelligence

We anticipate that HCH will progress quickly to establish a Maiden Resource for Cortadera and then continue onto Scoping Studies. At the completion of studies, HCH would become more attractive as an M&A target. Recent transactions involving Australian junior copper developer/producers being acquired by mid-tier producers indicate the following:

- Sandfire Resources acquired MOD Resources with 342.7kt contained copper for US\$119m
- OZ Limited acquired Avanco Resources with 1.01Mt contained copper for US\$345m.

In-line with recent M&A activity, HCH could achieve a value of US\$215/t in-situ Cu.

We looked at all corporate M&A activity since 2018, involving the acquisition of copper assets and determined that on average, mid-tier producers are paying US\$215/t contained copper equivalent.

Furthermore, we also looked at listed copper developers with a reportable copper resource and identified that on EV/Resources, copper developers are on average, valued on A\$183/t of copper equivalent resources.

Regional low altitude copper portfolio

HCH holds a portfolio of assets that hold significant potential value.

Currently, Cortadera is HCH's flagship, however the Company holds additional assets which could represent opportunities to improve Cortadera project economics to bolster the investment case.

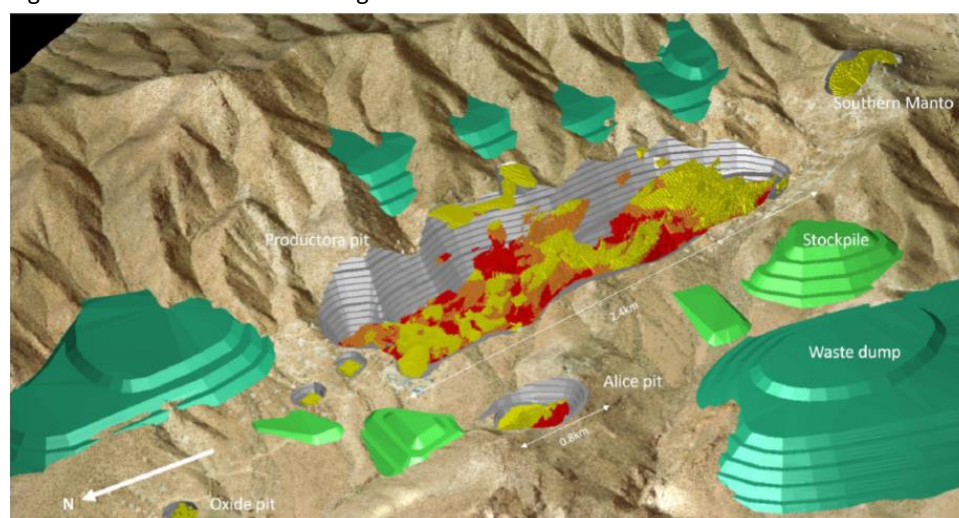
These additional projects include Productora and El Fuego.

Productora

Productora is indicated as a staged open pit operation...

Productora currently holds a total Resource that includes a higher-grade resource of 236.6Mt at 0.48% Cu and 0.1g/t Au and a lower-grade resource of 218.0Mt at 0.16% Cu and 0.04g/t Au. On a stand-alone basis, based on a total resource of 454.6Mt at a weighted average grade of 0.3% Cu and 0.7g/t Au, Productora has a mine life of 11 years with a capital cost of US\$720m. Under the PFS scenario released in March 2016 ([Link](#)), Productora is proposed to comprise of a several stage open pit mine with a process plant treating sulphide ore via a conventional concentrator and a heap leach operation treating oxide ore. The PFS assumes the production of a single copper-gold concentrate in addition to a molybdenum concentrate. A solvent exchange – electro winning (SX-EW) plant is proposed to produce copper cathode.

Figure 11: Productora PFS mining infrastructure



Source: HCH

...currently requiring further scale to justify development.

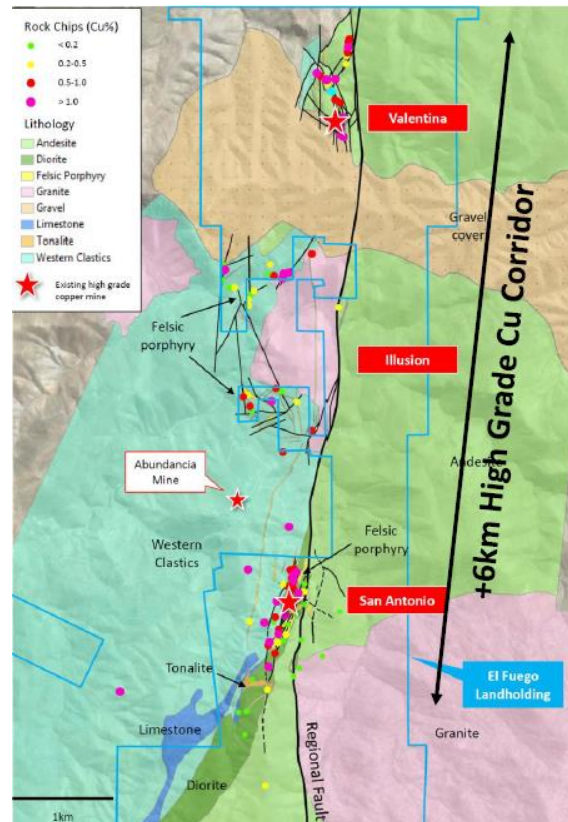
In its current form, Productora lacks the scale required to justify such a significant investment in mine and associated transport infrastructure, however could represent a large satellite mine, contributing supplementary or blend feedstock for any proposed Cortadera process plant.

El Fuego

El Fuego holds early stage, high-grade prospects that require further drilling.

El Fuego is comprised of two potentially high-grade prospects located ~20kms from Productora, including San Antonio and Valentina (4km from Cortadera).

Figure 12: El Fuego high-grade deposits



Source: HCH

...requiring further drilling

The Company has completed ~5,000m of drilling at El Fuego, with the majority completed at San Antonio, a historical copper mine which is reported to have produced ~2.0Mt at 2% Cu, 0.3g/t Au and 17g/t Ag since 1964.

High-grade intersections at San Antonio indicate potential open pit and underground projects...

Drilling has confirmed down dip extensions of historical mineralisation below the historical San Antonio mine area with best results including;

- 9m @ 2.0% Cu from 132m, 16m @ 1.1% Cu from 93m, including 5m @ 2.7% Cu, 6m @ 2.1% Cu from 65m, and
- 19m @ 2.0% Cu from 61m including 11m @ 2.4% Cu.

We believe that San Antonio could represent both an open pit and underground project that could provide supplementary higher-grade feed for Cortadera, however further drilling is required.

...Valentina also indicates high-grade shallow potential.

Drilling at Valentina has been successful in identifying high grade copper mineralisation with best intersections that include:

- 12m @ 1.5% Cu from 25m including 6m @ 2.7% Cu, and
- 8m @ 2.0% Cu from 124m including 2m @ 4.8% Cu.

Both could improve the economics of Cortadera development.

El Fuego requires further exploration to understand the opportunity that exists, however at a high level, San Antonio and Valentina could represent high-grade open pit opportunities as early access to cash flows to supplement other potential Cortadera open pits ahead of an underground development.

Corporate appeal

Copper is Argonaut's commodity top pick for 2020...

...high-quality, long-life assets are in significant demand, globally.

M&A activity has been muted in recent years...

...but appetite for acquisitions remain.

HCH is an early stage opportunity with significant corporate appeal.

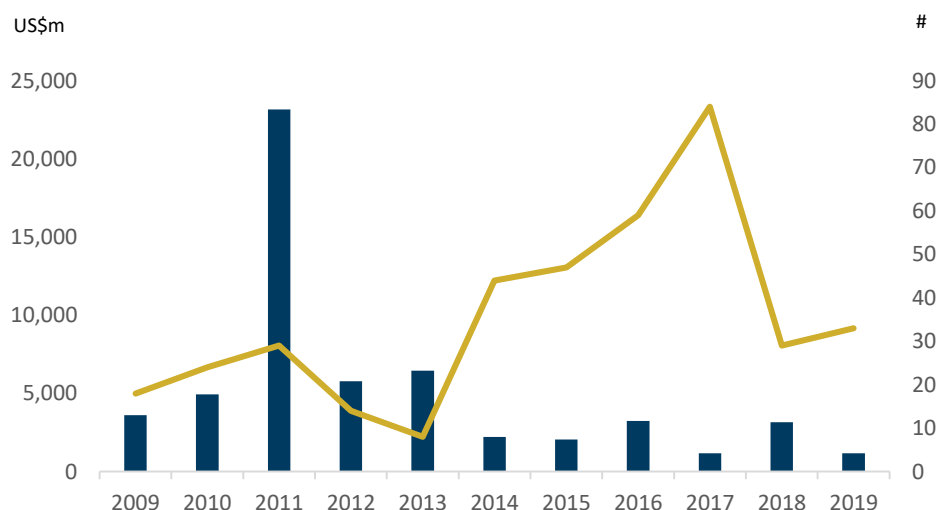
Copper is Argonaut's commodity pick for 2020

In a recent copper thematic report ([Copper to Lead the Charge in 2020](#)), Argonaut identified copper as our top commodity pick in 2020, a sentiment reflected by a large proportion of exploration / mining companies.

M&A opportunities are limited in the market

We find that high quality, long-life and low capital intensity copper assets in mining friendly jurisdictions are in significant demand from mid to large cap miners. In recent history, there have been several transactions where juniors that have progressed copper projects to an advanced exploration / development stage have been subject to M&A activity from larger producers.

Figure 13: Number (line, RHS) and value (bar, LHS) of corporate copper M&A



Source: Argonaut, S&P Market Intelligence

2019 was a soft year for copper M&A with 33 corporate transactions announced for a value of US\$1.2bn compared to 29 announced in 2018 for an announced value of US\$3.2bn, primarily related to Zijin's acquisition of the NevSun Resources copper-gold Timok porphyry project in Serbia (100% global resource estimated at 15.6Mt Cu and 2.2Moz Au) for US\$1.4bn. In 2019, notable acquisitions included Zijin increasing their equity stake in the Timok project and Sandfire Resources acquisition of MOD Resources.

While 2019 provided a muted M&A landscape, it was most likely a reflection of the limited pool of potentially large scale open pit / caving operations with a mine life that can justify the significant development capital required (usually +10-15yrs mine life). Based on our estimates, Cortadera has the potential to fit these pre-requisites. Given the significant cost to drill-out and develop a large scale porphyry system, we believe HCH will assess potential strategic partnerships with mid to large cap producers with a strong balance sheet and experience in large scale block caving operations. We see that it would be advantageous for HCH to entertain a corporate level strategic opportunity rather than at the asset level at this early stage. This model has been successfully used by SolGold to generate shareholder value and leaves the asset unencumbered for potential future corporate activity, i.e. M&A.

Risks

Funding – At the end of December 2019 HCH held \$4.3m in cash and cash equivalents and, we see HCH holding \$1.9m at the end of March 2020, after expected cash outflows during the quarter. In order to fund the 2020 drilling campaign and the remaining option payments, we believe HCH will require additional funding, which may come in the form of corporate activity or through traditional equity markets.

Furthermore, should drilling continue to identify continuity of porphyry style mineralisation, (i.e. connecting Cuerpo 2 and 3 at depth or with drilling success at Cortadera North), drilling will likely be accelerated further. In addition, HCH will also require significant capital to progress the Cortadera project through feasibility studies and then into development. We believe that corporate activity could be elevated and that HCH may be entertaining discussions with a range of debt and equity providers, including investments by potential strategic partners or corporates with a balance sheet sufficient to meet the requirements for the development of the project.

Scale – Currently Productora does not contain the scale necessary to justify the significant capital estimated to develop the requisite mining infrastructure. However, Cortadera does have this potential, but is still at an early stage. With further drilling, we expect HCH to gain a further appreciation of the orebody(s) and progress through the required processes to demonstrate the scale of Cortadera and justify the significant potential development capital expenditure.

Vendor risk – In early 2019, HCH announced the execution of two Option Agreements, one for 100% interest Cortadera and a second for 100% interest in the Purisma mining right. The total strike length of the discovery consolidated by the two Option Agreements is 2.3km.

We understand that the vendor agreement is a purchase agreement and the exchange of final titles will be facilitated through an external third party on final payment. HCH has met the first instalment payment for Cortadera of ~\$5m. The second payment of US\$10m is due in June 2020 and the final payment of US\$15m is due in June 2021. HCH has no ongoing commitment to make any further instalment payments and should they choose to make no further instalments, they lose their legal claim to the project.

Board

Board bios have been adopted from the Company website

Murray Edward Black

Non-Executive Chairman

Mr Black has over 35 years' experience in the mineral exploration and mining industry and has served as an executive director and chairman for several listed Australian exploration and mining companies. He part-owns and manages a substantial private Australian drilling business, has interests in several commercial developments and has significant experience in capital financing.

Christian Ervin Easterday

Managing Director

Mr Easterday is a geologist with over 17 years' experience in the mineral exploration and mining industry. He holds an honours degree in geology from the University of Western Australia, a Masters degree in Mineral Economics from Curtin University of Technology and a Masters degree in Business Administration from Curtin's Graduate School of Business. Mr Easterday has held several senior positions and exploration management roles with top-tier gold companies including Placer Dome, Hill 50 Gold and Harmony Gold, specialising in structural geology, resource development and mineral economic valuation. For the past eight years, Mr Easterday has been involved in various aspects of project negotiation. This work has involved negotiations and valuations covering gold, copper, uranium, iron ore, nickel, and tantalum resource projects in Australia and overseas. Mr Easterday is a member of The Australian Institute of Geoscientists.

Dr Allan Trench

Non-Executive Director

Dr Allan Trench is a geologist/geophysicist and business management consultant with over 20 years' experience across a range of commodities. His minerals sector experience spans strategy formulation, exploration, project development and mining operations. Allan holds degrees in geology, a doctorate in geophysics, a Masters degree in Mineral Economics and a Masters degree in Business Administration. He currently acts as independent director to a number of emerging resources companies, both in Australia and overseas.

Allan has previously worked with McKinsey & Company as a management consultant, with Woodside Petroleum in strategy development and with WMC both as a geophysicist and exploration manager. He is an Associate Consultant with international metals and mining advisory firm CRU Group and has contributed to the development of that company's uranium practice, having previously managed the CRU Group global copper research team. Allan maintains academic links as an Adjunct Professor to the Western Australian School of Mines, Curtin University of Technology.

Michael Anderson

Non-Executive Director

Mr Anderson has 20 years' industry experience, largely in southern Africa and Australia. His career commenced as a geologist with Anglo American, followed by roles in the metallurgical and engineering industries with Mintek, Bateman and Kellogg Brown & Root.

He subsequently held senior management positions including Corporate Development Manager at Gallery Gold Limited, and most recently and relevantly as Managing Director at Exco Resources Limited, where he successfully oversaw the funding and development of the White Dam Gold Project, and the completion of feasibility studies on the Company's Cloncurry Copper Project prior to its sale to Xstrata. He joined Taurus as a Director in August 2011 and is also a Non-Executive Director of ASX-listed Base Resources Ltd.

Roberto de Andraca Adriasola

Non-Executive Director

Mr. de Andraca is a business manager with 20 years' experience in the financial and mining business. Over the last 4 years he has been working in the main Iron Ore and Steel Producer in Chile, CAP S.A and is currently the Vice President of Business Development overseeing infrastructure development and new business related to non-core assets. He is also overseeing the construction of the first desalination plant dedicated 100% to producing water for mining companies in the north of Chile. Mr. de Andraca has finance experience working at Chase Manhattan Bank, ABN Amro and Citigroup, working both in Chile and in New York and holds a MBA from the Adolfo Ibañez Business School of Chile. He is currently a director of Puerto Las Losas, a port in the Atacama Region of Chile.

Randall Nickson

Non-Executive Director

Mr. Nickson has more than 35 years of global experience in the mining industry, including 14 years based in Chile devoted to copper exploration. His career includes work across a range of base and precious metals, bulk commodities and energy. He holds an honours degree in Geological Engineering and a Masters degree in Business Administration.

Randall is currently engaged as an independent consultant to the exploration sector, specializing in business development, commercial advisory and business evaluations. Prior to that he spent 16 years with BHP, where he worked in a variety of senior technical, exploration management and business development roles while based in Chile, Brazil and Australia. He is a member of the Australasian Institute of Mining & Metallurgy and the Prospectors and Developers Association of Canada.

Melanie Leighton

General Manager- Technical Services Group

Ms Leighton holds a degree in Geology from the University of Western Australia, is a Member of the Australian Institute of Geoscientists, and has greater than 15 years' experience within the mineral exploration industry. She has held project and senior geologist roles with several Australian listed companies including Hill 50 Gold and Terra Gold, gaining practical and management experience within the areas of exploration, mining and resource development. Ms Leighton has extensive experience in exploration, mining, feasibility studies and resource development in a range of commodities and acts in a project/ technical management role for Hot Chili in regard to resource estimation, land management, systems development and data integration and stakeholder relations.

José Ignacio Silva

Country Manager & Chief Legal Counsel

Mr Silva gained his law degree at the University of Chile, and studied Masters in International Business Law at the University College London. He has more than 10 years' experience in litigation, commercial and mining law and business negotiations and in Tier 1 law firms in Chile. Mr Silva has also completed 2 years' work experience in London, UK in Financial Fraud at the Serious Fraud Office, where his team successfully prosecuted a high level case of corruption of foreign officials. Mr Silva has been working with Hot Chili since July 2009 and in 2011 became Chief Legal Counsel. He is responsible for mining rights acquisitions, mining consolidation, deal negotiations and business development among other things, working directly with the board of Hot Chili.

Dr John Beeson

Lead Consultant - Structural Geology

Dr Beeson has over 20 years' worldwide experience in multiple-commodity mineral exploration for companies including Placer Dome, Goldfields and Pancontinental Mining. He specializes in structural geology with a PhD and post-doctoral experience from the University of Western Australia and leads Hot Chili's structural mapping and modelling work. Dr Beeson's recent work has seen his involvement in the exploration and assessment of large multi-commodity projects in Australia, Africa, Europe and Asia.

Dr Scott Halley

Lead Consultant - Geochemical

Dr Halley has more than 20 years' experience as an exploration geologist and has developed industry-leading expertise in exploration techniques based on mapping alteration zonation patterns using spectral mineral mapping and lithogeochemistry. He has contributed to significant gold discoveries at Henty in Tasmania and at Raleigh in the Kalgoorlie region of Western Australia. Dr. Halley has worked for Geopeko, RGC, Goldfields and AurionGold, and as an internal consultant for Placer Dome developing new exploration techniques and transferring them to exploration teams as new protocols.

Greg Hall

Lead Consultant - Generative Geology

Greg is a Director of Golden Phoenix International Pty Ltd a geological consulting company. Greg was Chief Geologist for the Placer Dome Group from 2000 to 2006. He managed Placer Dome's exploration activity in China from 1993 to 2001. Before joining Placer Dome in 1988, he managed exploration in Western Australia for CSR Limited. He made significant contributions to the discovery of Rio Tinto's Yandi iron ore mine in the Pilbara region of WA and to Barrick's Granny Smith gold mine in WA including Keringal and Sunrise satellite gold mines. He was educated at the University of New South Wales and graduated with Bachelor of Applied Science (First Class Honors) in 1973.

Terry Hoschke

Lead Consultant - Geophysics

Terry Hoschke is a geophysical consultant with extensive global experience in gold and base metal exploration. He has significant experience in copper-gold porphyry exploration using geophysical techniques.

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