

Hot Chili Limited

Mining - Copper

BUY

HCH A\$0.030 TARGET PRICE A\$0.17

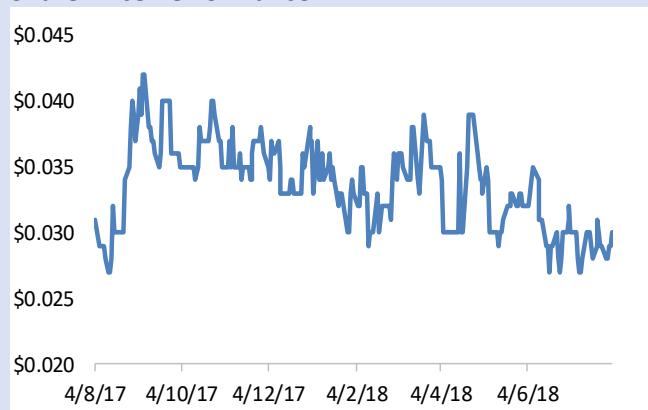
Hot Chili Limited (HCH) is an Australian company, advanced in developing its flagship Productora Copper Project on the coastal range in Chile. HCH is partnered with Chile's largest iron ore miner, Minera del Pacifico S.A. (CMP). Success of the drill programs undertaken at the El Fuego Copper Project could materially change the nature and scale of the Productora Copper Project as both life extension and expansion opportunities are investigated. We currently maintain our base case valuation of AUD197M (AUD0.17 per share on a fully diluted basis) but note that this could increase substantially as the opportunities are assessed. Our valuation scenarios are attached in Appendix 1.

Company Data

Number of Shares	743.9 M
Market Capitalisation	\$22.3 M
Number of Shares (Fully Diluted)	1,191.9
Market Capitalisation (Fully Diluted)	\$35.8 M
Free float (%)	N/A
12-month high/low	\$0.043/\$0.026
Average Daily Turnover (\$m)	0.0008
% S&P/ASX200	N/A
DDM Ranking	N/A
% All Ordinaries	N/A
GICS Industry Group	Non-Energy Minerals

Source: FactSet, EverBlu Capital

Share Price Performance



Source: Factset

San Antonio Reveals Its Potential

El Fuego Options Coalesce

- The recently secured Lulu, San Antonio and Valentina high grade satellite copper deposits could provide critical mass for the expansion of Productora into a higher margin and larger scale copper operating centre. These areas have been consolidated into the El Fuego Copper Project.
 - San Antonio consists of a high grade underground mine which has reportedly produced approximately 2Mt grading 2% copper, 0.3g/t gold and 17g/t silver from shallow depths since mining commenced in 1964.
 - Valentina contains an operating high grade underground copper mine with several significant historical drilling intersections which have not been effectively followed up. Assay results are pending.
 - Lulu represents the direct extension of one of the regions highest grade underground mines on which no modern exploration has been undertaken.
- HCH recently completed its 5,000m RC drilling programme: 39 holes at San Antonio and 3 holes at Valentina. Drill results from a further 23 holes are expected over the coming weeks.
- HCH continues to expand its surface mapping and sampling programme across the El Fuego copper project.

Wide, High Grade Copper Confirmed At San Antonio

- Initial drilling results have confirmed the continuation of the Main Lode below the mine, returning several wide, high grade drilling intersections from shallow depths from around 10m.
- Results indicate strong continuity of drilling intersections over about 700m strike extent, with the orebody remaining open at depth and along strike.
- Wide zones of copper mineralisation (20m to 30m) have been confirmed by the drill programme (SAP0031 - 53m grading 0.9% copper, 3g/t silver from 72m down-hole depth including 27m grading 1.3% copper, 3.9g/t silver).
- Analysis of drill results also indicates that mineralisation dips much shallower than initially interpreted increasing the potential for open pit extraction as well as indicating that the majority of down-hole drilling intersections represent near true widths of mineralisation.
- Mapping and sampling results have also confirmed and delineated five large targets within an area extending approximately 3km south of San Antonio as well as a potential large-scale mineralised copper zone extending along the eastern flank of the San Antonio copper mine.
- HCH is waiting for the receipt of all assays prior to planning its next phase of exploration and resource definition activities.

Early Indications of Success at Valentina

- The Valentina copper mine, located approximately 5km north of San Antonio, has now also been tested by initial first-pass drilling.
- Three shallow drill holes were completed to confirm the presence of significant high-grade copper mineralisation, where historical drilling had reportedly recorded an end-of-hole significant drill intersection of 11m grading 2.0% copper (including 7m grading 2.7% copper) from 120m down-hole alongside the eastern flank of Valentina.
- Two of the three drill holes completed have recorded wide zones of high grade copper mineralisation from shallow depths for which assay results are pending.

Company Background

Summary

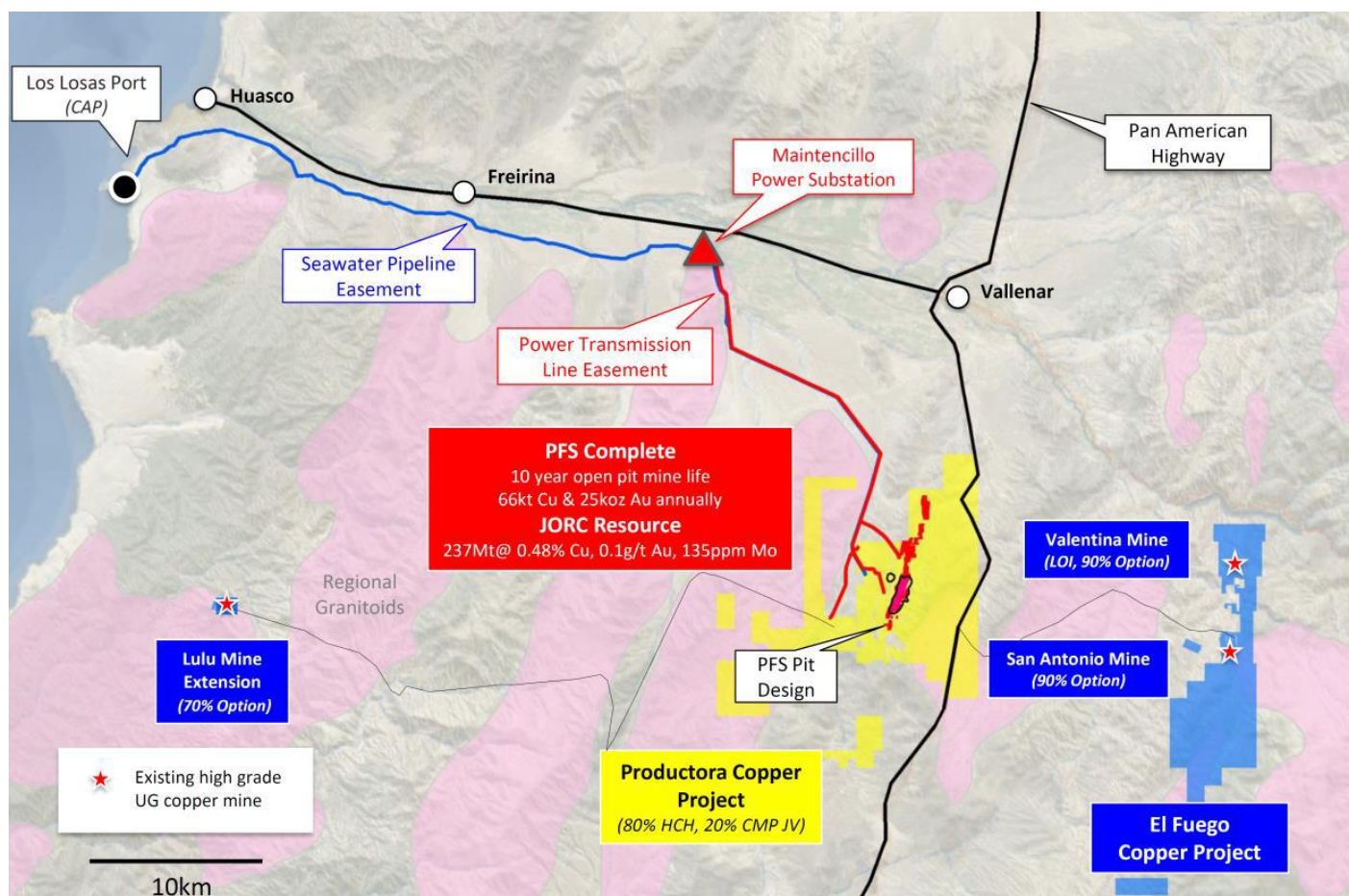
In March 2016 HCH completed a PFS on the Productora Copper Project. Studies centred on open-pit mining of Productora via two large sulphide open pits and five smaller oxide open pits. Processing utilised conventional technology for a 14Mtpa sulphide concentrator and a 3.3Mtpa heap leach and Solvent Exchange and Electro-Winning (SX-EW) circuit.

The project is considered cost competitive when compared to global copper producers with C1 cash costs of US\$1.47/lb paid metal (including credits) and C3 cash costs of US\$2.28/lb paid metal (including credits).

HCH will also control options over three landholding positions (San Antonio, Valentina and Lulu) which make up the El Fuego Project and contain or are adjacent to three substantial high-grade underground copper mines - all of which lie within close development distance of Productora. The options will enable HCH to acquire up to 90% holding in the El Fuego Project with additional 100% owned adjacent exploration applications.

El Fuego offers HCH the opportunity to test – and if successful - establish a significant high-grade copper resource inventory from copper mines which have been family owned for generations and not previously subjected to modern exploration or resource definition.

FIGURE 1: HCH PROJECTS



Source: Company Reports

El Fuego Drilling Results

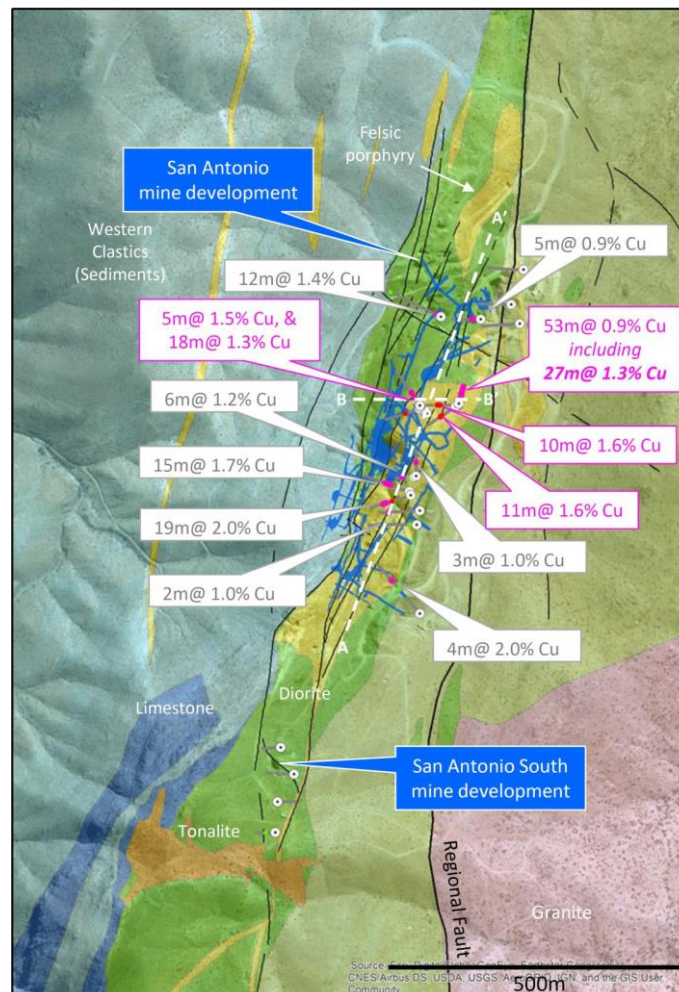
Wide, High Grade Copper Confirmed at San Antonio

A total of 39 RC drill holes for approximately 4,600m have been completed. Assay results for about half of the holes have been received so far. Initial drilling results have confirmed the continuation of the Main Lode below the mine, returning several wide high-grade drilling intersections from shallow depths including:

- 19m @ 2.0% Cu from 61m down-hole depth including 11m @ 2.4% Cu
- 15m @ 1.7% Cu from 80m down-hole depth
- 13m @ 1.3% Cu from 17m including 5m @ 2.3% Cu
- 10m @ 1.6% Cu, 3.2g/t Ag from 58m including 4m @ 2.7% Cu, 6.1g/t Ag
- 5m @ 2.5% Cu, 9.3g/t Ag from 31m including 2m @ 4.3% Cu, 13.9g/t Ag
- 18m @ 1.3% Cu, 2.9g/t Ag from 52m including 5m @ 2.1% Cu, 4.6g/t Ag
- 11m grading 1.6% Cu, 11.1g/t Ag from 83m including 1m @ 0.6% Cu, 82.5g/t Ag,
- 53m @ 0.9% Cu, 3g/t Ag from 72m including 27m @ 1.3% Cu, 3.9g/t Ag

Results for the remaining 23 drill holes completed at San Antonio are expected to be received over the coming weeks and will provide an insight into grade continuity across the 700m of strike length.

FIGURE 2: PLAN OF SAN ANTONIO DEVELOPMENT AND DRILL HOLE LOCATIONS



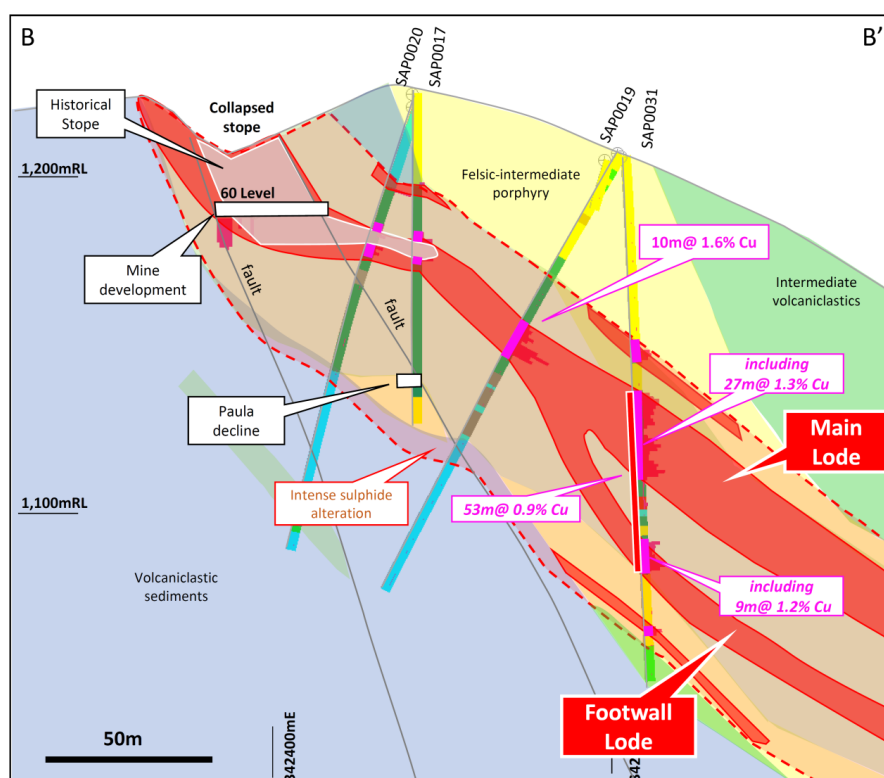
Source: Company Reports

Analysis of drill results also indicates that mineralisation dips much shallower (approximately 30-40° dip towards the east) than initially interpreted as displayed in Figure 3 below. This is an important development for two reasons:

1. The majority of down-hole drilling intersections represent near true widths of mineralisation, and
2. Higher tonnage per-vertical-metre would increase the likelihood that any potential resource would be amenable to open pit extraction.

Visual confirmation of multiple wide zones of copper sulphide mineralisation (chalcopyrite) have been recorded from drill holes for which assay results are pending. Ten of those holes recorded wide drilling intersections of intense (+5%) chalcopyrite mineralisation, which primarily lie down-plunge of the widest section of the San Antonio Main Lode.

FIGURE 3: CROSS SECTION OF SAN ANTONIO MAIN LODE



Note the shallow dip of high grade copper mineralisation and confirmation of wide high-grade copper at depth in SAP0031.

Source: Company Reports

Mapping directed towards the southern extension of the San Antonio trend and close to the San Antonio mine area has identified and confirmed 5 large, high priority, mineralised copper targets as displayed in Figure 4. These targets include shear-zone hosted vein and replacement systems, brecciated zones, manto zones and porphyry copper occurrences. Each of the five targets show attractive size and surface metal distribution and selected a combination of structural setting; evidence of copper mineralisation; copper soil anomalism; and visual alteration.

The San Antonio East target, located along the eastern flank of San Antonio, is the largest target identified and comprises occurrences of porphyry copper mineralisation and a K-feldspar tourmaline breccia zone that extends over a strike length of at least 600m and a width of approximately 100m. Copper mineralisation at San Antonio East is associated with chalcopyrite, bournite and copper oxides/carbonates evident as replacements and in veins. Porphyry-style stockwork vein types observed include dark mica veins, quartz veins and sulphide veins.

6 August 2018

Gavin van der Wath | T:+61 2 8249 0000 | E:gavin.vanderwath@everblucapital.com

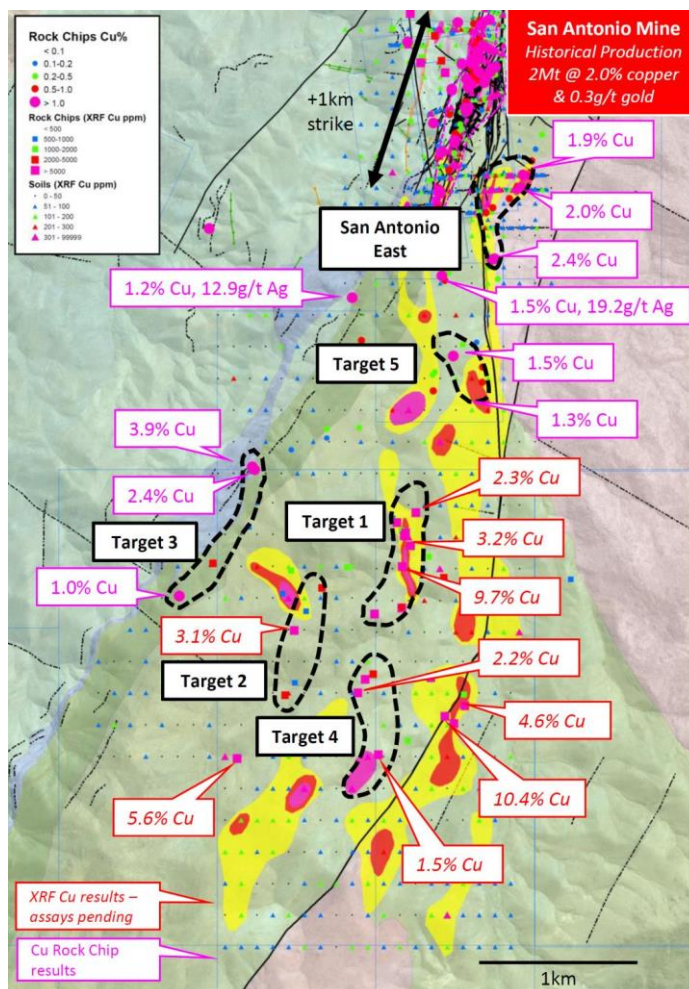
A programme of in-fill soil geochemistry and detailed target mapping is planned to assist with future drill design and scheduling against a growing number of high grade copper targets within the El Fuego copper project.

Planning and preparation for the initiation of geophysical surveys to further refine these targets has started.

FIGURE 4: SAN ANTONIO AREA HIGH PRIORITY TARGETS

The San Antonio East target is the largest target identified and comprises occurrences of porphyry copper mineralisation

Mapping has identified and confirmed 5 large, high priority, mineralised copper targets to the south



Source: Company Reports

Appendix 1

Valuation & Price Target

Summary

HCH has been on both a conservative basis as well as a bull market situation. The assumptions and forecasts used are detailed in the different scenarios presented later in this section. We would value HCH conservatively at AUD197M or AUD0.17/sh. A bull market valuation could reach or even exceed AUD596M.

We have converted all the notes into shares at AUD0.033. This would create an extra 339.4M shares, increasing the current number of shares to a fully diluted 1,191.9M. The valuation assumes HCH 80% ownership and a fully diluted share capital structure.

FIGURE 2: VALUATION OF PRODUCTORA – HCH 80% OWNERSHIP (1,191.9M SHARES ON ISSUE)

	Value (USDM)	Value (AUDM)	Value (AUDps)
Conservative Valuation	156	197	0.17
Bull Market Valuation	471	596	0.50

Source: Company Reports, EverBlu Estimates

Valuation Scenarios

We have used the following assumptions in the calculation of our base case scenario for 100% of the Productora Copper Project in US dollar terms. All our scenarios assume an average production rate as stipulated in the table using different copper prices and discount rates. The gold and molybdenum prices have been kept constant. Scenario 5 has been included to give an indication of what valuation we could expect should commodities in general, and copper in particular, enter a bull market.

FIGURE 3: MAJOR ASSUMPTIONS – BASE CASE

Item	Assumption
Ownership	80%
Project Life	11 years (incl ramp up)
Project Construction	2 years
First Production	Year 3
Mining Method	Open Cut Mining
Tonnage Mined (peak)	89Mtpa
Ave Ore Processed	17Mtpa
Cu Price	USD3.00/lb
Mo Price	USD14.00/lb
Au Price	USD1250/oz
Total Cash Cost	USD1.68/lb excl by-product credits
Capital Expenditure	USD725M
Maintenance Capital	USD13M/a
Average Grade Cu	0.43%
Average Grade Mo	0.01%
Average Grade Au	0.1g/t

Cu Recovery - Sulphide	86%
Ave Cu Payability	97%
Royalty	2% on Cu and Mo and 4% on Au (applies only to Uranio 1/70 tenement - 30-year lease from Comisión Chilena de Energia Nuclear- CCHEN)
Tax Rate	27%
Average Cu Production	57kt/a
Average Mo Production	1kt/a
Average Au Production	22koz/a

Source: Company Reports, EverBlu Estimates

Scenario 1 - Base Case

In our base case scenario we have used the parameters included in our table above. Most operational parameters used originate from the Productora Project PFS completed in March 2016. The table below reflects the NPV's of the project at different discount rates and copper prices. Our conservative estimate for Productora is USD195M. Attributable valuation to HCH is assumed at 80% resulting in a valuation of USD156M or AUD197M.

FIGURE 4: PRODUCTORA DCF VALUATION (USDM) SCENARIO 1
11 YEAR LOM, CU GRADE 0.43%

Copper Price (USD/lb)	3.00	3.50	4.00
Discount Rates (%)			
5.0%	336	645	954
7.5%	195	453	711
10.0%	86	303	521

Source: Company Reports, EverBlu Estimates

Attributable value to HCH is estimated at USD156M or AUD197M at an exchange rate of AUDUSD=0.79

Scenario 2 - Bulk Tonnage Extension

It is believed that further drilling on Productora could increase the resources and reserves leading to an improvement in the bulk tonnage mine life. The following table reflects the increases in NPV if the project was able to increase its life to 20 years at the same throughput and grade.

FIGURE 5: PRODUCTORA DCF VALUATION (USDM) SCENARIO 1
20 YEAR LOM, CU GRADE 0.43%

Copper Price (USD/lb)	3.00	3.50	4.00
Discount Rates (%)			
5.0%	830	1 317	1 804
7.5%	518	893	1 267
10.0%	300	595	890

Source: Company Reports, EverBlu Estimates

Scenario 3 - High Grade Blend

The Valentina and San Antonio mines have given indications that the bulk feed to the sulphide plant could possibly be sweetened by the higher-grade ore available. In Scenario 3 we have assumed that around 10% of the sulphide ore feed (around 14Mtpa) could be supplemented by underground feed from one of abovementioned mines. In this scenario we have investigated the effect of blending 1.4Mtpa at a grade of 2.5% into the plant feed. This would result in overall copper grade being raised to 0.6% from 0.43%. We have ignored increased gold grades and have assumed a capex cost of USD60m to develop the underground mine and a production cost of USD40/t inclusive of ongoing capital requirements.

The next table gives a reflection if the overall grade was able to be increased by a high-grade blend as mentioned above for the full life of the project of 11 years.

FIGURE 6: PRODUCTORA DCF VALUATION (USDM) SCENARIO 3
11 YEAR LOM, CU GRADE 0.6%

Copper Price (USD/lb)	3.00	3.50	4.00
Discount Rates (%)			
5.0%	700	1 138	1 570
7.5%	505	865	1 225
10.0%	347	650	953

Source: Company Reports, EverBlu Estimates

Scenario 4 - Bulk Extension & High-Grade Blend

Scenario 4 includes the bulk extension to 20 years LOM as well as incorporating a high grade blended feed for the duration.

The subsequent table gives an indication of the upside available should HCH be successful in implementing its strategy.

FIGURE 7: PRODUCTORA DCF VALUATION (USDM) SCENARIO 4
20 YEAR LOM, CU GRADE 0.6%

Copper Price (USD/lb)	3.00	3.50	4.00
Discount Rates (%)			
5.0%	1 379	2 059	2 739
7.5%	945	1 468	1 990
10.0%	639	1 051	1 462

Source: Company Reports, EverBlu Estimates

Scenario 5 – Copper Bull Market Scenario

If copper were to enter a bull market, we believe that the copper price forecasts used in the model would go up to at least USD3.50/lb. Furthermore, we would expect that the scenarios investigated above would be factored into the valuation in some fashion. Using a 7.5% discount rate, the table below gives an indication of this increase in valuation of the entire Productora Project.

FIGURE 8: PRODUCTORA DCF VALUATION (USDM) SCENARIO 5
7.5% DISCOUNT RATE AND USD3.50/LB CU

Attributable value to HCH is estimated at USD471M or AUD596M at an exchange rate of AUDUSD=0.79

Copper Price (USD/lb)	Factor (%)	3.50	Valuation
Scenario 1	75%	453	340
Scenario 2	10%	893	89
Scenario 3	10%	865	87
Scenario 4	5%	1 468	73
Total	100%		589

Source: Company Reports, EverBlu Estimates

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EverBlu Capital provides research services to its client. Mr van der Wath is a Research Analyst and has over twenty-eight years' experience in the financial services industry, particularly in financial analysis, research report writing and portfolio management as well as twelve years' practical mining experience as a Mining Engineer. Mr van der Wath joined the EverBlu team in 2016 where he has been involved in the research and publication of reports. Prior to this Mr Van der Wath worked at a number of financial entities where he held Director, Head of Research, Portfolio Manager and Analyst positions. Mr van der Wath holds a Bachelor of Science (Mining Engineering) and a Graduate Diploma in Engineering (Industrial) from the University of the Witwatersrand and a Bachelor of Commerce from the University of South Africa. He also holds Mine Manager's Certificates of Competency in both Metalliferous and Coal Mines.

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The author Gavin Van Der Wath made contact with Hot Chili Limited for the preparation of this report for the verification of facts.

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