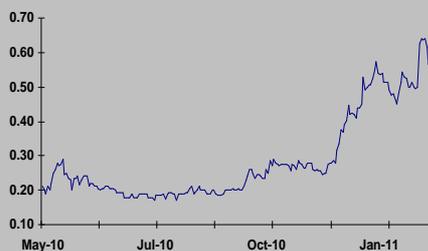


24 February, 2011
QUICK NOTE # 142
RECOMMENDATION:
SPECULATIVE BUY
S/T PRICE TARGET:
\$0.81

ASX	HCH
Share price	\$0.59
Mkt cap. ¹	\$84.3m
Ordinary shares on issue ¹	89.2m
Ordinary Shares (Restricted)	53.6m
Un-listed Options ²	40.2m

¹ Diluted FPO Source: IRESS
² Various dates at 20c

12 MONTH PERFORMANCE


Source: IRESS

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Hot Chili Limited (HCH)

Productora drilling escalates

HCH have announced an escalation in their drilling at the flagship Productora IOCG-U Project in Chile, with the commencement of a resource diamond drilling program. The 16,000m first pass program has now been concluded and diamond drilling is required to extend a number of holes that finished in mineralisation and to test for down dip extensions to the copper zone being mined at the current Productora mine. Results continue to come through from the first pass program, which confirm the continuity and tenor of mineralisation over the entire 1.4km long Central Lease Area. We maintain our Speculative Buy recommendation and leave our S/T price target unchanged at \$0.81

Key Points

- Drill results from HCH's flagship project continue to confirm the robust nature of the Productora deposit, with wide intersections of multi-element mineralisation (89m at 0.8% Cu equiv.) in the breccia zone at the southern end of the Central Lease Area. Four holes drilled by the Productora underground mine operator also confirm continued copper mineralisation south of the mine development.
- HCH have now completed their 16,000m first pass RC program at Productora but have already initiated a diamond drilling resource drill out program to extend the known limits of the mineralisation to a depth of 350m and to drill diamond tails to 18 RC holes that either finished in mineralisation, or did not reach their targets, due to rig performance constraints. HCH's second project, Los Mantos, will be the subject of its maiden drilling program within two weeks.
- HCH have already been able to perform preliminary modelling of the geology and drill results encountered so far. This will be used as the basis for a maiden resource estimate scheduled for completion by late in the 2Q2011. We are estimating a resource tonnage between 40Mt and 60Mt in the Central Lease Area and have taken the mid point (50Mt) as the basis for our price target
- However, we already know that the mineralised structure continues to the south, extending the strike length from 1.5km to 2.5km on ground controlled by HCH. We have not factored this mineralisation into our tonnage or P/T estimates as yet, nor have we factored any value for the Los Mantos Project.
- We believe that once the maiden resource estimate has been completed, HCH will swiftly move to initiating a preliminary, scoping level economic analysis of Productora to identify the parameters of a potential open pit operation.

Productora Results

Results from the first pass RC drilling program at Productora continue to come through. The latest results are a combination of HCH drilled angled RC holes and vertical holes drilled by the current mine operator in an attempt to increase the extents of known mineralisation to the south of the existing underground mine.

Information from the four vertical holes drilled by Playa Brava, the operator of the Productora Underground Mine, was made available to HCH. In order to verify the sampling, HCH performed due diligence on one hole, involving multi-element analysis and geological logging to validate the results. The operator only assayed for copper with all four holes recording significant intersections including 58m at 0.7% Cu; 28m at 0.9% Cu; 30m at 0.8% Cu; and 42m at 1.0% Cu equiv.

One hole was received from the southern extent of the Central Lease Area, drilled by HCH, which penetrated the mineralised breccia. An intersection of 86m at 0.8% Cu equiv. confirms the thickness and continuity of the breccia zone and replicates the handful of holes that have actually penetrated the breccia unit in its entirety.

Diamond Drilling to extend depth

HCH have planned several deep diamond drill holes to extend several RC holes that stopped in mineralisation and to drill holes to achieve a vertical depth of around 350m. Intersections here would extend the known mineralisation a further 100m to 150m down dip which could, if sufficiently mineralised, add significant tonnage to the maiden resource estimate.

Four of these holes have been planned, which will cover the extent of the 1.4km long Central Lease Area. Other holes have also been planned to intersect the mineralised zone beneath the existing Productora Mine.

HCH envisage drilling 3,000m of diamond drilling over a total of 18 RC hole extensions where drilling stopped in mineralisation due to rig constraints, 4 deep holes and those planned under the mine.

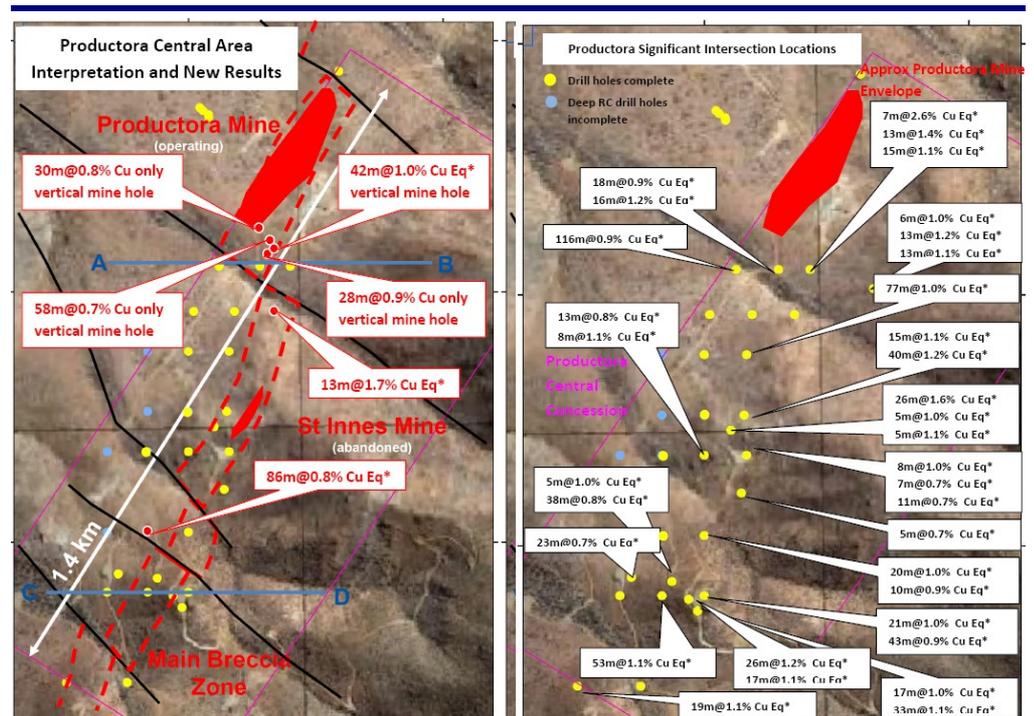


Figure 1. New hole locations and results with existing results (right)

Source: HCH

Maiden resource on schedule for mid-year

HCH plan to complete the resource drill out for Productora in time to release a maiden resource estimate by late 2Q2011. We are estimating a resource tonnage between 40Mt and 60Mt and have taken the mid point (50Mt) as the basis for our price target using an EV/Resource tonne benchmark of ASX listed copper explorer peer companies.

Should results from the diamond drilling program prove positive, we could see the total coming in closer to the upper limit on that estimate. We also believe that the company will have enough information from its maiden resource to be able to initiate an order of magnitude economic (Scoping) study for Productora.

HCH have already been able to undertake some preliminary modelling of the drill results. Figure 2 below shows a 'Leapfrog' model based on the drilling as it currently exists and shows the Productora Underground Mine infrastructure in relationship to the mineralised zone modelled by HCH to the south within the Central lease Area.

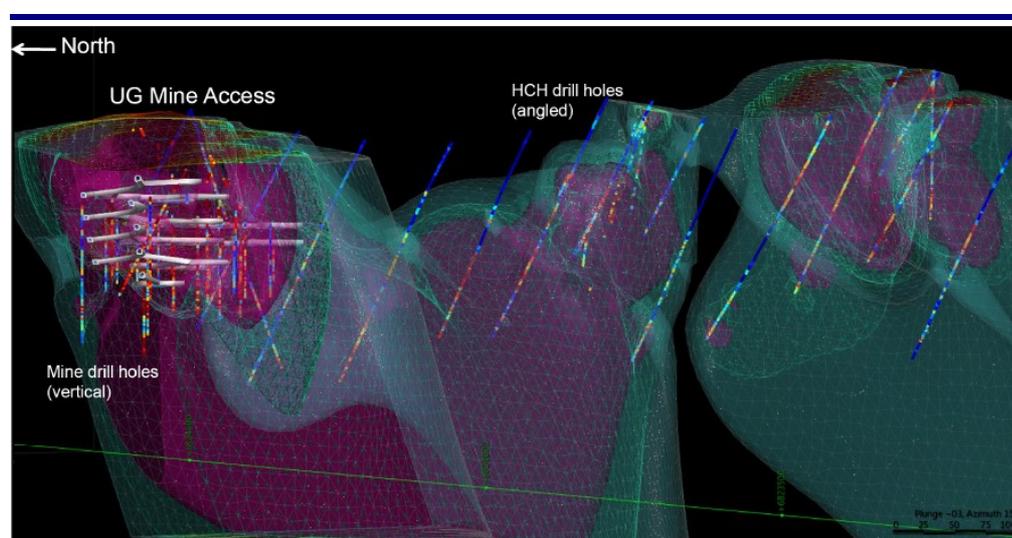


Figure 2. Leapfrog Model of the Productora deposit

Source: HCH

PanAust acquires 59.3% of Chilean copper-gold project

In an interesting recent development, Australian based copper producer PanAust (ASX:PNA) has received Presidential Approval for the acquisition of a 59.3% beneficial interest in the Inco de Oro Project, north of Productora, located on the margins of the IOCG Belt. Codelco, the original owner and world's biggest copper producer, will be JV partner with a 34% interest. PNA will hold a 90% interest in Inco de Oro S.A. through PanAust Minera with the remaining 10% being held by an Australian private company, The Minera Group.

PNA will pay a total of US\$55.3m which includes US\$10m required to fund a feasibility study. PanAust Minera has also agreed that Inca de Oro S.A. will pay a 2% net-smelter return royalty to Codelco, capped at US\$30m.

The Inca de Oro Project has an existing resource of 259Mt at 0.46% Cu and 0.13% Au (Mo grades of 0.011%), being a lower grade than Productora. Attributable resources to PNA would be 153.6Mt for 860,000t of contained copper. A PFS completed by Codelco envisaged a conventional open pit mining and floatation operation supporting annual production of 50,000 tonnes of copper and 40,000 ounces of gold in concentrate. This is an equivalent size and grade to the Cerro Negro IOCG deposit in Chile. The deal shows that deposits of this size are attractive targets for mid-size companies and PanAust Minera have stated they are actively seeking other project opportunities.

Synopsis – The song remains the same

The results announcement continues to show good continuity in both geology and grade and provides confidence that the deposit hangs together over a considerable distance. The Central Lease Area will form the focus for the maiden resource estimate, but we already know that the mineralised structure continues to the south, extending the strike length from 1.5km to 2.5km on ground controlled by HCH. We have not factored this mineralisation in our tonnage or P/T estimates yet nor have we factored any value for the Los Mantos Project.

HCH intend to start its maiden 10,000m first pass RC drill program over Los Mantos within two weeks. Substantial mantos horizons have been mapped and sampled at surface and from within the existing underground mine, which interestingly, has never been drilled. Surface results indicate higher grades than those at Productora, but presumably within shorter intersection lengths, confined by the distribution of the mantos.

We maintain our Speculative Buy recommendation and \$0.81 P/T but would look towards a review of this once drilling results start to be released from Los Mantos.

This Research report, accurately expresses the personal view of the Author.

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Analyst Declaration:

The Author of this report made contact with **Hot Chili Limited** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The Author of this report holds securities in **Hot Chili Limited**.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on **Hot Chili Limited**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPECULATIVE BUY – 10% out-performance, but high risk

ACCUMULATE – 10% or more out-performance, buy on share price weakness

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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