

30 June 2014

RECOMMENDATION

Speculative Buy

Equity Valuation \$0.96

Price Target \$0.75

12 month volume 63.9m
12 month share low \$0.17
12 month share high \$0.54

Market Risk High
Liquidity Risk Med
Infrastructure Risk Low
Country Risk Low

IRESS & DJC Research

ISSUED CAPITAL

ASX HCH
Share price \$0.20
Mkt cap¹ \$69.5m
Ordinary shares on issue¹ 348m
Options (various) 43.8m

Diluted for new shares Source: IRESS

DIRECTORS

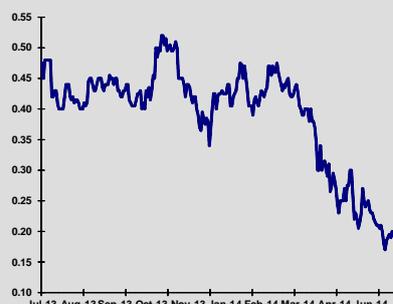
Murray Black Chairman
Christian Easterday Managing Director
Dr Alan Trench Non-Exec Director
Michael Anderson Non-Exec Director
Roberto de Andraca Non-Exec Director

MAJOR SHAREHOLDERS

Kalgoorlie Auto Services Pty Ltd 19.7%
JP Morgan Nominees 13.4%
Citicorp Nominees 10.3%
Merrill Lynch 8.8%
Port Finance 5.3%

As at 15 February 2013

12 MONTH PERFORMANCE



Source: IRESS

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Hot Chili Ltd (HCH)

CMP / HCH to execute MOU on Infrastructure Agreement

HCH announced today that the company and its project partner, CMP, are progressing towards the execution of an MOU on a joint infrastructure for the Productora Project. CMP completed its due diligence and are now finalising legal documentation. CMP board approval is still to be obtained, which we estimate could take 4 weeks. It is only after this that the market will know the all-important terms of the agreement. Until then, it's business as usual. Also, first draw-down on the US\$25m debt facility has occurred to enable recommencement of drilling and study work in order to update the resource and reserve in 2H 2014 and for completion of the PFS which we estimate will be completed 1Q 2015.

Key Points

- **Infrastructure Agreement with CMP/CAP is a step closer:** HCH has announced progress on the Joint Infrastructure Agreement between HCH and CMP, its project partner at the Productora Copper Project. The agreement itself has still not been signed but CMP has successfully completed its due diligence and is now progressing towards the execution of the documents. The execution and announcement of the terms are still subject to final legal review and CMP board approval, so for now, it's business as usual and we don't anticipate much of a reaction until the agreement is finally done. We expect this take anywhere up to 4 weeks so would anticipate an end-of-July completion. Having said that, we view the news positively but it still leaves the market without a definitive answer to questions around the terms, which will no doubt include project equity arrangements between the partners going forward.
- **First draw-down on US\$25m debt facility:** Sprott Resource Lending Partnership (Sprott) provided a US\$25m secured debt facility term sheet to HCH for use in the completion of the Productora PFS. HCH has taken first draw down on this facility of \$10m, to enable the recommencement of operations to increase the resource and reserve and the outstanding study work to complete the PFS. We estimate a 1Q 2015 completion date for this after the 6 month delay experienced through 1H 2014.
- **Data room open:** Discussions are continuing with several major groups who have access to the HCH data room. These groups would presumably include some of the existing strategic investors but potentially also new groups. The groups involved relate to the on-going funding and development of the project and we expect that most of these would require the completion of the PFS in addition to the completion of the Infrastructure Agreements before making any decision on wanting to get further involved.
- **Recommendation:** We maintain our Speculative Buy recommendation on HCH and leave our target price unchanged at A\$0.75.

US\$25m debt facility terms

The major terms of the debt facility are as follows:

- Total facility amount of US\$25 million.
- Term of 12 months, with an option to extend for a further 12 months subject to certain conditions and an extension fee of 2% of the amount outstanding, payable in Hot Chili shares.
- Repayable prior to maturity, in full or in part, at the option of Hot Chili without penalty, provided a minimum of 6 months of interest has been paid.
- Interest rate of 12% per annum, payable monthly.
- Establishment fee of 1% of the facility amount payable in cash, plus 11 million Hot Chili equity options with an exercise price of A\$0.30 and a maturity of 5 years.
- Security package including general security over the property of the Company and guarantees from the Company's Chilean subsidiaries.

After draw down of the first \$10m, the remaining US\$15 can be drawn down subject to further security directly over Productora mining concessions, and HCH reaching agreement and substantially implementing the proposed Joint infrastructure agreement with CMP.

Change of control covenants and market covenants, including restrictions on incurring further debt and minimum working capital requirements are also included.

Disclosure Disclaimer

RCAN1202

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

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The Author of this report made contact with the **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 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% or more outperformance, high risk

BUY – 10% or more outperformance

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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