

Materials

Hot Chili Limited (HCH)

HCH add second high-grade copper project to advance high-grade satellite strategy

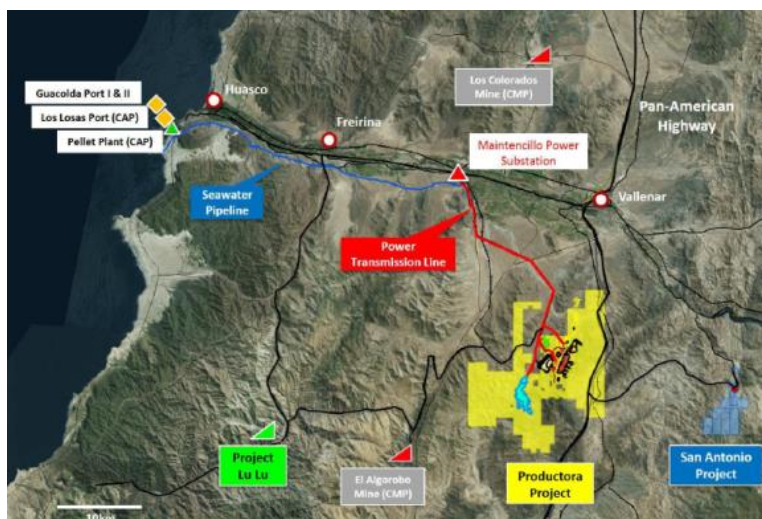
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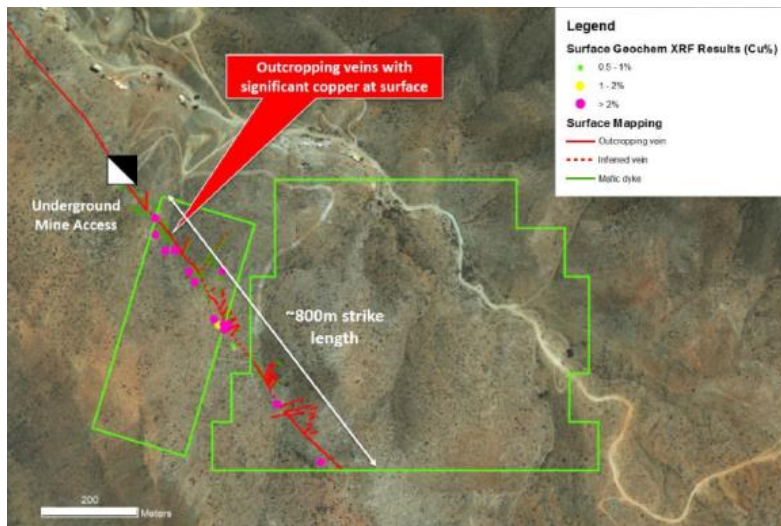
Current Price: \$0.041

Key Points

Technicals

- HCH has made an agreement with a well-known Chilean family to take an option over the extension of one Chile's highest grade historical copper projects
- Named Lulu, the project is located 30km west of Productora and within trucking distance.
- A "road" already connects Lulu with Productora
- Lulu is the extension of a substantial UG copper project which reportedly has been developed to a depth of 600m on vein structures, averaging 6% copper and 3 g/t gold
- Higher grade ore shoots within the mine, who shaft lies just to the north of the project boundary, are up to 7m wide and average 12% copper and 5g/t gold
- HCH's LOI with the Chilean family is for a 70% interest
- The project has never been drilled
- It lies at an altitude of 950m
- It is therefore considered early stage but given the proximity to the existing operation and the high grade sampling conducted on the structure at surface, we believe the project is brownfields
- 800m of the host structure has been confirmed over the ground under the LOI
- The structure dips at 60-70 degrees southwest and at surface, where observed, is a carbonate vein varying in width between 0.7m and 2.3m
- Sulphide copper mineralisation is associated with chalcopyrite, bornite and minor covellite. It is the bornite mineralisation that gives the structure its grade.
- Oxidation persists to a depth of 75m





Deal Structure

- Once again, the agreement has been made within HCH's 100% subsidiary, Frontera, and is over a 4-year period
- US\$75k upon formal execution of the JV option agreement
- US\$75k 12 months from execution
- US\$150k 24 months from formal execution
- US\$150k 36 months from formal execution
- US\$2.0m 48 months after formal execution
- Exploration expenditure at the discretion of HCH over the first 36 months.
- JV owner to be able to exploit 50,000 tonnes per annum

In Conclusion

This agreement has come less than a week from the announcement of an LOI over the San Antonio copper project located to the east of Productora, also within trucking distance. HCH are not wasting any time in trying to secure the regions high grade resources as secondary mill feed to the flagship bulk tonnage Productora project.

We have seen what the effect is of adding a minor amount of higher grade tonnage to a bulk low-grade feed source with our brief example in our last flash note. The Lulu Project however, if successfully exploited and milled at Productora, would have an even greater effect on average head grade if the grades in the structure reflect the grades seen in the adjacent mine.

To provide a further example:

Productora feed :	12.0Mt at 0.5% Cu
San Antonio :	1.0Mt at 2.0% Cu
Lulu :	0.5Mt at 4.0% Cu

Total : 13.5Mt at 0.74% Cu

In the example above, a relatively small amount of higher grade fed has the effect of lifting the head grade by circa 50%

HCH are still to drill Phase 2 of their exploration strategy on the proximal porphyry targets immediately adjacent to Productora. Porphyry copper deposits are generally known for their bulk-tonnage, low grade - between 0.4% Cu and 0.6% Cu. Success here would see additions to mine life but at these grades, may not materially affect the head grade.

The strategy of targeting the regions high grade deposits directly addresses the head grade and is likely to have a larger impact on project economics than the development of a second bulk tonnage target at similar grade, at least in the early years of the operation. Higher grades at the start of the operation would drive NPV higher and reduce the payback period.

We assume that exploration will begin at Lulu as soon as drill permitting is obtained, sometime in Q4.

In addition, the copper price continues to remain buoyant with copper prices now at US\$3.11/lb.

HCH provides a high degree of leverage to the copper price. Any successful exploration results from either San Antonio and/or Lulu over the course of the next quarter should be received positively.

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Regards

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