

18 March 2011

RECOMMENDATION

Speculative Buy

S/T Price Target

\$0.98 per share

12 month volume	88.5m
12 month share low	A\$0.17
12 month share high	A\$0.75

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

IRESS & DJC Research

ISSUED CAPITAL

ASX	HCH
Share price	\$0.65
Mkt cap ¹	\$96.6m
Ordinary shares on issue	89.2m
Ordinary Shares – Restricted	59.4m
Options (Nov 2013, 20c)	40.7m

¹ Diluted *Source: IRESS*

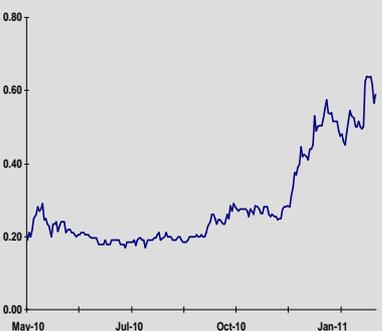
DIRECTORS

Murray Black	Chairman
Christian Easterday	Managing Director
Dr Alan Trench	Executive Director

MAJOR SHAREHOLDERS

Kalgoorlie Auto Services Pty Ltd	32.2%
Port Finance Ltd	5.0%
CMP	5.0%
Ajava Holdings Pty Ltd	4.0%
Norman Mountford	3.2%

12 MONTH PERFORMANCE



Source: IRESS

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Hot Chili Ltd (HCH)

Productora tonnage re-think on latest results

HCH have released the latest batch of drilling results from their Productora IOCG-U project in Chile, which indicates a previously unknown thick brecciated mantos horizon exists on the western side of the vertical breccia zone. This alters the interpretation and has resulted in an increase in our tonnage estimates. HCH are still on target for their first resource estimate by mid-year 2011. We re-iterate our Speculative Buy recommendation but have increased our price target to \$0.98 from \$0.81 to reflect the results of the new drilling and assumptions on depth extensions through continued diamond drilling.

Key Points

- Resource in-fill drilling at Productora has uncovered a new wide zone of mineralisation on the western side of the main brecciated mineralised unit in the Central Lease area. The new zone is thought to be a shallowly dipping brecciated Mantos horizon discovered in infill holes that were designed to hit the main breccia zone at depth. However, at only 98m down hole a 56m wide zone of mineralisation was intersected with a copper equivalent (Cu equiv.) grade of 1.0% (Cu grade 0.6%), being consistent with the grades received previously in this area.
- The discovery of the new zone, if it proves to have lateral extent, is positive with regard to any future operation at Productora. Being within 100m of the surface, the zone would significantly reduce the strip ratio in an open pit and provide a very wide, bulk tonnage mining block that would significantly improve the economics of accessing the deeper parts of the main vertical breccia unit.
- HCH have released a long section that clearly shows the distribution of grade interpreted from the drilling results received to date. The long section is for the Central Lease area only but we know from drilling that mineralisation extends at least an additional kilometre beyond the Central Lease. Diamond drilling is also planned to extend the zone of known mineralisation down dip to between 300m and 400m.
- We have moved our estimated tonnage range from 40Mt to 60Mt, to a new range of 70Mt to 80Mt. Taking the mid-point (75Mt) and at a 1.0% Cu equivalent grade (down from 1.1% Cu equiv) to more accurately reflect the grade of the mineralisation discovered to date, this translates into 750,000t of contained copper, for a projected EV of \$146.7m at \$196 per tonne.
- We maintain our Speculative Buy recommendation on HCH. We anticipate more results to be announced over the course of the next few months, including results from the Los Mantos Project. We believe that HCH will continue to get re-rated as successful drill results give more indications of mineralisation at Productora, new mineralisation discovered through drilling at Los Mantos and progress is made towards the production of the preliminary resource estimate mid-year.

New Zone from latest Productora Drill Results

Resource in-fill drilling at Productora has uncovered a new wide zone of mineralisation on the western side of the main brecciated mineralised unit in the Central Lease area. The new zone is thought to be a shallowly dipping brecciated Mantos horizon discovered in infill holes that were designed to hit the main breccia zone at depth.

However, at only 98m down hole a 56m wide zone of mineralisation was intersected with a copper equivalent (Cu equiv.) grade of 1.0% (Cu grade 0.6%), being consistent with the grades received previously in this area. This hole (PRP0066) was in mineralisation when the RC rig was pulled out, in preparation for re-entry by a diamond rig. Approximately 18 holes that ended in mineralisation due to rig constraints are to have diamond drill hole (DDH) tails to extend the holes to target depths.

The intersection in the new zone is located approximately 90m west of the original intersection (77m at 1.0% Cu Equiv) and is one of two additional holes drilled on this section line, the other, also encountering a 42m intersection of visible copper mineralisation (results pending) which is located a further 70m west. Additional RC / DDH holes have been designed to in-fill on this section.

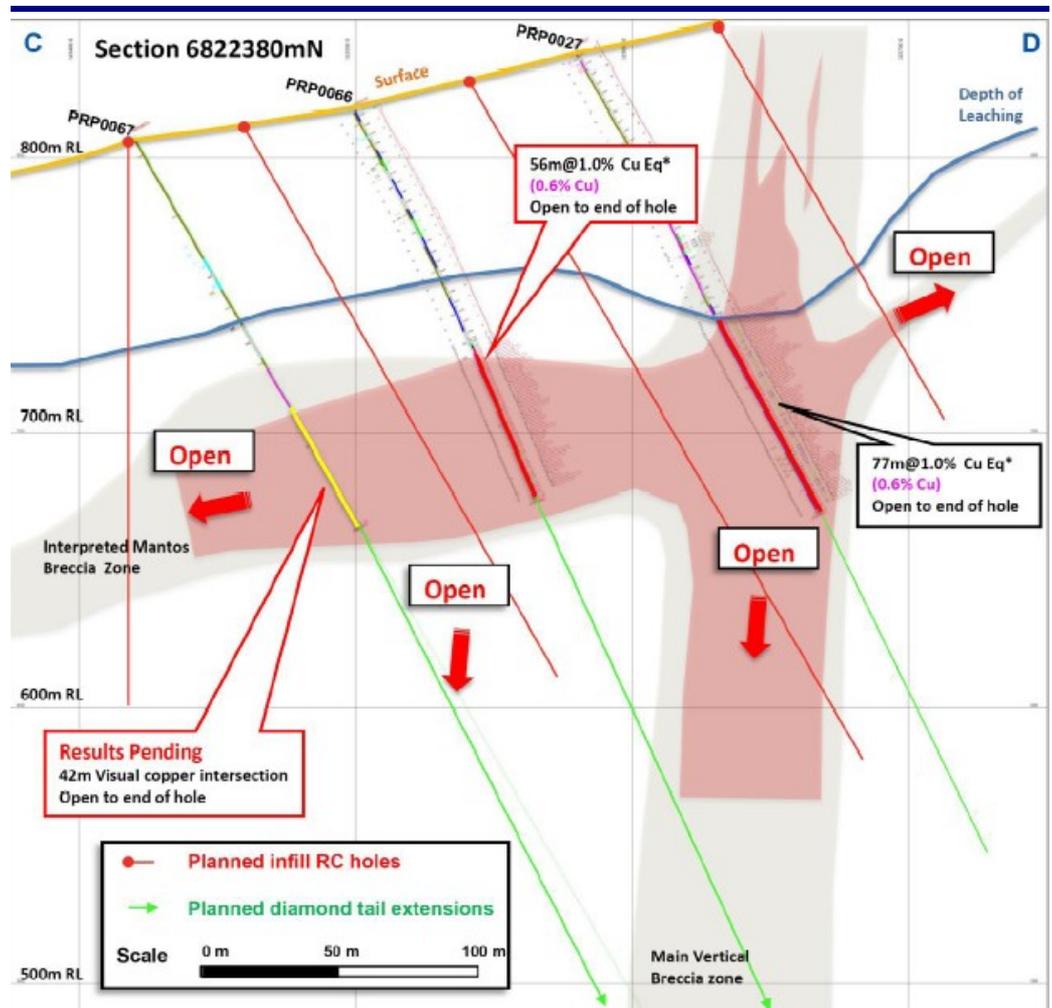


Figure1. Significant intersections from Productora Extensional Drilling

Source: HCH

The section above shows the new zone as a sub-horizontal zone of mineralisation which has not yet been closed off along strike or down dip. The distance to the next section line south is

approximately 100m, so additional infill drilling will be required here to ascertain the lateral extent of the new discovery.

Implications for a potential operation at Productora

The discovery of the new zone, if it proves to have lateral extent, is seen as positive with regard to any future operation at Productora. Being within 100m of the surface, the zone would significantly reduce the strip ratio in an open pit and provide a very wide, bulk tonnage mining block that would significantly improve the economics of accessing the deeper parts of the main vertical breccia unit. The 3 holes on section line 2380mN indicate a mineralised width of over 200m and we estimate an indicative mining strip ratio of between 2:1 and 3:1 at this location.

At this stage we do not know how far down dip or along strike the mineralisation extends, but even if there were no extensions below that indicated, we view the discovery as significant. It also opens up the possibility of finding similar zones at other locations within the Productora deposit.

Long Section

HCH have released a long section that clearly shows the distribution of grade interpreted from the drilling results received to date. The long section is for the Central Lease area only but we know that mineralisation extends at least an additional kilometre beyond the Central Lease. Diamond drilling is also planned to extend the zone of known mineralisation down dip to between 300m and 400m. The section also shows that the 1.0% Cu equivalent grade extends for at least 1km in a north-south direction and we estimate it averages between 40m and 50m thick.

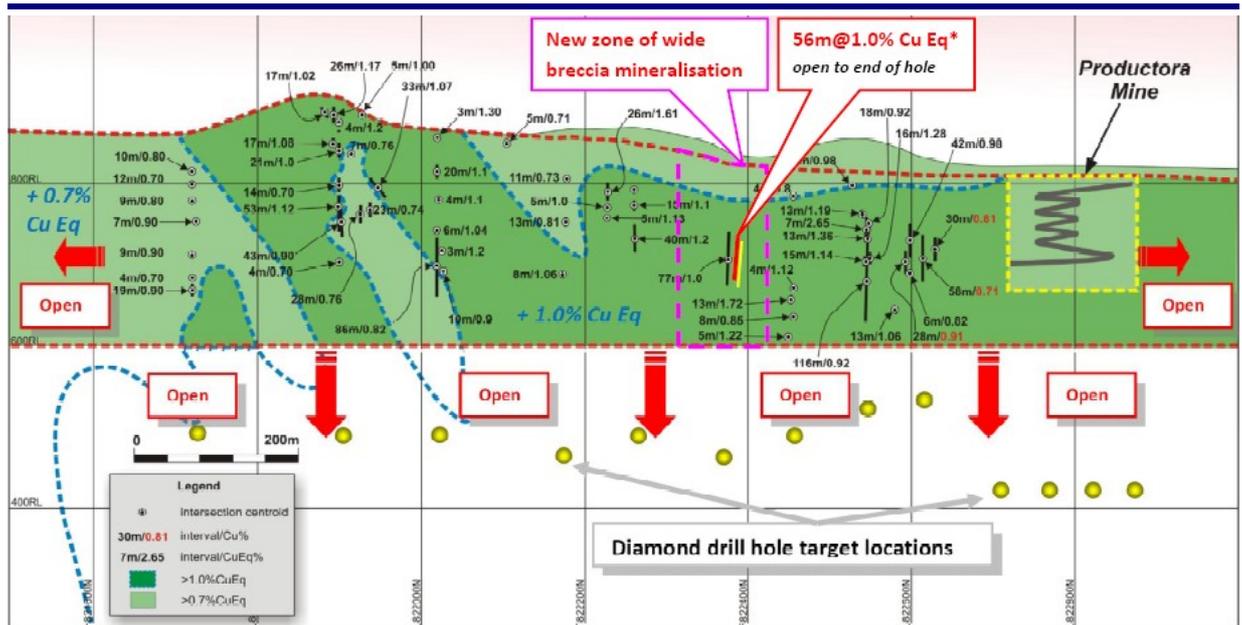


Figure 2. Long Section through Productora

Source: HCH

Revised potential tonnage at Productora and Valuation Update

In our last note, (24 February, 2011) our S/T price target of \$0.81 was based on the mid point of our tonnage estimate of 50Mt using a peer comparison derived EV/resource tonne of \$281. Only those copper companies who had similar copper grade characteristics were chosen in the peer group. We believed this was a more sensible methodology than including companies whose grades were much higher and potentially therefore attract a much higher EV multiple.

An updated peer group table is included below.

Company Name	Code	Country	Stage	Tonnes (Mt)	Cu Grade (%)	Gold (g/t)	Cu Equiv. (%)	Cont. Cu (t)	MCAP (\$m)	Cash (\$m)	EV (\$m)	Ev / t Cu
Discovery Metals Ltd	DML	Botswana	DFS	124.2	1.4		1.4	1,738,800	445.9	159.5	286.4	165
Rex Minerals Ltd	RXM	Australia	Exploration	170.0	0.7	0.2	0.85	1,445,000	386.3	103.7	282.6	196
Hillgrove Resources Ltd	HGO	Australia	Construction	32.2	0.9	0.2	1.05	292,000	198.4	68.7	129.7	444
Havilah Resources Ltd	HAV	Australia	PFS/DFS	86.9	0.73	0.5	1.12	973,280	37.1	5.45	31.6	33
Exco Resources Ltd	EXS	Australia	PFS / Prod	61.0	0.85	0.25	1.04	634,400	181.9	13.7	168.2	265
Median EV / t Cu												196

Table 1. Peer Comparison Analysis for HCH

Source: DJC

We continue to believe RXM provides the closest analogue to HCH in terms grade and tonnage potential. We have taken the median EV/resource tonne to derive an analogue EV/t of contained copper of \$196, which has fallen from \$281 due to the recent falls in the market on the Japan quake and Middle East uncertainty.

We previously estimated that in HCH's inaugural Productora resource estimate, expected towards the end of 1H2011, could be in the range of between 40M and 60M tonnes at approximately 1.1% Cu equivalent. We have revised this estimate in light of the recently released drill hole results and production of the long section.

Our assumptions now include additional tonnages from the Mantos horizon and depth extensions in an upside case to 400m. If mineralisation is intersected in the diamond drill holes planned below the current mineralised extents (see Figure 2), we believe HCH will be able to incorporate this into the mid-year resource estimation as an Inferred resource and significantly lift the expected tonnage.

As a consequence we have moved our estimated tonnage range from 40Mt to 60Mt, to a new range of between 70Mt and 80Mt. Taking the mid-point (75Mt) and at a 1.0% Cu equiv grade (down from 1.1% Cu equiv) to more accurately reflect the grade of the mineralisation discovered to date, this translates into 750,000t of contained copper, for a projected EV of \$146.7m at \$196 per tonne. Our tonnage range provides a range in EV's from \$136.9m for 70Mt to \$156.5m for 80Mt.

Our sum of parts valuation for HCH also includes a nominal sum for the Los Mantos Project. Los Mantos is currently being drilled and we expect initial results by late April / early May. The \$20m nominal figure was determined by evaluation of ASX listed early stage, junior explorers in Chile and Argentina with interests mainly in copper and/or copper-gold.

Company	Code	Diluted Ordinary Shares (m)	Price (A\$)	Market Capitalisation A\$m
Condor Blanco	CDB	77.7	0.18	13.6
Genesis Minerals	GMD	64.5	0.21	13.5
Argentina Mining	AVK	59.7	0.29	17.3
Whinnen Resources	WWW	70.1	0.11	7.4

Table 2. Early Stage junior copper explorers in S. America

Source: DJC

We chose \$20m to reflect the advanced stage of the Los Mantos project and the existence of the copper mine currently being worked by a small local company from the deposit. On our site visit

to the underground mine, we were able to confirm the thicknesses seen in the Mantos horizons at surface.

Item	Value (\$m)	Price (\$ / Share)
Peer Valuation - Productora (75Mt)	146.7	0.80
Los Mantos (Nominal)	20.0	0.11
Cash	7.3	0.04
Options	8.1	0.04
Corporate	- 1.5 -	0.01
Total	180.6	0.98

Table 3. Sum of parts valuation for HCH

Source: DJC estimates

Our tonnage assumption range of between 70Mt and 80Mt for Productora translates into an equivalent share price contribution \$0.75 and \$0.85 respectively and a total sum of parts valuation range of \$0.93 to \$1.04 per share. Our mid-point of 75Mt equates to a sum of parts valuation of \$0.98 per share.

We therefore have increased our mid-point price target to \$0.98 per share from \$0.81 per share, or 21%, based on our updated tonnage assumptions at Productora and have included \$20m for Los Mantos, equivalent to \$0.11 per share. Our price target is currently at a 51% premium to the current price. We will review this on release of the first drill results from Los Mantos.

Investment Thesis

We believe HCH provides an opportunity for investors to obtain exposure in an up and coming mineral exploration company with some unique attributes that enable it to stand apart from many of its peers.

Very competent technical team: HCH, through their associations with various 'embedded' consultants and through the considerable experience of the Board, have an exceptionally competent technical team. The depth of their knowledge of their chosen model and the geology on the ground, has been instrumental in HCH gaining a very early understanding of their projects and importantly for the future, the ability to very quickly assess new opportunities. This provides them with the ability to act quickly if need be.

Important Joint Venture Partners: HCH have been very successful in negotiating with, and entering into a number of JV's, with the large Chilean mining companies, Codelco and CMP. The value of these relationships can not be understated and we are not sure that the market has fully appreciated their importance. They have been established over a considerable period of time and it is not easy for new companies to enter Chile and establish these types of relationships.

Chile is evaluating its potential use of nuclear energy: HCH has uranium mineralisation at both the multi-commodity Productora and Los Mantos projects and has the potential to recover uranium should an operation be developed at both or either of these projects. The Government in Chile has made a number of announcements recently regarding the nuclear industry, one of which involved a strategic alliance with France for training of nuclear scientists. The Government has recognised the importance of seriously addressing nuclear power and Codelco and CCHEN, the Chilean Nuclear Commission, have been operating a pilot plant in Northern Chile for the extraction of uranium. Notwithstanding current events in Japan, Chile will continue to make assessments of their future nuclear energy potential.

Early Exploration Results: The continued results from Productora indicate that it has the potential to be a large mineralised system. This bodes well for a potential large tonnage resource. The exploration results up to this point show a large mineralised system is present at Productora and this could grow on further exploration to the north and south along strike. Any deal with CCHEN to get access to the lease surrounding the Central lease will add significant tonnage potential beyond this. Exploration results from Los Mantos are yet to be received.

Fully Funded to First Resource Estimate: HCH have recently undertaken a top-up capital raising of \$4.6m, bringing their total cash as at end of December 2010 to \$7.4m. This amount will see HCH through to the production of their first resource estimate, which we expect in the 2Q2011.

Recommendation – Speculative Buy: We maintain our Speculative Buy recommendation on HCH. We anticipate more results to be announced over the course of the next few months, including results from the Los Mantos Project. We believe that HCH will continue to get re-rated as successful drill results give more indications of mineralisation at Productora, new mineralisation discovered through drilling at Los Mantos and progress is made towards the production of the preliminary resource estimate mid-year.

Risks

Exploration Risk: The exploration risk at Productora has lessened considerably since our previous note. Investors can now see that mineralisation continues to the north and south of the central lease area and is likely to add resource tonnes in the mid-2011 estimate. Exploration risk is higher at Los Mantos, as no drilling has yet been conducted.

Sovereign Risk: Whilst we believe Chile to be one of the most stable countries in South America, changes in the political landscape can never be ruled out. Chile has an enviable track record in providing a stable political environment in which to attract and retain interest in its mineral resource industry. Changes to taxation laws, royalties, repatriation of profits for foreign companies and labour relations can all effect the operations of mineral resource companies. Although the Chilean Government have made announcements about its potential nuclear industry recently, and Codelco and combined with CCHEN to establish a pilot plant for the extraction of uranium, the future political stance of the country can not be guaranteed.

Commodity Price Risk: Commodities pricing is affected by the outlook for the world's economy and growth rates. The volatile nature of the commodities markets reflects the uncertain nature of the current world growth outlook in the aftermath of the global financial crisis, and more recently as a result of the sovereign debt crisis in Europe and the statements made by the Chinese authorities in relation to the slowing of its over-heated property sector. Fluctuations in the prices of copper and uranium could exert an influence on the price of HCH shares.

Exchange Rate Risk: Fluctuations in the exchange rate will effect the exploration expenditure programs. Exchange rate fluctuations between the Chilean Peso, US Dollar and the Australian Dollar will be taken into account by HCH in the application of its exploration funds.

Metallurgical Risk: Given the early stage in exploration of their polymetallic deposits, the process route of any potential operation has not yet been considered and will only be considered in our view, post the production of the resource estimate. Metallurgical testwork will be required to find out how much of the additional metals will be potentially recoverable.

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RCAN0929

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

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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.

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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.

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