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Hot Chili Ltd (HCH)

Time to look at production scenarios

Recommendation
Buy (unchanged)
Price
$0.65
Target (12 months)
$0.95 (previously $0.75)
Risk
Speculative

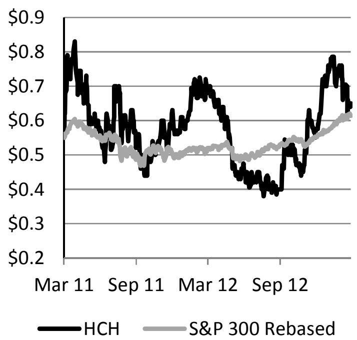
Expected Return	
Capital growth	46%
Dividend yield	0%
Total expected return	46%
Company Data & Ratios	
Enterprise value	$153m
Market cap	$193m
Issued capital	294m
Free float	49%
Avg. daily val. (52wk)	$114,000
12 month price range	$0.38-0.79/sh
GICS sector	Materials

Disclosure: Bell Potter Securities acted as as Lead Manager for placements, $32.5m in October 2012, $22m in January 2012 & $25m in December 2011 and received fees for that service.

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.75	0.58	0.67
Absolute (%)	-13.33	12.07	-2.26
Rel market (%)	-16.44	-0.80	-23.56

Absolute Price



SOURCE: IRESS

Progressing to prefeasibility on positive scoping outcome

HCH recently announced that it will progress a prefeasibility study (PFS) on its Productora project in Chile. This decision followed a significant resource upgrade and positive scoping study on a copper-gold mine development. By the end of 2013, HCH aim to provide a further resource upgrade and complete the PFS. The company is well positioned to achieve bankable feasibility and decision to mine stages by the end of 2014. Ultimately, HCH could be in production at Productora before 2018.

Project comparable: PNA's Phu Kham

The Productora project's scoping study looks relatively similar to PNA's Phu Kham project in Laos. Both projects have comparable resource sizes, similar recoverable metal grades, would have similar processing routes and milling rates, and have similar annual production (60-70ktpa Cu). Clear differences will be capital and operating costs (Phu Kham built in 2006-07), and strip ratios. However, there are still many avenues for HCH to improve Productora's economics. This note provides a comparison.

Catalysts: Progress Productora & build project portfolio

The short-term catalysts for HCH include the release of further drilling and study results from Productora. However, HCH has also commenced a 7,000 RC drill program at Frontera, 70km south of Productora. The Frontera tenements are well positioned to leverage off Productora infrastructure, should a resource be delineated.

Investment thesis – Buy (Speculative) TP$0.95/sh

We have now modelled a project at Productora using conservative scoping study and copper price estimates. Our risked Productora valuation supports our $0.95/sh target price. We expect regular news flow from HCH on the Productora exploration programme and PFS. HCH's share register is supported by local Chilean mining and steel conglomerate CAP S.A. (5.5%) and TSX listed diversified miner Lundin Mining Corporation (9.1%).

Earnings Forecast

Year end June	2012a	2013e	2014e	2015e
Sales (A$m)	1	-	-	-
EBITDA (A$m)	(3)	(6)	(6)	(6)
NPAT (reported) (A$m)	(3)	(4)	(3)	(3)
NPAT (adjusted) (A$m)	(3)	(4)	(3)	(3)
EPS (adjusted) (¢ps)	(2)	(2)	(1)	(1)
EPS growth (%)	na	na	na	na
PER (x)	na	na	na	na
FCF Yield (%)	na	na	na	na
EV/EBITDA (x)	na	na	na	na
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-9%	-6%	-2%	-1%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Investment thesis and valuation

Investment thesis: Focussed on copper development

We have a Buy (Speculative) recommendation (unchanged) on HCH and a Target Price of $0.95/sh (previously $0.75/sh).

- HCH has a 95% economic interest in the 165Mt Productora resource grading 0.6% copper and 0.1g/t gold. The Productora resource is from surface, shallow and defined over a 7.5km strike length. Productora is located near Vallenar (population ~50,000) in the Chilean low altitude coastal ranges and is within 60km of a port at Huasco.
- HCH expect to completed a PFS on a mining development at Productora by the end of 3Q 2013. A decision to mine should be made by the end of 2014, following the completion of a bankable feasibility study (BFS).
- A recently completed scoping study on Productora supported annual production of more than 55kt copper and 42koz gold over a 10+ year mine life. The study examined an 11Mtpa processing rate and conventional crush-grind-float sulphide plant. Capital cost are estimated at US$500-700m and C1 operating costs (after gold credits) at US$1.20-1.50/lb. This scoping study has many parallels with the Phu Kham BFS (PanAust Ltd, April 2006).
- Scoping study economics could further improve from by-product credits from magnetite sales. Magnetite forms part of the waste material mined from the Productora open pit. Magnetite could be purchased by existing processing facilities in the region. No additional capital or operating costs for HCH will be required.
- HCH prospect, Frontera, is located 70km south of Productora and connected via sealed road and rail. Frontera could provide additional mill feed for a Productora processing plant. A 7,000m RC drill program is underway at Frontera.
- HCH has established solid relationships with Chilean mining and steel conglomerate CAP Group. CAP. Through its subsidiary CMP S.A., CAP is a 5.5% shareholder in HCH and equity partner in the Productora and Frontera projects. HCH also has joint venture agreements with CODELCO covering its Los Mantos tenements.
- TSX listed diversified miner Lundin Mining Corporation purchased a 5.8% interest in HCH from Panoramic Resources Ltd in October 2012. Lundin has subsequently participated in HCH's $36m capital raising (December 2012) and topped up on-market to lift its current interest in HCH to over 9%.

Valuation: $0.87/sh risked & diluted sum of parts

Our $0.87/sh HCH valuation includes:

- A risked DCF valuation (10% discount rate, 20% risk discount) of the Productora project. We have modelled:
    - Production and cost estimates at the conservative end of HCH's recently published scoping study including average annual life-of-mine production of around 55kt copper, 42koz gold at cash costs of US$1.20-1.50/lb and capital costs of US$600m; and
    - Productora initially mining and processing a high-grade component, lifting production in years 1-5 to around 80ktpa copper at costs of less than US$1/lb.
    - In its initial years of production, we estimate that Productora could earn annual EBITDA of over $290m for HCH.

- HCH's current net cash position plus an additional $4.9m from the exercise of options (expiring November 2013);
- The dilution from a $50m equity capital raising (at $0.70/sh) by the end of 2013;
- Our estimates of the value of HCH's early stage exploration tenements and capitalised corporate expenses; and
- Bell Potter Securities long-term commodity price and currency assumptions of: US$2.70/lb copper; US$1,100/oz gold; and US$0.85/A$.

Table 1 – Base case risked & diluted sum of parts valuation

	Now		+12mths		+24mths	
	$m	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Productora (20% risk disc.)	243	0.76	261	0.81	281	0.87
Frontera	20	0.06	20	0.06	20	0.06
Other	15	0.05	15	0.05	15	0.05
Corporate	-32	-0.10	-31	-0.10	-30	-0.09
Total enterprise value	247	0.77	265	0.82	286	0.89
Net cash/(debt) + options	45	0.14	58	0.18	27	0.08
Total equity value	**291**	**0.91**	**323**	**1.00**	**312**	**0.97**
Assumed capital raising (by end-2013)						
Capital raised $m	50					
Issue price $/sh	0.70					
New shares	71					
New total shares on issue	393					
Valuation adjusted for capital raising						
Total enterprise value	247	0.63	265	0.68	286	0.73
Net debt/(cash)	95	0.24	108	0.27	77	0.19
Total equity value (base case)	**341**	**0.87**	**373**	**0.95**	**362**	**0.92**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Upside case: Magnetite could increase valuation by over 30%

Our modelling suggests that if HCH can include mine-gate sales of magnetite ore (under conservative assumptions) as part of the Productora project:

- Productora's unit costs fall by over US$0.20/lb; and
- The reduction in costs increases our HCH valuation by over 30% or $110m (Table).

Table 2 – Impact on valuation of including iron credit

Total equity value (base case)	341	0.87	373	0.95	362	0.92
Total equity value (base case + Fe credit)	**454**	**1.15**	**494**	**1.26**	**492**	**1.25**
Change $m / %	112	33%	121	32%	130	36%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Target price: $0.95/sh reflecting 12-month valuation

Our target price is based off our 12-month forward, diluted and risked sum of parts valuation of $0.95/sh.

Our un-risked 12-month forward valuation of HCH is $1.21/sh.

Near-term capital requirements: $50m raising by end-2013

Cash of ~$40m in February 2013, a capital raising by the end of 2013 is likely

HCH currently has cash of around $40m and we factor in an equity raising of an additional $50m by the end of 2013. HCH also has 24.3m $0.20/sh options expiring 3 November 2013 which should raise an additional $4.9m.

$25-30m exploration programme planned so far for 2013

We expect HCH's 2013 drill programme plus additional evaluation to cost at least $25-30m. HCH's exploration and evaluation expenditure in the December 2012 quarter was $7.6m, an annualised rate consistent with our 2013 estimate.

HCH's exploration programme in 2013 includes:

- Productora – 85,000m RC and 15,000m DD programme with four rigs on-site; and
- Frontera – 7,000m RC programme.

HCH will also likely increase its evaluation expenditure for the Productora PFS.

2014 exploration and development spend is likely to be at least as significant at 2013

The 2014 exploration and development campaign will likely be at least as significant as that in 2013, as the company brings Productora to bankable stage and progresses other exploration prospects.

News flow/catalysts: Drill results, resource updates & studies

- **Exploration:** In 2013, HCH will be undertaking exploration on a number of fronts:
    - A major extensional drilling programme at Productora has commenced, comprising 85,000m RC and 15,000m of DD drilling;
    - HCH will also test the remaining 2km of strike extent over the identified 9.5km Productora deposit footprint;
    - HCH has planned a 20,000m RC drill program to asses two large zones of magnetite identified within the Productora landholding; and
    - An initial 7,000m RC drill program at Frontera.
- **2H 2013 – Second resource upgrade at Productora:** HCH has scheduled a second Productora resource upgrade to be completed and released by the end of 2013.
- **2H 2013 – Productora PFS completion:** HCH has a PFS underway at Productora. The results of this study are expected to be released by the end of 2013. A positive PFS will see the project move through to BFS stage.

Risks: Consistent with exploration & development plays

Risks include, but are not limited to:

- Commodity price and exchange rate risks: Similar to other commodity explorers, developers and producers, HCH's future earnings and value are subject to fluctuations in commodity prices and exchange rates.
- Exploration risks: HCH's ultimate equity value will reflect the level of the company's exploration success. HCH has highly prospective tenement positions and an existing JORC resource. However, exploration risks do remain.
- Funding risks: HCH will require significant capital for exploration, evaluation and ultimately project development prior to production and positive operating cash flows. HCH is likely to raise additional funds through equity and debt markets.
- Development risks: Should HCH's projects progress to development stage, there will be risks around costing, timelines and project commissioning.
- Sovereign risks: HCH's exploration and development projects are located in Chile, South America. The company's head office is located in Perth, Western Australia.
- JV partner risks: HCH has joint ventures with partners including CMP and CODELCO.

Productora (Chile): Project summary

Prefeasibility underway following a positive scoping study

In February 2013, HCH announced that it would progress the Productora project to PFS stage following the successful completion of a scoping study. The company expects to complete the PFS by the end of the 3Q 2013. Assuming project economics remain robust, HCH will move the project through to bankable stage and decision to mine stage by the end of 2014.

Scoping study supported average 55ktpa Cu & 42kozpa Au over a 10+ year mine life

HCH's Productora scoping study was completed with Ausenco Ltd (ASX: AAX) as lead independent consultant. Key outcomes from the study were:

- Project economics supported the commencement of a PFS, and baseline studies for an Environmental Impact Assessment;
- A project mining and processing ore at a rate of ~11Mtpa could potentially support life-of-mine average annual concentrate production of 220kt grading >25% copper and 6g/t gold (for >55ktpa copper and 42koz gold) over a +10 year period;
- That project average C1 costs (including gold credits) could be within the range of US$1.20-1.50/lb; and
- That capital costs would be within the range US$500-700m, depending upon off-balance sheet financing for mining equipment and certain infrastructure.

Ausenco has been retained as lead independent consultant for the Productora PFS.

Resource: +1Mt copper equivalent and growing

HCH's recent resource update (13 February 2013) almost doubled the company's copper-gold resource estimate to 165Mt grading 0.6% copper and 0.11g/t gold. The resource estimate was completed by independent consultants Coffey Mining Pty Ltd.

Table 3 - Productora resource

	Mt	% Cu	g/t Au	g/t Mo	kt Cu	koz Au	kt Mo	kt Cu eq*
Central resource area								
Indicated	31	0.60%	0.10	159	190	110	5	226
Inferred	54	0.60%	0.10	138	300	180	8	358
Total	85	0.58%	0.11	153	490	290	13	584
Resource Upgrade 1								
Indicated	39	0.60%	0.10	124	230	150	5	271
Inferred	41	0.50%	0.10	110	200	130	4	234
Total	80	0.54%	0.11	113	430	280	9	505
Grand total								
Indicated	71	0.59%	0.11	142	420	260	10	497
Inferred	95	0.53%	0.10	127	500	310	12	592
Total	**165**	**0.56%**	**0.11**	**133**	**920**	**570**	**22**	**1,090**
High grade from surface	**53**	**0.80%**	**0.20**	**148**	**424**	**341**	**8**	**502**
Other	112	0.44%	0.06	126	496	229	14	588
Grand total	**165**	**0.56%**	**0.11**	**133**	**920**	**570**	**22**	**1,090**

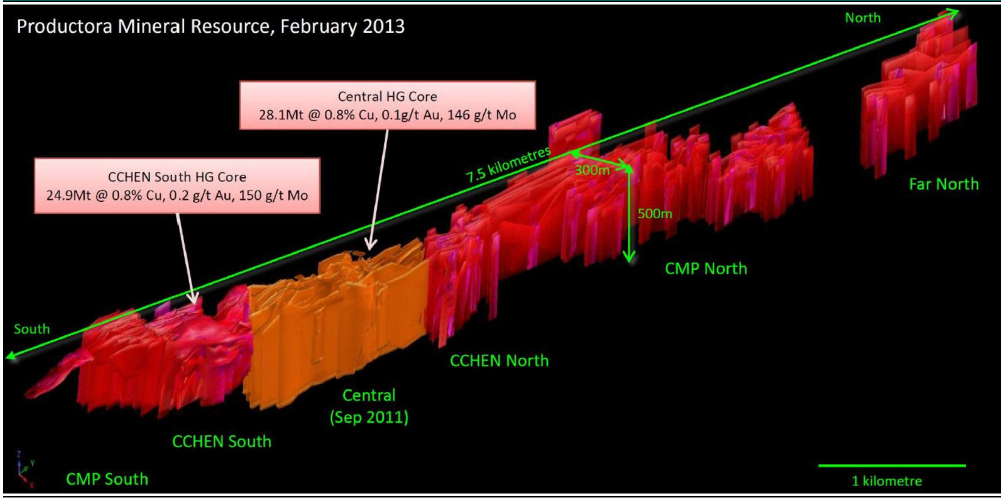
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES
* USING US$2.70/LB CU, US$1,100/OZ AU X 68%, US$15/LB MO X 80%.

Key points on the resource are:

- The current resource covers a strike length of 7.5km and remains open along strike, on the eastern and western flanks and at depth. HCH has identified a further 2km of strike potential to the north and south which is yet to be tested. The company will also drill and assess parallel mineralised zones which could form part of the planned pit shell.

- HCH has identified two high-grade zones within the central pit development totalling 53Mt at 0.8% copper and 0.2g/t gold. These near surface zones have the potential to support starter-pits and enhance the overall project's front-end economics.
- The resource extends from surface and is dominantly transitional and sulphide material accessible from near-surface, with limited distribution of surface oxide ore. Sulphide ores comprises of pyrite, chalcopyrite, bornite and molybdenite. The oxide zone is predominantly associated with malachite.

Figure 1 - Productora mineral resource, February 2013



SOURCE: HCH

Figure 2 - Productora location

SOURCE: HCH

Productora (Chile): Project details

Scoping study comparable: Phu Kham, Laos (PNA)

The following table compares HCH's recently completed Productora scoping study with PanAust Ltd's Phu Kham (Laos) BFS completed in April 2006.

Table 4 - Productora (HCH) scoping study compared with Phu Kham (PNA) bankable feasibility study

	Productora (HCH) Scoping Study (February 2013)	**Phu Kham* (PNA) BFS (April 2006)**
Owner's economic interest	95%	90%
Location	Vallenar, Chile (low altitude coastal ranges)	100k North of Vientiane, Laos
Distance to port	60km sealed road to Huasco port, Chile	~950km mixed road to Sriratcha port, Thailand
Study consultant	Ausenco Ltd	Ausenco Ltd
Metals prices at study completion		
Cu US$/lb	US$3.60/lb	US$2.94/lb
Au US$/oz	US$1,630/oz	US$620/oz
Ag/US$/oz	US$30/oz	US$13/oz
Project parameters (100%)		
Resource at study completion		
Mt	165	192
% Cu	0.56%	0.62%
g/t Au	0.11	0.24
Mining strip ratio t:t	3.5-4.5	0.6
Processing		
Flowsheet	Conventional sulphide, crush-grind-float	Conventional sulphide, crush-grind-float
Mill capacity Mtpa	11	12
Initial mine life (years)	+10	+12
Cu recovery	90%	77%
Au recovery	80%	49%
Ore value (contained recoverable at current spot)		
Cu US$/t ore	39	37
Au US$/t ore	4	6
Total US$/t ore	43	43
Annual production		
Concentrate t	220,000	207,000
Contained Cu t	55,000	52,000
Contained Au oz	42,444	47,000
Contained Ag oz		400,000
Contained value US$/t concentrate (at spot prices)	2,246	2,366
C1 cash costs (after previous metal credits)	**US$1.20-1.50/lb**	**US$0.74/lb**
Development capex	**$500-700m**	**$234m**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

We make the following observations with respect to the above comparison:

- **Project location and economic ownership:** Both HCH and PNA have similar economic interests in their respective projects. However, we would argue that mine development and operation carries significantly less risk in Chile than in Laos. Chile is one of South America's most progressive and stable nations with a labour force experienced in mine development and operation.
- **Capital and operating costs:**
    - The significant differences in capital and operating costs in the above table should be balanced against the differences in commodity prices at the time of the studies' completions (2006 versus 2013).

  - A proportion of the capital and operating cost difference would relate to the cost inflation that the mining sector has experienced over the previous seven years.
  - HCH's estimated operating costs for Productora (US$1.20-1.50/lb) can be compared with PNA's current 2013 guidance for Phu Kham operating costs of US$1.15-1.25/lb.
  - It's likely a higher grade starter pit will initially be mined (years 1-5), significantly increasing early-stage production and reducing unit costs.
  - We estimate that magnetite mineralisation at Productora mined as part of the open pit waste could also be monetised, conservatively reducing operating costs by at least a further US$0.20/lb.
- **Strip ratios are much higher for Productora (3.5-4.5x) than for Phu Kham (0.6x):**
  - We see scope for HCH to reduce this strip ratio and the higher associated mining costs. Copper-gold mineralisation along the flanks of the current ore body, which would be mined as part of the open pit but is not currently part of the mineral resource, will likely be included in subsequent resource updates.
  - Monetising magnetite mineralisation could also reduce the cost burden of higher strip ratios.
  - Phu Kham is located in a tropical environment where mining is seasonally disrupted by monsoonal weather systems. The average annual rainfall at Phu Kham is 2,300-2,700mm. Productora's (Vallenar, Chile) annual rainfall averages less than 100mm.
- **Conventional ore processing and high recoveries:**
  - Initial metallurgical test work suggests a processing flow-sheet including crushing, grinding and floatation can achieve copper recoveries of greater than 90% and gold recoveries of around 80%.
  - Productora ore is classified as relatively hard. However, course liberation characteristics of the copper and gold minerals enables these high recoveries using a coarse grind size of 180µm.
- **Productora's infrastructure advantages: Close to developed township:**
  - Productora is located within 15km from Vallenar (population around 50,000), which services surrounding mining and agricultural activities. It is envisaged that Productora development and operational staff will be accommodated in Vallenar.
  - Productora is 5km from sealed roads (Pan American Highway), 5km from existing rail infrastructure, and 17km from existing power transmission infrastructure.
  - Productora is around 60km from the port city of Huasco. Huasco port will serve as the shipping point for Productora concentrate and the seawater draw-point for Productora processing water.
- **Ausenco Ltd was the lead consultant for both the Productora Scoping Study and the Phu Kham BFS.**

Productora capital costs: US$500-700m

The Productora scoping study estimates that project development capital costs will be US$500-700m, depending upon off balance sheet financing of certain mining equipment and infrastructure. Key capital expenditure components will be:

- Ore processing facility (BP est. US$400m): A conventional modular 11Mtpa crush-grind-floatation circuit, plus associated site infrastructure including tailings treatment and storage.
- Mining fleet (BP est US$120m): Large-scale equipment capable of mining up to 55Mtpa waste rock and ore.
- Water pipeline (BP est. US$60m): Process water is expected to be pumped nearly 60km from the Huasco port site to the Productora mine site. A pipeline could use an existing CMP infrastructure easement. HCH's Productora feasibility study assumes seawater is used for processing, common in Chile.
- Concentrate loading facility (BP est. US$70m): HCH expect to cooperate with CMP in accessing capacity at Huasco port. Capital estimates include provisions for HCH to construct a dedicated copper concentrate loading facility at Huasco.

High-grade starter pit improves front-end production & returns

53Mt at 0.8% Cu and 0.2g/t Au increases front-end production and lowers unit costs

Within the Productora resource HCH has identified two high-grade zones within the central pit development totalling 53Mt at 0.8% copper and 0.2g/t gold. The recently released Productora scoping study included life-of-mine average estimates with respect to production and costs. However, we expect that the project will ultimately exploit the higher grade zones initially to improve the project's front-end returns.

The following table outlines our estimates of production and costs differences for the first five years versus the life of mine. It should be noted that though high-grading in earlier years, economic returns are improved at the expense of longer term returns.

Table 5 - High-grade starter pit improves front-end production & returns

	Years 1-5	Life-of-mine
Mill rate Mtpa	**11**	**11**
Ore grades and recoveries		
% Cu	0.80%	0.56%
g/t Au	0.20	0.11
Cu recovery	90%	90%
Au recovery	80%	80%
Annual production		
Cu kt	79	55
Au koz	57	30
C1 costs (after gold credit) US$/lb *	**US$0.67-0.88/lb**	**US$1.20-1.50/lb**
Copper price US$/lb	US$2.70/lb	US$2.70/lb
C1 (EBITDA) margin $m pa	**US$318-354m**	**US$146-182m**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES
* ASSUMES A GOLD PRICE OF US$1,100/OZ FOR CREDITS AND OTHER TOTAL MINING-PRODUCTION COSTS REMAIN CONSTANT

Waste magnetite sales could reduce costs by over US$0.20/lb

Productora economics have to potential to benefit from mine-gate sales of magnetite ore. We conservatively estimate that mine-gate magnetite sales could reduce Productora's unit costs by over US$0.20/lb copper.

HCH has identified two potential magnetite opportunities:

1. **Magnetite likely to be mined as waste:** Parallel magnetite zones along the western flank of the Productora copper-gold resource. Current expectations are that a large

component of this magnetite is likely to be within the waste rock of a proposed Productora mine pit.

2. **Western magnetite zone:** A large, from-surface magnetite zone of around 6km in strike length. This zone is within HCH's 100% owned landholdings within 2km of the planned central Productora pit.

An initial resource estimate for the parallel and western magnetite zones is expected as part of the current 85,000m RC and 15,000m DD programme, to be completed by the end of 2013.

HCH may be able leverage off CMP relationship for mine-gate magnetite sales

HCH has signed non-binding letters of intent (July 2012) with its substantial shareholder and Productora project partner, CMP, to explore the feasibility of a coincident iron operation at Productora. We expect that this could ultimately be in the form of mine-gate sales of magnetite ore. There are CMP owned magnetite processing plants within the Vallenar region likely to be in demand of additional ore feed.

Conservative estimates suggest a US$0.20/lb credit to Productora

We estimate that mine-gate sales of magnetite could reduce unit copper costs at Productora by at least US$0.20/lb (life-of-mine average). This cost reduction is based on the assumptions:

- HCH mine magnetite ore with a recoverable and payable grade of 17% Fe at a rate of 4Mtpa;
- The magnetite ore is mined as part of the waste rock and stockpiled for mine-gate pick-up, with no additional mining cost to HCH;
- HCH receive a price for the ore calculated off a seaborne FOB iron ore price index, adjusted for payable grade; and
- HCH share in around one-third of the iron revenue and credits this revenue against copper production costs (i.e. a by-product credit).

Table 6 - Productora magnetite credit calculation

Iron ore in waste Mtpa	4
Payable Fe grade %	17%
Iron ore price US$/t FOB (62% Fe, Bell Potter estimate)	80
Realised price US$/t	21
Revenue US$m	85
Revenue to Productora US$m	28
Average annual copper production kt	55
Magnetite credit US$/lb Cu	**0.23**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Improved economics from molybdenum to be examined

The Productora resource estimate has a molybdenum grade of 132g/t for 22kt contained molybdenum. The in-situ value of this molybdenum resource at current prices (US$24,000/t) is over US$500m.

This molybdenum resource only represents mineralisation in co-association with copper. Other molybdenum rich mineralised zones within the conceptual Productora pit shell could further add to this resource.

As part of the Productora feasibility studies, HCH will evaluate the potential to improve the project's economics through a second product stream of molybdenum concentrate.

Productora tenement holdings and consolidation

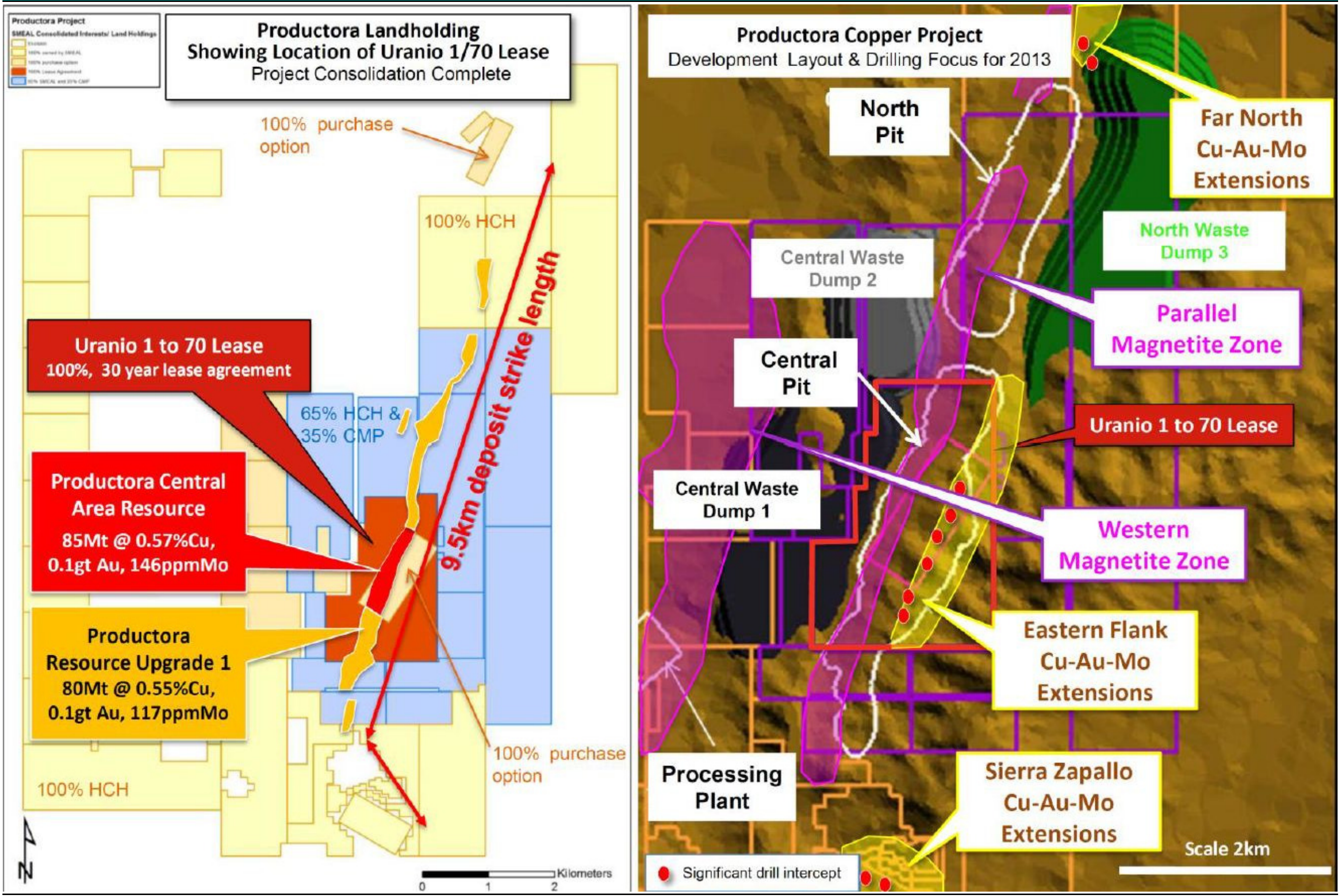
HCH has an approximate 95% economic interest in the Productora resource and project:

- On 21 February 2013, HCH announced it had exercised its 100% purchase option over the Productora Central Lease, which contains over half of the project's established resources.
- HCH has a 100%, 30 year lease agreement over the majority of the remaining resources.
- We estimate that around 14% of the current Productora resource sits within tenements owned 65% HCH and 35% CMP.

Scope for further tenement consolidation

We think it is likely that, prior to the decision to mine stage, HCH and CMP will consolidate their tenement positions to reflect the current respective economic interests in the project. There may also be opportunities for HCH to increase its equity in the non-100% HCH controlled tenements through deals involving magnetite mineralisation or prospective magnetite ground as consideration.

Figure 3 - Productora landholding & conceptual project layout



SOURCE: HCH

Other assets: Early stage, Chilean focus

Like Productora, HCH's other prospects are identified as being close to infrastructure for access and project support.

Figure 4 - HCH other asset locations

SOURCE: HCH

Frontera – Porphyry prospect 70km south of Productora

Frontera is an advanced exploration prospect adjacent to the Pan American Highway and an existing power transmission corridor, around 70km south of Productora. Historical drilling, recent mapping and rock-chip sampling at Frontera has identified a 2km copper-gold porphyry system.

HCH has a 7,000m RC drilling programme underway at Frontera. The delineation of a resource at the Frontera prospect could supply feed ore for a copper production hub centred at Productora.

HCH has a 100% purchase option agreement over 1,436Ha of central Frontera tenements, expiring on 39 November 2015. Total consideration for the purchase is US$5.3m.

Banderas – Early stage exploration 50km north of Productora

Banderas is an early stage exploration prospect with some historical, small-scale copper mining within an extensive, large-scale alteration system. The prospect is around 50km north of Productora, adjacent to the Pan American Highway.

HCH has entered into several option agreements to purchase 65% and 100% interests in exploration concessions owned by a number of private Chilean individuals. These option agreements expire between 2015 and 2017. HCH also owns 100% of around 157Ha of tenements in the area.

Los Mantos – Advanced stage exploration, IOCG system

Los Mantos is an advanced stage exploration prospect located adjacent to the Pan American Highway 60km south of the coastal city of La Serena. HCH has identified a multi-commodity IOCG system at the project.

HCH completed a 11,500m RC drilling programme at Los Mantos in 2011 with significant mineralised intersections including 36m grading 1.4% copper and 0.2g/t gold from 49m down hole.

HCH has entered into a five year 100% purchase option over the Los Mantos project with total commitments of US$2.1m

Hot Chili Ltd (HCH) summary

Company description

HCH is a copper explorer and developer focusing on prospects and projects in Chile, South America. So far the company has built a portfolio of assets located in the Chilean low altitude coastal ranges, with excellent access to in-place infrastructure and developed city-centres. HCH has relationships and joint ventures with major Chilean mining houses.

HCH's flagship asset is the Productora project. Productora has a 165Mt JORC resource grading 0.6% copper and 0.1g/t gold (over 1Mt contained copper equivalent). In early 2013, HCH completed a scoping study for a 55ktpa copper and 42kozpa gold project development. The project has since been progressed to PFS stage. Other assets in HCH's portfolio could eventually provide additional ore feed to the production hub at Productora.

Investment thesis – Buy (Speculative) TP$1.00/sh

We have now modelled a project at Productora using conservative scoping study and copper price estimates. Our risked Productora valuation supports our $1.00/sh valuation and target price. There's significant scope for the project's economics to improve through further exploration and feasibility studies. HCH's share register is supported by local Chilean mining and steel conglomerate CAP S.A. (5.5%) and TSX listed diversified miner Lundin Mining Corporation (9.1%).Valuation:

Valuation: $0.87/sh risked & diluted sum of parts

Our $0.87/sh HCH valuation includes:

- A risked DCF valuation (10% discount rate, 20% risk discount) of the Productora project.
- HCH's current net cash position plus an additional $4.9m from the exercise of options (expiring November 2013);
- The dilution from a $50m equity capital raising (at $0.70/sh) by the end of 2013;
- Our estimates of the value of HCH's early stage exploration tenements and capitalised corporate expenses; and
- Bell Potter Securities long-term commodity price and currency assumptions of: US$2.70/lb copper; US$1,100/oz gold; and US$0.85/A$.

Risks

Risks include, but are not limited to:

- Commodity price and exchange rate risks: Similar to other commodity explorers, developers and producers, HCH's future earnings and value are subject to fluctuations in commodity prices and exchange rates.
- Exploration risks: HCH's ultimate equity value will reflect the level of the company's exploration success. HCH has highly prospective tenement positions and an existing JORC resource. However, exploration risks do remain.
- Funding risks: HCH will require significant capital for exploration, evaluation and ultimately project development prior to production and positive operating cash flows. HCH is likely to raise additional funds through equity and debt markets.

- Development risks: Should HCH's projects progress to development stage, there will be risks around costing, timelines and project commissioning.
- Sovereign risks: HCH's exploration and development projects are located in Chile, South America. The company's head office is located in Perth, Western Australia.
- JV partner risks: HCH has joint ventures with partners including CMP and CODELCO.

Appendix 1: Capital structure

Capital structure

Table 7 - HCH capital structure

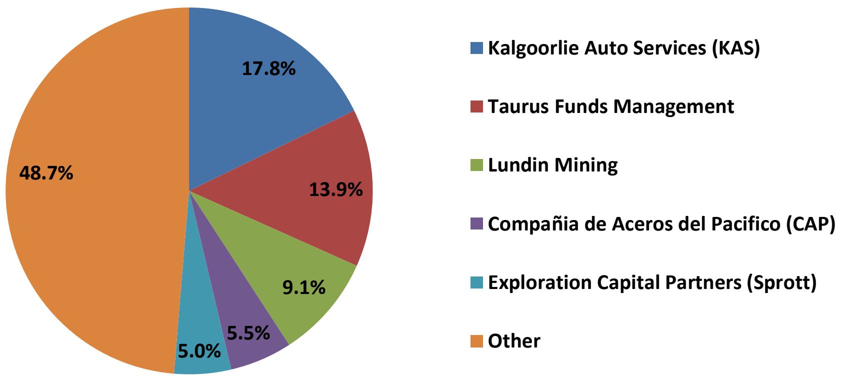
Issued shares m	297
Share price $	0.65
Market cap $m	193
Net cash $m	40
EV (undiluted) $m	153
Options (in money) m	24
Issued shares (diluted) m	322
Market cap (diluted) m	209
Net cash + options $m	45
EV (diluted) $m	164

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Major shareholders

Note: Kalgoorlie Auto Services is a company affiliated with the HCH Chairman and Managing Director.

Figure 5 - HCH shareholders



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Appendix 2: Copper comps

Table 8 - ASX copper comps

Companies	EV US$m	Resource kt Cu (% Cu grade)	kt Cu eq (% Cu Eq grade)	Reserve kt Cu (% Cu grade)	kt Cu eq (% Cu Eq grade)	EV US$ / t Cu Eq Resource
Sandfire Resources NL (SFR)	1,350	627 (5.3%)	729 (6.1%)			1,852
Hillgrove Resources Ltd (HGO)	140	257 (0.8%)	284 (0.9%)	125 (0.8%)	140 (0.9%)	491
Cudeco Ltd (CDU)	611	1,205 (0.3%)	1,758 (0.4%)			348
PanAust Ltd (PNA)	1,567	3,589 (0.4%)	4,602 (0.5%)	748 (1.1%)	956 (1.4%)	341
Tiger Resources Ltd (TGS)	198	508 (1.7%)	583 (1.9%)			340
Hot Chili Ltd (HCH)	184	920 (0.6%)	1,004 (0.6%)	0 (0.0%)	0 (0.0%)	183
Discovery Metals Ltd (DML)	467	2,648 (1.3%)	2,858 (1.4%)	322 (1.3%)	348 (1.4%)	163
OZ Minerals Ltd (OZL)	1,117	6,493 (1.1%)	10,346 (1.8%)	784 (0.4%)	1,138 (0.6%)	108
Avanco Resources (AVB)	86	753 (1.2%)	909 (1.5%)			94
Indophil Resources Ltd (IRN)	198	5,718 (0.5%)	6,687 (0.6%)			30
Rex Minerals Ltd (RXM)	50	1,979 (0.6%)	2,182 (0.7%)	492 (5.1%)	568 (5.9%)	23
Aditya Birla Minerals Ltd (ABY)	28	3,187 (1.4%)	3,213 (1.4%)	151 (1.8%)	233 (2.8%)	9
Altona Mining Ltd (AOH)	112	2,396 (0.6%)	12,257 (3.0%)			9
Weighted average		**(0.9%)**	**(1.7%)**			**909**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Appendix 3: Board & management

Board of directors

Murray Edward Black (Non-Executive Chairman)

Mr Black has over 35 years of experience in the mineral exploration and mining industry and has served as an executive director and chairman for several listed Australian exploration and mining companies. He part-owns and manages a substantial private Australian drilling business, has interests in several commercial developments and has significant experience in capital financing.

Christian Ervin Easterday (Managing Director)

Mr Easterday is a geologist with over 12 years of experience in the mineral exploration and mining industry. He holds an honours degree in geology from the University of Western Australia, a masters degree in Mineral Economics from Curtin University of Technology and a masters degree in Business Administration from Curtin's Graduate School of Business. Mr Easterday has held several senior positions and exploration management roles with top-tier gold companies including Placer Dome, Hill 50 Gold and Harmony Gold, specialising in structural geology, resource development and mineral economic valuation. For the past five years, Mr Easterday has been involved in various aspects of project negotiation. This work has involved negotiations and valuations covering gold, copper, uranium, iron ore, nickel, and tantalum resource projects in Australia and overseas. Mr Easterday is a member of The Australian Institute of Geoscientists.

Geoff Laing (Executive Director)

Mr Laing is an engineer with more than 20 years' experience in the mining business. Over the past five years Mr Laing was involved in the successful development and operation of Exco Resources Ltd as both Managing Director and General Manager of Corporate and Business Development. Most recently, Mr Laing oversaw the successful conversion of a hostile bid for Exco Resources to an agreed takeover of the company. Prior to that, Mr Laing was involved in the development of a number of major projects including the Tenke Fungurume copper project in the Democratic Republic of Congo (DRC) and Norilsk Nickel Refining Projects. Mr Laing has operational experience in base and precious metals in both Africa and Australia. Mr Laing holds an MBA from the University of Western Australia and is a Member of the Australian Institute of Company Directors.

Michael Anderson (Non-Executive Director)

Mr Anderson has 20 years' industry experience, largely in southern Africa and Australia. His career commenced as a geologist with Anglo American, followed by roles in the metallurgical and engineering industries with Mintek, Bateman and Kellogg Brown & Root. He subsequently held senior management positions including Corporate Development Manager at Gallery Gold Limited, and most recently and relevantly as Managing Director at Exco Resources Limited, where he successfully oversaw the funding and development of the White Dam Gold Project, and the completion of feasibility studies on the Company's Cloncurry Copper Project prior to its sale to Xstrata. He joined Taurus as a Director in August 2011 and is also a Non-Executive Director of ASX-listed Base Resources Ltd.

Continued over page…

Dr Allan Trench (Non-Executive Director)

Dr Allan Trench is a geologist/geophysicist and business management consultant with over 20 years experience across a broad range of commodities. His minerals sector experience spans strategy formulation, exploration, project development and mining operations. Allan holds degrees in geology, a doctorate in geophysics, a Masters degree in Mineral Economics and a Masters degree in Business Administration. He currently acts as independent director to a number of emerging resources companies, both in Australia and overseas.

Allan has previously worked with McKinsey & Company as a management consultant, with Woodside Petroleum in strategy development and with WMC both as a geophysicist and exploration manager. He is an Associate Consultant with international metals and mining advisory firm CRU Group and has contributed to the development of that company's uranium practice, having previously managed the CRU Group global copper research team. Allan maintains academic links as an Adjunct Professor to the Western Australian School of Mines, Curtin University of Technology.

SOURCE: HCH WEBSITE AND COMPANY ANNOUNCEMENTS

Hot Chili Ltd
as at 14 March 2013

Recommendation	Buy, Speculative
Price	$0.65
Target (12 months)	$0.95

Table 9 - Financial summary

Hot Chili Ltd (HCH)		
As at	**14/03/13**	
Share price (A$/sh)	**0.65**	
Market cap (A$m)	**193**	
Recommendation	**Buy (Speculative)**	

PROFIT AND LOSS

Year ending 30 June	Unit	2011a	2012a	2013e	2014e	2015e
Revenue	$m	-	1	-	-	-
Expense	$m	(11)	(4)	(6)	(6)	(6)
EBITDA	$m	**(11)**	**(3)**	**(6)**	**(6)**	**(6)**
Exploration expensed	$m	-	-	-	-	-
Depreciation	$m	(0)	(0)	-	-	-
Net impairments	$m	-	-	-	-	-
EBIT	$m	(11)	(3)	(6)	(6)	(6)
Net interest expense	$m	0	0	2	2	2
PBT	$m	**(11)**	**(3)**	**(4)**	**(4)**	**(4)**
Tax expense	$m	-	-	1	1	1
NPAT (continuing operations)	**$m**	**(11)**	**(3)**	**(4)**	**(3)**	**(3)**
Profit/(loss) from discontinued ops	$m	-	-	-	-	-
Reported NPAT	**$m**	**(11)**	**(3)**	**(4)**	**(3)**	**(3)**
Non-underlying items	$m	(0)	-	-	-	-
Adjusted NPAT	**$m**	**(11)**	**(3)**	**(4)**	**(3)**	**(3)**
Less: Non-controlling interest	$m	-	-	-	-	-
NPAT attributable to SFR equity	**$m**	**(11)**	**(3)**	**(4)**	**(3)**	**(3)**

PROFIT AND LOSS

Half years	Unit	Dec-11a	Jun-12a	Dec-12e	Jun-13e	Dec-13e
Revenue	$m	-	1	-	-	-
Expense	$m	-	(4)	(3)	(3)	(3)
EBITDA	$m	**-**	**(3)**	**(3)**	**(3)**	**(3)**
Exploration expensed	$m	-	-	-	-	-
Depreciation	$m	-	(0)	-	-	-
Net impairments	$m	-	-	-	-	-
EBIT	$m	-	(3)	(3)	(3)	(3)
Net interest expense	$m	-	0	0	1	1
PBT	$m	**-**	**(3)**	**(3)**	**(2)**	**(2)**
Tax expense	$m	-	-	-	1	1
NPAT (continuing operations)	**$m**	**-**	**(3)**	**(3)**	**(1)**	**(2)**
Profit/(loss) from discontinued ops	$m	-	-	-	-	-
Reported NPAT	**$m**	**-**	**(3)**	**(3)**	**(1)**	**(2)**
Non-underlying items	$m	-	-	-	-	-
Adjusted NPAT	**$m**	**-**	**(3)**	**(3)**	**(1)**	**(2)**
Less: Non-controlling interest	$m	-	-	-	-	-
NPAT attributable to SFR equity	**$m**	**-**	**(3)**	**(3)**	**(1)**	**(2)**

CASH FLOW

Year ending 30 June	Unit	2011a	2012a	2013e	2014e	2015e
OPERATING CASHFLOW						
Receipts	$m	-	-	-	-	-
Payments	$m	(9)	(2)	(4)	(4)	(4)
Tax	$m	-	-	-	-	-
Net interest	$m	0	0	2	2	2
Other	$m	-	-	-	-	-
Operating cash flow	$m	**(9)**	**(2)**	**(2)**	**(2)**	**(2)**
INVESTING CASHFLOW						
Capex	$m	(0)	(0)	-	-	(60)
Exploration & evaluation	$m	(1)	(15)	(29)	(30)	(30)
Investments	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Investing cash flow	$m	**(1)**	**(15)**	**(29)**	**(30)**	**(90)**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	8	29	39	50	150
Debt proceeds/(repayments)	$m	-	-	-	-	-
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**8**	**29**	**39**	**50**	**150**
Change in cash	$m	(2)	12	7	18	58

BALANCE SHEET

Year ending 30 June	Unit	2011a	2012a	2013e	2014e	2015e
ASSETS						
Cash & short term investments	$m	4	17	24	42	100
Accounts receivable	$m	0	-	-	-	-
Inventory	$m	-	-	-	-	-
Property, plant & equipment	$m	0	0	0	0	60
Other	$m	2	16	43	73	102
Total assets	$m	**7**	**33**	**68**	**115**	**262**
LIABILITIES						
Accounts payable	$m	1	0	0	0	0
Borrowings	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Total liabilities	$m	**1**	**0**	**0**	**0**	**0**
SHAREHOLDER'S EQUITY						
Share capital	$m	19	49	87	137	287
Reserves	$m	0	1	1	1	1
Retained earnings	$m	(14)	(17)	(21)	(23)	(26)
Total equity	$m	**5**	**33**	**67**	**115**	**262**
Weighted average shares	m	149	174	225	290	403

FINANCIAL RATIOS

Year ending 30 June	Unit	2011a	2012a	2013e	2014e	2015e
VALUATION						
NPAT	$m	(11)	(3)	(4)	(3)	(3)
Reported EPS	c/sh	(8)	(2)	(2)	(1)	(1)
EPS growth	%	na	na	na	na	na
PER	x	-8.0x	-39.6x	-39.6x	-76.8x	-82.3x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(7)	(10)	(14)	(11)	(23)
P/FCFPS	x	-9.7x	-6.5x	-4.7x	-5.9x	-2.8x
EV/EBITDA	x	-14.8x	-55.8x	-27.4x	-27.4x	-27.4x
EBITDA margin	%	0%	-386%	0%	0%	0%
EBIT margin	%	0%	-387%	0%	0%	0%
Return on assets	%	-162%	-9%	-6%	-2%	-1%
Return on equity	%	-202%	-9%	-6%	-2%	-1%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(4)	(17)	(24)	(42)	(100)
ND / E	%	-77%	-52%	-36%	-37%	-38%
ND / (ND + E)	%	-333%	-107%	-56%	-58%	-62%
EBITDA / Interest	x	na	na	na	na	na

ASSUMPTIONS - Prices

Year ending 30 Jun	Unit	2011a	2012a	2013e	2014e	LT real
Metals						
Copper	US$/lb	3.94	3.70	3.50	3.50	2.70
Gold	US$/oz	1,374	1,673	1,716	1,563	1,100
CURRENCY						
AUD/USD	US$/A$	0.99	1.03	1.03	0.98	0.85

Resources

Productora		Mt	% Cu	g/t Au	kt Cu	koz Au
Central resource area	Measured	-	0.00%	-	-	-
	Indicated	31	0.60%	0.10	190	110
	Inferred	54	0.60%	0.10	300	180
	Total	85	0.58%	0.11	490	290
Resource Upgrade 1	Measured	-	0.00%	-	-	-
	Indicated	39	0.60%	0.10	230	150
	Inferred	41	0.50%	0.10	200	130
	Total	80	0.54%	0.11	430	280
Grand total	Measured	-	0.00%	-	-	-
	Indicated	71	0.59%	0.11	420	260
	Inferred	95	0.53%	0.10	500	310
	Total	**165**	**0.56%**	**0.11**	**920**	**570**

Valuation

Issued capital	**m**
Shares on issue	297
Options (in the money)	24
Total diluted shares on issue	**322**

	Present		+12 months		+24 months	
Sum of parts (risked) valuation	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Productora (20% risk disc.)	243	0.76	261	0.81	281	0.87
Frontera	20	0.06	20	0.06	20	0.06
Other	15	0.05	15	0.05	15	0.05
Corporate	(32)	(0.10)	(31)	(0.10)	(30)	(0.09)
Total enterprise value	247	0.77	265	0.82	286	0.89
Net cash/(debt) + options	45	0.14	58	0.18	27	0.08
Total equity value	**291**	**0.91**	**323**	**1.00**	**312**	**0.97**

Assumed capital raising (by end-2013)	
Capital raised $m	50
Issue price $/sh	0.70
New shares	71
New total shares on issue	**393**

Valuation adjusted for capital raising						
Total enterprise value	247	0.63	265	0.68	286	0.73
Net debt/(cash)	95	0.24	108	0.27	77	0.19
Total equity value (base case)	**341**	**0.87**	**373**	**0.95**	**362**	**0.92**

Major shareholders

	m shares	%
Kalgoorlie Auto Services (KAS)	53	18%
Taurus Funds Management	41	14%
Lundin Mining	27	9%
Compañia de Aceros del Pacifico (CAP)	16	6%
Exploration Capital Partners (Sprott)	15	5%
Other	145	49%
Total	297	100%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosure: Bell Potter Securities acted as as Lead Manager for placements, $32.5m in October 2012, $22m in January 2012 & $25m in December 2011 and received fees for that service.