

Hot Chili Limited

Costa Fuego maiden resource, large scale, world class

HCH has announced a maiden resource for the Costa Fuego Cu-Au project in Chile with the release of a maiden resource at Cortadera. The maiden resource announcement has propelled Costa Fuego into the top 20 of Cu-Au resources worldwide that are not controlled by a major mining company.

The Costa Fuego resource totals **724Mt at 0.48% Cu eq.** (0.40% Cu, 0.12g/t Au) for a total of **3.5Mt of Cu**. The Costa Fuego project includes the Cortadera maiden resource of 451Mt at 0.46% Cu eq. (0.37% Cu, 0.13g/t Au) for a total of 2.1Mt of Cu and the restated Productora resource of 273Mt at 0.52% Cu eq. (0.44% Cu, 0.09g/t Au) for 1.4Mt Cu.

The large tonnage of the deposit further enhances the economies of scale for bulk tonnage mining and processing for a potential development scenario. The project would likely see a central processing facility at Cortadera with Productora ROM ore transported via a 14km conveyor.

This emerging copper development we see as providing a long life project with a significant production profile of +100ktpa of Cu in concentrates. Significantly the Cortadera resource includes a high grade core of **104Mt at 0.74% Cu eq.** (0.60% Cu, 0.22g/t Au) down to 1,200m below surface and potentially amenable to block caving later in the life of a project.

Key resource growth targets at Cuerpo 2 and Cuerpo 3 are likely to add to the resource and exploration upside at the highly prospective "look alike" Cortadera North prospect located 2km north where RC drilling has commenced.

Comment, Recommendation and Valuation

We see HCH as clearly undervalued following the release of the Costa Fuego resource when compared to its peer group of companies. Most of our peer group are also located in the America's and have sulphide porphyry resources with similar sized deposits, based on tonnes and/or grade (see Figure 7 and Figure 8).

The large scale of the Costa Fuego project lends itself to large corporate ownership and as HCH now holds the largest Cu resource for an ASX listed junior company we anticipate corporate interest will increase. Further funding options for the Company include either equity funding from the market and/or a potential corporate taking a cornerstone equity position as part of a JV or control mechanism.

We continue to value HCH based on A\$50 per insitu copper resource tonne (v's \$47.8/t for our peer comparison) and reiterate our strong Speculative BUY recommendation. Our price target of 6.9cps (from 7.5cps undiluted) is partially diluted for in the money options (6.1cps fully diluted for con notes, options and performance rights).

HCH.ASX

Spec. BUY

12 October 2020

Share Price	\$0.037
12 mth Price range high	\$0.047
12 mth Price range low	\$0.009
Price target	\$0.069
GICS Sector	Materials
Market capitalisation*	\$102m
Shares on Issue*	2745m
Cash on hand	\$6.2m
Enterprise value^	\$103m
Previous rating	Spec. BUY
* diluted for 336m in the money options, ^ includes \$7.9m in unsecured con notes	

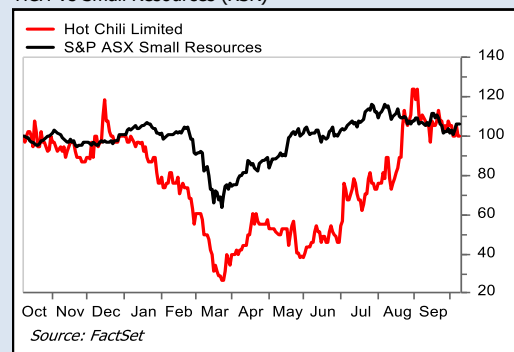
Directors & Management

Non-Exec Chairman	Murray Black
Managing Director	Christian Easterday
Non-Exec Director	Allan Trench
Non-Exec Director	Michael Anderson
Non-Exec Director	Roberto Adriasola
Non-Exec Director	Randall Nickson

Major Shareholders

KAS & Blue Spec Drilling PL	10.1%
Taurus Funds	8.4%

HCH Vs Small Resources (XSR)



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Costa Fuego Copper Project maiden resource

The Costa Fuego Copper Project includes the Cortadera and Productora deposits

HCH has announced a maiden resource at Costa Fuego confirming an emerging copper project with the hallmarks to grow into a tier 1 asset. The company has also, with the release of the Costa Fuego resource, announced a maiden resource for the Cortadera Project combining the Cortadera and Productora resources to provide the feedstock for a potential project development.

The Cortadera resource totals 451Mt at 0.46% Cu eq. containing 1.7Mt Cu and 1.9Moz of Au at a 0.25% Cu eq. lower cut-off grade (Figure 1).

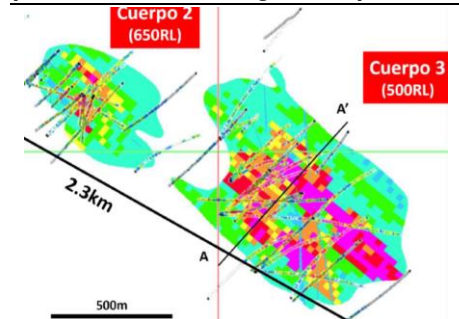
Figure 1: Cortadera maiden minerals resource

Cortadera Resource		Grade					Contained Metal				
Classification (+0.25% CuEq*)	Tonnage (Mt)	CuEq (%)	Cu (%)	Au (g/t)	Ag (g/t)	Mo (ppm)	Copper Eq (tonnes)	Copper (tonnes)	Gold (ounces)	Silver (ounces)	Molybdenum (tonnes)
Indicated	183	0.49	0.40	0.15	0.7	43	905,000	728,000	889,000	4,227,000	7,900
Inferred	267	0.44	0.35	0.12	0.7	73	1,181,000	935,000	1,022,000	5,633,000	19,400
Total	451	0.46	0.37	0.13	0.7	61	2,086,000	1,663,000	1,911,000	9,860,000	27,300

Source: Hot Chili Limited

The high grade core of the deposit (>0.6% Cu equivalent cut off) totals 104Mt at 0.74% Cu eq. representing a significant potential underground block cave later in the life of the project (Figure 2 and 3).

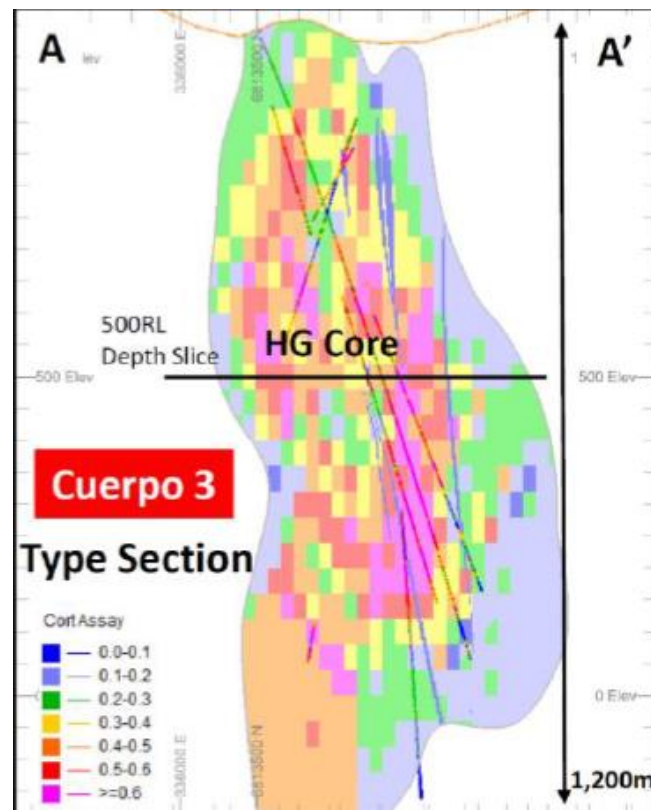
Figure 2: Flitch plan of Cuerpo 2 and 3 (1.7km of 2.3km strike length shown)



Source: Hot Chili Limited

The high grade core ore block distribution is consistent throughout the deposit

Figure 3: Cuerpo 3 Cross Section showing ore block distribution



Source: Hot Chili Limited

The project is a large tonnage development opportunity

The combined Costa Fuego resource represents a substantial large tonnage development opportunity to HCH. The resource now consists of 2.9Mt of Cu and 2.7Moz Au after the inclusion of the Productora resources restated at 0.25% Cu eq. cut off (Figure 4). The Costa Fuego preliminary metallurgical recoveries for the copper equivalent reporting are on a conservative "lowest reported" basis and we anticipate these will increase as feasibility level metallurgical studies are completed on Cortadera.

Figure 4: Costa Fuego Copper Project combined resource

Costa Fuego Combined Resource			Grade					Contained Metal				
Deposit	Classification (+0.25% CuEq*)	Tonnage (Mt)	CuEq (%)	Cu (%)	Au (g/t)	Ag (g/t)	Mo (ppm)	Copper Eq (tonnes)	Copper (tonnes)	Gold (ounces)	Silver (ounces)	Molybdenum (tonnes)
Cortadera	Indicated	183	0.49	0.40	0.15	0.7	43	905,000	728,000	889,000	4,227,000	7,900
	Inferred	267	0.44	0.35	0.12	0.7	73	1,181,000	935,000	1,022,000	5,633,000	19,400
	Sub Total	451	0.46	0.37	0.13	0.7	61	2,086,000	1,663,000	1,911,000	9,860,000	27,300
Productora	Indicated	208	0.54	0.46	0.10		140	1,122,000	960,000	643,000	-	29,200
	Inferred	67	0.44	0.38	0.08		109	295,000	255,000	167,000	-	7,200
	Sub Total	273	0.52	0.44	0.09		133	1,417,000	1,215,000	810,000	-	36,400
Costa Fuego (Combined)	Indicated	391	0.52	0.43	0.12		95	2,027,000	1,688,000	1,533,000	-	37,000
	Inferred	334	0.44	0.36	0.11		80	1,476,000	1,191,000	1,189,000	-	26,700
	Total	724	0.48	0.40	0.12	0.7**	88	3,503,000	2,879,000	2,722,000	9,860,000	63,700

Source: Hot Chili Limited

HCH, in conjunction with completing the combined Costa Fuego resource, is undertaking internal scoping work on the deposits in preparation for moving into a more advanced economic assessment.

Emerging development scenario

The combined resources of the Costa Fuego deposits we see as supporting a large robust project with long life potential. The combination is similar to the Nueva Union Copper Project (Teck Resources 50%, Newmont Goldcorp 50%), located 100km northeast of Costa Fuego, which combines the Relincho and El Morro Cu-Au deposits located 40km apart into one development joined through a 40km conveyor belt.

The Cortadera deposit is located 14km from the Productora deposit where a 2016 pre-feasibility study completed by HCH is likely to help jump start development studies. As part of the Productora PFS, HCH secured existing infrastructure access for power and sea water pipeline easements and surface rights (Figure 5).

The large tonnage resource is substantial and amenable to large scale open cut mining and processing with a central processing facility at Cortadera sourcing ROM ore from Cortadera, Productora and El Fuego. The large scale of the project favours economies of scale where we see a production scenario developing that includes:

- +20 year Life of Mine;
- +20Mtpa processing capacity;
- +100ktpa of Copper in concentrate; and

Like Nueva Union, Costa Fuego looks to combine deposits into a central processing facility for superior returns

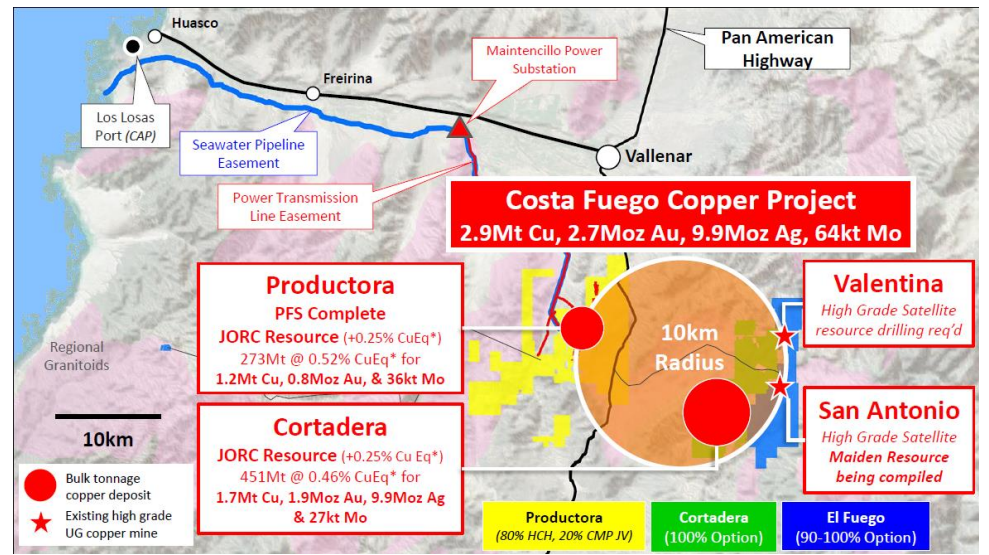
Productora is located 14km from Cortadera

Long life operation with potential to grow

- +100kozpa of Gold in concentrate.

With ROM ore from Cortadera and Productora underpinning a future operation we anticipate initial higher grade feed in the early years from a high grade starter pit at San Antonio in the El Fuego Project.

Figure 5: Location plan of Costa Fuego Copper Project



Source: Hot Chili Limited

If we assume all current potential ore sources (including San Antonio) we foresee the following production scenario:

- Productora – low strip open cut with average Cu grade of ~0.45% Cu. Primary crushing on site prior to a 14km haulage via conveyor to Cortadera for processing;
- San Antonio – open cut with average Cu grade of ~1.0% Cu. Trucking distance of ~4km to Cortadera;
- Cuerpo 1, 2 & 3 – low strip open cut/s with average Cu grades of +0.40% Cu; and
- Cuerpo 3 underground – Block cave initially to extract the high grade with average Cu grades of +0.6% Cu and +0.2g/t Au

Significantly the above scenario of 400-500Mt of mine inventory is achieved from existing resources without any further success from strike and depth extensional drilling at Cuerpo 2 or 3, or exploration success at Cortadera North.

Resource expansion and discovery

The Cortadera resource remains open and HCH, in conjunction with completing the Cortadera resource, is continuing drilling at Cortadera to increase resources by targeting:

- Cuerpo 2 - potential for another high grade core;
- Cuerpo 3 North - potential for the main porphyry to extend a further 500m to the north;

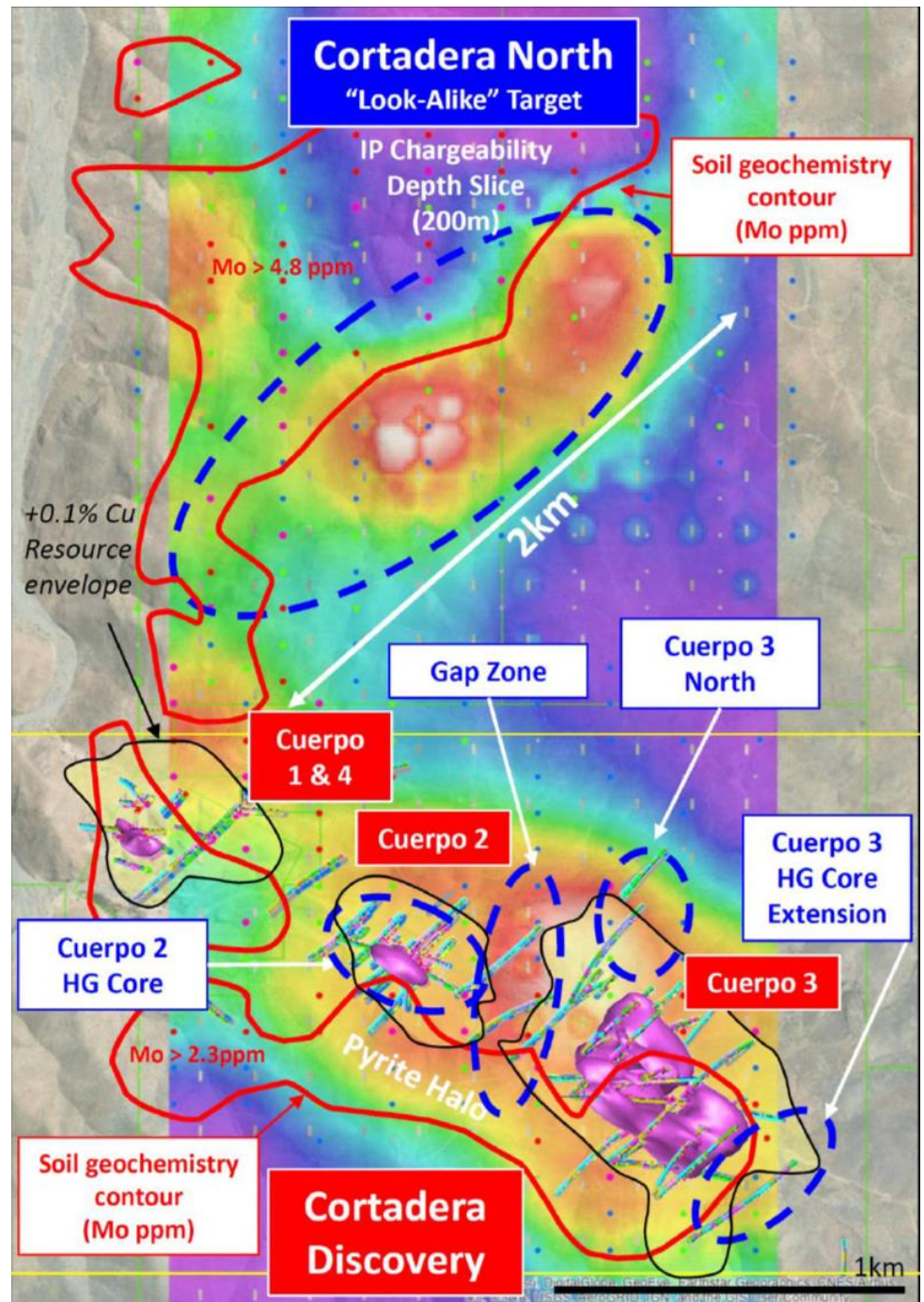
Costa Fuego studies will leverage off the Productora PFS

Resources are sufficient to potentially underpin a development

Project upside from resource growth is compelling

- Gap Zone – potential for the “gap” between Cuerpo 2 and 3 to join; and
- Cortadera North- "look-alike" potential for a second large porphyry discovery, located 2km north of Cortadera.

Figure 6: Key Growth targets at the Cortadera porphyry system



A discovery at Cortadera North would further transform the project

Resource expansion drilling at Cuerpo 2 and Cuerpo 3 will be included into a resource upgrade in 2021.

Source: Hot Chili Limited

HCH option to purchase 100% of Cortadera - recap

In February 2019 HCH announced the signing of a binding MOU to acquire a 100% equity interest in the Cortadera Cu-Au Project located 50km from the coast near La Sarena, Chile. The maiden resource released has shown the Cortadera Project to be, as anticipated, a large, significant cluster of porphyry deposits.

Two further payments are due to complete 100% ownership of Cortadera

The Project was held by a private owner who had spent US\$15m since discovering 3 deposits (Cuerpo 1, 2 and 3) and drilling over 23,000m of HQ drill core. HCH patiently secured, over a period of 2 years, a deal with the private owner, SCM Carola to acquire the Project for a total consideration of US\$30m (~A\$45m) in three tiered payments over a 30 month period. HCH has paid the initial US\$5m (A\$7.4m) and is due to pay US\$10m (A\$14.7m) in July 2021, after securing a 12 month delay post COVID-19 (for US\$2.0m), and US\$15m (A\$22.1m) in July 2022.

The next payment of US\$10m is due in July 2021

Valuation and Peer Comparison

The Costa Fuego project resource has propelled HCH into the top 20 of Cu-Au resources not owned by major mining companies. Our peer comparison seeks to compare HCH to other companies with projects located in the America's and with at least a similar size sulphide deposit, based on tonnes and/or grade. As presented in Figure 7 these companies are mostly domiciled in North America and listed in Canada. In Figure 8, following the release of the maiden Costa Fuego resource, HCH is clearly undervalued on a EV/t basis of \$24.0/t compared to its peer group average of A\$47.8/t .

HCH is clearly undervalued compared to its peer group on an EV/t basis

HCH \$24.0/t

Peer group average \$47.8/t

We continue to apply a value of A\$50 (US\$34) per insitu copper resource tonne to HCH. With the maiden resource at Costa Fuego we therefore value HCH at 6.9cps (from 7.5cps undiluted) on a partially diluted basis for in the money options (6.1cps fully diluted for con notes and options).

Our price target is 6.9cps, an 86% premium to the last close price of HCH

The ongoing option exercise of the 2.5c options we see as providing incremental funding, however we anticipate future funding for ongoing drilling and the next Carola option payment, which is currently required to be paid in July 2021, to be in the order of +A\$25m, sufficient to further grow resources and commence pre-feasibility over a 12 to 18 months period following funding completion.

We continue to see corporate interest on a project of this scale as preferred for HCH. The appropriate trigger point for corporate interest may be at a Scoping Study level (PEA), PFS or upon HCH securing the 100% ownership of Cortadera. Notwithstanding the potential for corporate interest via a cornerstone position for direct equity in HCH.

We recommend a strong Speculative BUY

We see HCH as significantly undervalued based on the value comparison of its Costa Fuego resource and recommend a strong Speculative BUY.

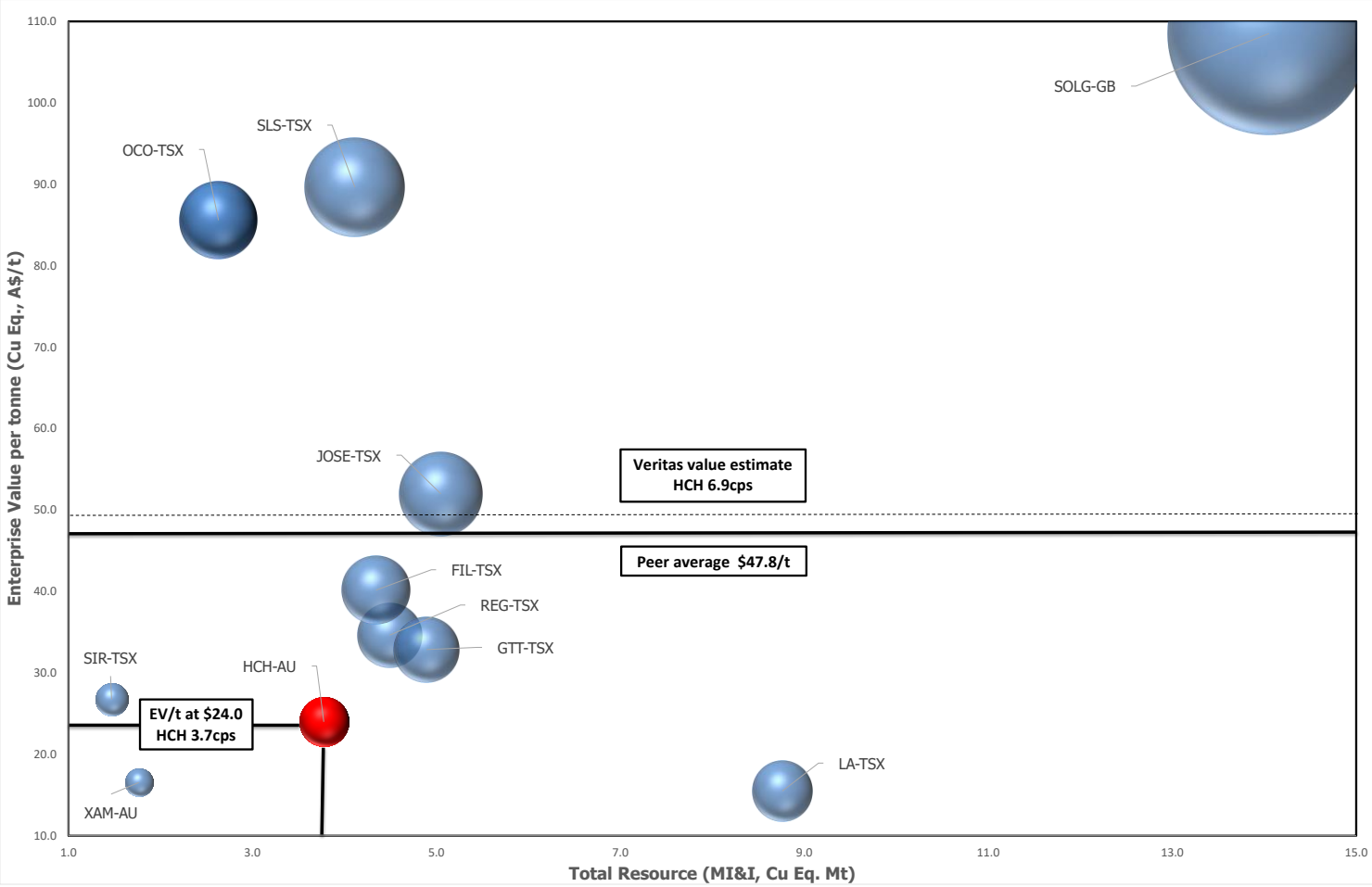
Figure 7: Peer Comparison of Global Companies with large Copper porphyry sulphide resources located in the America's

	Hot Chili Limited	SolGold Plc	Josemaria Resources Inc.	Regulus Resources Inc.	Solaris Resources Inc.	GT Gold Corp.	Xanadu Mines Limited	Los Andes Copper Ltd.	Serengeti Resources Inc.	Filo Mining Corp.	Oroco Resource Corp.
Code - Exchange	HCH-AU	SOLG-GB	JOSE-TSX	REG-TSX	SLS-TSX	GTT-TSX	XAM-AU	LA-TSX	SIR-TSX	FIL-TSX	OCO-TSX
Share Price (at 09/10/2020)	0.037	0.421	0.900	1.500	4.230	1.320	0.040	4.860	0.355	1.870	1.300
Share Price (at 09/10/2020)	(A\$) 0.037	0.76	0.94	1.58	4.44	1.39	0.04	5.10	0.37	1.96	1.37
Shares on Issue	(m) 2402	2072	300	102	89	126	1092	27	110	111	170
Cash	(A\$m) 6	44	21	5	26	14	15	3	2	43	7
Market Capitalisation (undiluted)	(A\$m) 89	1568	283	160	395	175	44	139	41	217	232
Enterprise Value	(A\$m) 91	1525	262	156	369	161	29	136	39	174	225
Primary Project / Deposit											
Name	Costa Fuego	Alpala	Josemaria	Antakori	Warintza, La Verde	Tatogga	Kharmagtai	Vizcachitas	Kwanika	Filo De Sol	Santo Tomas
Ownership	(%) 100	85	100	100	100, 60	100	76.5	100	100	100	61.4
Location	Chile	Ecuador	Chile	Peru	Ecuador, Mexico	BC, Canada	Mongolia	Chile	BC, Canada	Argentina	Mexico
Stage of Development	exploration / expansion	PEA	FS	Resorce definition	Exploration, PEA	Feasibility / Development	Scoping study	PEA	Exploration / definition	PFS	Reseource expansion
Deposit Style	Porphyry - Type II	Porphyry - Type II	Porphyry	Porphyry-Skarn	Porphyry	Porphyry	Porphyry - Type II	Porphyry	Porphyry	Porphyry, HS Epithermal	Porphyry
Resource (MI&I, 100% basis)	(Mt) 724Mt @ 0.40% Cu, 0.12g/t Au, 0.4g/t Ag 0.01% Mo	2.05Bt @ 0.41% Cu, 0.29g/t Au	1009Mt @ 0.29% Cu, 0.21g/t Au, 0.92g/t Ag	517Mt @ 0.44% Cu, 0.27g/t Au, 7.7g/t Ag	124Mt @ 0.56% Cu, 0.06g/t Au, 0.03% Mo / 746Mt @ 0.39% Cu, 0.03g/t Au, 2.2g/t Ag	841Mt @ 0.26% Cu, 0.33g/t Au, 0.71g/t Ag	470Mt @ 0.31% Cu, 0.19g/t Au	2072Mt @ 0.37% Cu, 0.99/t Ag, 0.01% Mo	314Mt @ 0.24% Cu, 0.23g/t Au, 0.79g/t Ag	600Mt @ 0.31% Cu, 0.32g/t Au, 9.4g/t Ag	822Mt @ 0.32% Cu
EV per tonne Cu metal insitu	A\$/t 24.0	108.5	52.0	34.6	89.6	32.9	16.5	15.5	26.7	40.2	85.6

Notes: All Mcaps are undiluted, CAD:AUD at 1.05, GBP:AUD at 1.80, USD:AUD at 1.38, SLS.TSX announced on 29/09/2020 an interval of 1,010m @ 0.59% Cu, 0.1g/t Au 0.02% Mo from its Warintza Project. JOSE.TSX includes quoted Josemaria Project Reserves, HCH.ASX Cortadera Project ownership subject to the fulfillment of an option to acquire 100%

Source: Company Reports

Figure 8: Peer Comparison of Total Resource to Enterprise Value per Resource tonne (Bubble Size = Enterprise Value)



Source: Company Reports

Research

RATING

- BUY – anticipated stock return is greater than 10%
- SELL – anticipated stock return is less than -10%
- HOLD – anticipated stock return is between -10% and +10%
- SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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