

Hot Chili Limited

Copper price leverage...Productora on the spot!

Current copper prices are at or near record levels providing very strong leverage to the upside for the Costa Fuego Cu-Au Project which has not translated through to the HCH share price.

This **leverage** to a Costa Fuego development is underscored when recasting the Productora 2016 Pre-Feasibility Study cashflow model at **spot prices of US\$4.62/lb Cu** (from US\$3.00/lb) that delivers a **500% increase** in the **NPV₇ to US\$1,100m** (A\$1,428m at AUD0.77) which is **A\$0.38 per fully diluted share – a 1,000% premium to the current HCH share price.**

HCH are to commence a pre-feasibility study of Costa Fuego in the near term that is to focus on a high grade component in the initial years from Productora, that will likely pay back capital prior to full scale mining at Cortadera.

Drilling has continued to expand the Cortadera mineralised porphyry in 2021. We anticipate HCH has most likely added 100mt to 200mt to the resource which takes the Costa Fuego global resource closer to the coveted 1,000mt resource target and Tier 1 status (+5mt of Cu eq).

The new Santiago Z project is located just 5km south of Cortadera and represents a high priority exploration target with a 4km x 2km hydrothermal alteration zone coincident with high order soil geochem.

Chile proposed tax and constitutional reform

We have a watching brief on the Super profits tax legislation which if enacted would see Cu companies lose more than a fifth of their gross revenue to the super tax royalty alone, at current Cu prices. Also on the horizon are Presidential elections in November 2021 and potentially a new constitution to be taken to a plebiscite in 2022, making it a difficult situation for foreign companies when viewing where capital should be deployed for development projects. The main opposition party has expressed that an agreement to increase taxes should be reached whilst also remaining competitive with tax levels in Canada and Australia.

Comment, Recommendation and Valuation

We see the Costa Fuego Project (**724Mt at 0.48% Cu eq.** including at Cortadera a high grade core of **104Mt at 0.74% Cu eq.**) as an emerging copper development providing a long life operation with a substantial production profile of +100ktpa of Cu in concentrates. Drilling outside of the existing Costa Fuego resource we see as closing the gap to a +1.0 Billion tonne resource.

We recommend a Speculative BUY and continue to value HCH based on a **A\$50 per insitu Cu** resource equivalent tonne, Cortadera North and Santiago Z exploration upside and Cuerpo 1, 2 and 3 deposit extensions.

We maintain our price target of 6.9cps which does not include any leverage from high Cu prices, as shown from the Productora updated NPV at spot prices.

HCH.ASX

Spec. BUY

7 June 2021

Share Price	\$0.037
12 mth Price range high	\$0.058
12 mth Price range low	\$0.014
Price target	\$0.069
GICS Sector	Materials
Market capitalisation	\$115m
Shares on Issue	3104m
Cash on hand	\$9.5m
Enterprise value^	\$112m
Previous rating	Spec. BUY
^ includes \$6.9m in unsecured con notes	

Directors & Management

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

Major Shareholders

KAS & Blue Spec Drilling PL	6.5%
GS Group Australia	6.3%
Taurus Funds	5.9%

HCH Vs Small Resources (XSR)



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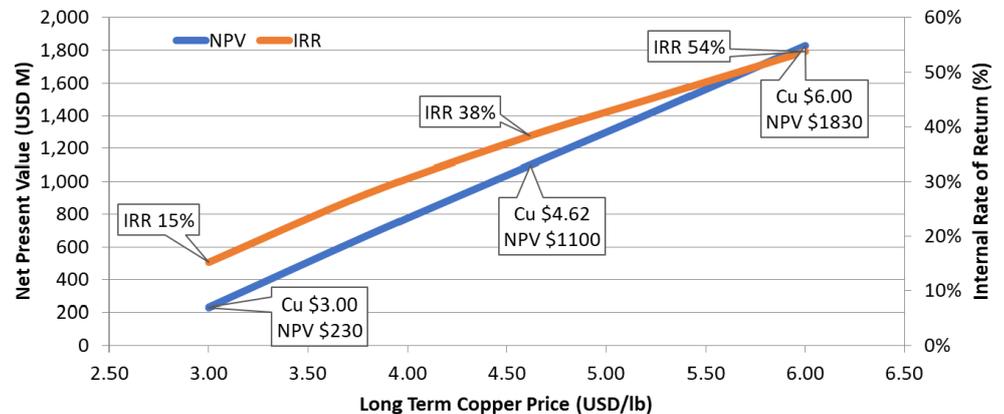
As a stand alone Productora impresses at spot

HCH has dusted off the Productora pre-feasibility study from 2016 and applied a spot Cu price of US\$4.62/lb to the discounted cashflow. At the time of releasing the pre-feasibility study in 2016 a Cu price of US\$3.00/lb was used for the study which, at the time, generated an NPV₇ of US\$230m on a post tax basis and US\$643m (excluding US\$82m in contingencies) in pre-production capex for a circa 17mtpa (average 2.7:1 strip ratio) 8 year operation producing 66ktpa Cu and 25kozpa Au at C1 cash costs of US\$1.47/lb.

On a like for like basis after increasing the Cu price to US\$4.62/lb the Productora NPV₇ increases 500% to US\$1,100m (A\$1,428m at USD0.77) which on a fully diluted basis is A\$0.38 per HCH share – a 1,000% premium to their current share price on an unfunded basis.

At current spot Cu prices the Productora pre-feasibility NPV₇ translates to A\$0.38 per HCH fully diluted share

Figure 1: Productora NPV scenario at differing Cu prices



Source: Company Reports

This simple comparison highlights the extreme leverage that today's Cu prices provide not only to Productora on a stand alone basis but also the Costa Fuego combined resource inventory. The work completed by the Company on Productora emphasises the benefits of a higher grade starter pit to the overall economics of a Costa Fuego development. Under this scenario, high grade Productora ore of +0.6% Cu could provide +3 years of feed to a +20mtpa plant which would significantly pay back capital in these years prior to the full scale production at Cortadera commences.

HCH has announced they will commence a pre feasibility study on the Costa Fuego project in the near term which will utilise the most effective production scenario to release the full economic benefit of the project.

High grade Productora ore could add +3 years of feed to a +20mtpa Costa Fuego plant.

We maintain that the large tonnage Costa Fuego resource plus resource growth (see below) is 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 with a production scenario that includes a:

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

Long life operation with strong potential to grow

- +100kozpa of Gold in concentrate.

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 or a high grade open cut option with an average Cu grade of +0.6% 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

Resources are sufficient to potentially underpin a development

Cortadera Resource growth

An analysis of the holes reported outside of the October 2020 resource has either extended the high grade core (>0.4% Cu & >0.1g/t Au) beyond the resource bounds or extended the high grade core within the resource, replacing previous lower grade mineralisation. Overall this all indicates an increase in high grade core tonnes and an increase of the global resource.

Resource extension drilling continues to add to the global resource

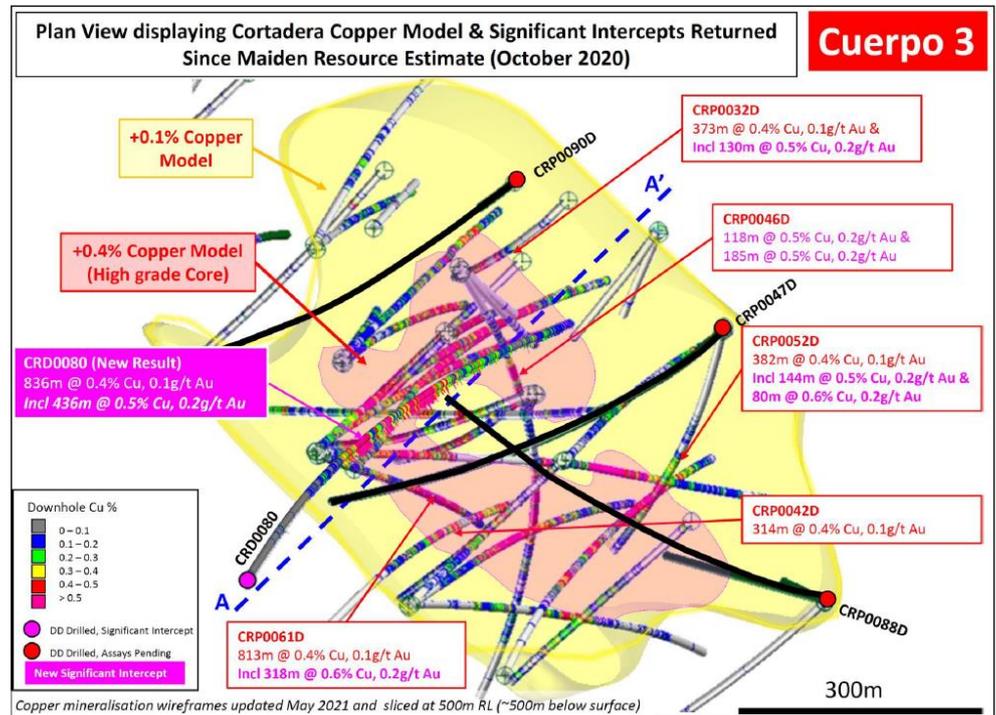
As drilling to date continues to show that the resource is open in many directions we estimate that extensional drilling at Cortadera has likely added 100mt to 200mt to the global resource at the assumed average resource grades. A summary of the intervals reported from outside of the resource are summarised below in Figure 2 and 3.

Figure 2: Significant intercepts outside of resource

Hole	Intercept	Comment	Infill/Extension
CRP032D	373m @ 0.4% Cu, 0.1g/t Au from 648m <i>Including</i> 130m @ 0.5% Cu, 0.2g/t Au from 676m	Extends Cuerpo 3 strike to north west and at depth	E
CRP042D	314m @ 0.4% Cu, 0.1g/t Au from 616m	Extends strike of Cuerpo 3 porphyry to south east	E
CRP046D	114m @ 0.5% Cu, 0.2g/t Au from 248m 185m @ 0.5% Cu, 0.2g/t Au from 568m	Infill hole upgrades mineralised Cuerpo 3 porphyry to high grade porphyry within the resource	I
CRP047D	Visual porphyry mineralisation from 720m - 920m, Assays pending	Extension of Cuerpo 3 footwall mineralised porphyry	E
CRP052D	382m @ 0.4% Cu, 0.1g/t Au from 524m <i>Including</i> 144m @ 0.5% Cu, 0.2g/t Au from 646m	Extends strike of Cuerpo 3 high grade core to south east	E
CRP 053D	614m @ 0.3% Cu, 0.1g/t Au from 230m <i>Including</i> 248m @ 0.4% Cu, 0.1g/t Au from 446m	Extends Cuerpo 2 porphyry at depth	E
CRP061D	813.1m @ 0.4% Cu, 0.1g/t Au from 54m <i>Including</i> 318m @ 0.6% Cu, 0.2g/t Au from 440m	Extends Cuerpo 3 high grade core to the south	E
CRD080	836m @ 0.4% Cu, 0.1g/t Au from 536m <i>Including</i> 436m @ 0.5% Cu, 0.2g/t Au from 536m	Extends footwall to main Cuerpo 3 porphyry by 80m south, extending high grade porphyry	E
CRP088D	Hole at 1,240m, Assays pending	Testing the Cuerpo 3 south east strike extension	E
CRP090D	Visual porphyry mineralisation from 350m - 650m, Assays pending	Cuerpo 2 "gap" hole extends porphyry at depth and joining of Cuerpo 2 & 3 at depth	E

Source: Company Reports

Figure 3: Cuerpo 3 significant intercepts since October 2020



Source: Company Reports

Santiago Z prospect

The Company has recently consolidated a land position that covers the Santiago Z project located 5km south of Cortadera. The prospect includes the following significant attributes for a potential new discovery:

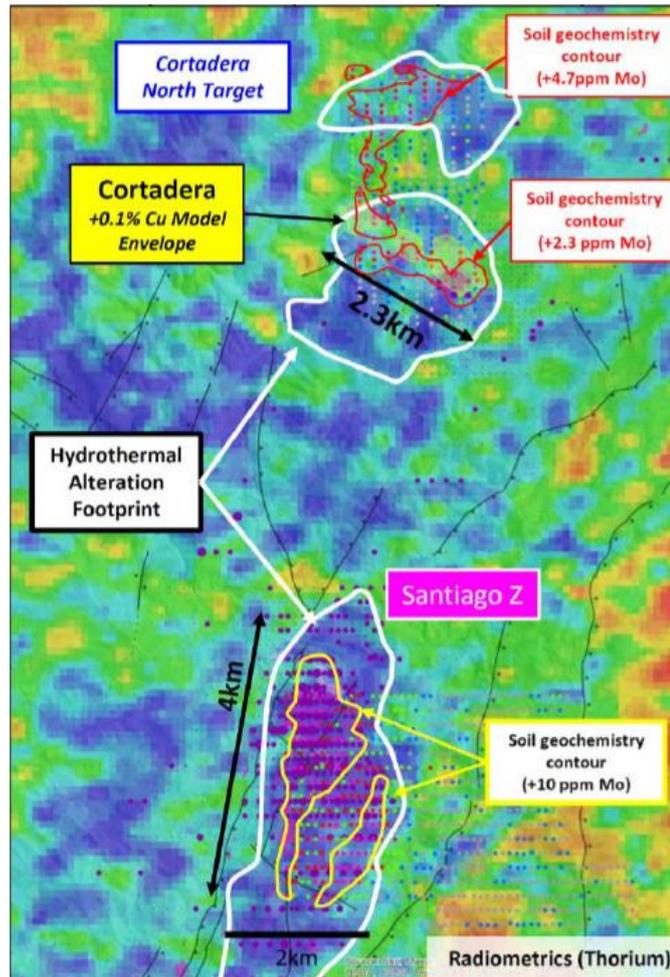
1. A large Cu porphyry footprint over 4km in strike and 2km in width;
2. A stronger Mo (+10ppm) anomaly than originally recorded from historic xrf soil results, which are also 4 times the tenor of the Mo soil geochem anomaly related to the Cortadera Cu-Au porphyry;
3. Displays typical coincident Cu porphyry metal zonation patterns;
4. Similar aged Late Cretaceous porphyries (91-96Ma) to Cortadera (92Ma +/-2Ma) – potentially highly significant - representing an opportunity for a cluster of mineralised porphyries from the same mineralising event; and
5. Mapping by HCH has identified Cu bearing hydrothermal breccias.

This new project is a high priority for exploration and we eagerly await ongoing newsflow in parallel with further RC drilling at Cortadera North.

With a footprint of 4km x 2km, a discovery could add significantly to resources, mine life and production profile for Costa Fuego

Figure 4: Comparison of Santiago Z hydrothermal alteration zone compared to Cortadera

The Cortadera mineralised porphyries may represent just one of a cluster of porphyries within a 10km radius



The Santiago Z significant hydrothermal alteration zones cover a 4km x 2km area

Source: Hot Chili Limited

Chile tax and constitutional reform

The recent Super profits tax proposal has been approved by the lower house of Parliament on 6 May 2021. The Super Tax has resurfaced with the record high copper prices and the internal social unrest that has been exacerbated by the COVID pandemic. If the Super Tax went ahead as legislated, mining companies would lose more than a fifth of their gross revenue to the royalty alone when prices are at current levels. The highest tier above US\$4.00/lb Cu would attract a 75% tax.

Also a recent vote on 15 and 16 May 2021 electing a Constitutional Assembly responsible for the redrafting of the country's constitution has resulted in the centre-right government performing poorly, only securing 37 of the 155 seats, not enough to block the two thirds majority required to make changes and therefore the government would struggle to block radical changes to the constitution unless it can forge new alliances. The existing constitution is regarded by many to prioritise the privatisation of public goods at the expense of economic equality and social inclusion. The country is also set to go to a Presidential election in November 2021.

Although the President can block tax reform regardless of it already having passed both houses of Parliament, an election result against the incumbent favouring a left wing socialist candidate could result in a higher tax imposition on Cu companies than an anticipated more moderate negotiated compromise.

Thus we see the situation as a watch and see, however as Cu provides approximately 20% of government revenue it would be difficult to see a tax burden imposed that will see foreign companies with capital looking to other jurisdictions as a result of increased sovereign risk through disproportionate increases in taxes. The main opposition party has already expressed that the current proposal from the Lower House is unacceptable in its current form and that an agreement should be reached for Chile to increase taxes and have a competitive tax level similar to Canada and Australia.

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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