



## **Hot Chili Limited**

**ACN 130 955 725**

# **Notice of Annual General Meeting, Explanatory Statement and Proxy Form**

**Annual General Meeting to be held at**

**First Floor  
768 Canning Highway  
Applecross Western Australia**

**On Tuesday, 27 November 2018 at 10:30am (WST)**

### **IMPORTANT NOTE**

The Notice of Annual General Meeting, Explanatory Statement and Proxy Form should be read in their entirety. If you are in doubt as to how you should vote, you should seek advice from your accountant, solicitor or other professional adviser prior to voting.

## Important Information

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### Important dates

An indicative timetable of key proposed dates is set out below. These dates are indicative only and are subject to change.

Event	Date
Last day for receipt of Proxy Forms – Proxy Forms received after this time will be disregarded	10:30am (WST) on Sunday, 25 November 2018
Snapshot date for eligibility to vote	10:30am (WST) on Sunday, 25 November 2018
General Meeting	10:30am (WST) on Tuesday, 27 November 2018

### Defined terms

Capitalised terms used in this Notice of Annual General Meeting will, unless the context otherwise requires, have the same meaning given to them in the Glossary set out in the Explanatory Statement.

## Notice of Annual General Meeting

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Notice is hereby given that the Annual General Meeting of Hot Chili Limited (ACN 130 955 725) (**Hot Chili** or **Company**) will be held at **First Floor, 768 Canning Highway, Applecross, Perth, Western Australia** at **10:30am (WST)** on **Tuesday, 27 November 2018**.

The Explanatory Statement, which accompanies and forms part of this Notice, describes the various matters to be considered.

Terms used in this Notice will, unless the context otherwise requires, have the same meaning given to them in the Glossary as set out in the Explanatory Statement.

## AGENDA

### Financial Statements and Reports

To receive and consider the annual financial report, Directors' report and Auditor's report of the Company for the financial year ended 30 June 2018, as contained in the Company's Annual Report.

### Resolution 1: Adoption of Remuneration Report

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report for the financial year ended 30 June 2018, as contained in the Company's Annual Report for 2018, be adopted by the Company."*

**Notes:** In accordance with the Corporations Act, the vote on this Resolution is advisory only and does not bind the Directors or the Company.

The Directors will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the Meeting when reviewing the Company's remuneration policies.

If 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution ("spill resolution") that another meeting be held within 90 days at which all of the offices of Director are vacated (other than the office of managing director) and each such office will be put to a vote. Refer to the Explanatory Statement for further information.

### Resolution 2: Re-election of Director – Dr Allan Trench

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

*"That for the purposes of Listing Rule 14.4, clause 11.3 of the Company's Constitution and for all other purposes, Dr Allan Trench, a Director of the Company who retires in accordance with clause 11.3 of the Constitution and, being eligible, offers himself for re-election, is re-elected as a Director of the Company."*

### **Resolution 3: Re-election of Director – Mr Michael Anderson**

To consider and, if thought fit, to pass, the following resolution as an **ordinary resolution**:

*“That for the purposes of Listing Rule 14.4 clause 11.3 of the Company’s Constitution, Mr Michael Anderson, a Director of the Company who retires in accordance with clause 11.3 of the Constitution and, being eligible, offers himself for re-election, is re-elected as a Director of the Company.”*

### **Resolution 4: Approval of Issue of Securities under Incentive Plan**

To consider and, if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

*“That for the purposes of Listing Rule 7.2, Exception 9 and for all other purposes, the Company approves the issue of securities under the Incentive Plan as an exception to Listing Rule 7.1, on the terms and conditions described in the Explanatory Statement.”*

### **Resolution 5: Grant of Plan Options to Managing Director under Incentive Plan – Mr Christian Easterday**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, subject to Resolution 4 being approved, for the purposes of Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of up to 6,000,000 Plan Options to Mr Christian Easterday, the Managing Director of the Company (or his nominee) under the Incentive Plan, on the terms and conditions described in the Explanatory Statement.”*

### **Resolution 6: Grant of Plan Options to Alternate Director under Incentive Plan – Ms Melanie Leighton**

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, subject to Resolution 4 being approved, for the purposes of Listing Rule 10.14 and for all other purposes, Shareholders approve the grant of up to 3,000,000 Plan Options to Ms Melanie Leighton, an Alternate Director of the Company (or her nominee) under the Incentive Plan, on the terms and conditions described in the Explanatory Statement.”*

### **Resolution 7: Approval to issue Interest Shares to Non-Related Parties**

To consider and, if thought fit, to pass, the following resolution as an **ordinary resolution**:

*“That for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of up to 43,953,433 Interest Shares at a deemed issue price of at least \$0.02 each to holders of Convertible Notes (or their nominees), as payment of interest pursuant to the terms of those Convertible Notes, on the terms and conditions set out in the Explanatory Statement.”*

### **Resolution 8: Approval to issue Interest Shares to Related Party – Blue Spec Drilling Pty Ltd**

To consider and, if thought fit, to pass, the following resolution as an **ordinary resolution**:

*“That for the purposes of Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of up to 1,543,554 Interest Shares at a deemed issue price of at least \$0.02 each to Blue Spec Drilling Pty Ltd, a company controlled by Mr Murray Black, the Chairman of the*

*Company, (or its nominee) as payment of interest pursuant to the terms of Convertible Notes held by Blue Spec Drilling Pty Ltd, on the terms and conditions set out in the Explanatory Statement.”*

## **Resolution 9: Approval of Additional Placement Facility**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

*“That for the purposes of Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the number of fully paid ordinary securities of the Company on issue (at the time of issue) calculated in accordance with the formula set out in Listing Rule 7.1A.2 for a period of 12 months from the date of the Meeting on the terms and conditions set out in the Explanatory Statement.”*

**Note:** Resolution 9 is a special resolution. To be passed, it must be approved by at least 75% of the votes cast by Shareholders entitled to vote on the Resolution.

## Voting Prohibitions and Exclusions

### Corporations Act voting prohibitions

Resolution	Voting prohibition	Exceptions
Resolution 1	<p>Pursuant to section 250R of the Corporations Act, members of Key Management Personnel and their Closely Related Parties may not vote on Resolution 1.</p> <p>Any votes cast in contravention of section 250R of the Corporations Act will not be counted in working out a percentage of votes cast or whether the Resolution is approved.</p>	<p>This prohibition does not prevent the casting of a vote on Resolution 1 by a person who is otherwise prohibited from voting, as a proxy where the appointment specifies how the proxy is to vote.</p> <p>The Chairman may vote as proxy in accordance with an express authorisation on the Proxy Form.</p>

Pursuant to section 250BD of the Corporations Act, members of Key Management Personnel and their Closely Related Parties (other than the Chairman) may not vote as a proxy on any of Resolutions 4, 5, or 6, except where the appointment specifies how the proxy is to vote, or in the case of the Chairman, in accordance with an express authorisation on the Proxy Form. Any votes cast in contravention of section 250BD of the Corporations Act will not be counted in working out a percentage of votes cast or whether the Resolution is approved.

### ASX voting exclusion statements

For the purposes of Listing Rule 14.11, the following voting exclusion statements apply to the Resolutions. The Company will disregard any votes cast in favour of the following Resolutions by or on behalf of the following persons or an Associate of those persons:

Resolution	Excluded Parties
Resolution 4	A Director (except a Director that is ineligible to participate in the Incentive Plan).
Resolution 5	A Director who is eligible to participate in the Incentive Plan.
Resolution 6	A Director who is eligible to participate in the Incentive Plan.
Resolution 7	A person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a Shareholder).
Resolution 8	Blue Spec Drilling Pty Ltd.
Resolution 9	A person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a Shareholder).

However, the Company need not disregard a vote on Resolutions 4 – 9 if it is cast by:

- a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- the Chairman as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### By order of the Board

**Lloyd Flint**

Company Secretary  
10 October 2018

## **Proxy Appointment, Voting and Meeting Instructions**

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### **Lodgement of a Proxy Form**

The Proxy Form (and any power of attorney or other authority, if any, under which it is signed) must be received at an address given below by **10:30am (WST) on Sunday, 25 November 2018**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid. Proxy Forms may be lodged as follows:

*By hand:* First Floor, 768 Canning Highway, Applecross, WA, 6153

*By post:* Company Secretary, Hot Chili Limited, PO Box 1725 Applecross, WA, 6953

*By email:* admin@hotchili.net.au

*By fax:* (08) 9315 5004 (within Australia)  
+61 8 9315 5004 (outside Australia)

### **Appointment of a proxy**

A Shareholder entitled to attend and vote at the Meeting is entitled to appoint a proxy. The proxy may, but need not be, a Shareholder.

If you wish to appoint the Chairman as your proxy, mark the appropriate box on the Proxy Form. If the person you wish to appoint as your proxy is someone other than the Chairman, please write the name of that person in the space provided on the Proxy Form. If you leave this section blank, or your named proxy does not attend the Meeting, the Chairman will be your proxy.

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, you may photocopy the Proxy Form or an additional Proxy Form may be obtained by telephoning the Company on +61 8 9315 9009.

To appoint a second proxy you must, on each Proxy Form, state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If both Proxy Forms do not specify that percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

### **Corporate Shareholders**

Corporate Shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:

- two directors of the company;
- a director and a company secretary of the company; or
- for a proprietary company that has a sole director who is also the sole company secretary – that director.

### **Corporate representatives**

A corporation may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case the Company will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act. The certificate of appointment must be lodged with the Company and/or the Company's share registry before the Meeting or at the registration desk on the day of the Meeting.

## **Votes on Resolutions**

You may direct your proxy how to vote by placing a mark in the 'FOR', 'AGAINST' or 'ABSTAIN' box opposite the Resolution. All your votes will be cast in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on the Resolution by inserting the percentage or number of Shares you wish to vote in the appropriate boxes. If you do not mark any of the boxes next to a Resolution, your proxy may vote as he or she chooses. If you mark more than one box on the Resolution, your vote will be invalid.

## **Voting restrictions that may affect your proxy appointment**

Members of the Key Management Personnel (except for the Chairman) and their Closely Related Parties are not able to vote your proxy on Resolution 1 (Adoption of the Remuneration Report), Resolution 4 (Approval of Issue of Securities under Incentive Plan) and Resolutions 5 and 6 (Grant of Plan Options to Directors) unless you have directed them how to vote. This exclusion does not apply to the Chairman if his appointment as proxy expressly authorises him to vote on matters of Key Management Personnel remuneration.

If you intend to appoint the Chairman, a Director or any other member of Key Management Personnel or any of their Closely Related Parties as your proxy, you are encouraged to direct them how to vote on all the Resolutions.

## **Chairman voting undirected proxies**

At the date of this Notice, the Chairman intends to vote all undirected proxies FOR each of the Resolutions. In exceptional cases the Chairman's intentions may change subsequently and in this event, the Company will make an announcement to the market.

The Proxy Form expressly authorises the Chairman to exercise undirected proxies on all Resolutions including Resolution 1 (Adoption of the Remuneration Report), Resolution 4 (Approval of Issue of Securities under Incentive Plan) and Resolutions 5 and 6 (Grant of Plan Options to Directors) even though these Resolutions are connected directly or indirectly with the remuneration of a member of Key Management Personnel.

## **Voting entitlement (snapshot date)**

For the purposes of determining voting and attendance entitlements at the Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at **10.30am (WST) on Sunday, 25 November 2018**. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Annual General Meeting.

## **Questions from Shareholders**

At the Meeting, the Chairman will allow a reasonable opportunity for Shareholders to ask questions or make comments on the management of the Company and the Remuneration Report. A representative of RSM Partners Australia, as the Auditor responsible for preparing the Auditor's report for the year ended 30 June 2018 will attend the Meeting.

The Chairman will also allow a reasonable opportunity for Shareholders to ask the Auditor questions about:

- the conduct of the audit;
- the preparation and content of the Auditor's report;
- the accounting policies adopted by the Company in relation to the preparation of financial statements; and
- the independence of the Auditor in relation to the conduct of the audit.

To assist the Board and the Auditor of the Company in responding to questions please submit any questions you may have to the Company in writing by **5:00pm (WST) on Monday, 28 November**



**2018** in the same manner as outlined above for lodgement of Proxy Forms. Copies of written questions will be available at the meeting.

As required under section 250PA of the Corporations Act, the Company will make available at the Meeting those questions directed to the Auditor received in writing at least 5 business days prior to the Meeting, being questions which the Auditor considers relevant to the content of the Auditor's report or the conduct of the audit of the annual financial report for the year ended 30 June 2018. The Chairman will allow a reasonable opportunity for the Auditor to respond to the questions set out on this list.

## **Explanatory Statement**

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This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Annual General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of Annual General Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Annual General Meeting. Capitalised terms in this Explanatory Statement are defined in the Glossary.

### **1. Annual Financial Report**

The Corporations Act requires the Directors' report, Auditors' report and the financial statements of the Company for the year ended 30 June 2018 to be tabled at the Annual General Meeting. These reports are contained in the Company's Annual Report.

Neither the Corporations Act nor the Company's Constitution requires a vote of Shareholders on the reports and financial statements. However, Shareholders will be given reasonable opportunity to raise questions on the Reports and ask questions of the Company's Auditor.

### **2. Resolution 1: Adoption of Remuneration Report**

The Remuneration Report is set out in the Directors' report in the Annual Report.

The Corporations Act requires the Company to put a resolution to Shareholders that the Remuneration Report be adopted. In accordance with section 250R(3) of the Corporations Act, the vote on the Resolution is advisory only and does not bind the Directors or the Company.

In accordance with Division 9 of Part 2G.2 of the Corporations Act, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings of the Company, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be held within 90 days at which all of the Company's directors (other than the managing director) must go up for re-election.

It is noted that at the Company's 2017 annual general meeting the votes cast against the remuneration report represented less than 25% of the total votes cast and accordingly, a spill resolution will not under any circumstances be required for the Annual General Meeting.

A voting exclusion applies to Resolution 1 in the terms set out in the Notice of Meeting. Key Management Personnel and their Closely Related Parties may not vote on this Resolution and may not cast a vote as proxy, unless the proxy appointment gives a direction on how to vote or the proxy is given to the Chairman and expressly authorises the Chairman to exercise the proxy. The Chairman will use any such proxies to vote in favour of Resolution 1.

The Company encourages all Shareholders to cast their votes on Resolution 1 (Adoption of Remuneration Report).

### **3. Resolution 2: Re-election of Director – Dr Allan Trench**

#### **3.1 Background**

Resolution 2 seeks Shareholder approval for the re-election of Dr Allan Trench as a Director of the Company.

In accordance with the Listing Rules and clause 11.3 of the Constitution, at every Annual General Meeting, one third of the Directors for the time being must retire from office and are eligible for re-election. The Directors to retire are:

- (a) those who have been in office for 3 years since their appointment or last re-appointment;
- (b) those who have been longest in office since their appointment or last re-appointment; or

(c) if the Directors have been in office for an equal length of time, by agreement.

Dr Trench retires by rotation and offers himself for re-election as a Director.

### 3.2 **Biography – Dr Allan Trench**

Dr Trench was originally appointed as a Director of the Company on 19 July 2010.

Dr 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. Dr Trench 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.

Dr Trench 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.

Dr Trench maintains academic links as an Adjunct Professor to the Western Australian School of Mines, Curtin University of Technology.

### 3.3 **Directors' recommendation**

The Directors (other than Dr Trench) recommend that Shareholders vote in favour of Resolution 2.

## 4. **Resolution 3: Re-election of Director – Mr Michael Anderson**

### 4.1 **Background**

Resolution 3 seeks Shareholder approval for the re-election of Mr Michael Anderson as a Director of the Company.

In accordance with the Listing Rules and clause 11.3 of the Constitution (as described in section 3.1 above), Mr Anderson retires by rotation and offers himself for re-election as a Director.

### 4.2 **Biography – Mr Michael Anderson**

Mr Anderson was originally appointed as a Director of the Company on 12 December 2011.

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.

### 4.3 **Directors' recommendation**

The Directors (other than Mr Anderson) recommend that Shareholders vote in favour of Resolution 3.

## 5. **Resolution 4: Approval of Issue of Securities under Incentive Plan**

### 5.1 **Background**

As part of its incentive arrangements for Directors and senior employees, the Company has established an Employee Incentive Plan (**Incentive Plan**) which is governed by the Employee Incentive Plan Rules (**Rules**).

A summary of the terms of the Incentive Plan is set out in section 5.4 below.

Pursuant to the Incentive Plan, the Board may grant Options or Performance Rights (**Awards**) to the persons described in section 5.4(a) below, in accordance with the Rules and otherwise on terms and conditions set by the Board at its discretion.

Resolution 4 seeks Shareholder approval of the issue of securities under the Incentive Plan for the purposes of Listing Rule 7.2 (Exception 9).

This is the first time the Company is seeking Shareholder approval in relation to the Incentive Plan and to date no securities or rights have been issued or granted under the Incentive Plan.

## 5.2 **Applicable ASX Listing Rules**

Listing Rule 7.1 limits the number of securities a listed company may issue in any 12 month period without shareholder approval. However, securities issued pursuant to an exception to Listing Rule 7.1 are not counted for the purposes of the limit.

Listing Rule 7.2 (Exception 9) provides that shareholders may approve the issue of Equity Securities under an employee incentive scheme as an exception to Listing Rule 7.1. If such approval is obtained, Listing Rule 7.1 does not apply to an issue of Equity Securities in the listed company made under an employee incentive scheme within three years of the date of the approval.

## 5.3 **Objectives of the Incentive Plan**

The objectives of the Incentive Plan are to:

- (a) establish a method by which eligible persons can participate in the future growth and profitability of the Company;
- (b) provide an incentive and reward for eligible participants for their contributions to the Company;
- (c) attract and retain a high standard of managerial and technical personnel for the benefit of the Company; and
- (d) align the interests of eligible participants more closely with the interests of Shareholders, by providing an opportunity for eligible participants to hold an equity interest in the Company.

## 5.4 **Summary of terms of Incentive Plan**

### (a) **Eligibility**

The following persons can participate in the Incentive Plan if the Board makes them an offer to do so:

- (i) a full-time or part-time employee, including an executive and non-executive Director of the Company or its related bodies corporate;
- (ii) a contractor of the Company or its related bodies corporate;
- (iii) a casual employee of the Company or its related bodies corporate where the employee or contractor is, or might reasonably be expected to be, engaged to work the pro-rata equivalent of 40% or more of a comparable full-time position; and
- (iv) a person to whom an offer of Awards has been made, but whose acceptance of the Offer is conditional upon the person becoming one of the above.

### (b) **Board discretions**

The Board has broad discretions under the Incentive Plan, including (without limitation) as to:

- (i) the timing of making an offer to participate in the Incentive Plan;

- (ii) identifying persons eligible to participate in the Incentive Plan;
- (iii) the terms of issue of Awards (including vesting conditions, performance hurdles and exercise conditions if any); and
- (iv) the periods during which Awards may be exercised.

(c) **5% Limit**

The Plan has been prepared to comply with ASIC Class Order [CO 14/1000] and as such, offers under the Plan are limited to the 5% capital limit set out in that Class Order.

(d) **Exercise price**

The Exercise Price of an Award will be the price determined by the Board in its absolute discretion prior to or on grant of the Award.

(e) **Awards not to be quoted**

The Awards will not be quoted on the ASX. However, application will be made to ASX for official quotation of Shares issued upon the exercise of Awards, if the Shares are listed on ASX at that time.

(f) **Shares issued on exercise of Awards**

Subject to any applicable vesting conditions, performance hurdles and exercise conditions:

- (i) each Option entitles the holder to subscribe for and be issued with one Share; and
- (ii) each Performance Right entitles the holder to subscribe for and be issued with one Share.

Shares issued pursuant to the exercise of Awards will in all respects rank equally and carry the same rights and entitlements as other Shares on issue.

Holders of Awards have no rights to vote at meetings of the Company or receive dividends until Shares are allotted on the exercise of Awards pursuant to the Incentive Plan.

(g) **Lapse of Awards**

Unless the Directors in their absolute discretion determine otherwise, Awards will automatically lapse and be forfeited if, prior to the satisfaction of an exercise condition or vesting condition:

- (i) the holder resigns employment or terminates engagement with the Company;
- (ii) the holder is dismissed from employment or engagement with the Company for:
  - A. material breach of contract or negligence; or
  - B. conduct justifying termination without notice;
- (iii) the holder ceases employment or engagement with the Company and breaches any post-termination restraint;
- (iv) the holder is ineligible to hold his or her office pursuant to the Corporations Act; or
- (v) any performance milestones applicable to the Awards are not satisfied – if a portion are satisfied, then a proportionate number of Awards may continue at the Board's discretion.

Awards will not lapse and be forfeited if the holder ceases employment or engagement with the Company:

- (i) due to:
  - A. death or permanent disablement;
  - B. retirement; or
  - C. redundancy; or
- (ii) where the Board determines that the Awards continue.

(h) **Restrictions on disposal**

An Award holder is not able to sell, transfer, mortgage, pledge, charge, grant security over or otherwise dispose of any Awards, or agree to do any of those things, without the prior consent of the Board or unless such disposal is required by law.

(i) **Participation rights of Award holders**

Holders of Options and Performance Rights will only be permitted to participate in an issue of new Shares by the Company if they exercise their Options or Performance Rights (as applicable) before the record date for the relevant issue. The Company must ensure that, for the purposes of determining entitlements to any such issue, the record date will be at least 7 business days after the issue of new Shares is announced. This will give Option holders and Performance Right holders the opportunity to exercise their Options or Performance Rights prior to the date for determining entitlements to participate in any such issue.

(j) **Adjustment of Awards**

- (i) If the Company makes a pro rata bonus issue, and an Option or Performance Right is not exercised before the record date for that bonus issue, then on exercise of the Option or Performance Right (as applicable), the holder is entitled to receive the number of bonus shares which would have been issued if the Option or Performance Right had been exercised before the record date.
- (ii) In the event of a reorganisation (including a consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Awards to which each Award holder is entitled or the exercise price or both will be changed in the manner required by the Listing Rules and, in any case, in a manner which will not result in any benefits being conferred on holders of Awards which are not conferred on Shareholders.

(k) **Takeovers**

In the event of a takeover bid, certain capital reorganisations, or transactions occurring that give rise to certain changes of control of the Company, restrictions on the exercise of an Award may lapse so that Award holders are able to participate in the relevant transaction.

(l) **Tax deferral**

Subdivision 83A-C of the *Income Tax Assessment Act 1997* (Cth), which enables tax deferral on Awards offered under the Incentive Plan (subject to the conditions in that Act), may apply to Awards granted under the Incentive Plan.

(m) **Amending the Incentive Plan**

Subject to and in accordance with the Listing Rules, the Board (without the necessity of obtaining prior or subsequent consent of Shareholders) may from time to time amend all or any provisions of the Incentive Plan.

**5.5 Directors' recommendation**

The Directors decline to make a recommendation as to how Shareholders should vote in respect of Resolution 4 as they are each entitled to participate in the Incentive Plan.

## **6. Resolutions 5 and 6 – Grants of Plan Options under Incentive Plan to Managing Director and Alternate Director**

### **6.1 Background**

Resolutions 5 and 6 seek Shareholder approval for the issue of Plan Options to Mr Christian Easterday, the Managing Director of the Company, and Ms Melanie Leighton, an Alternate Director of the Company, subject to Shareholder approval of Resolution 4 (Approval of Issue of Securities under Incentive Plan).

The Plan Options will be issued on the terms and conditions set out in Schedule 1 of this Explanatory Statement and otherwise pursuant to the Incentive Plan.

### **6.2 Chapter 2E of the Corporations Act**

Section 208(1) of the Corporations Act (set out in Chapter 2E) requires that, where a public company proposes to give a financial benefit to a Related Party, the public company must:

- obtain the approval of the company's members in accordance with section 208 of the Corporations Act in the manner set out in sections 217 to 227 of the Corporations Act; and
- give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

Section 211 of the Corporations Act provides that shareholder approval is not required to give a financial benefit in circumstances where the benefit constitutes remuneration which would be reasonable given the company's and the Related Party's circumstances.

The issue of Shares to a Director (or their nominee) constitutes the giving of a financial benefit to a Related Party of the Company for the purposes of section 208 of the Corporations Act.

Having considered the Company's circumstances, Mr Easterday's position as Managing Director of the Company, and Ms Leighton's position as Alternate Director of the Company (for Mr Murray Black), the Board (other than Mr Easterday) has formed the view that Shareholder approval under section 208 of the Corporations Act is not required for the proposed issue of Plan Options to Mr Easterday and Ms Leighton, as the Plan Options are being issued to Mr Easterday and Ms Leighton as a part of their remuneration for services provided to the Company in circumstances where the benefit constitutes remuneration which would be reasonable given the company's and the Related Party's circumstances.

Accordingly, the Board (other than Mr Easterday) considers that the remuneration is reasonable for the purposes of the exception in section 211 of the Corporations Act, and has determined not to seek Shareholder approval under section 208 of the Corporations Act for the grant of the Plan Options.

### **6.3 Applicable Listing Rules**

Listing Rule 10.14 provides that the approval of shareholders is required before a director (or an Associate of a director) of a company can acquire securities issued under an employee incentive scheme.

Accordingly, in order for a Director to acquire a beneficial interest in Plan Options and any Shares which may be issued on the vesting or exercise of Plan Options, the Company must first obtain Shareholder approval for the purposes of Listing Rule 10.14.

If Resolutions 5 and 6 are approved, then approval is not required under Listing Rule 7.1 for the issue of the relevant Plan Options.

### **6.4 Listing Rule information requirements**

In accordance with the disclosure requirements of Listing Rule 10.15, the following information is provided in relation to Resolution 5 and Resolution 6:

(a) **Relationship requiring Shareholder approval**

Mr Christian Easterday is the Managing Director of the Company.

Ms Melanie Leighton is an Alternate Director of the Company (for Mr Murray Black).

(b) **Maximum number of securities to be issued**

A maximum of 9,000,000 Plan Options will be issued, comprising:

- (i) 6,000,000 Plan Options to Mr Easterday; and
- (ii) 3,000,000 Plan Options to Ms Leighton.

(c) **Issue price of the securities**

The Plan Options will be issued for nil cash consideration under the terms of the Employee Incentive Plan. Accordingly, funds will not be raised on issue.

Each Plan Option will be exercisable on or before 3 years after the date of grant of the Plan Option, at an exercise price which is the greater of:

- (i) \$0.07; and
- (ii) price which is 145% of the VWAP of Shares traded over the 5 Business Days immediately prior to the date of grant of the Options.

The minimum exercise price of \$0.07 represents a premium of approximately 200% to the volume weighted average price of Shares traded on ASX over the 5 trading days up to and including 26 September 2018.

(d) **Related Party recipients of securities since last approval**

The Incentive Plan was adopted by the Company on 27 September 2018. Shareholder approval for the issue of securities under the Incentive Plan is sought under Resolution 4.

Accordingly, as at the date of this Notice, the Company has not made any issues of securities under the Incentive Plan to persons referred to in Listing Rule 10.14 since its admission to ASX.

(e) **Related Parties entitled to participate in the Incentive Plan**

As at the date of the Notice, the persons referred to in Listing Rule 10.14 who are entitled to participate in the Incentive Plan are the Directors, being:

- (i) Mr Murray Black – Non-Executive Chairman;
- (ii) Mr Christian Easterday – Managing Director;
- (iii) Dr Allan Trench – Non-Executive Director;
- (iv) Mr Michael Anderson – Non-Executive Director;
- (v) Mr Roberto de Andraca Adriasola – Non-Executive Director; and
- (vi) Mr Randall Nickson – Non-Executive Director.

(f) **Terms of loans**

There are not currently any arrangements or proposed arrangements between the Company and any participant in the Incentive Plan whereby the Company has entered into, or proposes to enter into, any loan with a plan participant for the purposes of acquiring securities under the plan.



(g) **Date by which securities will be issued**

The Company intends to issue the Plan Options as soon as practicable, and in any event, within 12 months after the date of the Meeting.

6.5 **Directors' recommendation**

The Directors (other than Mr Easterday) recommend that Shareholders vote in favour of Resolutions 5 and 6.

The Directors (other than Mr Easterday) consider that the issue of Plan Options to Mr Easterday and Ms Leighton (or their nominees):

- (a) aligns the interests of Mr Easterday and Ms Leighton with the financial success of the Company, in that exercise of their Plan Options would generally only be warranted by an increase in the market value of Shares to above the exercise price; and
- (b) is a reasonable and appropriate method to provide cost effective and efficient remuneration, as the non-cash form of this benefit will allow the Company to spend a greater portion of its available cash on its operations than it would if alternative cash forms of remuneration were given to Mr Easterday and Ms Leighton.

**7. Resolution 7: Approval to issue Interest Shares to Non-Related Parties**

7.1 **Background**

On 21 June 2017, the Company closed a capital raising in the amount of \$11,300,900 by way of the placement of Convertible Notes to various sophisticated and professional investors in Australia, and to investors in other jurisdictions, including particularly the United States.

Pursuant to the terms of the Convertible Notes, interest of 8% per annum, calculated daily, compounding monthly, is payable to Noteholders on a quarterly basis in either cash or Shares, at the election of Hot Chili.

If Hot Chili elects to pay interest in Shares (**Interest Shares**), then pursuant to the terms of the Convertible Notes, the Interest Shares are issued at a deemed issue price equal to the VWAP of Shares over the five trading days prior to their issue date, being the last date of the relevant quarter (31 December, 31 March, 30 June and 30 September).

Resolution 7 seeks Shareholder approval for the issue of up to 43,953,433 Interest Shares in satisfaction of interest in the amount of \$879,069 that will become due and payable by the Company with respect to Convertible Notes held by unrelated parties over the 12 months from the date of the Meeting, being with respect to the quarters ending on 31 December 2018, 31 March 2019, 30 June 2019 and 30 September 2019 (each a **Relevant Quarter**).

The table below sets out the amount of interest that will be payable to unrelated parties by the Company with respect to each Relevant Quarter, and the number of Interest Shares that may be issued pursuant to Resolution 7 for each Relevant Quarter, assuming the Interest Shares are issued at an issue price of \$0.02, \$0.03 and \$0.04 each.

Quarter ending		31/12/2018	31/03/2019	30/06/2019	30/09/2019
Interest payable		\$221,628	\$216,776	\$219,202	\$221,462
Number of Interest Shares to be issued	Issue price of \$0.02 per Interest Share	11,081,394	10,838,813	10,960,104	11,073,122
	Issue price of \$0.03 per Interest Share	7,387,596	7,225,876	7,306,736	7,382,081
	Issue price of \$0.04 per Interest Share	5,540,697	5,419,407	5,480,052	5,536,561

If the maximum number of Interest Shares are issued for each Relevant Quarter, which will only occur if the VWAP of Shares over the five trading days prior to the end of each Relevant Quarter is \$0.02 or less, then the number of Interest Shares to be issued will be 43,953,433, which represents approximately 5.9% of the Company's current issued Share capital, and the Company's shareholders will be diluted accordingly.

To the extent that Interest Shares in addition to those approved pursuant to Resolution 7 are required to be issued to satisfy interest payable pursuant to the Notes for a given quarter, then the Company intends to issue those Interest Shares using its issuing capacity under Listing Rule 7.1 and, if applicable, Listing Rule 7.1A.

## 7.2 Applicable Listing Rules

Listing Rule 7.1 provides that prior approval of shareholders is required for an issue of Equity Securities if the Equity Securities will, when aggregated with the Equity Securities issued by a company during the previous 12 months, exceed 15% of the number of Shares on issue at the commencement of that 12 month period.

Approval of Resolution 7 will mean that the Company will be able to issue up to 43,953,433 Interest Shares to Noteholders that are not Related Parties of the Company without those Interest Shares being included in the Company's issuing capacity calculation for the purposes of Listing Rule 7.1.

## 7.3 Listing Rule information requirements

Listing Rule 7.3 requires that the following information be provided to the Shareholders in relation to Resolution 7 for the purposes of obtaining approval under Listing Rule 7.1:

### (a) The maximum number of securities to be issued

The maximum number of securities to be issued pursuant to Resolution 7 is 43,953,433 Interest Shares.

### (b) The date by which securities will be issued

Listing Rule 7.3.2 requires that any securities issued pursuant to Shareholder approval under Listing Rule 7.1 be issued within 3 months of the meeting at which approval was obtained.

ASX has granted the Company a waiver from Listing Rule 7.3.2 to the effect that, if Resolution 7 is approved, the Company may issue up to 43,953,433 Interest Shares to the unrelated Noteholders no later than 7 October 2019.

The Company anticipates issuing the 43,953,433 Interest Shares on four separate dates, each corresponding with the end of each quarter, being 31 December 2018, 31 March 2019, 30 June 2019, and 30 September 2019.

The full terms of the waiver of Listing Rule 7.3.2 that was granted by ASX are set out at Schedule 2 to this Explanatory Statement.

A summary of the material terms of the Convertible Notes, as is required by the terms of the waiver, are set out at Schedule 3 to this Explanatory Statement.

(c) **The issue price of the securities**

The Interest Shares will be issued at a deemed issue price equal to the VWAP of Shares over the five trading days prior to their issue date, being the last date of the relevant quarter (31 December 2018, 31 March 2019, 30 June 2019 and 30 September 2019).

(d) **The name of the recipients of the securities**

The recipients of the Interest Shares will be the Noteholders of the Company that are not Related Parties of the Company, or their nominees.

(e) **The terms of the securities**

The Interest Shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the existing Shares on issue. The Company will apply for quotation of all Interest Shares issued.

(f) **The use or intended use of the funds raised**

The Interest Shares are to be issued in satisfaction of interest payable by the Company to Noteholders pursuant to the terms of their Convertible Notes. Accordingly, no funds will be raised by the issue of the Interest Shares.

**7.4 Directors' recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 7, as the payment of interest due on Convertible Notes in Shares rather than cash will preserve the Company's cash reserves and allow the Company to spend a greater portion of its available cash on its operations rather than on the payment of interest due in respect of the Convertible Notes.

**8. Resolution 8: Approval to issue Interest Shares to Blue Spec Drilling Pty Ltd**

**8.1 Background**

Resolution 8 seeks approval by Shareholders for the issue of up to 1,543,554 Interest Shares in satisfaction of interest in the amount of \$30,871 that will become due and payable by the Company with respect to Convertible Notes held by Blue Spec over the 12 months from the date of the Meeting, being with respect to the quarters ending on 31 December 2018, 31 March 2019, 30 June 2019 and 30 September 2019 (each a **Relevant Quarter**).

As set out in section 7 above, pursuant to the terms of the Convertible Notes, interest of 8% per annum, calculated daily, compounding monthly, is payable by the Company to Noteholders on a quarterly basis, and is payable in cash or Shares at the election of Hot Chili.

If Hot Chili elects to pay interest in Shares, then pursuant to the terms of the Convertible Notes, Shares will be issued at a deemed issue price equal to the VWAP of Shares over the five trading days prior to their issue date, being the last date of the Relevant Quarter.

The table below sets out the amount of interest that will be payable to Blue Spec by the Company with respect to each Relevant Quarter, and the number of Interest Shares that may be issued pursuant to Resolution 8 for each quarter, assuming the Interest Shares are issued at an issue price of \$0.02, \$0.03 and \$0.04 each.

Quarter ending		31/12/2018	31/03/2019	30/06/2019	30/09/2019
Interest payable		\$7,783	\$7,613	\$7,698	\$7,777
Number of Interest Shares to be issued	Issue price of \$0.02 per Interest Share	389,156	380,637	384,896	388,865
	Issue price of \$0.03 per Interest Share	259,437	253,758	256,597	259,243
	Issue price of \$0.04 per Interest Share	194,578	190,318	192,448	194,433

If the maximum number of Interest Shares are issued for each Relevant Quarter, which will only occur if the VWAP of Shares over the five trading days prior to the end of each Relevant Quarter is \$0.02 or less, then the number of Interest Shares to be issued will be 1,543,554 Shares, which represents approximately 0.2% of the Company's current issued Share capital, and the Company's shareholders will be diluted accordingly.

To the extent that Interest Shares in addition to those approved pursuant to Resolution 8 are required to be issued to satisfy interest payable pursuant to the Notes held by Blue Spec for a given Relevant Quarter, then the Company intends to satisfy that shortfall by way of a cash payment to Blue Spec.

## 8.2 Applicable Listing Rules

Listing Rule 10.11 provides that a company must not issue or agree to issue any Equity Securities (i.e. Shares), or other securities with rights of conversion to equity, to a related party without shareholder approval.

Blue Spec is a company controlled by the Company's Chairman, Mr Murray Black. Accordingly, Blue Spec is a related party of the Company for the purposes of the Listing Rules.

If Resolution 8 is approved, then approval is not required under Listing Rule 7.1 for the issue of the Interest Shares.

## 8.3 Chapter 2E of the Corporations Act

Section 208(1) of the Corporations Act (set out in Chapter 2E) requires that, where a public company proposes to give a financial benefit to a Related Party, the public company must:

- obtain the approval of the company's members in accordance with section 208 of the Corporations Act in the manner set out in sections 217 to 227 of the Corporations Act; and
- give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

Section 210 of the Corporations Act provides that shareholder approval is not required to give a financial benefit on terms that:

- would be reasonable in the circumstances if the public company and the related party were dealing at arm's length; or
- are less favourable to the related party than arm's length terms

The issue of Interest Shares to Blue Spec constitutes the giving of a financial benefit to a Related Party of the Company for the purposes of section 208 of the Corporations Act.

The Convertible Notes held by Blue Spec are on identical terms to the Convertible Notes held by each other Noteholder that is not a Related Party of the Company. Accordingly, any Interest Shares issued to Blue Spec will be issued on the same terms and conditions as any Interest Shares issued to each other Noteholder, being terms and conditions agreed on commercial terms with arm's length parties.

Accordingly, the Directors (other than Mr Black) have resolved that Shareholder approval is not required for the purposes of section 208 of the Corporations Act for the Company to issue the Interest Shares to Blue Spec as the exception under section 210 of the Corporations Act applies.

#### 8.4 Listing Rule information requirements

Listing Rule 10.13 requires that the following information be provided to the Shareholders in relation to Resolution 8 for the purposes of obtaining approval under Listing Rule 10.11:

(a) **The name of the recipient**

Blue Spec Drilling Pty Ltd, a company controlled by Mr Murray Black, the Non-Executive Chairman of the Company, or its nominee.

(b) **The maximum number of securities to be issued**

The maximum number of securities to be issued pursuant to Resolution 8 is 1,543,554 Interest Shares.

(c) **The issue date**

Listing Rule 10.13.3 requires that any securities issued pursuant to Shareholder approval under Listing Rule 10.11 be issued within 1 month of the meeting at which approval was obtained.

ASX has granted the Company a waiver from Listing Rule 10.13.3 to the effect that, if Resolution 8 is approved, the Company may issue up to an aggregate of 1,543,554 Interest Shares to Blue Spec (or its nominee) no later than 7 October 2019.

The Company anticipates issuing the 1,543,554 Interest Shares on four separate dates, each corresponding with the end of each quarter, being 31 December 2018, 31 March 2019, 30 June 2019, and 30 September 2019.

The full terms of the waiver of Listing Rule 10.13.3 that was granted by ASX are set out at Schedule 2 to this Explanatory Statement.

A summary of the material terms of the Convertible Notes, as is required by the terms of the waiver, are set out at Schedule 3 to this Explanatory Statement.

(d) **The issue price**

ASX has granted the Company a waiver from Listing Rule 10.13.5 to the effect that the precise issue price of the Interest Shares (which cannot be calculated at the date of the Notice) is not required to be disclosed in this Explanatory Statement.

The full terms of the waiver of Listing Rule 10.13.5 that was granted by ASX are set out at Schedule 2 to this Explanatory Statement.

The Interest Shares will be issued at a deemed issue price equal to the VWAP of Shares over the five trading days prior to their issue date, being the last date of the relevant quarter (31 December 2018, 31 March 2019, 30 June 2019 and 30 September 2019).

(e) **The terms of the securities**

The Interest Shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the existing Shares on issue. The Company will apply for quotation of all Interest Shares issued.

(f) **The use or intended use of the funds raised**

The Interest Shares are to be issued in satisfaction of interest payable by the Company to Blue Spec pursuant to the terms of the Convertible Notes held by Blue Spec. Accordingly, no funds will be raised by the issue of the Interest Shares.

8.5 **Directors' recommendation**

The Directors (other than Mr Black) recommend that Shareholders vote in favour of Resolution 8, as the payment of interest due on Convertible Notes in Shares rather than cash will preserve the Company's cash reserves and allow the Company to spend a greater portion of its cash reserves on its operations rather than on the payment of interest due in respect of the Convertible Notes.

Mr Black (the controller of Blue Spec) has a material personal interest in the outcome of Resolution 8 and declines to make any recommendation as to how Shareholders should vote on that Resolution.

9. **Resolution 9: Approval of Additional Placement Facility**

9.1 **Background**

Resolution 9 seeks Shareholder approval for an additional issuing capacity under Listing Rule 7.1A (**Additional Placement Facility**).

If approved, Resolution 9 would enable the Company to issue additional Equity Securities (calculated below) over a 12 month period without obtaining Shareholder approval.

Resolution 9 is a special resolution. It must be passed by at least 75% of the votes cast by Shareholders entitled to vote on the Resolution.

9.2 **Applicable Listing Rules**

Listing Rule 7.1A permits eligible entities that have obtained the approval of shareholders by special resolution at an annual general meeting, to have an addition capacity to issue additional Equity Securities issue equal to approximately 10% of its issued capital, over a 12 month period.

The Company is an eligible entity (being an entity with market capitalisation of \$300 million or less and which is not included in the S&P/ASX 300 index) and seeks Shareholder approval under this Resolution for the Additional Placement Facility.

9.3 **Requirements of Listing Rule 7.1A**

(a) **Quoted securities**

Any Equity Securities issued under the Additional Placement Facility must be in the same class as an existing class of Equity Securities of the Company that are quoted on ASX.

As at the date of this Notice, the Company has one class of Equity Securities quoted on ASX, being fully paid ordinary Shares.

(b) **Number of Equity Securities that may be issued**

Listing Rule 7.1 permits the Company to issue Equity Securities equal to approximately 15% of the Company's issued capital over a 12 month period without shareholder approval.

The Additional Placement Facility under Listing Rule 7.1A is in addition to the Company's 15% placement capacity under Listing Rule 7.1. The effect of Shareholders passing Resolution 9 is to allow the Company to issue Equity Securities equal to approximately 25% of its issued capital during the next 12 months without first obtaining specific Shareholder approval.

The exact number of additional Equity Securities that the Company may issue under the Additional Placement Facility is not fixed but is calculated under a formula prescribed by the Listing Rules (set out below).

At the date of this Notice the Company has 743,866,210 Shares on issue. If Resolution 9 is approved, the Company will be permitted to issue (as at the date of this Notice) approximately:

- (i) 111,579,931 Equity Securities under the Listing Rule 7.1 (15% placement capacity); and
- (ii) 74,386,621 Equity Securities under the Additional Placement Capacity.

(c) **Formula for Additional Placement Facility**

If this Resolution 9 is approved, the Company may issue or agree to issue, during the 12 month period after this Meeting, the number of Equity Securities calculated in accordance with the following formula:

$$\text{Additional Placement Capacity} = (A \times D) - E$$

where:

**A** = the number of fully paid ordinary securities on issue 12 months before the issue date or date of agreement to issue:

- plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2;
- plus the number of partly paid ordinary securities that became fully paid in the 12 months;
- plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rule 7.1 or Listing Rule 7.4;
- less the number of fully paid ordinary securities cancelled in the 12 months.

**D** = 10%

**E** = the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rule 7.1 or 7.4.

9.4 **Listing Rule information requirements**

Listing Rule 7.3A requires that the following information be provided to Shareholders in relation to Resolution 9 for the purposes of obtaining approval under Listing Rule 7.1A:

(a) **Minimum price at which Equity Securities may be issued**

The issue price of any Equity Security under the Additional Placement Facility will not be less than 75% of the VWAP for securities in the same class, calculated over the 15 trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the securities are to be issued is agreed; or
- (ii) if the securities are not issued within 5 trading days of the date above, the date on which the securities are issued.

(b) **Risk of economic and voting dilution**

If Resolution 9 is approved and the Company issues securities under the Additional Placement Facility, then there is a risk to existing Shareholders of economic and voting dilution, including the risk that:

- (i) the market price for Equity Securities in the same class may be significantly lower on the issue date of the new Equity Securities than on the date of this Meeting; and

- (ii) the new Equity Securities may be issued at a price that is at a discount to the market price for Equity Securities in the same class on the issue date or the new Equity Securities may be issued in consideration for the acquisition of a new asset.

The table below identifies the potential dilution to existing Shareholders following the issue of Equity Securities under the Additional Placement Facility (based on the formula set out above) using different variables for the number of issued Shares and the market price of Shares.

The numbers are calculated on the basis of the closing market price of Shares as at 26 September 2018 and the current number of Shares on issue.

Variable A in Listing Rule 7.1A		Issue price		
		\$0.023 (market price)	\$0.017 (25% decrease in market price)	\$0.012 (50% decrease in market price)
<b>Current issued capital</b> A = 743,866,210	<b>Shares issued under LR 7.1A</b>	74,386,621	74,386,621	74,386,621
	<b>Voting dilution</b>	10%	10%	10%
	<b>Funds raised</b>	\$1,710,892	\$1,264,573	\$892,639.45
	<b>Economic dilution</b>	0%	2.27%	4.55%
<b>50% increase in issued capital</b> A = 1,115,799,315	<b>Shares issued under LR 7.1A</b>	111,579,931	111,579,931	111,579,931
	<b>Voting dilution</b>	10%	10%	10%
	<b>Funds raised</b>	\$2,566,338	\$1,896,859	\$1,338,959
	<b>Economic dilution</b>	0%	2.27%	4.55%
<b>100% increase in current issued capital</b> A = 1,487,732,420	<b>Shares issued under LR 7.1A</b>	148,773,242	148,773,242	148,773,242
	<b>Voting dilution</b>	10%	10%	10%
	<b>Funds raised</b>	\$3,421,785	\$2,529,145	\$1,785,279
	<b>Economic dilution</b>	0%	2.27%	4.55%

The above table has been prepared on the following assumptions:



1. the market price of Shares is the closing market price of Shares traded on ASX as at 26 September 2018, being \$0.023;
2. the Company issues the maximum number of Equity Securities available under the Additional Placement Facility;
3. existing Shareholders' holdings do not change from the date of this Meeting to the date of the issue under the Additional Placement Facility;
4. the Company issues Shares only and does not issue other types of Equity Securities (such as Options) under the Additional Placement Facility;
5. the impact of placements under Listing Rule 7.1 or following the exercise of Options is not included in the calculations; and
6. Economic dilution (ED) is calculated using the following formula:

$$ED = (MP - (NMC / TS)) / MP$$

where:

**MP** = the market price of shares traded on ASX, expressed in dollars;

**MC** = market capitalisation prior to issue of Equity Securities, being the MP multiplied by the number of shares on issue;

**NMC** = notional market capitalisation, being the market capitalisation plus the NSV;

**NSV** = new security value, being the number of new Equity Securities multiplied by the issue price of those Equity Securities; and

**TS** = total shares on issue following new Equity Security issue.

(c) **Date by which Equity Securities may be issued**

Equity Securities may be issued under the Additional Placement Facility for 12 months after the Meeting (i.e. until 27 November 2019).

However, the approval of the Additional Placement Facility under this Resolution will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of the Company's activities) or Listing Rule 11.2 (disposal of the Company's main undertaking).

(d) **Purpose for which Equity Securities may be issued**

The Company may seek to issue Equity Securities under the Additional Placement Facility for the following purposes:

- (i) cash consideration to fund business growth, to acquire new assets or make investments, to develop the Company's existing assets and operations and for general working capital; and
- (ii) non-cash consideration to acquire new assets or make investments; in these circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

(e) **Allocation policy**

The Company's allocation policy for the issue of Equity Securities under the Additional Placement Facility will depend on the prevailing market conditions at the time of the proposed issue. The allottees will be determined on a case-by-case basis having regard to factors such as:

- (i) the methods of raising funds that are available to the Company, including but not limited to, rights issues or other issues in which existing security holders can participate;
- (ii) the effect of the issue of the new securities on the control of the Company;
- (iii) the financial situation and solvency of the Company; and
- (iv) advice from corporate and other advisors.

As at the date of this Notice, the Company has not identified any proposed allottees of Equity Securities using the Additional Placement Facility. However, the eventual allottees may include existing substantial Shareholders, other Shareholders and/or new investors.

None of the allottees will be a Related Party or an associate of a Related Party of the Company, except as permitted under Listing Rule 7.2. Existing Shareholders may or may not be entitled to subscribe for Equity Securities under the Additional Placement Facility and it is possible that their shareholding will be diluted.

If the Additional Placement Facility is used to acquire new assets or investments, then it is likely that the allottees will be the vendors of these assets/investments.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities under the Additional Placement Facility.

(f) **Additional information on issued securities**

Shareholders approved an Additional Placement Facility at the Company's 2017 annual general meeting.

The total number of Equity Securities issued in the 12 months before this Meeting is 249,357,624. These represent 41.54% of the total number of Equity Securities on issue at the commencement of that 12 month period.

The details for each separate issue of Equity Securities issued during the 12 months before this Meeting are set out at Schedule 4.

(g) **Directors' recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 9 as it will give the Company the flexibility to raise and fund necessary working capital whilst preserving the Company's cash reserves.

## Glossary

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In this Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

<b>Additional Placement Capacity</b>	Has the meaning given to that term in section 9.1 of this Explanatory Statement.
<b>A\$ or \$</b>	Australian dollars.
<b>Annual General Meeting or Meeting</b>	The annual general meeting of Shareholders, or any adjournment thereof, convened by this Notice.
<b>Annual Report</b>	The annual report of the Company for the financial year ended 30 June 2018, including the annual financial report, the Directors' report and the Auditor's report.
<b>Associate</b>	Has the meaning given to that term in the Listing Rules.
<b>ASX</b>	ASX Limited (ACN 008 624 691) or the financial market known as the Australian Securities Exchange, as the context requires.
<b>Auditor</b>	The auditor of the Company, being RSM Partners Australia at the date of this Notice.
<b>Blue Spec</b>	Blue Spec Drilling Pty Ltd.
<b>Board</b>	The board of Directors of the Company.
<b>Chairman</b>	The chairman of the Annual General Meeting.
<b>Closely Related Party</b>	Has same meaning given to that term in section 9 of the Corporations Act, being, in relation to a member of Key Management Personnel: <ul style="list-style-type: none"> <li>(a) a spouse or child of the member;</li> <li>(b) a child of the member's spouse;</li> <li>(c) a dependent of the member or the member's spouse;</li> <li>(d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;</li> <li>(e) a company the member controls; or</li> <li>(f) a person prescribed by the <i>Corporations Regulations 2001</i> (Cth) (currently none are prescribed).</li> </ul>
<b>Company or Hot Chili</b>	Hot Chili Limited (ACN 130 955 725).
<b>Company Secretary</b>	The company secretary of the Company at the time of the Meeting.
<b>Constitution</b>	The Constitution of the Company.
<b>Convertible Note</b>	A convertible note issued by the Company with a face value of \$100, and otherwise on the terms and conditions set out in the Trust Deed between the Company and Equity Trustees Limited dated 25 May 2018 as varied by deed of variation dated 19 June 2018, as announced to ASX on 21 June 2017.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth).
<b>Director</b>	A director of the Company.
<b>Equity Security</b>	Has the meaning given to that term in ASX Listing Rule 19.12, being: <ul style="list-style-type: none"> <li>(a) a share;</li> <li>(b) a unit;</li> </ul>

	<ul style="list-style-type: none"> <li>(c) a right to a share or unit or option;</li> <li>(d) an option over an issued or unissued security;</li> <li>(e) a convertible security;</li> <li>(f) any security that ASX decides to classify as an equity security;</li> <li>(g) but not a security that ASX decides to classify as a debt security.</li> </ul>
<b>Explanatory Statement</b>	This explanatory statement which accompanies and forms part of the Notice.
<b>Glossary</b>	This glossary of terms.
<b>Incentive Plan</b>	The Incentive Plan established by the Company and governed by the Incentive Plan Rules, for which Shareholder approval is sought pursuant to Resolution 4.
<b>Interest Shares</b>	Shares issued as payment of interest pursuant to the terms of the Convertible Notes.
<b>Key Management Personnel</b>	Has the same meaning as the definition of that term in section 9 of the Corporations Act, being those persons details of whose remuneration are included in the Remuneration Report having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.
<b>Listing Rules</b>	The listing rules of ASX, as amended from time to time.
<b>Noteholder</b>	A holder of a Convertible Note.
<b>Notice or Notice of Meeting</b>	The notice of Annual General Meeting which accompanies this Explanatory Statement.
<b>Option</b>	An option to subscribe for a Share.
<b>Performance Right</b>	A right to receive a Share on the satisfaction of particular performance milestones.
<b>Plan Option</b>	An Option on or before 3 years from the date of grant, to be issued to Mr Christian Easterday and Ms Melanie Leighton, subject to Shareholder approval of Resolutions 5 and 6.
<b>Proxy Form</b>	The proxy form accompanying this Notice of Meeting.
<b>Related Party</b>	Has the meaning given to that term in section 228 of the Corporations Act.
<b>Remuneration Report</b>	The remuneration report of the Company for the financial year ended 30 June 2018, appearing in the Annual Report.
<b>Resolution</b>	A resolution set out in the Notice.
<b>Shareholder</b>	The holder of a Share.
<b>VWAP</b>	The volume weighted average sale prices of Shares sold on ASX during the specified period, excluding any transaction defined in the ASX Operating Rules as 'special', crossings prior to the commencement of normal trading, crossings during the after-hours adjust phase and any overseas trades or exchange traded option exercises.
<b>WST</b>	Australian Western Standard Time, being the time in Perth, Western Australia.

## Schedule 1 – Terms of Plan Options

### 1. **Employee Incentive Plan**

- (a) Each Plan Option is issued pursuant to the Incentive Plan (**Plan**).
- (b) Terms defined in the rules of the Plan (**Rules**) will, when used in these Terms of Plan Options (**Terms**), have the same meaning given to those terms under the Rules unless expressly stated otherwise in these Terms.
- (c) Subdivision 83A-C of the *Income Tax Assessment Act 1997* (Cth), will apply (subject to the conditions in that Act) to the Plan Options.

### 2. **Entitlement**

Each Plan Option entitles the holder (**Option Holder**) to subscribe for 1 Share in the Company.

### 3. **No payment on issue**

The Option Holder is not required to pay any amount on the issue of an Plan Option.

### 4. **Exercise price**

The exercise price of each Plan Option (**Exercise Price**) is the greater of:

- (a) \$0.07; and
- (b) price which is 145% of the VWAP of Shares traded over the 5 Business Days immediately prior to the date of grant of the Options.

### 5. **Expiry date**

Each Plan Option not exercised by 5.00pm (WST) on the date that is 3 years after the date of grant of the Plan Option (**Expiry Date**) will automatically expire.

### 6. **Certificate or holding statement**

The Company must give the Option Holder a certificate or holding statement in respect of the Plan Options granted to them.

### 7. **Restrictions on dealing and transfer**

- (a) An Option Holder must not sell, transfer, mortgage, pledge, charge, grant a security interest over or otherwise dispose of (**Dispose**) any Plan Options, or agree to do any of the same, without the prior consent of the Board, except where such Disposal occurs by force of law.
- (b) The transfer of any Plan Option is subject to any restrictions on transfer under the Corporations Act or the Listing Rules.

### 8. **Quotation of Plan Options**

The Company will not apply for quotation of any Plan Options.

### 9. **New issues**

The Option Holder is not entitled to participate in any new issue to Shareholders of securities in the Company unless they have exercised their Plan Options before the record date for determining entitlements to the new issue of securities and participate as a result of holding Shares. The Company must give the Option Holder 7 business days notice of the proposed terms of the issue or offer.

10. **Bonus issues**

If the Company makes a bonus issue of Shares or other securities to Shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and a Share has not been issued in respect of the Plan Option before the record date for determining entitlements to the issue, then the number of underlying Shares over which the Plan Option is exercisable will be increased by the number of Shares which the Option Holder would have received if the Option Holder had exercised the Plan Option before the record date for determining entitlements to the issue.

11. **Pro rata issues**

If the Company makes a pro rata issue of Shares (except a bonus issue) to Shareholders (except an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) and a Share has not been issued in respect of the Plan Option before the record date for determining entitlements to the issue, the Exercise Price of each Plan Option will be reduced in accordance with the Listing Rules.

12. **Reorganisation**

- (a) If there is a reorganisation (including consolidation, sub-division, reduction or return) of the share capital of the Company, then the rights of the Option Holder (including the number of Plan Options to which the Option Holder is entitled and the Exercise Price) will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (b) Any calculations or adjustments which are required to be made will be made by the Board and will, in the absence of manifest error, be final and conclusive and binding on the Company and the Option Holder.
- (c) The Company must, within a reasonable period, give to the Option Holder notice of any change to the Exercise Price of any Plan Options held by the Option Holder or the number of Shares which the Option Holder is entitled to subscribe for on exercise of an Plan Option.

13. **Exercise**

- (a) Subject to paragraph 13(b), an Option Holder may:
  - (i) not exercise a Plan Option during the period (**Restriction Period**) commencing on the date that a Plan Option is issued and expiring on the later of:
    - A. the date that the last Vesting Condition (if any) is satisfied or waived by the Company; and
    - B. the date when the last Exercise Condition (if any) is satisfied or waived by the Company; and
  - (ii) only exercise an Plan Option after the expiry of the Restriction Period but prior to the Expiry Date.
- (b) Notwithstanding paragraph 13(a), an Plan Option may be exercised:
  - (i) in the Board's absolute discretion, at any time after a Change of Control Event has occurred;
  - (ii) at any time after the announcement of a proposed capital reorganisation referred to in paragraph 12;
  - (iii) in the Board's absolute discretion, following the occurrence and announcement by the Company of an event that in the opinion of the Board is likely to lead to the Company being removed from the official list of ASX; or
  - (iv) in the Board's absolute discretion, within 12 months, if any of the following occurs in relation to a Participant, in relation to Plan Options held by or on behalf of that Participant:

- A. the death of the Participant;
  - B. the illness or incapacity of the Participant necessitating the permanent withdrawal of the Participant from the work force, as accepted to the satisfaction of the Board; or
  - C. any other circumstances which the Board considers should be treated as permanent disablement of the Participant for the purposes of the Plan.
- (c) To exercise Plan Options, the Option Holder must give the Company or its securities registry, at the same time:
- (i) a written exercise notice (in the form approved by the Board) specifying the number of Plan Options being exercised;
  - (ii) payment of the Exercise Price for the Plan Options the subject of the exercise notice, by way of bank cheque or by other means of payment, approved by the Company;
  - (iii) the option certificate, or documentary evidence satisfactory to the Board that the option certificate was lost or destroyed; and
  - (iv) where required by the Company in accordance with rule 15.1 of the Rules, payment in full of the amount of Withholding Tax Amount that the Company is required to remit as a result of the exercise of the Plan Option.
- (d) Where the payment received by the Company under paragraph 13(c)(iv), those moneys will be held on behalf of the Participant, and remitted to the appropriate taxing authority by the Company on behalf of the Participant.
- (e) The Option Holder may only exercise a minimum of 500 Plan Options at a time, and then in multiples of 100, unless the Option Holder holds less than 500 Options.
- (f) A notice of exercise in relation to any Plan Options only becomes effective when the Company has received the full amount of the Exercise Price for the number of Plan Options specified in the notice, in cleared funds.
- (g) Plan Options will be deemed to have been exercised on the date the exercise notice is lodged with the Board.

**14. Re-issue of option certificate or holding statement**

If the Option Holder exercises less than the total number of Plan Options registered in the Option Holder's name:

- (a) the Option Holder must surrender their option certificate (if any); and
- (b) the Company must cancel the option certificate (if any) and issue the Option Holder a new option certificate or holding statement stating the remaining number of Plan Options held by the Option Holder.

**15. Issue of Shares**

Within 10 business days after receiving an application for exercise of Plan Options and payment by the Option Holder of the Exercise Price, the Company must issue the Option Holder the number of Shares specified in the application.

**16. Equal ranking**

Subject to the Company's Constitution, all Shares issued on the exercise of Plan Options will rank in all respects (including rights relating to dividends) equally with the existing ordinary Shares of the Company at the date of issue.

17. **Quotation of Shares**

The Company will apply to ASX for official quotation of the Shares issued on the exercise of Plan Options.

18. **Lapse of Awards**

Unless the Directors in their absolute discretion determine otherwise, Plan Options will automatically lapse and be forfeited if, prior to the satisfaction of an Exercise Condition or Vesting Condition:

- (a) the holder resigns employment or terminates engagement with the Company;
- (b) the holder is dismissed from employment or engagement with the Company for:
  - (i) material breach of contract or negligence; or
  - (ii) conduct justifying termination without notice;
- (c) the holder ceases employment or engagement with the Company and breaches any post-termination restraint;
- (d) the holder is ineligible to hold his or her office pursuant to the Corporations Act; or
- (e) any performance milestones applicable to the Awards are not satisfied – if a portion are satisfied, then a proportionate number of Awards may continue at the Board's discretion.

Awards will not lapse and be forfeited if the holder ceases employment or engagement with the Company:

- (a) due to:
  - (i) death or permanent disablement;
  - (ii) retirement; or
  - (iii) redundancy; or
- (b) where the Board determines that the Awards continue.

19. **Governing law**

These terms and the rights and obligations of the Option Holder are governed by the laws of Western Australia. The Option Holder irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Western Australia.



## Schedule 2 – Terms of ASX Waivers

### Waivers of Listing Rules 7.3.2, 10.13.3 and 10.13.5

The terms of the waivers of Listing Rules 7.3.2, 10.13.3 and 10.13.5, as granted by ASX, are set out below.

ASX has granted the Company the following:

1. A waiver from listing rule 7.3.2 to allow the Company's notice of annual general meeting ("Notice") seeking shareholder approval for the issue of up to 43,953,433 shares in consideration for the payment of interest of 8% per annum due to unrelated parties ("Unrelated Noteholders"), payable quarterly through the issue of shares ("Interest Shares") over the 12 month period from the date of the Company's Annual General Meeting ("AGM"), in respect to the quarters ending on 31 December 2018, 31 March 2019, 30 June 2019 and 30 September 2019 (each a "Relevant Interest Period"), not to state that the date by which the Company will issue the Interest Shares will be no later than 3 months after the date of the AGM on the following conditions:
  - (a) the Interest Shares must be issued to the Unrelated Noteholders no later than 7 October 2019;
  - (b) for any annual reporting period during which any of the Interest Shares have been issued or any of them remain to be issued, the Company's annual report sets out in detail the number of Interest Shares issued during the reporting period, the number of Interest Shares that remain to be issued and the basis on which the Interest Shares may be issued;
  - (c) in any half year or quarterly report for a period during which any of the Interest Shares have been issued or remain to be issued, the Company must include a summary statement of the number of Interest Shares issued during the reporting period, and the number of Interest Shares that remain to be issued and the basis on which the Interest Shares may be issued;
  - (d) the terms of the waiver are disclosed in the Notice; and
  - (e) the Notice contains a summary of the material terms of the Convertible Notes.
2. A waiver from listing rules 10.13.3 and 10.13.5 to permit the Notice seeking shareholder approval for the issue of up to 1,543,554 Interest Shares in consideration for the payment of interest of 8% per annum due to Blue Spec Drilling Pty Ltd ("Blue Spec"), payable quarterly through the issue of Interest Shares over the 12 month period from the date of the AGM, in respect to the Relevant Interest Period, not to state that the Interest Shares will be issued to Blue Spec within 1 month of the date of the AGM and to permit the Notice not to include an issue price, subject to the following conditions:
  - (a) the Interest Shares are issued to Blue Spec no later than 7 October 2019;
  - (b) the Notice states that the Interest Shares will be issued at a deemed issue price equal to the volume weighted average price ("VWAP") of the Company's fully paid ordinary shares over the five trading days prior to their issue date, being the last date of the Relevant Interest Period;
  - (c) for any annual reporting period during which any of the Interest Shares are issued or remain to be issued, the Company's annual report must set out in detail the number of Interest Shares issued in that annual reporting period, the number of Interest Shares that remain to be issued, and the basis on which the Interest Shares may be issued;
  - (d) in any half year or quarterly report for a period during which any of the Interest Shares have been issued or remain to be issued, the Company must include a summary statement of the number of Interest Shares issued during the reporting period, and the number of Interest Shares that remain to be issued and the basis on which the Interest Shares may be issued; and
  - (e) the terms of the waiver are disclosed in the Notice.

## Schedule 3 – Summary of Material Terms of Convertible Notes

Unless otherwise defined, capitalised terms in this Schedule 3 have the meanings given to them in the Terms and Conditions of Convertible Notes, which were announced to ASX on 21 June 2017.

<b>Face value</b>	A\$100 per Note.
<b>Conversion Price</b>	A\$0.03333 per Share.
<b>Maturity Date</b>	20 June 2022, for those Notes held by unrelated parties, and 7 September 2022 for those Notes held by Blue Spec Drilling Pty Ltd.
<b>Security</b>	The Notes are not secured.
<b>Interest</b>	<p>8.0% calculated daily, compounded monthly and payable quarterly in arrears (<b>Interest</b>). Accrued Interest is cumulative and payable in cash or Shares at the election of the Company.</p> <p>If the Company elects to pay Interest by the issue of Shares, the number of Shares to be issued shall be calculated by dividing the amount of accrued Interest being paid by the VWAP for the five trading day period ending on the last day of the quarter for which Interest is due.</p>
<b>Redemption</b>	Notes are not be redeemable by the Company before their Maturity Date. On and after the Maturity Date, and provided the VWAP traded on ASX for the 20 consecutive trading days preceding the date on which the notice of redemption is given is not less than 300% of the Conversion Price, the Notes may be redeemed in whole or in part by the Company on not more than 60 days and not less than 30 days prior notice at A\$100 for each Note held, plus accrued and unpaid Interest.
<b>Conversion</b>	The principal amount and accrued and unpaid Interest evidenced by the Notes is convertible at the holder's option into Shares at any time prior to the earlier of the Maturity Date, and the date which is 5 business days immediately preceding the date specified for redemption by the Company at the Conversion Price, being a ratio of approximately 3,000 Shares per Note (excluding Interest).
<b>Conversion maturity</b>	at On the Maturity Date, the principal amount and accrued and unpaid Interest evidenced by all outstanding Notes shall automatically be converted into the number of Shares obtained by dividing the Issue Price of the Notes plus accrued and unpaid Interest by 95% of the VWAP for the 10 trading day period ending on the day prior to the Maturity Date, or by the Conversion Price, whichever is lower.
<b>Bonus issues and reconstructions</b>	If there is a Bonus Issue, the Company must issue to each Noteholder, that number of Bonus Securities which the Noteholder would have been entitled to receive, by way of participation in the issue of Bonus Securities, if the Convertible Notes had been converted into Shares immediately before the issue of Bonus Securities.
<b>Ranking</b>	The Notes at all times constitute unsecured debt obligations of the Company, which together with any accrued and unpaid Interest, ranks for payment in a Winding Up of the Company, behind any secured debt of the Company, equally with all present and future subordinated and unsecured debt obligations of the Company, and ahead of all Shares.
<b>Negative Covenants</b>	<p>For so long as any of the Notes remain outstanding, the Company must not and must procure that its Subsidiaries do not without the approval of a Noteholders Resolution:</p> <p>(a) <b>(new debt)</b> incur any indebtedness for moneys borrowed or raised pursuant to any financial accommodation or agree to do so (including by entering into an indicative term sheet), except any Permitted New Debt;</p> <p>(b) <b>(sale of assets)</b> conduct or agree to conduct (including by entering into</p>

an indicative term sheet) any transaction or series of related transactions in which an entity in the Group sells significant assets or assets worth more than 10% of the Group's gross assets;

- (c) **(dividends)** declare or pay any dividends to Shareholders;
- (d) **(capital reduction)** other than in respect of the Notes, redeem, purchase, cancel, reduce, return capital on or otherwise acquire any share or other securities issued by a Shareholder of the Group for repayment or return of capital in a winding-up; or
- (e) **(Security Interests)** other than in the ordinary course of business:
  - (i) create or permit to exist a Security Interest over any of its assets or attempt or agree to do so (including by entering into an indicative term sheet), except to secure any Permitted New Debt; or
  - (ii) if the creation of a Security Interest cannot by law be restricted, create such a Security Interest over any of its assets without the holder of the Security Interest first entering into a deed of priority in form and substance acceptable to the Trustee.

## Events of default

The key events of default are:

- (a) **(non-issue of Shares)** the Company fails to issue Shares on conversion in accordance within five Business Days after the date on which such issue is to be made;
- (b) **(non-payment)** the Company fails to pay any amount payable by it under the Note Terms within 10 Business Days after the date on which it is due and, where the sole reason for the default is a technical or administrative difficulty within the banking system being used to effect payment, such default is not remedied within five Business Days;
- (c) **(breach of Negative Covenants)** a member of the Group fails to comply with a Negative Covenant (as set out above) and such failure remains unremedied for a period of 10 Business Days;
- (d) **(breach of other obligations)** the Company fails to comply with any of its other obligations under the Note Terms or any Transaction Document and such failure remains unremedied for a period of 10 Business Days after the earlier of (A) the Company receiving notice from the Trustee in respect of the failure to comply and (B) the Company becoming aware of the failure to comply;
- (e) **(insolvency)** an Insolvency Event occurs in respect of a member of the Group;
- (f) **(sale of business or main undertaking)** there is a sale of the business or the main undertaking of the Company that would require approval of Shareholders in accordance with Listing Rule 11.2;
- (g) **(delisting)** a Delisting Event occurs in respect of the Company;
- (h) **(cessation of business)** a member of the Group ceases or suspends (or threatens to cease or suspend) the conduct of all of its business or a substantial part of its business;
- (i) **(unlawfulness)** at any time, it is unlawful for the Company to perform any of its payment obligations under the Notes, the Trust Deed or the Note Terms;
- (j) **(Government Agency)** all or substantially all of the assets of the Group is assumed or compulsory acquired by any Government Agency; or
- (k) **(vitiation)** all or any obligations of the Company or rights of the Noteholders or the Trustee under the Trust Deed or the Note Terms are terminated or are or become void, illegal, invalid, unenforceable or of limited force and effect.

## Transfer

The Notes are transferable.

<b>Rights Noteholders</b>	<b>of</b>	The Notes confer no rights on a Noteholder: <ul style="list-style-type: none"><li>(a) to vote at any meeting of Shareholders;</li><li>(b) to subscribe for or participate in any new issue of securities by the Company; or</li><li>(c) to otherwise participate in the profits or property of the Company, except as set out in the Note Terms or the Transaction Documents.</li></ul>
<b>Quotation</b>		<p>The Notes are not quoted on ASX.</p> <p>The Company will apply for quotation of Shares issued on the conversion of Notes and on payment of Interest will be quoted on ASX.</p>

## Schedule 4 – Equity Securities Issued in the Previous 12 Months

Issue Date	Equity Securities issued	Allottee(s)	Issue price and discount to market price on date of issue	Total cash consideration	Non-cash consideration and current value
21 November 2017	28,757,205 Shares (issued pursuant to a share purchase plan).	Eligible participants in the Company's share purchase plan announced to ASX on 31 October 2018.	\$0.035 per Share. Discount to closing market price on date of issue: Nil	Amount raised: \$1,006,502 Amount spent: \$1,006,502 Use of funds: For general working capital purposes and to commence drilling across Hot Chili's high grade copper-gold satellite projects, being San Antonio and Lulu. Amount remaining: Nil	Not applicable.
3 January 2018	6,511,789 Shares (issued in satisfaction of interest payable to Noteholders).	All Noteholders.	Deemed issue price of \$0.03523 per Share. Discount to closing market price on date of issue: 4.78% (based on closing market price of \$0.037)	Nil.	Non-cash consideration: Nil Current value: \$149,771 each
4 April 2018	6,099,183 Shares (issued in satisfaction of interest payable to Noteholders).	All Noteholders.	Deemed issue price of \$0.03679 per Share. Discount to closing market price on date of issue: Nil	Nil.	Non-cash consideration: Nil Current value: \$140,281 each
9 May 2018	98,378,610 Shares (completion of tranche 1 of a placement).	Eligible non-Related Party participants in the Company's placement announced to ASX on 30 April 2018.	\$0.03 per Share. Discount to closing market price on date of issue: Nil	Amount raised: \$2,951,358 Amount spent: \$2,551,358 Amount remaining: \$400,000 Existing and proposed use of funds: For general working capital purposes and to initiate exploration and drilling activities across several high-grade project opportunities within the El Fuego copper project in Chili.	Not applicable.

	49,189,305 Options (exercisable at \$0.10 each on or before 31 May 2020) (completion of tranche 1 of a placement).	Eligible non-Related Party participants in the Company's placement announced to ASX on 30 April 2018.	Nil. Options were free-attaching on the basis of 1 Option for every 2 Shares subscribed for under the placement.	Nil.	Non-cash consideration: Nil Current value: \$0.0016 each
	3,000,000 Options (exercisable at \$0.10 each on or before 31 May 2020) (fee for services provided).	EverBlu Capital Pty Ltd	Nil.	Nil.	Non-cash consideration: The Options were issued for nil cash consideration as a fee for services provided by EverBlu Capital Pty Ltd to the Company in connection with the placement. Current value: \$0.0016 each
21 June 2018	34,954,724 Shares (completion of tranche 2 of a placement)	Eligible non-Related Party and Related Party participants in the Company's placement announced to ASX on 30 April 2018.	\$0.03 per Share. Discount to closing market price on date of issue: Nil	Amount raised: \$1,048,641 Amount spent: Nil Amount remaining: \$1,048,641 Proposed use of funds: For general working capital purposes and to initiate exploration and drilling activities across several high-grade project opportunities within the El Fuego copper project in Chili.	Not applicable.
	14,477,362 Options (exercisable at \$0.10 each on or before 31 May 2020) (completion of tranche 2 of a placement).	Eligible non-Related Party and Related Party participants in the Company's placement announced to ASX on 30 April 2018.	Nil.	Nil.	Non-cash consideration: Nil Current value: \$0.00162 each
3 July 2018	7,989,446 Shares (issued in satisfaction)	All Noteholders.	Deemed issue price of \$0.02840 per Share. Discount to closing	Nil.	Non-cash consideration: Nil Current value:

	of interest payable to Noteholders).		market price on date of issue: 8.39% (based on closing market price of \$0.031)		\$183,757 each
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**Notes:**

1. The current value of Shares is based on a value of \$0.023 per Share, being the closing market price of Shares traded on ASX as at 26 September 2018.
2. The Options have been valued using the Black-Scholes option pricing model as at 27 September 2018 based on a number of assumptions and variables, including the following:
  - (a) each Option will be exercised immediately prior to the expiry date;
  - (b) the closing price of Shares on the ASX on 26 September 2018 was \$0.023;
  - (c) a risk-free rate of 2.07% has been adopted; and
  - (d) a volatility factor of 80% has been adopted.

**HOT CHILI LIMITED**  
**ACN 130 955 725**  
**PROXY FORM**

I/We (name of Shareholder) .....

of (address) .....

being a Shareholder/Shareholders of Hot Chili Limited HEREBY APPOINT:

(name).....

of (address) .....

and/or failing him/her (name) .....

of (address) .....

or, failing the person named, or if no person is named, the Chairman of the Meeting as my/our proxy to act on my/our behalf at the Annual General Meeting of Hot Chili Limited (ACN 130 955 725) (**Company**) to be held at **10:30am (WST) on Tuesday, 27 November 2018** at First Floor, 768 Canning Highway, Applecross, Western Australia (**Meeting**) and at any adjournment or postponement of the Meeting.

Except where I/we have marked a voting box for a Resolution below, I/we authorise my/our proxy to vote or abstain from voting on any Resolution in their discretion.

**IMPORTANT NOTES:**

- Should you wish to direct your proxy how to vote, please mark **FOR**, **AGAINST** or **ABSTAIN** in the voting boxes below. The Company encourages you to direct your proxy to vote for or against the Resolutions or to abstain from voting on each of the Resolutions.
- If the Chairman is appointed your proxy, the Chairman intends to vote all undirected proxies **FOR** each Resolution.
- Members of the Key Management Personnel (except for the Chairman) and their Closely Related Parties are not able to vote your proxy on Resolutions 1, 4, 5, or 6 unless you have specifically directed them how to vote.
- If you appoint the Chairman as your proxy, you expressly authorise the Chairman to vote on matters of Key Management Personnel remuneration.
- Refer to the Notice of Annual General Meeting for important details of how to complete and return your Proxy Form.
- Completed Proxy Forms should be returned to the Company by **10:30am (WST) on Sunday, 25 November 2018.**

I/We direct my/our proxy to vote in the following manner:

		For	Against	Abstain
Resolution 1	Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-election of Director – Dr Allan Trench	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Re-election of Director – Mr Michael Anderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of Issue of Securities under Incentive Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Grant of Plan Options to Managing Director under Incentive Plan – Mr Christian Easterday	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Grant of Plan Options to Alternate Director under Incentive Plan – Ms Melanie Leighton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Approval to issue Interest Shares to Non-Related Parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Approval to issue Interest Shares to Related Party – Blue Spec Drilling Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Approval of Additional Placement Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



*This Proxy is appointed to represent \_\_\_\_\_% of my voting right, or if two proxies are appointed Proxy 1 represents \_\_\_\_\_% and Proxy 2 represents \_\_\_\_\_% of my/our total votes.*

*My/our total voting right is \_\_\_\_\_ shares.*

**By:**

**Individuals and joint holders**

**Signature**

**Signature**

**Signature**

**Companies (affix common seal if appropriate)**

**Director**

**Director/Company Secretary**

**Sole Director**