

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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January 19, 2018

Chilean Metals Inc. (TSXV: CMX / OTCQB: CMETF / SSE: CMX / FRA: IW1) - Initiating Coverage – IOCG in Chile and Nova Scotia

Sector/Industry: Junior Resource

www.chileanmetals.com

Market Data (as of January 18, 2018)

Current Price	C\$0.07
Fair Value	C\$0.30
Rating*	BUY
Risk*	5
52 Week Range	C\$0.06 – C\$0.33
Shares O/S	85,836,055
Market Cap	C\$6.00 M
Current Yield	N/A
P/E (forward)	N/A
P/B	0.7x
YoY Return	-61.1%
YoY TSX	11.0%

*see back of report for rating and risk definitions.



Investment Highlights

- Chilean Metals Inc. (“Chilean”, “company”) holds a diversified portfolio of iron oxide copper gold (“IOCG”) potential projects in Chile and Nova Scotia, Canada. The company also holds a 3% NSR (net smelter return) on Teck Resources’ (TSX: TECK) Copaquire molybdenum-copper project in Chile.
- The company’s primary focus in Chile is the Zulema property, which is located 30 km from Lundin Mining’s (TSX: LUN) Candelaria mine - the world’s second largest IOCG deposit. 2017 drilling at Zulema confirmed that host rocks and alteration are in line with that of Candelaria. The company is preparing for its next drill campaign.
- Copaquire is 10 km from Teck’s operating Quebrada Blanca mine, which is nearing the end of its mine life. There is a possibility that Teck may consider mining ore from Copaquire, which will provide near-term cash flows to Chilean through its NSR on the project.
- Chilean’s primary focus in Nova Scotia is the Bass River project. Previous surveys identified eight VTEM (Versatile Time Domain Electromagnetic) targets, including three high priority targets, from over 2,000 line km of data. The company is preparing for a 2,000 to 3,000 m drill campaign.
- We expect multiple catalysts in the near-term as the company advances its projects in both Chile and Nova Scotia.
- Management, board members and institutions hold 15% of the total outstanding shares.
- **We are initiating coverage on Chilean with a BUY rating and a fair value estimate of \$0.30 per share.**

Risks

- The value of the company is highly dependent on commodity prices (primarily copper and gold).
- Share dilution through future financings.
- Project development is contingent on availability of financings.
- Chilean’s projects are at an early stage and do not have a NI 43-101 compliant resource estimate.

Key Financial Data (FYE - Dec 31)

C\$	2016	2017 (9M)
Cash	\$535,281	\$422,012
Working Capital	\$124,976	-\$72,218
Mineral Assets + Others	\$8,343,795	\$9,153,208
Total Assets	\$9,059,772	\$9,960,164
Net Income (Loss)	-\$2,060,834	-\$953,143
EPS	-\$0.05	-\$0.01

Background

The company was incorporated in 1995 as International PBX Ventures Ltd. Its name was subsequently changed to the Chilean Metals Inc. in February 2014. Up until 2014, the company's primary focus was on the Copaque Moly-Copper project in Chile. In 2014, the company sold its 100% interest in the project to Teck Resources for US\$3.03 million, while retaining a 3% net smelter royalty (NSR).

In 2016, Chilean acquired assets in Nova Scotia from privately held, Cogonov Inc. Coincident with the transaction, Cogonov's management, led by Patrick Cruickshank and Gary Lohman, took over the positions of CEO / Director and VP Exploration / Director, respectively.

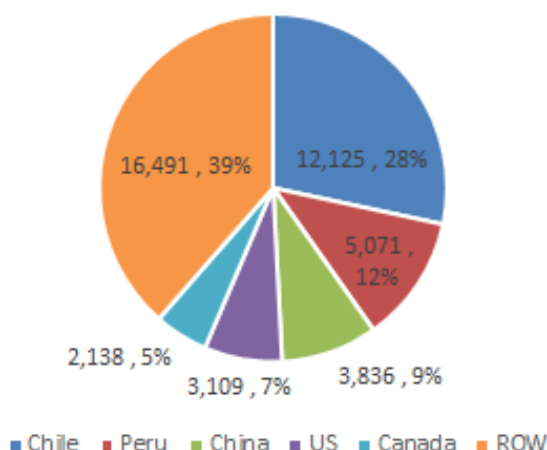
Chilean's current portfolio includes the following key assets:

- a 100% interest in five properties covering over 50,000 acres located in the Atacama IOCG belt of northern Chile,
- a 3% NSR on the Copaque Moly-Copper project in northern Chile, and
- a 100% interest in four copper-gold properties in Nova Scotia

Chile

Chile is the largest copper producer in the world. **In 2016, the country produced 12.13 Blbs of copper, or 28% of global production.**

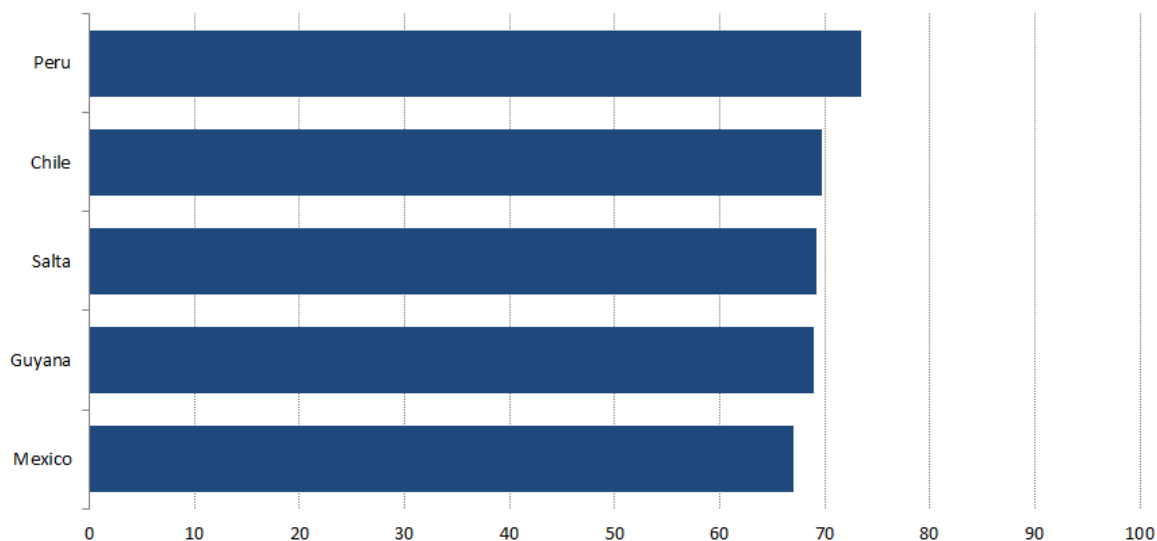
2016 Copper Production (Mlbs)



Source: USGS

According to the Fraser Institute's 2016 Survey of Mining Companies, **Chile was ranked the second-best jurisdiction** in the Investment Attractiveness Index in all of South / Central / Latin America after Peru.

Investment Attractiveness Index



Source: The Fraser Institute

The following map shows the company's properties in Chile.

Location Map (1)



Source: Company

Location Map (2)



Source: Company

The 4,300 ha Zulema property, located approximately 30 km from Lundin's Candelaria mine, is the company's key focus in Chile. Candelaria is the world's second largest IOCG deposit, after the Olympic Dam mine in Australia.

Palo Negro and Hornitos are two contiguous properties, covering over 9,000 hectares, estimated to cover a 14-km strike length. Within the Palo Negro property is a historic mine (Osorníña) on a small third-party concession.

The 5,600 hectare Tierra de Oro property is located 70 km south of Copiapo. Chilean has identified two potential bulk copper-gold targets.

Zulema

Location and Infrastructure

The Zulema project is well connected, and located approximately 30 km from Copiapó, 25 km from the coast, and 15 km from a national highway and a power grid. **As the project is at a relatively low elevation (under 400 m), it can be worked year-round unlike typical projects in the region which are at higher elevations.** Chilean holds a 100% interest in Zulema, with no third-party royalties or net profit interests. The company has been accumulating concessions and expanding the project's size since 2013.

Geology and Mineralization

The target at Zulema is hydrothermal IOCG style mineralization, similar to Lundin Mining's Candelaria project. IOCGs are typically copper-gold deposits, but also commonly contain other metals such as uranium, rare earth elements, silver, cobalt, molybdenum and sometimes bismuth as byproducts. The deposits are generally very large and typically grade from 0.5% to 1.5% copper (Cu) and 0.2 grams per tonne (gpt) to 1 gpt gold (Au). For example, the Olympic Dam deposit is estimated to hold approximately 3 billion tonnes of ore grading 1.2% Cu, 0.5 gpt Au, 0.04% uranium, and 6 gpt silver. Other well-known IOCG deposits include the Salobo project in Brazil, Ernest Henry in Australia, and the Kiruna mine in Sweden. **An IOCG deposit's large size and polymetallic nature, we believe, make them highly attractive for exploration and development.**

As of June 2017, Candelaria had a measured and indicated resource of 742 Mt at 0.7% Cu, 0.16 gpt gold, and 2.19 gpt silver.

Candelaria Resource Estimate

	Tonnes('000)	Cu%	Au(g/t)	Ag(g/t)	Cu('000 t)	Au('000 oz)	Ag('000 oz)
Measured	629,604	0.66	0.15	2.11	4,162	3,101	42,805
Indicated	111,222	0.89	0.20	2.64	992	712	9,429
Measured and Indicated	740,825	0.70	0.16	2.19	5,153	3,813	52,233
Inferred	23,827	0.84	0.20	1.54	201	149	1,179

Source: Lundin Mining

Lundin had acquired Freeport-McMoRan's (NYSE: FCX) 80% interest in the Candelaria project in 2014 for US\$1.8 billion. Sumitomo (TSE: 8053) holds the remaining 20%. Candelaria has been in production since 1993. Recent discoveries have extended its mine life up to 2035. In the past four years, the contained copper and gold in concentrates averaged approximately 174 Kt and 100 Koz ounces per year, respectively. **Lundin expects the mine (open pit and underground) to produce approximately 133 Kt of copper in 2018, at a cash cost of US\$1.70/lb.**

The copper-gold sulphide mineralization at Candelaria occurs in breccias, stockwork veinlets, and disseminations in andesite. Exploration in the region is relatively difficult as mineralization does not outcrop, and is overlain by 100 – 200 m of siliceous hornfels and calc-silicate skarn.

Drilling

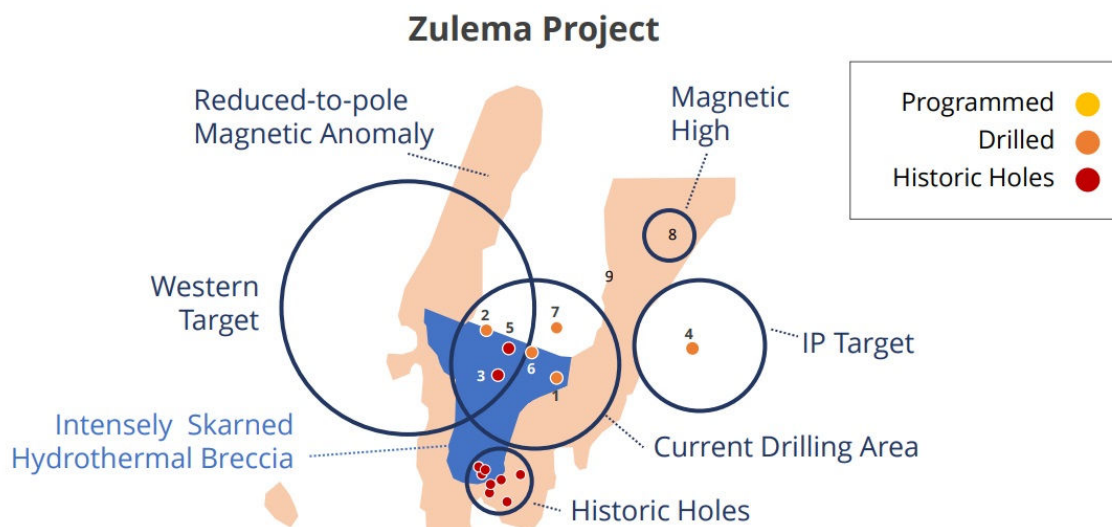
Historical drilling on Zulema has shown intensely skarned hydrothermal breccia exposed over a 1 sq. km area of the property. A total of 10 holes were drilled prior to Chilean. Best results include 22 m of 0.45% Cu and 0.11 gpt Au in stockworks. The following table shows key highlights.

Historic Drill Results

Drill Hole	From (m.)	To (m.)	True Width	Cu (%)	Au (g/t)
Z-03-02	276.00	375.16	99.16	0.24	0.06
Including	276.00	287.00	11.00	0.14	0.04
" "	299.00	343.44	44.44	0.06	0.26
" "	352.44	375.16	22.72	0.45	0.11
and	466.60	472.20	5.60	0.23	0.33
and	489.60	504.13	14.53	0.24	0.09
Z-03-04	2.00	122.00	120.00	0.10	0.05
and	172.00	249.50	77.50	0.17	0.09
Including	172.00	204.00	32.00	0.25	0.14
Including	219.00	249.50	30.50	0.15	0.08

Source: Company

In January 2017, Chilean commenced a drill program to test two targets: a 1+ sq. km. area of intense garnet scapolite skarn breccia and a large Induced Polarization chargeability anomaly, as shown in the map below:



Source: Company

Holes 2, 3 and 5 returned the best results:

Drill Hole	From (m.)	To (m.)	True Width (m.)	Cu (%)	Fe (%)	Au (g/t)
Hole 2	104	106	2.0	0.256	4.31	0.04
Hole 2	106	108	2.0	0.247	3.83	0.04
Hole 3	285.32	287.32	2.0	1.189	26.71	0.99
Hole 3	287.32	289.32	2.0	0.503	37.55	0.28
Hole 3	289.32	291.32	2.0	0.283	6.58	0.29
Hole 3	317.2	319.2	2.0	0.259	4.57	0.16
Hole 3	325.2	327.2	2.0	0.678	5.69	0.28
Hole 3	327.2	329.2	2.0	0.577	11.06	0.21
Hole 3	329.2	331.2	2.0	0.205	11	0.1
Hole 5	122.2	124.2	2.0	0.281	6.91	0.25
Hole 5	179.85	181.85	2.0	0.432	4.92	0.29
Hole 5	181.85	183.85	2.0	0.334	10.47	0.24
Hole 5	217.85	219.85	2.0	0.441	4.27	0.27
Hole 5	229.25	231.35	2.1	0.451	5.34	0.26

Source: Company Data

- In hole 2, quartz stock-working and siliceous breccia suggest proximity to a high temperature heat source / intrusion.
- Hole 3 had a 6 m section below 285.32 m assaying 0.66% Cu, 23.6% Fe and 0.52 gpt gold, including 2 m of 1.19% Cu and 0.99 gpt gold. Another intersection from 325.20 m to 335.20 m returned 0.34% Cu, 10% Fe and 0.16 gpt gold.

Hole 3 – 1.19% Cu / 0.99 gpt Au



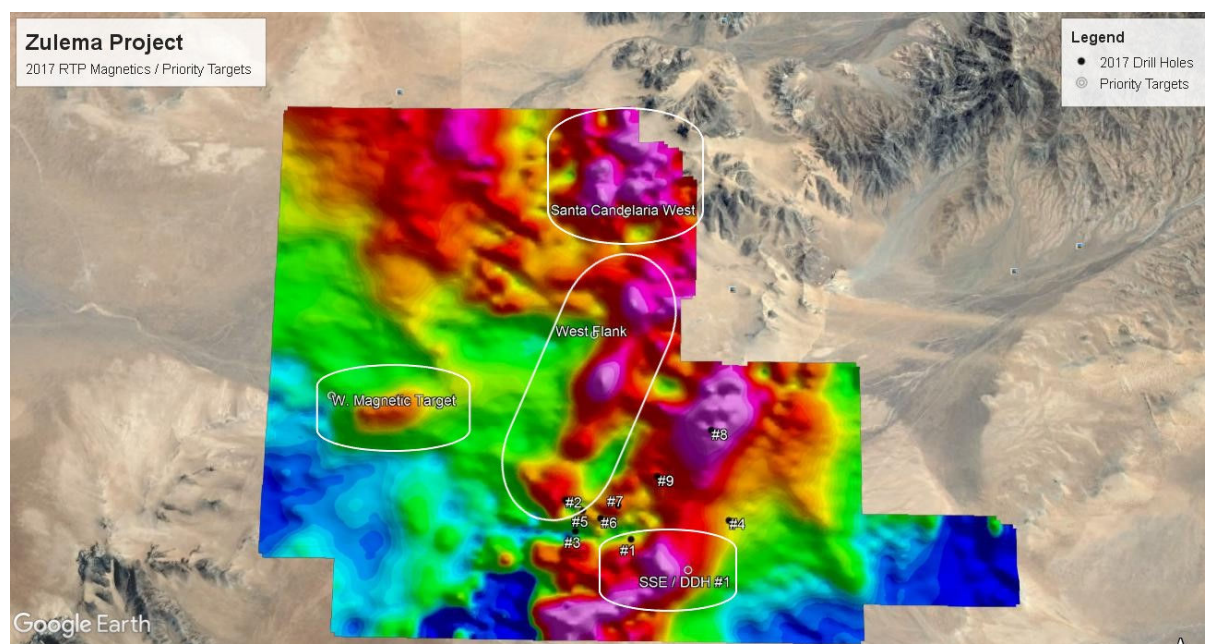
Source: Company

Overall, the drill results confirmed that host rocks and alteration are similar to that at Candelaria. **These results indicated that future exploration should be more focused on**

the west, near drill holes 2, 3 and 5.

Chilean engaged a consulting firm (SouthernRock Geophysics SA) with extensive experience in the Andean region to identify drill targets for this year. In December 2017, SouthernRock completed a property wide ground magnetic survey to better define the underlying geological trends prior to expanding drilling to the west. The survey showed four target areas (see image below) of substantial size (over 1 sq. km.). Management is planning ground based gravity and deep penetrating I.P. prior to commencing Phase 2 drilling.

Four Targets



Source: Company

A discovery in this second phase of drilling, we believe, will be a major milestone for the company.

Copaquire was the company's primary asset until its sale to Teck Resources for US\$3.03 million in 2014. Chilean holds a 3% NSR. Teck has the right to purchase a 1% NSR for US\$3 million.

Australian company, OZ Minerals (ASX: OZL), had entered into an option with Chilean in 2012, to earn a 90% interest in the project by making cash payments totaling \$90 million and drilling up to 30,000 m. However, the option agreement was subsequently terminated due to the soft market conditions in 2013.

Copaquire is located in north Chile, 125 km south of Iquique, the capital city of Chile's first region. The project hosts copper-molybdenum porphyry deposits, with resource estimates shown below:

*Copaquire
Property*

Sulfato South (dominantly copper) – Inferred

Cu Eq. Cut-off	Tonnage	Copper % Grade	Cu lbs	Moly % Grade	Mo lbs	% Cu Eq Grade	Cu. Eq. lbs
0.7	341,322	0.73	5,518,552	0.02	170,513	0.86	6,456,371
0.6	1,993,126	0.66	28,973,069	0.02	1,024,158	0.79	34,605,937
0.5	7,564,965	0.57	95,459,749	0.02	3,505,961	0.69	114,742,535
0.4	19,698,009	0.49	213,997,050	0.02	8,410,369	0.60	260,254,078
0.3	43,508,402	0.41	393,051,016	0.02	16,677,113	0.51	484,775,136
0.2	102,069,110	0.32	709,917,818	0.02	34,971,782	0.40	902,262,617
0.1	158,999,637	0.26	910,754,805	0.02	53,237,191	0.34	1,203,559,356

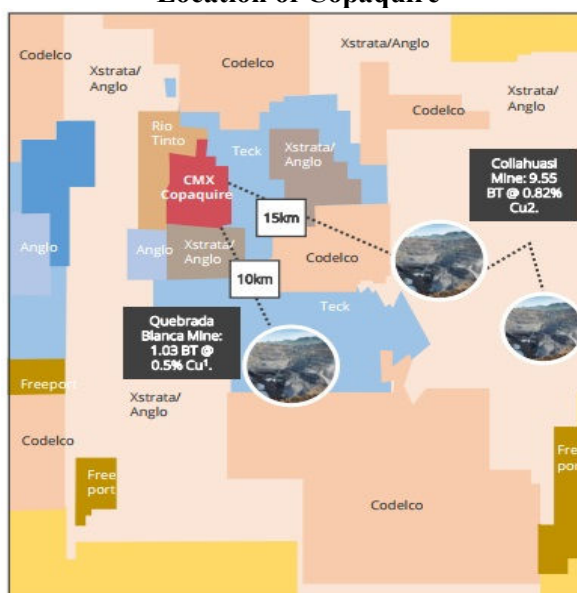
Cerro Moly (dominantly molybdenum) – Indicated and Inferred

Cut-Off MoEq	Category	Tonnage (kt)	Mo (%)	Mo Mlbs	Cu (%)	Cu Mlbs	Re (ppm)	MoEq (%)
0.028	Indicated	229,474	0.039	197	0.111	561	0.104	0.069
	Inferred	193,888	0.026	111	0.146	624	0.063	0.066
0.032	Indicated	181,374	0.042	168	0.118	472	0.116	0.074
	Inferred	141,595	0.027	84	0.162	506	0.065	0.071
0.036	Indicated	141,848	0.045	141	0.126	394	0.125	0.079
	Inferred	105,675	0.028	65	0.179	417	0.068	0.077

Source: Company

Copaquire is 10 km from Teck's operating Quebrada Blanca ("QB") mine. QB holds a porphyry copper deposit located in a 30-40 km wide belt of volcanic and sedimentary rock, containing world-class mines such as the Collahuasi mine and the Chuquicamata mine – see map below.

Location of Copaquire



Source: Company

Projects in Nova Scotia

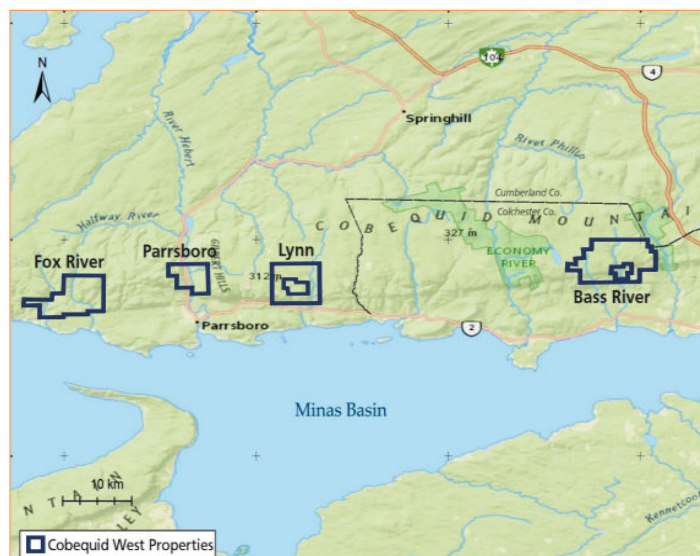
QB is nearing the end of its mine life, with ore expected to be exhausted by 2019. Annual production has dropped from approximately 63,400 tonnes in 2011, to an estimated production of 22,000 tonnes by 2017. The mine generated revenues of US\$229 million and a gross profit of \$24 million, from 35,000 tonnes of copper production, in 2016. At its peak, QB is estimated to have generated revenues of US\$422 million in 2013.

Teck is planning to put its QB2 project into production by 2022, which has an estimated CAPEX budget of US\$4.7 billion. Based on the very high CAPEX and the 3 to 4 year timeline to production, we believe that there is a good possibility that Teck will consider mining from the Copaire project (which is located just 10 km from QB). **Such a scenario offers Chilean potential for near-term cash flows not only from its NSR on the project, but also from a US\$3 million one-time payment from Teck to buy-back a 1% NSR.**

In early 2016, the company acquired the Fox River project for 6 million shares from Cogonov Inc. Subsequently, the company acquired three additional projects, namely Lynn, Parrsboro and Bass River, from Cogonov for 20.50 million common shares. Cogonov was founded in 2011, and was intending to go public prior to transferring its assets into Chilean. As mentioned earlier, Cogonov's management team, led by Patrick Cruickshank and Gary Lohman, took over the positions of CEO / Director and VP Exploration / Director of Chilean, respectively.

The four projects combined cover approximately 500 claims along the Cobequid-Chedabucto Fault Zone (CCFZ) – a 300 km long fault structure hosting over 100 mineral occurrences, past producing mines and deposits (primarily IOCG type). CCFZ consists of a series of crustal-scale faults along a 250 km by 25 km wide area that splits Nova Scotia into two distinct zones, namely Avalon and Meguma. The region is considered to have potential for several significant IOCG discoveries.

Chilean's Nova Scotia Projects



Source: Company

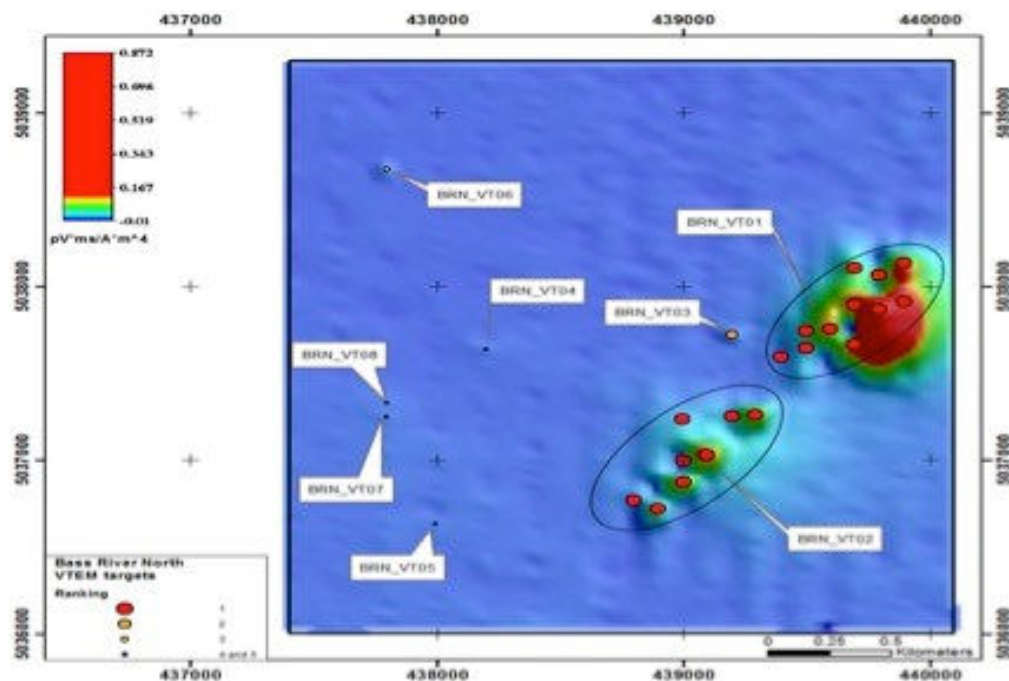
Chilean's primary focus is on the Bass River project which is optioned to Tejas Gold Inc. Tejas can earn a 35% interest in the project by paying US\$25k cash (paid), 100k common shares (valued at \$33,668 - paid), and spend \$0.40 million in exploration over 14 months. Tejas is also paying \$5,000 per month to Chilean in management fees. The companies had entered into an agreement in November 2016. Tejas is a Texas based private equity firm run by Thomas Comfort. Mr. Comfort joined Chilean's Board of Directors, as a result of this transaction.

History

From 2007 to 2011, a total of \$6 million was spent by Minotaur Exploration Ltd. ("Minotaur") and its partner Dundee Precious Metals (TSX: DPM). Minotaur conducted several exploratory programs, including three drill holes. The claims were abandoned in 2011. Subsequently, in late 2011, Cogonov staked approximately 95% of the claims dropped by Minotaur. Chilean has retained Minotaur as the lead geophysical consultant on the project. Minotaur was responsible for the discovery of major IOCG deposits, such as the Prominent Hill deposit in South Australia, and the Cloncurry deposit in Northeast Australia.

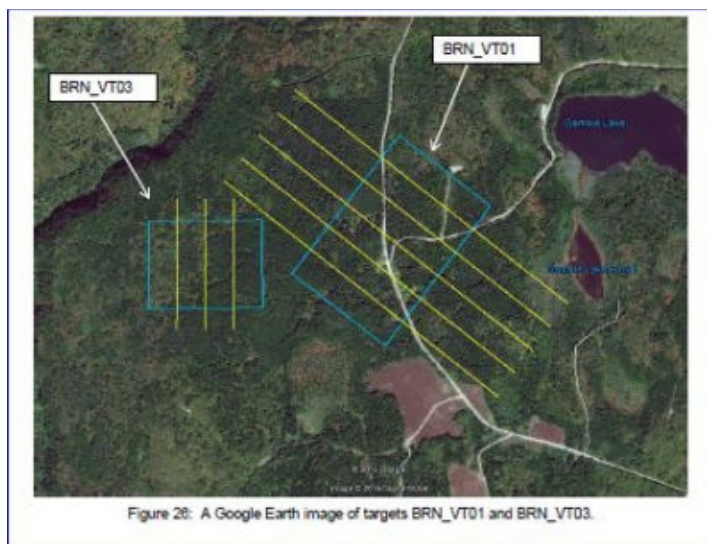
Cogonov conducted ground work and airborne VTEM and magnetic surveys, which identified 8 VTEM targets for ground follow up.

Eight VTEM Targets



Source: Company

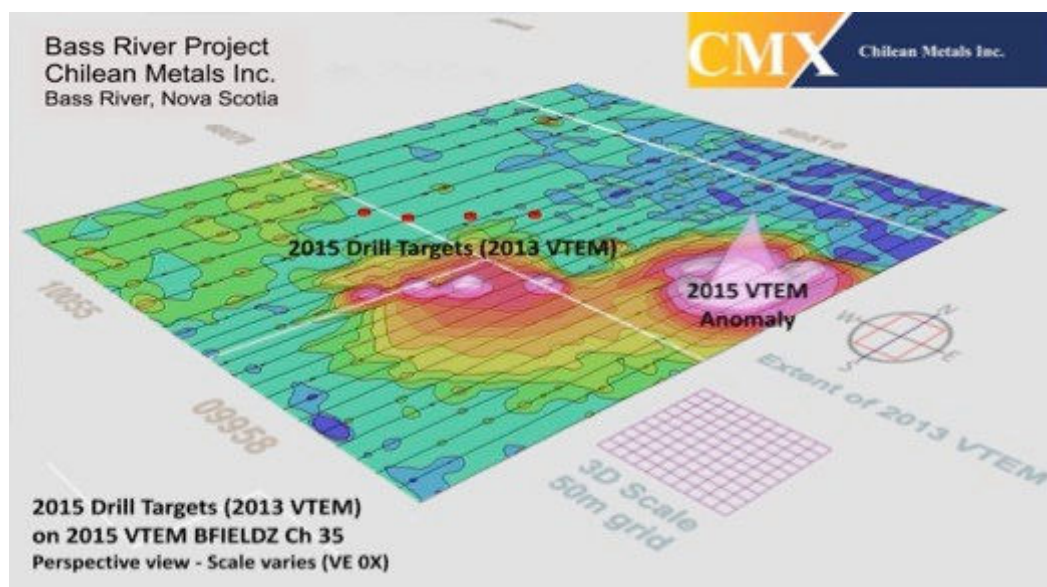
The high priority targets, BRN_VT01 and BRN_VT03, are shown below:



Source: Company

Castlereagh (BRN_VT01) is the largest VTEM anomaly delineated. CDI inversions (conductivity depth image) indicate a highly conductive body, which is approximately 300 m wide, to a depth of 50 m.

Castlereagh VTEM Anomaly



Source: Company

CDI inversions at BRN_VT03 indicate a flat lying body to a depth of up to 200 m.

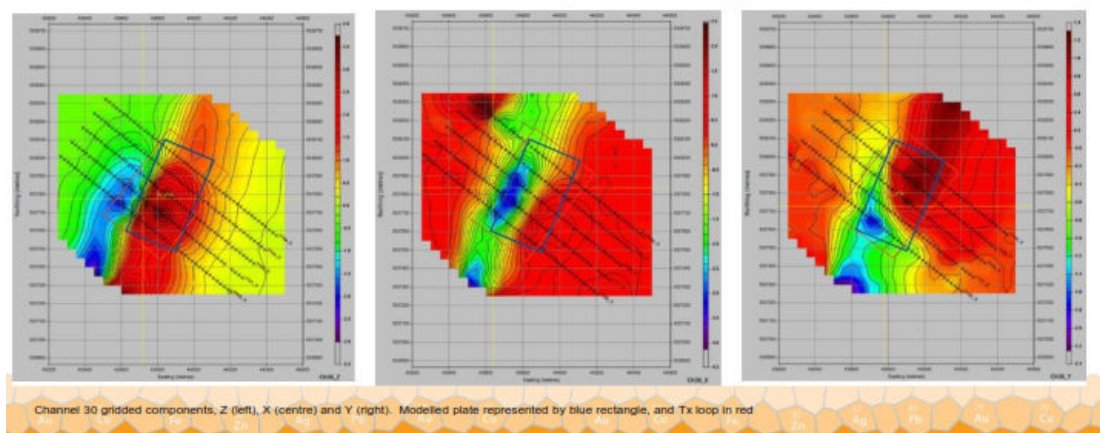
The company engaged Clearview Geophysics Inc. to conduct a ground Pulse Electro-Magnetic (PEM) survey over BRN_VT01 and BRN_VT03. Field work was completed in late December 2017, and the data is currently being reviewed by Minotaur. According to

management, preliminary analysis of BRN_VT01 indicates the target is a low conductance body with strike length of over 500 m, and depth of over 400 m. Management is planning a drill program.

BRN_VT01 Results

Modelled parameters

East	North	Depth (m)	Dip °	Dip Direction*	Strike length (m)	Depth Extent (m)	Conductivity (S)
439725	5037850	14	50	112	540	467	44



Source: Company

The following table summarizes the other three projects in Nova Scotia:

Fox River	Parrsborro	Lynn
61 claims	32 claims	121 claims
VTEM survey over 450 km flown in 3 separate blocks	Prospecting located visible copper assaying 0.15% Cu. Samples returned 1.3 g/t Ag, 55.2 ppm Co and 835 ppm Mo.	VTEM identified 1 high priority target
42 targets identified, of which 6 are classified as high priority	Soil and rock sampling conducted in 2017, assays pending.	Rock samples returned 0.12% to 0.38% Cu from a variety of locations
Soil samples collected in October 2017 are undergoing analysis		22 additional claims staked covering the northerly extent of the a large airborne induced IP target.
Ground geophysics planned		

Source: Company

Key Catalysts

The company's primary focus at this time is on Zulema and Bass River. The following points highlight the key upcoming catalysts:

- Zulema: ground magnetics, gravity survey, and deep penetrating I.P.
- Zulema drill program: Q1 2018
- Bass River: geophysics, followed by a drill program in Q1-2018
- Potential for Teck to consider mining ore from Copaquire

Management

Management and board members hold approximately 12.95 million shares, or 15% of the total outstanding shares, strongly aligning their interest with investors.

Share Ownership

Name	Position	Shares	% of Total
Patrick Cruickshank	CEO and Director	1,514,620	1.76%
Terry Lynch	Chairman	2,899,500	3.38%
Gary Lohman	VP Exploration & Director	4,543,864	5.29%
Thomas Comfort	Director	1,843,041	2.15%
Greg McKenzie	Director	-	-
Peter Kent	Director	95,670	0.11%
Les Mallard	Director	2,055,249	2.39%
Total		12,951,944	15.09%

Source: Management Information Circular / SEDI

Brief biographies of the management team and board members, as provided by the company, follow:

Patrick J. Cruickshank, MBA, CFM - President & CEO - Director

Since 2013, Mr. Cruickshank has been active as President and CEO of Cogonov where he raised over \$2 million and negotiated 2 joint ventures on 3 of Cogonov's IOCG projects in Nova Scotia in a challenging economic environment. He also has over 15 years working in the securities industry with Merrill Lynch, Citigroup Smith Barney and several other National Securities firms and was Founder of Commonwealth Advisors LLC in the United States. A former NFLPA Advisor for 10 years assisting HNW Individuals & Professional Athletes manage & protect their Wealth. For the past 5 years Mr. Cruickshank has been instrumental in the Private Equity space in the US & Canada. Most recently, Energy & Mining Resource companies, both in Canada & Texas. Mr. Cruickshank earned his MBA from the Highly Decorated York University Schulich School of Business. Mr. Cruickshank is a former Professional Soccer Player, Canadian National / Olympic Team Player, decorated US D-1 NCAA player, Former US Division 1 University Coach & USA Olympic Development State & Regional Staff Coach.

Terry Lynch - Chairman

Mr. Lynch graduated in 1981 from St. Francis Xavier University with a joint honours degree

in Economics and BBA. Prior to becoming a director with International PBX Ventures in 2012, Mr. Lynch had been CEO of privately held Nevada-focused Relief Gold. He also had been a director and later CEO of TSX-listed Firstgold Corp. He assumed the CEO position after the company had run into financial difficulty bringing its Relief Canyon mine into production. He arranged a sale of 51% of the company for a total capital injection of \$26.5 million from Northwest Non-Ferrous Metals, one of China's largest mining engineering and consulting groups. From 2005 to 2008 Mr. Lynch was a partner with Kingsmill Capital Partners, a financial advisory firm specializing in advising public and private early stage growth companies. Prior to joining Kingsmill Capital he spent 15 years operating startup companies in industrial products, oil and gas and media.

Gary Lohman, P.Geo - VP Exploration & Director

Mr. Lohman is a Founder and Chief Operating Officer of Cogonov Inc. and has over 35 years of experience in both precious and base metal exploration within the Americas as well as management experience within and outside of the mining industry. He is skilled in most geological, geochemical and geophysical exploration techniques in a wide variety of settings and terrains. Mr. Lohman is also the Founder of Santa Rosa Mining Corp. and former President and Chief Executive Officer of Canuc Resources Corporation. He has worked as a consultant for several mining companies including NWM Mining Corporation, US Silver Corporation and Virgin Metals Inc. While with Virgin Metals Inc. he was responsible for the definition drilling programs on the Los Verdes porphyry molybdenum-copper project. His experience also includes evaluations and/or research conducted on bonanza grade and bulk tonnage gold-silver properties in Mexico, California and Ecuador.

Dan Crandall - CFO

In addition to acting as the Company's Chief Financial Officer since June 2014, Mr. Crandall is a Senior Manager at Marrelli Support Services Inc., providing CFO, accounting, regulatory compliance, and management advisory services to numerous issuers on the TSX, TSX-Venture and other Canadian and US exchanges. Mr. Crandall is a CPA, CA and has an Honours Bachelor of Accounting (Co-op) degree from Brock University. Previously, he was a Manager at Collins Barrow Toronto LLP, a public accounting firm.

Thomas R Comfort - Director

After graduating from University of Texas with BSME, Tom was commissioned in the United States Navy and served 6 years. His specialty was as a Nuclear Propulsion Officer where he finished his career on the USS Carl Vinson. After leaving the Navy, Tom moved back to Austin and completed his MBA at The University of Texas - Austin. For the past 10+ years Tom has excelled at Dell Computers running the Americas in Environmental Asset Recovery. His main focus now is Private Equity opportunities in alternative assets.

Greg McKenzie - Director

Greg is a senior investment banker with 20 years of experience in financing, M&A, financial advisory, valuation, and strategic advice primarily to mid-cap companies. His transactions are valued in excess of \$18 billion. Mr. McKenzie has worked in New York and Toronto and has held positions with Morgan Stanley, CIBC World Markets, Haywood Securities and Salman Partners. While at these firms, Greg advised managements and boards of companies in

various sectors including: metals & mining, industrials, consumer products, technology and healthcare. Mr. McKenzie was also called to the bar in New York and Ontario and practiced law with a leading Canadian securities and M&A law firm.

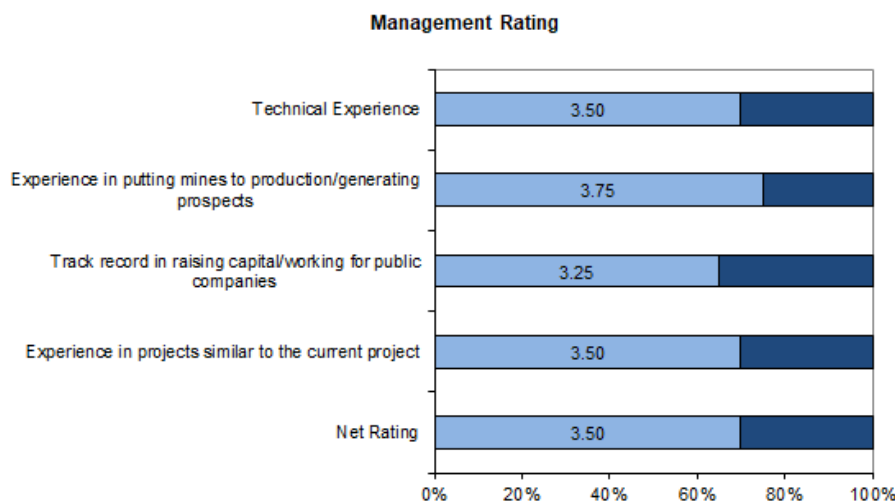
Peter Kent - Director

Formerly with the TecSyn Group of Companies where he was Vice President general Counsel and Corporate Secretary. Peter brings over 25 years of business experience regarding complex business and legal affairs. In addition to his time at Tecsyn Peter also was a corporate commercial lawyer at Bassel Sullivan a Toronto based boutique law firm.

Les Mallard - Director

Les is a graduate from The University of Prince Edward Island with a BA in Economics. He has spent 30+ years in the Canadian Produce Industry employed in various capacities with Chiquita Canada and Chiquita Brands North America. Retiring from Chiquita in 2017, he has started Mallard Produce Solutions, a produce consulting company focused on providing North American and Latin American clients business solutions to expand their market potential. Les is on the Board of Directors for the Canadian Produce Marketing Association. Les is also on the Board of Directors for Hydroponic Life. Hydroponic Life is a privately held company that has developed ground-breaking produce growing technologies that could revolutionize the vertical farming industry.

Our net rating on the company's management team is 3.5 out of 5.0 (see below).



Souce: FRC

The company's board has seven members, of which, four are independent. We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder. The following table shows our analysis on the strength of the company's board.

Board Rating

	Poor	Average	Good
Four out of seven directors are independent		X	
Five directors hold significant shares of the company			X
The Audit committee is composed of 2 board members, one is independent		X	
Management Compensation is decided by the Board		X	

Source: FRC

Financials

At the end of Q3-2017 (ended September 30, 2017), the company had cash and working capital of \$0.42 million and -\$0.07 million, respectively. We estimate the company had a burn rate (cash spent on operating and exploration / development) of \$0.17 million per month in the first nine months of 2017. The following table summarizes the company's liquidity position:

Liquidity Position

CS	2016	2017 (9M)
Cash	\$535,281	\$422,012
Working Capital	\$124,976	-\$72,218
Current Ratio	1.21	0.92
LT Debt / Assets	1.2%	2.7%
Monthly Burn Rate (incl. investing activities)	\$118,315	\$173,317
Cash from Financing Activities	\$1,954,602	\$1,446,586

Source: Company Data

Subsequent to the quarter-end, the company closed a \$1.25 million financing by issuing 10.17 million units. Each unit consisted of a common share and half warrant (exercise price of \$0.18 and \$0.20 per share).

We estimate the company currently has 7.20 million options outstanding (weighted average exercise price of \$0.16 per share) and 8.35 million warrants (weighted average exercise price of \$0.17 per share) outstanding. **None of the options or warrants are currently in the money.**

Outlook on Copper

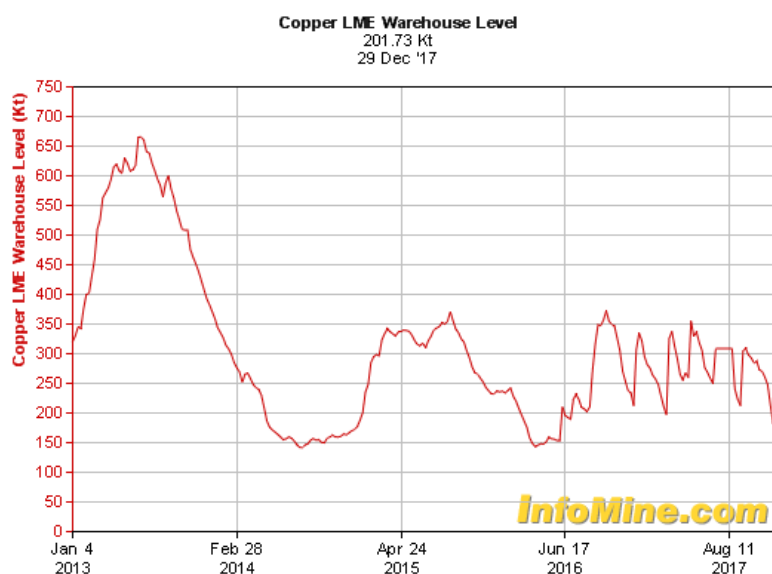
In 2016, **Nevsun Resources (TSX: NSU)** acquired the **Timok Copper Gold project** in eastern Serbia for effectively \$500 million, through a \$365 million acquisition of Reservoir Minerals Inc, and a \$135 million payment to exercise Reservoir's option to acquire Freeport-

McMoRan's (NYSE: FCX) 55% interest in the Timok project. The project has an indicated resource of 441 Mlbs copper (13.5%) and 0.6 Moz gold (10.4 gpt), and an inferred resource of 2.2 Bls of copper (2.9%) and 1.9 Moz gold (1.7 gpt). We estimate that the acquisition price **reflected a valuation of \$0.13 / lb of copper equiv**, and is encouraging for copper focused juniors like Chilean.

Copper prices are up by approximately 63% since mid-2016.

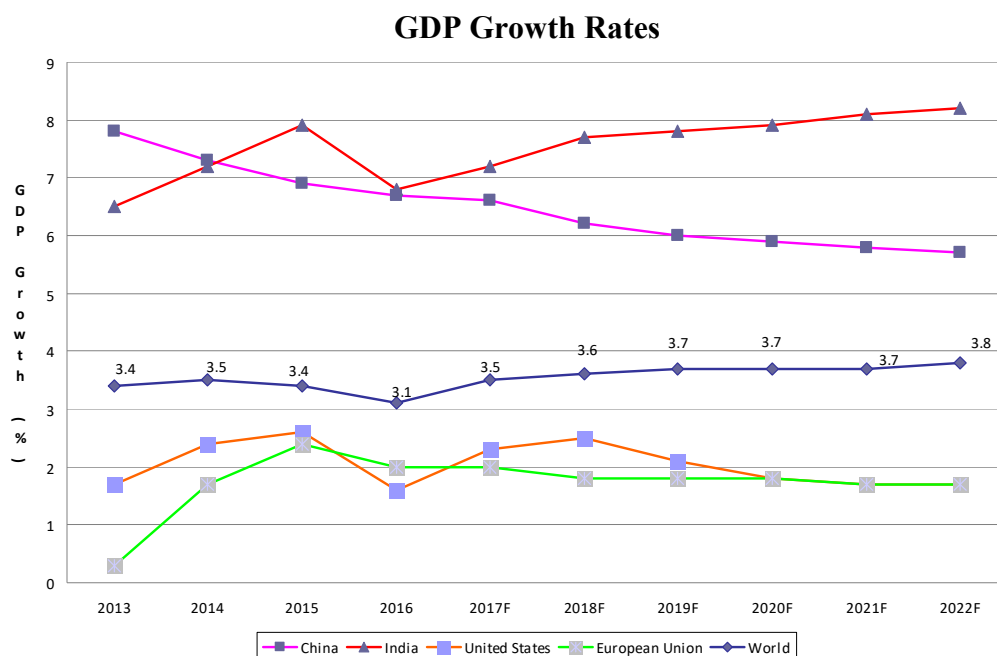


The following charts show dropping inventory levels - one of the primary reasons for the surge in prices.

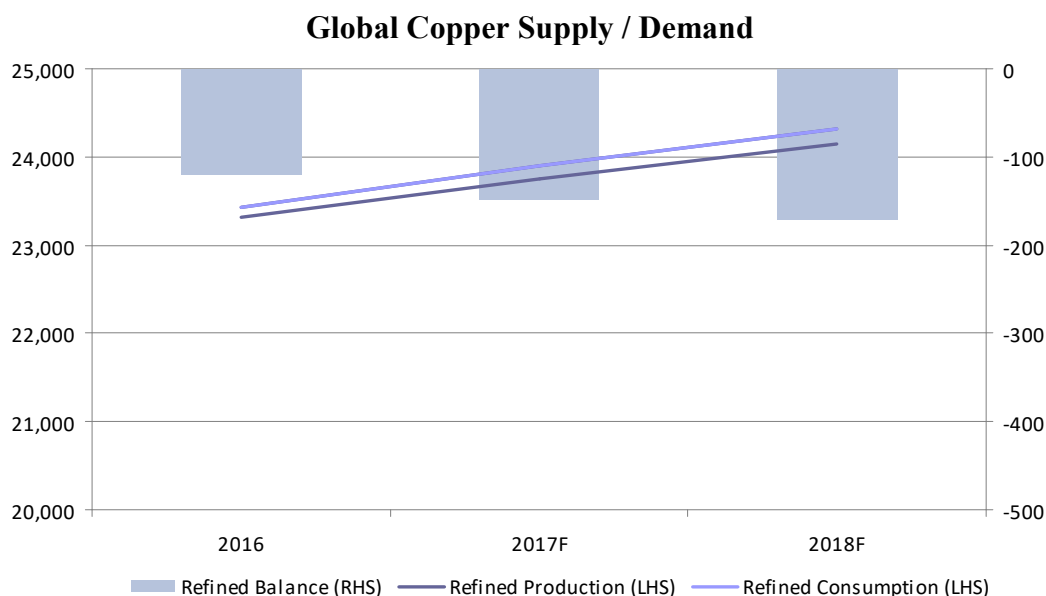


The following chart shows the expected increase in global Gross Domestic Product ("GDP") growth through 2022. The positive near-term outlook for global GDP growth is based on

improving rates in the U.S. and India, and a relatively flat European Union, offset by a slowdown in China.

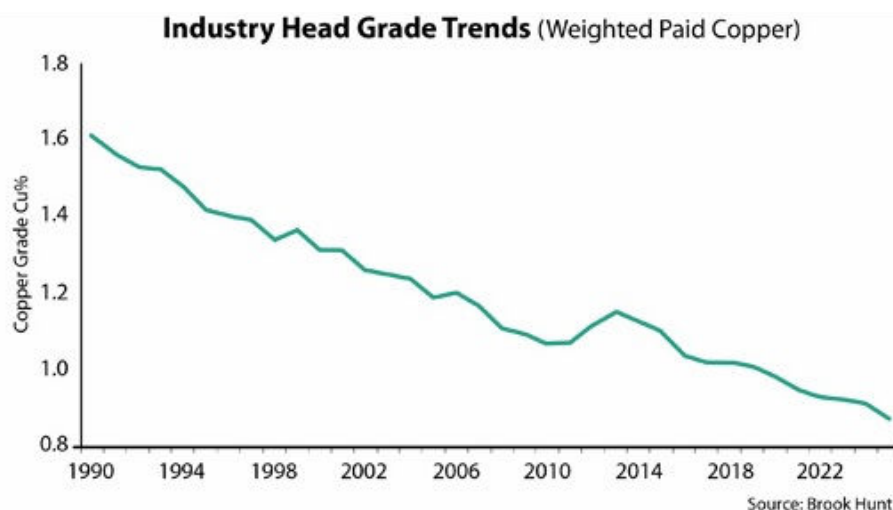


The following chart shows that the global supply deficit of copper is expected to increase YoY in 2018.



Another key factor that we believe bodes well for copper prices is declining global average grades. The following chart shows that the global average grade has declined from

approximately 1.6% in 1990, to the current 1.0%. The average grade is expected to continue to decline as shown below.



The following table shows the very thin net margins of copper companies in the past few years, indicating that current producers are finding it difficult to maintain profitable operations at \$2.00 - \$2.25 per lb copper.

Copper > Key Stats & Ratios					
	CY2013	CY2014	CY2015	CY2016	Latest
Profitability					
Return on Equity %	7.6%	4.8%	(19.0%)	(4.6%)	1.9%
Margin Analysis					
Gross Margin %	11.7%	10.2%	9.4%	9.8%	10.9%
Net Income Margin %	2.3%	(0.2%)	(2.5%)	(0.7%)	0.6%
Long Term Solvency					
Total Debt/Capital	37.6%	43.5%	44.7%	40.8%	42.0%
EBITDA / Interest Exp.	6.8x	6.1x	4.4x	4.2x	4.5x
Compound Annual Growth Rate Over Three Years					
Total Revenue, 3 Yr CAGR %	11.6%	3.5%	(4.7%)	(6.6%)	(4.9%)
Cash from Operations, 3 Yr CAGR %	2.7%	(11.4%)	(17.8%)	(10.9%)	(7.3%)

Source: S&P Capital IQ

Valuation & Rating

We valued the NSR on Copaque based on a conservative throughput rate of 36,000 tpd, average copper grade of 0.32%, and a recovery rate of 85%. This implies annual copper production of 79 Mlbs. At our long-term copper price forecast of US\$2.75 per lb, we estimate potential revenues of US\$217 million for Teck. A 2% NSR implies annual payments of US\$4.33 million to Chilean. We estimate that the after-tax net present value of these payments over a 10-year production life (conservative estimate) is \$20.71 million. Note that this scenario also includes a US\$3 million upfront payment from Teck to reduce the NSR from 3% to 2%. We used a discount rate of 11.5%, which is in line with the rate we use for juniors operating in attractive jurisdictions.

The following table shows a summary of our valuation on Chilean's shares.

Copaquire - After-Tax Net Asset Value of NSR Payments (2%) + Upfront Payment of US\$3M	\$20,714,473
Book Value of Other Assets (discounted by 50%)	\$4,576,604
Working Capital	\$595,330
Fair Value	\$25,886,408
No. of Shares *	85,836,055
Value per Share (\$)	\$0.30

* treasury stock method

Source: FRC

As the company's other projects are in early stages, for conservatism, our valuation does not account for any upside potential from these projects. Currently, these assets are valued at just 50% of their book value in our models.

We are initiating coverage on Chilean with a BUY rating and a fair value estimate of \$0.30 per share.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is highly dependent on commodity prices.
- Share dilution through future financings.
- Project development is contingent on availability of financings.
- Chilean's projects are at an early stage and do not have a NI 43-101 compliant resource estimate.

As with most junior resource companies, we rate Chilean's shares a risk of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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