

CHESAPEAKE CAPITAL

December Quarter 2018 Investment Update

About Chesapeake Capital

Chesapeake Capital Limited (“Chesapeake” or the “Company”) is a Pooled Development Fund (“PDF”) that seeks to invest in a concentrated portfolio of generally listed companies, through the provision of new equity capital under the PDF framework so as to generate returns in excess of the S&P Small Ordinaries Accumulation Index. PDFs can only invest in companies with total assets of less than \$50m (but can retain investments if investee’s assets subsequently exceed \$50m, subject to Innovation Australia approval). The investment framework can be summarised as:

- Investments must be made by subscribing for new ordinary shares.
- Investments by a PDF must represent 10% or more of the “Issued Capital” of the investee company.
- Individual investments cannot constitute more than 30% of the PDF’s “Issued Capital.”
- In securing a variation to its Investment Plan from Innovation Australia, Chesapeake Capital Limited may “acquire less than 10 percent of the shares in an investee without first seeking approval from the Board” in the following circumstances:
 - where the PDF co-invests with another PDF, and they concurrently invest at least 10 percent of the total of all amounts paid on the shares in the investee company; and/or
 - where the PDF invests at least \$500,000 into the investee company.
- PDFs cannot invest in businesses whose primary activities are retail operations or property development.

Performance Update

As at 30 September 2018	Dec'18 Quarter	FY'19 YTD	FY '18	FY '17	FY '16
Chesapeake Capital Limited *	-26.4%	-38.0%	-5.6%	+9.2%	+45.7%
Small Ordinaries Accumulation Index	-13.7%	-12.8%	+24.2%	+7.0%	+14.4%
All Ordinaries Accumulation Index	-9.0%	-7.3%	+13.7%	+13.1%	+2.0%

* Initial investment capital available from late June 2015 was \$1.51m so returns have been calculated from that reference point.

There is no doubt investing can be a testing experience with both bruising and euphoric outcomes. A brutal global market sell-off in the December Quarter pushed the Australian market into a negative 2018. The media attention in all its forms has turned profoundly negative and the domestic property downturn has taken on a life of its own. It’s hard to believe that this gloom has not added to the share market’s difficulties. As an investor in a concentrated portfolio of developing companies, 2018 got tougher for Chesapeake as two of our investments miss-stepped and failed to deliver. Their failures hurt.

On the negative side of things Axesstoday’s news flow to shareholders has been sporadic since the emergence of its debt covenant troubles in mid-2018. The gist of recent communications has been that progress was being made in the implementation of a capital management plan, that consent of Noteholders and Bondholders was required to lift the limit on the total gearing from 85% to 90%, that a capital raising would be undertaken and that once the capital raising was completed and with all covenants compliant the Company can leverage its established introducer network to deliver higher volumes. A new CEO with extensive experience has been appointed conditional on the completion of the planned capital raising. Other key appointments have been or are being made. At some stage shareholders will have the opportunity to acquaint themselves with precisely where the Company is at but it is hard to imagine that the share price won’t suffer further consequences of the circumstances visited upon the Company. We believe we have made an adequate provision in the accounts to absorb further down draft should share trading resumes. A resumption of trading on the ASX will likely require a disclosure document, which might put all shareholders into the picture with clarity. Testing circumstances but not without the prospect of recovery with time and delivery.

Also, after raising with its advisers some circa \$17m from towards 100 experienced Western Australian investors to pursue disruptive opportunities in the eyewear sector, SPEQs has stumbled. Whilst SPEQs offered something of a go-forward plan in a November communication, a subsequent New Year’s update to shareholders outlined a grimmer picture with management resignations and change. As a consequence of having lost confidence in all things SPEQs we have written this unlisted investment down to a “penny”, harbouring some residual hope that the Board/major shareholders/advisers might turn a negative into some form of positive. The two SPEQs shareholder letters are available on request.

On the positive side we visited with Babylon Pump and Power who were obviously bursting at the seams in their Forrestfield premises. At the AGM management volunteered a revenue forecast of >\$7m for FY’19, being 52% above the prospectus forecast. The improved outlook for the Australian mining sector and the diligent efforts of management suggest more strong growth and that sooner or later shareholders will be well rewarded from this start-up. Research analyst share price targets on different scenarios sit at circa 4cps to 6cps. Management are building a reputation for diligence and commitment, which creates a reservoir of goodwill. They value investors capital. Chances are the half year result might engage the market.

Also on the positive side research analysts are now suggesting that Breaker Resources’ next resource upgrade is likely to reveal a +1.5m oz resource at its Lake Roe Bombora project with more to come as it “evolves into a classic goldfields deposit”. The delivery of a 2m oz resource might expand the value per ounce towards \$75 implying a share price target circa 81cps. A resource upgrade and the emergence of economic parameters might be expected to unlock significant value.

Whist bitterly disappointed with the efforts of Axesstoday and SPEQs, which have set us back, it appears that either or both Babylon and Breaker Resources can transform Chesapeake's circumstances in 2019. We will treat Axesstoday on its merits as it moves forward, but will work towards repositioning the cash at +\$0.5m so as to be in a position to make a new investment as opportunity emerges. Once we have dealt with the knockdowns and have restored positive momentum we will revisit our conversations around introducing an Executive to build the business and outcomes of Chesapeake for all. The company continues to run on little cost.

Existing Investments



AssetOwl Limited (ASX code: AO1) AssetOwl is an innovative information technology and software development company now particularly focussed on property management as a pathway to commercialisation. A capable major shareholder, "shell value" and prospects warrant holding this position, which offers leverage to the Board's reshaped development strategy.



Axesstoday Limited (ASX code: AXL) Axesstoday is a specialist provider of equipment finance for small to medium-sized enterprises ("SME's"). Its current circumstances were well covered earlier.



Babylon Pump and Power Limited (ASX code: BPP) Babylon is executing a specialist pump and power development strategy. This is an excellent team, well known to and highly regarded by Chesapeake Directors. Babylon is highly leveraged to the resources sector recovery. Babylon is doing what is expected. News flow continues to be positive with value emerging and analysts targeting an up to a 6¢ share price.



Breaker Resources NL (ASX code: BRB) Breaker's resource of up to 1.1m ozs at 1.4gpt makes it clear that its Lake Roe Bombara project is solid, with room to grow likely to become a mine of consequence. Cashed up with a number of drilling rigs at work, growth in the gold resource at a time when gold producers are generating strong cashflows has made the sector alive to investor interest.



CleanSubSea Limited (unlisted) owns licenses and patents associated with a revolutionary fully enclosed capture and containment hull cleaning technology. We understand Directors with their Advisers continue to assess the best route to strategic commercialisation of the technology interacting a range of investors.



Podium Minerals Limited (ASX code: POD) is a Western Australian platinum group metals resources development company. Podium released an excellent maiden resource, which shows every prospect of growing strongly. Ongoing drilling, results and a material increase in market profile would be of great benefit.

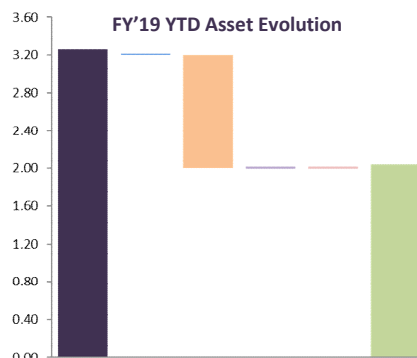
Corporate Snapshot

This snapshot reflects Chesapeake's evolution since 1 July 2018 and the make-up of its asset base as at 31 December 2018. The unaudited NTA was \$2.03m (15.5¢ per share) with cash of circa \$0.1m.

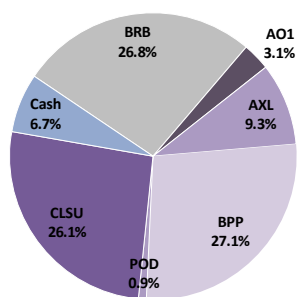
Directors	Position	Related Shareholding
James Cullen	Executive Chairman	14.7%
Aaron Constantine	Non Executive Director	19.0%
Ian Macliver	Non Executive Director	5.1%
Bernard Romanin	Non Executive Director	0.4%

As At 31 December 2018	\$'m
1 Jul 18 Opening Net Assets	3.26
New Capital	0.0
Investment Gains	(1.19)
Operating Costs	(0.04)
Provision for Taxation YTD	0.0
Net Tangible Assets	2.03
Shares on Issue:	13.11m
Number of Shareholders:	523

FY'19 YTD Asset Evolution



Indicative Distribution of Assets



	30 Sept '15	31 Dec '15	31 Mar '16	30 Jun '16	30 Sept '16	31 Dec '16	31 Mar '17	30 Jun '17	30 Sept '17	31 Dec '17	31 Mar '18	30 Jun '18	30 Sept '18	31-Dec-18
Net Tangible Assets (\$'m)	1.55	1.78	1.97	2.20	2.16	3.06**	3.66	3.19	3.17	2.99	3.23	3.24	2.76	2.03
NTA per Share (¢)	17.4	18.1	22.1	24.6	24.2	25.7	30.7	26.8	26.6	25.3	27.1	24.7	21.1	15.4
Change in NTA per Share (%)	2.3	4.0	22.1	11.3	-1.6	6.1	19.6	-13.1	-0.6	-6.1	7.2	-8.8	-15.4	-26.4
S&P/ASX All Ordinaries Accum Index (XAOAI)	44,820	47,788	46,664	48,530	51,100	53,353	55,757	54,897	55,460	60,007	57,791	62,434	63,599	57,887
S&P/ASX Small Ords Accum Index (XSODAI)	5,143	5,725	5,784	6,122	6,642	6,479	6,574	6,552	6,841	7,776	7,560	8,140	8,230	7,102
S&P/ASX Emerging Companies Index (XEC)	1,025	1,072	1,113	1,277	1,404	1,316	1,284	1,221	1,307	1,522	1,482	1,479	1,421	1,181

* Initial investment capital available ** Includes \$0.75m of new capital in late December 2016

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