

CHESAPEAKE CAPITAL

June Quarter 2021 | Investment Update

About Chesapeake Capital

Chesapeake Capital Limited (“Chesapeake” or the “Company”) commenced as a Pooled Development Fund (“PDF”) investing in a concentrated portfolio of generally listed companies through the provision of new equity capital under the PDF framework. It was renamed and recapitalised with a new Board at the end of FY2015 commencing with c \$1.5m of investable capital. Chesapeake relinquished its PDF status as at 23 December 2020. As a consequence, Chesapeake is now subject to normal corporate income tax rates of 25%. The tax free cost base for existing Shareholders at 23 December 2020 is 31.9 cps.

Performance Update

As at 30 September 2020	Jun '21 Quarter	Mar '21 Quarter	Dec '20 Quarter	Sep'20 Quarter	FY'21
Chesapeake Capital Limited	+63.0%	+2.1%	+25.1%	+30.2%	+170.3%
Small Ordinaries Accumulation Index	+8.5%	+2.1%	+13.8%	+5.4%	+33.2%
All Ordinaries Accumulation Index	+8.7%	+3.6%	+14.4%	+1.3%	+30.4%
Emerging Companies Index	+8.2%	+2.7%	+17.3%	+20.6%	+57.1%
Chesapeake Capital Limited NTA (unaudited)	\$7.27m	\$4.45m	\$4.38m	\$3.50m	

Overview

Sitting tight and letting the good efforts of Podium Minerals Limited (“Podium”) play out across the June Quarter proved to be an excellent strategy as the market “started “to cotton on to the Podium story. We outlined our investment thesis in our March quarterly Investment Update and spelt out our “dilemma” which revolves around perceptions of value and opportunity and more particularly opportunity cost. A 151% share price rise from 20.5c to 51.5c had a material impact upon Chesapeake’s total asset position which increased to \$8.33m by 30 June 2021. After providing for tax, the unaudited NTA at 30 June 2021 was c \$7.27m, being c 52cps. A good year with a 170.3% gain outperforming benchmarks.

So what of Podium now? There is nothing that has emerged that would dissuade us that the upside potential has changed. Industry-wide, labs are taking longer to get drill results back for explorers, with Podium’s drill results over the quarter remaining boringly consistent, save for some higher grade/wider intersections emerging in the last section of c 800m to be drilled (to complete drilling over 15kms down to 100m in depth). With lab results comes the prospect of a highly anticipated resource upgrade which might land somewhere between 2m and 3m oz’s. Drilling has now also been completed down towards 200m over 2.4km on the western flank and two deep 750m holes are scheduled for later this month to test the reef at 500m vertical depth.

Our March investment thesis remains intact save for the very welcome addition of Rod Baxter to the Board as a Non-Executive Director. Of significance to Podium is Rod’s early career involvement in a number of operational and functional roles in the mining sector including metallurgical, process engineering and project management. Rod was a Divisional Director of Anglo Platinum with group-wide responsibilities for business optimisation, new mining ventures and strategic corporate objectives. Clearly Podium is building a team to support the growth in resources and therefore the emerging value of Parks Reef. The emergence of a PGM domain outside of traditional producer regions of South Africa and Russia should attract more investor attention. On balance we subscribe to the proposition that Podium is funded to drill out the 15km Snowden Exploration Envelope and that this might deliver towards their higher target of 5.8moz down to 200m. As it’s a reef, there is a prospect that the resource does not simply end at 200m. Drilling, results, resource upgrades - it’s all before us.

With the good came the not so good with mining services sector losing its way as labour cost risks permeated the sector and our meaningful investment in Babylon slumped back to cost after showing some real potential. We are very supportive of the team and the job they are doing. Their task is to resonate with the market. Market resonance and delivery has escaped our investment in M8 Sustainable, the waste business which is now recapitalising. We intend to recalibrate the holding cost in M8’s current rights issue process so as to be well leveraged to the completion of a landfill facility later this year, which has the potential to create significant shareholder value. We will outline this in the next Quarterly Update.

WA Kaolin now has a lot of our attention following a site visit which confirmed good progress is being made and the release of independent research with a share price target of 60cps. WA Kaolin has all the characteristics of a great company in the making:

- **Global Demand Exceeds Supply** - Global market dynamics are changing such that demand exceeds supply and product quality gaps are emerging. WA location strongly aligns WAK with fast growing APAC market.
- **World Class Mineral Resource** - In-situ primary kaolin resource with high brightness and low impurities suitable for all kaolin market applications. Ore Reserve Estimate (JORC 2012) of 30.5Mt of kaolinized granite within Mining Lease – delivering a 31-year mine life. Access to 644.5Mt_{2,3} of Mineral Resources provides potential to significantly increase mine life.

- **De-Risked through Investment** - ~\$42 million invested since acquiring the assets in 1998 from Rio Tinto who had discovered and drilled out the Mineral Resource.
 - **Proven Low-Cost Production** - WAK engineered and built a small scale commercial plant operating in Kwinana, WA, validating the Company's proprietary K99 process which produces a high quality ultra-bright kaolin.
 - **Customers & Offtake** - Ten year distribution agreement and a six year offtake agreement signed with a Taiwanese distributor. In the first 3 years of production, the sum of the targeted sales in the offtake is 271kt, coupled with non-binding letters of intent of 280kt from other customers, amounts to 551kt i.e. 83% of targeted production of 664kt for those years.
 - **Simple Mining** - Amenable to free digging, open cut campaign mining with a low strip ratio. Presently trucked to Kwinana for processing, where 1 tonne contains 440kg of refined product.
 - **Strong Potential for Cash Flow** - A Definitive Feasibility Study (DFS) completed has delivered robust economics-based ramp up of kaolin production to 400,000tpa in two stages only –NPV (7) of \$257m, IRR of 47% and average EBITDA of \$29.2m over a 31 year life of mine. There is significant scope to further increase the production in modular steps.
 - **Low CAPEX** - Estimated capex of circa \$18 million to construct Stage 1 scaled up processing plant in Wickepin. The brownfields expansion scales the project up in a modular/sequential manner to meet customer demand
 - **Staged Ramp Up** - Stage 1 will deliver WAK's a plant providing a production capacity of >200,000tpa1kaolin by 2021 year end. Stage 2 will utilise free cash flow to expand production capacity further to >400,000tpa kaolin.
 - **Delivery Capability** - The Board and Executive team have extensive experience in project delivery and business development.
- We traded out of holdings in Hastings and Peninsula, lightened Breaker Resources holding during the quarter and acquired small holdings in Oventus Medical (a medical device service company) and gold explorer Pacgold. As we print Podium's share price is 59c and Chesapeake's total assets are c \$9.7m.

Key Investments

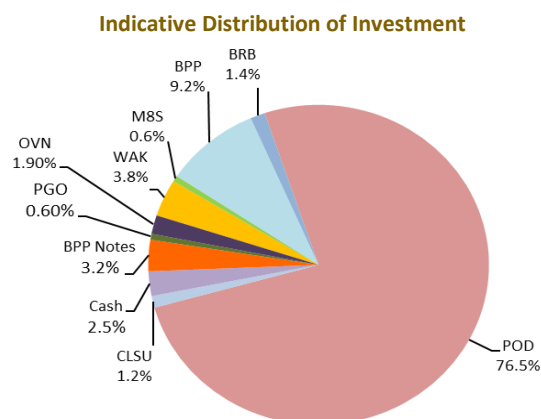


Corporate Snapshot

The bottom table presents Chesapeake's evolution since inception. The make-up of its asset base and P&L at 30 June 2021 is provided below, reflecting unaudited NTA of \$7.27m (52¢ per share), incorporating a reset of deferred tax liabilities to c \$1.68m and cash of circa \$0.2m.

Directors	Position	Related Shareholding
James Cullen	Non-Executive Director	14.9%
Aaron Constantine	Non Executive Chairman	19.9%
Ian Macliver	Non Executive Director	4.8%
Bernard Romanin	Non Executive Director	0.3%

As At 31 March 2021	\$'m
1 Jul 20 Opening Net Tangible Assets	2.84
New Capital	0.00
Investment Gains	6.26
Operating Costs	(0.15)
Income Tax Expense	(1.68)
Net Tangible Assets	7.27
Shares on Issue (m):	14.00
Number of Shareholders:	523



	30 Jun '15	30 Jun '16	30 Jun '17	30 Jun '18	30 Jun '19	30 Jun '20	30 Sept'20	31 Dec'20	31 Mar'21	30 Jun'21
Net Tangible Assets (\$'m)	1.51*	2.20	3.19	3.26	2.79	2.69	3.50	4.38	4.45	7.27
Shares on Issue (m)	8.72	8.92	11.92	13.11	14.0	14.0	14.0	14.0	14.0	14.0
NTA per Share (c)	17.0	24.6	26.8	24.7	20.0	19.2	26.8	31.2	31.9	52.0
Change in NTA per Share (%) from PCP	N/A	+44.7	+8.9	-8.8	-19.0	-4.00	+30.2	+25.1	+2.1	+63.0
S&P / ASX All Ordinaries Accum Index (XAOAI)	47,575	48,530	54,897	62,434	69,326	64,231	65,039	74,424	77,109	83,786
S&P / ASX Small Ords Accum Index (XSOAI)	5,352	6,122	6,552	8,140	8,296	7,826	8,270	9,413	9,610	10,427
S&P / ASX Emerging Companies Index (XEC)	1,003	1,277	1,221	1,479	1,411	1,365	1,646	1,931	1,982	2,144

* Initial net investment capital available post resurrection of the PDF Corporate Entity

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