

CHESAPEAKE CAPITAL

March Quarter 2019 | 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 31 March 2019	Mar’19 Quarter	Dec’18 Quarter	FY’19 YTD	FY ‘18	FY ‘17	FY ‘16
Chesapeake Capital Limited *	+17.7%	-26.4%	-20.6%	-5.6%	+9.2%	+45.7%
Small Ordinaries Accumulation Index	+12.6%	-13.7%	-9.9%	+24.2%	+7.0%	+14.4%
All Ordinaries Accumulation Index	+11.1%	-9.0%	+3.0%	+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.

To use a surfing analogy after going “over the falls” late last year, we spent much of the March Quarter rolling around in the white water, pulling the sand and seaweed out of our hair. When we initially recapitalised Chesapeake and cleaned it up we had \$1.5m to invest and doubled that over 2 years before our 2018 challenges. So it is a case of us getting back on the board and paddling back out into the line-up and we are doing that.

A small placement of \$0.19m taking the total number of shares to 14m and an up-tick in Breaker Resources share price gave rise to Net Assets of \$2.59m at 31 March 2019 (18.4¢ per share inclusive of a tax credit), which are fully invested after we subscribed to the Next Science Limited IPO. We have 3 investments currently offering significant upside and 2 small investments that have something to offer that could impact.

Next Science Limited (“Next Science” or the “Company”) is an Australian medical technology company that is commercialising its proprietary Xbio™ technology platform initially in the USA and Australia. Biofilms form when free-floating bacteria attach to and coalesce on a surface. The bacteria then produce a barrier that shields the bacteria from treatment. Bacteria protected by a biofilm can be 1,000 times more resistant to antibiotics than free-floating bacteria.

Next Science’s Xbio breaks down Biofilm, safely kills the bacteria, and reduces bacterial and Biofilm recurrence. Next Science has not identified any evidence of bacterial resistance to Xbio technology. Xbio is validated by 4 FDA Clearances, multiple clinical trials, and more than 70,000 patient episodes of care in the US to date. Applications include surgical site infections, chronic wounds, sinusitis, implants and prosthetic joints, acne, lung infection and many other critical medical conditions.

Next Science is commercialising Xbio in multiple large medical markets with global partners. Current distribution agreements include with 3M Co. in wound care, Zimmer Biomet in surgical lavage (wash) and Advanced Skin Technology in acne treatment. Next Science expects to have 8 products in market in 2019, with an extensive product pipeline across medical devices, OTC drugs and prescription pharmaceuticals.

The Company listed on 18 April 2019. We hold a view that continued sales growth and product launches could give rise to significant share price growth for Next Science over the next 2 years noting the highly credentialed Board.

Babylon Pump and Power delivered an excellent first half result and looks to be gaining traction in the market. We like the exposure to resource services and particularly to diesel maintenance, which allows management to build relationships and opens up plant rental opportunities. We see this as a growth sector moving forward with good margins on offer. Management are careful and thoughtful and with the expiry of the options analyst valuations have expanded to 6¢ per share.

Breaker Resources A lot of drilling has occurred at its Lake Roe project in Western Australia since the 1.1m oz September 2018 resource upgrade, which added 500,000 ozs in 5 months. It’s closer to 7 months since that upgrade with analyst expectations hovering between 1.5m to 2.0m ozs, which at \$60 to \$80 per oz might imply an interim valuation range of \$108m to \$160m, ie perhaps 58¢ per share to 86¢ per share which would imply strong returns for this investment from the current 40¢ per share. The ore body remains open in pretty much all directions, so whatever the next resource upgrade it’s unlikely to be the last. Key is when with the timetable slipping.

We have a small investment in **Podium Minerals**, which in turn has a modest market capitalisation of circa \$8m. It did however upgrade their resource by 118% to 740k oz of combined platinum, palladium and gold plus base metal credits at Parks Reef in Western Australia on 5 March 2019 and followed that up at the end of March by releasing a revised Exploration Target of 80mt to 120mt at 1.2gpt 3E PGM containing between 3.1m and 5.8m ozs of combined platinum, palladium and gold. Drilling and increasing the resource into that range opens up exponential valuation prospects from here.

After lingering for some time, trading on thin volumes as it re-configured its products for the property management sector, **AssetOwl's** share price showed some life on the back of a product trial with a leading real estate group. A slimmed down team is piecing together a value proposition and a Director led \$1.25m rights issue to fund the commercialisation strategy over 2019 presents the opportunity to completely recalibrate entry prices in the first step towards the restoration of value. AssetOwl's Directors are backing themselves to do this and are subscribing for 34% of the rights issue, which prices the Company as a "shell" and offers some real leverage.

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.



Axesstoday Limited (ASX code: AXL) Axesstoday is a specialist provider of equipment finance for small to medium-sized enterprises ("SME's"). Circumstances well aired in the last Quarter Investment Update. As a consequent of covenant breaches Secured Lenders moved to protect themselves during April, resulting in the Board resolving to appoint voluntary administrators who advised "we will achieve a recapitalisation or sale... to ensure a positive outcome."



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.



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 and 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.



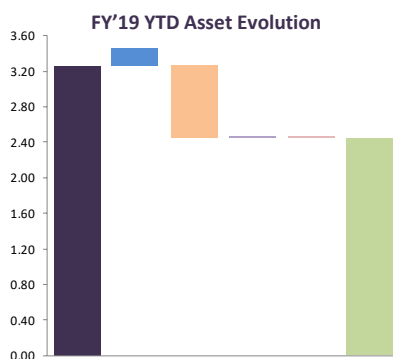
Podium Minerals Limited (ASX code: POD) is a Western Australian platinum group metals resources development company. Podium released an excellent resource upgrade and have expanded its exploration target. Ongoing drilling, results and a material increase in market profile would be of great benefit.

Corporate Snapshot

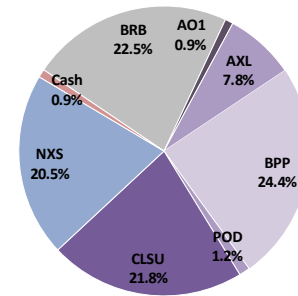
This snapshot reflects Chesapeake's evolution since 1 July 2018 and the make-up of its asset base as at 31 March 2019. The unaudited NTA was \$2.59m (18.4¢ per share) with cash of circa \$0.04m.

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

As At 31 March 2018	\$'m
1 Jul 18 Opening Net Assets	3.26
New Capital	0.19
Investment Gains	(1.02)
Operating Costs	(0.03)
Provision for Taxation YTD	0.18
Net Tangible Assets	2.59
Shares on Issue:	14.00m
Number of Shareholders:	523



Indicative Distribution of Investment Assets



	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	31-Mar-19
Net Tangible Assets (\$'m)	1.97	2.20	2.16	3.06**	3.66	3.19	3.17	2.99	3.23	3.24	2.76	2.03	2.59
NTA per Share (c)	22.1	24.6	24.2	25.7	30.7	26.8	26.6	25.3	27.1	24.7	21.1	15.4	18.4
Change in NTA per Share (%)	22.1	11.3	-1.6	6.1	19.6	-13.1	-0.6	-6.1	7.2	-8.8	-15.4	-26.4	19.5
S&P/ASX All Ordinaries Accum Index (XAOAI)	46,664	48,530	51,100	53,353	55,757	54,897	55,460	60,007	57,791	62,434	63,599	57,887	64,292
S&P/ASX Small Ords Accum Index (XSOAI)	5,784	6,122	6,642	6,479	6,574	6,552	6,841	7,776	7,560	8,140	8,230	7,102	7,997
S&P/ASX Emerging Companies Index (XEC)	1,113	1,277	1,404	1,316	1,284	1,221	1,307	1,522	1,482	1,479	1,421	1,181	1,333

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

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