

# CHESAPEAKE CAPITAL

## March 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.

The restrictions on PDF qualifying investments significantly limited the investment opportunities available to Chesapeake, outweighing the income tax benefits available as corporate tax rates reduced. Accordingly 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%. It can now invest irrespective of size or circumstance. The cost base for Shareholders will be reset to the “valuation” of its shares at the 23 December 2020. This is now being determined and Shareholders will be advised shortly, along with details of a process to buy back unmarketable parcels of shares (defined as less than \$500 in value) to simplify the capital structure and reduce costs.

### Performance Update

As at 30 September 2020	Mar '21 Quarter	Dec '20 Quarter	Sep'20 Quarter	FY'20
Chesapeake Capital Limited	+2.1%	+25.1%	+30.2%	- 5.5%
Small Ordinaries Accumulation Index	+2.1%	+13.8%	+5.4%	- 5.6%
All Ordinaries Accumulation Index	+3.6%	+14.4%	+1.3%	- 7.2%
Emerging Companies Index	+2.7%	+17.3%	+20.6%	- 3.3%
Chesapeake Capital Limited NTA (unaudited)	\$4.45m	\$4.38m	\$3.50m	

### Overview

The March Quarter recorded a modest gain but was impacted by the resetting of tax-effect accounting balances following the relinquishment of PDF tax status. Ignoring these accounting entries, the value of the portfolio rose 19% in the quarter, with much of the gain revolving around Podium Minerals Limited (Podium). NTA per share at 31 March 2021 was 31.9 cps.

We find ourselves in particularly interesting territory with our Podium investment which cost \$0.4m and as at 31 March 2021 had @ 20 cps a value of c \$2.4m and now makes up c 49% of the investment portfolio. Ordinarily one might take profits on an investment that was up 6x but what happens if you have a particularly high level of conviction that supports the possibility of gains of that magnitude still before us?

Several Chesapeake shareholders have asked us what our Podium investment thesis is. The thesis runs something like this;

- Podium listed in early 2018 with its 100% owned Parks Reef project, focussed on becoming a Platinum Group Metal (“PGM”) producer. Podium was granted a mining lease that lies within the Weld Range Complex in the Mid-West Region of Western Australia. With an inferred resource containing three PGM metals – platinum (Pt), Palladium (Pd) and Gold (Au), Podium is a 3 Element (3E) play. More Rhodium (Rh) results might make it 4E PGM.
- In late 2017 the highly respected Snowdons produced an Exploration Target over the 15km length of Parks Reef down to 100m depth of 1.5m oz to 2.6m oz grading 1.5gpt to 2.0gpt of 3E PGM, increasing 3.1m oz to 5.8m oz down to 200m. Some historical drill holes go deeper than 200m but at the time an oz comprising Pt (50%) + Pd (40%) + Au (10%) was perhaps worth A\$1,250 v A\$1,690 gold price at the time simply delivered to the Mint.. Markets were tough and Podium needed to both drill and resonate where it might come to produce a metal concentrate from Parks Reef if it all hung together.
- By Podium’s 2020 AGM the company was beginning to hit its stride, having drilled 8.5km of the 15km strike length down to 100m so as to generate an inferred resource of 1.39m oz @ 1.52 gpt of Pt (50%), Pd (40%) and Au (10%) plus 54kt of Cu and an emerging Rh presence. The 8.5km down to 100m represents c 28% of the Snowden Exploration Envelope, so anecdotally on the widths and grade every 1km x 100m is yielding an average 163,000 ozs. Maybe on spot prices a Podium oz is now worth perhaps c A\$2,370 v spot gold of c A\$2,248. Rh might, if its consistent, add c 33% to the 3E PGM oz making it > A\$3,000 along with Cu and possibly Ni credits? Then discount this to sell concentrate.
- The last resources upgrade in November 2020 related to 1.6km of strike length adding c 250,000 oz down to 100m and increasing the Cu 44% to 54k t. Podium cashed itself up, committed to more drilling and has continued to release consistent drilling results. The strategy articulated was to drill 15km to a depth of 100m and then go to 200m. Our thesis is that the resource can grow and that maybe 15km / 8.5 km = 1.76 x 1.39m oz might deliver c 2.4m ozs being at the upper end of Snowden’s Target down to 100m. Time and drilling results will answer this.
- So what could the value be of the inferred 1.39m oz’s, let alone possibly c 1.5m to 2.6m ozs down to 100m per Snowden’s Exploration Target? And what if the Parks Reef remains consistent to 200m, does that yield closer to Snowden’s 5.8m oz Exploration Target or is there a high grade zone in the middle section around those last high grade and much wider results as released to the ASX?

- Does the material increase in the value of a Podium oz to c \$2,370 plus Rh and Cu and possibly Ni imply that if Parks Reef went to 300m or 400m it could be mined? Does that imply a larger Exploration Target? South African PGM experiences suggest the reef could go quite deep and somewhere there is the possibility a feeder zone.
- There are a lot of unanswered questions that only get answered by continued drilling. What we do know is that Chalice with Julimar has put PGM's on the map. Podium's market capitalization of c \$58m at 31 March 2021 implies an EV of c \$39/oz with no value for Rh or Cu or Ni. Maybe \$100/oz to \$150/oz becomes appropriate? Gold companies appear to average around \$130 / oz.
- Podium is funded for a lot more drilling, has committed to doing so, and is expected to have further resource upgrades from the Eastern and Middle sections down to 100m as drill results emerge perhaps by mid-year.
- As a shareholder of Chesapeake you can see our dilemma. To us, Podium looks very early on in its journey based on the "knows" and if the drilling remains as one analyst described "boringly predictable" then maybe Podium can come to create considerably more value? That is an exciting prospect so on balance we are going to sit tight and let the good efforts of the Podium team play out over coming months and see if the market cottons on to the story. That might result in the Chesapeake portfolio becoming rather overweight Podium which would be an excellent matter for us to have to deal with.

During the March Quarter we made new investments in "funded WA resource developers" - WA Kaolin ("WAK") and Hastings ("HAS"). WA Kaolin is a kaolin producer with a very long life of mine that and is in the process of substantially scaling up production. Hastings is a WA rare earths opportunity expected to become the next Australian rare earths producer.

## Key Investments



## Corporate Snapshot

The bottom table presents Chesapeake's evolution since inception. The make-up of its asset base and P&L at 31 March 2021 is provided below, reflecting unaudited NTA of \$4.45m (31.9¢ per share), incorporating a reset of deferred tax liabilities to \$0.74m and cash of circa \$0.4m.

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%

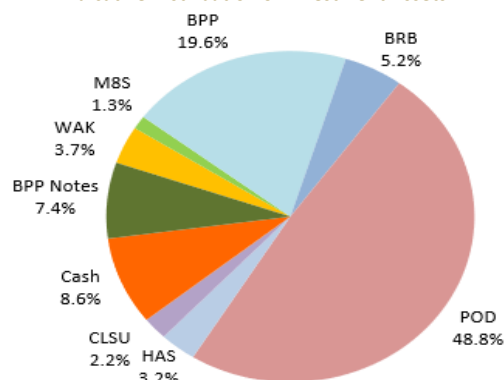
### As At 31 March 2021

	\$'m
1 Jul 20 Opening Net Tangible Assets	2.84
New Capital	0.00
Investment Gains	2.40
Operating Costs	-0.05
Income Tax Expense	-0.74
Net Tangible Assets	4.45

Shares on Issue (m): 14.00

Number of Shareholders: 523

### Indicative Distribution of Investment Assets



	30 Jun '15	30 Jun '16	30 Jun '17	30 Jun '18	30 Jun '19	31 Mar'20	30 Jun'20	30 Sept'20	31 Dec'20	31 Mar'21
Net Tangible Assets (\$'m)	1.51*	2.20	3.19	3.26	2.79	1.74	2.69	3.50	4.38	4.45
NTA per Share (c)	17.0	24.6	26.8	24.7	20.0	12.4	19.2	26.8	31.2	31.9
Change in NTA per Share (%)	N/A	11.3	-13.1	-8.8	7.8	-30.7	54.8	30.2	25.1	2.1
S&P / ASX All Ordinaries Accum Index (XAOAI)	47,575	48,530	54,897	62,434	69,326	54,634	64,231	65,039	74,424	77,109
S&P / ASX Small Ords Accum Index (XSOAI)	5,352	6,122	6,552	8,140	8,296	6,316	7,826	8,270	9,413	9,610
S&P / ASX Emerging Companies Index (XEC)	1,003	1,277	1,221	1,479	1,411	943	1,365	1,646	1,931	1,982

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

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