

September 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	Sept '18 Quarter	FY '18	FY '17	FY '16
Chesapeake Capital Limited *	-15.4%	-5.6%	+9.2%	+45.7%
Small Ordinaries Accumulation Index	+1.1%	+24.2%	+7.0%	+14.4%
All Ordinaries Accumulation Index	+1.9%	+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.

We spoke too soon in our last update. What had been our stand-out investment in Axesstoday Limited, having announced a seemingly strong profit result on 27 August (+94% to \$7m) and guided FY'19 NPAT to \$12.5m - \$13.0m prompting broker 12-month share price targets of \$2.96 et al, wrong footed everyone with a trading halt, voluntary suspension and management departure on 14 September 2018. The shares were up strongly from 30 June’s \$2.20. Sadly, we had more shares on the market to sell at \$2.70 just above the market’s high of \$2.60. Whilst the company is yet to update the market definitively other than to volunteer a strategic review, analyst commentary around credit quality, growth trajectory and balance sheet suggest a constructive path forward might be available. The company’s ASX announcement of 22 October appointing an interim CEO saying “the business continues to operate.... with origination volumes aligned with the strategy of only funding business critical equipment” suggests it is looking beyond its current challenges. At this stage we can only wait which is of no great comfort, but note that the top 14 shareholders own 80.8% of the shares implying a concentration of support for the company’s endeavours.

During the quarter Chesapeake participated (\$0.2m) in the Babylon Pump & Power \$4.5m convertible note issue (through Patersons) to fund growth, traded out of the Sayona Mining shareholding and were delighted to secure a share placement in Breaker Resources (through Bell Potter), which is an extremely promising gold story that is very well-known and understood by the Board. The end of quarter cash position of circa \$0.6m was subsequently largely invested in Breaker Resources whose 1.1m oz. resource at Lake Roe in Western Australia seems destined to grow.

The end of quarter captures much but not all of the potential Axesstoday downturn and a write down in the SPEQS unlisted investment given that company has not made any progress on its IPO. The Directors both as decision makers and large shareholders of Chesapeake are obviously not happy with these developments. We will however dust ourselves off and move forward. In that respect the Directors have commenced conversations with an experienced analyst/fund manager about taking on an executive role to build the business and outcomes of Chesapeake to best advantage. These could prove to be a most constructive step forward. The functional utility of the unique PDF structure has not diminished, it just needs to be realised. October has not been a good month for markets down about 7% whilst the portfolio has tracked sideways.

New Investment



Breaker Resources NL (ASX code: BRB) With a market capitalisation of \$46m Breaker’s release of a resource upgrade to 1.1m ozs at 1.4gpt makes clear that its Lake Roe Bombara project is solid, with room to grow likely to become a mine of consequence. Cashed up post the share placement 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. The entry price of 29c sits comfortably against a current 36c and a recent high of 39c.

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 rapidly growing 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.



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 several potential strategic investors of potential consequence.



Podium Minerals Limited (ASX code: POD) is a Western Australian platinum group metals resources development company. Podium has released positive drilling results and an excellent maiden resource, which shows every chance of growing strongly.



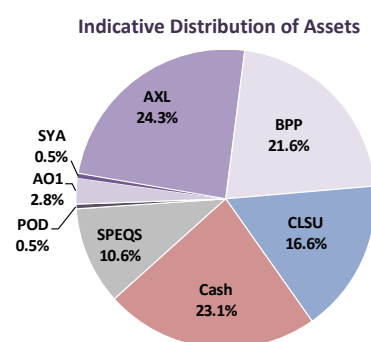
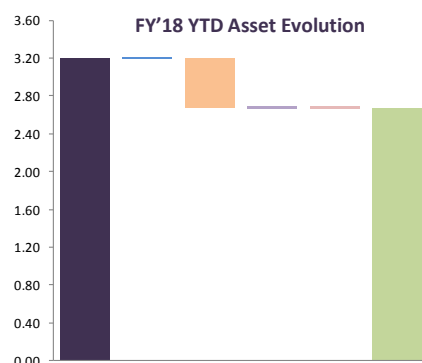
SPEQS Pty Ltd (unlisted) SPEQS eyewear sector is open to disruption. SPEQS has ready to use proprietary mobile phone app technology, channel partner agreements supported by private health funds, rights for facial imaging and eyewear and a motivated and experienced management team. SPEQS proposed IPO failed to materialise. Recent discussions with management suggest that a re- engineering of strategy is available around existing and new products, which can be commercialised. We have adopted a proactive approach, which might constructively reposition investors.

Corporate Snapshot

This snapshot reflects Chesapeake’s evolution since 1 July 2018 and the make-up of its asset base as at 30 September 2018. The unaudited NTA was \$2.76m (21.1¢ per share) with cash of circa \$0.6m.

Directors	Position	Shareholding
James Cullen	Executive Chairman	14.7%
Aaron Constantine	Non Executive Director	18.4%
Ian Macliver	Non Executive Director	5.1%
Bernard Romanin	Non Executive Director	0.4%

As At 30 September 2018	\$'m
1 Jul 17 Opening Net Assets	3.24
New Capital	0.0
Investment Gains	-0.56
Operating Costs	-0.01
Provision for Taxation YTD	0.09
Net Tangible Assets	2.76
Shares on Issue:	13.11m
Number of Shareholders:	510



Index	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
S&P/ASX Small Ords Accumulation	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
All Ordinaries Accumulation	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
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
	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
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
NTA per Share (c)	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
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
S&P/ASX Small Ords Accum Index (XSOAI)	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
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

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

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