A compelling investment opportunity: Chesapeake Gold Corp.

Chesapeake Gold Corp. (TSXV: CKG | OTCQX: CHPGF) is a junior gold mining company with solid fundamentals. As such the Company was awarded a BUY recommendation by Fundamental Research in their initiation of coverage report.

Fundamental Research's analyst, Rajeev Siddharth further gave Chesapeake Gold Corp. a rating of 5 (Highly Speculative), which is seen as a common rating for most junior mining companies without a history of generating earnings or cash flow or which are reliant on external funding.

Chesapeake Gold Corp. is an exploration and development company with a focus on precious metals projects in North America. The Company owns 100% of the Metates gold deposit, located in Durango state, Mexico which is considered one of the largest untapped gold and silver deposits in the world. In addition, the company has a 1.5% royalty arrangement to Silver Wheaton Corp (TSX: SLW) and a five-year option to acquire 2/3rd or 1% of the 1.5% royalty for $9m.

Earlier this year, the company released an update to its NI 43-101 compliant Pre-Feasibility Study (PFS). This study revealed the following project characteristics:

- Measured and indicated resource of 1,130Mt @0.705 g/tonne Au equivalent,
- Proven and probable reserves of 1,102Mt @0.709g/tonne, Au equivalent,
- Processing rate: 30,000tpd in the first four years, ramping up to 90,000tpd from year five,
- Life of mine of 27 years with an operating life of 37

years.
- Total capital cost estimate: $3.5bn (Phase 1: $1.91bn)
- Total operating cost: $17.12/tonne (previous estimate: $13.59/tonne)

In addition to the aforementioned project attributes, Fundamental Research notes the following factors that make Chesapeake Gold Corp. a compelling investment opportunity, namely;

1. The availability of critical infrastructure. In terms of power, the company is able to acquire power from a dedicated, independent source near the El Paso site and has secured a long term, low cost provider. Power costs constitute roughly 35% of the project’s operating costs.

   With respect to water, the estimated requirement is around 20m cubic metres a year. The deposit is located at the headwater of a large drainage system which provides access to natural run water. The original cost estimate in the 2013 PFS was $15m, but since 2015, the Mexican government has increased the tariff by 100%. As such, Chesapeake is evaluated the economic feasibility of using desalinated water. The current thinking is that the proximity to the Pacific Ocean and availability of low cost power and small pipeline distance for pumping water replacement to the surrounding irrigation district should render desalination a viable option.

2. Relatively low capex. Whilst the capital requirement estimates have increased from the initial estimates provided in the 2010 preliminary economic assessment (PEA) of $3.1bn to the current estimate of $3.5bn, against the company’s key competitors, the capital requirements are relatively low.

Comparison of capital requirements of

Chesapeake Gold Corp. vs. its direct peers

3. During phase 1 (first four years), the higher-grade silver and zinc grades expected to be mined over the initial years, showed a negative cash cost of -$339/oz.
4. Strong management team with a track record of building and selling off junior mining projects. In particular, the Chesapeake project was incorporated in April 2002, having been spun off from Francisco Gold Corporation and acquired by Glamis Gold Ltd. The President and Chairman, Randy Reifel founded Francisco Gold which made two significant discoveries under his stewardship. These discoveries included El Sauzel and Marlin which were both in advanced stage and became significant gold producers in their own rights. As such, Reifel and his team are well-placed to return value to Chesapeake shareholders. Already the Chesapeake Metates project is at a point whereby it is sufficiently advanced and de-risked to enable an exit and to be acquired by larger players. Management has expressed that this is their aim and do not expect to undertake further more detailed engineering.
5. Finally, the project exhibits significant scaleability. In the first four years, it is envisaged that the company will process 46,947k tonnes of ore which is expected to be scaled to 755,549k tonnes of ore during phase 2 (years 5-27). Beyond 27 years, the project is still expected to have value and around 299,833k tonnes of ore available in stockpile.

Over the last 6 months Chesapeake Gold Corp’s (TSXV:CKG | OTCQX:CHPGF) share price has run up from C$3.45 on the 4th of May 2016 to C$4.5 on the 28th of October 2016. The shares are currently trading a low enterprise (EV) to reserve ratio of $5.4 per gold equivalent oz compared to its peer average of

$21.2/oz which represents some opportunity.

To view the complete report by Fundamental Research, click on the following link.