

# The “Gran Madre” of Zinc Deposits – Chesapeake Gold

We have long held that Zinc was going to be one of the top metals of the decade and in just a year of recovery it has gone from being lodged perpetually in the doghouse to being the go-go metal of the day, certainly leaving the precious metals floundering in the dust. Zinc’s move has been one, at least for me, of thresholds. The first one, as it rose from its nadir around 66 cents per lb was when its price surpassed that of Lead. This was always regarded as a prime bullish signal by myself. The 90 cent mark was the next key trigger, then with some trepidation it breached the \$1 mark and dallied around that area threatening a pullback. Then it moved on to the key \$1.10 level which it has bounced off so many times in the past. The Zinc “glass ceiling”, so to speak.



Passing \$1.10 did not seem to be so troublesome after all, which in itself is a very bullish signal, and in recent days the price looked poised to make a run at \$1.20. In the past I have spoken of this at the price above which Zinc must remain for many months before serious investment decisions will be made on advancing projects that have been stuck on the drawing board for so long. It would also be the trigger for de novo listings of primarily Zinc oriented plays. Stabilised above \$1.20 most mothballed mines would return to production.

## **Moving Target**

The rapidly shifting Zinc price is making havoc (in a good way) with what some developers think is the real gem in their deposits. The severe underinvestment in Zinc exploration and even less on development since the highs of 2006-7 have left the pipeline dry. This means that large scale Zinc projects

are somewhat serendipitous, or maybe I should say coincidental, as they are the offspring of other types of projects.

In trawling around in search of the “next big thing” in Zinc, I keep circling back to Chesapeake Gold Corp.’s (TSXV: CKG | OTCQX: CHPGF) Metates project in Mexico. Its sheer size in Zinc reserves makes even primary Zinc-Lead projects pale into insignificance. And yet as Zinc has gone from strength to strength, the price of CKG has slipped back substantially from its mid-year highs. Certainly gold has gone off the boil and silver has retreated somewhat, but Zinc has continued to surge.



However a glance at Reserve statement for Metates shows a truly massive Zinc component of nearly four billion pounds. At a Zinc price of \$1.20 then that is an in situ Zinc value of nearly \$4.8bn.



Then if one looks at the Zinc metal flows a projected in the revised PFS from earlier this year one sees an impressive flow by any measure that will make a meaningful contribution to world production of Zinc. Moreover the deposit kicks out a very strong Zinc performance right from its early years after a steep escalation.



## **Conclusion**

In a market that is crying out for major new Zinc projects to fill the pipeline into the 2020s, the Metates deposit is the 800lb gorilla that might just be the solution to the problem. Having such an abundance of the sexy base metal of the moment is not enough if the development also needs the gold price to

come to the party but as we can see from the price scenarios outlined below the company wasn't factoring in the current Zinc surge when setting its "high case" (below) when it shot for \$1.12 being the Zinc high. It is far more likely we feel that we will see Zinc at \$1.50 before we see gold at \$1,400 so there is a case here for an announcement on how they might impact revenues with base metals (there is copper here too) being a larger part of the revenue mix.



The model above has been confounded by circumstances because we have Silver trading at lower than the low case, Gold slightly below the base case and Zinc now above the high case.

Potential acquirers of Chesapeake are probably of the school of thought that gold is going higher anyway. Having the added extra of Zinc having stabilised its price after such a long period of weakness should be a major consideration. It also adds some extra underpinning if the Zinc production can be forward sold (to a trader) rather than the gold or silver (to a streamer).

Those out there in the investment community hunting for the next major primary Zinc mine might be in a fruitless search for a unicorn of their own imagining. The next best thing... and a truly massive thing ..is the Metates project. Its potential to be one of the largest Zinc contributors coming down the pike cannot be ignored.

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**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 2/3<sup>rd</sup> 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 evaluating 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.

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## **Daniel Kunz on one of the most substantial gold, silver and zinc exploration projects in the world**

September 12, 2016 – Daniel Kunz, Director of Chesapeake Gold Corp. (TSXV: CKG | OTCQX: CHPGF), in an interview with InvestorIntel Sr. Editor Fred Cowans discuss Chesapeake Gold's Metates Project in Mexico, which is one of the most substantial gold (18.5 million oz), silver (526 million oz) and zinc (4.2 billion lb) exploration projects in the world. Explaining that they have significantly derisked the project, Daniel goes on to explain that while water has been an issue for many operators in Mexico – Chesapeake Gold has identified seawater desalination as one of the ways to reduce cost of water supply in a project that has previously been proven as scalable.

**Fred Cowans:** Dan you've been a senior officer of many different public companies and mineral exploration companies. You've been on the team that found the huge deposit at Oyu Tolgoi in Mongolia. You're part of the bench strength Chesapeake management team and board. What's your view of the current market for producers needing to replace ounces?

**Daniel Kunz:** I've been involved in production side and exploration side. The exploration business feeds the majors. We know it's been no surprise in the last 5 years it's been

quite difficult on the major mining companies, most of them. They've had to clean up their balance sheet, sort of, retreat a little bit, do some major write-offs and change personnel; but, we have started to see now they're coming back. We're starting to see activity livening up, but it's been a tough five years therefore the exploration pipeline might be less attractive than it was and I think the, sort of, 20 million ounce gold deposits are hard to find.

**Fred Cowans:** The Chesapeake Metates Project in Mexico is a huge gold, silver and zinc project. In 2013 there was a prefeasibility study with another one updated in 2016 – what are you giving producers looking for potential asset in these studies?

**Daniel Kunz:** ...the two studies demonstrate that it is a scalable project. We can start out small and then allowing your cash flows in the future over a 5-year period to increase production to an expansion level or you can start out large and move straight to the largest possible production mine and either one of those has its own rationale, attractiveness, etc. Lower capital is attractive in the smaller case. Higher IRR and production and throughput is the attractive feature of the larger case. I think what we've done is demonstrated that it is scalable. The two studies also show that we've derisked the project significantly as we move forward. We're using best practices, state of the art technical uses of – for environmental, dry stack tailings for example, water that's been traded for desalination plant that we're putting up near the coast. We also are using essentially infrastructure in Metates that is quite mature. There's a gas pipeline that Mexico just built and we're close to cities, labor. We have very good relationships with the social communities there.

**Fred Cowans:** My understanding is that the water has been a huge issue for a number of other operators, a huge increase in cost in the last year alone in Mexico.



**Daniel Kunz:** Very true. The nation is starting to view it quite seriously. Of course, there's been subject to drought, subject to depletion of waters, let's call it ground waters and local waters. As such it's a very important issue. Metates will use water, but we've gone through quite a bit of engineering and study to recycle as much as possible and also as I said, to trade water that we will produce fresh water from the sea and then that will charge systems closer to the plant. Then we'll trade those waters for water up near the mine... to access the complete interview, [click here](#)

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## **Reifel explains how Metates mine is one of few answers to global gold crunch**

June 2, 2016 – Chesapeake Gold Corp (TSXV: CKG | OTCQX: CHPGF) presented at the recent CleanTech and Technology Metals Summit held in Toronto on May 10-11th. Randy Reifel, President and director, focused on the importance of Chesapeake's Metates gold project in a world of diminishing gold resources.

He describes how

- The gold world is shrinking – in the past 5 years by more than 50%
- The gold majors are struggling to replace their reserves
- How crucial it is to get the generalist investor back

into gold.


- Metates is a compelling mining story

For more information, email [info@investorintel.com](mailto:info@investorintel.com).

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## **Reifel: Why halving initial output at Metates mine makes economic sense**

*Chesapeake Gold Corp (TSXV: CKG | OTCQX: CHPGF) is focused  on the exploration and development of precious metals projects in North America. Chesapeake's major project is its 100% owned Metates gold deposit located in Durango state, Mexico. Metates is one of the largest undeveloped gold and silver projects in the world. The project has proven and probable reserves of 18.5 million ounces of gold, 526 million ounces of silver and 4.2 billion pounds of zinc. The metal prices assumed for the reserves are \$1,200 per ounce gold and \$25 for silver per ounce at a cut off grade of 0.35 g/t gold equivalent. Few world class open pit mines have scalable development options. Metates benefits from its highest ore grade early in the mine life, a low strip ratio and close proximity to key existing infrastructure.*

May 9, 2016 – Last month Chesapeake Gold updated its pre-feasibility study on the Metates project. Essentially, this involved halving the projected initial ore throughput which will lower the capital cost of the developing the mine.

Chesapeake has also cut the project budget by outsourcing; for example, the mobile fleet will be leased rather than purchased, saving not only upfront spending but economic to do at present low interest rates.

As the company noted after completing the most recent study, few world-class gold projects had such scalable mining options. It also means that scaling up will be supported by cash flow.

The Metates mine is expected to produce 700,000oz of gold a year in first 10 years of Phase 2 – that phase beginning from Year 5 of operations. For the first 10 years of operations, Metates will produce 14 million ounces of silver and 115 million pounds of zinc a year. The cost of production estimates puts Metates in the lowest cost quartile.

In this interview with InvestorIntel reporter Fred Cowans, President and director Randy Reifel outlines the company's thinking and plans. He tells:

- How the economics of Metates have been transformed to lower the initial capital cost
- How Chesapeake is tackling the vexed question of water supply in Mexico after the government there raised water tariffs
- While a gold-silver-zinc mix provides greater flexibility when commodity prices change
- How Chesapeake does not face the usual tailings problem

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# Reifel on prefeasibility study and one of the world's largest gold, silver and zinc reserves



April 15, 2016 – Randy Reifel, President and Director of Chesapeake Gold Corp. (TSXV: CKG | OTCQX: CHPGF) in an interview with Tracy Weslosky, Publisher for **InvestorIntel** speaks about the results of the pre-feasibility study, which as Hallgarten & Company Mining Strategist Christopher Ecclestone recently wrote “...has achieved the feat in shrinking its capex in a quantum leap, while maintaining its ounces and expanding its minelife.” They also discuss the Metate’s project in Western Mexico, which is one of the largest gold, silver and zinc reserves in the world with proven and probable reserves of over 18 million ounces of gold, 500 million ounces of silver and 4.2 billion pounds of zinc.

**Tracy Weslosky:** Randy, I’m so excited to have you here because you are one of the handful of companies with one of the largest gold, silver and zinc properties in the world – there are four or five projects in the world this size – can you give us an overview?

**Randy Reifel:** I would say there’s about a half a dozen big world-class projects like Metates. Metates has proven and probable reserves of over 18 million ounces of gold, 500 million ounces of silver and 4.2 billion pounds of zinc, so world-class by any measure.

**Tracy Weslosky:** With this world-class property, in 2013 you did an NI 43-101. Can you tell me why you have done another prefeasibility study?

**Randy Reifel:** Well, big projects that become big mines have big capital cost. Most of these big projects are located in remote locations and have little or no infrastructure so to achieve any kind of positive economics you have to build them to full design. In the case of Metates this study will show that you can economically build Metates small and grow big.

**Tracy Weslosky:** Randy you might be one of my most likeable clients. Every shareholder I speak to says things such as: "Randy's made us money in the past", "we're staying with Randy", "we're holding on to Chesapeake Gold." ...can you tell us a little bit more about your team because I think you've taken the same exploration team with you to Metates?

**Randy Reifel:** I have the same team that was with me in Francisco Gold. Francisco Gold discovered two world-class mines, El Sauzal and Marlin. I have that core team with me in Chesapeake. It's wonderful to have them still in oil and want to make our shareholders money.

**Tracy Weslosky:** Of course, you use them to sell previous exploration plays.

**Randy Reifel:** Yes. Well, we sold Francisco Gold in 2002 and it was a result of their discovery and hard work that we had that reward.

**Tracy Weslosky:** Is this your plan for Chesapeake Gold? Are you planning on selling it?

**Randy Reifel:** That's exactly right. We're derisking Metates to a point where we think it will become a mattractive acquisition for an M&A or for strategic partner.

**Tracy Weslosky:** I saw you in a presentation and you were talking about scaling the mine from smaller to larger. Could you explain this to some of us who may not understand what that actually means?

**Randy Reifel:** Okay. In the original study we were looking at initially a 60,000 ton per day starting position and growing to 120,000 tons per day. In the new study we're looking at 30,000 tons per day and growing to about 90,000 tons per day so lower capex and something just a little more...to access the complete interview, [click here](#)

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## **Chesapeake's Reifel on one of the greatest global reserves of gold, silver and zinc**

March 27, 2015 – Randy Reifel, President and Director of Chesapeake Gold Corp. (TSXV: CKG) in an interview with Tracy Weslosky, Publisher for **InvestorIntel** speaks about the Metate's project in Western Mexico, which has "one of the largest reserves in the world for gold, silver and zinc." Also, in lieu of Randy's substantial experience in the resource sector, which includes his Board of Directors role on Goldcorp Inc. (TSX: G | NYSE: GG), Tracy asks Randy to discuss existing market conditions and where the prices of gold and silver are headed in 2015.

**Tracy Weslosky:** Randy, I've been enjoying doing a lot of research on Chesapeake Gold here this afternoon. It looks to me like you have one of the best projects in the world. Can you give us a bit of an overview?

**Randy Reifel:** Yes. Chesapeake owns the Metates project in

western Mexico and has one of the largest reserves in the world for gold, silver and zinc.

**Tracy Weslosky:** Further to this the Metates project has a substantial amount of gold. Is the gold what drew you to this project?

**Randy Reifel:** Yes it is. Chesapeake has 18 million ounces of gold, half a billion ounces of silver and 4.2 billion pounds of zinc in reserves.

**Tracy Weslosky:** You are on the board of directors for Goldcorp and you have a substantial professional history, why would you want to get back into the exploration game?

**Randy Reifel:** It's the frontier and I like working with discoveries that become world-class projects: this never gets boring.

**Tracy Weslosky:** Chesapeake has a NI 43-101, you drilled a lot of holes, and you've got \$30 million in the bank – where are you going to take it from here?

**Randy Reifel:** We're busy de-risking Metates. We're not a miner. We're an exploration-development company. And we are taking the project to a point where we think someone will decide to buy it and then, put it into production.

**Tracy Weslosky:** Of course, your production timeline is for 2018. Are you on track for this?

**Randy Reifel:** We're trying, but that will be driven largely by metal prices.

**Tracy Weslosky:** And because of your experience, talk to me about metal prices. Randy, where are we right now in 2015 and what do you anticipate for gold and silver prices?

**Randy Reifel:** We're in a foggy bottom. People say, what's a foggy bottom? I think we're close, but we can't see it. I

think we're going to see fairly level prices for the metals over the next year and then I think we'll hopefully see a trend rising higher from there.

**Tracy Weslosky:** We happen to really like zinc prices or our audience does. What do you think about zinc?...to access the rest of this interview, [click here](#)

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