



# HALLGARTEN & COMPANY

## Initiation of Coverage

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## Gunpoint Exploration

(TSX-V: GUN, OTCQB: CJIMF)

Strategy: LONG

### Key Metrics

Price (CAD)	\$0.455
Target 12mth (CAD)	\$0.75
Upside to Target	64.8%
12mth hi-low (CAD)	\$0.16 to \$0.55
Market Cap (CAD mn)	\$19.79
<b>Shares Outstanding (mns)</b>	43.50
<b>Fully diluted (mns)</b>	45.90

# Gunpoint Exploration

## Chesapeake's Hidden Gold

- + Long hidden from broader view the Talapoosa project and its corporate owner are a hidden kicker in the portfolio of Chesapeake Gold
- + Nevada is an in-demand gold destination these days combining high prospectivity, familiarity, accessibility and a benign jurisdiction – a rare combination
- + An M+I resource of over one million ounces of gold and 13 million ounces of silver with additional ounces in the Inferred category
- + PEA from 2013, using a conservative (i.e. lower than current) gold price, yielded an NPV of \$136mn, an after-tax IRR of 38.8% and a three year payback
- + Cash balance at the end of September of CAD\$1.1mn
- + Talapoosa resource is something that an acquirer can work with towards development or which could be further expanded by bringing in the extensive unexplored areas around the existing resource and at the Appaloosa trend
- + A takeout of Gunpoint by an acquirer could put \$23mn or more into Chesapeake's coffers which, combined with its existing cash, would make up half of its current market cap
- ✗ Gold price is far from ebullient affecting investor sentiment
- ✗ Financing is not easy despite the mining sector now being two years into its "recovery" however the goal is to vend the property to a well-resourced developer/or producer

### Nevada Coming up Trumps

That Nevada is a highly prospective province for gold explorers goes without saying. There was a statistic going around a few years back that if it was its own country it would rank sixth in the world in terms of production. A number of factors have combined in recent years to turn up the heat under perceptions of the state and to propel it into a "most favoured jurisdiction amongst explorers, developers and investors.

Being in the US has always made it a prime destination for US gold investors however this has been enhanced in the last couple of years by the perception that changes at the EPA have made it even more hurdle-free than it was in the past. On the global scale, so many locales have made themselves less mining friendly that as the mining market came out of its 5-year swoon in 2016, scarce resources gravitated towards the most friendly and "comfortable" jurisdictions. Nevada scored best for prospectivity, familiarity and accessibility for many investors. The only burden it has labored under has been the ongoing strength of the US dollar. Despite this the flow of investment to the jurisdiction has not been crimped, whether it be for gold project or for lithium.

We have long covered Chesapeake Gold but as this holding was never featured (until recent times) and the massive Metates resource was figuratively the elephant in the room, it would have been fruitless to focus on it either. Most of the time since its inception, Gunpoint was also subject to JV's and earn-ins which also made it look less likely to contribute to Chesapeake in the long term in anything more than a token manner.

The return of Talapoosa to Chesapeake's (management) control has coincided with the latest refocusing of the investor community on Nevada and occurs at a time when Chesapeake's own market cap is beaten down. Thus a sale of Gunpoint would make a sizable addition to Chesapeake's cash reserve and provide even more underpinning to Chesapeake's market capitalization (as if that was needed). In this review we shall look at developments at Gunpoint and muse upon how this situation might play out to the benefit of investors, Chesapeake and an acquirer in a win-win-win situation.

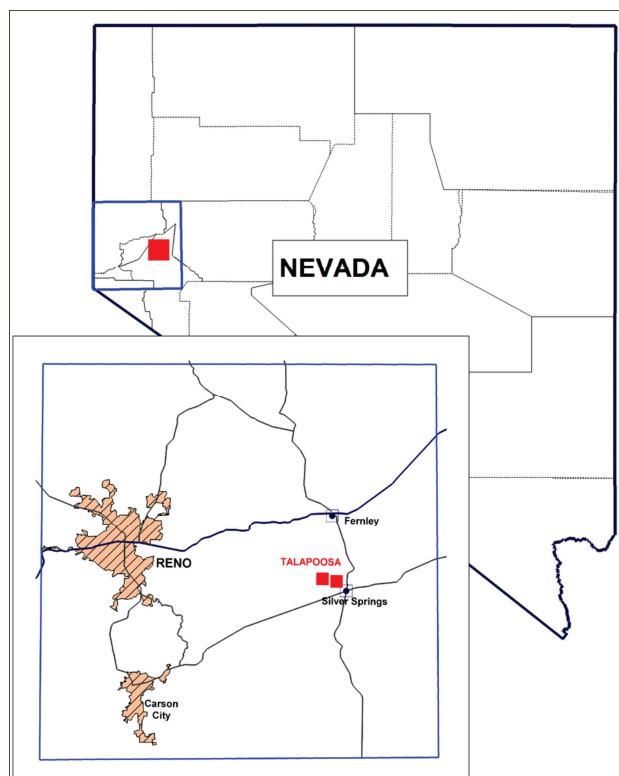
### Some History

The genesis of this company's activities in Nevada dates back to November 2010 when Gunpoint Exploration Limited, issued 31,977,899 common shares to Chesapeake Gold Corp. in exchange for 100% ownership of the Talapoosa project in Nevada and two other gold-silver projects located in Mexico, namely La Gitana and Cecilia Margarita.

Between 1977 and 1999, the property was owned or worked by eight different companies, including some quite storied names. These explorers were Miramar, Superior, Newcrest, Pegasus, Homestake, Kennecott, Athena and Placer Dome.

Gunpoint had optioned out Talapoosa to Timberline Resources (TSX-V:TBR) in 2015. They then undertook substantial work on the property however in late March 2018 they did not make the US\$2 million option payment due at the end of March and as such Timberline's option to acquire the project was terminated and 100% ownership of Talapoosa reverted to Gunpoint. During the preceding three years, Gunpoint had received from Timberline US\$1.3 million and three million common shares under the option agreement.

The company is 73.51% held by Chesapeake Gold, with around another 5% in the hands of



management.

### **Talapoosa**

The project is a low-sulphidation gold/silver property in the Walker Lane gold trend of western Nevada, approximately 45 kilometres east of Reno.

The property consists of 509 owned BLM unpatented lode mining claims, 26 unpatented lode mining claims leased from Sierra Denali Minerals, 4 additional fee land sections leased from Sario Land and Livestock, 2 additional fee land sections leased from Nevada Bighorns Unlimited Foundation, and a portion of one additional fee land section owned by American Gold Capital US Inc. The total land package for the project is contiguous and covers approximately 14,870 acres. The company has a 100% interest in the project subject to the terms and conditions of the leased properties.

### **Past Production**

Gold was discovered at Talapoosa in 1863, as prospectors worked their way out from the historic Comstock Lode at Virginia City, looking new discoveries. Initially, high-grade gold ore was mined on a small scale from the Talapoosa Gulch area, approximately 2km north of the existing Talapoosa resource. High-grade vein material, assaying as high as two ounces of gold per ton, can still be found on dumps in the lower part of the Talapoosa Gulch. Between 1905 and the 1970's open-pit and underground development was undertaken on the Dyke, Justice, Equity and Omega veins, the area of the existing Talapoosa resource. Underground development of the Roosevelt, Washington and Lincoln veins, which are situated between Talapoosa and The Gulch, also took place during this period. The total amount of ore extracted from the Talapoosa area between 1905 and 1970 has been estimated at 7,500 ounces gold and 100,000 ounces silver.

### **Geology**

The Talapoosa project is located on the eastern and southeastern flanks of the Virginia Range, composed of a thick sequence of Miocene-Pliocene volcanic and sedimentary rocks that overlies Mesozoic metamorphic and granitic rocks. In the Talapoosa district, the Miocene-Pliocene volcanic package consists of; a basal unit of poorly consolidated tuffs, lacustrine sediments intruded by contemporaneous basalt dykes and sills (Pyramid Sequence), overlain by the Kate Peak Formation, primarily consisting of dacitic to andesitic flows and tuffs and intrusive plugs bodies, which is in turn overlain by the post-mineral Coal Canyon Formation, a fluvio-lacustrine sedimentary unit, and the Pliocene Lousetown Basalt. The lower part of the Kate Peak hosts the mineralization at Talapoosa. The age, geological setting and style of mineralization at Talapoosa shares similarities with the historic Comstock Lode and the currently operating Hycroft mine.

### **Exploration**

Beginning in the 1970's, exploration was focused in and around the Talapoosa resource area. By the

late 1990's, eight mining companies had drilled 564 drill holes totaling 71,000 meters. Several historic resource estimates were completed along with detailed engineering and metallurgical studies culminating in the mid 1990's when Miramar Mining was granted the necessary permits to go to production.

Miramar cited a historic (pre NI 43-101) measured and indicated resource of 42.7mn tonnes containing 1.06 million ounces of gold and 14.5 million ounces of silver. In spite of having the necessary permits and being on the verge of completing a full Feasibility Study, Miramar did not proceed with mining the project in 1997 due to the low gold price at the time.

Subsequent to acquiring the Talapoosa project in late 2010, Gunpoint initiated a broad reconnaissance scale mapping and geochemical sampling program over the 14,870 acre project area. The most significant outcome of this early work was the recognition of extensive high-level manifestations of epithermal mineralization, including sinters, siliceous sediments and hydrothermal vent breccias, along a 7 km length of the Appaloosa structure, a north-north west trending fault zone, parallel to the Talapoosa fault zone located two kilometers south (Figure 4).

The Talapoosa Gulch area, where mineralization was initially discovered in 1863, is located in the southeastern, more deeply eroded limit to the Appaloosa structure. Grab samples taken by Gunpoint from old dumps in the Talapoosa Gulch workings, assayed as high as 2 oz/ton gold. A 5 m wide channel sample across the outcropping veins averaged 12 g/t gold. The depth of erosion over the remainder of the Appaloosa structure to the north-northwest is considerably shallower, with less than 50 meters of the contemporary cover likely to have been eroded.

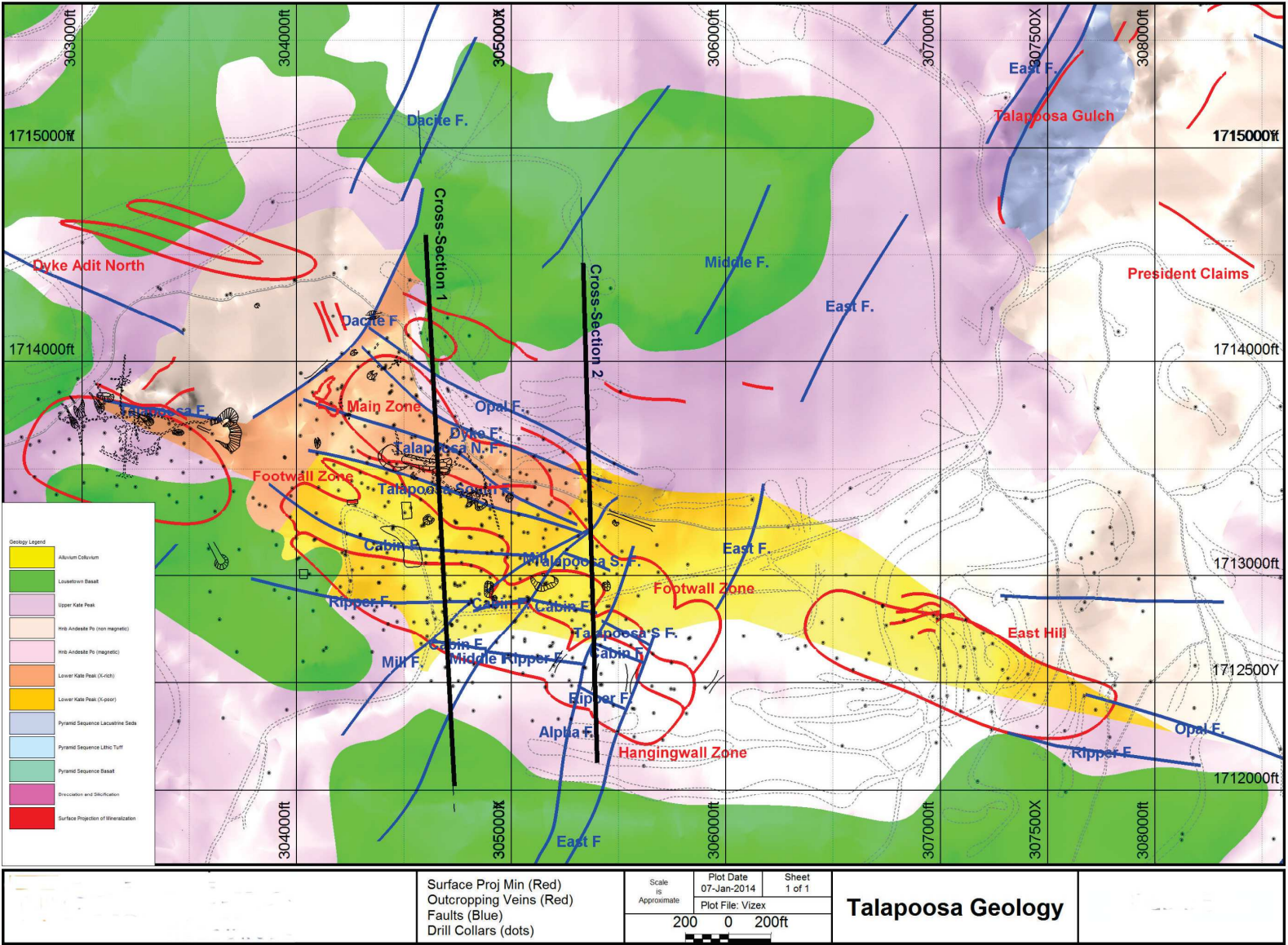
In early 2011 Gunpoint attempted to drill several diamond drill holes under the areas of outcropping mineralization in the Talapoosa Gulch area, however due to lost circulation in a fault, the target depth was not reached, and the decision was made to focus on the resource area. The only direct evidence that we can find of drilling along the entire Appaloosa Structure is of two old drill holes that appear to have been shallow vertical holes.

A regional scale ground magnetic geophysical survey was completed by the end of 2011, consisting of 545 line kilometers over the northeastern 2/3 of the property covering both the Talapoosa and Appaloosa structures. Subsequently eight lines of induced polarization (IP), comprising 19 line kilometers of North-South IP survey lines were completed over the eastern portion of the property.

Approximately 10,000 kilometers of historic drill core, stored in the Reno office, was re-logged by Gunpoint in 2010. In late 2011 Gunpoint drilled an additional 7,000 metres comprising seven holes located along two drill sections. The cross-sections, spaced approximately 250 meters apart provide two representative sections through the Bear Creek zone. The re-logging of historic drill core together with the 2011 drilling has led to the re-interpretation of controls on mineralization at Talapoosa.

The map on the following page shows the various zones and their relationship with local faulting.



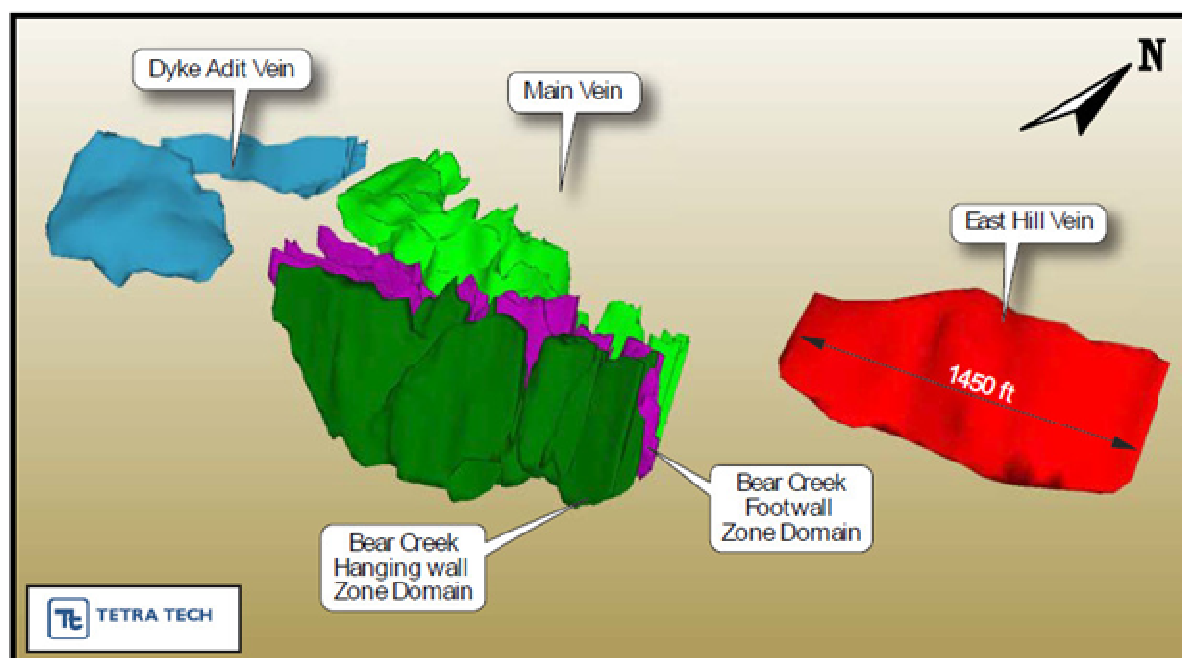


Previously, the internal geometry of the veins had been ignored and the mineralization was modeled as a gently south dipping body of stockwork and disseminated mineralization, roughly coincident with the distribution of the welded tuff horizon. Also, previous models did not consider post-mineral faulting. Gunpoint interpreted the mineralization as being hosted by a series of steeply south dipping veins and hydrothermal breccias, preferentially hosted within a competent welded tuff unit approximately 200m thick.

Standard fire assays, the technique used in nearly all historic drill core analysis, is subject to a nugget effect. From its drilling campaign, Gunpoint ran a comparison of 50g Fire Assays with Metallic Screen Five Assay on its core assays. Direct comparison indicated an increased gold grade of 20% with Metallic Screen analysis. Without re-drilling the entire deposit, it is not possible to rectify the likely shortfall in the grade resulting from nugget effect issues in the historic drill data. Nonetheless, evidence suggests the known resource might be underestimated by as much as 10-20%.

### Mineralization

Talapoosa is typical of volcanic-related, quartz-adularia, low-sulfidation type, epithermal gold-silver systems. The mineralized area at Talapoosa, as defined by drilling to date, is approximately 2,200ft long, up to 1,000ft wide, and up to 500ft thick/down-dip. Gold and silver mineralization occurs as quartz-chalcedony vein, hydrothermal breccias surrounded by margins of stockwork veining. Gold primarily occurs as native gold and in electrum. The upper 70 meters is predominantly oxidized, with the bulk of the oxide mineralization being contained within three zones; the Main Zone, Dyke Adit and East Vein.



The Bear Creek Zone, which hosts 80% of the resource, is subdivided into a Hanging wall Zone and

Footwall Zone, both of which are predominantly unoxidized. In general, each of the zones comprises a central core of massive chalcedony veining and hydrothermal breccia, up to 50m wide, surrounded by a halo of stockwork veining, which decreases in intensity away from the massive vein. The five vein zones described above, strike north-northeast and dip steeply southward (70 degrees). The mineralized interval, including the halo of stockwork veining, varies between 50m and 200m in thickness.

The strongest development of vein and breccia mineralization and highest-grade gold values, are preferentially developed within a gently south-dipping, 200m thick welded tuff unit. It is this lithological control, which led previous workers to model the mineralization as a broad gently south dipping body, rather than a series of parallel and steeply dipping vein/breccia zones, preferentially developed within this welded tuff horizon. The northwest and southeast extensions to the mineralization are not adequately defined by drilling, and potential remains to add additional resources in both areas.

The 'Main Zone', is extensively oxidized near surface with an unoxidized root zone. The mineralogy in the un-oxidized root zone is similar to that of the Footwall Zone of Bear Creek.

The Dyke Adit and East Hill Vein Zones are oxidized in the upper portions. The lower un-oxidized portions have similar mineralogy to Bear Creek Hanging Wall mineralization.

## Resource

Based on the Gunpoint drilling and revised geologic model, Tetra Tech completed a N143-101 mineral resource estimate in 2013 which totaled 1.25 million ounces of gold and 16 million ounces of silver. The revised estimate added approximately 380,000 ounces of gold and 5.4 million ounces of silver to the previous resource estimate completed in September 2010 by Mine Development Associates (MDA).

<b>Talapoosa - Resource Estimate</b>					
	<b>Tonnes</b>	<b>Au g/t</b>	<b>Ag g/t</b>	<b>Au (ozs)</b>	<b>Ag (ozs)</b>
<b>Measured</b>	15,577,070	1.23	16.95	618,468	8,489,086
<b>Indicated</b>	12,785,400	0.96	12.55	394,334	5,160,273
<b>Total M&amp;I</b>	28,362,470	1.11	14.97	1,012,802	13,649,358
<b>Inferred</b>	10,158,000	0.72	6.65	233,532	2,172,766

The increase in both grade and ounces was a result of a re-interpretation of the controls on mineralization, resulting in the modeling of the mineralization as discrete zones of steeply dipping vein and breccia bodies, rather than broad gently dipping zone of disseminated/stockwork veining, conforming in outline to the overall geometry of the host welded-tuff, and including unnecessary internal waste.



<b>Resource Estimate - Mineralisation Type</b>				
		<b>Tonnes</b>	<b>Au (ozs)</b>	<b>Ag (ozs)</b>
<b>Measured</b>				
	<b>Oxide</b>	2,835,890	117,253	1,728,323
	<b>Sulphide</b>	12,741,180	501,215	6,760,763
<b>Indicated</b>				
	<b>Oxide</b>	1,280,900	45,328	586,999
	<b>Sulphide</b>	11,504,500	349,005	4,573,274
<b>Total M&amp;I</b>		<b>28,362,470</b>	<b>1,012,801</b>	<b>13,649,359</b>
<b>Inferred</b>				
	<b>Oxide</b>	1,598,000	47,745	115,115
	<b>Sulphide</b>	8,560,000	185,787	2,057,651
<b>Total Inferred</b>		<b>10,158,000</b>	<b>233,532</b>	<b>2,172,766</b>

## Metallurgy

Historic metallurgical test-work on the Talapoosa mineralization ranges from early-stage scoping test-work, particularly in the early 80's through to comprehensive reviews comparing gravity, leaching and flotation recoveries. Unfortunately, without the constraint of a geologically valid model, most of the historic composite samples are a mix of material from two or more vein zones, and are therefore of limited use in estimating gold and silver recoveries for each of the five zones used to model the resource estimate. Furthermore, because of the low-gold price at the time, the majority of the test work looked at the amenability of the mineralization to a coarse crush heap-leach scenario.

## PEA Results

In the mid- 1990s, Miramar Corporation advanced the project through Pre-feasibility and Feasibility level studies including permitting but did not proceed to development based on the prevailing low metal prices and project economics. Upon optioning the project in 2015, Timberline advanced the project through a Preliminary Economic Assessment (PEA) prepared by WSP and published in April 2015 . The PEA envisioned Talapoosa as an open pit, heap leach gold mining operation.

That PEA demonstrated strong economics over a 10.8 year mine life with base case using a gold price of \$1,150/oz and silver price of \$16/oz. The gold price employed for modelling is lower than current levels implying enhanced economics if this was to be updated. However, the silver price used was higher than currently.

The principal metrics, both operational and economic, of the project are summarized in the table that follows:

### Talapoosa - PEA Metrics

**Assumes \$1,150/oz Au and \$16/oz Ag)**

Mine Life	10.8 years
Strip Ratio	1.47 : 1
Processing Rate	3.8mn tpa
Average Gold Head Grade	0.74 g/t
LOM Average Gold Recovery	66%
Total Recovered Gold Ounces	593,000 oz
Average Gold Production	55,000 oz/yr
Average Silver Head Grade	11.6 g/t
LOM Average Silver Recovery	52%
Total Recovered Silver Ounces	7,365,000 oz
Average Silver Production	679,000 oz/yr
Initial Capital Cost	US\$51.2 million
All-In Sustaining Cost (net of silver)	US\$599/oz Au
After-Tax Net Cash Flow	US\$209 million
After-Tax NPV(5%)	US\$136 million
After-Tax IRR	38.8%
Payback Period	3.1 years

The initial CapEx came in at an unchallenging \$51.2mn. This resulted in an estimated after-tax NPV (using a discount rate of 5%) of \$136mn, an after-tax IRR of 38.8% and payback period of 3.1 years. The estimated All-In Sustaining Cost (AISC) was \$599/oz gold, including the silver by-product credit.

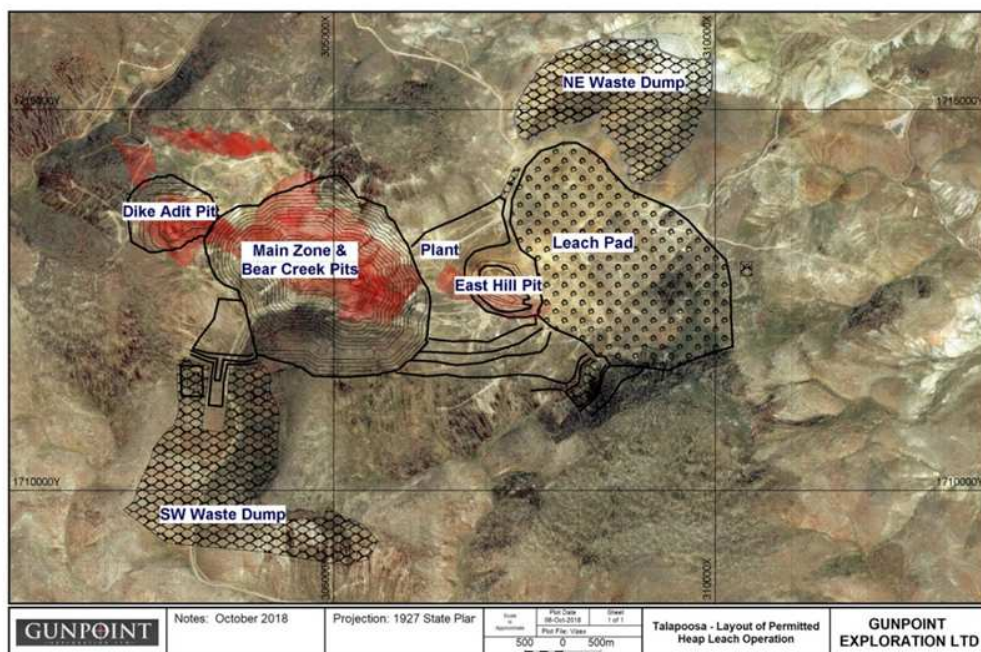
### Talapoosa PEA - CapEx

	<b>Initial</b>	<b>Sustaining</b>	
	<b>Yr 0-1</b>	<b>Yr 2-11</b>	<b>Total</b>
	<b>\$mns</b>	<b>\$mns</b>	<b>\$mns</b>
Direct Costs	37.7	0.3	38
Mining	2.5	0.8	3.3
Processing	29.6	0	29.6
Site	3.5	1.5	5
Reclamation (bond)	2	-2	0
Indirect Costs	7.8	0	7.8
Contingency	5.7	0.4	6.1
<b>Total Capital Costs with Contingencies</b>	<b>51.2</b>	<b>0.7</b>	<b>51.9</b>

Source: Timberline PEA 2015

## Mine Plan

The PEA undertaken for Timberline was based on the basic development concepts as defined by Miramar and included in their permit documents, but incorporating certain updates and subsequent technological advances. The PEA included an open pit mine extracting a combined 41.4mn tons of ore and waste rock, and a heap leach operation based on a fine HPGR crushing, agglomeration, and Merrill Crowe processing for recovery of gold and silver.



## Permitting

The Project was fully permitted for construction and operation in 1996 by Miramar Corporation. Based on a Timberline consultant review in 2015, the mining Plan of Operations and Nevada Reclamation Permit are currently valid and remain so through the life of the project so long as planned development is consistent with the Miramar development plan.

Permits from the state of Nevada and county-level permits have not been maintained and will need to be re-acquired before a new mine development plan could be implemented (see Table 7). The longest lead-time permit application for construction and operation of a new mine will be the Water Pollution Control Permit submitted to the State of Nevada. This permit is anticipated to require up to 14 months regulatory processing time for approval. A Special Use Permit (SUP) will be required from Lyon County. Significant-sized mining projects currently in development in Lyon County include Nevada Copper's Pumpkin Hollow Project in the southern part of the county, and the operations of Comstock Mining in the northwest part of the county. As such, securing a SUP is expected to be a routine matter assuming other permits and water rights are secured.



The map above shows the geology of Appaloosa Zone showing outcrops of the HEBs in red. These eruption or vent breccias are thought to be fault-controlled and form large elongate outcrops up to 1,200 feet long and 300-500 feet wide.

The HEBs are interpreted by Gunpoint as the surface expression of an underlying mineralized epithermal system, an interpretation supported by Dr. Richard Sillitoe, a world authority on epithermal systems. He visited the property in 2011 and made the observation that the breccias were formed in a lacustrine environment following silicification of the epiclastic sediments by ascendant hydrothermal fluids.

Poorly mineralized veins, dominated by chalcedony, commonly overlie low-sulfidation epithermal ore shoots, in which bonanza-grade gold and silver values can occur in association with quartz veins. The depth to any such precious-metal ore shoots, was stated by the consultants as, difficult to predict, but could range from 100 feet to 500 feet or more below the paleo-surface, which is likely to have been not too far above the present surface. Given the elevation difference between the Appaloosa zone and the Talapoosa zone the latter depth figure seems more likely.

Due to the shallow level of erosion and overburden at the northwest part of the Appaloosa zone, it has received very little exploration over the years, although Superior Oil Company drilled five shallow vertical percussion holes in the in the late 1970's with unknown results. No subsequent exploration drilling is known in this area.

Gunpoint performed an extensive rock chip sampling program over the entire Appaloosa zone in 2010-2011. In the northwest part of the zone fragments of veining within the HEB's, interpreted as either derived from brecciated marginal veins or from underlying feeders to the vent breccia, assayed as high as 0.7 g/t gold.

Grab samples of veining collected from small dumps near the margin of this dome contained values up to 62 g/t gold while channel sampling across a 22 foot wide cut of veining and brecciation averaged 5.5 g/t gold and 42 g/t silver.

Based on geological mapping and a limited reconnaissance drilling program by Gunpoint in 2011, the key to exploring the Appaloosa zone effectively is to target areas where the mineralized structures are hosted within either competent andesitic to dacitic intrusive domes or dykes. The potential for the low sulfidation epithermal system at Appaloosa to host a Bonanza-type deposit similar in scale to the nearby Comstock District offers significant potential upside to an acquirer.

### **The Implications for Chesapeake Gold**

We have long tracked the progress of Chesapeake Gold (TSX-V: CKG, OTCQX: CHPGF). After discovering the blockbuster gold-silver deposit in Metates it has been fine-tuning the project for some while now, awaiting a sustained rally in the gold prices and moreover sentiment towards large projects. One cannot underestimate the damage that the severely botched project Pascua Lama dealt to other gold projects of size, whether or not they shared any characteristics to the especially challenged Barrick operation.

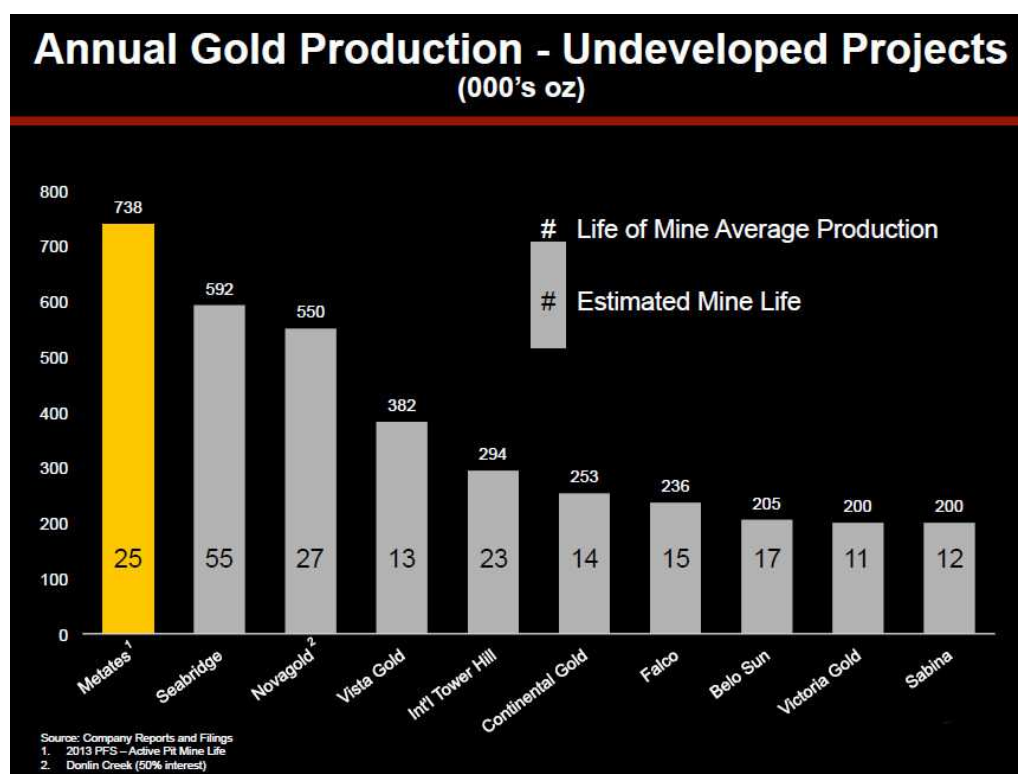


In 2011, Chesapeake's market cap peaked at \$800mn on the strength of positive metallurgical results from a bulk test production run that confirmed the lab test flow sheet recoveries. Subsequent falling metal prices and fund redemptions continued to weaken the stock price to today's level. While we have in the past mused upon the possibilities of Goldcorp making a move on Metates, the prefeasibility study completed in 2016 demonstrated an initial smaller open pit mine could be built that could fund expansion to full capacity. With a lower Capex we are inclined to the view that this project would also fit well into the stratagems of the rising Tier 2 mining companies such as B2 Gold, IAMgold .

In any case, Chesapeake remains well-padded financially with \$17mn in the bank through careful husbanding of the funds at hand and consequently has not been a diluter in either recent highs or lows in market sentiments.

Beyond the underlying cash value of Chesapeake there is the enormous disconnect in valuation when comparing the Metates project to the likes of Novagold and Seabridge (with their challenging economics) and yet trading at valuations some 15-20 times that of Chesapeake.

The table below shows this dramatic disparity.



In considering a possible windfall from a party moving upon the 75% stake in Gunpoint we can muse upon various takeout prices and scenarios. Put simply, a bid for Gunpoint valuing it at a modest \$30mn would bring in around \$23mn for CKG's stake, which when combined with the \$17mn in cash on hand



implies that CKG's current market cap of \$82mn is almost half underpinned by the cash and investments component of its balance sheet (presuming a takeout of GUN). That then puts a valuation on Metates (let alone the other Mexican assets) of around \$40-45mn.

## **Directors**

**P. Randy Reifel**, the Chairman, has been a senior executive in the exploration business for over 30 years. He was president of two exploration companies focused in Latin America, Carson Gold Corp. and Francisco Gold Corp, that both found major acquirers. His early recognition of the Kilometer 88 gold district in Venezuela led to Carson Gold being acquired in 1993. With Francisco Gold, he played a primary role in the creation, development and financing of the El Sauzal and Marlin gold discoveries and the sale in 2002 to Glamis Gold Ltd. for \$390 million. He is the President of Chesapeake Gold Corp. and serves as director of Goldcorp.

**Dr. E. Max Baker**, a non-executive director, is an exploration geologist with over 30 years international exploration experience in the Americas, Asia, Australia, and Europe. Most recently, he served as Director of Exploration for Oriel Resources plc, a London - based junior mining company with nickel and chromite projects in Kazakhstan and gold projects in the Russian Federation and Kyrgyzstan. He was previously Chief Geologist for Newcrest Mining Ltd., Chief Geologist (South America) for MIM Holdings Ltd., and Principal Geologist (Asia) for Renison Goldfield Corporation. He has also held senior technical and managerial positions with several junior mining companies, and his exploration experience ranges from grass roots level target generation and area selection through to the design and management of resource definition drilling programmes. He completed his B.Sc. (Honours) and Ph.D. at James Cook University of North Queensland.

**Ian D. Robertson**, a non-executive director, is a founding partner in the Vancouver law firm of Robertson & Company Law Partners LLP. He received his law degree from the University of Manitoba in 1970, and was a senior partner with Lang Michener specializing in mergers, acquisitions, and reorganizations until 1992. In addition to his legal career, He has served as a senior executive in a number of industries including finance, oil & gas, construction, communications, and technology.

**Gerald L. Sneddon**, a non-executive director, is a senior mining engineer with over 45 years domestic and international experience in the development and operation of precious and base metal mines. During his career he has held executive positions with the Anaconda Company, Kaiser Steel, Beker Industries and Morrison Knudson. In addition to his extensive operating experience, he has supervised several feasibility studies through mine construction and start-ups.

**Daniel J. Kunz**, a non-executive director, is an engineer with over 30 years of experience in mining, construction and financing of global resource projects. His tenures, most of which were at the senior management and/or president level, include Morrison Knudson Corporation and MK Gold Company. As former president of Ivanhoe Mines Ltd., he played a key role in the acquisition, development and worldwide operations of Ivanhoe's mineral projects.

## Risks

The risks with the Talapoosa project are fewer than for most:

- ✗ Gold price weakness
- ✗ Non-appearance of an acquirer
- ✗ The orebody transitions from oxides to sulphides which may require a milling circuit

With Gunpoint the risk is currently mainly with the gold price as it is for most gold miners. Our premise is for gold to stay roughly unchanged for several years to come.

There are few mid-sized projects in Nevada at the relatively advanced stage that Talapoosa is currently at. Acquisitions are the new exploration in the mining space with investors having little tolerance for a continual tap on their funds to firm up resources or even to just maintain resources estimates in some sort of current state.

With the Appaloosa trend providing district-scale exploration opportunities, the Talapoosa project comes with an added kicker. It is our understanding that several confidentiality agreements have been signed.

## Conclusion

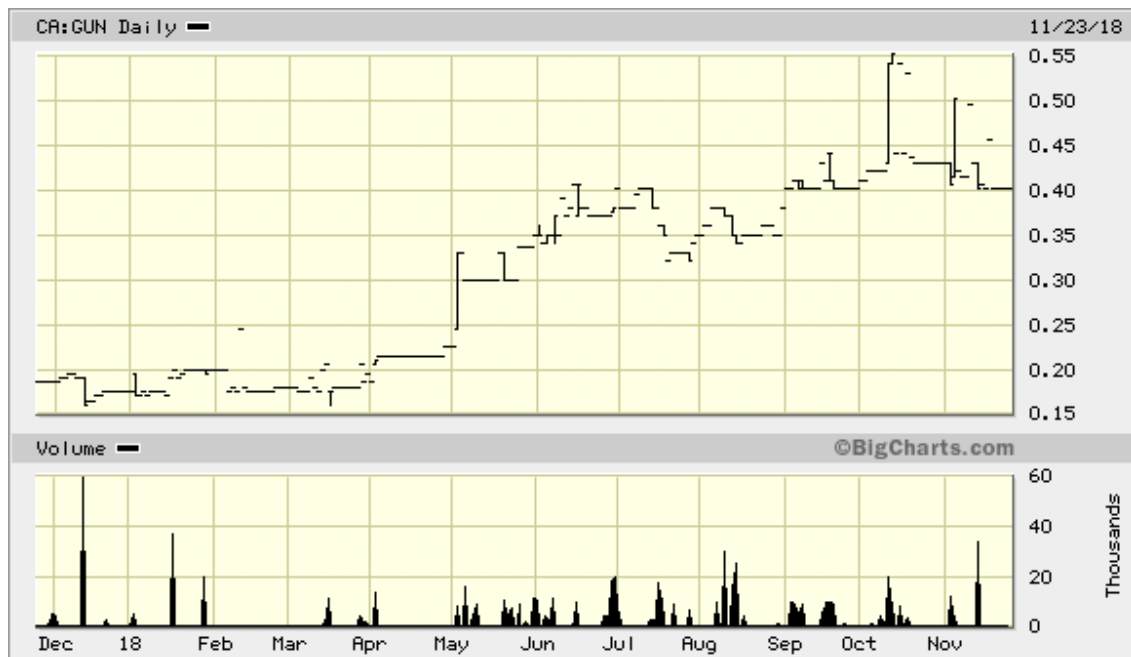
In the frenzy of exploration environment of Nevada these days it is easy to overlook an asset like Talapoosa which had effectively been taken off the radar by Timberline option agreement to acquire it. Chesapeake didn't speak of it because it was effectively "gone" and Timberline was engaged in survival mode so, as is so often the case, was unable to trumpet the virtues of what it had.

Timberline's misfortune has been Chesapeake's gain as the property has returned to the fold with a resource and PEA attached. It has fortuitously also coincided with a period in which acquirers are scouring the prime gold territories in search of bolt-on projects to fill their production pipelines and/or diversify portfolios. Talapoosa fits the bill. The surging stock price only reinforces this trend. With Chesapeake a willing seller (at the right price) and predators on the loose it seems only a matter of time until a deal is struck.

Such a possibility makes even more poignant the undervaluation of Chesapeake at this time. The cash-pile at CKG combined with the likely proceeds from a Gunpoint sale underpin half of the current beaten down market cap, effectively valuing the massive Metates asset (and its regional satellite projects) at little more than \$40mn. Clearly the market has taken its eye of a prize here, and the prize is a quantum larger than Gunpoint.

This takeout proposition can be accessed via Chesapeake for the long-term value play or Gunpoint for the more short-term gain. We have added a Long position in Gunpoint Exploration to the Model Mining Portfolio with a 12-month target price of CAD\$0.75.

Sunday, November 25, 2018



## Important disclosures

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