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Chesser Resources 21 Oct, 2009

Talkin' Turkey

CHZ; Buy up to 14.5 cents

Chesser Resources is a gold exploration company with a relatively low market capitalisation, but with an attractive portfolio of gold projects in Turkey. It has now boosted its portfolio, with additional projects beyond its initial Sisorta gold project, and this now de-risks the company from essentially a one project play.

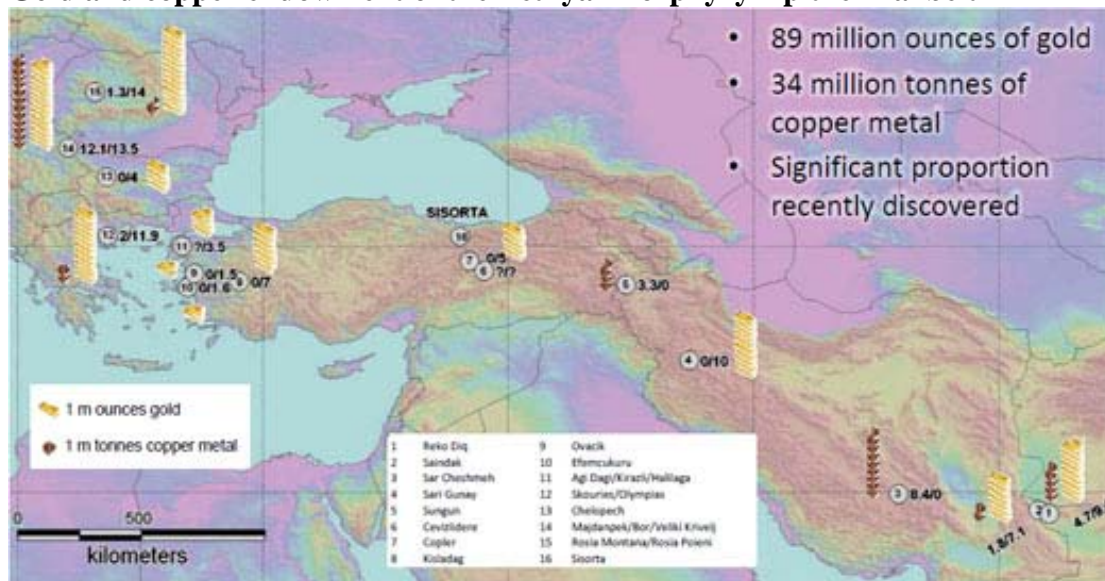
“Chesser has acquired an promising new project in Turkey which offers the potential for short term drilling excitement.”

Sisorta continues to produce some interesting results and is developing into a modest gold project. However, it is the recent acquisition of the Kestanelik project in the east of Turkey that excites us. The project comprises a 2.5km long epithermal vein and where previous channel sampling had produced some excellent results including 7.7m at 23.4 g/t gold. in addition, sparse drilling (30 hole program) had also produced results such as 5.6m at 10.2 g/t gold.

With these attractive grades and the extent of the epithermal veining, we are confident that the company will report some high grade intersections from a drilling program which commences in November. This will create enthusiasm that the company can discover a high grade epithermal resource capable of supporting development.

Turkey

Gold and copper endowment of the Tethyan Porphyry-Epithermal belt



Source: Company

The Turkish region has a significant mineral endowment and this is highlighted on the map above. Major deposits are listed, with the 'piles' reflecting their size.

As outlined above, Turkey is well accustomed to mining and has the following attributes:

- Strong, stable and growing economy with developed infrastructure
- Growing international mining community
- Incentives for capital investment and precious metal projects
- Conforming to EU codes and practices
- Gold producers exempt from VAT and import and excise tax
- 20% corporate tax, 2% Royalty as of 2006
- Incentives for capital investment and precious metal projects

Chesser's Project Locations

Chesser's main projects are Sisorta and Kestanelik, but it also has some less advanced projects with Karaayi and Domu, Saphane, Kabatas and Topcam. The location of all these projects is outlined on the following map provided by the company.



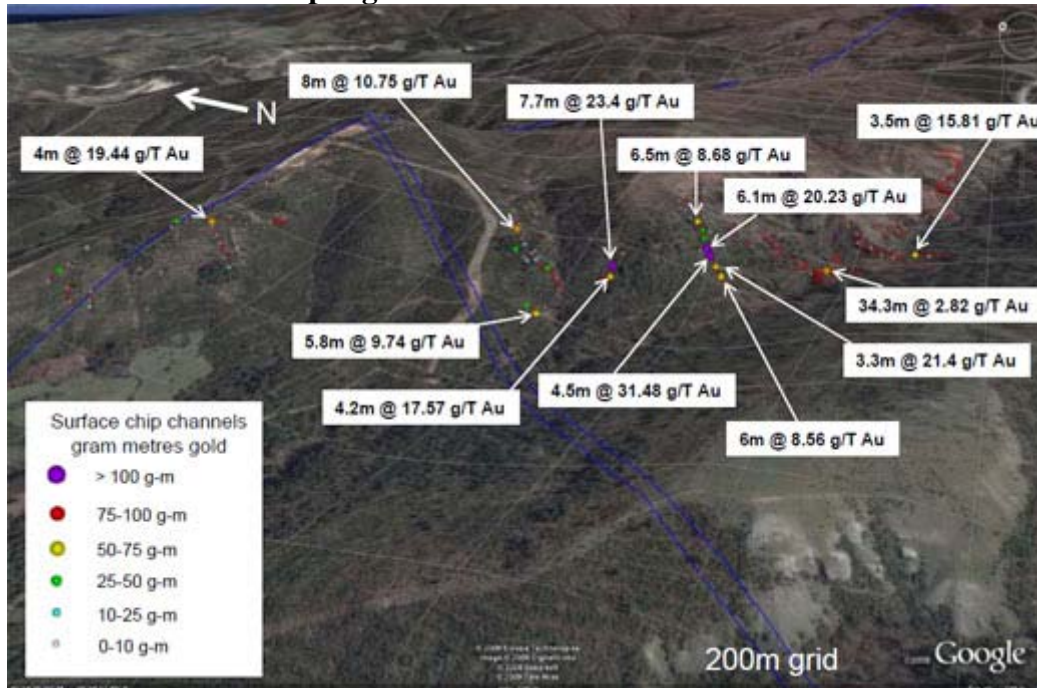
In this research we have reviewed both the Kestanelik and Sisorta projects, as these are the material projects to the company at this stage.

Kestanelik

The Kestanelik property consists of a series of low sulphidation epithermal quartz veins of up to 10m thickness, outcropping over an aggregate strike length of approximately 2,550m. The host sequence is partially covered by a post mineral sequence of sediments, volcanics and alluvium.

The company reports that previous exploration included collection of 122 sample profiles across outcropping veins, which returned values of up to 7.7m at 23.4 g/t gold; 4.5m at 31.5 g/t gold and 6.1m at 20.2 g/t gold. The length weighted average gold grade from all surface sample profiles is 3.8 g/t gold over an average profile width of 3.73m.

Previous Surface Sampling

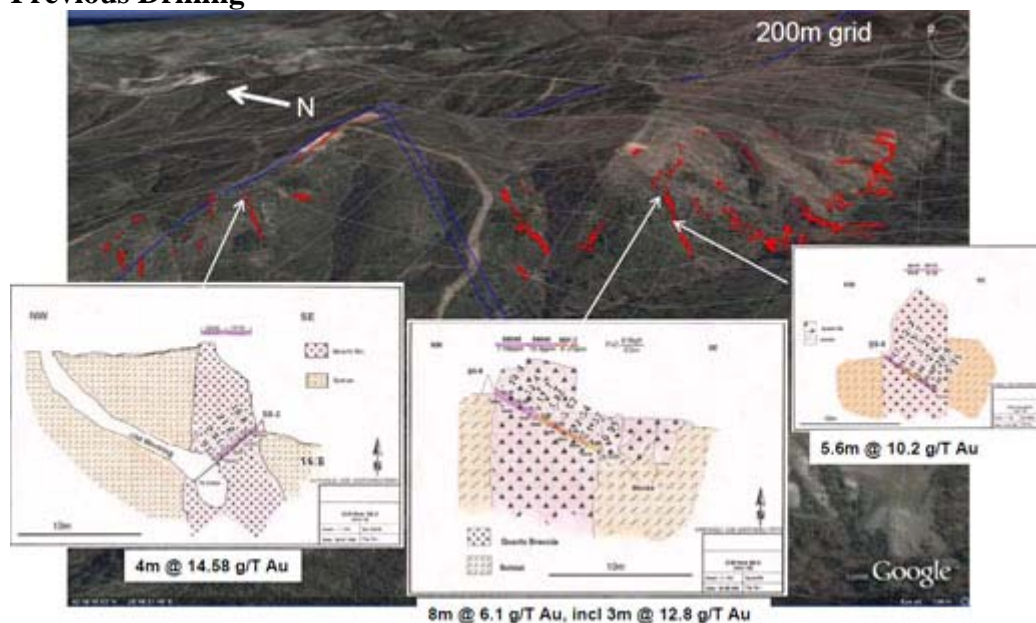


Source: Company

The property has also been tested by 30 shallow drill holes (20 percussion and 10 diamond), averaging 49m in depth, with the deepest drill hole reaching 140m depth. Best results from drilling on the property include 4m at 14.6 g/t gold; 3m at 12.8 g/t gold and 5.6m at 10.2 g/t gold.

The weighted average grade of all drill intercepts through vein material and associated stockwork and silicification is 1.68g/t gold.

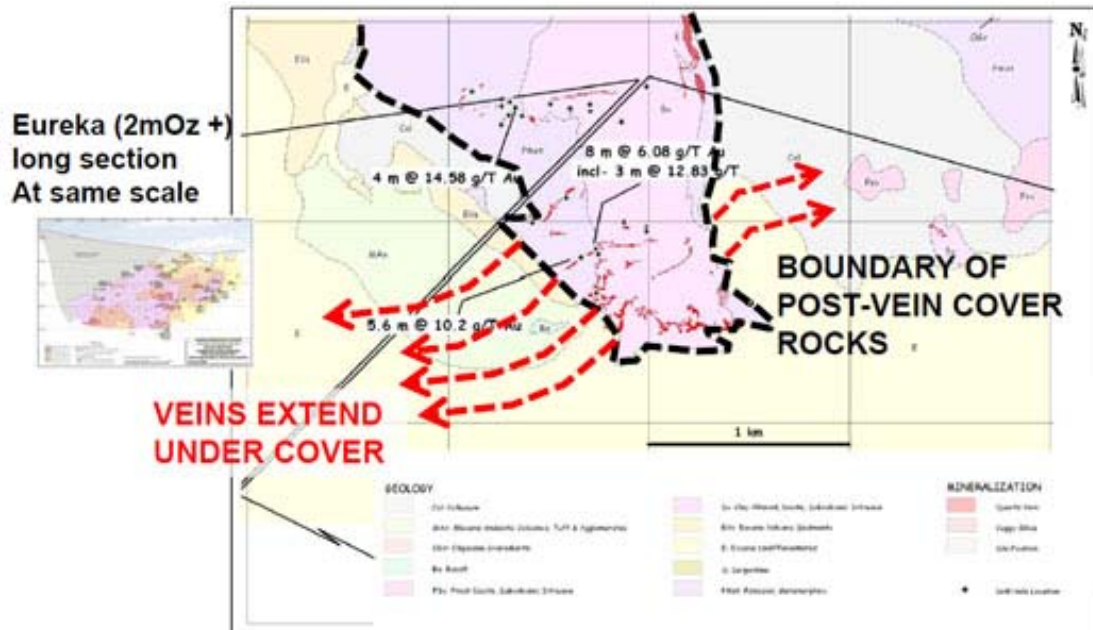
Previous Drilling



Source: Company

One of the important areas of exploration upside is the scope to follow the high grade veins under cover to the east and southwest.

Potential for veins to extend under cover



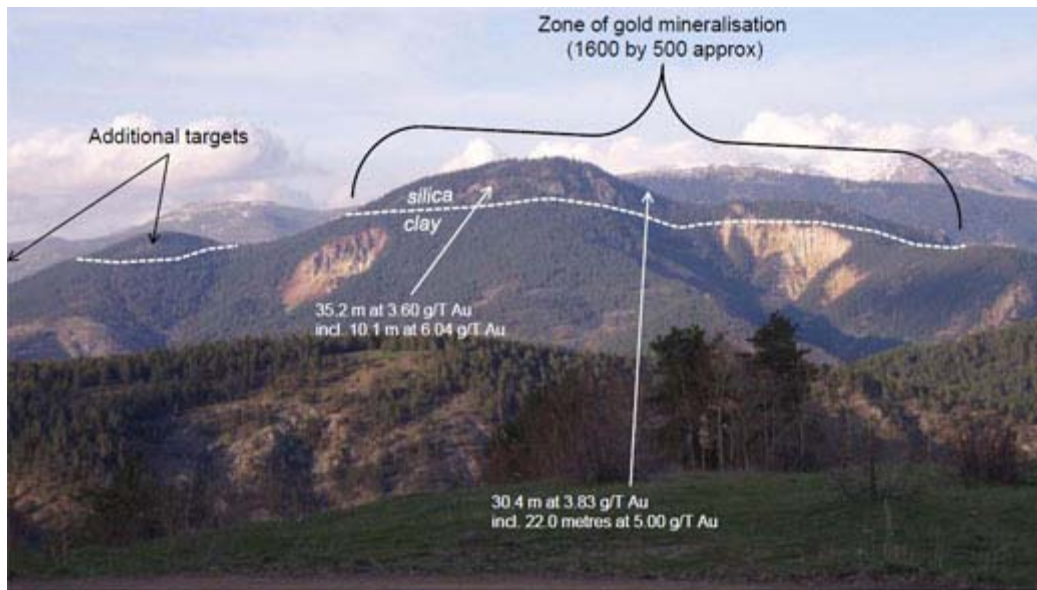
Source: Company

Chesser is currently earning a 51% interest in the Kestanelik by spending US\$1.3m on exploration over three years and issuing 500,000 shares to the property owner. Chesser can then earn a further 24% by spending an additional US\$750,000 and issuing 250,000 additional shares in year 4, and can reach 100% by spending an additional US\$750,000 and issuing 250,000 additional shares in year 5 – at which point the property owner will retain a 2.5% Net Smelter Return royalty.

Chesser's minimum expenditure before withdrawal is US\$250,000.

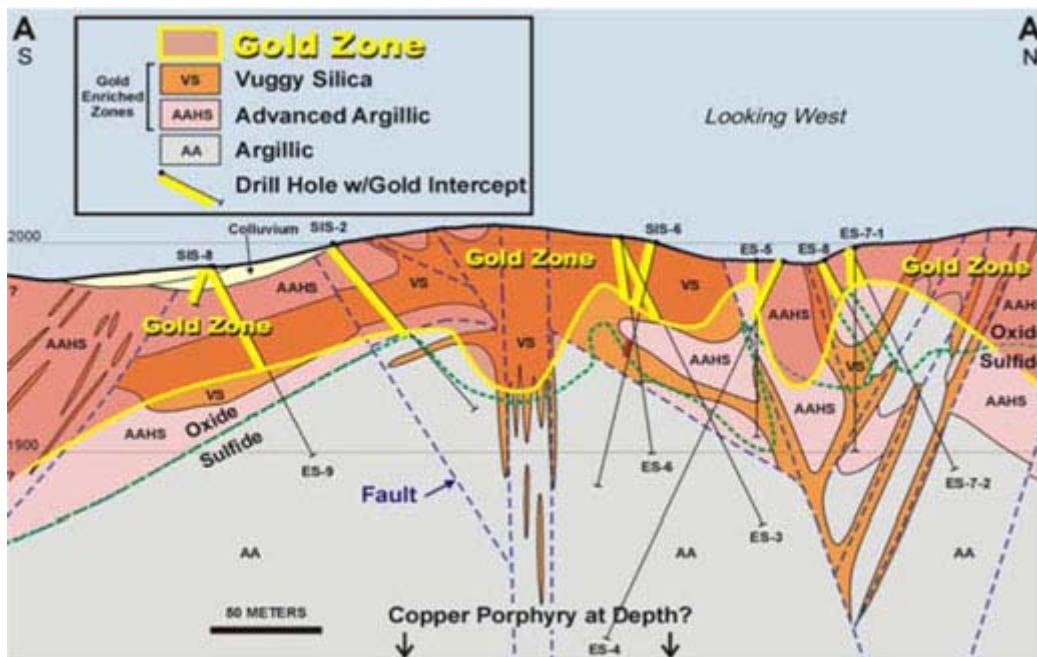
Sisorta Gold Project

Sisorta is a volcanic hosted, high sulphidation epithermal deposit, which has been the focus Chesser's exploration efforts to-date. As outlined below, the mineralisation occurs on the top of a mountain with silica alteration. It is represented by a large (more than 2 by 2 km) footprint of soil anomalism.



Source: Company

The following long section outlines the mineralisation styles and some of the drilling with 67 drill holes now testing the deposit.



Source: Company

The company has recently released an ore resource of 303koz for the project, as outlined in the following table.

Class	Metallurgy	Cutoff	Tonnes	Au	Ag	Au_oz	Ag_oz
Indicated	Oxide	0.4	2,280,000	0.9	3.5	69,000	254,000
Indicated	Sulphide	0.4	890,000	0.8	4.2	22,000	120,000
Indicated	Total	0.4	3,170,000	0.9	3.7	91,000	374,000
Inferred	Oxide	0.4	7,750,000	0.6	1.2	154,000	289,000
Inferred	Sulphide	0.4	3,630,000	0.5	2.6	58,000	300,000
Inferred	Total	0.4	11,380,000	0.6	1.6	212,000	589,000
TOTAL OXIDE			10,030,000	0.7	1.7	223,000	543,000
TOTAL OXIDE AND SULPHIDE			14,550,000	0.6	2.1	303,000	963,000

Source: Company

The company has conducted metallurgical testwork, and scoping studies have identified a modest project with the following features:

- Annual production of 12,115 oz gold and 18,260 oz silver
- Conventional crushing and heap leach technology
- Operating revenue estimated at US\$18.81 per tonne of ore, based on current gold and silver prices
- Operating costs at US\$8.74 per tonne of ore
- Capital costs estimated to be US\$9 million, based upon similar operations recently constructed in Turkey
- NPV of US\$23 million (using an 8% discount rate)

These project parameters are not ‘earth shattering’ and we expect the company to carefully consider how to yield shareholder value out of the project – without tying up company resources best directed at other exploration projects.

The underlying Sisorta deal involves Chesser potentially earning 51% by spending US\$4m over three years, along with cash and share payments (current expenditure approx US\$4.1 million – 51% vested) and it can then earn up to 70% by sole funding to Feasibility stage in the subsequent 5 years, with yearly payments of \$USD 100,000, or can opt to vest at 51%.

Capital Structure and Funding

Chesser has a enterprise value of \$7.5m, which includes \$1.7m in cash. We expect the company will need to raise additional funds in early 2010.

	Market Valuation	Issued Shares (m)	Share Price (A\$)	Market Cap (A\$m)
Fully paid shares		71.0	\$0.13	\$9.2
Options		0.0	\$0.13	\$0.0
Cash from options				\$0.0
Diluted Market Cap				\$9.2
Cash				\$1.7
Debt				\$0.0
Enterprise value				\$7.5

We have excluded accounting for options given they are all well out of the money. A list of options is presented in the table below.

Options	Issued Shares (m)	Exercise Price	Amount Raised (A\$m)
28-May-11	2.0	\$0.35	\$0.7
30-May-11	3.0	\$0.25	\$0.8
19-Sep-11	1.5	\$0.25	\$0.4
19-Sep-11	0.5	\$0.30	\$0.2
19-Sep-11	0.5	\$0.35	\$0.2
21-Feb-13	0.3	\$0.40	\$0.1
Total	7.8		\$2.3

Board

The composition of the Board and the background of the Members are outlined

- Non-Exec Chairman Stephen Evans – Accountant
- Managing Director Richard Valenta – Mineral Exploration
- Non-Exec Director Creagh O’Connor – Finance / Corporate
- Non-Exec Director Simon Taylor – Mineral Exploration
- Non-Exec Director Simon O’Loughlin – Legal

MD Rick Valenta is the key driver of the company and brings extensive exploration experience from around the world.

Stock Resource Recommendation

Chesser has expanded its exploration portfolio in Turkey to include the prospective Kestanelik project. We are quite excited at this project given the likelihood of success in the company’s drilling program planned for November. We are also comfortable with management’s experience which has the capacity to establish new projects over time.

Hence, **Stock Resource recommends Chesser as a Buy up to 14.5 cents for all Members.** As the stock lacks liquidity, Members may have to be patient to get set.

Share Price Chart



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Reference within the Stock Resource Report to the “Stock Resource Portfolio” is a reference to the hypothetical portfolio on the “Past Predictions” page, which includes details on the methodology used to derive the performance figures.