Management's Discussion and Analysis

Second Quarter Report – June 30, 2016 (Six months ended)

(Expressed in Canadian dollars, unless otherwise noted)

August 29, 2016

For further information on the Company, reference should be made to its public filings on SEDAR at www.sedar.com. Information is also available on the Company's website at www.chesapeakegold.com. This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2016 and audited consolidated financial statements for the year ended December 31, 2015, and related notes thereto which have been prepared in accordance with International Financial Reporting Standards. The MD&A contains certain Forward Looking Statements which are provided on Page 28.

OVERVIEW

Chesapeake Gold Corp. (the "Company") is a development stage company focusing on the discovery, acquisition and development of major gold-silver deposits in North and Central America. The Company trades on the TSX Venture Exchange under the symbol "CKG" and on the OTCQX market in the United States under the symbol CHPGF. The Company has its head office in Vancouver, B.C.

The Company's primary asset is the Metates gold-silver project ("Metates") located in Durango State, Mexico. The Metates project is one of the largest undeveloped gold and silver deposits in Mexico. A pre-feasibility study ("2013 PFS") on Metates was completed and filed on SEDAR during the first quarter of 2013. An updated pre-feasibility study ("Updated PFS") based on a lower initial 30,000 tpd production rate versus the Phase I 60,000 tpd in the 2013 PFS, was filed on SEDAR during this quarter.

The Company also has a portfolio of exploration properties in Mexico comprising 28,691 hectares in the states of Durango, Sinaloa, Oaxaca and Veracruz. The Company owns approximately 74.75% of Gunpoint Exploration Ltd. ("Gunpoint") which owns the Talapoosa gold project in Nevada and two Mexican properties, La Gitana and La Cecilia.

HIGHLIGHTS – SECOND QUARTER 2016

- Cash and cash equivalent balance as at June 30, 2016 was $22.1 million.
- The Company completed and reported the results of the Updated PFS on Metates.
- Regional exploration near Metates continues to identify promising prospects that are systematically being expanded and advanced to the drill stage.

METATES (Durango State, Mexico)

Overview

Metates is one of the largest, undeveloped disseminated gold and silver deposits in Mexico. The property is comprised of fourteen mineral concessions totaling 14,727 hectares. The Metates deposit is hosted by Mesozoic sedimentary rocks that have been intruded by a quartz latite body up to 300 meters thick and 1,500 meters long. Mineralization occurs in two zones: the Main Zone which is centered around the intrusive and the North Zone, within the sediments including conglomerate, sandstone and shale. The gold-silver mineralization occurs as sulphide veinlets and disseminations in both the intrusive and sedimentary host rocks.

The following table represents the year to date and project to date exploration expenditures on Metates:

(tabled amounts are expressed in thousands of CAD dollars)	**Six Months ended June 30, 2016**	**Year ended December 31, 2015**	**Project to date**
Acquisition from American Gold in 2006			20,213.3
Concession	26.5	102.7	716.4
Assay	28.8	67.3	1,439.1
Camp & Supplies	23.4	230.5	3,805.8
Drilling	-	-	5,982.5
Environmental	-	-	52.8
Geological and engineering	168.3	3,211.3	25,586.7
Travel & other	10.2	37.7	1,101.7
Total additions	257.2	3,649.5	58,898.3

Updated PFS

On May 3, 2016, the Company filed on SEDAR the NI 43-101 technical report for the Updated PFS. The Updated PFS is based on an initial ore throughput rate of 30,000 tpd (“Phase 1”) with a staged expansion up to 90,000 tpd (“Phase 2”) funded primarily from internally generated cash flow. Phase 1 will operate for the first four years of the mine life with Phase 2 production starting in year five. Active pit mining is planned for 27 years followed by 10 years of processing stockpiled low grade ore. The Updated PFS provides a viable alternative option to build Metates at a lower initial capital cost while maintaining key operating efficiencies and economies of scale. All costs are shown in US dollars.

Mineral Reserves and Mining Schedule

The Updated PFS uses a revised mineral resource estimate from the 2013 PFS and is based on resources extracted from an open pit using assumed metal prices of $1,200/oz gold and $19.20/oz silver, with no zinc credits. The open pit mineral reserves were estimated within a detailed engineered pit design using the measured and indicated resources only. Measured and indicated mineral resources in the production schedule are converted to proven and probable mineral reserves, respectively. The pit design has overall slope angles from 37 to 46 degrees and life of mine (“LOM”) strip ratio of 1.1:1.

The mining schedule employs an elevated cut-off strategy to supply higher grade ore for processing during the early years with lower grade ore stockpiled for treatment later in the mine life. The above cut-off but lower than mill feed grade ore that is stockpiled is processed during the last ten years of operations (years 28-37).

The table below presents the mineral reserves for the Metates project based on the mine and plant production schedules.

Q2 2016 MD&A (expressed in CAD Dollars) www.chesapeakegold.com

Metates Mineral Reserve								
Reserve Class	**Ktonnes**	**AuEq* (g/t)**	**Gold (g/t)**	**Gold (Koz)**	**Silver (g/t)**	**Silver (Koz)**	**Zinc (%)**	**Zinc (M lbs)**
Proven								
Mill Ore	283,777	0.982	0.696	6,350	17.2	156,929	0.171	1,070
Probable								
Mill Ore	515,849	0.777	0.546	9,056	13.5	224,398	0.147	1,672
Proven/Probable								
Total Mill Ore	799,626	0.850	0.599	15,406	14.8	381,327	0.156	2,742
Probable								
Stockpile	302,703	0.533	0.295	2,873	12.4	120,229	0.188	1,256
Total Proven/Probable	1,102,329	0.764	0.516	18,279	14.2	501,556	0.164	3,997

**Gold equivalent grade (AuEq) is defined as Au g/t + (Ag g/t x Ag rec./Au rec x Ag price)+(Zn %/2204.6 lbs/tonne x 1000 x Zn rec./Au rec. x Zn price). Overall metal recoveries are 90% Au, 66% Ag and 81% Zn. Assumed metal prices are $1250/oz. Au, $20/oz. Ag and $1.00/lb. Zn. Contained resources may not add due to rounding.*

Development Overview

The Updated PFS envisions a conventional truck and shovel open pit mining operation starting with a nominal 30,000 tpd ore throughput in Phase 1 expanding in year 5 to 90,000 tpd throughput for Phase 2. Crushed ore will be fed to a conventional SAG and ball mill circuit followed by a single stage flotation plant to produce a bulk sulphide concentrate. Tailings from the flotation concentration plant are dry filtered to remove water and then co-disposed with waste rock in a dedicated storage facility. The sulphide concentrate is transported downhill via a 103 kilometer long slurry pipeline to the El Paso site southwest of Metates. The pipeline will follow an all-weather access road that will be constructed between Metates and El Paso.

The El Paso site is situated beside a large high-grade limestone resource and close to key infrastructure including power, water, transportation and labour. At El Paso, the sulphide concentrate is treated in a pressure oxidation (POX/autoclave) plant with subsequent cyanidation and Merrill-Crowe recovery of gold and silver doré. Acidic solutions from the pressure oxidation process will be neutralized with ground limestone and lime produced from an on-site quarry and related processing facilities. The neutralization product will be dry filtered as will cyanide leach tailings prior to mixing for co-disposal in an adjacent storage facility. Zinc will be recovered from the pressure oxidation solutions via solvent extraction/electrowinning (SX/EW) methods to produce SHG grade (+99.9% purity) zinc ingots.

Overall average LOM gold and silver recoveries from ore through doré production are estimated at 90% and 66%, respectively. Zinc recovery to ingots is estimated at 81%. Metal recoveries to the sulphide concentrate are indexed to the processed ore grades. The table below presents a summary of the operating metrics of processed grades, tonnes mined and metal production over the mine life.

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Operating Metrics				
Operating Period	**Phase 1 Years 1-4 Active Mining**	**Phase 2 Years 5-27 Active Mining**	**Years 28-37 Stockpile**	**Years 1-37 LOM**
Material Mined				
Total Ore Mined From Pit (K tonnes)	112,625	989,704	0	1,102,329
Ore To Process (K tonnes)	46,947	755,549	299,833	1,102,329
Low Grade Ore To Stockpile (K tonnes)	65,678	237,025	0	302,703
Waste Rock (K tonnes)	105,282	1,102,276	0	1,207,558
Strip Ratio (1)	0.93	1.11	0.00	1.10
Average Milling Rate (K tonnes/yr)	11,737	32,850	29,983	29,793
Average Milled Grades				
Gold (g/t)	0.431	0.608	0.296	0.516
Silver (g/t)	57.1	12.2	12.3	14.2
Zinc %	0.277	0.148	0.188	0.164
Average Annual Production				
Gold (K oz.)	146	579	254	445
Silver (K oz.)	16,157	8,183	7,482	8,856
Zinc (K lbs.)	48,715	89,070	102,182	88,251
By-product Cash Cost ($/Au Oz)	**-338.97**	**666.14**	**650.81**	**628.07**

(1) Strip Ratio based on total waste tonnes mined to ore tonnes mined. Overall metal recoveries are 90% gold, 66% silver and 81% zinc.

Capital Costs

Phase 1 initial capital cost is estimated at $1.91 billion including a $244 million contingency. The capital investment reflects outsourcing the power plant, desalination plant, oxygen plant and the limestone/lime operation. The mining fleet at the Metates site will be leased instead of purchased as in the 2013 PFS. The outsourcing and leasing costs are reflected in the operating costs.

Phase 1 production will commence at 30,000 tpd ore with internally generated cash flow funding the capital for the Phase 2 expansion to 90,000 tpd in year 5. Phase 2 capital is estimated at $1.59 billion (including $253 million in contingency) and will be spent over 4 years (years 2-5). All capital spent after year 5 is deemed to be sustaining capital and is estimated at $174 million, including reclamation and closure costs. The table below presents a summary of the capital costs. Capital costs are based on Q3/Q4 2015 pricing.

Summary of Capital Costs			
	Phase 1 $000	**Phase 2 $000**	**Total $000**
Metates Site			
Mining Equipment & Mine Development	$44,401	$0	$44,401
Crushing, Grinding, Flotation & Pipeline	$277,787	$155,066	$432,853
Tailings Dewatering & Stacking	$51,069	$40,031	$91,100
Other	$63,276	$16,559	$79,835
Subtotal	**$436,533**	**$211,656**	**$648,189**
El Paso Site			
Pressure Oxidation & Oxygen Supply	$278,976	$484,392	$763,368
Limestone Crushing & Lime Production	$63,017	$14,332	$77,349
Precious Metals Recovery	$66,115	$48,993	$115,107
Zinc Recovery	$32,858	$240,731	$273,588
Tailings & Residue Disposal	$13,761	$0	$13,761
Other	$39,522	$8,873	$48,395
Subtotal	**$494,249**	**$797,320**	**$1,291,569**
Infrastructure			
Access Roads & Civil Works	$107,567	$2,356	$109,922
Electric Power	$102,566	$11,753	$114,318
Water Supply	$32,335	$12,196	$44,531
Subtotal	**$242,467**	**$26,304**	**$268,771**
Total Direct Field Cost	**$1,173,249**	**$1,035,280**	**$2,208,529**
Indirects-EPCM, Commissioning & Spares	**$300,282**	**$298,433**	**$598,715**
Total On Site Constructed Cost	**$1,473,532**	**$1,333,713**	**$2,807,244**
Contingency	$244,004	$253,058	$497,063
Owner’s Cost	$192,108	$0	$192,108
Total Capital Cost	**$1,909,644**	**$1,586,771**	**$3,496,415**

Operating Costs

Mining costs were prepared on a year-by-year basis and the LOM mining costs per tonne moved (including stockpile) are $1.37 per tonne at the Metates site, not including $0.26 per tonne in lease payments. LOM mining costs per tonne of ore mined are $3.83. Process costs are estimated to be $7.65 per ore tonne for the Metates and $8.29 per ore tonne for the El Paso operations. Overall G&A and support costs including water supply, are estimated at $1.18 per tonne. Average LOM by-product cash costs are estimated at $9.37 per tonne ore or $628 per ounce. The AISC per ounce of gold is estimated at $662. The LOM operating revenue is approximately 68% gold, 22% silver and 10% zinc. The table below summarizes the operating costs.

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Summary of Operating Costs		
	LOM Average Cost/Milled (T)	**LOM $/Au Oz. Production**
Metates Site		
Mining (including rehandle and equipment lease costs)	$3.83	$256.98
Crushing, Grinding, Flotation	$2.74	$183.83
Concentrate Thickening & Transportation (including outsource)	$0.18	$12.29
Tailings Dewatering, Stacking & Other	$0.89	$59.43
Subtotal	**$7.65**	**$512.53**
El Paso Site		
Pressure Oxidation, Acid Neutralization & Oxygen Supply	$4.67	$312.84
Limestone Mining, Crushing & Lime Production (outsource)	$1.63	$109.22
Precious Metal Recovery	$0.78	$52.17
Zinc Recovery	$0.61	$40.63
Tailings & Residue Disposal	$0.61	$40.90
Subtotal	**$8.29**	**$555.76**
Support		
General, Administrative & Other	$0.52	$34.76
Water Supply (including outsource desalination plant)	$0.66	$44.28
Subtotal	**$1.18**	**$79.04**
Total Operating Cost	**$17.12**	**$1,147.33**
Royalties	$1.02	$68.50
Refining & Transportation	$0.14	$9.13
Total Cash Cost	**$18.28**	**$1,224.97**
Net Silver and Zinc By-product Credit	**$8.91**	**$596.90**
By-product Cash Cost Per Ounce Gold	**$9.37**	**$628.07**
Sustaining Capital, Reclamation & Closure	$0.16	$10.61
Corporate Overhead	$0.31	$20.49
Exploration	$0.04	$2.74
AISC(1) Per Ounce Gold	**$9.88**	**$661.91**

(1) All-in sustaining costs are presented as defined by the World Gold Council and include cash costs plus exploration and sustaining capital costs, reclamation and closure costs, and corporate overhead.

Financial Results

Financial results have been developed for three metal price assumptions with $1,250 per ounce gold, $20 per ounce silver and $1.00 per pound zinc as the base case. At the base case, the Updated PFS demonstrates that Metates will generate a pre-tax NPV of $1.78 billion at a 5% discount rate with an IRR of 10.9%. The LOM cash operating cost is $628 per ounce with an AISC cost of $662 per ounce.

Financial Results Summary			
Metal Price Assumptions	**Low Case**	**Base Case**	**High Case**
Gold ($/oz.)	$1,100.00	$1,250.00	$1,400.00
Silver ($/oz.)	$17.60	$20.00	$22.40
Zinc ($/lb.)	$0.88	$1.00	$1.12
Pre-Tax Economic Indicators			
NPV @ 5% ($000)	$375,463	$1,779,313	$3,183,162
IRR %	6.4	10.9	14.7
Payback (yrs)	11.2	8.7	7.2
After-Tax Economic Indicators			
NPV @ 5% ($000)	($395,012)	$737,416	$1,842,627
IRR %	3.3	7.7	11.3
Payback (yrs)	15.4	10.1	8.4

Updated PFS compared to 2013 PFS

The 2013 PFS fast tracked the mine development with Phase 1 processing 60,000 tpd and Phase 2 ore throughput increasing to 120,000 tpd in year 2. The LOM metal production for the 2013 PFS is essentially the same for the Updated PFS, but with active mining completed in year 19 and all metal production completed over 25 years. The mining, processing and metal recovery operations are similar for both studies.

Besides the relative scale of mining operations, significant changes and improvements in the Updated PFS have further de-risked the project in respect to site and infrastructure development, water management, power supply, reclamation and stakeholder interests. The principal changes since the 2013 PFS are as follows.

El Paso Site

The former Ranchito processing site (2013 PFS) has been relocated 8 kilometers east to the El Paso site close to the town of Cosala. Cosala has a population of about 10,000 people providing an excellent labour pool and support services. The El Paso site has more favourable topography for the process facilities and tailings storage and is adjacent to a large high-grade limestone resource. In addition, the El Paso site will eliminate 69 kilometers of access road improvements and reduce the length of the concentrate pipeline from 126 to 103 kilometers.

Water Supply and Management

The Mexican government increased the cost of surface water use by nearly 100% in 2015. Metates projected mine life is over 30 years. The project’s close proximity to the Pacific Ocean and low cost power allows for desalinated seawater to be a cost effective alternative with lower supply risk. The desalination plant will supply 20 million cubic meters of water per year and be located within the same hydrologic basin and irrigation district as existing water users and stakeholders. Chesapeake plans to outsource the construction and operation of the desalination plant to a third party. At current energy prices, the desalinated water production cost is estimated at $0.90 per cubic meter. The current Mexican tariff for surface water is $0.91 per cubic meter.

Changes incorporated into the Updated PFS will enable both the Metates and El Paso sites to be self-sufficient in water by using natural sourced run-off. Desalination has reduced the size for the water reservoirs which have now been located closer to larger drainage areas. These changes along with other water conservation measures have eliminated 137 kilometers of water supply and distribution pipelines provided in the 2013 PFS.

Power Supply

Power for the project will be sourced from a dedicated natural gas-fired power plant located northwest of the El Paso site and adjacent to a new pipeline constructed by the Mexican government. The power plant will be owned and operated by an independent power provider with any excess power not required by the Metates project sold into the national power grid. Power will be delivered from the power plant to the project sites by owner-constructed dedicated power transmission lines. A more direct routing of these lines has reduced their length by 44 kilometers. Based on the Q4 2015 Henry Hub natural gas price of $2.12/MMBtu the delivered cost of electric power to the project is estimated at $0.0495 per kilowatt hour, down from $0.0612 in the 2013 PFS.

Tailings Management

The waste rock and dewatered tailings storage design at the Metates site allows for concurrent LOM reclamation and reduces water demand by over 60% compared to conventional tailings facilities. At completion of mining, the tailings from the processed ore stockpile will be backfilled into the pit and contribute to a sustainable, long-term pit lake. At the El Paso site, the Updated PFS incorporates dry stack storage of combined neutralization products and cyanide leach tails rather than a conventional wet storage facility. The integrated dry stack disposal facility will substantially reduce water consumption and the environmental footprint.

Financial Comparison

For comparison with the Updated PFS, the 2013 PFS has been adjusted to the Updated PFS base case metal prices, changes in the 2014 Mexican tax regime, revised metal recoveries and elimination of the cash reserve. The initial Phase 1 capital cost for the 2013 PFS is $2.94 billion (60,000 tpd rate) increasing to $4.22 billion to achieve full nameplate capacity (120,000 tpd rate) in Phase 2. The initial Phase 1 throughput (30,000 tpd rate) in the Updated PFS has a capital cost of $1.91 billion with $1.59 billion in capital to complete Phase 2 to the 90,000 tpd rate.

Operating costs on a per tonne of ore basis have increased in the Updated PFS as compared to the 2013 PFS largely due to the lower throughput rates, mine fleet leasing costs and outsourcing the limestone/lime plant. For the 2013 PFS, the adjusted LOM by-product cash cost is $417 per ounce. The Updated PFS by-product cash cost is $628 per ounce LOM. The AISC is $662 per ounce, ranking in the lowest industry quartile of 2015 gold production. The AISC reflects low sustaining capital from leasing versus capitalizing the mine fleet, relatively low LOM exploration costs and concurrent reclamation being accounted as an operating cost.

Operating cash costs per ounce also increased in the Updated PFS as a result of additional metallurgical testwork that increased the overall gold recovery from 89% to 90% but decreased the silver recovery from 76% to 66% and zinc recovery from 85% to 81%. Silver recoveries average 75% in the first 5 years of production when mined silver grades are higher. Partially offsetting the impact of the increased operating cost is a 20% reduction in the cost of electric power due to lower prevailing natural gas prices. The attractive LOM cash costs for both the 2013 PFS and Updated PFS reflect the significant silver and zinc by-product credits along with the low stripping ratio, low power and neutralization costs.

Comparison of Adjusted 2013 PFS and Updated PFS		
	2013 PFS	**Updated PFS**
Contained Metal Reserves		
Gold (thousand oz.)	18,452	18,279
Silver (thousand oz.)	526,111	501,556
Zinc (million lbs.)	4,185	3,997
Production		
Total Mine Life (years)	19	27

Total Plant Operating Life (years)	25	37
Phase 1 (years)	1	4
Phase 1 Production Rate (tonnes/day)	60,000	30,000
Phase 2 Production Rate (tonnes/day)	120,000	90,000
Average Annual Gold Production (thousand oz)	664	445
Average Annual Silver Production (thousand oz)	13,708	8,856
Average Annual Zinc Production (million lbs.)	128.0	88.3
Capex and Opex		
Initial Phase 1 Capital ($000)	$2,939,670	$1,909,644
Initial Phase 1 & 2 Capital ($000)	$4,218,244	$3,496,415
Total Operating Cost ($ per tonne milled)	$13.59	$17.12
LOM Cash Cost (gold only by-product basis)	$417	$628
Financial Results		
Pre-tax NPV (5%) ($000)	$3,471,455	$1,779,313
Pre-tax IRR (%)	14.4	10.9
Pre-tax Payback (years)	5.5	8.7
After-tax NPV (5%) ($000)	$1,948,365	$737,416
After-tax IRR (%)	10.7	7.7
After-tax Payback (years)	6.7	10.1

Note: 2013 PFS adjusted with Updated PFS metal price assumptions, Mexican taxes, metal recoveries, 0.5% royalty and no cash reserve.

The 2013 PFS and Updated PFS provide viable alternative development options for Metates. The 2013 PFS features a rapid production ramp up with higher initial capital and superior project economics. The Updated PFS has lower initial capital, lower project execution risk with expansion funded by cash flow. The scalable mine plans and multiple metal streams provide optionality and financing flexibility in Metates future development.

Going forward, Chesapeake does not plan to undertake further detailed engineering and development work at Metates. In the current market environment, management believes the Updated PFS has significantly advanced and de-risked Metates. The two PFS studies demonstrated that building either a large or smaller initial mine, the project is economically viable at current metal prices.

OTHER EXPLORATION PROJECTS

TALAPOOSA (Nevada, USA)

On November 26, 2010, Gunpoint acquired from Chesapeake a 100% interest in the Talapoosa gold project (“Talapoosa”) located in Lyon County, Nevada.

Talapoosa is a low-sulphidation gold/silver property in the Walker Lane gold trend of western Nevada, approximately 45 kilometers east of Reno. The property consists of 535 unpatented lode mining claims and seven additional fee land sections which cover 10,780 hectares. Since 1977, eight mining companies have drilled 564 drill holes for 71,000 meters along with environmental and metallurgical work. To date, four zones of mineralization have been identified – Main Zone, Bear Creek Zone, Dyke Adit, and East Hill.

The Talapoosa project has a NI 43-101 compliant resource estimate (April 2013) hosting a measured and indicated resource of 1.0 million ounces of gold (31.2 million tons at a grade of 0.032 oz/t AuEq) and an inferred resource of

233,532 ounces of gold (11.2 million tons at a grade of 0.021 oz/t AuEq) using a cut-off of 0.015 oz/t gold equivalent.

In March 2015, the Company closed a transaction with Timberline Resources Corporation ("Timberline"), granting Timberline an option ("Option") to acquire from Gunpoint's subsidiary, American Gold Capital US Inc. ("American Gold"), a 100% interest in the Talapoosa gold project located in Nevada. In consideration for the Option, Timberline has paid US$300,000 and issued 2.0 million shares of common stock of Timberline to American Gold. The Timberline shares being issued are subjected to the following vesting schedule:

Vesting date (date initial securities are released from escrow)	Timberline Common Shares ('000)
September 12, 2015 (vested)	500
March 12, 2016 (vested)	500
September 12, 2016	500
March 12, 2017	500
	2,000

As at June 30, 2016, American Gold owns 9% of the outstanding shares issued in Timberline.

Timberline has within 30 months from March 12, 2015 to exercise the Option to acquire a 100% interest in Talapoosa. Timberline can exercise the Option by making a US$10.0 million cash payment to American Gold. For a period of five years after Timberline exercises the Option, Timberline would be required to pay American Gold an additional US$10.0 million (payable in cash and Timberline common shares) if the daily price of gold averages US$1,600 per ounce or greater for a period of ninety consecutive trading days. Timberline plans to complete a feasibility study on Talapoosa during the option period. American Gold retains a 1% net smelter royalty on Talapoosa which Timberline can purchase for US$3.0 million.

On August 10, 2015, Timberline filed a "Preliminary Economic Assessment on the Talapoosa Project" ("PEA") on SEDAR (the PEA is filed on www.sedar.com.). At a 5% discount rate, the PEA indicated an after-tax NPV of US$136 million and 39% IRR at US$1,150/oz gold and US$16/oz silver.

LA CECILIA (Sonora State, Mexico)

La Cecilia consists of four mineral concessions totalling 6,435 hectares of which one concession comprising 5,641 hectares was staked by the Company.

La Cecilia is a low-sulphidation, epithermal-type gold-silver system related to two well-developed northwest and northeast trending sets of faults centred on "Cerro Magallanes", a rhyolite dome complex. The mineralization occurs as high grade in vein structures and as lower grade within broader zones of stockeworks and breccias. Numerous other anomalous zones of silicification, brecciation and argillic alteration exist across the extent of the flow dome complex, an area of more than 1 kilometre by 2 kilometres. La Cecilia was acquired by Gunpoint in November 2010, together with Talapoosa and La Gitana.

TATATILA (Veracruz State, Mexico)

In 2007, the Company acquired through purchase and staking the Tatatila project, a precious metal and polymetallic mining district in Veracruz State. Chesapeake acquired seven concessions of a National Mineral Reserve totaling 2,767 hectares in staged payments totaling US$56,000 from the CRM, a mining division of the Mexican government. The Company also staked one concession comprising 25,602 hectares.

The Tatatila project covers a 200 square kilometre district characterized by Cretaceous limestones and sedimentary rocks affected by multi-phase intrusions. The main intrusive complex is more than 10 kilometers in diameter and consists of granodiorites, quartz-diorites and granites of Tertiary age. Igneous activity generated intermittent hydrothermal events that formed widespread skarn-type alteration zones along the contact between the calcareous and intrusive rocks. Porphyry and epithermal occurrences have also been found in this district.

RIO MINAS (Oaxaca State, Mexico)

Rio Minas is a silver – rich, polymetalic skarn prospect. To date, five major skarn zones have been identified within a 6 kilometer long, NE trending corridor associated with a NE-trending regional fault system. Rio Minas comprises one mineral concession that was acquired through staking totaling 7,425 hectares.

LA GITANA (Oaxaca State, Mexico)

La Gitana is a large low sulphidation epithermal system hosting precious metals mineralization that is both structurally and lithologically controlled. During 2005 and 2006, the Company completed 40 diamond drill holes comprising 8,462 meters on the La Gitana project. The drill program primarily tested Cerro di Oro, a 1.5 kilometer long, NW-trending, structurally-controlled, epithermal system where gold-silver mineralization is found as high-grade shoots in a set of N-W trending, sub-vertical structures, and as low grade disseminations within broad zones of quartz stockworks and breccias.

A NI 43-101 compliant technical report on the La Gitana Project concluded that the exploration program undertaken by the Company on the Cerro di Oro zone of the La Gitana project (including detailed surface mapping and sampling, ground geophysics and diamond drilling) provided sufficient information to confirm the existence of well-defined gold-silver mineralization extending 500 meters in length, 50 to 150 meters wide and 50 to 300 meters deep. Step out drilling also discovered additional gold-silver mineralization along strike for over 300 meters to the southeast. La Gitana is held by Gunpoint.

La Gitana was acquired by Gunpoint in November 2010, together with Talapoosa and La Cecilia.

EL ESCORPION (Guatemala)

The Company has an option to purchase the El Escorpion property (“El Escorpion”), a 900 hectare concession in eastern Guatemala. To earn a 100% interest, the option payments total US$351,000 over 5 years. A 1% NSR can be purchased for US$585,000. In August 2015, the Ministry of Energy and Mines granted title to the concession to the Company.

Carrying amount (‘000 US$)	June 30, 2016
Upon signing the agreement (paid)	$ 16.0
On January 28, 2012 (paid)	25.0
On January 28, 2013 (paid)	30.0
On January 28, 2014 (paid)	35.0
On March 23, 2015 (paid)	25.0
On July 28, 2015 (paid)	20.0
On January 28, 2016 (see amendment below)	200.0
	$ 351.0

On May 20, 2016, the Company amended the final US $200,000 due January 28, 2016 per the schedule below:

Carrying amount (‘000 US$)	June 30, 2016
On or before signing the amendment (paid)	$ 60.0
On May 31, 2016 (paid)	70.0
On September 1, 2016	35.0
On December 15, 2016	35.0
	$ 200.0

The El Escorpion property is located 85 kilometers by paved road southeast of Guatemala City. El Escorpion is situated 7 kilometers southwest and along trend of Tahoe Resources Inc.'s Escobal mine ("Escobel") which has a NI 43-101 compliant indicated mineral resource of 367 million ounces of silver grading 422 g/t, plus 37 million ounces of silver grading 254 g/t in the inferred category. Mineralization at Escobal is associated with steeply dipping and northeast-southwest trending intermediate sulfidation epithermal silver rich quartz veins with significant values in gold, lead and zinc. The Escobal land package completely surrounds the Escorpion project.

Mapping and sampling by Chesapeake has identified two prospective areas with intermediate sulfidation epithermal precious and base metal mineralization. The outcropping mineralization at El Escorpion appears to have many similarities to that at Escobal and occurs in a fault controlled, intermediate sulfidation epithermal system characterized by several multistage, subparallel silver-lead-zinc quartz-carbonate veins and stockworks. To date, the northeast-southwest trending system has been traced for over 1500 meters along strike and remains open to the northeast and southwest. The system is characterized by carbonate-minor quartz vein swarms in the southwest (Mina Blanca zone) and quartz stockworks and quartz veins in the northeast part of the concession (Escorpion –Los Pozos zones). The epithermal system is hosted in volcaniclastic sediments, porphyritic andesites and rhyodacitic rocks, the same rock types which host mineralization at Escobal.

On June 14, 2013, the Company concluded an agreement in respect of the El Escorpion project with Gunpoint, whereby Gunpoint acquired a 100% interest in the Company's El Escorpion project by issuing and granting the following to Chesapeake.

- 500,000 common shares of Gunpoint
- 500,000 warrants exercisable at $1.50 per share for a term of five years
- A 1.5% NSR royalty in the event Chesapeake purchases the existing 1.0% NSR
- 1.0 million common shares of Gunpoint in the event a NI 43-101 measured and indicated resource estimate of 1.0 million gold equivalent ounces is achieved on the Escorpion property.

REGIONAL EXPLORATION

The Company continues to explore for additional gold and silver prospects in western Mexico. The Company has an ongoing program of systematic regional exploration focused within a 100 kilometer radius of Metates and the El Paso plant site near Cosala in Sinaloa State, Mexico. Chesapeake believes this highly prospective corridor that parallels the Pacific coast and lies along the western margin of the Sierra Madre Occidental, could host numerous gold-silver-polymetallic deposits. Excellent infrastructure exists in the region with close proximity to a paved highway, power grid and a new natural gas pipeline constructed by the Mexican government. To date, three prospects, Nicole, San Javier and El Paso, with bulk scale potential, are being advanced to drill stage.

SUMMARY OF INTERIM CONSOLIDATED CONDENSED LOSS

(tabled amounts are expressed in thousands of CAD dollars)	**Six months ended June 30, 2016**	**Six months ended June 30, 2015**
Depreciation	(14.0)	(28.0)
Exploration	(239.6)	(371.4)
General & administration (1)	(629.6)	(867.4)
Share based compensation	(1,224.0)	(1,575.7)
	(2,107.2)	(2,842.5)
Finance (cost) income, net	150.1	187.7
Foreign exchange gain (loss)	(83.4)	348.7
Gain from sale of available for sales investment	-	-
Impairment on equipment	(6.7)	-
Impairment on investment	(100.6)	-
Other expense	-	-
Net loss before tax	(2,147.8)	(2,306.1)
Other comprehensive gain (loss)	2,571.5	(14.4)
Net loss and comprehensive loss	423.7	(2,320.5)
Basic/Diluted loss per share	(0.05)	(0.05)

(1) General and administration (“G&A”) consists of general and administrative expenses, professional fees and management fees

The Company incurred a net loss before tax of $2.1 million ($0.05 loss per share) for the six months ended June 30, 2016 compared to a loss of $2.3 million ($0.05 loss per share) in the same period in 2015. General corporate overhead of $629,600 was lower when compared to $867,400 in 2015 with reduced administrative and consulting expenses after the completion of the Updated PFS. In the six months ended June 30, 2016, $83,400 of foreign exchange loss was recognized compared to a $348,700 gain in the same period in 2015. The $100,600 impairment on investment relates to the Timberline common shares decline in market value during the first six months of this fiscal year.

Other comprehensive loss fluctuated over the fiscal periods. This was mainly due to the volatility of the stock market from international economic environment and the IFRS non-cash adjustment related to the translation of measurement currency to reporting currency.

Consolidated quarterly loss – 8 quarters historic trend

(tabled amounts are expressed in thousands of CAD dollars)	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**
Amortization	(5.1)	(8.9)	(10.8)	(11.8)	(13.0)	(15.0)	(8.3)	(16.5)
Exploration	(86.4)	(153.2)	(152.7)	(123.4)	(116.0)	(255.4)	(278.9)	(122.8)
General & administration [(1)]	(312.6)	(317.0)	(333.3)	(288.4)	(393.4)	(474.0)	(576.0)	(341.9)
Share-based compensation	(738.9)	(485.1)	(667.4)	(722.2)	(859.5)	(716.2)	(874.6)	(545.9)
	(1,143.0)	(964.2)	(1,164.2)	(1,145.8)	(1,381.9)	(1,460.6)	(1,737.8)	(1,027.1)
Finance (cost) income, net	71.5	78.6	156.6	44.5	91.7	96.0	101.3	108.5
Foreign exchange (loss) gain	(8.4)	(96.0)	156.1	180.7	(152.0)	500.7	314.7	79.8
Gain (loss) on sales of available for sales investments	-	-	-	(4.4)	-	-	(0.6)	-
Impairment of marketable securities	-	(100.6)	(1,416.9)	-	-	-	(102.5)	-
Impairment of mineral properties		-	(959.4)	-	-	-	(403.7)	-
Other expenses	(6.7)	-	-	-	-	-	18.3	18.9
Income taxes	-	-	125.3	-	-	-	-	-
Net loss	(1,086.6)	(1,061.2)	(3,102.5)	(925.0)	(1,442.2)	(863.9)	(1,810.3)	(819.9)
Other comprehensive (loss) income	3,031.4	(459.9)	563.2	(533.7)	(557.7)	543.3	(834.1)	59.4
Total comprehensive gain (loss)	1,944.8	(1,521.1)	(2,539.3)	(1,458.7)	(1,999.9)	(320.6)	(2,664.4)	(760.5)
Basic/Diluted loss per share	(0.02)	(0.02)	(0.06)	(0.02)	(0.03)	(0.02)	(0.06)	(0.02)
Total assets	95,677.2	93,417.3	95,073.5	97,060.9	97,974.5	98,908.1	98,480.7	99,493.1

(1) General and administration ("G&A") consists of general and administrative expenses, professional fees and management fees

Three months ended June 30, 2016 vs. prior quarters in 2015 and historical quarters in 2014

The Company incurred a net loss after tax of $1.1 million ($0.02 loss per share) for the three months ended June 30, 2016. When compared with Q1 2016 and prior quarters in fiscal 2015 and 2014, the net loss in the current quarter was at a similar level with previous quarters except for Q4 2015 and Q4 2014. During Q4 2015 and Q4 2014, significant impairment expenses were taken on the investments and mineral properties.

Other comprehensive loss fluctuated over the fiscal periods. This was mainly due to the volatility of the stock market from international economic environment and the IFRS non-cash adjustment related to the translation of measurement currency to reporting currency.

Change in total assets

Total assets remained reasonably consistent in the past two fiscal years. The decrease in value since 2014 was due to Company's exploration and development activities that led to a lower cash balance, decline in marketable securities and long term investments.

LIQUIDITY AND CAPITAL RESOURCES

	Six months ended June 30,	
(tabled amounts are expressed in thousands of CAD dollars)	**2016**	**2015**
Cash outflows from operating activities	(1,325.7)	(606.3)
Cash outflows from investing activities	(840.1)	(2,304.8)
Net cash flows	(2,165.8)	(2,911.1)
Cash balance	22,089.9	26,434.5

(tabled amounts are expressed in thousands of CAD dollars)	**2016**	**2015**
Opening balance – cash and cash equivalent	**24,402.5**	**28,992.0**
Proceeds from disposition of mineral property, net	-	83.8
Proceeds from sales of other investment	-	225.0
Investment income (cost) – cash received	192.7	232.3
Increase (decrease) in accounts payable	-	223.8
Increase in accounts receivables and prepaid expense	-	221.0
General & administration and other overhead	(629.6)	(611.8)
General exploration expense	(239.6)	(371.4)
Capitalized Exploration Expense (e.g. Metates)	(840.1)	(2,613.6)
Settlement of accounts payable	(804.6)	-
Foreign exchange impact on cash and other	8.6	53.4
Ending balance - cash and cash equivalent	**22,089.9**	**26,434.5**

As at June 30, 2016, the Company's net working capital was $23.1 million, down from a net working capital of $24.1 million as at December 31, 2015. Cash and cash equivalents are primarily held in major Canadian chartered banks and Canadian government securities with short-term maturity dates. The $1.0 million decrease in the cash balance was principally from undertaking the technical work to complete the Updated PFS for Metates. The Company also conducted generative and regional exploration near Metates.

Cash outflow from operating activities in the six months ended June 30, 2016 was $1.3 million. The outflow was primarily attributable to general exploration ($239,600) and corporate overhead and management fees ($629,600). These expenses were netted out by positive working capital adjustments.

During the six months ended June 30, 2016, cash outflow from investing activities was lower than in 2015 due to decreased mineral property expenditures. In 2016 the Company's focus has been to complete the Updated PFS and regional exploration near Metates and the El Paso site.

Cash and cash equivalent balance as at June 30, 2016 was $22.1 million.

The Company's ability to continue as a going concern is dependent on the Company's ability to raise funds. The Company has sufficient working capital to fund the planned development and corporate expenses through 2016 and 2017.

SHAREHOLDERS' EQUITY

As at the June 30, 2016, the Company had 44,416,366 shares and 5,833,000 share purchase options outstanding.

Subsequent to June 30, 2016, 31,250 stock options were exercised (with a strike price of $3.30 per share) for a total proceed of $103,125.

As at the date of the report, the Company had 44,447,616 shares and 5,801,750 share purchase options outstanding.

As at the June 30, 2016 and the date of this report, the Company has 375,000 shares in escrow.

On March 21, 2016, the Company granted incentive options to directors, officers, employees and consultant to purchase 2,235,000 common shares of the Company at an exercise price of $2.15 per share for a term of 5 years, expiring March 21, 2021. The options will vest and exercisable on the basis of 25% annually commencing March 21, 2017, the first anniversary of the date of the option grant.

The following is a summary of stock options outstanding as at the date of this report:

Number of options ('000s)	Vested ('000s)	Exercise price per share	Expiry Date
2,612	629	$3.30	29-Aug-24
955	955	10.75	5-Feb-17
2,235	-	2.15	21-Mar-21
5,802	1,584		

REGULATORY DISCLOSURES

Off-Balance Sheet Arrangements

As at the date of this report, the Company had no off-balance sheet arrangements.

Related Party Transactions

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

The Company incurred the following expenses with related parties during the six month ended June 30, 2016:

Amount in '000s	Three months ended June 30		Six months ended June 30	
	2016	**2015**	**2016**	**2015**
Consulting	$ 50.5	$ 95.2	$174.0	$ 176.8
Legal	5.5	43.0	5.5	45.0
Management fees	62.5	62.5	125.0	125.0
Rental	6.0	6.0	12.0	12.0

During 2016 and 2015, legal fees were paid or accrued to a legal firm of which one of the partners is the Corporate Secretary of the Company. Management and rental fees were paid or accrued to a Company owned by an officer of the Company. Consulting fees were paid or accrued to a director of the Company. These expenses were measured at the exchange amounts agreed upon by the parties. As at June 30, 2016 the Company had amounts payable of $156,000 (December 31, 2015 - $444,900) to these parties. These amounts are unsecured and non-interest bearing.

Financial Instruments

The following provides a comparison of carrying and fair values of each classification of financial instrument:

Amounts in '000s	June 30, 2016		December 31, 2015	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Financial assets				
Fair value through profit and loss ("FVTPL")				
Cash and cash equivalents	22,089.9	22,089.9	24,402.5	24,402.5
Other receivables	69.8	69.8	255.2	255.2
Reclamation bond	213.9	213.9	224.8	224.8
Available-for-sale				
Long term investment	2,201.6	2,201.6	490.4	490.4
Marketable securities	1,214.9	1,214.9	1,758.2	1,758.2
Financial liabilities				
Other financial liabilities				
Accounts payable & accrued liabilities	676.3	676.3	1,708.2	1,708.2

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).

The following table sets forth the Company's assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Amounts in '000s				
	Level 1	Level 2	Level 3	Total June 30, 2016
Cash and cash equivalents	$ 22,089.9	$ -	$ -	$ 22,089.9
Marketable securities	2,201.6	-	-	2,201.6
Long term investment	-	1,214.9	-	1,214.9

Amounts in '000s				
	Level 1	Level 2	Level 3	Total December 31, 2015
Cash and cash equivalents	$ 24,402.5	$ -	$ -	$ 24,402.5
Marketable securities	1,758.3	-	-	1,758.3
Long term investment	490.3	-	-	490.3

Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minerales El Prado S.A. de C.V. (Mexico) and American Gold Capital Corporation (British Columbia). The accounts of American Gold Capital Corporation's wholly-owned subsidiaries, Metates Mining Enterprises LLC (Delaware) and its wholly-owned subsidiary American Gold Metates S. de R.L. de C.V. (Mexico) are also included in these consolidated financial statements. During 2010, the Company acquired an 81.93% interest in Gunpoint Exploration Ltd. (British Columbia) (formerly Christopher James Gold Corp.) ("Gunpoint") in exchange for transferring all of its interest in American Gold Capital US Inc. (Nevada) ("American Gold US") to Gunpoint. These consolidated financial statements include the accounts of American Gold US for 2010 and 2011. From March 26, 2010 onwards, they also include the accounts of Gunpoint as well as the recognition of an 18.07% non-controlling interest in Gunpoint and American Gold US. Subsequent to Gunpoint's financing in October 2012, the revised non-controlling interest is 25.54%. All significant inter-company balances and transactions have been eliminated upon consolidation.

Special Purpose Entities (''SPE's'') as defined in SIC 12 Consolidation – Special Purpose Entities are entities which are created to accomplish a narrow and well-defined objective. SPE's are subject to consolidation when there is an indication that an entity controls the SPE. The Company has determined that its investment in Hunt Exploration S.A. ("Hunt") is a SPE that the Company controls. The accounts of Hunt are consolidated with those of the Company.

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method in accordance with IFRS 3, Business Combinations. The cost of an acquisition is measured as the sum of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Corporation's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. The excess of (i) total consideration transferred by the Company, measured at fair value, including contingent consideration, and (ii) the non-controlling interests in the acquiree, over the acquisition date fair value of net assets acquired, is recorded as goodwill. Acquisition costs incurred are expensed.

Goodwill arising on an acquisition is recognized as an asset and initially measured at cost. Goodwill is not amortized; rather it is tested annually for impairment or at any time during the year that an indicator of impairment is identified.

Cash and cash equivalents

Cash and cash equivalents include cash on account, highly liquid short term deposits and guaranteed investment certificates with major financial institutions, and fixed income securities with a term to maturity of three months or less at the date of acquisition that are readily convertible into known amounts of cash.

Reclamation bond

The Company maintains cash deposits that are restricted to the funding of reclamation costs. For the Talapoosa property in Nevada State, USA, the Company has placed cash on deposit to fund future reclamation costs anticipated under a reclamation plan approved by the State of Nevada. Reclamation deposits are designated as fair value through profit and loss, are recorded at fair value, and are classified as a non-current asset.

Comprehensive income or loss

Comprehensive income or loss is the change in equity (net assets) of an enterprise during a period from transactions, events and circumstances other than those under the control of management and the owners. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. In accordance with this standard, the Company reports comprehensive income or loss in its statement of operations and accumulated other comprehensive income or loss in its statement of changes in equity. The components of other comprehensive income or loss include unrealized gains and losses on financial assets classified as available-for-sale.

Foreign currency translation

The functional currency of the reporting entity and each of its foreign operations must be assessed independently giving consideration to the primary economic environment in which each operates. Management has determined that the functional currencies of Minerales el Prado, its Mexican subsidiary is the Mexican Peso as this is the currency of the primary economic environment in which the Company operates. The Company and its other subsidiaries have the Canadian Dollar as their functional currency.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Exploration and evaluation assets

The Company capitalizes exploration and evaluation expenses at cost for expenditures incurred after it has obtained legal rights to explore a specific area and before technical feasibility and commercial viability of extracting mineral resources are demonstrable.

All direct and indirect costs relating to the exploration of specific properties with the objective of locating, defining and delineating mineral reserves on specific properties are capitalized as exploration and evaluation assets. Government assistance, mining duty credits and optionee commitments are applied against exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefit either from future exploration or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Management makes certain estimates and assumptions about future events or circumstances, in particular when an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

Exploration and evaluation expenditures are evaluated annually and then reclassified as mineral properties upon completion of technical feasibility and commercial viability.

Equipment

Equipment is recorded at cost. Amortization is provided at annual rates on a declining balance basis over the estimated useful lives of the equipment as follows:

Asset	Rate
Office, furniture and computer	10%
Vehicles	25%
Exploration equipment	10%

Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the statement of operations.

Impairment

The Company reviews the carrying value of long-lived assets for impairment when circumstances indicate an asset's value may not be recoverable. The evaluation is based on the higher of the asset's fair value less costs to sell and its value in use, which is present value of future cash flows expected to be derived from the asset in its current state. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds its recoverable amount.

Decommissioning obligation

The Company recognizes statutory, contractual and other legal obligations related to the retirement of tangible long-lived assets. These obligations are initially measured at fair value and subsequently adjusted for the accretion of any discount and changes in the underlying future cash flows and discount rate. The asset retirement cost is capitalized to the related asset and amortized to operations over time.

The Company recognizes the fair value of the liability for a decommissioning obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to retire the obligation. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of operations. The increase in the carrying value of the asset is amortized on the same basis as the resource properties.

Share-based compensation

The Company's share option plan provides for the granting of stock options to directors, officers, consultants and employees, which allow them to purchase common shares of the Company. The fair value of all stock based awards is estimated using the Black Scholes option pricing model at the grant date and expensed to operations over each award's vesting period. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of awards that will eventually vest are accounted for prospectively. None of the Company's awards call for settlement in cash or other assets. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in the share based payment reserve is recorded as an increase in issued capital. In the event that the options expire or are cancelled, previously recognized compensation expense associated with such stock option is not reversed.

When the Company issues Units that are comprised of a combination of common shares and warrants, the value is assigned to common shares and warrants based on their relative fair values. The fair value of the on the warrants is estimated using the Black Sholes option pricing model at the issuance dates.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax losses and other deductions carried forward.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a deferred tax asset is recorded against any deferred tax asset if it is probable that there will be future taxable income to offset. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

Recognition of interest income

Interest from cash and cash equivalents and fixed income marketable securities is recorded on an accrual basis when collection is reasonably assured.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the reporting period. The Company uses the treasury stock method for computing diluted loss per share. This method assumes that any proceeds obtained upon exercise of outstanding options or warrants would be used to purchase common shares at the average market price during the period. As the Company has recorded a net loss for each of the periods presented, basic and diluted net loss per share are the same as the exercise of stock options or share purchase warrants are anti-dilutive.

Share issuance cost

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are charged to expenses.

Financial Instruments – recognition and measurement

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as fair value through profit or loss are required to be measured at fair value, with gains and losses recognized in net earnings.

- Financial assets classified as held-to-maturity, loans and receivables and other liabilities are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income (loss).

The Company has implemented the following classification:

- Cash and cash equivalents and loans and other receivables are classified as fair value through profit or loss.
- Marketable securities and reclamation bonds are classified as available-for-sale.
- Accounts payable and accrued liabilities, margin balance payable and convertible debt are classified as other financial liabilities.

Transaction costs related to financial instruments classified as fair value through profit or loss are recognized immediately into income. For financial instruments classified as other than fair value through profit or loss, transaction costs are added to the financial instrument.

Risk and uncertainties

The operations of the Company are speculative due to the nature of its business which is the investment in the exploration and development of mining properties. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The list of risk factors below should not be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of its securities.

No History of Revenue

The Company's only source of income to date has been interest income earned on excess cash. There is no guarantee that the Company will enter into profitable agreements with mining companies and earn revenue from operations.

The Company is in the business of exploring for, with the ultimate goal of developing and producing, minerals from properties in which the Company has, or may have in the future, an interest. The Company has not commenced commercial production and the Company has no history or earnings or cash flow from its operations. As a result of the foregoing, there can be no assurance that the Company will be able to develop any of its properties profitably or that its activities will generate positive cash flow. The Company has not paid any dividends and it is unlikely to enjoy earnings or pay dividends in the immediate or foreseeable future. The Company has limited cash and other assets. A prospective investor in the Company must be prepared to rely solely upon the ability, expertise, judgment, discretion, integrity and good faith of the Company's management in all aspects of the development and implementation of the Company's business activities.

Market Price of the Common Shares

The Common Shares are listed and posted for trading on the TSXV and OTCQX. The Company's business is in an early stage of exploration and an investment in the Company's securities is highly speculative. There can be no assurance that an active trading market in the Company's securities will be established and maintained. Securities of companies involved in the resource industry have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. The price of the Common Shares is also likely to be significantly affected by short-term changes in commodity prices or in the Company's financial condition or results of operations as reflected in its quarterly earnings reports.

Acquisition Strategy

As part of the Company's business strategy, it has sought and will continue to seek new exploration, mining and development opportunities in the resource industry. In pursuit of such opportunities, the Company may fail to select appropriate acquisition candidates or negotiate acceptable arrangements, including arrangements to finance acquisitions or integrate the acquired businesses and their personnel into the Company. The Company cannot assure that it can complete any acquisition or business arrangement that it pursues, or is pursuing, on favorable terms, or that any acquisitions or business arrangements completed will ultimately benefit the Company.

The Company may not realize the benefits of its growth projects

As part of its strategy, the Company will continue existing efforts and initiate new efforts to develop new mineral projects. A number of risks and uncertainties are associated with the development of these types of projects, including political, regulatory, design, construction, labour, operating, technical, and technological risks, and uncertainties relating to capital and other costs, and financing risks. The failure to develop one or more of these initiatives successfully could have an adverse effect on the Company's financial position and results of operations.

Current Global Financial Conditions

Events over the last number of years in global financial markets, including sovereign debt crises, have had a profound impact on the global economy and global financial conditions have been subject to volatility. Many industries, including the mining sector, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets and a lack of market liquidity. A continuing slowdown in financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates may adversely affect the Company's business, financial condition, results of operations and ability to grow.

Financing Risk

The Company is limited in financial resources and has no assurance that additional funding will be available for further exploration and development of its projects or to fulfill its obligations under any applicable agreements. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. Failure to obtain such additional financing could result in delay or infinite postponement of further exploration and development of its projects with the possible loss of such properties.

Competition

The mineral exploration and development industry is highly competitive. The Company competes with other domestic and international mineral exploration companies that have greater financial, human and technical resources. The Company's competitors may be able to respond more quickly to new laws or regulations or emerging technologies, or devote greater resources to the expansion or efficiency of their operations that the Company can. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and gain significant market share to the Company's detriment. The Company may also encounter increasing competition from other mining companies in the Company's efforts to hire experienced mining professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding, to acquire it on acceptable terms, or to acquire suitable properties or prospects for mineral exploration in the future. As a result of this competition, the Company may not be able to compete successfully against current and future competitors, and any failure to do so could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

In addition, there is no assurance that a ready market will exist for the sale of commercial quantities of ore. Factors beyond the control of the Company may affect the marketability of any substances discovered. These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital or losing its investment capital.

Risks related to International Activities

A material portion of the business of the Company is located outside of North America, with assets in USA, Guatemala and Mexico. The Company's international operations may be adversely affected by political or economic developments or social instability, which will not be within the Company's control, including, among other things, the risks of political unrest, labour disputes and unrest, war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions, contracts and permits, government regulation, delays in obtaining or renewing or the inability to obtain or renew necessary permits, taxation policies, economic sanctions, fluctuating exchange rates, currency controls, high rates of inflation, limitations on foreign ownership and increased financing costs. The occurrence of any such events could have a material adverse effect on the Company's business and results of operations as currently contemplated.

It may also be difficult for the Company to find and hire qualified people in the mining industry who are situated in Guatemala, Mexico and the United States or to obtain all of the necessary services or expertise in Guatemala, Mexico or the United States or to conduct operations on the Company's projects at reasonable rates. If qualified people and services or expertise cannot be obtained in Guatemala, Mexico or the United States, the Company may need to seek and obtain those services from people located outside of these areas, which will require work permits and compliance with applicable laws and could result in delays and higher costs to conduct the Company's operations.

Corruption and Bribery Risk

The Company's operations are governed by, and involve interactions with, many levels of government. Like most companies, the Company is required to comply with anti-corruption and anti-bribery laws, including the Canadian *Corruption of Foreign Public Officials Act*. In recent years, there has been a general increase in both the frequency of enforcement and severity of penalties under such laws, resulting in greater scrutiny and punishment to companies convicted of violating anti-bribery laws. Furthermore, a company may be found liable for violations by not only its employees, but also by its third party agents. Although the Company takes steps to mitigate such risks, such measures are not always effective in ensuring that the Company, its employees or third party agents will comply strictly with such laws. If the Company finds itself subject to an enforcement action or is found to be in violation of such laws, this may result in significant penalties, fines and/or sanctions imposed on the Company resulting in a material adverse effect on the Company's reputation and results of operations.

Risks Associated with Joint Venture Agreements

Pursuant to agreements the Company may enter into in the course of its business, the Company's interest in its properties may become subject to the risks normally associated with the conduct of joint ventures. In the event that any of the Company's properties become subject to a joint venture, the existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on the Company's profitability or the viability of its interests held through joint ventures, which could have a material adverse impact on the Company's business prospects, results of operations and financial condition: (i) disagreements with joint venture partners on how to conduct exploration; (ii) inability of joint venture partners to meet their obligations to the joint venture or third parties; and (iii) disputes or litigation between joint venture partners regarding budgets, development activities, reporting requirements and other joint venture matters.

Reliance on Key Individuals

The Company's success depends on its ability to attract and retain the services of key personnel who are qualified and experienced. In particular, the success of the Company is, and will continue to be to a significant extent, dependent on the expertise and experience of the Company's directors and senior management. It is expected that these individuals will be a significant factor in the Company's growth and success. The loss of the service of these individuals could have a material adverse effect on the Company.

The resource industry is largely driven by fluctuations in commodity prices which, when high, can lead to a large number of projects being developed which in turn increases the demand for skilled personnel, contractors, material and supplies. Accordingly, there is a risk to the Company of losing or being unable to secure enough suitable key personnel or key resources and, as a result, being exposed to increased capital and operating costs and delays, which may in turn adversely affect the development of the Company's projects, the results of operations and the Company's financial condition and prospectus.

Commodity Prices

The price of the Common Shares and the Company's financial results may be significantly adversely affected by a decline in the price of metals. The price of metal commodities fluctuates widely, especially in recent years, and is affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the United States dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major metal-producing countries throughout the world.

Dividend Policy

No dividends on the Common Shares have been paid by the Company to date. The Company anticipates that it will retain all earnings and other cash resources for the foreseeable future for the operation and development of its business. The Company does not intend to declare or pay any cash dividends in the foreseeable future. Payment of any future dividends will be at the discretion of the Company's board of directors after taking into account many factors, including the Company's operating results, financial condition and current and anticipated cash needs.

Conflicts of Interest

Certain of the directors and officers of the Company also serve as directors and/or officers of other companies involved in natural resource exploration, development and mining operations and consequently there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest in accordance with the procedures set forth in the *Business Corporations Act* (British Columbia) and other applicable laws.

Exploration, Development and Operating Risks

Mining operations generally involve a high degree of risk. Any potential mining operations of the Company will be subject to all the hazards and risks normally encountered in the exploration, development and production of metals, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding, fire, environmental hazards and the discharge of toxic chemicals, explosions and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of mines and other producing facilities, damage to property, injury or loss of life, environmental damage, work stoppages, delays in production, increased production costs and possible legal liability. Milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability. Although the Company believes that appropriate precautions to minimize risks are taken, these risks cannot be eliminated.

The exploration for and development of mineral deposits involves significant risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration or development programs planned or other mining operations in which the Company may acquire an interest will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable depends on a number of factors, including among other things: the interpretation of geological data obtained from drill holes and other sampling techniques, the particular attributes of the deposit, such as size, grade and proximity to infrastructure and labor; metal prices which are highly cyclical; government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; and political stability. The Company's development projects are also subject to the issuance of necessary permits and other governmental approvals and receipt of adequate financing. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may adversely affect the Company's business.

Exploration Costs

The estimates of costs to conduct further exploration work by the Company are based on certain assumptions with respect to the method and timing of exploration. By their nature, these estimates and assumptions are subject to significant uncertainties and, accordingly, the actual costs may materially differ from these estimates and assumptions. Accordingly, no assurance can be given that the cost estimates and the underlying assumptions will be realized in practice, which may materially and adversely affect the Company's viability.

Environmental Regulation, Risks and Hazards

All phases of mining operations are subject to environmental regulation in the jurisdictions in which they operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. Compliance with changing environmental laws and regulations may require significant capital outlays, including obtaining additional permits, and may cause material changes or delays in, or the cancellation of, the Company's exploration programs or current operations. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's mining operations.

Furthermore, environmental hazards may exist on the properties on which the owners or operators of mining operations hold interests which are unknown to such owners or operators at present and which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with mining operations at the Company's properties. To the extent such approvals are required and not obtained, mining operations may be curtailed or prohibited from continuing operations or from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. The occurrence of any environmental violation or enforcement action may have an adverse impact on the Company's operations and reputation.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on mining operations and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Governmental Regulation

Mining operations and exploration activities are subject to extensive laws and regulations governing exploration, development, production, exports, taxes, labor standards, waste disposal, protection and remediation of the environment, reclamation, historic and cultural resources preservation, mine safety and occupation health, handling, storage and transportation of hazardous substances and other matters. The costs of discovering, evaluating, planning, designing, developing, constructing, operating, and other facilities in compliance with such laws and regulations are significant. It is possible that the costs and delays associated with compliance with such laws and regulations could become such that the owners or operators of mining operations would not proceed with the development of or continue to operate a mine. As part of their normal course operating, and development activities, such owners or operators have expended significant resources, both financial and managerial, to comply with governmental and environmental regulations and permitting requirements, and will continue to do so in the future. Moreover, it is possible that future regulatory developments, such as increasingly strict environmental protection laws, regulations and enforcement policies thereunder, and claims for damages to property and persons resulting from mining operations could result in substantial costs and liabilities in the future.

Permitting

Mining operations are subject to receiving and maintaining permits from appropriate governmental authorities. It can be time-consuming and costly to obtain, maintain and renew permits. In addition, permit terms and conditions can impose restrictions on how the Company conducts its operations and limit the Company's flexibility in development of its mineral properties. Prior to any development on the Company's properties, permits from appropriate governmental authorities may be required. Permits required for the Company's operations may not be issued, maintained or renewed in a timely fashion or at all, may not be issued or renewed upon conditions that restrict the Company's ability to conduct the Company's operations economically, or may be subsequently revoke. Any such failure to obtain, maintain or renew permits, or other permitting delays or conditions could have a material adverse effect on the Company's business, results of operations, financial condition and prospectus.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Infrastructure

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect operations at the Company's properties.

Exploration and Geological Report

The reported results in the technical reports filed in respect of the Company's properties are estimates only. No assurance can be given that the estimated mineralization will be recovered. The reported results are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Estimates may require revision (either up or down) based on actual production experience. If the Company encounters mineralization or geological formations different from those predicted by past drilling, sampling and interpretations, any estimates may need to be altered in a way that could adversely affect the Company's operations or proposed operations. In addition, market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain minerals uneconomic.

Land Title

No assurances can be given that there are no title defects affecting the Company's properties. The Company's properties may be subject to prior unregistered liens, agreements, transfers or claims, including native land claims, and title may be affected by, among other things, undetected defects.

Commodity Price Fluctuations

The price of metals has fluctuated widely in recent years, and future serious price declines could cause continued development of and commercial production from the Company's properties to be impracticable. Future cash flows may not be sufficient and the Company could be forced to discontinue production and may be forced to sell the properties. Future production by the Company is dependent on metal prices that are adequate to make this property economic.

In addition to adversely affecting the commercial production estimates and financial conditions, declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Additional Capital

Mining, processing, development and exploration may require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, development or production or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on satisfactory terms.

Foreign Exchange Rate Fluctuations

Operations in Guatemala, Mexico, and Canada are subject to foreign currency exchange fluctuations. The Company raises its funds through equity issuances which are priced in Canadian dollars, and the majority of the exploration costs of the Company are denominated in United States dollars and Mexican pesos. The Company may suffer losses due to adverse foreign currency fluctuations.

Property Exploration and Development Risk

The Company’s properties are currently at the exploration stage of development. Exploration and development is subject to numerous risks, including, but not limited to, delays in obtaining equipment, material and services essential to developing the project in a timely manner; changes in environmental or other government regulations; currency exchange rates; labour shortages; and fluctuation in metal prices. There can be no assurance that the Company will have the financial, technical and operational resources to complete the exploration and development in accordance with current expectations or at all.

Insurance Risk

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failure, cave-ins, mechanical failures, changes in the regulatory environment and natural phenomena such as inclement weather conditions, fires, floods and earthquakes. Such occurrences could result in damage, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers reasonable, the Company's insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as loss of title to mineral property, environmental pollution, or other hazards as a result of exploration and production is not generally available to the Company or other companies in the mining industry on acceptable terms. The Company may also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect on our financial performance and results of operations.

Force Majeure

The Company's projects now or in future may be adversely affected by risks outside the control of the Company, including labour unrest, civil disorder, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

Forward Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Such forward-looking statements and information herein include, but are not limited to, statements regarding prospective gold, silver and zinc production, timing and expenditures to develop the Metates property, gold, silver and zinc resources, grades and recoveries, cash costs per ounce, capital and operating expenditures and sustaining capital and the ability to fund mine development at Metates. The Company does not intend to, and does not assume any obligation to update such forward-looking statements or information, other than as required by applicable law.

Forward-looking statements or information involve known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Chesapeake and its operations to be materially different from those expressed or implied by such statements. Such factors include, among others: ability to finance mine development, fluctuations in the prices of gold, silver and zinc, fluctuations in the currency markets (particularly the Mexican peso, Canadian dollar and U.S. dollar); changes in national and local governments, legislation, taxation, controls, regulations and political or economic developments in Canada and Mexico; operating or technical difficulties in mineral exploration, development and mining activities; risks and hazards of mineral exploration, development and mining (including environmental hazards, industrial accidents, unusual or unexpected geological conditions, pressures, cave-ins and flooding); inadequate insurance, or inability to obtain insurance; availability of and costs associated with mining inputs and labour; the speculative nature of mineral exploration and development, diminishing quantities or grades of mineral reserves as properties are mined; risks in obtaining necessary licenses and permits, and challenges to the Company's title to properties.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements or information, there may be other factors that cause results to be materially different from those anticipated, described, estimated, assessed or intended. There can be no assurance that any forward-looking statements or information will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements or information. Accordingly, readers should not place undue reliance on forward-looking statements or information.

Other technical information

Mr. Gary Parkison, Metates Project Manager and a Qualified Person as defined by NI 43-101 is responsible for the technical information on Metates, Mr. Doug Austin, P.E., Senior Vice President, Dr. Art Ibrado, QP Member, MMSA, Project Manager and Mr. Richard Zimmerman, R.G. Environmental Geologist with M3 and Mr. Michael Hester F AUS IMM, Vice President, and Ms. Sylvia Y. Genglet, Senior Geological Engineer of IMC, Dr. Deepak Malhotra, SME, President of Resource Development Inc., and Mr. Grenvil M. Dunn, P. Eng, C. Eng, Director of Hydromet (Pty) Ltd. prepared the NI 43-101 Technical Report, Preliminary Feasibility Study and the NI 43-101 Pre-feasibility study, Reserves Estimates and Mine Planning.