



## **CONSOLIDATED FINANCIAL STATEMENTS**

For the Three and Six Month Ended June 30, 2008

(Unaudited – Prepared by Management)

**Notice to Reader**

The accompanying financial statements of Chesapeake Gold Corp., comprised of the Consolidated Balance Sheets as at June 30, 2008 and December 31, 2007, and the Interim Consolidated Statements of Loss and Other Comprehensive Loss, Consolidated Statements of Cash Flows and Consolidated Statements of Shareholders' Equity for the three and six month periods ended June 30, 2008 and 2007 are the responsibility of the Company's management. The independent external auditors of the Company have not reviewed these financial statements.

**CHESAPEAKE GOLD CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(In Canadian Dollars)  
(Unaudited -Prepared by Management)

	<b>June 30, 2008</b>	December 31, 2007
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,898,789	\$ 14,087,176
Marketable securities (note 5)	7,849,208	8,082,890
Accounts receivable	549,728	287,667
Prepaid expenses	758,527	252,762
	<b>20,056,252</b>	22,710,495
<b>Asset Backed Commercial Paper (note 5)</b>	<b>8,193,181</b>	8,193,181
<b>Portfolio Investments (note 5)</b>	<b>611,750</b>	642,250
	<b>8,804,931</b>	8,835,431
<b>Investment in Mineral Properties (note 6)</b>	<b>85,552,486</b>	82,107,524
<b>Fixed Assets (note 7)</b>	<b>246,951</b>	289,723
<b>TOTAL ASSETS</b>	<b>\$ 114,660,620</b>	\$ 113,943,173
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,413,111	\$ 839,989
Income taxes payable	3,004,699	2,953,691
	<b>4,417,810</b>	3,793,680
<b>Future income tax liabilities</b>	<b>23,499,871</b>	23,499,871
<b>Reclamation obligations (note 10)</b>	<b>58,000</b>	58,000
	<b>27,975,681</b>	27,351,551
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 8)	88,202,218	87,800,891
Contributed surplus	9,745,863	9,866,690
Other comprehensive income (loss)	(1,397,295)	(1,668,397)
Deficit	(9,865,847)	(9,407,562)
	<b>86,684,939</b>	86,591,622
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 114,660,620</b>	\$ 113,943,173

*The accompanying notes are an integral part of these interim consolidated financial statements.*

APPROVED ON BEHALF OF THE BOARD:

" P. Randy Reifel "	Director
"Gerald L. Sneddon "	Director

**CHESAPEAKE GOLD CORP.****CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE INCOME**

For the Three and Six Month Ended June 30, 2008 and 2007

(In Canadian Dollars)

(Unaudited -Prepared by Management)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Amortization	\$ 5,151	\$ 24,184	\$ 24,671	\$ 46,929
Bank and interest	35,921	-	76,615	-
Geological consulting fees	16,701	89,084	32,469	156,779
Filing and transfer agent fees	41,974	7,875	81,242	83,435
Management fees (note 9)	43,750	43,750	87,500	87,500
Office and administration	266,757	49,911	553,280	262,843
Professional fees	81,576	27,706	163,445	240,906
Travel and investor communications	34,457	40,051	68,569	65,143
<b>OPERATING LOSS</b>	<b>526,287</b>	<b>282,561</b>	<b>1,087,791</b>	<b>943,535</b>
<b>OTHER INCOME/(EXPENSES)</b>				
Interest and other income	258,729	420,402	613,909	722,664
Foreign exchange gain (losses)	(64,019)	-	15,597	-
	<b>194,710</b>	<b>420,402</b>	<b>629,506</b>	<b>722,664</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(331,577)</b>	<b>137,841</b>	<b>(458,285)</b>	<b>(220,871)</b>
Provision for current income taxes	-	22,318	-	22,318
Provision for future income taxes	-	-	-	-
	-	160,159	-	(243,189)
<b>NET LOSS</b>	<b>\$ (331,577)</b>	<b>\$ 160,159</b>	<b>\$ (458,285)</b>	<b>\$ (243,189)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Unrealized loss on investments in current year	-	-	271,102	-
<b>COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>	<b>271,102</b>	<b>-</b>
<b>LOSS PER SHARE</b>				
Basic	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.01)
Diluted	(0.01)	0.01	(0.01)	(0.01)
<b>Weighted Average Number of Shares Outstanding</b>				
Basic	38,199,797	28,945,326	35,353,428	26,245,196
Diluted	38,199,797	29,007,836	35,353,428	26,307,650

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**CHESAPEAKE GOLD CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three and Six Month Ended June 30, 2008 and 2007**  
**(In Canadian Dollars)**  
**(Unaudited -Prepared by Management)**

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss	\$ (331,578)	\$ 115,523	\$ (458,285)	\$ (243,189)
Items not affecting cash:				
Amortization	5,151	24,184	24,671	46,929
-	-	-	-	-
Changes in non-cash working capital items:				
Accounts receivable	(122,567)	(29,569)	233,682	(74,730)
Prepaid expenses	(193,720)	273,631	(262,061)	260,552
Accounts payable and accrued liabilities	396,151	(206,048)	573,122	173,044
Income taxes payable	37,034	21,188	51,008	21,188
	<b>(209,529)</b>	<b>198,909</b>	<b>162,137</b>	<b>183,794</b>
<b>Investing activities</b>				
Marketable securities	42,061	345,756	(204,163)	1,507,929
Mineral properties	(2,046,193)	(783,908)	(3,444,962)	(1,555,637)
Cash received from acquisition of American Gold (note 1)	-	-	-	13,023,528
Fixed assets purchased	(2,242)	(27,857)	18,101	(27,857)
	<b>(2,006,374)</b>	<b>(466,009)</b>	<b>(3,631,024)</b>	<b>12,947,963</b>
<b>Financing activities</b>				
Funds reserved for exercise of options	-	(330,000)	-	-
Cash received on issue of shares	-	412,500	280,500	510,450
	-	82,500	280,500	510,450
		-		
<b>CHANGE IN CASH &amp; CASH EQUIVALENTS</b>	<b>(2,215,903)</b>	<b>(184,600)</b>	<b>(3,188,387)</b>	<b>13,642,207</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>13,114,692</b>	<b>27,706,265</b>	<b>14,087,176</b>	<b>13,879,458</b>
<b>CASH AND CASH EQUIVALENTS, end of the period</b>	<b>\$ 10,898,789</b>	<b>\$ 27,521,665</b>	<b>\$ 10,898,789</b>	<b>\$ 27,521,665</b>
<b>Supplementary information</b>				
Interest paid	\$ 35,921	\$ 32,400	\$ 76,615	\$ 71,368

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**CHESAPEAKE GOLD CORP.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**For the Six Month Ended June 30, 2008 and December 31, 2007**

**(In Canadian Dollars)**

**(Unaudited -Prepared by Management)**

	Share Capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Shareholder's Equity Total
Balance, December 31, 2006	\$ 33,300,858	\$ 1,478,777	\$ 67,149	\$ (6,934,252)	\$ 27,912,532
Net loss	-	-	-	(2,473,310)	(2,473,310)
Unrealized loss on investments in current year	-	-	(1,735,546)	-	(1,735,546)
Shares issued for mineral properties	105,000	-	-	-	105,000
Shares issued for acquisition of American Gold (note 1)	53,230,572	-	-	-	53,230,572
Warrants issued for acquisition of American Gold (note 1)	-	8,569,572	-	-	8,569,572
Shares issued for cash on exercise of stock options	815,700	-	-	-	815,700
Transfer from contributed surplus on exercise of options	348,761	(348,761)	-	-	-
Stock-based compensation charged to operations	-	167,102	-	-	167,102
<b>Balance, December 31, 2007</b>	<b>\$ 87,800,891</b>	<b>\$ 9,866,690</b>	<b>\$ (1,668,397)</b>	<b>\$ (9,407,562)</b>	<b>\$ 86,591,622</b>
Balance, December 31, 2007	\$ 87,800,891	\$ 9,866,690	\$ (1,668,397)	\$ (9,407,562)	\$ 86,591,622
Net loss	-	-	-	(458,285)	(458,285)
Unrealized loss on investments in current year	-	-	271,102	-	271,102
Shares issued for cash on exercise of stock options	280,500	-	-	-	280,500
Transfer from contributed surplus on exercise of options	120,828	(120,828)	-	-	-
Stock-based compensation charged to operations	-	-	-	-	-
<b>Balance, June 30, 2008</b>	<b>\$ 88,202,218</b>	<b>\$ 9,745,863</b>	<b>\$ (1,397,295)</b>	<b>\$ (9,865,847)</b>	<b>\$ 86,684,939</b>

*The accompanying notes are an integral part of these interim consolidated financial statements.*

**CHESAPEAKE GOLD CORP.**  
**CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES**  
**For the Six Month Ended June 30, 2008 and December 31, 2007**  
**(In Canadian Dollars)**  
**(Unaudited -Prepared by Management)**

	American Gold							Nica Gold S.A.		Total
	Talapoosa	Metates	La Gitana	La Calavera	La Cecilia	El Tecomate	Tatatila	Regional	Nicaragua	
<b>Acquisition costs</b>										
Balance, December 31, 2006	\$ -	\$ -	\$ 171,568	\$ 260,578	\$ 32,847	\$ 10,260	\$ -	\$ 715,202	\$ 295,537	\$ 1,485,992
Acquisition of American Gold (note 4)	52,152,368	20,213,322	-	-	-	-	-	-	-	72,365,690
Additions	-	50,526.00	12,700	201,697	49,068	85,703	23,758	70,887	337,473	831,811
	52,152,368	20,263,848	184,268	462,275	81,915	95,963	23,758	786,089	633,010	74,683,493
<b>Defer exploration costs</b>										
Balance, December 31, 2006	-	-	3,861,119	201,478	15,564	78,799	-	2,138,798	227,399	6,523,157
Assays	-	17,743	-	-	-	46,574	14,189	56,467	-	134,973
Camp and supplies	26,036	192,204	24,596	4,534	-	70,182	23,053	72,190	-	412,794
Drilling	-	115,555	-	-	-	-	-	-	-	115,555
Geological and engineering	103,172	1,339,489	33,581	20,784	11,915	291,149	92,745	156,605	-	2,049,441
Travel and accomodation	-	107,929	6,437	8,086	1,214	59,165	30,978	70,383	-	284,192
	129,208	1,772,920	3,925,733	234,882	28,693	545,869	160,964	2,494,443	227,399	9,520,112
Option proceeds (note 4)	-	-	-	(228,575)	-	-	-	-	-	(228,575)
Writedown of costs	-	-	-	-	-	-	-	(1,474,026)	(393,480)	(1,867,506)
<b>Balance December 31, 2007</b>	\$ 52,281,576	\$ 22,036,768	\$ 4,110,000	\$ 468,582	\$ 110,608	\$ 641,832	\$ 184,722	\$ 1,806,507	\$ 466,929	\$ 82,107,524
<b>Acquisition costs</b>										
Balance, December 31, 2007	\$ 52,152,368	\$ 20,263,848	\$ 184,268	\$ 462,275	\$ 81,915	\$ 95,963	\$ 23,758	\$ 786,089	\$ 633,010	\$ 74,683,493
Additions	-	20,744	-	15,384	518	20,117	69,452	139,432	(221,587)	44,062
	52,152,368	20,284,592	184,268	477,660	82,433	116,080	93,210	925,521	411,423	74,727,555
<b>Defer exploration costs</b>										
Balance, December 31, 2007	129,208	1,772,920	3,925,733	234,882	28,693	545,869	160,964	2,494,443	227,399	9,520,112
Assays	-	157,801	2,437	-	-	-	51,492	11,615	-	223,344
Camp and supplies	6,254	257,449	3,708	4,099	-	-	33,610	401	-	305,521
Drilling	-	1,076,686	-	-	-	-	-	-	-	1,076,686
Geological and engineering	74,372	1,380,974	11,281	-	-	-	137,877	5,272	-	1,609,777
Travel and accomodation	2,178	122,613	1,004	1,439	-	-	57,388	951	-	185,573
	212,012	4,768,443	3,944,163	240,420	28,693	545,869	441,331	2,512,682	227,399	12,921,012
Option proceeds (note 4)	-	-	-	(228,575)	-	-	-	-	-	(228,575)
Writedown of costs	-	-	-	-	-	-	-	(1,474,026)	(393,480)	(1,867,506)
<b>Balance June 30, 2008</b>	\$ 52,364,380	\$ 25,053,035	\$ 4,128,431	\$ 489,504	\$ 111,126	\$ 661,949	\$ 534,541	\$ 1,964,177	\$ 245,342	\$ 85,552,486

The accompanying notes are an integral part of these interim consolidated financial statements.

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

June 30, 2008

(Unaudited – Prepared by Management)

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### 1. NATURE OF OPERATIONS

Chesapeake Gold Corp. (“Chesapeake” or the “Company”) is a Canadian mining company focused on the exploration, development and recovery of precious metals. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage. The Company’s operations during the six months ended June 30, 2008 were principally directed towards the exploration and development of the Company’s Metates project in Durango state and Tatatila project in Veracruz state, Mexico.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to do so is dependent on obtaining additional financing, through the issue of treasury shares and/or from loans, to complete the exploration and development of its mineral property interests and to commence profitable operations. These consolidated financial statements do not reflect the adjustments or reclassifications, which would be necessary if the Company was unable to continue its operations in the normal course of business.

On February 23, 2007 the Company acquired through its subsidiary company, 0769783 B.C. Ltd. (“Subco”), all the outstanding shares of American Gold Capital Corporation (“American Gold”) by undertaking the following transactions:

- a. amalgamating Subco and American Gold, with American Gold as the corporation surviving the amalgamation;
- b. issuing 9,020,602 common shares and 902,060 Series 1 Class A shares with a total fair value of \$53.2 million for the 31,105,525 common shares of American Gold outstanding as of February 23, 2007 on the basis of 0.29 of a common share and 0.029 of a Series 1 Class A share of the Company for one American Gold common share; the fair value of the common shares was based on the average trading price of the shares for the period covering two days before and after the agreement and announcement of the acquisition, and the fair value of the series 1 Class A shares was based on their redemption value;
- c. exchange of each outstanding American Gold warrant for 0.29 of a Chesapeake warrant with a fair value of \$8.6 million based on the Black-Scholes option pricing model using the following assumptions;

Risk free interest rate	4.27%
Expected volatility	42%
Expected years of option life	5 years
Expected dividends	\$Nil

- d. the fair values of the net assets acquired were:

Cash	\$	13,040,000
Mineral properties and other assets		72,365,690
Liabilities		(562,301)
Future income tax liability		(23,043,245)
	\$	<u>61,800,144</u>



# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

June 30, 2008

(Unaudited – Prepared by Management)

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### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of accounting and consolidation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These interim consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles (“GAAP”) in Canada and follow the same accounting principles and method of computation as the most recent annual audited consolidated financial statements except as noted below. These interim consolidated financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the consolidated financial statements and the accompanying notes for the year ended December 31, 2007.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minerales El Prado S.A. de C.V. (“MEP”), Nica Gold S.A. (“Nica Gold”), and beginning February 23, 2007, American Gold Capital Corporation (“American Gold”), and Cascade Metals Inc. (individually and collectively referred to as the “Company”). All significant inter-company transactions and balances have been eliminated upon consolidation.

#### **New accounting pronouncements**

Effective January 1, 2008, the Corporation adopted three new accounting standards comprising the CICA Handbook Sections 1535, Capital Disclosures; 3862, Financial Instruments Disclosures; and 3863, Financial Instruments Presentation. The adoption of the new disclosure standards required the disclosure of qualitative and quantitative information about the Corporation’s capital and how it is managed, and an increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments.

The adoption of the new standard on presentation requirements remained the same under Section 3861, Financial Instruments Disclosure and Presentation and therefore adoption of this new standard did not have any impact on the Consolidated Financial Statements.

#### *Capital disclosures*

Handbook Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in note 3 to these interim financial statements.

#### *Financial instrument disclosures*

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note 4 to these interim financial statements.

# **CHESAPEAKE GOLD CORP.**

## Notes to the Interim Consolidated Financial Statements

June 30, 2008

(Unaudited – Prepared by Management)

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### **2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **New Canadian Accounting Pronouncements**

International Financial Reporting Standards (“IFRS”)

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The potential impact from differences between the Company current accounting policies from between Canadian Generally Accepted Accounting Principles and those required by IFRS cannot be reasonably estimated at this time.

### **3. CAPITAL MANAGEMENT**

The Company’s objectives for the management of capital are to safeguard the Company’s ability to continue as a going concern including the preservation of capital and to achieve reasonable returns on invested cash after satisfying the objective of preserving capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its cash and short term investments to be its manageable capital. The Company’s policy is to maintain sufficient cash and investment balances to cover operating and exploration costs over a reasonable future period.

### **4. RISK FACTORS**

#### **Credit risk**

The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. Financial instruments included in accounts receivable consist of interest receivable and tax receivable. The Company’s cash equivalents and short-term investments are held through large Canadian financial institutions. Short-term and long-term are composed of financial instruments issued by Canadian banks. Management does not believe the receivables are at risk.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage.

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

June 30, 2008

(Unaudited – Prepared by Management)

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### 4. RISK FACTORS (continued)

#### **Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited because these investments, although available for sale, are generally held to maturity.

#### *Foreign currency risk*

The Company is exposed to the foreign currency risk depends on the fluctuation of foreign exchange rates. The Company operates in the United States, Mexico, and Nicaragua. Certain expenses are incurred in US dollars, Mexican pesos and Nicaragua cordobas. A significant change in the currency exchange rates between the Canadian dollars relative to these three currencies could have an effect on the Company's result of financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

#### *Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

June 30, 2008

(Unaudited – Prepared by Management)

### 5. INVESTMENT

	June 30, 2008		2007	
	Cost	Fair value	Cost	Fair value
<b>Marketable securities</b>				
Fixed income securities, equities and equity funds	\$ 9,103,724	\$ 7,849,208	\$ 9,598,775	\$ 8,082,890
<b>Asset backed commercial paper</b>	\$ 9,209,641	\$ 8,193,181	\$ 9,209,641	\$ 8,193,181
<b>Portfolio investments</b>				
Pinnacle Mines Ltd.	\$ 125,000	\$ 45,000	\$ 125,000	\$ 60,000
West Timmins Mining Inc.	-	182,750	-	182,750
Christopher James Gold Corp.	226,000	36,000	226,000	76,000
VRB Power System Inc.	110,000	143,000	110,000	123,500
New World Resources Corp.	275,000	205,000	275,000	200,000
	\$ 736,000	\$ 611,750	\$ 736,000	\$ 642,250

#### *Asset Backed Commercial Paper*

As at June 30, 2008, the Company had invested \$9,209,641 in highly liquid, third party sponsored Asset Backed Commercial Paper (“ABCP”), which was rated as “R1-High” by Dominion Bond Rating Service at the time of purchase. ABCP typically had terms of less than 365 days and the repayment of maturing ABCP was dependant on the cash generated by the trusts’ underlying assets and the ability of the trusts to issue new ABCP. In mid-August 2007 a number of sponsors of non-bank managed ABCP, including those with which the Company had invested, announced that they could not repay the ABCP due to unfavourable conditions in the Canadian capital markets.

The Company had classified its ABCP as a held-to-maturity investment. Presently there is no active market and therefore no price determinable by reference to a market, for the Company’s ABCP. The funds also cannot be accessed until the restructuring announced by the Pan-Canadian Investors Committee on December 23, 2007 has been completed and the restructured investments begin to trade on an active market. The proposed restructuring plan was approved by noteholders on April 25, 2008. The Directors of the Company will consider any new information upon the completion of the restructuring and its implication on the carrying value of the Company’s ABCP.

Based on the Pan-Canadian Investors Committee proposal and on discussions in January 2008 with the Company’s financial adviser and the sponsor of its ABCP, the Company expects that approximately 100% of the value of its investment in ABCP will be issued in the form of new notes having a maturity greater than 1 year. On the basis of the information obtained in the meeting with the sponsor of its ABCP, the Company has classified its investment in ABCP on the balance sheet as a long term asset, and, using the discounted cash flow method based on the proposed restructuring and assuming a discount rate of 5.5%, has estimated the current fair value of its ABCP as \$8,193,181, and has recorded an impairment loss of \$1,016,460 in operations.

## **CHESAPEAKE GOLD CORP.**

### Notes to the Interim Consolidated Financial Statements

June 30, 2008

(Unaudited – Prepared by Management)

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#### **5. INVESTMENTS** (continued)

The Company's current fair value estimate assumes that the restructuring will be completed successfully and has been calculated without the benefit of full knowledge of the underlying assets of the trust, as this information has not been provided. The estimate is also based on an assessment of prevailing market conditions, which may change in subsequent periods. Possible changes that could have a material effect on the current carrying value of the ABCP include changes in value of the underlying assets, developments related to the liquidity of the ABCP market, the final outcome of the restructuring proposals including timing of cash flows, and a change in economic conditions and expected interest rates.

#### **6. MINERAL PROPERTIES**

##### (a) Metates Property, Durango State, Mexico

The Company holds a 100% interest in five exploitation concessions totaling 2,420 hectares. The concessions are registered in the name of American Gold Metates S. de R.L. de C.V., a wholly owned subsidiary of the Company. A 1.5% net smelter royalty ("NSR") is payable to Lusimin S.A. de C.V., a subsidiary of Goldcorp Inc.

##### (b) La Gitana Property, Oaxaca State, Mexico

The La Gitana Property comprises one mineral concession totaling 494 hectares. MEP acquired a 75% interest in the concession from Luismin S.A. de C.V., a wholly-owned subsidiary of Goldcorp Inc., by spending US\$2.0 million in exploration expenditures. MEP has staked five other concessions totaling 40,703 hectares along a northwest trend extending from the La Gitana Property.

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

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### 6. MINERAL PROPERTIES (continued)

#### (c) La Calavera Property, Oaxaca State, Mexico

MEP has an option to acquire a 100% interest in two mineral concessions comprising 8,247 hectares (“La Calavera Project”) in Oaxaca State. One concession is being acquired by making staged property payments totaling US\$490,000 over four years, which includes a US\$430,000 final payment. The vendors will retain a 1.25% NSR which can be purchased for US\$2.0 million. The second concession can be acquired through the issue of 150,000 shares of the Company over five years to 2009, of which 70,000 shares have been issued. The vendor will retain a 2% NSR royalty on the second concession, of which 1% can be purchased for US\$2.0 million. The Company has also agreed to undertake US\$2.6 million in exploration expenditures on the La Calavera Project over five years.

On May 9, 2007 the Company signed an option agreement with Pinnacle Mines Ltd. (“Pinnacle”) whereby Pinnacle has the right to acquire up to a 70% interest in the La Calavera Project and two additional mineral concessions (“Rio Minas”) (collectively the “Properties”) comprising 19,510 hectares. Pinnacle can earn a 51% interest in the Properties by issuing 100,000 common shares and a US\$50,000 cash payment upon signing the agreement and by issuing a further 150,000 shares on September 1, 2007. On or within the first anniversary of the agreement date, Pinnacle is also required to pay an additional US\$50,000 cash, issue 250,000 shares (received in subsequent period) and commit US\$500,000 for exploration expenditures on the properties. On the second, third, and fourth anniversaries, Pinnacle is required to pay the Company US\$400,000 per year by way of cash or shares and commit to work expenditures in years 2 to 5 of US\$1,250,000, US\$1,250,000, US\$1,500,000 and US\$1,500,000, respectively. Pinnacle has an option to earn an additional 19% interest by completing a bankable feasibility study by year 8, by paying the Company US\$3.0 million (cash and/or shares) and by providing production financing for the properties.

The TSX Venture Exchange accepted the option agreement for filing on May 18, 2007. The Company has received a US\$100,000 cash payment and 500,000 common shares of Pinnacle pursuant to the formal agreement.

#### (d) La Cecilia Property, Sonora State, Mexico

MEP has an option to acquire a 100% interest in the La Cecilia gold project, which consists of three mineral concessions totaling 794 hectares located in northern Sonora State. MEP can earn its 100% interest by making the following staged payments totaling US\$100,000 to the Consejo de Recursos Minerales de Mexico (“CRM”) over 4 years. The CRM retains a 1% net smelter royalty. The payment schedule of the aforementioned amount is:

US\$10,000 upon signing the option agreement (November 4, 2004)  
US\$15,000 on the first anniversary; (paid)  
US\$20,000 on the second anniversary; (paid)  
US\$25,000 on the third anniversary; (paid) and finally  
US\$30,000 on the fourth anniversary.

## **CHESAPEAKE GOLD CORP.**

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#### **6. MINERAL PROPERTIES (continued)**

##### (e) El Tecomate Property, Durango and Sinaloa State, Mexico

MEP has an option to acquire a 100% interest in two mineral concessions (El Tecomate and Tatemates) in Durango State. To acquire El Tecomate MEP has agreed to property payments totaling US\$500,000 over five years to 2009, which includes a US\$450,000 final payment. The vendor retains a 1% NSR which can be purchased for US\$500,000. MEP has agreed to payments totaling US\$500,000 over five years which includes US\$420,000 as the final payment, to acquire the Tatemates concession. The vendor retains a 1% NSR which can be purchased for US\$1.0 million. Two adjacent contiguous claims, El Volcan and La Verdoza, were staked by MEP and extend across the border into Sinaloa State. The four mineral concessions cover 10,695 hectares.

##### (f) Tatatila Project, Veracruz State, Mexico

MEP has acquired through purchase, joint venture and staking the Tatatila project which collectively encompasses 29,561 hectares in Veracruz state. For acquisition, MEP optioned seven concessions of a National Mineral Reserve totaling 2,767 hectares from the Consejo de Recursos Minerales de Mexico (CRM), a mining division of the Mexican government. MEP has agreed to payments totaling US\$56,000 to the CRM over 3 years. On September 7, 2007, the Company signed a letter agreement with Bell Resources Corporation optioning five concessions totaling 1,271 hectares whereby a the Company can earn a 90% interest by making staged payments totaling US\$1,410,000 and incurring US\$1.4 million in exploration expenditures over 4 years. Adjacent to and surrounding the negotiated concessions, MEP staked one concession comprising 25,523 hectares.

##### (g) Regional Properties, Chihuahua State, Mexico

MEP has acquired, by staking, ten mineral concessions in Chihuahua State, Mexico, totaling 137,390 hectares.

##### (h) Talapoosa Property, Nevada State, U.S.A.

Through its wholly owned subsidiary, American Gold, the Company owns a 100% interest in 475 unpatented lode mining claims in Lyon County, Nevada. The annual assessment fees to the Bureau of Land Management are approximately US\$60,000 for these claims. A 5% NSR and 4.5% NSR exists on 124 and 26 unpatented claims, respectively.

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

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### 6. MINERAL PROPERTIES (continued)

#### (i) Nicaragua

Nica Gold has acquired through staking one mineral concession, La Union, which was recently reduced to 2,250 hectares inside.

On March 23, 2007 Nica Gold entered into an option agreement to acquire the Santo Domingo property in Nicaragua from the Cooperative Small Miners of Santo Domingo (“Coop”). Nica Gold has agreed to make staged payments totaling US\$3.0 million (including an initial US\$250,000 payment upon signing the option agreement) over four years to acquire Santo Domingo. The option agreement is subject to the approval of the Ministry of Energy (“MEM”) as well as certain conditions to be met by the Coop. The vendors retain a 2.5% NSR that can be purchased in installments totaling US\$5.0 million at anytime.

At present the MEM has approved the title transfer to Nica Gold but to date the Coop has not met the agreed conditions due to non-compliance. Due to non compliance, MEM has authorized the release of the funds in trust to Nica Gold and will not issue a work permit for the project to the Coop or any third party until the Coop resolves the outstanding terms agreed in the option agreement. The Company has advised the Coop it will seek additional compensation of US\$450,000 for breach of contract in the event the terms of the option agreement are not met.

### 7. FIXED ASSETS

	June 30, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office, furniture and equipment	\$ 42,421	\$ 28,794	\$ 13,627	\$ 42,421	\$ 27,486	\$ 14,935
Computer equipment	46,829	34,624	12,205	46,262	28,614	17,648
Vehicles	249,604	173,414	76,191	249,604	144,956	104,648
Exploration equipment	301,954	157,026	144,928	297,513	145,021	152,492
	\$ 640,808	\$ 393,857	\$ 246,951	\$ 635,800	\$ 346,077	\$ 289,723

### 8. SHARE CAPITAL

- (a) The Company’s authorized capital consists of an unlimited number of common shares without par value, an unlimited number of Series 1, Class A restricted voting shares without par value, convertible and redeemable at \$0.01 per share and an unlimited number of preferred shares without par value.



## CHESAPEAKE GOLD CORP.

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#### 8. SHARE CAPITAL (continued)

(b) Issued and outstanding:

	Number of shares	Amount
<b>Common Shares</b>		
Balance, December 31, 2005	19,752,795	\$ 33,191,960
Shares issued for cash:		
Exercise of stock options	5,000	16,500
Shares issued for mineral properties	20,000	84,000
Stock - based compensation transferred from contributed surplus on exercise of options	-	8,398.00
Balance, December 31, 2006	19,777,795	33,300,858
Exercise of stock options	270,800	815,700
Shares issued for the acquisition of American Gold	9,020,602	53,221,552
Shares issued for mineral properties	25,000	105,000
Stock - based compensation transferred from contributed surplus on exercise of options	-	348,760.72
Balance, December 31, 2007	29,094,197	87,791,870
Exercise of stock options	85,000	280,500
Shares issued for the acquisition of American Gold	9,020,600	9,020
Stock - based compensation transferred from contributed surplus on exercise of options	-	120,827.50
Balance, June 30, 2008	38,199,797	88,202,218

- (c) The Company has a stock option plan which provides for equity participation in the Company by its directors, officers, employees, consultants and consultant companies through the acquisition of common shares pursuant to the grant of options to purchase common shares. The option plan is administered by the Board of Directors. Options may be granted on such terms as the Board may determine within the limitations of the option plan and subject to the rules of applicable regulatory authorities. The maximum aggregate number of shares reserved for issuance for options granted under the option plan is 5,500,000 common shares. The exercise price for options granted may not be less than the market price of the shares on the day immediately preceding the date of the grant of the option. The Company has increased the maximum term of stock options granted under the Option Plan from five years to ten years while the Company is a Tier 1 Issuer on the TSX Venture Exchange ("TSX").

## **CHESAPEAKE GOLD CORP.**

### Notes to the Interim Consolidated Financial Statements

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#### **8. SHARE CAPITAL** (continued)

If required by the TSX, the stock option grants may not result in the following limitations being exceeded without the Company obtaining disinterested shareholder approval:

1. the issuance to any one optionee, within a 12-month period, of a number of common shares exceeding 5% of the issued and outstanding common shares;
2. the number of common shares reserved for issuance under stock options granted to insiders exceeding 10% of the issued and outstanding common shares; and
3. the grant to insiders, within a 12-month period, of options to purchase common shares exceeding 10% of the issued and outstanding common shares.

The Company has a Stock Bonus Plan (“Bonus Plan”) which enables bonus common shares to be issued to any full-time or part-time employee or independent contractor (whether or not a director) of the Company or any of its subsidiaries who has rendered meritorious services that contributed to the success of the Company or any of its subsidiaries. Grants of bonus common shares will be on terms that the Compensation Committee of the Company may determine, within the limitations of the Bonus Plan and subject to the rules and policies of applicable regulatory authorities. The maximum number of common shares issuable under the Bonus Plan is limited to 200,000 common shares, representing approximately 0.69% of the current issued and outstanding common shares. In addition, in any calendar year, the number of bonus common shares issuable to insiders of the Company is limited to 0.5% of the total number of common shares which were issued and outstanding at the end of the preceding calendar year.

Issuances of bonus common shares may also not result in the following limitations being exceeded without the Company obtaining disinterested shareholder approval:

- i. the issuance to any one person, within a 12-month period, of a number of common shares under the Bonus Plan and pursuant to stock options exceeding 5% of the issued and outstanding common shares;
- ii. the number of common shares issued under the Bonus Plan to insiders and reserved for issuance under stock options granted to insiders exceeding 10% of the issued and outstanding common shares; and
- iii. the grant to insiders, within a 12-month period, of common shares under the Bonus Plan and options to purchase common shares exceeding 10% of the issued and outstanding common shares.

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

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### 8. SHARE CAPITAL (continued)

Pursuant to the business combination with American Gold (Note 1), the terms of the Series 1, Class A shares provided that the shares would be automatically converted, for no additional consideration, into 10 common shares five business days after the date on which the average London PM fix closing trading price of gold for the trading days on such market during any 90-day period is equal to or greater than US\$850 per ounce of gold. On February 13, 2008, this automatic conversion threshold was met, and the Company converted 902,060 Series 1 Class A shares into 9,020,600 common shares of the Company.

The following stock options are outstanding at June 30, 2008:

Expiry date	Weighted Average Remaining Life	Exercise Price	Options Outstanding	Options Exercisable
			Number of shares	Number of shares
12-Dec-08	0.45	\$ 3.30	807,500	807,500
			807,500	807,500

The following is the summary of the changes in the Company's outstanding stock options at June 30, 2008:

	June 30, 2008		December 31, 2007	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance, beginning of period	892,500	\$ 3.30	1,163,300	\$ 3.26
Granted	150,000	6.20		
Expired/Cancelled	150,000	6.20	-	-
Exercised	85,000	3.30	270,800	3.01
Balance, end of period	807,500	\$ 3.75	892,500	\$ 3.30

The Company granted 150,000 employee stock options in March 31, 2008 to a principal consultant of the Company at an exercise price of \$6.20 per share. The stock options were cancelled in June 2008.

- (d) The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

Risk-free interest rate (%)	4.27%
Expected dividend yield	0.00%
Expected stock price volatility	42%
Expected life of options (years)	5

# CHESAPEAKE GOLD CORP.

## Notes to the Interim Consolidated Financial Statements

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### 8. SHARE CAPITAL (continued)

- (e) The Company issued 4,510,301 warrants for the acquisition of American Gold (Note 1) during the year, which are outstanding at the date of these financial statements:

Issue Date	Number of Shares	Price Per Share	Expiry Date
February 23, 2007	4,510,301	8.00	February 23, 2012

- (f) There are 375,000 common shares in escrow as at June 30, 2008.

### 9. RELATED PARTY TRANSACTIONS

The Company incurred the following expenses with companies related by way of officers in common and with a company with whom a director is associated. These costs were measured at the amounts agreed upon by the parties.

	Six months ended	
	June 30	
	2008	2007
Consulting	29,835	12,625
Legal	30,098	140,405
Management fees	87,500	87,500
Rental	12,000	12,000
Travel & promotion	24,305	21,414

The legal fees were paid to a legal firm, Koffman Kalef, of which one of the partners has been an officer of the Company since 2006. The consulting fees were paid to the Chief Financial Officer of the Company, who is also a consultant of the Company. As at June 30, 2008, accounts payable included \$37,574 to Koffmen Kalef, \$250,750 to the President of the Company and \$13,548 to the Chief Financial Officer of the Company. These amounts are unsecured and non-interest bearing.

### 10. ENVIRONMENTAL

The Company's exploration activities in Mexico, Nicaragua, and the United States are subject to those countries' environmental laws and regulations governing the protection of the environment. Currently, no environmental bond on an exploration property is required. Legislative changes or future changes to applicable mining codes, rules, and regulations may result in obligations for reclamation and site restoration in excess of amounts currently accrued. The Company may be required to accrue additional amounts in the future and while not currently determinable, they may be material to the Company.

The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

# CHESAPEAKE GOLD CORP.

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### 10. ENVIRONMENTAL (continued)

The Company has to date not been required to provide bonding to the regulatory authorities in Mexico with respect to possible future reclamation activities on its Mexican properties. The Company has accrued \$58,000 for the estimated liability of undertaking all known and required future reclamation and site restoration costs on its current Mexican properties. Such estimated amounts may vary from the actual future amounts to be incurred.

### 11. SEGMENT DISCLOSURES

The Company operates in one industry segment (note 1). Details of the investment in mineral properties are disclosed in the consolidated Statements of Mineral Properties and in Note 46. The Company's assets by geographic segment are:

	Canada	Mexico	Nicaragua	Total
Cash and cash equivalents	\$ 10,815,724	\$ 72,181	\$ 10,883	\$ 10,898,789
Marketable securities	7,849,208	-	-	7,849,208
Accounts receivable	162,961	386,767	-	549,728
Prepaid expenses	21,415	737,113	-	758,527
Asset Backed Commercial Paper	8,193,181	-	-	8,193,181
Portfolio investments	611,750	-	-	611,750
Investment in mineral properties	52,364,380	32,942,764	238,023	85,545,168
Fixed assets	136,516	110,435	-	246,951
<b>June 30, 2008</b>	<b>\$ 80,155,135</b>	<b>\$ 34,249,260</b>	<b>\$ 248,907</b>	<b>\$ 114,653,302</b>

	Canada	Mexico	Nicaragua	Total
Cash and cash equivalents	\$ 14,069,213	\$ 6,451	\$ 11,512	\$ 14,087,176
Marketable securities	8,082,890	-	-	8,082,890
Accounts receivable	147,270	140,397	-	287,667
Prepaid expenses	16,152	236,610	-	252,762
Asset Backed Commercial Paper	8,193,181	-	-	8,193,181
Portfolio investments	642,250	-	-	642,250
Investment in mineral properties	52,281,576	29,359,019	466,929	82,107,524
Fixed assets	148,055	141,668	-	289,723
December 31, 2007	\$ 18,529,770	\$ 29,884,145	\$ 478,441	\$ 113,943,173