



## **Chesapeake Gold Corp.**

Consolidated Financial Statements

For the Years Ended December 31, 2020 and 2019

(amount expressed in thousands of Canadian dollars, except where indicated)

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Chesapeake Gold Corp.

#### Opinion

We have audited the consolidated financial statements of Chesapeake Gold Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Henry Chow.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

April 12, 2021

# Chesapeake Gold Corp.

## Consolidated Statements of Financial Position

(amounts expressed in thousands of Canadian dollars, except where indicated)

	Note	December 31, 2020	December 31, 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 34,247.8	\$ 15,258.2
Other receivables and prepaid expenses	5	528.6	549.8
Marketable securities	6,7	1,546.7	1,544.5
		36,323.1	17,352.5
Long-term investments	6,7	2,026.4	442.2
Investment in mineral properties	8	89,585.9	86,953.0
Right-of-use asset	11	2.9	8.5
Equipment	9	38.1	44.8
Deferred charges	18(a)	91.7	-
Reclamation bonds		257.0	261.3
Total assets		\$ 128,325.1	\$ 105,062.3
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6,10,14	\$ 1,067.6	\$ 1,418.7
Lease liability	6,11	3.5	5.5
Promissory note	6,10	700.0	700.0
		1,771.1	2,124.2
Deferred income tax liabilities	17	6,786.4	6,215.3
Lease liability	11	-	3.8
Decommissioning obligation		302.9	307.1
Total liabilities		8,860.4	8,650.4
<b>Shareholders' equity</b>			
Share capital	12	186,033.2	162,682.9
Shares to be issued	13,14	1,148.0	-
Reserves		25,974.2	25,927.2
Deficit		(95,675.1)	(93,792.0)
		117,480.3	94,818.1
Non-controlling interest ("NCI")		1,984.4	1,593.8
Total shareholders' equity		119,464.7	96,411.9
Total liabilities and shareholders' equity		\$ 128,325.1	\$ 105,062.3

*Nature of operations (note 1)*

*Segmented disclosures (note 16)*

*Subsequent events (note 18)*

### Approved by the Board of Directors

\_\_\_\_\_  
"P. Randy Reifel"

Director

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"Christian Falck"

Director

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

# Chesapeake Gold Corp.

## Consolidated Statements of Loss and Comprehensive Loss

(amount expressed in thousands of Canadian dollars, except where indicated)

	Notes	Year Ended December 31,	
		2020	2019
<b>General and administration expenses</b>			
Depreciation	9,11	\$ (17.0)	\$ (16.9)
Exploration		(238.1)	(264.0)
General and administrative		(527.4)	(619.4)
Management fees	14	(1,548.0)	(200.0)
Professional fees	14	(377.2)	(177.6)
Share-based compensation	13	(578.6)	(611.6)
		(3,286.3)	(1,889.5)
<b>Other income (expense), net</b>			
Finance income		375.6	453.4
Finance cost		(126.6)	(216.2)
Foreign exchange loss		(82.0)	(130.2)
Unrealized gain on marketable securities and investments	7	1,958.8	138.7
Other income	8	229.3	173.5
		2,355.1	419.2
<b>Net loss before income taxes</b>		(931.2)	(1,470.3)
Deferred income tax expenses	17	(571.1)	(185.1)
<b>Net loss</b>		(1,502.3)	(1,655.4)
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to net earnings:			
Cumulative translation adjustment		635.0	78.1
<b>Total comprehensive loss</b>		(867.3)	(1,577.3)
<b>Net income (loss) attributable to</b>			
Owners of the Company		(1,883.1)	(1,585.9)
Non-controlling interest		380.8	(69.5)
		(1,502.3)	(1,655.4)
<b>Other comprehensive income attributable to</b>			
Owners of the Company		635.0	78.1
Non-controlling interest		-	-
<b>Total other comprehensive income</b>		\$ 635.0	\$ 78.1
<b>Loss per share – basic and diluted</b>		\$ (0.03)	\$ (0.04)
<b>Weighted average shares outstanding (000's) – basic and diluted</b>		52,867	46,857
<b>Total shares issued and outstanding (000's)</b>		56,307	51,242

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

# Chesapeake Gold Corp.

## Consolidated Statement of Changes in Equity

(amounts expressed in thousands of Canadian dollars, except where indicated)

	Note	Attributable to Shareholders of the Company								
		Shares ('000)	Share capital	Share-based compensation reserves	Foreign translation reserves	Shares to be issued	Deficit	Total for owners	NCI	Total equity
<b>Balance at January 1, 2020</b>		51,242	\$ 162,682.9	\$ 24,503.7	\$ 1,423.5	\$ -	\$ (93,792.0)	\$ 94,818.1	\$ 1,593.8	\$ 96,411.9
Net loss for the year		-	-	-	-	-	(1,883.1)	(1,883.1)	380.8	(1,502.3)
Management fees – bonus shares	13,14	-	-	-	-	1,148.0	-	1,148.0	-	1,148.0
Cumulative translation adjustment		-	-	-	635.0	-	-	635.0	-	635.0
Private placement	12	4,000	20,000.0	-	-	-	-	20,000.0	-	20,000.0
Share issuance costs		-	(153.8)	-	-	-	-	(153.8)	-	(153.8)
Options exercised	12	1,065	3,504.1	(1,156.8)	-	-	-	2,347.3	-	2,347.3
Share-based compensation charges	13	-	-	568.8	-	-	-	568.8	9.8	578.6
<b>Balance at December 31, 2020</b>		56,307	\$ 186,033.2	\$ 23,915.7	\$ 2,058.5	\$ 1,148.0	\$ (95,675.1)	\$ 117,480.3	\$ 1,984.4	\$ 119,464.7
<b>Balance at January 1, 2019</b>		44,574	\$ 148,353.3	\$ 23,910.6	\$ 1,345.4	\$ -	\$ (92,206.1)	\$ 81,403.2	\$ 1,644.8	\$ 83,048.0
Net loss for the year		-	-	-	-	-	(1,585.9)	(1,585.9)	(69.5)	(1,655.4)
Cumulative translation adjustment		-	-	-	78.1	-	-	78.1	-	78.1
Private placement		6,668	15,003.0	-	-	-	-	15,003.0	-	15,003.0
Share issuance costs		-	(673.4)	-	-	-	-	(673.4)	-	(673.4)
Share-based compensation charges		-	-	593.1	-	-	-	593.1	18.5	611.6
<b>Balance at December 31, 2019</b>		51,242	\$ 162,682.9	\$ 24,503.7	\$ 1,423.5	\$ -	\$ (93,792.0)	\$ 94,818.1	\$ 1,593.8	\$ 96,411.9

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

# Chesapeake Gold Corp.

## Consolidated Statements of Cash Flows

(amounts expressed in thousands of Canadian dollars, except where indicated)

	Note	Year Ended December 31,	
		2020	2019
<b>Cash flow (used in) from operating activities</b>			
Net loss for the year		\$ (1,502.3)	\$ (1,655.4)
Items not affecting cash			
Depreciation	9,11	17.0	16.9
Deferred income tax expense		571.1	185.1
Unrealized foreign exchange loss		82.0	130.2
Finance cost - lease		1.2	2.4
Unrealized gain from marketable securities and investments		(1,958.8)	(138.7)
Management fees – bonus shares	13,14	1,148.0	-
Share-based compensation	13	578.6	611.6
Other income		(73.3)	(57.1)
		(1,136.5)	(905.0)
Changes in non-cash operating working capital			
Other receivables and prepaid expenses		21.2	(109.4)
Accounts payable and accrued liabilities		(397.5)	128.2
		(1,512.8)	(886.2)
<b>Cash flows (used in) from financing activities</b>			
Repayment of related party loan	8(a),14	-	(12,055.6)
Lease - payments		(6.3)	(6.9)
Proceeds from exercised options		2,347.3	-
Proceeds from private placements	12	20,000.0	15,003.0
Share issuance costs	12	(153.8)	(673.4)
		22,187.2	2,267.1
<b>Cash flows from (used in) investing activities</b>			
Proceeds from sale of marketable securities		862.8	-
Purchase of marketable securities		(417.2)	-
Purchase of equipment		(4.7)	(3.2)
Mineral property expenditures		(1,998.0)	(1,547.6)
		(1,557.1)	(1,550.8)
<b>Foreign exchange impact on cash</b>		(127.7)	(199.5)
<b>Increase (decrease) in cash</b>		18,989.6	(369.4)
<b>Cash – beginning of year</b>		15,258.2	15,627.6
<b>Cash – end of year</b>		\$ 34,247.8	\$ 15,258.2
Cash		\$ 1,148.6	\$ 676.8
Short term investments		33,099.2	14,581.4
<b>Supplement cash flow information</b>			
Purchase of royalty	8	-	(11,972.2)
Transfer of reserves of exercised options		1,156.8	-
Related party loan used for mineral property expenditures	8,14	-	11,972.2

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

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(amounts expressed in thousands of Canadian dollars, except where indicated)

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### 1 Nature of operations

Chesapeake Gold Corp. ("Chesapeake" or the "Company") is a Canadian mining company focused on the exploration and development of precious metal deposits in North and Central America. The Company is in the development stage and does not generate mining revenues from operations. The Company's operations are principally directed towards the development of the Metates project in Durango State, Mexico and generating a pipeline of regional exploration projects in the region.

The Company is domiciled in Vancouver, Canada and its common shares are listed on the TSX Venture Exchange under the trading symbol "CKG.V". The Company also trades on the OTCQX marketplace in the United States, under the symbol "CHPGF". The Company's head office is at Suite 201 – 1512 Yew Street, Vancouver BC, V6K 3E4, Canada.

The Company currently holds a 74% interest in Gunpoint Exploration Ltd. ("Gunpoint"), a Vancouver based company listed on the TSX Venture Exchange, symbol "GUN.V". Gunpoint owns 100% of the Talapoosa gold project, located in Nevada, United States.

The Company had a consolidated net loss of \$1,502.3 (2019 – net loss of \$1,655.4) for the year ended December 31, 2020, and an accumulated deficit of \$95,675.1 as at December 31, 2020 (December 31, 2019 - \$93,792.0). The Company's working capital as at December 31, 2020 is \$34,552.0 (December 31, 2019 - \$15,228.3) and has sufficient resources to fund its exploration and development operations for more than a year.

On January 20, 2021, the Company closed the acquisition of Alderley Gold Corp. ("Alderley"), a private British Columbia mining technology company (see Note 18).

#### *COVID-19*

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

In June 2020, the Mexican federal government and the state of Durango lifted the suspension permitting the Company to resume its exploration activities. The Company has adopted proper safety protocols in respect to these regulations and does not expect any significant impact on its operations. However, it is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations in the future.

### 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. The policies set out below were consistently applied to all periods presented.

The Board of Directors approved the consolidated financial statements on April 12, 2021.

### 3 Estimates, risks, and uncertainties

#### **Critical Judgments and Sources of Estimation Uncertainty**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Critical Judgments*

The followings are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:



# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(amounts expressed in thousands of Canadian dollars, except where indicated)

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- i. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- ii. Management is required to assess the functional currency of each entity of the Company. The Company determined the Canadian dollar to be its functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions.
- iii. Management is required to assess impairment in respect of its investment in mineral properties. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful, and some assets are likely to become impaired in future periods.
- iv. Although, the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

### *Accounting Estimates and Assumptions*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, an additional liability could result from audits by taxing authorities. Where the final outcomes of these tax-related matters are different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.
- ii. Management estimates the fair values of share-based payment arrangements using the Black-Scholes option pricing model.
- iii. Other significant accounting estimates include valuation of other receivables, marketable securities, and long-term investments, and carrying value of mineral properties.
- iv. The Company assesses its provision for reclamation and remediation on an annual basis or when new material information becomes available. Exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

## 4 Significant accounting policies

### **Principles of consolidation**

Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to offset those returns through its power over the subsidiary. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until control ceases. The following subsidiaries are consolidated: 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. In 2010, the Company acquired an 81.93% interest in Gunpoint in exchange for transferring all of its interest in American Gold Capital US Inc. (Nevada) ("American Gold US") to Gunpoint. 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 its wholly owned subsidiaries stated above. As at December 31, 2020 and 2019, the Company owns 74.75% of Gunpoint with a non-controlling interest of 25.25%.

All significant inter-company balances and transactions have been eliminated upon consolidation.

### **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

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(amounts expressed in thousands of Canadian dollars, except where indicated)

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entitle their holders to a proportionate share of the Company'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 deposit, 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 and subject to insignificant risk of changes in value.

### **Reclamation bond**

The Company maintains cash deposits that are restricted to the funding of reclamation costs. For the Talapoosa property in Nevada, 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 amortized cost, and are classified as a non-current asset.

### **Comprehensive income (loss)**

Comprehensive income (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 (loss) in its consolidated statement of loss and accumulated other comprehensive income (loss) in its consolidated statement of changes in equity. The components of other comprehensive income or loss include foreign currency translation adjustments.

### **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 reporting entity 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 in foreign currencies 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. All gains and losses on translation of these foreign currency transactions are recorded as other comprehensive income or loss.

### **Mineral properties**

The Company capitalizes mineral properties expenditures at cost for expenditures incurred after it has obtained legal rights to explore a property and before bankable feasibility study 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 investment in mineral properties. Government assistance, mining duty credits, and optionee commitments are applied against mineral property costs. When the carrying cost is nil, any transaction would be recorded on the consolidated statement of loss.

The application of the Company's accounting policy for exploration and evaluation expenditures 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 a probable, economically viable mineral deposit exists which could be brought into a profitable operation. 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 the consolidated statement of 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.

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(amounts expressed in thousands of Canadian dollars, except where indicated)

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### Equipment

Equipment is recorded at cost. Depreciation 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 computers	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 consolidated statement of loss.

### 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 the 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. Impairment loss is recorded in the consolidated statement of loss.

### Decommissioning obligations

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 records 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 consolidated statement of loss. 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 share-based awards is estimated using the Black Scholes option pricing model at the grant date and expensed to operations over the 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.

The fair value of bonus shares issued will be based on the most recent trading price multiple by the number of bonus shares issued.

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 warrants is estimated using the Black-Scholes option pricing model at the issuance date.

### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

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As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to the consolidated statement of loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to the consolidated statement of loss on a straight-line basis over the lease term.

### Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the deferred income 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 income tax asset is recorded against any deferred income 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.

### 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. As at December 31, 2020, the Company had 5,955,000 (2019 - 5,233,000) potentially dilutive shares relating to outstanding stock options.

### Share issuance costs

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 issuance 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 the consolidated statement of loss.

### Financial Instruments - Recognition and Measurements

#### (i) Non-derivative financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

# Chesapeake Gold Corp.

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The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Cash and cash equivalents, and other receivables are measured at amortized cost with subsequent impairments recognized in the consolidated statement of loss. Marketable securities and long-term investments are classified as FVTPL.

### Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the consolidated statement of loss for the period. The Company recorded a bad debt expense based on the expected credit loss model.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

### *(ii) Non-derivative financial liabilities*

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, lease liability, and promissory note payable are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in the consolidated statement of loss.

### *(iii) Derivative financial instruments*

If the Company issues warrants exercisable in a currency other than the Company's functional currency, the warrants will be considered as derivative financial instruments.

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in the consolidated statement of loss. Transaction costs are recognized in the consolidated statement of loss as incurred.

### **Recent accounting pronouncements**

A number of new standards, and amendments to standards and interpretations, were not yet effective for the year ended December 31, 2020 and have not been early adopted in preparing these consolidated financial statements. These new standards, and amendments to standards and interpretations were either not applicable or are not expected to have material impact on the company's consolidated financial statements.

## **5 Other receivables and prepaid expenses**

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Other receivables	\$ 312.6	\$ 357.5
Prepaid expenses	216.0	192.3
	<b>\$ 528.6</b>	<b>\$ 549.8</b>

# Chesapeake Gold Corp.

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### 6 Financial instruments and risk management

#### Fair values of financial instruments

The fair values of financial instruments are summarized as follows:

	December 31, 2020		December 31, 2019	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Financial assets</b>				
Cash	34,247.8	34,247.8	15,258.2	15,258.2
Marketable securities	1,546.7	1,546.7	1,544.5	1,544.5
Long-term investments	2,026.4	2,026.4	442.2	442.2
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	1,067.6	1,067.6	1,418.7	1,418.7
Lease liability	3.5	3.5	5.5	5.5
Promissory note	700.0	700.0	700.0	700.0

#### Fair value measurements

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.

	Level 1	Level 2	Level 3	Total, December 31, 2020
Marketable securities	1,546.7	-	-	1,546.7
Long-term investments	2,026.4	-	-	2,026.4
	\$ 3,573.1	\$ -	\$ -	\$ 3,573.1

	Level 1	Level 2	Level 3	Total, December 31, 2019
Marketable securities	1,544.5	-	-	1,544.5
Long-term investments	442.2	-	-	442.2
	\$ 1,986.7	\$ -	\$ -	\$ 1,986.7

The Company's policy for determining when a transfer occurs between levels in the fair value hierarchy is to assess the impact at the date of the event or the change in circumstances that could result in a transfer. There were no transfers between the levels during the year ended December 31, 2020.

#### Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, marketable securities, and long-term investments. The Company's marketable securities and long-term investments are held in bonds and common

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

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shares of publicly traded companies. The carrying amount of the financial assets represents the maximum credit exposure. The Company's cash is held through large Canadian financial institutions.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company settles its financial liabilities using its cash and cash equivalents. The Company manages liquidity risk through the management of its capital structure as described in Note 15. The accounts payable and accrued liabilities is due within the current operating period.

### Market Risk

The Company's financial instruments include investments which are publicly traded and therefore subject to the risks related to the fluctuation in market prices of publicly traded securities. The Company closely monitors market values to determine the most appropriate course of action.

### Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed income cash equivalents and investments, of varying maturities. A 1% change in market interest rates would result in no significant change in value of cash and cash equivalents. The risk that the Company will realize a loss as a result of a decline in the fair value of these assets is limited as they are generally held to maturity and held with large Canadian financial institutions.

### Foreign Exchange Rate Risk

Currency risk is the risk of a loss due to the fluctuation of foreign exchange rates and the effects of those fluctuations on the Company's foreign currency denominated monetary assets and liabilities. The Company currently operates in the United States, Mexico, and Guatemala. Certain costs and expenses are incurred in US dollars, Mexican pesos, and Guatemala quetzal. The Company attempts to mitigate currency risk through the preparation of short and long-term expenditure budgets in the foreign currencies.

### Price Risk

The Company is exposed to price risk with respect to its investments, which consists of common shares of publicly-traded companies and is dependent upon the market price or the fair value of the common shares of these companies. The market price or the fair value of the common shares of publicly-traded companies can fluctuate significantly, and there is no assurance that the future market price or the fair value of those companies will not decrease significantly.

## 7 Long-term investments and marketable securities

	December 31, 2019 Fair value	Acquired	Proceeds received from sale	Realized and unrealized (loss)/gain	December 31, 2020 Fair value
Marketable securities	\$ 1,544.5	\$ 417.1	\$ (862.8)	\$ 447.9	\$ 1,546.7
Long-term investments	\$ 442.2	\$ 73.3	\$ -	\$ 1,510.9	\$ 2,026.4

During the year ended December 31, 2020, Gunpoint acquired through an option agreement (see note 8) 400,000 common shares of Riverside Resources Inc.

	December 31, 2018 Fair value	Acquired and reclass	Proceeds received from sale	Realized and unrealized loss	December 31, 2019 Fair value
Marketable securities	\$ 1,310.7	\$ -	\$ -	\$ 233.8	\$ 1,544.5
Long-term investments	\$ 480.3	\$ 57.0	\$ -	\$ (95.1)	\$ 442.2

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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### 8 Investment in mineral properties

	Metates (a)	Yarely (d)	Regional	Talapoosa (b)	Total
<b>December 31, 2018</b>	\$ 63,683.2	\$ 4,315.3	\$ 426.7	\$ 4,929.9	\$ 73,355.1
Effect of foreign exchange on translation	78.1	-	-	-	78.1
Assays	-	44.3	20.2	-	64.5
Concession acquisition	72.1	59.5	209.9	-	341.5
Community, taxes, camp and supplies	330.9	-	144.7	-	475.6
Geological and engineering	80.0	-	236.0	5.5	321.5
License, dues, and fees	-	-	-	232.9	232.9
Travel	14.2	-	88.9	-	103.1
NSR re-purchase and other (a)	11,972.2	-	-	8.5	11,980.7
<b>December 31, 2019</b>	\$ 76,230.7	\$ 4,419.1	\$ 1,126.4	\$ 5,176.8	\$ 86,953.0
Effect of foreign exchange on translation	586.7	33.9	14.4	-	635.0
Assays	-	29.2	28.7	-	57.9
Concession acquisition	62.7	7.8	134.2	-	204.7
Community, taxes, camp and supplies	358.8	-	238.2	-	597.0
Geological and engineering	457.9	1.5	275.4	23.0	757.8
License, dues, and fees	-	-	-	263.8	263.8
Travel	23.8	-	84.3	-	108.1
Other	-	-	-	8.6	8.6
<b>December 31, 2020</b>	\$ 77,720.6	\$ 4,491.5	\$ 1,901.6	\$ 5,472.2	\$ 89,585.9

#### a) Metates Project

The Company owns a 100% interest in the Metates project ("Metates") located in Durango State, Mexico. Metates is comprised of fourteen mineral concessions totaling 10,727 hectares. Metates hosts one of the largest undeveloped gold-silver-zinc deposits in the Americas. In 2013, a pre-feasibility study on Metates ("2013 PFS") was completed and filed on SEDAR. An updated pre-feasibility study ("Updated PFS") based on a lower initial 30,000 tpd production rate versus the Phase I 60,000 tpd (2013 PFS), was filed on SEDAR in May 2016.

On May 9, 2014, the Company acquired the 1.5% net smelter return royalty ("Metates NSR") on the Metates project from a private Mexican company. The royalty was purchased pursuant to a right of first refusal held by the Company's subsidiary, American Gold Metates S. de R.C. de C.V. ("AGM"), for \$9,859.5 (US\$9,000.0).

On August 9, 2014, the Company entered into an agreement ("Agreement") whereby the Company has assigned its interest in the Metates 1.5% NSR to Wheaton Precious Metals Corp. (formerly known as Silver Wheaton Corp.) ("WPM") for US\$9,000.0. As part of the Agreement, the Company had the right at any time for a period of five years to repurchase two-thirds of the Metates NSR (that being a 1% net smelter returns royalty) from WPM for US\$9,000.0 with WPM continuing to hold a 0.5% interest in the Metates NSR. Also as part of the transaction, Chesapeake through AGM, will hold a right of first refusal to purchase the Metates NSR in the event WPM elects to sell the Metates NSR to a third party, on the same terms and conditions as the third party's offer. The Agreement also contains customary terms and conditions for a royalty transaction. The Company has also entered into a right of first refusal agreement with WPM whereby the Company has granted WPM a right of first refusal on any future silver stream or royalty for which the Company receives and accepts an offer to purchase, on the same terms and conditions as the third party's offer.

On August 9, 2019, the Company exercised the option to re-purchase a 1% NSR for \$11,972.2 (US\$9.0 million) from WPM. The funds were paid by the President of the Company directly to WPM, resulting in a related party loan. The related party loan and interest of \$12,055.6 were fully repaid during 2019. Please refer to Note 14 to Related Party Transaction to finance the 1% NSR acquisition.



# Chesapeake Gold Corp.

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### b) Talapoosa

Gunpoint owns a 100% interest in the Talapoosa property ("Talapoosa") which consists of 535 unpatented lode mining claims in Nevada. Gunpoint owns 509 claims and 26 claims are subject to a lease agreement with a third party (the "Unpatented Leased Land"). These claims are administered by the Bureau of Land Management ("BLM") and the annual maintenance fees for these claims payable to the BLM are approximately US\$88.2. In addition, there are certain payments required for the land owned subject to leases with private land owners (the "Fee Leased Land"). The current annual payments for Fee Leased Land are approximately US\$89.6. \$211.4 of decommissioning obligation related to revegetation was accrued. The Company expects \$223.4 of the reclamation bonds related to Talapoosa will be released when the decommissioning obligation is fulfilled.

On March 31, 2015, the Company entered into an agreement ("Option Agreement") with Timberline Resources Corporation ("Timberline"), granting Timberline an option (the "Option") to acquire from Gunpoint's subsidiary, American Gold US, a 100% interest in Talapoosa. In March, 2018, Timberline did not make a US\$2.0 million option payment due to Gunpoint. Timberline's option to acquire Talapoosa was terminated and 100% ownership reverted back to Gunpoint. In total, Gunpoint received cash payments of \$1,343.0 (US\$1.0 million) and 3.0 million common shares of Timberline. As at December 31, 2020, the market value of the 3.0 million common shares of Timberline was \$1,350.0 (December 31, 2019 - \$285.0).

### c) El Duraznito (Durango State, Mexico)

On March 3, 2020, the Company announced an option to acquire a 100% interest in the El Duraznito gold-silver project ("El Duraznito") located near the town of Tayoltita in Durango State, Mexico. El Duraznito is located about 18 kilometers east of First Majestic Silver Corp.'s San Dimas Mine ("San Dimas"). The Company will provide US\$228.0 in staged payments to two concession owners ("Owners") over three years to earn a 60% interest in El Duraznito. After completion of a Feasibility Study, Chesapeake will pay the Owners US\$500.0 to earn an additional 20% interest in the project. Upon commencement of commercial production, The Company will have acquired a 100% interest in El Duraznito with a final US\$550.0 payment to the Owners. The development timeline is at the Company's sole discretion.

As at December 31, 2020, the definitive agreement was still being finalized and expected to be completed before the end of 2021.

### d) Yarely

In Sinaloa State, Mexico, the Company has undertaken mapping, sampling, mechanized trenching and ground geophysics on the Yarely project located 25 kilometers northwest of the planned El Paso process site (Metates). Regional reconnaissance was completed on the unexplored northeast and southwest areas in Yarely. In total, seven prospects have been identified and systematically advanced including exploratory drilling on three targets.

### e) Cerro Minas (Oaxaca State, Mexico)

In 2010, Gunpoint acquired the Cerro Minas project ("Cerro Minas") from the Company. Cerro Minas is located 130 kilometers southwest of Oaxaca City and comprises 899 hectares.

On October 16, 2019, Gunpoint entered into an agreement ("Option Agreement") with Megastar Development Corp. ("Megastar") whereby Megastar was granted an option to acquire a 100% in Cerro Minas. Pursuant to the Option Agreement, Megastar can acquire Cerro Minas by making US\$100.0 in cash payments and issuing 800,000 Megastar common shares to Gunpoint over three years per the following schedule:

- A payment of US\$10.0 and 100,000 common shares of Megastar on the October 19, 2019 (Received)
- A US\$20.0 cash payment and 150,000 common shares of Megastar on or before October 19, 2020 (Received)
- A US\$30.0 cash payment and 250,000 common shares of Megastar on or before October 19, 2021; and
- A US\$40.0 cash payment and 300,000 common shares of Megastar on or before October 19, 2022.

Gunpoint retains a 1.5% net smelter royalty on Cerro Minas which Megastar has the option to purchase a 0.5% net smelter royalty for US\$1.0 million dollars. Megastar will be responsible for the property taxes and holding costs (including surface right agreement) to maintain Cerro Minas in good standing during the term of the agreement.

### f) La Gitana (Oaxaca State, Mexico)

The La Gitana Property ("La Gitana") was acquired by Gunpoint from Chesapeake in November 2010. La Gitana is located in Oaxaca State and encompasses 494 hectares.

# Chesapeake Gold Corp.

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On June 4, 2019, the Company signed a non-binding letter of intent (the "LOI") with Inomin Mines Inc to sell its 100% interest in La Gitana. The LOI provides for an exclusivity period to conduct due diligence and conclude a definitive agreement to finalize the purchase terms of the Transaction.

Pursuant to the LOI, Inomin has an option to acquire La Gitana by making \$300.0 in cash payments and issuing 2,000,000 common shares as follows:

- A payment of \$10.0 on signing LOI; (Received)
- A payment of \$25.0 and 150,000 shares following execution of definitive agreement;
- A payment of \$50.0 and 250,000 shares on first anniversary;
- A payment of \$65.0 and 450,000 shares on second anniversary;
- A payment of \$75.0 and 500,000 shares on third anniversary; and
- A payment of \$75.0 and 650,000 shares on fourth anniversary.

The definitive agreement required a surface rights agreement with the Santa Maria Lachixonace Ejido community ("Ejido"). The Company has been unable to reach an agreement with the Ejido and on August 4, 2020, Gunpoint agreed to sell La Gitana and another exploration property in Oaxaca state ("Pena Blanca") to Inomin for \$25,000 and 1.0 million common shares of Inomin. This was completed during March 2021.

The Company retains a 1.5% NSR on Pena Blanca. Inomin has the option to purchase 0.5% of the 1.5% NSR from Gunpoint for \$1.0 million dollars.

### g) **La Cecilia**

In 2010, Gunpoint acquired the La Cecilia property ("La Cecilia") from the Company. La Cecilia is located in Sonora State, Mexico and comprises three mineral concessions totalling 794 hectares. On January 31, 2017, Gunpoint entered into an agreement ("Option Agreement") with Riverside Resources Inc. ("Riverside") whereby Riverside has an option to acquire a 100% interest in La Cecilia.

To acquire a 100% interest in La Cecilia, Riverside will provide \$250.0 in cash payments and issue 1.0 million common shares to Gunpoint per the following schedule:

- A payment of \$10.0 upon execution of the Option Agreement (Received);
- A \$15.0 cash payment and issuance of 100,000 common shares of Riverside concurrent with the execution of registerable agreement in Mexico ("the Effective Date") (Received);
- A \$25.0 cash payment and issuance of 200,000 common shares of Riverside on or before the first anniversary of the Effective Date (Received);
- A \$75.0 cash payment and issuance of 300,000 common shares of Riverside on or before the second anniversary of the Effective Date (Received); and
- A \$125.0 cash payment and issuance of 400,000 common shares of Riverside on or before the third anniversary of the Effective Date (Received)

Riverside completed its acquisition of La Cecilia in 2020 with the \$125.0 cash payment and issuance of 400,000 Riverside common shares to Gunpoint. As at December 31, 2020, the La Cecilia property is recorded at \$nil (December 31, 2019 - \$nil) value due to a previous impairment. The consideration received from Riverside was recognized as income in the consolidated statement of loss.

During the quarter, Riverside spun out their Penoles project in Mexico by way of a plan of arrangement by issuing common shares of Capitan Mining Inc. ("Capitan Shares") a new public company on the TSX Venture Exchange. The Company received 259,399 common shares of Capitan Mining Inc. As at December 31, 2020, the fair market value of the Capitan Shares was \$49.3 and recorded as an unrealized gain on investment.

As at December 31, 2020, the Company no longer has any continuing interest in La Cecilia.

## Chesapeake Gold Corp.

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## 9 Equipment

<b>Cost</b>	<b>Exploration Equipment</b>
Cost as at December 31, 2018	\$ 122.9
Additions	3.3
Cost as at December 31, 2019	\$ 126.2
Additions	4.7
Cost as at December 31, 2020	\$ 130.9

<b>Accumulated Depreciation</b>	<b>Exploration Equipment</b>
Accumulated depreciation as at December 31, 2018	\$ (69.8)
Depreciation expense	(11.6)
Accumulated depreciation as at December 31, 2019	\$ (81.4)
Depreciation expense	(11.4)
Accumulated depreciation as at December 31, 2020	\$ (92.8)

<b>Carrying Amount</b>	<b>Exploration Equipment</b>
Carrying value as at December 31, 2019	\$ 44.8
Carrying value as at December 31, 2020	\$ 38.1

## 10 Promissory note

As at December 31, 2020, Gunpoint has a promissory note in the principal amount of \$700.0 (2019 - \$700.0) due to the President of the Company. The promissory note is unsecured, bears interest at 5% per annum, and is due on demand.

Interest accrued on the promissory note for the year ended December 31, 2020 was \$35.0 (2019 - \$35.0).

As at December 31, 2020, the total accrued interest related to the promissory note was \$307.7 (2019 - \$272.7) and included in account payables and accrued liabilities.

## 11 Lease liability

<b>Right of use asset - office</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Opening balance	\$ 8.5	\$ -
Recognized on adoption of IFRS 16 (note 2)	-	13.8
Less: depreciation	(5.6)	(5.3)
	2.9	8.5

# Chesapeake Gold Corp.

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<b>Lease liability</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Lease liabilities	\$ 3.5	\$ 9.3
Less: current portion	(3.5)	(5.5)
Classified as long-term liability	\$ -	\$ 3.8

<b>Undiscounted lease payments</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Not later than a year	\$ 3.7	6.9
Later than a year	-	4.0
	\$ 3.7	10.9

The Company's leases relate to offices and storage space in Mexico, United States and Canada. Interest expense on the lease liabilities for the year ended December 31, 2020 is \$3.4 (2019 - \$2.4). Depreciation of right-to-use assets is calculated using the straight-line method over the remaining lease term. During the year ended December 31, 2020, the Company incurred \$9.7 (2019 - \$5.3) for leases with variable lease payments not included in lease liabilities.

## 12 Share capital

The Company's authorized share capital consists of an unlimited number of common shares without par value and 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.

- On August 28, 2019, the Company closed a bought-deal private placement of 5,334,000 common shares at a price of \$2.25 per common share for gross proceeds of \$12,001.5. The underwriter received a 4% cash commission of the gross proceeds for the brokered financing in the amount of \$480.1. In addition, The Company issued a non-brokered private placement of 1,334,000 common shares at a price of \$2.25 per common share for gross proceeds of \$3,001.5. Professional fees related to the financing were \$193.3, of which \$81.4 was direct legal fees to a related party.
- On August 18, 2020, the Company completed a non-brokered private placement of 4,000,000 common shares at a price of \$5.00 per share for gross proceeds of \$20,000.0. Share issuance cost related to this transaction was \$153.8, of which \$101.4 was direct legal fees to a related party (paid to a law firm of which an officer was a partner of).
- During the year ended December 31, 2020, 1,015,000 stock options were exercised at \$2.15 per share for proceeds of \$2,182.3.
- During the year ended December 31, 2020, 50,000 stock options were exercised at \$3.30 per share for proceeds of \$165.0.
- As at December 31, 2020 and 2019, 375,000 common shares were held in escrow, subject to release upon approval of the regulatory authorities.

## 13 Share-based compensation

The Company has a share purchase 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 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 and policies of applicable regulatory authorities. The maximum aggregate number of shares reserved for issuance for options granted under the option plan is 8,500,000 common shares (as at December 31, 2020, 1,122,500 of stock options are available for further grants). 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 also has a Stock Bonus Plan ("Bonus Plan"). The Bonus Plan 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 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 Board may determine, within the limitations of the Bonus Plan and subject to the rules and policies

# Chesapeake Gold Corp.

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of applicable regulatory authorities. The maximum number of common shares issuable under the Bonus Plan is 200,000 common shares, representing approximately 0.36% 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, also taking options into account, 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, 10% of the issued and outstanding common shares, and no more than 5% of the issued and outstanding shares to any one person in a 12-month period.

During the year ended December 31, 2020, the Company approved the issuance of 200,000 common shares (fair value of \$1,148.0) as a bonus to an officer of the Company (Note 14). The bonus common shares were issued on January 27, 2021.

On May 14, 2020, the Company granted 400,000 stock options to a director of the Company with an exercise price of \$3.15 per share. The stock options vest on the basis of 25% annually commencing May 14, 2021. The stock options are exercisable until May 14, 2025.

On December 10, 2020, the Company granted 1,850,000 stock options to officers and a director of the Company at an exercise price of \$4.56 per share. The stock options vest on the basis of 25% annually commencing December 10, 2021. The stock options are exercisable until December 10, 2025.

The weighted average fair value per stock options granted for the year ended December 31, 2020 was \$2.47 (2019 - \$nil).

	December 31, 2020		December 31, 2019	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Outstanding – beginning of year	5,233	\$ 2.92	5,233	\$ 2.92
Granted	2,250	4.31	-	-
Exercised	(1,065)	2.20	-	-
Forfeited/Expired	(463)	2.79	-	-
Outstanding – end of year	5,955	\$ 3.57	5,233	\$ 2.92

The weighted average contractual life of the outstanding stock options as at December 31, 2020 was 3.37 years.

The following table discloses the number of options and vested options outstanding as at December 31, 2020:

Number of options (000s)	Number of options vested (000s)	Exercise price	Expiry Date
2,115	2,115	\$ 3.30	29-Aug-24
860	860	2.15	21-Mar-21
730	547	3.75	27-Sept-22
400	-	3.15	14-May-25
1,850	-	4.56	10-Dec-25
5,955	3,522	3.57	

During the year ended December 31, 2020, the Company recognized \$578.6 (2019 - \$611.6) as share-based compensation expense, of which \$539.7 (2019 - \$538.3) relates to the Company and \$38.9 (2019 - \$73.3) to Gunpoint.

The weighted average contractual life of outstanding stock options as at December 31, 2019 was 3.0 years.

The following table discloses the number of options and vested options outstanding as at December 31, 2019:

Number of options (000s)	Number of options vested (000s)	Exercise price	Expiry Date
2,340	2,340	\$ 3.30	29-Aug-24
2,103	1,583	2.15	21-Mar-21
790	395	3.75	27-Sept-22
5,233	4,318	2.92	

# Chesapeake Gold Corp.

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### 14 Related party transactions

The Company's related parties include its subsidiaries and key management. Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length.

Short-term employee benefits include salaries payable within twelve months of the statement of financial position date and other annual employee benefits.

The Company incurred the following expenses with related parties during the year ended December 31, 2020 and 2019:

	2020	2019
Consulting	\$ 160.1	\$ 108.5
Legal	198.2	48.5
Management fees (Note 13)	1,584.0	200.0
Rental	24.0	24.0
Share based compensation	473.9	500.9

Management and rental fees were paid or accrued to a private company owned by the President. Consulting fees were paid or accrued to directors of the Company.

In August 2019, the Company obtained an unsecured bridge loan from the President to purchase a 1% NSR of Metates (see Note 8(a)). The loan principal was \$11,972.2 (US\$9.0 million) with an interest rate of 5% per annum. The loan principal (\$11,972.2) and accrued interest (\$83.4), totalling \$12,055.6, was fully repaid during the year of 2019.

As at December 31, 2020 the Company had amounts payable of \$302.0 to related parties (December 31, 2019 - \$907.4) These amounts are unsecured and non-interest bearing, due on demand and are included in accounts payable and accrued liabilities.

As at December 31, 2020, Gunpoint has a promissory note in the principal amount of \$700.0 (2019 - \$700.0) and \$307.7 of interest payable included in accounts payables and accrued liabilities (2019 - \$272.7). due to the President of the Company (Note 10).

### 15 Capital management

The capital of the Company consists of items included in shareholder's equity. The Company's objectives for capital management are to safeguard its ability to support the Company's normal operating requirement on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

The capital of the Company consists of items included in shareholders' equity (excluding NCI), net of cash as follows:

	December 31, 2020	December 31, 2019
Total equity for owners	\$ 117,480.3	\$ 94,818.1
Less: cash	(34,247.8)	(15,258.2)
	83,232.5	79,559.9

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at December 31, 2020, the Company expects its capital resources will support its normal operating requirements, planned development and exploration of its mineral properties for the next twelve months. There are no externally imposed capital requirements to which the Company has not complied.

## Chesapeake Gold Corp.

### Notes to the Consolidated Financial Statements

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## 16 Segment disclosures

The Company operates in one operating segment (Note 1) in three countries. Details of the investments in mineral properties are disclosed in Note 8. The Company's assets by country are:

December 31, 2020	Canada	Mexico	USA	Total
Cash	\$ 34,123.1	\$ 87.9	\$ 36.8	\$ 34,247.8
Other receivables and prepaid expenses	187.8	340.8	-	528.6
Marketable securities	1,546.7	-	-	1,546.7
	35,857.6	428.7	36.8	36,323.1
Long-term investments	676.4	-	1,350.0	2,026.4
Investment in mineral properties	-	84,113.7	5,472.2	89,585.9
Other long-term assets	91.7	-	257.0	348.7
Right-of-use asset	-	2.9	-	2.9
Equipment	-	38.1	-	38.1
Total assets	\$ 36,625.7	\$ 84,583.4	\$ 7,116.0	\$ 128,325.1
Segment (loss) income in 2020	\$ (2,119.9)	\$ (890.6)	\$ 1,508.2	\$ (1,502.3)

December 31, 2019	Canada	Mexico	USA	Total
Cash	\$ 15,188.4	\$ 33.0	\$ 36.8	\$ 15,258.2
Other receivables and prepaid expenses	258.4	291.4	-	549.8
Marketable securities	1,544.5	-	-	1,544.5
	16,991.3	324.4	36.8	17,352.5
Long-term investments	157.2	-	285.0	442.2
Investment in mineral properties	-	81,776.2	5,176.8	86,953.0
Other long-term assets	33.5	-	227.8	261.3
Right-of-use asset	-	8.5	-	8.5
Equipment	-	44.8	-	44.8
Total assets	\$ 17,182.0	\$ 82,153.9	\$ 5,726.4	\$ 105,062.3
Segment (loss) income in 2019	\$ (1,054.2)	\$ (326.1)	\$ (275.1)	\$ (1,655.4)

# Chesapeake Gold Corp.

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### 17 Income taxes

The income taxes shown in the consolidated statements of earnings differ from the amounts obtained by applying statutory rates to the earnings before provision for income taxes due to the following:

	Year ended December 31,	
	2020	2019
Loss before income taxes	\$ (931.2)	\$ (1,470.3)
Income tax recovery at statutory rates (2020 – 27%; 2019 – 27%)	251.4	396.9
Difference in foreign tax rates	72.6	13.7
Non-deductible expenses	10.7	61.1
Change in unrecognized deferred income tax asset	(288.2)	6.8
Tax losses expired	(444.9)	(450.0)
Foreign exchange and other	(172.7)	(213.6)
Deferred income tax (expense) recovery	\$ (571.1)	\$ (185.1)

The components of deferred income taxes are as follows:

	2020	2019
<b>Deferred income tax assets</b>		
Operating losses carried forward	\$ 5,746.5	\$ 6,472.9
	\$ 5,746.5	\$ 6,472.9
<b>Deferred tax liabilities</b>		
Investment in mineral properties	(12,308.3)	(12,341.2)
Other	(224.6)	(347.0)
	\$ (12,532.9)	\$ (12,688.2)
Net deferred income tax liability	\$ (6,786.4)	\$ (6,215.3)

Unrecognized deductible temporary differences, unused tax losses and unused tax credits are attributed to the following:

	2020	2019
Operating losses carried forward	\$ 16,027.1	\$ 13,638.9
Equipment	69.3	98.0
Investment in mineral properties	959.7	1,001.0
Capital losses carried forward	-	37.9
Marketable securities and long-term investment	1,214.1	2,759.1
Other	1,023.1	1,014.7
	\$ 19,293.4	\$ 18,549.6



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The following are the losses carry forwards as at December 31, 2020:

<b>Expiry date</b>	<b>Canada</b>	<b>Mexico</b>
31-Dec-21	\$ -	\$ 4,907.1
31-Dec-22	-	2,662.9
31-Dec-23	-	2,022.9
31-Dec-24	-	423.2
31-Dec-25	-	814.1
31-Dec-26	489.1	565.1
31-Dec-27	494.1	616.8
31-Dec-28	1,247.5	601.0
31-Dec-29	-	552.8
31-Dec-30	756.2	894.2
31-Dec-31	1,187.4	-
31-Dec-32	-	-
31-Dec-33	812.1	-
31-Dec-34	897.3	-
31-Dec-35	668.9	-
31-Dec-36	523.6	-
31-Dec-37	766.9	-
31-Dec-38	613.0	-
31-Dec-39	602.1	-
31-Dec-40	1,870.9	-
	\$ 10,929.1	\$ 14,060.1

# Chesapeake Gold Corp.

## Notes to the Consolidated Financial Statements

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### 18 Subsequent Events

a) On January 19, 2021, the Company closed the acquisition of Alderley Gold Corp. ("Alderley"), a private British Columbia mining technology company.

Under the terms of the Agreement, the Company issue 10 million common shares to the shareholders of Alderley (the "Alderley Shareholders") resulting in the Alderley Shareholders holding approximately 14.2% of the outstanding common shares of the Company on a fully diluted basis. The Alderley Shares will be issued into escrow with release based on time and milestone conditions over 7 years as follows: a. 5% released on each of the first four anniversaries of January 19, 2021 ("Closing Date");

i. 10% released on the earlier of (a) date of a positive feasibility study and (b) the fifth anniversary of Closing Date (January 19, 2025)

ii. 30% released on the earlier of (a) duly certified commencement of construction of a mine and (b) the sixth anniversary of Closing Date (January 19, 2026);

iii. 40% released on the earlier of (a) duly certified commencement of commercial production and (b) the seventh anniversary of Closing Date (January 19, 2027).

As at December 31, 2020, the Company incurred direct transaction costs of \$91.7, which was recorded as deferred charges. The transaction was approved by the TSX Venture Exchange on January 19, 2021.

b) On January 19, 2021, the Company granted 300,000 stock options to the directors of the Company. These options vest equally over 4 years with the first vesting date on January 19, 2022, with an exercise price of \$4.55 and an expiry date of January 19, 2026.

c) On January 27, 2021, the Company issued 200,000 common shares to an officer of the Company, as noted in Note 13.

d) On March 21, 2021, Inomin acquired 100% interest in the La Gitana and Pena Blanca from Gunpoint for consideration of \$25.0 cash payment and 1.0 million common shares of Inomin to Gunpoint (see Note 8(f)).

e) During the month of March 2021, the Company issued 860,000 common shares for total proceeds of \$1,849.0 pursuant to the exercise of stock options with an exercise price of \$2.15.