



CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 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 September 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 nine month periods ended September 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)

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|---|-----------------------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 8,775,443 | \$ 14,087,176 |
| Marketable securities (note 5) | 7,234,750 | 8,082,890 |
| Accounts receivable | 675,434 | 287,667 |
| Accrued Interest (note 5) | 143,528 | - |
| Prepaid expenses | 779,323 | 252,762 |
| | 17,608,478 | 22,710,495 |
| Accrued Interest (note 5) | 127,906 | |
| Asset Backed Commercial Paper (note 5) | 7,043,015 | 8,193,181 |
| Portfolio Investments (note 5) | 356,250 | 642,250 |
| | 7,527,171 | 8,835,431 |
| Investment in Mineral Properties (note 6) | 87,545,342 | 82,107,524 |
| Fixed Assets (note 7) | 229,899 | 289,723 |
| TOTAL ASSETS | \$ 112,910,890 | \$ 113,943,173 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 1,673,870 | \$ 839,989 |
| Income taxes payable | 2,995,992 | 2,953,691 |
| | 4,669,862 | 3,793,680 |
| Future income tax liabilities | 23,499,871 | 23,499,871 |
| Reclamation obligations (note 10) | 58,000 | 58,000 |
| | 28,227,733 | 27,351,551 |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (note 8) | 88,249,434 | 87,800,891 |
| Contributed surplus | 9,731,647 | 9,866,690 |
| Other comprehensive income (loss) | (2,309,717) | (1,668,397) |
| Deficit | (10,988,207) | (9,407,562) |
| | 84,683,157 | 86,591,622 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 112,910,890 | \$ 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 Nine Months Ended September 30, 2008 and 2007

(In Canadian Dollars)

(Unaudited -Prepared by Management)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|---------------------|-----------------------------------|-----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Amortization | \$ 21,944 | \$ 38,589 | \$ 46,615 | \$ 85,518 |
| Bank and interest | 30,352 | - | 106,967 | - |
| Geological consulting fees | 14,940 | 38,944 | 47,409 | 195,723 |
| Filing and transfer agent fees | 4,141 | 8,082 | 85,383 | 91,517 |
| Management fees (note 9) | 43,750 | 43,750 | 131,250 | 131,250 |
| Office and administration | 168,484 | 49,911 | 721,764 | 512,308 |
| Professional fees | 44,051 | 50,811 | 207,496 | 291,717 |
| Travel and investor communications | 31,980 | 18,214 | 100,549 | 83,357 |
| OPERATING LOSS | 359,643 | 248,301 | 1,447,434 | 1,391,389 |
| OTHER INCOME/(EXPENSES) | | | | |
| Interest and other income (note 5) | 425,783 | 430,721 | 1,039,692 | 1,153,385 |
| Impairment loss on asset backed commercial paper (note 5) | (1,150,166) | - | (1,150,166) | - |
| Foreign exchange gain (losses) | 21,355 | (780,157) | 36,952 | (780,157) |
| | (703,028) | (349,436) | (73,522) | 373,228 |
| LOSS BEFORE INCOME TAXES | (1,062,671) | (597,736) | (1,520,956) | (1,018,161) |
| Provision for current income taxes | (59,690) | (44,636) | (59,690) | (22,318) |
| Provision for future income taxes | - | - | - | - |
| | (59,690) | (642,372) | (1,580,645) | (1,040,479) |
| NET LOSS | \$ (1,122,360) | \$ (642,372) | \$ (1,580,645) | \$ (1,040,479) |
| OTHER COMPREHENSIVE INCOME | | | | |
| Unrealized loss on investments in current year | (912,422) | - | (641,320) | 76,693 |
| COMPREHENSIVE INCOME | (912,422) | - | (641,320) | 76,693 |
| LOSS PER SHARE | | | | |
| Basic | \$ (0.03) | \$ (0.02) | \$ (0.04) | \$ (0.04) |
| Diluted | (0.03) | (0.02) | (0.04) | (0.04) |
| Weighted Average Number of Shares Outstanding | | | | |
| Basic | 38,209,036 | 28,980,719 | 36,312,245 | 27,599,859 |
| Diluted | 38,209,036 | 28,980,719 | 36,312,245 | 27,599,859 |

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 Nine Months Ended September 30, 2008 and 2007
(In Canadian Dollars)
(Unaudited -Prepared by Management)

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|----------------------|-----------------------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash provided by (used in) | | | | |
| Operating activities | | | | |
| Net loss | \$ (1,122,360) | \$ (797,290) | \$ (1,580,645) | \$ (1,040,479) |
| Items not affecting cash: | | | | |
| Amortization | 21,944 | 38,589 | 46,615 | 85,518 |
| Impairment loss on asset backed commercial paper (note 5) | 1,150,166 | 780,157 | 1,150,166 | 780,157 |
| Changes in non-cash working capital items: | | | | |
| Accounts receivable | (621,449) | (212,901) | (387,767) | (287,631) |
| Accrued Interest (note 5) | (143,528) | - | (143,528) | - |
| Prepaid expenses | (264,500) | (8,009) | (526,561) | 252,543 |
| Accounts payable and accrued liabilities | 260,759 | 48,040 | 833,881 | 221,084 |
| Income taxes payable | (8,707) | 257,016 | 42,301 | 278,204 |
| | (727,675) | 105,601 | (565,538) | 289,395 |
| Investing activities | | | | |
| Purchase of asset backed commercial paper (note 5) | - | (9,209,641) | - | (9,209,641) |
| Marketable securities | 569,077 | (81,650) | 364,914 | 1,426,279 |
| Mineral properties | (1,992,856) | (883,062) | (5,437,818) | (2,438,699) |
| Cash received from acquisition of American Gold (note 1) | - | - | - | 13,023,528 |
| Fixed assets purchased | (4,892) | (10,280) | 13,209 | (38,137) |
| | (1,428,671) | (10,184,633) | (5,059,695) | 2,763,330 |
| | | | | 2,763,330 |
| Financing activities | | | | |
| Cash received on issue of shares | 33,000 | 16,500 | 313,500 | 526,950 |
| | 33,000 | 16,500 | 313,500 | 526,950 |
| | | | | - |
| CHANGE IN CASH & CASH EQUIVALENTS | (2,123,346) | (10,062,532) | (5,311,733) | 3,579,675 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 10,898,789 | 27,521,665 | 14,087,176 | 13,879,458 |
| CASH AND CASH EQUIVALENTS, end of the period | \$ 8,775,443 | \$ 17,459,133 | \$ 8,775,443 | \$ 17,459,133 |
| Supplementary information | | | | |
| Interest paid | \$ 30,352 | \$ 32,400 | \$ 106,967 | \$ 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 Nine Months Ended September 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 |
| Balance, December 31, 2007 | 87,800,891 | \$ 9,866,690 | \$ (1,668,397) | \$ (9,407,562) | \$ 86,591,622 |
| Balance, December 31, 2007 | 87,800,891 | \$ 9,866,690 | \$ (1,668,397) | \$ (9,407,562) | \$ 86,591,622 |
| Net loss | - | - | - | (1,580,645) | (1,580,645) |
| Unrealized loss on investments in current year | - | - | (641,320) | - | (641,320) |
| Shares issued for cash on exercise of stock options | 313,500 | - | - | - | 313,500 |
| Transfer from contributed surplus on exercise of options | 135,043 | (135,043) | - | - | - |
| Stock-based compensation charged to operations | - | - | - | - | - |
| Balance, September 30, 2008 | 88,249,434 | \$ 9,731,647 | \$ (2,309,717) | \$ (10,988,207) | \$ 84,683,157 |

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

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

| | American Gold | | | | | | | Nica Gold S.A. | | |
|---------------------------------------|---------------|---------------|--------------|-------------|------------|-------------|------------|----------------|------------|---------------|
| | Talapoosa | Metates | La Gitana | La Calavera | La Cecilia | El Tecomate | Tatatila | Regional | Nicaragua | Total |
| Acquisition costs | | | | | | | | | | |
| 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 |
| Defer exploration costs | | | | | | | | | | |
| 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) |
| Balance December 31, 2007 | \$ 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 |
| Acquisition costs | | | | | | | | | | |
| 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 | - | 51,290 | 2,855 | 17,545 | 1,070 | 28,522 | 93,720 | 216,678 | (221,587) | 190,093 |
| | 52,152,368 | 20,315,138 | 187,122 | 479,820 | 82,984 | 124,485 | 117,478 | 1,002,768 | 411,423 | 74,873,586 |
| Defer exploration costs | | | | | | | | | | |
| 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 | - | 248,559 | 2,437 | - | - | - | 51,492 | 11,828 | - | 314,315 |
| Camp and supplies | 6,254 | 428,145 | 4,512 | 4,099 | - | - | 41,105 | 8,033 | - | 492,146 |
| Drilling | - | 1,693,096 | - | - | - | - | - | - | - | 1,693,096 |
| Geological and engineering | 252,619 | 1,972,219 | 12,320 | - | - | - | 184,436 | 20,607 | - | 2,442,201 |
| Travel and accomodation | 2,178 | 201,389 | 1,256 | 8,694 | - | - | 75,582 | 16,868 | - | 305,967 |
| | 390,259 | 6,316,328 | 3,946,257 | 247,675 | 28,693 | 545,869 | 513,578 | 2,551,779 | 227,399 | 14,767,837 |
| Option proceeds (note 4) | - | - | - | (228,575) | - | - | - | - | - | (228,575) |
| Writedown of costs | - | - | - | - | - | - | - | (1,474,026) | (393,480) | (1,867,506) |
| Balance September 30, 2008 | \$ 52,542,627 | \$ 26,631,466 | \$ 4,133,380 | \$ 498,920 | \$ 111,677 | \$ 670,354 | \$ 631,056 | \$ 2,080,521 | \$ 245,342 | \$ 87,545,342 |

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

CHESAPEAKE GOLD CORP.

Notes to the Interim Consolidated Financial Statements

September 30, 2008

(Unaudited – Prepared by Management)

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 nine months ended September 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

September 30, 2008

(Unaudited – Prepared by Management)

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

September 30, 2008

(Unaudited – Prepared by Management)

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

September 30, 2008

(Unaudited – Prepared by Management)

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

September 30, 2008

(Unaudited – Prepared by Management)

5. INVESTMENT

| | September 30, 2008 | | 2007 | |
|--|--------------------|--------------|--------------|--------------|
| | Cost | Fair value | Cost | Fair value |
| Marketable securities | | | | |
| Fixed income securities, equities and equity funds | \$ 9,009,348 | \$ 7,234,750 | \$ 9,598,775 | \$ 8,082,890 |
| Asset backed commercial paper | \$ 9,209,641 | \$ 7,043,015 | \$ 9,209,641 | \$ 8,193,181 |
| Porfolio investments | | | | |
| Pinnacle Mines Ltd. | \$ 125,000 | \$ 22,500 | \$ 125,000 | \$ 60,000 |
| West Timmins Mining Inc. | - | 182,750 | - | 182,750 |
| Christopher James Gold Corp. | 226,000 | 20,000 | 226,000 | 76,000 |
| VRB Power System Inc. | 110,000 | 26,000 | 110,000 | 123,500 |
| New World Resources Corp. | 275,000 | 105,000 | 275,000 | 200,000 |
| | \$ 736,000 | \$ 356,250 | \$ 736,000 | \$ 642,250 |

Asset Backed Commercial Paper

On July 26, 2007 the Company invested \$9,209,641 in third party sponsored Asset Backed Commercial Paper ("ABCP"), which had a principal value of \$9,250,000 and was rated as "R1-High" by Dominion Bond Rating Service at the time of purchase. At that time 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 whom the Company had invested, announced that they could not repay the ABCP due to unfavourable conditions in the Canadian capital markets.

The Company had previously classified its ABCP as a held-to-maturity investment. Based on the Pan-Canadian Investors Committee proposal and on discussions in November 2008 with the Company's financial adviser and the sponsor of its ABCP, the Company expects that approximately 100% of the principal value of its investment in ABCP will be issued in the form of new notes maturing on December 16, 2016.

There is presently 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, and is expected to be finalized in December 2008.

Based on the information obtained from the proposed restructuring plan, the Company has reclassified its investment in ABCP on the balance sheet as a long term asset. It has also recalculated the estimated current value of the ABCP using the discounted cash flow method based on the proposed restructuring and using the following assumptions: a discount rate of 6.16%, a coupon rate based on the one month Banker's Acceptance ("BA") rate less 50 basis points for 97% of the notes, and a coupon rate of 20% on the remaining 3%.

CHESAPEAKE GOLD CORP.

Notes to the Interim Consolidated Financial Statements

September 30, 2008

(Unaudited – Prepared by Management)

5. INVESTMENTS (continued)

The resulting estimated fair value of the Company's ABCP is \$7,043,015, and has therefore recorded an additional impairment loss of \$1,150,166 in operations during the three months ended September 30, 2008. In addition, long term accrued interest of \$127,906, expected to be received upon maturity of the new notes, and accrued interest of \$143,528, expected to be received upon finalization of the restructuring plan, has been recorded.

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 to the Company. The estimate is also based on prevailing market conditions, which are volatile and are highly likely to 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 changes in interest rates. For example, under prevailing market conditions a 1% decrease in the one month BA rate would result in a \$575,000 decrease in the estimated fair value of the new notes.

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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(Unaudited – Prepared by Management)

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 (paid).

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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.

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(Unaudited – Prepared by Management)

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

| | September 30, 2008 | | | December 31, 2007 | | |
|---------------------------------|--------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Office, furniture and equipment | \$ 42,421 | \$ 29,245 | \$ 13,176 | \$ 42,421 | \$ 27,486 | \$ 14,935 |
| Computer equipment | 42,136 | 41,505 | 630 | 46,262 | 28,614 | 17,648 |
| Vehicles | 269,342 | 181,934 | 87,407 | 249,604 | 144,956 | 104,648 |
| Exploration equipment | 289,920 | 161,234 | 128,685 | 297,513 | 145,021 | 152,492 |
| | <u>\$ 643,818</u> | <u>\$ 413,919</u> | <u>\$ 229,899</u> | <u>\$ 635,800</u> | <u>\$ 346,077</u> | <u>\$ 289,723</u> |

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.

Notes to the Interim Consolidated Financial Statements

September 30, 2008

(Unaudited – Prepared by Management)

8. SHARE CAPITAL (continued)

(b) Issued and outstanding:

| | Number of shares | Amount |
|---|---------------------|---------------|
| Common Shares | | |
| 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 | - | 348,761 |
| Balance, December 31, 2007 | 29,094,197 | 87,791,871 |
| Exercise of stock options | 95,000 | 313,500 |
| Shares issued for the acquisition of American Gold | 9,020,600 | 9,020 |
| Stock - based compensation transferred from contributed surplus on exercise of options | - | 135,043 |
| Balance, September 30, 2008 | 38,209,797 | 88,249,434 |

- (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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(Unaudited – Prepared by Management)

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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(Unaudited – Prepared by Management)

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 September 30, 2008:

| Expiry date | Weighted Average Remaining Life | Exercise Price | Options Outstanding | Options Exercisable |
|-------------|---------------------------------|----------------|---------------------|---------------------|
| | | | Number of shares | Number of shares |
| 12-Dec-08 | 0.20 | \$ 3.30 | 797,500 | 797,500 |
| | | | 797,500 | 797,500 |

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

| | September 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 | 95,000 | 3.30 | 270,800 | 3.01 |
| Balance, end of period | 797,500 | \$ 3.30 | 892,500 | \$ 3.30 |

- (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

September 30, 2008

(Unaudited – Prepared by Management)

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 September 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.

| | Nine months ended | |
|--------------------|-------------------|---------|
| | September 30 | |
| | 2008 | 2007 |
| Consulting | 44,692 | 12,625 |
| Legal | 43,749 | 140,405 |
| Management fees | 131,250 | 131,250 |
| Rental | 18,000 | 18,000 |
| Travel & promotion | 36,054 | 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 September 30, 2008, accounts payable included \$51,857 to Koffmen Kalef, \$300,500 to the President of the Company and \$14,672 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.

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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. The Company's assets by geographic segment are:

| | Canada | Mexico | Nicaragua | Total |
|----------------------------------|----------------------|----------------------|-------------------|-----------------------|
| Cash and cash equivalents | \$ 8,227,836 | \$ 534,238 | \$ 13,370 | \$ 8,775,443 |
| Marketable securities | 7,234,750 | - | - | 7,234,750 |
| Accounts receivable | 166,083 | 509,351 | - | 675,434 |
| Accrued interest | 143,528 | - | - | 143,528 |
| Prepaid expenses | 19,285 | 760,038 | - | 779,323 |
| Accrued interest - Long term | 127,906 | - | - | 127,906 |
| Asset Backed Commercial Paper | 7,043,015 | - | - | 7,043,015 |
| Portfolio investments | 356,250 | - | - | 356,250 |
| Investment in mineral properties | 52,542,627 | 34,757,373 | 245,342 | 87,545,342 |
| Fixed assets | 130,747 | 99,153 | - | 229,899 |
| September 30, 2008 | \$ 75,992,028 | \$ 36,660,152 | \$ 258,712 | \$ 112,910,890 |

| | 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 |