

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Chesapeake Gold Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and the financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors have reviewed the financial statements with management and the external auditors. Moen and Company LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

/s/ P. Randy Reifel
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders
Chesapeake Gold Corp.

We have audited the consolidated balance sheets of Chesapeake Gold Corp. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Moen and Company LLP”

Chartered Accountants

Vancouver, British Columbia, Canada
May 8, 2006

CHESAPEAKE GOLD CORP.
CONSOLIDATED BALANCE SHEETS
(In Canadian Dollars)

	December 31,	
	2005	2004
		(As restated) (note 2(k))
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16,607,878	\$ 18,178,265
Accounts receivable	97,166	120,268
TOTAL CURRENT ASSETS	16,705,044	18,298,533
Long Term Investments (note 7)		
	9,880,269	7,643,424
Investment in Mineral Properties (notes 4 and 6)		
Mineral concessions	889,809	443,583
Deferred exploration costs	4,789,122	1,876,409
TOTAL INVESTMENT IN MINERAL PROPERTIES	5,678,931	2,319,992
Royalty Interest (note 10)	-	1
Property and Equipment - net (note 3)	363,794	229,324
TOTAL ASSETS	\$ 32,628,038	\$ 28,491,274
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 391,855	\$ 188,803
Income taxes payable (note 11)	198,509	165,217
TOTAL CURRENT LIABILITIES	590,364	354,020
Shareholders' Equity		
Capital stock (note 8)		
Authorized:		
Unlimited number of common shares without par value and unlimited number of preferred shares without par value		
Issued:		
19,752,795 common shares (December 31, 2004 - 17,898,425 common shares)	33,191,960	28,040,014
Contributed surplus (note 13)	1,004,272	2,320,425
Retained earnings (Deficit), accumulated during the development stage (note 1)	(2,158,558)	(2,223,185)
TOTAL SHAREHOLDERS' EQUITY	32,037,674	28,137,254
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 32,628,038	\$ 28,491,274

APPROVED ON BEHALF OF THE BOARD:

Commitments: Notes 4, 8, 9, 14

"P. Randy Reifel " Director

"Gerald L. Sneddon " Director

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

CHESAPEAKE GOLD CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND (DEFICIT)
(In Canadian Dollars)

	Year Ended December 31,	
	2005	2004
		(As restated) (note 2(k))
INTEREST & OTHER REVENUE, net	\$ 2,003,733	\$ 1,775,438
GENERAL AND ADMINISTRATION EXPENSES		
Amortization	101,764	68,515
Equipment transportation and mobilization	-	166,526
Filing and transfer agent fees	23,215	21,517
Management fees (note 9(a) and 13)	498,335	498,335
Office and administration	729,074	676,467
Professional and consulting fees (note 13)	490,559	557,076
Property evaluation and exploration	7,498	239,069
Travel and investor communications	83,531	35,360
	<u>1,933,976</u>	<u>2,262,865</u>
Other Expenses (Income)		
Write off mineral property-La Juliana	(28,163)	-
Write off investment in Goldeneye Explorations Ltd.	1	-
	<u>(28,162)</u>	<u>-</u>
	<u>1,905,814</u>	<u>2,262,865</u>
NET INCOME (LOSS) BEFORE INCOME TAXES	97,919	(487,427)
Income taxes (Provision)	33,292	(1,538)
NET INCOME (LOSS) FOR THE YEAR	64,627	(485,889)
Retained earnings (Deficit), beginning of the year	(2,223,185)	514,333
	<u>(2,158,558)</u>	<u>28,444</u>
Prior year adjustment for long term investments restated at cost (note 2(k))	-	(183,074)
Prior Year adjustment for stock based compensation (note 2(k))	-	(2,068,555)
RETAINED EARNINGS (DEFICIT), END OF THE YEAR	<u>(2,158,558)</u>	<u>(2,223,185)</u>
Weighted Average Number of Shares Outstanding		
Basic	18,697,556	17,877,660
Diluted (note 2(k))	19,865,856	17,877,660
Earnings (Loss) Per Share		
Basic	\$ 0.00	\$ (0.03)
Diluted	\$ 0.00	\$ (0.03)

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

CHESAPEAKE GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Canadian Dollars)

	Year Ended	
	December 31,	
	2005	2004
		(As restated)
		(note 2(k))
FUNDS DERIVED FROM (APPLIED TO)		
Operating activities		
Net profit (loss) for the year	\$ 64,627	\$ (485,889)
Items not requiring use of cash		
Amortization	101,764	65,082
Write off of office improvements		14,110
Write off of exploration costs and investment	(28,162)	208,237
Stock Based Compensation	482,903	482,903
Changes in non-cash working capital items		
Accounts receivable decrease (increase)	23,102	(88,924)
Accounts payable and accrued liabilities increase	203,052	95,868
Income taxes payable (decrease)	33,292	(1,538)
Cash derived from operating activities	880,578	289,849
Investing activities		
Option payment credited to mineral concessions	-	100,000
Mineral concessions	(146,904)	(182,472)
Deferred exploration costs	(2,997,872)	(1,004,488)
Property and equipment purchased	(236,234)	(121,860)
Cash used for investing activities	(3,381,010)	(1,208,820)
Financing activities		
Long term investments	(2,236,845)	(5,164,045)
Common shares issued for cash	3,166,890	-
Cash derived from (used for) financing activities	930,045	(5,164,045)
CASH (DECREASE) DURING THE YEAR	(1,570,387)	(6,083,016)
BALANCE, BEGINNING OF YEAR	18,178,265	24,261,281
BALANCE, END OF YEAR	\$ 16,607,878	\$ 18,178,265
Supplemental Cash Flow Information		
Income taxes paid	\$ -	\$ -
Interest paid	\$ 6,348	\$ -
Shares issued for mineral properties	\$ 186,000	\$ 136,600
Mineral concessions acquired for shares issued	\$ (186,000)	\$ (136,600)
Marketable securities - shares received as part of option payments	\$ -	\$ 137,500
Mineral concessions credited for shares received	\$ -	\$ (137,500)
Stock-based compensation	\$ 482,903	\$ 482,903

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

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 1. BUSINESS OPERATIONS

Chesapeake Gold Corp. (“the Company”) was incorporated under the Laws of British Columbia, Canada on April 18, 2002. The Company’s name was changed from Chesapeake Gold Ltd. to Chesapeake Gold Corp. on May 9, 2002.

The Company is in its development stage in the resource industry and has not generated any revenues from its planned operations, except for interest and other revenue received.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Minerales El Prado S.A. de C.V., a Mexican corporation and Nica Gold S.A., a Nicaraguan corporation. All intercompany transactions and balances have been eliminated on consolidation.

b) Accounting Estimates

Generally accepted accounting principles require management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties, plant and equipment, the anticipated costs of asset retirement obligations including the reclamation of mine sites and the computation of stock-based compensation.

c) Property and Equipment

The Company amortizes its property and equipment on the declining balance method, at the following rates per year based upon their estimated useful lives:

Office equipment-20%

Computer equipment – 30%

Vehicles- 30%

Exploration equipment - 20%

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In Canadian Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

d) Mineral Concessions and Deferred Exploration Costs

- (i) Acquisition costs of mineral property interests together with exploration costs thereon are deferred in the accounts to be written off when production is attained or disposition occurs. If the results from exploration warrant abandonment of certain mineral properties, costs related thereto are written off to current operations.
- (ii) Exploration costs and mine development costs to be incurred, including those to be incurred in advance of commercial production and those incurred to expand capacity of proposed mines, are to be capitalized. Mine development costs to be incurred to maintain production will be expensed as incurred. Depletion and amortization expense related to capitalized mineral property interests and exploration costs and mine development costs will be computed using the units-of-production method based on proven and probable reserves.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying costs may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying costs of a property are not recoverable and exceed their fair value.

Option payments received are firstly credited against the cost of mineral concessions, and after recovery of these costs then, secondly, credited against deferred exploration costs, and thereafter if all mineral concession costs and all deferred exploration costs are recovered, thirdly, recorded as income in the period in which consideration is received.

e) Translation of Foreign Currency

The accounts of the Company are translated into Canadian dollars, using the temporal method, where applicable, on the following basis:

- Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date;
- Non-monetary assets and liabilities are translated at the rate prevailing when the transaction occurred;
- Revenue, general and administration expenses, and gains and losses are translated at the average exchange rate in effect during the period;
- Exchange gains or losses from conversion are included in the current net income;
- Depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate.

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) Stock-based Compensation

The Company has adopted the new recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", effective April 1, 2004. This Section establishes accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions and applied to awards granted on or after April 1, 2004. The Company, as permitted by Handbook Section 3870, has elected to account for all stock options granted to non-employees and employees by applying the fair value based method of accounting.

g) Income Taxes

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed on a regular basis and adjusted, if necessary, by use of valuation allowance to reflect the estimated realizable amount.

h) Pension and Employment Liabilities

The Company does not have any liabilities as at December 31, 2005 and 2004 for pension, post-employment benefits or post-retirement benefits. The Company does not have a pension plan.

i) Earnings (Loss) Per Common Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the stock options and warrants that are used to purchase common shares at the average market price during the year. During the year ended December 31, 2004, all of the outstanding stock options are antidilutive. (see Note 12)

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Asset Retirement Obligations

Effective January 1, 2004, the company adopted CICA Handbook Section 3110. Under this standard, future obligations to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are initially recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate and an inflation factor. The liability is adjusted for changes in the expected amounts and timing of cash flows required to discharge the liability and accreted to fill value over time through periodic charges to earnings. The amount of the asset retirement liability initially recognized is capitalized as part of the asset's carrying value and amortized over the asset's estimated useful life.

Under the standard, future asset retirement obligations are only recorded when the timing or amount of remediation costs can be reasonably estimated.

k) Restatement of Comparative Figures

- (i) The December 31, 2004 financial statements have been restated by recording \$482,903 for stock based compensation and \$2,068,555 for stock based compensation as a prior year adjustment charged to retained earnings (deficit) in 2004. The diluted weighted average number of shares outstanding and earnings (loss) per share for the year ended December 31, 2004 have also been restated.
- (ii) For the year ended December 31, 2004 certain cash equivalents and short term investments previously recorded as current assets have been reclassified as long term investments and carried at cost instead of at market price.

	December 31, 2004	
	As Previously Reported	As Restated
Current Assets		
Cash and cash equivalents	\$ 22,770,443	\$ 18,178,265
Short term investments	2,986,719	0
	<u>25,757,162</u>	<u>18,178,265</u>
Long Term Investments	\$ 0	\$ 7,643,424

As a result of carrying investments at market value at December 31, 2004, income from investments was overstated for 2004. In restating the investment at cost, a prior period adjustment of \$183,074 has been recorded in the financial statements for year ended December 31, 2004 as a charge to operations.

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Impairment of Long-Lived Assets

The Company assesses the impairment of long-lived assets, which consist primarily of mineral property, petroleum and natural gas interest, property and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

(m) Financial Instruments

(i) Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments approximate their fair values since they are either short-term in nature or they are receivable or payable on demand. These financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks.

(ii) Foreign Exchange Risk

The Company incurs certain of its expenses and holds certain assets in currencies other than the Canadian dollar. As such, the Company is subject to foreign exchange risk as a result of fluctuations in exchange rates.

(iii) Credit Risk

The Company places its long-term investments in a variety of financial instruments and, by policy, limits the amount of credit exposure through diversification and by restricting the investments to highly rated securities.

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 3. PROPERTY AND EQUIPMENT

<u>2005</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office equipment	\$ 39,421	\$ 19,679	\$ 19,742
Computer equipment	39,521	14,432	25,089
Vehicles	228,572	105,335	123,237
Exploration equipment	284,646	88,920	195,726
	<u>\$ 592,160</u>	<u>\$ 228,366</u>	<u>\$ 363,794</u>

<u>2004</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office equipment	\$ 39,421	\$ 14,743	\$ 24,678
Computer equipment	18,768	8,127	10,641
Vehicles	168,566	65,378	103,188
Exploration equipment	129,171	38,354	90,817
	<u>\$ 355,926</u>	<u>\$ 126,602</u>	<u>\$ 229,324</u>

NOTE 4. SUBSIDIARY COMPANIES

a) Minerales El Prado S.A. de C.V.

i) In July 2002, the Company acquired a private Mexican company, Minerales El Prado S.A. de C.V. ("MEP").

ii) Mexican Property Acquisitions

La Juliana Property , Sonora State – written off in year ended December 31, 2005

MEP had an option to acquire three mineral concessions comprising 681 hectares in Sonora State, Mexico. To earn a 100% interest, MEP agreed to a schedule of payments over three years totalling US\$680,000 which includes a final payment of US\$450,000. In addition, the vendors retain a 1% net smelter royalty which could be purchased at any time for US\$1.0 million.

The Company joint ventured the La Juliana gold property (the "Property") in Sonora State, Mexico to New World Resource Corp. ("New World"), (formerly Dasher Exploration Ltd.) whereby New World could earn a 60% interest in the Property by paying \$235,000 (received) and issuing 500,000 common shares (received) to the Company prior to drilling, and on behalf of the Company, pay the Property's vendor US\$450,000 in October 2005. In addition, New World would have to incur an aggregate of US\$2.0 million in exploration expenditures over three years. New World drilled 21 holes comprising 2,338 meters and based on the results received, the option agreement with the Company was terminated on September 19, 2005. Following a review of drill results, the Company terminated its interest in the property on October 27, 2005, and has written off the property to current year operations.

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 4. SUBSIDIARY COMPANIES (cont'd)

a) Minerales El Prado S.A. de C.V. (cont'd)

Sinaloa State

MEP has acquired, by staking, three mineral concessions: EI Tecomate, EI Volcan and La Verdosa comprising 10,495 hectares.

Chihuahua State

MEP has acquired, by staking, a mineral concession "El Capitan" comprising 8,800 hectares.

Cucaracha Dorado Property, Durango State

MEP has an option to acquire a 100% interest in the Cucaracha Dorado mineral concession covering 2,770 hectares in Durango State. To earn its 100% interest, MEP has agreed to make loan and option payments that total US\$460,000 over four years which includes a US\$400,000 final payment. The vendors retain a 2% net smelter royalty, and MEP has the option to purchase half the royalty (1%) at any time with a payment of US\$1.0 million. MEP has also acquired, by staking, two additional mineral concessions in Durango State totaling 19,382 hectares.

La Gitana Property, Oaxaca State

The La Gitana Property comprises eight mineral concessions totaling 365,345 hectares. MEP has an option to acquire a 75% interest in one concession from Luismin S.A. de C.V., a wholly-owned subsidiary of Wheaton River Minerals Ltd. by spending US\$2.0 million in exploration expenditures by the end of 2010. A second concession is privately owned and a 100% interest is being acquired by the Company by the issuance of 140,000 shares of the Company over three years. The first two payments totaling 50,000 common shares have been issued. The six other concessions totaling 363,345 hectares have been staked by MEP and are 100% owned by MEP.

La Calavera Property, Oaxaca State

The Company has signed an option agreement on November 6, 2004 to acquire a 100% interest in two mineral concessions comprising 8,247 hectares ("La Calavera Project") in Oaxaca State, Mexico. One concession is being acquired by making staged property payments totaling US\$500,000 over four years which includes a US\$430,000 final payment. The vendors retain a 1% NSR which can be purchased for US\$1.0 million. The second concession can be acquired by the issuance of 150,000 shares of the Company over five years. The first two payments totaling 25,000 shares have been issued. A 2% NSR royalty is retained by the seller on the second concession of which 1% can be purchased for US\$2.0 million. The Company has also agreed to undertake US\$2.5 million in exploration expenditures on the La Calavera Project over five years.

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 4. SUBSIDIARY COMPANIES (cont'd)

a) Minerales El Prado S.A. de C.V. (cont'd)

La Cecilia Property, Sonora State

The Company has signed an option agreement on November 4, 2004 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. The Company 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 (the "Effective date")
 US\$15,000 on the first anniversary of the Effective Date (paid);
 US\$20,000 on the second anniversary of the Effective Date;
 US\$25,000 on the third anniversary of the Effective Date; and finally
 US\$30,000 on the fourth anniversary of the Effective Date.

b) Nica Gold S.A.

In July 2002, Francisco Gold Corp. transferred its 100% interest in Nica Gold S.A. ("Nica Gold"), a private Nicaraguan company, to the Company. Nica Gold has, through staking, acquired five mineral concessions totalling 104,744 hectares in Nicaragua. Title has been issued to Nica Gold for these concessions.

c) Goldeneye Explorations Ltd.

The Company had a 40.7% interest in Goldeneye Explorations Ltd. ("Goldeneye") that was recorded at cost of \$1.00, but is written off in the year ended December 31, 2005, as it has no value.

NOTE 5. SEGMENTED INFORMATION

The following table summarizes the Company's current assets and long-lived assets in different geographic locations:

2005

	Canada	Mexico	Nicaragua	Total
Current Assets	\$ 16,705,044	\$ -	\$ -	\$ 16,705,044
Long term investments	9,880,269	-	-	9,880,269
Investment in Mineral Properties		5,248,316	430,615	5,678,931
Property and equipment	168,753	195,041	-	363,794
	<u>\$ 26,754,066</u>	<u>\$ 5,443,357</u>	<u>\$ 430,615</u>	<u>\$ 32,628,038</u>

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004
(In Canadian Dollars)

NOTE 5. SEGMENTED INFORMATION (cont'd)

Year Ended December 31, 2005

	Canada	Mexico	Nicaragua	Total
Revenue	\$ 2,003,733	\$ -	\$ -	\$ 2,003,733
Expenses	(1,014,042)	(844,271)	(47,501)	(1,905,814)
Income tax	(33,292)	-	-	(33,292)
Net Profit (Loss)	\$ 956,399	\$ (844,271)	\$ (47,501)	\$ 64,627

2004

	Canada	Mexico	Nicaragua	Total
Current Assets	\$ 18,298,533	\$ --	\$ --	\$ 18,298,533
Long Term Investments	7,643,424	--	--	7,643,424
Investment in Mineral Properties	--	2,026,552	293,440	2,319,992
Property and Equipment	94,513	134,811	0	229,324
Other Asset	1	--	0	1
	\$ 26,036,471	\$ 2,161,363	\$ 293,440	\$ 28,491,274

Year Ended December 31, 2004

	Canada	Mexico	Nicaragua	Total
Revenue	\$ 1,775,438	\$ -	\$ -	\$ 1,775,438
Expenses	(1,339,269)	(888,597)	(34,999)	(2,262,865)
Income tax	1,538	-	-	1,538
Net Profit (Loss)	\$ 437,707	\$ (888,597)	\$ (34,999)	\$ (485,889)

NOTE 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

To December 31, 2005, the Company has invested in mineral properties and deferred exploration costs as follows:

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Mineral Concessions	Year Ended			Balance December 31, 2004
	Balance December 31, 2005	Written Off During Year	Additions During Year	
Minerales EL Prado S.A. de C.V.				
La Juliana - cost	\$ -	\$ (396,678)	\$ 63,121	\$ 333,557
- option payments received	-	510,000	(272,500)	(237,500)
Cucaracha Dorada	96,962	-	23,422	73,540
La Gitana	153,271	-	135,230	18,041
La Calavera	134,966	-	117,919	17,047
La Cecilia	31,273	-	18,273	13,000
Regional	263,236	-	144,515	118,721
Subtotal	679,708	113,322	229,980	336,406
Nica Gold S.A.	210,101	-	102,924	107,177
Total Acquisition Costs	\$ 889,809	\$ 113,322	\$ 332,904	\$ 443,583

CHESAPEAKE GOLD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)

Deferred Exploration Costs	Year Ended			Balance December 31, 2004
	Balance December 31 2005	December 31, 2005 Written off During Year	December 31, 2005 Additions During Year	
<u>Minerales EL Prado S.A. de C.V.</u>				
<u>La Juliana</u>				
Assays	-	(1,230)	-	1,230
Geological Consulting and Labour	-	(38,598)	6,000	32,598
Camp and Supplies	-	(22,438)	1,024	21,414
Travel and Accommodation	-	(22,893)	4,451	18,442
	-	(85,159)	11,475	73,684
<u>Cucaracha Dorada</u>				
Assays	5,230	-	-	5,230
Geological Consulting and Labour	40,990	-	-	40,990
Camp and Supplies	35,813	-	-	35,813
Travel and Accommodation	12,925	-	-	12,925
	94,958	-	-	94,958
<u>La Gitana</u>				
Assays	326,800	-	323,432	3,368
Drilling	865,221	-	865,221	-
Geological Consulting and Labour	681,661	-	349,967	331,694
Helicopter rental	565,036	-	565,036	-
Camp and Supplies	574,855	-	457,642	117,213
Travel and Accommodation	195,612	-	96,786	98,826
	3,209,185	-	2,658,084	551,101
<u>La Calavera</u>				
Geological Consulting and Labour	77,907	-	32,428	45,479
Camp and Supplies	44,932	-	31,512	13,420
Travel and Accommodation	20,534	-	6,231	14,303
	143,373	-	70,171	73,202
<u>La Cecilca</u>				
Assays	3,744	-	3,744	-
Geological consulting	5,228	-	5,228	-
Travel and accomodation	494	-	494	-
	9,466	-	9,466	-
<u>Mexico Regional</u>				
Assays	87,922	-	27,411	60,511
Geological Consulting and Labour	598,271	-	118,350	479,921
Camp and Supplies	210,357	-	27,953	182,404
Travel and Accommodation	215,076	-	40,711	174,365
	1,111,626	-	214,425	897,201
Total Minerales EL Prado S.A.de C.V.	4,568,608	(85,159)	2,963,621	1,690,146

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NOTE 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)

Deferred Exploration Costs	Balance	Year Ended		Balance
	December 31 2005	December 31, 2005 Written Off During Year	December 31, 2005 Additions During Year	December 31, 2004
<u>Nica Gold S.A.</u>				
Assay	11,897	-	1,815	10,082
Geological Consulting and Labour	76,744	-	3,721	73,023
Camp and Supplies	107,742	-	24,197	83,545
Travel and Accommodation	24,131	-	4,518	19,613
Subtotal	220,514	-	34,251	186,263
Total Deferred Exploration Costs	4,789,122	(85,159)	2,997,872	1,876,409
Total Acquisition Costs and Deferred Exploration Costs	\$ 5,678,931	\$ 28,163	\$ 3,330,776	\$ 2,319,992

NOTE 7. LONG TERM INVESTMENTS

	December 31,	
	2005	2004
Fixed income securities, equities and equity funds held at the National Bank Financial, at cost (Market price \$9,452,184)	\$ 9,495,269	\$ 7,395,923
VRB Power System Inc., 650,000 shares at cost (Market value \$481,000)	110,000	110,000
New World Resources Corp., 500,000 shares (2004 - 250,000 shares), at cost (Market value 2005 - \$120,000, 2004 - \$240,000)	275,000	137,500
Goldeneye Explorations Ltd. (Note 4(c))	-	1
	\$ 9,880,269	\$ 7,643,424

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NOTE 8. CAPITAL STOCK

- a) Issued and outstanding:

	December 31,			
	2005		2004	
	Shares	\$	Shares	\$
Balance, December 31, 2004 and December 31, 2003	17,898,425	\$ 28,040,014	17,868,425	\$ 27,672,381
Issued (cancelled) during the period				
Option exercised	921,700	1,391,550		
Shares issued for mineral properties	45,000	186,000	30,000	136,600
Warrants exercised	887,670	1,775,340		
Stock-based compensation on options exercised		1,799,056		231,033
Balance, December 31, 2005 and December 31, 2004	19,752,795	\$ 33,191,960	17,898,425	\$ 28,040,014

- b) There are 375,000 common shares in escrow as at December 31, 2005 subject to release upon approval of regulatory authorities.
- 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 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 to purchase shares 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 3,348,000 common shares of which 2,110,000 have been granted as outlined below.

The exercise price for options may not be less than the market price of the shares on the day immediately preceding the date of the grant of the option. 960,000 options granted under the option plan with a maximum term of up to 5 years are subject to vesting as follows: (a) 25% of the option on the date of grant; (b) 25% of the option six months after the date of grant; (c) 25% of the option 12 months after the date of grant; and (d) the remaining 25% of the option 18 months after the date of grant, subject to earlier termination after certain events such as the optionee's cessation of service to the Company or death.

In December 2003, the Company granted options to directors, officers and employees to acquire 1,150,000 common shares at a price of \$3.30 per share for a term of 5 years, expiring December 12, 2008. These options are subject to vesting over 4 years with 25% of the options granted vesting on each anniversary of the date of the grant.

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NOTE 8. CAPITAL STOCK (cont'd)

The following is a summary of director and employee stock options outstanding at December 31, 2005 and 2004.

	Number of Shares	Exercise Price
Outstanding and exercisable at December 31, 2003	1,010,000 @	\$1.50
	<u>1,150,000</u>	3.30
	2,160,000	
Exercised during 2003	<u>(50,000)</u>	1.50
Outstanding and exercisable at December 31, 2004	960,000	1.50
	<u>1,150,000</u>	3.30
	2,110,000	
Exercised during 2005	(916,700)	1.50
Exercised during 2005	(5,000)	3.30
Cancelled	<u>(20,000)</u>	3.30
Outstanding and exercisable at December 31, 2005	43,300	1.50
	<u>1,125,000</u>	3.30
	<u><u>1,168,300</u></u>	

d) The Company has reserved shares for the following potential issuances:

	Number of Shares
Stock Option Plan - not granted	<u>1,238,000</u>
Stock Option Plan - granted	<u>1,168,300</u>
TOTAL	<u><u>2,406,300</u></u>

During the year ended December 31, 2005 and 2004, there were no stock options granted.

There are no purchase warrants outstanding at December 31, 2005 and 887,670 purchase warrants outstanding at December 31, 2004.

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NOTE 8. CAPITAL STOCK (cont'd)

e) Stock-Based Compensation - 2005

See significant accounting policy Note 2(f). Stock options outstanding at December 31, 2005:

Options Outstanding			
Number	Weighted-Average	Exercise	Number
Outstanding at	Remaining	Price	Exercisable at
December 31,	Contractual	(Expressed	December 31,
2005	Life (years)	in CDN\$)	2005
43,300	1.50	\$1.50	43,300
1,125,000	3.25	\$3.30	1,125,000
1,168,300			1,168,300

The fair value of these options was determined using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following assumptions:

Options not yet forfeited	1,168,300
Options granted during year ended 2005	0
Expected forfeitures during year	0
Stock price	3.65
Risk free interest rate	4.27%
Expected volatility	42%
Expected dividend yield	\$0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded. The Black-Scholes model also requires an estimate of expected volatility. The Company uses historical volatility rates of the Company to arrive at an estimate of expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore do not necessarily provide a reliable measure of the fair value of the Company's stock options.

- f) At the June 23, 2005 Annual General Meeting shareholders approved a special resolution authorizing an increase in common shares of 100,000,000 common shares and 100,000,000 preferred shares to an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

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NOTE 8. CAPITAL STOCK (cont'd)

g) Special Rights and Restrictions of Preferred Shares Without Par Value as a Class

The Preferred shares as a class shall have attached to them the following special rights, conditions, restrictions and limitations:

- (1) The Preferred shares may at any time and from time to time be issued by the directors in one or more series.
- (2) Subject to the *Business Corporations Act*, the directors may from time to time, by resolution, if none of the Preferred shares of any particular series are issued, alter these Articles and authorize the alteration of the Notice of Articles of the Company, as the case may be, to do one or more of:
 - (a) determine the maximum number of shares of that series that the Company is authorized to issue, determine that there is no such maximum number, or alter any such determination;
 - (b) create an identifying name for the shares of that series, or alter any such identifying name;
 - (c) attach special rights or restrictions to the shares of that series, including, but without limiting or restricting the generality of the foregoing, the rate or amount of dividends (whether cumulative, non-cumulative or partially cumulative), the dates and places of payment thereof, the consideration for, and the terms and conditions of, any purchase for cancellation or redemption thereof (including redemption after a fixed term or at a premium), conversion or exchange rights, the terms and conditions of any share purchase plan or sinking fund, restrictions respecting payment of dividends on, or the repayment of capital in respect of, any other shares of the Company and voting rights and restrictions; or alter any such special rights or restrictions; but no such special right or restriction shall contravene the provisions of paragraphs (3) and (4) of this Article 26.
- (3) The holders of Preferred shares shall be entitled, on the liquidation or dissolution of the Company, whether voluntary or involuntary, or on any other distribution of its assets among its shareholders for the purpose of winding up its affairs, to receive, before any distribution is made to the holders of Common shares or any other shares of the Company ranking junior to the Preferred shares with respect to repayment of capital on the liquidation or dissolution of the Company, whether voluntary or involuntary, or on any other distribution of its assets among its shareholders for the purpose of winding up its affairs, the amount paid up with respect to each Preferred share held by them, together with the fixed premium (if any) thereon, all accrued and unpaid cumulative dividends (if any and if preferential) thereon, which for such purpose shall be calculated as if such dividends were accruing on a day-to-day basis up to the date of such distribution, whether or not earned or declared, and all declared and unpaid non-cumulative dividends (if any and if preferential) thereon. After payment to the holders of Preferred shares of the amounts so payable to them, they shall not, as such, be entitled to share in any further distribution of the property or assets of the Company except as specifically provided in the special rights and restrictions attached to any particular series.
- (4) Except for such rights relating to the election of directors on a default in payment of dividends as may be attached to any series of the Preferred shares by the directors, holders of Preferred shares shall not be entitled, as such, to receive notice of, or to attend or vote at, any general meeting of shareholders of the Company.

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NOTE 9. RELATED PARTY TRANSACTIONS

- a) A company controlled by P. Randy Reifel, President, Chief Executive Officer, Director and shareholder of Chesapeake, provides management services to the Company at the contract rate of \$175,000 per year, and \$175,000 is recorded for the year ended December 31, 2005 and 2004, respectively.
- b) The Company paid a monthly fee of \$2,000 for the year ended December 31, 2005, equivalent to market price, (2004 - \$1,500 per month) for office and facilities owned by Brant Investments Ltd., a private company controlled by the President, Chief Executive Officer, Director and Shareholder of the Company, P. Randy Reifel.
- c) In addition to the foregoing, directors, officers, and senior employees were reimbursed the sum of \$52,062 for travel, AGM and attending conferences related to the affairs of the Company

NOTE 10. ROYALTY INTEREST

The Company retains a 2% net smelter royalty on certain Guatemalan mineral properties. This was carried at a nominal amount of \$1.00 in 2004 and is written off to operations in 2005 as of no value.

NOTE 11. INCOME TAXES

Income tax expense of \$33,292 is recorded for the year ended December 31, 2005 resulting in total income taxes payable of \$198,509 at December 31, 2005.

NOTE 12. EARNINGS (LOSS) PER SHARE

Computation of basic and diluted weighted average of shares outstanding for the year are as follows:

<u>2005</u>	Net Profit	Weighted Average Share Outstanding	Profit Per Share
Basic weighted average shares	\$ 64,627	18,697,556	\$ 0.00
Effect of dilutive securities			
Stock options granted	-	1,168,300	
Diluted earning per share	\$ 64,627	19,865,856	0.00

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NOTE 12. EARNINGS (LOSS) PER SHARE (cont'd)

<u>2004</u>	Net Profit (Loss)	Weighted Average Share Outstanding	Loss Per Share
Basic weighted average shares	\$ (485,889)	17,875,925	\$ (0.03)
Effect of dilutive securities			
Warrants		887,670	
Stock options granted		2,110,000	
Diluted earning (loss) per share	\$ (485,889)	20,873,595	
Anti Dilutive Due to Loss	\$ (485,889)	17,875,925	\$ (0.03)

NOTE 13. CONTRIBUTED SURPLUS

	Year Ended December 31,	
	2005	2004
Balance, beginning of fiscal year, December 31, 2004 / 2003	\$ 2,320,425	\$ 2,068,555 (1)
Stock Based Compensation	482,903	482,903 (2)
Options exercised	(1,799,056)	(231,033)
Balance, accumulated to December 31, 2005 / 2004	\$ 1,004,272	\$ 2,320,425

(1) Prior year adjustment

(2) Expense allocation of Stock Based Compensation:

	2005	2004
Management fees	\$ 323,335	\$ 323,335
Professional and consulting fees	149,070	149,070
Office salaries	10,498	10,498
	\$ 482,903	\$ 482,903

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NOTE 14. SUBSEQUENT EVENTS

On March 3, 2006 the company signed an agreement to merge with American Gold Capital Corporation (“American Gold”), the latter is also a public company listed on the TSX Venture Exchange. Pursuant to the agreement, Chesapeake will issue for every one (1) outstanding common share of American Gold (i) 0.29 Chesapeake common shares (“Shares”), and (ii) 0.145 Chesapeake common share purchase warrants (“Warrants”), and (iii) 0.29 Chesapeake rights (“Rights”). Based on 30,855,525 outstanding common shares of American Gold. This would result in the additional issuance by Chesapeake of approximately 8,948,102 Shares, 4,474,051 Warrants and 8,948,102 Rights.

Each warrant will entitle the holder to purchase one (1) Chesapeake common share at \$8.00 for a term of 5 years. Each Right will be exercisable on or after each date (the “Exchange Date”) when 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, for one (1) Chesapeake common share at \$1.00 each for a term of five years (which will be extended by one year if the trading price for gold has been at or above US\$850 per ounce on any day during the last six months of the five year term,

If the proposed transaction is completed it is anticipated that Chesapeake will have a total of 28,700,897 shares issued and outstanding. Of these shares approximately 68.8% will be held by existing Chesapeake shareholders and 31.2% will be held by the existing American gold shareholders. The combined company will have approximately \$40 million in cash, cash equivalents and long term investments of approximately \$26 million from Chesapeake and approximately \$14 million from American Gold. In addition it is anticipated that American Gold shareholders will hold warrants to acquire 4,474,501 million additional shares and 8,948,102 Rights to acquire a further approximately 9.1 million shares which if fully exercised would represent approximately 53.4% of the then issued outstanding shares of the Company.

..

The proposed transaction is subject to due diligence, regulatory approvals and approval of shareholders. The Boards of Directors of both companies have unanimously approved the merger agreement. Each company has agreed not to solicit third party interest in alternative transactions. A \$3.0 million break fee is payable by either company if it terminates the merger agreement to accept a third party attentive proposal. Subject to the satisfaction of the aforementioned conditions the merger is expected to be completed on or before July 17, 2006 or such later date as may be mutually agreed upon.