



## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the Three and Six Months Ended June 30, 2009



## MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (“MD&A”) of Chesapeake Gold Corp.’s (the “Company”) financial position is for the three months and six months ended June 30, 2009 and covers information up to the date of this report. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes and schedules for the year ended December 31, 2008, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”).

The following MD&A is dated August 31, 2009 and the Company’s public filings are available on SEDAR at [www.sedar.com](http://www.sedar.com). All amounts included in the MD&A are in Canadian dollars unless otherwise specified.

### Forward Looking Statements

*Certain information included in the MD&A may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” or “continue” or the negative thereof or variations thereon or similar terminology. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management are inherently subject to significant business, economic and competitive uncertainties and contingencies. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.*

### Overview

Chesapeake Gold Corp. is an exploration company focusing on the discovery and development of major gold-silver deposits in North and Central America. At June 30, 2009, the Company had 38,309,797 common shares outstanding. Chesapeake is listed on the TSX Venture Exchange under the symbol “CKG”.

Chesapeake’s primary asset is the Metates Project in Durango state, Mexico. The Company is working towards completing a Preliminary Economic Assessment report on Metates in the first quarter of 2010. Chesapeake also has a portfolio of exploration properties in Mexico comprising 19,137 hectares in the states of Durango, Oaxaca, Sonora and Veracruz. In Nevada, the Company owns the Talapoosa gold-silver project.

## FINANCIAL RESULTS

### Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of Chesapeake and is derived from the unaudited quarterly financial statements prepared by management.

### Results of Operations

	Q2		Q1		Q4		Q3	
	2009	2008	2009	2008	2008	2007	2008	2007
Revenue	\$ 132,480	\$ 258,729	\$ 234,111	\$ 302,262	\$ 157,693	\$ 50,784	\$ 425,783	\$ 430,721
Net Profit (Loss)	\$ 158,115	\$ (331,577)	\$ (918,568)	\$ (126,707)	\$ (19,320,671)	\$ (1,432,831)	\$ (1,122,360)	\$ (797,290)
Profit (Loss) per share								
Basic	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.00)	\$ (0.53)	\$ (0.05)	\$ (0.03)	\$ 0.00
Diluted	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.00)	\$ (0.53)	\$ (0.05)	\$ (0.03)	\$ 0.00

Chesapeake is in the exploration stage and therefore variance in its quarterly losses are not affected by sales or production related factors. The Company had a net profit of \$158,115 for the three month period ended June 30, 2009 or \$0.00 per share compared with a net loss of \$331,578 or \$0.01 per share for the same quarter of 2008. Total administrative expenses during the quarter were \$759,085, an increase of \$232,798 compared to the same quarter in 2008. The Company incurred non-cash stock-based compensation expense of \$277,646 during the quarter which did not occur in 2008. Interest expense of \$76,257 was higher than \$35,921 in the comparative quarter due to the increase loan margin against the ABCP investments. The Company recorded a foreign exchange gain of \$668,632 during the three months ended June 30, 2009. The loss or gain comes from funds advanced to Mexico during the current and previous periods that have changed in value due to fluctuations in the Mexican peso or United States dollar relative to the Canadian dollar which has recently strengthened against these currencies.

Chesapeake continues to earn interest on its cash deposits and on its short term investments but as the Company uses its working capital to fund operations and mineral property development, its interest income have been decreasing. As a result interest income from investments was \$132,480 down from \$258,729 in the second quarter of 2008 due to lower treasury balances and interest rates.

For the six month period ended June 30, 2009 the Company had a loss of \$760,453 compared to a loss of \$458,285 for the same period in 2008. Total operating expenses for the comparative periods were \$1,468,602 (2009) and \$1,087,791 (2008). A non-cash stock-based compensation expense of \$519,821 attributable to the value of the stock options earned during the period was recorded that did not occur in 2008. Office and administrative expenses were \$482,402, a decrease of \$70,878, or 14% over the prior comparative period. Reduced exploration activity at Metates and the Company's other Mexican projects in 2009 led to lower administration and support costs.

### Investing Activities

Mineral property expenditures incurred to date in 2009 are lower than they were at the same time last year. During the six months ended June 30, 2009 the Company spent \$1,501,677 on its mineral properties compared to \$3,400,901 in the same period in 2008. The majority of these costs were spent on the Metates project advancing the engineering, environmental and

metallurgical studies to be incorporated in a Preliminary Economic Assessment report. During the quarter the Company conducted regional exploration in the Metates district as well as generative exploration elsewhere in Mexico. During the first six months the Company spent \$183,497 on regional exploration as compared to \$18,239 in the same period in 2008.

Planned activities for the balance of 2009 include incorporating the new resource estimate and the engineering, environmental and metallurgical work underway into a Preliminary Economic Assessment report.

During the six month period ended June 30, 2009 the Company purchased a minor amount of the office and field equipment for \$6,739.

### **Liquidity and Capital Resources**

Chesapeake is an exploration stage enterprise. The Company has no production revenue and relies on its working capital balance and its ability to raise funds through capital markets. The Company's investment income is primarily from interest earned on short term cash investments, dividends, bonds and income trust distributions. Interest rates fluctuate relative to the amount of funds held in deposit and prevailing interest rates during the year.

As at June 30, 2009, the Company's cash and cash equivalents and marketable securities totaled \$20,321,502 compared to \$19,857,017 as at December 31, 2008. The Company's net working capital at June 30, 2009 was \$7,185,747 compared to \$8,513,388 as at December 31, 2008. Current liabilities (accounts payable) were \$1,180,676 at June 30, 2009 compared to \$1,071,779 as at December 31, 2008.

Based on its current estimates, management believes Chesapeake has sufficient funds to meet its planned 2009 and 2010 administrative and mineral project expenditures.

Portfolio investments as at June 30, 2009 comprise 650,000 common shares of VRB Power Systems Incorporated, 500,000 common shares of New World Resources Corp., 400,000 common shares of Christopher James Gold Corp, 250,000 common shares of Pinnacle Mines Ltd. and 203,056 common shares of West Timmins Mining Inc. These shares are recorded at a fair market value of \$429,890 at June 30, 2009.

At June 30, 2009 the Company had 2,330,000 stock options outstanding which are not currently exercisable.

### **Financing**

During the quarter there were no stock options exercised or financings undertaken.

### **Contractual Obligations**

The Company has leased office space in Denver, Colorado and Reno, Nevada to support the development of the Metates and Talapoosa properties. The annual lease payments to the end of the leases are US\$51,901 in 2009, US\$29,056 in 2010 and US\$14,417 in 2011.

The Company has no material off-balance sheet arrangements, no capital lease agreements or long term obligations other than those described above or in the description of mineral properties.

### **Related Party Transactions**

The Company has a policy that requires Related Party Transactions must be at terms which are comparable to terms available in arms-length transactions.

During the six months ended June 30, 2009 the Company paid \$87,500 (\$87,500 – 2008) in management fees to a private company controlled by the president of the Company. The Company also leases office space and facilities from the same private company at the rate of \$2,000 per month.

The Company incurred legal fees during the six month period totaling \$13,654 from a law firm (“Koffman Kalef”) in which the Company’s corporate secretary is a partner. Legal services were rendered in respect to its interests in various mineral projects and on-going administrative items.

During the period the Company made payments to a director for professional consulting services totaling US\$39,500 and related company travel and out-of-pocket expenses in the amount of US\$17,705.

### **Project Exploration and Development**

#### *Metates, Durango State*

Metates is one of the largest, undeveloped disseminated gold and silver deposits in Mexico. The Metates deposit occurs in two zones: the Main Zone with mineralization hosted in the intrusive and its underlying sediments and the North Zone, with mineralization found in volcanic conglomerates and adjacent sediments. The property is comprised of five exploitation concessions totalling 2,420 hectares.

During 2008 Chesapeake completed a 37 hole diamond drill program totaling 14,415 meters. The main objective of the drill program was to twin several holes drilled by Cambior Inc. during the period 1993-1995 so that the results of these older holes, 148 holes totaling 49,059 meters, could be validated in terms of geology and assay results. A total of 14 twin holes totaling 4,763 meters, including 3 holes which were abandoned, were drilled in the Main Zone while 7 twin holes totaling 2,997 meters were drilled in the North Zone. In addition, Chesapeake drilled 8 holes between the Main and North Zones in an area which was largely untested by Cambior and as well as 8 step-out holes to the north and west of both zones.

In October, 2008 an independent NI 43-101 technical report (“Technical Report”) was completed that outlined the results of the twin hole drill program and a review of the processing options evaluated for the Metates project. The Technical Report confirmed the core twin hole program was successful in intercepting the same rock types and relatively similar metal grades over the same intervals to those in the original Cambior holes.

In May, 2009 Independent Mining Consultants (“IMC”) of Tucson, Arizona completed a NI 43-101 compliant mineral resource estimate based on a total of approximately 21,100 assays from

171 drill holes totaling 63,127 meters. The resource estimate prepared by IMC used inverse distance weighting methods within three structural domains that were constructed incorporating Chesapeake's 2008 drilling data along with older Cambior drill results into an updated geologic interpretation. IMC used a special grade kriging, independent of block grade estimation, to classify the blocks into the different confidence classes.

Based on a cut-off grade of 0.50 g/t gold equivalent and a gold price of US\$750 per ounce, the estimated in-pit mineral resources are as follows:

	<b>Tonnes (000)</b>	<b>EqGold* Grade (g/t)</b>	<b>Gold Grade (g/t)</b>	<b>Gold Ozs (000)</b>	<b>Silver Grade (g/t)</b>	<b>Silver Ozs (000)</b>	<b>Zinc Grade (%)</b>	<b>Zinc lbs (000)</b>
<b>Measured</b>	<b>181,317</b>	<b>0.98</b>	<b>0.74</b>	<b>4,291</b>	<b>17.9</b>	<b>104,349</b>	<b>0.19</b>	<b>759,300</b>
Main Zone	138,286	0.99	0.75		17.7		0.21	
North Zone	43,031	0.96	0.70		18.3		0.14	
<b>Indicated</b>	<b>521,939</b>	<b>0.86</b>	<b>0.62</b>	<b>10,455</b>	<b>17.4</b>	<b>291,989</b>	<b>0.16</b>	<b>1,840,600</b>
Main Zone	273,526	0.87	0.66		15.1		0.17	
North Zone	248,413	0.86	0.58		19.9		0.16	
<b>Measured/ Indicated</b>	<b>703,256</b>	<b>0.90</b>	<b>0.65</b>	<b>14,746</b>	<b>17.5</b>	<b>396,338</b>	<b>0.17</b>	<b>2,599,900</b>
Main Zone	411,812	0.91	0.69		16.0		0.18	
North Zone	291,444	0.87	0.60		19.7		0.15	
<b>Inferred</b>	<b>74,000</b>	<b>1.02</b>	<b>0.80</b>	<b>1,908</b>	<b>16.0</b>	<b>38,067</b>	<b>0.13</b>	<b>212,000</b>
Main Zone	15,961	0.78	0.55		16.5		0.13	
North Zone	58,039	1.09	0.87		15.8		0.12	

\*Eq.Gold = Au + Ag/72 and assumes equal metal recoveries for gold and silver.  
Contained metal ounces may not add due to rounding.

Chesapeake continues to work on the completion of a NI 43-101 Preliminary Economic Assessment of Metates in the first quarter of 2010. Metallurgical testwork with sixty different flotation tests is well advanced along with gravity concentration and cyanide leaching tests. Batch roasting tests have commenced at Hazen Research and are expected to be completed late September. IMC have initiated work on the preliminary mine phases and waste dump design. Civil engineering work for road and pipeline routings is underway together with environmental site studies.

Chesapeake recently completed 21,500 meters of IP geophysics on Metates and an additional 15 kilometers of coverage is scheduled after the rainy season.

#### *Talapoosa, Nevada*

The Talapoosa project is a disseminated, quartz-adularia style epithermal gold-silver deposit. The project consists of 475 unpatented lode mining claims totaling approximately 5,500 acres in Lyon County, Nevada. In 1996 Miramar Mining Corporation released a resource estimate that included a measured and indicated resource of 42.7 million tons grading 0.78 g/t gold (1.06 million ounces of gold) and 10.5 g/t silver (14.5 million ounces of silver). The resource is based on cut-off grades of 0.2 g/t gold for oxide mineralization and 3.7 g/t gold for sulfide mineralization. In 2002 Pincock Allen & Holt reviewed this resource estimate and reported the classification met the definitions as stated by National Instrument 43-101.

#### *El Tecomate, Durango State*

The El Tecomate gold-silver project is a multi-vein and stockwork epithermal system mainly controlled by sets of faults and fractures associated with a collapsed volcanic caldera nearly 8

kilometers in diameter. Chesapeake has completed regional geological mapping and stream sediment geochemistry over an area of 150 square kilometers. Detailed exploration including mapping, trenching, rock chip and channel sampling. To date, five major subparallel mineralized structures have been identified in the area, forming a 4 kilometer long, NW trending low sulfidation epithermal system. The project consists of two mineral concessions staked by Chesapeake totaling 1,195 hectares.

Two junior mining companies have expressed interest in acquiring El Tecomate. Site due diligence and evaluation is currently being conducted by both companies.

#### *La Gitana, Oaxaca State*

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

A technical report on the La Gitana Project prepared by Andris Kikauka, P. Geo, in accordance with NI 43-101, concluded that the exploration program undertaken by Chesapeake on the Cerro di Oro zone of the La Gitana project (including detailed surface mapping and sampling, ground geophysics and diamond drilling) provided sufficient information to confirm the existence of well-defined gold-silver mineralization extending 500 meters in length, 50 to 150 meters wide and 50 to 300 meters deep. Step out drilling also discovered additional gold-silver mineralization along strike for over 300 meters to the southeast. In 2009, the Company has not budgeted additional exploration work at La Gitana.

#### *Rio Minas, Oaxaca State*

Rio Minas is a silver – rich, polymetallic skarn prospect located. To date, five major skarn zones have been identified within a 6 kilometer long, NE trending corridor associated with a NE-trending regional fault system. The project comprises one concession totaling 7,425 hectares.

In 2008 Pinnacle completed a Phase I soil sampling program on Rio Minas covering 3750 hectares. The program consisted of 10 parallel sample lines totaling 45 line kilometers. Results reveal a strong, multi-element soil anomaly in the southwestern portion of the area. The large soil anomaly is 1,200 meters long and 200 to 300 meters wide and comprises adjacent zones of elevated and coincident copper, lead, zinc, and silver.

#### *Le Cecilia, Sonora State*

Chesapeake completed its final payment in 2008 to acquire the La Cecilia property from the Consejo de Recursos Minerales de Mexico. The total purchase price staged over four years was US\$100,000. The project comprises three mineral concessions totalling 794 hectares.

La Cecilia is a low-sulphidation, epithermal-type gold-silver system related to two well-developed northwest and northeast trending sets of faults centred on “Cerro Magallanes”, a

rhyolite dome complex. The mineralization occurs as high grade in vein structures and as lower grade within broader zones of stockworks and breccias. Numerous other anomalous zones of silicification, brecciation and argillic alteration exist across the extent of the flow dome complex, an area of more than 1 kilometre by 2 kilometres.

In 2008 Chesapeake conducted a program of detailed mapping and sampling on La Cecilia. A follow-up IP geophysics program is planned in 2009.

#### *Tatatila, Veracruz State*

Chesapeake has acquired through purchase and staking the Tatatila project, a large unexplored precious metal and polymetallic mining district in Veracruz state. Chesapeake acquired seven concessions of a National Mineral Reserve totalling 2,767 hectares from the Consejo de Recursos Minerales de Mexico (CRM), a mining division of the Mexican government. Chesapeake has agreed to payments totaling US\$56,000 to the CRM over 3 years. Chesapeake also has through staking, an application pending for one concession encompassing 25,523 hectares.

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

The Company has not budgeted further exploration work in 2009.

#### *Nicaragua*

Chesapeake has decided to remain focussed in Mexico and has closed its office in Nicaragua. The Company is in the process of dissolving its subsidiary company, Nica Gold.

#### **American Gold Business Combination**

In February 2007 Chesapeake and American Gold completed the statutory plan of arrangement involving American Gold, its shareholders and 076973 B.C. Ltd. (a wholly owned subsidiary of Chesapeake). Under the Arrangement, Chesapeake has issued 9,020,602 common shares, 902,060 Series 1 Class A shares and 4,510,301 warrants.

Each Chesapeake Series 1 Class A share shall be automatically convertible, for no additional consideration, into Chesapeake common shares on or after the date on which the average of the London PM fix closing trading price of gold for the trading days on such market during any consecutive 90 day period is equal to or greater than US\$850 per ounce of gold. Each Chesapeake Series 1 Class A share will be convertible into ten Chesapeake common shares. Accordingly, for each American Gold common share previously held, the former holder has acquired, in addition to 0.29 of a Chesapeake common share, 0.029 of a Chesapeake Series 1 Class A share which provides rights of conversion, on certain conditions, into 0.29 of an additional Chesapeake common share in accordance with the special rights provided under the Chesapeake Series 1 Class A shares. Chesapeake Series 1 Class A shares not converted into Chesapeake common shares during the five year term provided for conversion will be subject to

redemption by Chesapeake for a small amount. On February 13, 2008 the US\$850 per ounce of gold conversion threshold was met resulting in the issuance of 9,020,600 common shares of the Company.

Each Chesapeake warrant entitles the holder to purchase one Chesapeake common share at an exercise price of \$8.00 for a term of five years expiring February 23, 2012.

### **Share Data**

Chesapeake's authorized capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. As at June 30, 2009, there are 38,309,797 common shares issued and outstanding.

As at June 30, 2009, the Company had 4,510,301 warrants outstanding exercisable at a price of \$8.00 per share. The warrants expire on February 23, 2012.

On February 11, 2009, 2,330,000 stock options to purchase common shares of the Company were granted to directors, officers, employees and consultants at an exercise price of \$3.30 per share for a term of five years, expiring on February 11, 2014. These options will vest at a rate of 25% on each anniversary of the date of grant, commencing on February 11, 2010.

Shares in escrow or pool:

Escrowed – 375,000 shares

### **Initial adoption of accounting policies**

On January 1, 2008, the Company adopted four new accounting standards described in Section 1400 *General Standards of Financial Statement Presentation*, Section 1535 *Capital Disclosures*, Section 3862 *Financial Instruments – Disclosures* and Section 3863 *Financial Instruments – Presentation* of the Canadian Institute of Chartered Accountants (“CICA”) Handbook. The requirements of these new standards are:

#### *Going Concern*

Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard did not have a material effect on the consolidated financial statements, as the Company already includes disclosure of its ability to continue as a going concern in Note 1 to the consolidated financial statements.

#### *Capital Disclosures*

Section 1535 requires the disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any external capital requirements and, if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management has been included in Note 3 to the consolidated financial statements.

#### *Financial Instruments - Disclosures and Financial Instruments – Presentation*

Sections 3862 and 3863 replace Handbook Section 3861 *Financial Instruments - Disclosure and Presentation*, revising its disclosure requirements and carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 requires disclosure which enable users to evaluate the significance of financial instruments on the entity's financial position and performance, the nature and extent of and exposure to risks arising from financial instruments and how the entity manages those risks.

As a result of the adoption of this standard, additional disclosure on these risks has been included in Note 4 to the consolidated financial statements.

Section 3863 establishes standards for the presentation and classification of financial instruments and non-financial derivatives. The adoption of this standard did not have any impact on the classification or presentation of the Company's consolidated financial instruments.

#### *Investments in 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 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 January 22, 2017 ("New Notes").

There is presently no active market, and therefore no price determinable by reference to a market, for the Company's ABCP. The proposed restructuring plan was approved by noteholders on April 25, 2008, and the New Notes were issued to the Company on January 21, 2009 in exchange for its ABCP.

The New Notes have been classified as a held to maturity investment by the Company. There is no active market for the New Notes and formal ratings have yet to be issued by national rating services. The Company revised the estimated current fair value of its ABCP as at December 31, 2008 and at June 30, 2009 according to the updated market estimate using the discounted cash flow method based on the terms of the New Notes received under the Restructuring Plan and using a discounted rate of 5.3% and a coupon rate of 1.4% less 0.5%. The resulting estimated

fair value of the Company's ABCP is \$7,043,015 as of June 30, 2009.

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 \$532,000 decrease in the estimated fair value of the New Notes.

### **Disclosure Controls and Internal Controls over Financial Reporting**

The Company's Chief Financial Officer and Chief Executive Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures ("the Procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the "Required Filings") is reported within the time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Company's Certifying Officers are also responsible for establishing and maintaining internal controls over financial reporting ("Internal Controls") and have designed such Internal Controls, or caused it to be designed under their supervision, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

During 2008, there were inherent weaknesses in the Internal Controls due to the small size of the Company and its inability to segregate incompatible functions. Effective disclosure controls were achieved, despite the inherent weaknesses in internal control over financial reporting, because of the President and Chief Executive Officer's direct involvement in the disclosure controls and procedures process. Management has concluded, and the audit committee has agreed that taking into account the present stage of the Company's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to correct the weakness at this time.

The Certifying Officers evaluate the Company's Internal Controls on a regular basis and have certified that there were no changes in the Company's Internal Controls during the year ended December 31, 2008 that materially affected, or is reasonably likely to materially affect, the Company's Internal Controls.

### **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 Company expects to adopt IFRS effective the year ending December 31, 2011. The change in accounting polices may have a material effect on Chesapeake's financial results and disclosures.

## **Risks and Uncertainties**

There are certain risk factors that could have material effects that are unquantifiable at present due to the nature of the Company's industry segment, political jurisdictions and other considerations.

### **Country Risk**

The principle business of the Company is in the exploration and development of gold-silver properties in North and Central America. The Company is subject to the political risks and economic considerations of operating in Mexico.

### **Exchange Rates**

By virtue of its international operations, the Company incurs costs and expenses in foreign currencies other than the Canadian dollar. The exchange rates covering such currencies, including the U.S. dollar, are subject to fluctuation which gives rise to foreign currency exposure, either favourable or unfavourable. The Company does not hedge the U.S. dollar against its functional currencies.

### **Exploration Risk**

Exploration for minerals and development of mining operations involve many risks, many of which are outside the company's control. In addition to the normal and unusual risks of exploration and mining, the Company often works in remote locations that lack the benefit of infrastructure and easy access.

Exploration success is a result of the Company's financial management and technical expertise together with the selection and acquisition of good mineral properties. While the discovery of an ore body may result in substantial rewards, few properties are ultimately developed into producing mines. Major capital investment is required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities. The Company presently has no proven or probable mineral reserves.

### **Competition**

The mining industry is intensely competitive in all its phases and the Company competes with other companies that have greater financial resources and technical facilities. Competition in the precious metals mining industry is primarily for mineral rich properties which can be developed and produced economically. The industry competes for the technical expertise to find, develop, and produce such properties as well as the capital for the purpose of financing project development. Competition may result in the Company being unable to recruit or retain qualified employees or acquire the capital necessary to fund its operations and develop its properties.

## Licenses and Permits

The Company requires licenses and permit from various government authorities to acquire title to mineral properties and to conduct mineral exploration. The Company believes that it holds all necessary licenses and permits under applicable laws and regulations. Although the Company is in compliance in all material respects, there is no guarantee that it will be able to maintain all licenses and permits required to fully explore and develop its properties in such foreign jurisdictions.

## **Approval**

The Board of Directors of Chesapeake Gold Corp. has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it and can be obtained along with additional information, on the SEDAR website at [www.sedar.com](http://www.sedar.com).