

CHESAPEAKE GOLD CORP.

Consolidated Financial Statements
Years Ended December 31, 2006, and 2005
and Auditors' Report

AUDITORS' REPORT

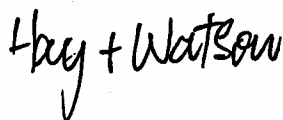
**To the Shareholders of
Chesapeake Gold Corp.**

We have audited the consolidated balance sheet of Chesapeake Gold Corp. as at December 31, 2006 and the consolidated statements of income, of deficit and accumulated other comprehensive income, of cash flows and of mineral properties for the year 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 audit.

We conducted our audit 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, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were obtained from financial statements reported on by other auditors without reservation in their report dated May 8, 2006.



Chartered Accountants
Vancouver, British Columbia
April 27, 2007

CHESAPEAKE GOLD CORP.
CONSOLIDATED BALANCE SHEETS
As At December 31, 2006 and 2005

| | 2006 | (Restated - Note 12) 2005 |
|---|----------------------|------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 13,879,458 | \$ 14,675,878 |
| Accounts receivable | 77,971 | 70,161 |
| Prepaid expenses | 269,018 | 27,005 |
| Marketable securities (note 3) | 9,048,339 | 11,427,269 |
| | <u>23,274,786</u> | <u>26,200,313</u> |
| Portfolio Investments (note 3) | 984,000 | 385,000 |
| Investment in Mineral Properties (note 4) | | |
| Mineral concessions | 938,365 | 889,809 |
| Deferred exploration costs | 5,327,304 | 4,789,122 |
| | <u>6,265,669</u> | <u>5,678,931</u> |
| Fixed Assets (note 5) | 301,631 | 363,794 |
| TOTAL ASSETS | <u>\$ 30,826,086</u> | <u>\$ 32,628,038</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable (note 8) | \$ 443,099 | \$ 391,855 |
| Income taxes payable (note 6) | 2,412,455 | 2,038,625 |
| | <u>2,855,554</u> | <u>2,430,480</u> |
| Reclamation obligations (note 9) | 58,000 | - |
| | <u>2,913,554</u> | <u>2,430,480</u> |
| SHAREHOLDERS' EQUITY | | |
| Capital stock (note 7) | 33,300,858 | 33,191,960 |
| Contributed surplus | 1,478,777 | 1,004,272 |
| Other comprehensive income | 67,149 | - |
| Deficit | (6,934,252) | (3,998,674) |
| | <u>27,912,532</u> | <u>30,197,558</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 30,826,086</u> | <u>\$ 32,628,038</u> |

APPROVED ON BEHALF OF THE BOARD:

" P. Randy Reifel "

"Gerald L. Sneddon "

See Accompanying Notes to the Consolidated Financial Statements

CHESAPEAKE GOLD CORP.
CONSOLIDATED STATEMENTS OF INCOME
For The Years Ended December 31, 2006 and 2005

| | 2006 | (Restated - Note 12) 2005 |
|--|-----------------------|------------------------------|
| GENERAL AND ADMINISTRATION EXPENSES | | |
| Amortization | \$ 90,978 | \$ 101,764 |
| Filing and transfer agent fees | 21,490 | 23,215 |
| Geological and other evaluation | 91,259 | 7,498 |
| Interest expense | 45,829 | 6,348 |
| Management fees (note 8) | 175,000 | 175,000 |
| Office and administration | 575,522 | 712,228 |
| Professional and consulting fees | 460,938 | 341,489 |
| Share based compensation (note 7) | 482,903 | 482,903 |
| Travel and investor communications | 63,256 | 83,531 |
| OPERATING LOSS | 2,007,175 | 1,933,976 |
| OTHER INCOME/(EXPENSES) | | |
| Interest and other income | 1,581,946 | 2,003,733 |
| Foreign exchange gains (losses) | (42,942) | - |
| Writedown of mineral properties | (1,656,857) | 28,163 |
| Writedown of carrying value of marketable securities | (436,720) | (1) |
| | (554,573) | 2,031,895 |
| (LOSS) INCOME BEFORE INCOME TAXES | (2,561,748) | 97,919 |
| Provision for income taxes | 373,830 | 607,706 |
| NET LOSS | \$ (2,935,578) | \$ (509,787) |
| NET LOSS PER SHARE | | |
| Basic and diluted | \$ (0.15) | \$ (0.03) |
| Weighted Average Number of Shares Outstanding | | |
| Basic and diluted | 19,753,850 | 18,697,556 |

See Accompanying Notes to the Consolidated Financial Statements

CHESAPEAKE GOLD CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For The Years Ended December 31, 2006 and 2005

| | Share capital | | Contributed surplus | Other comprehensive income | Deficit | Total |
|--|-------------------|----------------------|---------------------|----------------------------|-----------------------|----------------------|
| | Number of shares | Amount | | | | |
| Balance, December 31, 2004 as previously reported | 17,898,425 | \$ 28,040,014 | \$ 2,320,425 | \$ - | (2,223,185) | \$ 28,137,254 |
| Net income, as previously reported (Note 12) | | | | | 64,627 | 64,627 |
| Increase in provision for current income tax (Note 12) | | | | | (574,414) | (574,414) |
| Prior year adjustment for income taxes (Note 12) | | | | | (1,265,702) | (1,265,702) |
| Shares issued for mineral properties | 45,000 | 186,000 | | | | 186,000 |
| Shares issued for cash | 1,809,370 | 3,166,890 | | | | 3,166,890 |
| <u>Stock-based compensation</u> | | <u>1,799,056</u> | <u>(1,316,153)</u> | | | <u>482,903</u> |
| Balance, December 31, 2005 | 19,752,795 | 33,191,960 | 1,004,272 | - | (3,998,674) | 30,197,558 |
| Net loss | | | | | (2,935,578) | (2,935,578) |
| Opening balance adjustment | | | | 141,460 | | 141,460 |
| Other comprehensive loss | | | | (74,311) | | (74,311) |
| Shares issued for mineral properties | 20,000 | 84,000 | | | | 84,000 |
| Shares issued for cash | 5,000 | 16,500 | | | | 16,500 |
| <u>Share compensation charged to operations</u> | | <u>8,398</u> | <u>474,505</u> | | | <u>482,903</u> |
| Balance, December 31, 2006 | 19,777,795 | \$ 33,300,858 | \$ 1,478,777 | \$ 67,149 | \$ (6,934,252) | \$ 27,912,532 |

See Accompanying Notes to the Consolidated Financial Statements

CHESAPEAKE GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2006 and 2005

| | 2006 | (Restated - Note 12) 2005 |
|---|----------------|------------------------------|
| Cash flows from operating activities | | |
| Net income | \$ (2,935,578) | \$ (509,787) |
| Items not affecting cash: | | |
| Amortization | 90,978 | 101,764 |
| Office improvements | - | (28,162) |
| Stock based compensation | 482,903 | 482,903 |
| Writedown of mineral properties | 1,656,857 | - |
| Writedown of carrying value of marketable securities | 436,720 | - |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (7,810) | 23,102 |
| Prepaid expenses | (242,013) | - |
| Accounts payable | 51,244 | 203,052 |
| Income taxes payable | 373,830 | 607,706 |
| | (92,869) | 880,578 |
| Cash flows from investing activities | | |
| Net proceeds from (purchase of) marketable securities | 1,636,359 | (4,168,845) |
| Mineral concessions | (596,183) | (146,904) |
| Deferred exploration costs | (1,731,412) | (2,997,872) |
| Purchase of fixed assets | (28,815) | (236,234) |
| | (720,051) | (7,549,855) |
| Cash flows from financing activities | | |
| Common shares issued for cash | 16,500 | 3,166,890 |
| | 16,500 | 3,166,890 |
| | - | - |
| DECREASE IN CASH | (796,420) | (3,502,387) |
| CASH, BEGINNING OF YEAR | 14,675,878 | 18,178,265 |
| CASH, END OF YEAR | \$ 13,879,458 | \$ 14,675,878 |
| CASH AND CASH EQUIVALENTS ARE COMPRISED OF: | | |
| Cash on hand and demand deposits | \$ 10,985,716 | \$ 317,768 |
| Short-term money market instruments | 2,893,742 | 14,358,110 |
| | \$ 13,879,458 | \$ 14,675,878 |
| Supplementary information | | |
| Interest paid | \$ 45,829 | \$ 6,348 |
| Taxes paid | - | - |
| Shares issued for mineral properties | 84,000 | 186,000 |

See Accompanying Notes to the Consolidated Financial Statements

CHESAPEAKE GOLD CORP.
CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES
For The Years Ended December 31, 2006 and 2005

| | Minerales El Prado S.A. de C.V. | | | | | | Nica Gold S.A. | | Total |
|-----------------------------------|---------------------------------|------------------|--------------|-------------|------------|-------------|-----------------|------------|--------------|
| | La Juliana | Cucaracha Dorada | La Gitana | La Calavera | La Cecilia | El Tecomate | Mexico Regional | Nicaragua | |
| Acquisition costs | | | | | | | | | |
| Balance, December 31, 2004 | \$ 96,057 | \$ 73,540 | \$ 18,041 | \$ 17,047 | \$ 13,000 | \$ - | \$ 118,721 | \$ 107,177 | \$ 443,583 |
| Additions | 63,121 | 23,422 | 135,230 | 117,919 | 18,273 | - | 144,515 | 102,924 | 605,404 |
| Option proceeds | (272,500) | - | - | - | - | - | - | - | (272,500) |
| Writedown of costs | 113,322 | - | - | - | - | - | - | - | 113,322 |
| | - | 96,962 | 153,271 | 134,966 | 31,273 | - | 263,236 | 210,101 | 889,809 |
| Deferred exploration costs | | | | | | | | | |
| Balance, December 31, 2004 | 73,684 | 94,958 | 551,101 | 73,202 | - | - | 897,201 | 186,263 | 1,876,409 |
| Assays | - | - | 323,432 | - | 3,744 | - | 27,411 | 1,815 | 356,402 |
| Drilling | - | - | 865,221 | - | - | - | - | - | 865,221 |
| Geological consulting | 6,000 | - | 349,967 | 32,428 | 5,228 | - | 118,350 | 3,721 | 515,694 |
| Helicopter rental | - | - | 565,036 | - | - | - | - | - | 565,036 |
| Camp and supplies | 1,024 | - | 457,642 | 31,512 | - | - | 27,953 | 24,197 | 542,328 |
| Travel and accomodation | 4,451 | - | 96,786 | 6,231 | 494 | - | 40,711 | 4,518 | 153,191 |
| Writedown of costs | (85,159) | - | - | - | - | - | - | - | (85,159) |
| | - | 94,958 | 3,209,185 | 143,373 | 9,466 | - | 1,111,626 | 220,514 | 4,789,122 |
| Balance December 31, 2005 | - | \$ 191,920 | \$ 3,362,456 | \$ 278,339 | \$ 40,739 | \$ - | \$ 1,374,862 | \$ 430,615 | \$ 5,678,931 |
| Acquisition costs | | | | | | | | | |
| Balance, December 31, 2005 | \$ - | \$ 96,962 | \$ 153,271 | \$ 134,966 | \$ 31,273 | \$ - | \$ 263,236 | \$ 210,101 | \$ 889,809 |
| Additions | - | 2,585 | 18,297 | 125,612 | 1,574 | 10,260 | 451,966 | 85,436 | 695,730 |
| Option proceeds (note 4) | - | (99,547) | - | - | - | - | - | - | (99,547) |
| Writedown of costs | - | - | - | - | - | - | (350,000) | (197,627) | (547,627) |
| | - | - | 171,568 | 260,578 | 32,847 | 10,260 | 365,202 | 97,910 | 938,365 |
| Deferred exploration costs | | | | | | | | | |
| Balance, December 31, 2005 | - | 94,958 | 3,209,185 | 143,373 | 9,466 | - | 1,111,626 | 220,514 | 4,789,122 |
| Assays | - | - | 41,963 | 2,248 | 3,981 | 23,808 | 203,122 | - | 275,122 |
| Drilling | - | - | 269,660 | - | - | - | - | - | 269,660 |
| Geological consulting | - | - | 192,475 | 38,469 | - | 46,577 | 493,699 | 1,338 | 772,558 |
| Helicopter rental | - | - | - | - | - | - | - | - | - |
| Camp and supplies | - | 35 | 67,287 | 10,310 | 1,982 | 3,134 | 112,287 | 4,335 | 199,370 |
| Reclamation obligations | - | - | 58,000 | - | - | - | - | - | 58,000 |
| Travel and accomodation | - | 1,337 | 22,549 | 7,078 | 135 | 5,280 | 218,064 | 1,212 | 255,655 |
| Option proceeds (note 4) | - | (182,953) | - | - | - | - | - | - | (182,953) |
| Writedown of costs | - | 86,623 | - | - | - | - | (1,000,000) | (195,853) | (1,109,230) |
| | - | - | 3,861,119 | 201,478 | 15,564 | 78,799 | 1,138,798 | 31,546 | 5,327,304 |
| Balance December 31, 2006 | \$ - | \$ - | \$ 4,032,687 | \$ 462,056 | \$ 48,411 | \$ 89,059 | \$ 1,504,000 | \$ 129,456 | \$ 6,265,669 |

See Accompanying Notes to the Consolidated Financial Statements

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

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 year ended December 31, 2006 were directed towards the exploration of the Company’s property interests located in Mexico.

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 into one corporation under the name American Gold Capital Corporation (“Amalco”);
- 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 31,105,524 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 four days before and after the announcement, 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 exchange of outstanding stock options to purchase shares of American Gold for stock options of the Company which will entitle the holder to receive 0.29 of a Chesapeake common share, 0.145 of a Chesapeake warrant and 0.029 of a Chesapeake Series 1 Class A share, at the same exercise price as the American Gold options;
- e. the payment of the estimated costs of the transaction, which are \$1.2 million, half of which would be paid by American Gold;
- f. the fair values of the net assets acquired are:

| | | |
|-------------------------------------|----|-------------------|
| Cash | \$ | 13,040,000 |
| Mineral properties and other assets | | 72,845,139 |
| Liabilities | | (450,000) |
| Future income tax liability | | (23,043,245) |
| | \$ | <u>62,391,894</u> |

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in these consolidated financial statements are as follows:

(a) Basis 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. ("MEP") and Nica Gold S.A. ("Nica Gold") (individually and collectively referred to as the "Company"). All significant inter-company transactions and balances have been eliminated.

(b) Accounting estimates

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

Significant estimates used in the preparation of these financial statements include, amongst other things, the recoverability of accounts receivable, the measurement of future income tax assets and the fair values of investments, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties and fixed assets.

(c) Foreign currency translation

Assets and liabilities of integrated foreign subsidiary operations and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenues and expenses are converted at the average exchange rate for the reporting period. Gains or losses on translation are included in operations.

(d) Cash and cash equivalents

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at the date of acquisition, that are readily convertible to known amounts of cash.

(e) Investments & Comprehensive Income

Investments which can be readily sold in a trading market at any time are classified as being available for sale investments. Investments which are traded on a recognized market and which the Company intends to hold for longer than the next twelve months are classified as portfolio investments.

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments & Comprehensive Income (continued)

The Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants for the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income during the fiscal year ended December 31, 2006. The recommendations require that all non-derivative financial assets be measured at fair value and that changes in fair value are reported in other comprehensive income.

The fair values of investments which are traded on a recognized exchange are reported at the bid price on the balance sheet date or the last date on which the shares traded, reduced by an appropriate discount where there are trading restrictions. The resulting unrealized gains or losses are included in the determination of comprehensive income. When gains or losses are realized, the amount is transferred from other comprehensive income to the statement of income. When declines in value are significant and not considered temporary, the write-down in value will be included in income.

Since this is the first year in which this policy has been applied, the opening balance of accumulated other comprehensive income includes the difference between the cost and fair value of \$141,460 at the end of the previous fiscal year. The transitional provisions of these recommendations do not require restatement of previous financial statements. The fair value of investments which are classified as available for sale was \$11,953,729 at December 31, 2005.

(f) Investment in Mineral Properties

The Company's mineral property interests are composed of rights to explore for, develop and mine minerals under permit, and licences from or leases with governments in Mexico and Nicaragua. These agreements require fees, rentals, deposits and work commitments. The Company's rights to mineral properties are described in Note 4.

The Company accounts for its mineral properties whereby costs relative to the acquisition, exploration and development of these properties are capitalized by property. All sales and option proceeds received are first credited against the costs of the related property, with any excess credited to earnings. No gains or losses are recognized on the partial sale or dispositions of properties except in circumstances which result in significant dispositions of reserves. Once commercial production commences, these net costs will be charged to future operations using the unit-of-production method based on estimated recoverable reserves by property. The net costs related to abandoned properties and initial geological and other evaluation costs will be charged to earnings.

The Company is currently in the exploration stage.

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Investment in Mineral Properties (continued)*

The amounts shown for mineral properties and related costs represent acquisition, holding and exploration costs and do not necessarily represent present or future recoverable values. The recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the necessary financing to successfully complete their development and to meet the requirements, from time to time, of shareholders who are providing this financing and upon future profitable production.

The Company reviews the carrying values of its mineral properties whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts, based on management's judgements and assumptions regarding estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets exceeds their fair value and the excess is not recoverable.

(g) *Fixed assets*

Fixed assets are recorded at cost. These assets are amortized using the straight-line method over the following periods:

| | |
|-----------------------------------|------------|
| Office and computer equipment | 3-5 years |
| Vehicle and exploration equipment | 5-10 years |

The Company reviews the carrying values of its fixed assets whenever events or changes in circumstances indicate their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

(h) *Reclamation obligations*

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. These obligations are recorded at fair value and the resulting costs are capitalized in the carrying value of the related asset.

(i) *Income recognition*

Interest from cash and cash equivalents and fixed income securities is recorded on an accrual basis when collection is reasonably assured.

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Stock-based compensation

The Company has a stock option plan that is described in note 7(c). The Company recognizes all stock-based compensation using the fair value method.

Under the fair value method, compensation costs, equal to the fair value of the options on the date of grant, are recorded, with an offsetting credit to contributed surplus. Consideration received upon exercise of the stock options, is recorded as share capital and the contributed surplus related to the recognized fair value of the options exercised is transferred to share capital.

(k) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Using this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements of the Company and their respective tax bases, using enacted or substantially enacted income tax rates. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs. A future income tax asset is recorded when the probability of the realization is more likely than not.

(l) Income (loss) per share

Income or loss per share is calculated by dividing the net income or loss by the weighted average number of common shares outstanding during the year. Fully diluted net income per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding for the calculation of diluted net income per share assumes that the proceeds to be received on the exercise of dilutive stock options are applied to repurchase common shares at the average market price for the period.

(m) Comparative Amounts

Certain prior period amounts have been reclassified to conform to the classification adopted in the current year's presentation.

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

3. INVESTMENTS

| | Equity Interest | December 31, 2006 | | Equity Interest | December 31, 2005 | |
|--|-----------------|-------------------|--------------|-----------------|-------------------|--------------|
| | | Cost | Market value | | Cost | Market value |
| Marketable securities | | | | | | |
| Fixed income securities, equities and equity funds | - | \$9,297,931 | \$9,048,339 | - | \$11,427,269 | \$11,352,729 |
| Portfolio investments | | | | | | |
| Christopher James Gold Corp. | 1% | \$226,000 | \$220,000 | - | \$ - | \$ - |
| VRB Power System Inc. | 1% | 110,000 | 364,000 | 3% | 110,000 | 481,000 |
| New World Resources Corp. | 3% | 275,000 | 400,000 | 4% | 275,000 | 120,000 |
| | | \$611,000 | \$984,000 | | \$385,000 | \$601,000 |

As described in Note 2 (e), the new accounting recommendations of the Canadian Institute of Chartered Accountants for the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income require that all non-derivative financial assets be measured at fair value and that changes in fair value are reported in other comprehensive income. The Company adopted this recommendation during the fiscal year ended December 31, 2006.

4. INVESTMENT IN MINERAL PROPERTIES

(a) 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 five years to 2007, which includes a US\$400,000 final payment. The vendors retain a 2% net smelter royalty (“NSR”) and MEP has the option to purchase half the royalty (1%) at any time with a payment of US\$1.0 million.

On June 12, 2006 the Company signed an option agreement whereby Christopher James Gold Corp. (“Christopher James”) has the right to acquire up to a 51% interest in the Cucaracha Dorado Property. To initially earn 51%, Christopher James must pay to the Company US\$100,000 and issue 800,000 common shares of Christopher James to the Company during the first year of the agreement, and either pay an additional US\$250,000 or issue an additional 500,000 common shares of Christopher James to Chesapeake on each of the second and third anniversaries of the agreement. In addition, Christopher James must incur exploration expenditures totaling US\$3.0 million over four years, US\$500,000 of which must be incurred during the first year of the agreement.

Christopher James may increase its interest to 65% by either completing a bankable feasibility study or incurring additional exploration expenditures of US\$7.0 million during the five year period after it has acquired its 51% interest in the project. During the option period, The Company has also granted Christopher James a first right of refusal to acquire an interest in certain other mineral projects that the Company decides to joint venture which are located in Durango state and Chihuahua state. In such event, Christopher James has to decide within 30 days if it wishes to accept the option terms specified by the Company.

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

4. MINERAL PROPERTIES (continued)

(a) Cucaracha Dorado Property, Durango State (continued)

The TSX Venture Exchange approved the option agreement in September, 2006. The Company has received an initial US\$50,000 payment and 400,000 common shares of Christopher James.

(b) La Gitana Property, Oaxaca State

The La Gitana Property comprises one mineral concessions 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 twelve other concessions totaling 135,372 hectares along a northwest trend extending from the La Gitana Property.

(c) La Calavera Property, Oaxaca State

The Company has an option 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\$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 45,000 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 September 27, 2006 the Company signed a letter agreement with Pinnacle Mines Ltd. ("Pinnacle") whereby Pinnacle has the right to acquire up to a 70% interest in the La Calavera Project. Subject to regulatory approval and a formal joint venture agreement with Chesapeake, 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 formal agreement and by issuing a further 150,000 shares on September 1, 2007. On or within the first anniversary of the formal agreement date, Pinnacle is also required to pay an additional US\$50,000 cash, issue 250,000 shares 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 Chesapeake US\$3.0 million (cash and/or shares) and providing production financing for the properties.

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4. MINERAL PROPERTIES (continued)

(d) La Cecilia Property, Sonora State

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; and finally
US\$30,000 on the fourth anniversary.

(e) El Tecomate Property, Durango and Sinaloa State

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) Regional

MEP has acquired, by staking, three mineral concessions, La Salvacion, La Esperanza and Chelito in Chihuahua State, Mexico, totaling 120,335 hectares.

(g) Nicaragua

Nica Gold has acquired through staking one mineral concession, La Union, totaling 24,500 hectares in Nicaragua.

Subsequent to the year-end, Nica Gold entered into an agreement to acquire the Santo Domingo property in Nicaragua. Nica Gold has agreed to make staged payments totaling US\$3.0 million over four years to acquire Santo Domingo. The vendors retain a 2.5% NSR that can be purchased in installments totaling US\$5.0 million at anytime.

CHESAPEAKE GOLD CORP.

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5. FIXED ASSETS

| | December 31, 2006 | | |
|-----------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Office equipment | \$ 39,421 | \$ 23,627 | \$ 15,794 |
| Computer equipment | 50,761 | 23,544 | 27,217 |
| Vehicles | 246,146 | 144,109 | 102,037 |
| Exploration equipment | 284,647 | 128,064 | 156,583 |
| | <u>\$ 620,975</u> | <u>\$ 319,344</u> | <u>\$ 301,631</u> |

| | December 31, 2005 | | |
|-----------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| 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 | 284,647 | 88,921 | 195,726 |
| | <u>\$ 592,161</u> | <u>\$ 228,367</u> | <u>\$ 363,794</u> |

6. INCOME TAXES

Future income tax assets and liabilities at December 31, 2006 and 2005 arise from the following:

| | 2006 | 2005 |
|--|-------------|-------------|
| Future income tax assets (liabilities) | | |
| Tax loss carry-forwards | \$ 960,695 | \$ 731,634 |
| Capital assets | (14,649) | (12,468) |
| Total future income tax assets | 946,046 | 719,166 |
| Valuation allowance | (946,046) | (719,166) |
| Net future income tax assets | <u>\$ -</u> | <u>\$ -</u> |

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Notes to the Consolidated Financial Statements
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6. INCOME TAXES (continued)

The reconciliation of the provision for income taxes is:

| | 2006 | Restated (Note 12) 2005 |
|---|----------------|--|
| Income before income taxes | \$ (2,561,748) | \$ 97,919 |
| Statutory tax rate | 34.1% | 34.9% |
| Provision for income taxes based on combined statutory tax rates | (874,068) | 34,135 |
| Add | | |
| Tax effect of losses not recognized | 229,061 | 259,089 |
| Other | 1,018,837 | 314,482 |
| Provision for income taxes | \$ 373,830 | \$ 607,706 |

The Company has unrecognized non-capital losses of approximately \$3,307,000 that may be used to offset future taxable income.

7. SHARE CAPITAL

- (a) The Company's authorized capital consists of an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.
- (b) Issued and outstanding:

| | Number of shares | Amount |
|---|---------------------|---------------|
| Balance, December 31, 2004 | 17,898,425 | \$ 28,040,014 |
| Shares issued for cash: | | |
| Exercise of warrants | 887,670 | 1,775,340 |
| Exercise of options | 921,700 | 1,391,550 |
| Shares issued for mineral properties | 45,000 | 186,000 |
| Stock based compensation transferred from contributed surplus on exercise of options | - | 1,799,056 |
| Balance, December 31, 2005 | 19,752,795 | \$ 33,191,960 |
| Shares issued for cash: | | |
| Exercise of 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 |
| Balance, December 31, 2006 | 19,777,795 | \$ 33,300,858 |

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
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7. SHARE CAPITAL (continued)

- (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 3,348,000 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 following stock options are outstanding at December 31, 2006:

| | 2006 | | 2005 | |
|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Balance, beginning of year | 1,168,300 | \$ 3.23 | 2,110,000 | \$ 2.48 |
| Cancelled | - | - | (20,000) | 3.30 |
| Exercised | (5,000) | 3.30 | (921,700) | 1.51 |
| Balance, end of year | 1,163,300 | \$ 3.23 | 1,168,300 | \$ 3.23 |
| Exercisable, end of year | 1,163,300 | \$ 3.23 | 1,168,300 | \$ 3.23 |

The contractual weighted average remaining life of the outstanding options at December 31, 2006 is 1.88 years. Subsequent to the year-end, 53,300 stock options were exercised for total cash proceeds of \$97,950.

- (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 volatility | 42% |
| Expected years of option life | 5 years |
| Expected dividends | \$Nil |

CHESAPEAKE GOLD CORP.
Notes to the Consolidated Financial Statements
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7. SHARE CAPITAL (continued)

(e) Contributed surplus

| | | |
|----------------------------|----|-------------|
| Balance, December 31, 2004 | \$ | 2,320,425 |
| Stock options vested | | 482,903 |
| Stock options exercised | | (1,799,056) |
| <hr/> | | |
| Balance, December 31, 2005 | \$ | 1,004,272 |
| Stock options vested | | 482,903 |
| Stock options exercised | | (8,398) |
| <hr/> | | |
| Balance, December 31, 2006 | \$ | 1,478,777 |

(f) There are 375,000 common shares in escrow as at December 31, 2006, which are subject to release upon approval of regulatory authorities.

8. 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.

| | 2006 | 2005 |
|-----------------|-------------|-------------|
| Legal | \$ 267,701 | \$ 22,376 |
| Management fees | 175,000 | 175,000 |
| Rental | 24,000 | 24,000 |

The legal fees were paid to Koffman Kalef, a legal firm of which one of the partners has been an officer of the Company during 2006 and 2005. As at December 31, 2006 and 2005, accounts payable included \$60,549 and \$63,813, respectively, which are due to these related parties. These amounts are unsecured and non-interest bearing.

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9. ENVIRONMENTAL

The Company's exploration activities in Mexico and Nicaragua are subject to those country's 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.

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.

10. SEGMENT DISCLOSURES

The Company operates in one industry segment (Note 1). Details of the investment in mineral properties are disclosed in note 4.

The Company's assets by geographic segment are:

December 31, 2006

| | Canada | Mexico | Nicaragua | Total |
|---------------------------|----------------------|---------------------|-------------------|----------------------|
| Cash | \$ 13,879,458 | \$ - | \$ - | \$ 13,879,458 |
| Marketable securities | 9,048,339 | - | - | 9,048,339 |
| Mineral property interest | - | 6,136,213 | 129,456 | 6,265,669 |
| Capital assets | 140,680 | 160,951 | - | 301,631 |
| Portfolio investments | 984,000 | - | - | 984,000 |
| Other | 346,989 | - | - | 346,989 |
| | \$ 24,399,466 | \$ 6,297,164 | \$ 129,456 | \$ 30,826,086 |

December 31, 2005

| | Canada | Mexico | Nicaragua | Total |
|---------------------------|----------------------|---------------------|-------------------|----------------------|
| Cash | \$ 16,607,878 | \$ - | \$ - | \$ 16,607,878 |
| Marketable securities | 9,495,269 | - | - | 9,495,269 |
| Mineral property interest | - | 5,248,316 | 430,615 | 5,678,931 |
| Capital assets | 168,753 | 195,041 | - | 363,794 |
| Portfolio investments | 385,000 | - | - | 385,000 |
| Other | 97,166 | - | - | 97,166 |
| | \$ 26,754,066 | \$ 5,443,357 | \$ 430,615 | \$ 32,628,038 |

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11. FINANCIAL INSTRUMENTS

(a) *Fair value of financial instruments*

The Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, portfolio investments, and accounts payable.

(b) *Foreign exchange risk*

The Company incurs certain of its expenses 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.

(c) *Concentration of credit risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. To reduce credit risk, cash and cash equivalents are on deposit at major financial institutions.

(d) *Market risk*

The Company's financial instruments include marketable securities and portfolio investments which are publicly traded and therefore are subject to the market risks that affect all publicly traded securities. Some of these shares are thinly traded which could result in lower quoted market values.

(e) *Interest risk*

The Company's financial instruments may include bankers' acceptances, treasury bills, and bonds. These instruments bear a fixed rate of interest and a fixed maturity date. If the Company is required to liquidate them prior to the maturity date, there is a risk that interest rates will have increased such that the market value of the instrument is less than the expected value.

12. RESTATEMENT

The financial statements for December 31, 2005 have been restated to reflect revised calculations for estimated income taxes payable in Canada, Mexico, and Nicaragua. These changes in estimate arise from additional information from the jurisdictions within which the Company operates and the effect of the restatement is:

| | |
|--|-------------------|
| Provision for income taxes, as previously reported | \$ 33,292 |
| Increase in provision for income taxes | 574,414 |
| Revised provision for income taxes | <u>\$ 607,706</u> |
| Decrease in net income | \$ (574,414) |
| Increase in income tax payable | \$ 1,840,116 |
| Decrease in equity | (1,840,116) |