Gold Hawk Resources Inc.

Annual Report
2008

Gold Hawk Resources Inc.

Notes

Gold Hawk Resources Inc.

Table of Contents

Letter to Shareholders……………………………………………………………...…………......4

Management's Discussion and Analysis…………………………………………….……............6

Consolidated Financial Statements…………………………………………………….………….24

Management's Responsibility for Financial Reporting…………………………….…………….25

Auditor's Report…………………………………………………………..…………….………….25

Corporate Information…………………………………………………………………..…back cover

Gold Hawk Resources Inc.

Letter to Shareholders

Dear Shareholders,

The events of 2008 were very much a test for all of us at Gold Hawk, management and employees, as well as for our shareholders but it also demonstrated our strengths and resiliency.

The progress we made toward becoming cash flow positive and attaining targeted operating rates and metal recoveries in 2008 was unfortunately overshadowed by the global financial crisis and the discovery of the ground movement around our tailings storage area. Although there was little we could do to shield ourselves from the effects of the financial crisis, we did make significant positive progress toward positioning the Company for the re-start of operations at the Coricancha Mine in central Peru.

We determined the cause of the ground movement to be excessive amounts of water from an irrigation system that had been installed by a third party on the mountainside above the Coricancha processing plant and tailings facility and without notification to the Company. The cause determination has been confirmed and documented by independent geotechnical consultants as well as by the Peruvian government's geotechnical experts.

We were insured for such events and in fact did receive a US$2.0 million advance from the insurance company; however, based on the latest insurance adjuster report, we estimate we are still owed in excess of an additional US$5.0 million. We fully intend to recover the remaining moneys owed in the near future.

The ground movement problem left us without an area to store tailings, consequently, before re-starting operations we had to obtain approval for a new tailings storage facility. The new facility required an Environmental Impact Assessment (EIA), new permits and funds to construct it. The EIA was submitted to the government in December 2008 and permits to construct the new tailings facility were issued in January 2009. We are now focused on obtaining the funds to complete the construction of the new facility and to the re-start of operations.

Given the global financial events of the last six months, raising capital has been a challenge. Nevertheless, we were able, with the support of most of our previous lenders, to refinance our debt facility and complete two equity private placements. We are now pursuing all opportunities that will provide sufficient capital to build the new tailings facility, begin moving historical tailings and allow the Company to resume the operations.

Gold Hawk has an excellent asset in the Coricancha Mine as well as a dedicated and experienced management team. The mine has a large resource base with a decades-long history of mining and excellent exploration potential that we think will more than double the existing resources over time. We have a fully developed mine with a modern 600 tonne per day processing facility in place that was "de-bugged" during its operation in 2008. All the major permits required to re-start the mine have been obtained. It is managements view, supported by an independent technical report, that once it returns to operation the Coricancha Mine will produce significant cash flows at current metal prices.

Given the quality of the assets and the expected cash flows when operations resume, the current share price does not come anywhere near reflecting the value of the assets.

We remain confident and committed that we will resume operations at the Coricancha Mine and then continue on the path toward achieving the goal of growing the Company and increasing shareholder value.

Sincerely,

Kevin Drover
President and CEO
April 2009

Contact Information

Suite 570-789 West Pender Street
Vancouver BC V6C 1H2
Tel.: (604) 689-9282

info@goldhawkresources.com
www.goldhawkresources.com

Mr. Gordon Bub
Chairman

Mr. Kevin Drover,
President and CEO

Mr. Omar Salas
VP Finance and CFO

Gold Hawk Resources Inc.

Management's Discussion & Analysis
For the Year Ended December 31, 2008

CGK:TSXV

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations of Gold Hawk Resources Inc. ("Gold Hawk" or "the Company") and its wholly owned subsidiaries constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2008.

This discussion dated April 30, 2009 should be read in conjunction with the Company's audited consolidated Financial Statements and associated Notes for the year ended December 31, 2008. Please also refer to the cautionary statement of forward-looking information at the end of the MD&A. The Company's audited consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as fully described in Note 1 of the December 31, 2008 audited consolidated financial statements and reported in Canadian dollars unless otherwise noted.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from www.sedar.com.

OVERVIEW

Gold Hawk is a Canada-based precious and base metals producer with reserves and resources containing gold, silver, lead, zinc and copper. Since the acquisition of the wholly owned Coricancha Mine in Peru in March 2006, the mine and concentrator have been refurbished and commercial production status was achieved on October 1, 2007. The rated capacity of the processing facility is approximately 600 tonnes of ore per day and is operated by its wholly-owned subsidiary Compañía Minera San Juan (Peru) S.A.

In early May 2008, a ground displacement detected near the processing plant and tailings handling area prompted management to temporarily cease production. The Company's geotechnical consultants determined that the main cause of the movement was a third-party saturation irrigation system installed on neighbouring property uphill from the tailings and processing plant. An Emergency Decree was issued by the Presidential Council of Ministers of Peru (the "Government") that declared a State of Emergency in the Tamboraque area where our property is located. The Decree stated that due to the risk created by the saturation irrigation of the hillside, the Company must begin the transport of tailings to new facilities, the stabilization of the hillside and relocation of the processing plant. The original Decree, which expired after 60 days, has subsequently been extended four times. The required actions section of the Decree has been subsequently modified to indicate that, upon implementation of three measures recommended by a report prepared by the Geological Institute, the relocation of the plant will no longer be required. Since these recommendations are being implemented at the present time, management believes the plant will be allowed to operate at its current location once the new tailing facilities are ready.

The Company is complying with all required remediation as recommended by a third-party consultant appointed by the Government and is in discussions with the Government for relief from the requirement to relocate the processing plant. Mitigation work to drain the hillside has been successful with geotechnical measurements showing decreasing ground movement to a rate that is no longer detectable by instrumentation.

The Company is currently pursuing insurance claims associated with business interruption and property affected by the ground displacement. During the year ended December 31, 2008, the Company received a US$2.0 million advance on its insurance claims. Subsequent to the year end, the Company received the final permit for the construction of its new permanent tailings facility at Chinchan and signed an indicative term sheet with one of its lenders to provide the Company with US$2.0 million of new funds, repay the existing bank debt and restructure all of the loans under one new US$13.0 million loan facility with a repayment date of February 2010. The net proceeds of the loan were received by the Company in February, 2009.

With receipt of its final permit to construct a new permanent tailings facility at Chinchan and all other operational permits in place, the Company foresees a return to production in the third quarter of 2009, contingent on obtaining relief from the requirement to move the plant and receipt of additional financing.

In addition to organic exploration potential at its Coricancha Property, the Company also has exploration properties in Peru and Canada (Quebec), and although these properties have been previously written off, management continues to pursue joint venture partners to continue exploration and development of the properties.

The Company's financial statements have been prepared on the basis of a going concern; however, continuous operations and future liquidity will depend upon its ability to arrange additional debt or equity financing, and upon its ability to generate future positive operating cash flow. Please refer to the Liquidity and Capital Resources section on page 12 of this MD&A.

Gold Hawk Resources Inc. is listed on the TSX Venture Exchange under the symbol CGK.

2008 HIGHLIGHTS

NOTE: Due to the production suspension as of May 9, 2008, the Company did not realize any sales or costs related to mining operations since that date.

Major highlights and developments during the year ended December 31, 2008 included:

- Generating revenue from metal sales of $6.0 million during the period ended May 9, 2008;
- Average daily ore processed of 407 tonnes per day processing more than 52,000 tonnes of ore prior to May 9, 2008, containing 2,164 ounces of gold, 117,568 ounces of silver, 1,195,068 pounds of lead and 1,356,391 pounds of zinc;
- Improving recoveries in floatation and gold circuits with gold concentrate achieving budgeted recovery levels for the first time and lead and zinc metallurgical recoveries exceeding test grades;
- Completing US$5.0 million bridge financing in February and June;
- Completion of a $3.3 million private placement financing in July;
- Achieving slope stability in and around Coricancha tailings and processing plant in late July;
- Receiving US$2.0 million advance on property insurance claim in August; and
- Receiving extension of debt repayment schedule from October 1 to December 31, 2008.

Subsequent to year end, the Company:

- Received the final permit for the construction of its new permanent tailings facility at Chinchan. Other permits received include the Certificate of Mining Operations (COM) for 2009, a key permit to allow mining that needs to be renewed annually, and the water use authorization for the new Chinchan tailings facility;

- Signed an indicative term sheet with one of its lenders to provide the Company with US$2.0 million of new funds, repay the existing bank debt and restructure all of the loans under one new US$13.0 million loan facility with a repayment date February 2010. The Company has received the net proceeds of the new loan and is completing the legal documentation to formalize the transaction;
- Completed a non-brokered private placement of 50,000,000 Units at a price of $0.02 per Unit for aggregate proceeds of $1,000,000;
- Completed a new independent National Instrument 43-101 minerals reserves and resource report for the Coricancha Mine; and
- Received approximately US$700,000 value-added tax refund.

OPERATIONS UPDATE

Prior to May 9, 2008, Gold Hawk attained a number of significant operational achievements including the continued improvements in recoveries for all metals mined at the Coricancha Mine. An average throughput of 407 tonnes per day (tpd) was processed during the year totaling 52,495 tonnes to May 9, 2008, the day the Company elected to suspend operations due the ground movement below the tailings. Ore milled improved throughout the period, from an average of 350 tonnes per day (tpd) in early April, to more than 500 tpd in the second half of April. On several occasions, more than 580 tpd of ore were processed.

Concentrate produced prior to May 9 was 980 tonnes and 1,190 tonnes of lead and zinc concentrate, respectively. Concentrate grades for lead and zinc have been improving since commercial production began with an average lead concentrate grade of 54.8% and zinc concentrate grade of 51.6%. Average mill head grades for gold and silver showed improvement from the previous year with gold improving from 2.66 g/t in 2007 to around 3.11 g/t and silver improving from 81.0 g/t in 2007 to 93.5 g/t.

The improvements in recoveries in both the floatation and gold circuits is a direct result of fine-tuning flow sheets to better suit the ore and grade for silver, lead and zinc. In the case of gold, an increase in the treatment process temperature directly improved recoveries by up to 30%, from approximately 40% to 70% immediately prior to the suspension of operations. Gold concentrate grade and recoveries in the Arsenopyrite concentrate achieved budget for the first time just prior to suspension on May 9. While the sample days when these recoveries were attained were not statistically robust, the Company believes it has the necessary information and results to attain its targeted 68% gold recovery rates when production re-starts.

In addition to operations being suspended from May 9 to the end of the year, the results for the year ended December 31, 2008 (see "Results from Operations" below), were affected by temporary tailings handling limitations initially encountered in the fourth quarter of 2007 and due to the high-moisture output of the vacuum filtering equipment used to treat tailings before storage. To address this issue the Company looks forward to commissioning the new filter press prior to production and expects that rated production of 600 tpd will be reached. A second filter press is available and will be used as a backup during maintenance and repairs.

The Dense Media Separation (DMS) plant under construction will reduce waste rock (dilution) from the run of mine ore before it is processed, leading to higher grade of ore to be milled and improved recoveries. The DMS plant and filter press will both be installed prior to re-start.

Rehabilitation work to allow access to older areas of the Constancia Vein where higher grade resource stopes are located continued in the early part of 2008 and some of the less productive and less stable stopes in the Wellington Vein have been vacated to focus mining of the Constancia Vein stopes. It is the Company's intention to continue this approach once full operations have resumed.

MANAGEMENT AND DIRECTORS CHANGES

On February 1, 2008 the Company appointed Victor Rozon as Vice President Projects. Victor is a graduate of the Haileybury School of Mines and has specialized in mineral processing for the past twenty-five years. His experience includes extensive design, engineering and operations work in both the gold and base metal industries, where he has held numerous management positions. Most recently, he was Plant Manager for Cambior's bauxite former operation in Guyana as well as Commissioning Manager for AMEC at the DeBeer's Victor Diamond Project in Ontario. The appointment of Mr. Rozon provides Gold Hawk with in-house metallurgical and technical expertise in project design and engineering, construction and commissioning.

During the year ended December 31, 2008, the Company accepted the resignation of Larry Taddei as Chief Financial Office and Vice President Finance and appointed Omar Salas, CMA, to the position. Mr. Salas has extensive international experience in the mining industry with a focus on Latin America working for companies such as Placer Dome, Glencairn Gold and Rusoro Mining. He has held several senior finance positions in his more than 20 years in the industry and is fluent in Spanish, English and French. Mr. Salas was most recently the CFO of Rusoro Mining and Director of Finance at Glencairn Gold Corporation.

During the year ended December 31, 2008, the Board accepted the resignation of John D. Bracale, Richard Godfrey and Colin Benner as Directors and appointed René Galipeau to the Board of Directors. Mr. Galipeau is a CGA and a seasoned mining executive with more than 30 years of experience. He is currently the Vice Chairman and CEO of Nuinsco Resources Limited and Victory Nickel Inc. and has been a director of 14 public mining companies and two private companies and currently sits on the Boards of Nuinsco, Victory Nickel and Wallbridge Mining Company Ltd. During his career he has held senior positions, including Chief Financial Officer at several mining companies, and also has considerable experience in marketing, trading and corporate development.

Following the departure of Mr. Godfrey, the Board of Directors appointed Michel Tardif to the Audit Committee. Mr. Tardif is an investor involved in senior financial ventures and was formerly a financial analyst for brokerage firms in Montreal. Mr. Galipeau has also been appointed Chairman of the Company's Audit Committee.

As of December 31, 2008 there were six Directors on the Board of Gold Hawk.

RESERVES AND RESOURCES

The Company released its most recent update of mineral reserve and mineral resource estimates for the Coricancha Mine as at March 30, 2009. The report, entitled "Technical Report on Re-start of the Coricancha Mine, Peru", was completed by Tetra Tech of Golden, Colorado. This report will be filed on SEDAR (www.sedar.com) and on the Company's website at www.goldhawkresources.com.

Following is a summary of the mineral reserve and resource estimates as at March 30, 2009 for the Coricancha Mine:

GOLD HAWK RESOURCES INC. – CORICANCHA PROJECT Total Proven and Probable Diluted Mineral Reserve March 2009						
Resource Class	**Tonnes**	**Au g/t**	**Ag g/t**	**Pb %**	**Zn %**	**Cu %**
Proven	325,157	4.83	166.79	2.18	2.72	0.34
Probable	133,277	4.73	180.37	2.10	3.19	0.35
Total Mineral Reserve	**458,434**	**4.80**	**170.74**	**2.16**	**2.86**	**0.34**

Total Measured and Indicated Mineral Resources March 2009						
Resource Class	**Tonnes**	**Au g/t**	**Ag g/t**	**Pb %**	**Zn %**	**Cu %**
Measured	486,582	6.43	187.93	2.50	3.27	0.39
Indicated	211,736	6.35	191.45	2.28	3.48	0.42
Total Mineral Resource	**698,318**	**6.41**	**189.00**	**2.43**	**3.33**	**0.40**

Total Inferred Mineral Resources March 2009						
Vein	**Tonnes**	**Au g/t**	**Ag g/t**	**Pb %**	**Zn %**	**Cu %**
Constancia Vein	1,447,400	6.28	185.38	3.61	3.79	0.36
Wellington Vein	744,900	6.94	228.92	2.39	3.94	0.58
Escondida	193,700	4.85	282.11	2.92	3.85	0.43
San Jose	63,000	3.95	139.03	11.14	0.10	0.10
Colquipallana	170,300	9.49	219.28	3.59	4.10	0.00
Animas	907,400	2.36	457.53	0.30	0.48	0.11
Rocio	384,500	3.67	174.18	2.19	4.94	0.60
Total Inferred Resources	**3,911,200**	**6.50**	**261.23**	**2.56**	**3.12**	**0.35**

EXPLORATION

Due to the suspension of operations and the Company's cost-control measures, the Company did not advance its exploration program during the latter part of the year. The primary exploration target remains in the lower area of the mine at the 3,140 metre level. Exploration is on two levels, the main 3,140 metre level and a sub-level located three metres above the main 3,140 metre level. Mineralogical comparisons between the Constancia Vein in the higher levels of the mine and the 3,140 metre level vein appear to correlate both geologically and physically and thus there is a high probability that the 3,140 metre level vein is in fact the downward extension of the Constancia Vein.

Projecting this vein southward to the property boundary gives approximately an additional 2,000 metres of potential strike length to be developed. With a vertical extent of 320 metres and the strike length of 2,000 metres, there is the potential to significantly increase the total resources in the Constancia Vein between the 3,140 and 3,460 metre levels. In addition, the vein is open at depth below the 3,140 metre level.

A number of exploration recommendations were given to the Company by the authors of its most recent NI 43-101 compliant technical report regarding diamond drill exploration programs that could take place on the Company's Coricancha Mine concessions, including:

Explore the contact of the main vein system: undertake an underground, diamond-drill exploration program to explore the contact of the main vein system with the underlying limestone for possible manto-style or skarn mineralization. It is recommended that the program focus on following the downward plunge of the Constancia and Wellington Veins.

Test the Coricancha and Wellington Veins: Two to four diamond drillholes are recommended for the Constancia Vein and the same for the Wellington Vein in order to test the vein between the existing workings and the underlying limestone. This will give an indication of vein consistency, width and grade at depth.

Confirm values in the middle of the undeveloped area above the 3,920 metre level: Drill one or two surface diamond drill holes each on the Constancia and Wellington Veins to confirm values in the middle of the undeveloped area above the 3,920 metre level. These would be used to confirm the existence of higher gold and silver values, normally expected to be found at the higher elevations of the vein system. Exploitation of these higher grade areas could significantly increase the cash flow of the project.

Surface sampling and drilling the Animas Vein: Conduct a surface sampling program on the Animas Vein, followed by two to four diamond drill holes. The diamond drilling could be conducted either from surface or underground drill stations on the Constancia Vein, depending upon the most favourable locations. The Animas Vein is believed to be a major structure on par with the Constancia and Wellington Veins. If this can be proven, the indicated resources and eventually the proven and probable mineral reserves of the Coricancha Mine could be increased.

A sampling and drilling on program on the Colquipallana Vein: Due to the historically higher-than-average gold and silver grades encountered in this vein, it is recommended that an exploration program focus on the development drifts located at elevations above the existing stopes. Two to four diamond-drill holes should be drilled into the inferred resource located below the 3,920 metre level. In addition, examination and sampling of the existing, developed areas might show old stopes that could be re-activated or areas for the exploitation of new stopes.

District-wide exploration target: The existence of other past producing mines, the various types of deposits recognized, and the possibility of underlying skarn deposits present an interesting, district-wide exploration target.

Mr. Rodney Lamond, P. Eng. is the Qualified Person as defined by National Instrument 43-101 for technical information contained in this MD&A, and Mr. Lamond has reviewed and approved all technical information contained in the MD&A.

RESULTS FROM OPERATIONS

Production results during 2008 are summarized as follows:

For the Quarter Ended	Dec 31, 2008	Sept 30, 2008	June 30, 2008	Mar 31, 2008
Ore processed/tonnes milled	-	-	15,587	36,908
Average tonnes milled per day *	-	-	410	405
Average gold grade (grams/tonne)	-	-	3.06	3.13
Gold recovery (%)	-	-	43	41
Gold ounces produced	-	-	653	1,511
Average silver grade (grams/tonne)	-	-	91	95
Silver recovery (%)	-	-	79	79
Silver ounces produced	-	-	35,946	81,622
Pounds of lead produced	-	-	390,120	804,948
Pounds of zinc produced	-	-	468,016	888,375

* For the 3 months ended June 30, production ceased on May 8.

For the year ended December 31, 2008, revenues from the sale of gold and silver dore, and from lead and zinc concentrates, totaled $5,993,331 (2007 $1,665,525) and direct operating costs totaled $10,058,181 (2007 $5,884,098). Direct operating costs include non cash expenses of depreciation and depletion of $1,606,144 (2007 $1,007,100) and accretion of asset retirement obligation of $1,043,361 (2007 $1,061,195).

Production cost per tonne of ore processed was higher than anticipated primarily due to the costs associated with higher than anticipated tailings management costs. The dike construction and maintenance costs for the tailings facility added approximately $1,093,000 (2007 $701,000) of direct costs in 2008. Since the suspension of mining operations on May 8, 2008, the Company has not realized any revenues or operating costs. From May 9 to the end of the year, care and maintenance costs to keep the mine on standby totaled $3,053,682.

Selected Annual Information

	2008	2007	2006
Total revenue and interest	$ 6,015,022	$ 1,937,474	$ 79,995
Net loss before extraordinary loss	$ (13,964,813)	$ (12,261,804)	$ (8,417,412)
Basic and diluted net loss per share	$ (0.07)	$ (0.08)	$ (0.09)
Total assets	$ 43,729,756	$ 46,025,373	$ 48,236,798
Total long-term financial liabilities	$ 21,497,915	$ 11,384,629	$ 15,925,715

Factors that account for variations in the period 2006-2008 include a change in the Company's profile from a small exploration-focused company in 2006 with a handful of employees to a commercial producer in 2007 and early 2008 with more than 600 employees. On May 8, 2008, management temporarily suspended production due to a ground displacement detected near the processing plant and tailings handling area. From this date forward operating costs were reported as care and maintenance costs.

The Coricancha Mine and processing plant was acquired for US$12.0 million in March 2006. This was financed by the issuance of equity through a private placement. The Company also concluded debt financing for up to US$10.0 million in 2006 and had write-offs of $5,583,144 of two exploration projects.

Commercial production for accounting purposes commenced October 1, 2007, at which time sales and operating costs were reported on Gold Hawk's income statement. Prior to October 1, 2007, the Company was in the preproduction stage for accounting purposes, and sales and operating costs were capitalized for reporting purposes and not included in operating results.

Summary of Quarterly Results

The following table presents our quarterly results of operations for each of the last eight quarters. The Company's interim consolidated financial statements are prepared in accordance with Canadian GAAP. All figures are in thousands of Canadian dollars except gain (loss) per share:

	Dec 31, 2008	Sept 30, 2008	June 30, 2008*	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007	June 30, 2007	Mar 31, 2007
Sales revenue - $	-	-	3,289	2,704	1,666	-	-	-
Interest income - $	2	5	4	11	58	65	50	99
Net loss before extraordinary loss - $	(599)	(1,792)	(7,843)	(3,731)	(3,199)	(3,568)	(4,795)	(700)
Basic and diluted loss per share - $	-	(0.01)	(0.05)	(0.02)	(0.02)	(0.02)	-	-
Extraordinary gain (loss) - $	(4,002)	2,084	(13,498)	-	-	-	-	-
Basic and diluted gain (loss) per share - $	(0.02)	0.01	(0.08)	-	-	-	-	-
Net gain (loss) for the period - $	(4,601)	292	(21,340)	(3,731)	(3,199)	(3,568)	(4,795)	-
Basic and diluted loss per share - $	(0.02)	-	(0.12)	(0.02)	(0.02)	(0.02)	(0.03)	-

*The allowance for value-added tax originally recorded as an extraordinary item on June 30, 2008, has been reclassified as an operating expense

Interest revenue of $21,691 for the year ended December 31, 2008, was interest earned on cash deposited with Scotiabank Canada and in guaranteed investment accounts. Interest revenue of $274,949 in the comparable 2007 period was significantly higher due to the larger balances of funds on deposit.

During the year, the Company recorded a net loss before extraordinary items of $13,964,813 ($0.07 basic and diluted loss per share) as compared with a net loss of $12,261,804 ($0.08 basic and diluted loss per share) in 2007. In addition to the items detailed below, the loss included standby costs for care and maintenance while operations were suspended of $3,053,682 (2007 $NIL), depreciation of $904,246 (Q3, 2007 $NIL) and a provision of $3,044,229 for recovery of value-added tax as a result of the suspension.

Additional items contributing to the loss included stock-based compensation expense of $376,890 (2007 $1,140,666); interest and financing charges of $2,044,681 (2007 $39,512), increasing due to interest payments and charges for amendments made on outstanding loan facilities and other fees required to explore financing opportunities; and administration expenses of $3,737,050 (2007 $2,588,458) with the increase primarily consisting of:

- An increase of approximately $700,000 in salaries and benefits as the Company strengthened its leadership and operations teams in both Vancouver and Peru.
- An increase in professional and consulting fees of approximately $475,000 relate to the increased cost of audit and legal fees and the use of consultants for due diligence services.

Reducing the loss was a foreign exchange gain of $3,631,429 (2007 ($3,716,961)), which resulted primarily from the strengthening of the $Canadian/$US exchange rate.

The only component of the other comprehensive income was a loss of $2,420,298 (2007 ($96,495)) relating to the Company's foreign currency translation adjustment of its foreign operation.

Extraordinary Loss

Ongoing mitigation work related to the ground displacement in and around the Company's tailings area has stabilized the hillside and significantly reduced the risk of a landslide occurring. To account for these measures the Company has written-down some of its related assets and recognized a current liability related to the mitigation efforts.

Details are summarized as follows:

		Amount
Property, plant and equipment		
Tailings extension **(a)**	$	394,901
Plant **(b)**		2,497,884
Asset retirement obligation		
Relocation of tailings and remediation of plant, tailings and surrounding area **(c)**		14,607,487
Proceeds from insurance claim **(d)**		(2,084,263)
Income tax recovery		-
Extraordinary loss	**$**	**15,416,010**

(a) The planned southern extension to the current tailings facility became unusable due to the risks related to the ground displacement in the area. All related capitalized construction costs incurred to date relating to the extension have been written off.

(b) Due to the ground displacement of the tailings area and the related risks it poses to the processing plant located downhill, mitigation efforts were initially believed to require the dismantling of all or part of the processing plant resulting in a write-down of its value (Note 7). The write-down represents the cost of those parts of the processing plant which were determined to have no future use.

(c) The Company recorded a current liability to account for the estimated mitigation costs related to ground displacement in the tailings area and also recorded an extraordinary loss of an equivalent amount (Note 12a).

(d) The Company intends to claim all expenses incurred due to the ground displacement. All funds received from insurance claims will be offset against the losses resulting from these write-downs. During the year ended December 31, 2008, the Company received a US$2.0 million advance on its insurance claims. Insurance proceeds will be recorded when the amounts and ultimate collectability are more readily determinable.

The ground displacement caused by the third-party irrigation system, along with the declaration of a state of emergency by the Government in the affected area and the resulting temporary suspension of mining operations has been classified as an extraordinary event as it is not expected to occur frequently, it does not typify the Company's normal business activities, and it does not depend primarily on decisions made by management.

OUTLOOK

The progress Gold Hawk made toward becoming cash flow positive and attaining targeted operating rates and metal recoveries in 2008 was unfortunately overshadowed by the global financial crisis and the discovery of the ground movement around our tailings storage area. Although there was little the Company could do to shield ourselves from the effects of the financial crisis, Management did make significant positive progress toward positioning Gold Hawk for the re-start of operations at the Coricancha Mine in central Peru.

The Company has an excellent asset in the Coricancha Mine as well as a dedicated and experienced management team. We have a fully developed mine with a modern 600 tonnes per day processing facility in place that was "de-bugged" during its operation in 2008. All the major permits required to re-start the mine have been obtained.

With the permits for the new tailings facility in-hand, Management is now pursuing all opportunities that will provide sufficient capital to build the new tailings facility, begin moving historical tailings and allow the Company to resume the operations. Once financing is in place we expect that we can be back in operation within a five to six month period.

Looking to the future, after resumption of operations, it is management's view, supported by an independent technical report, that the Coricancha Mine when operational will produce significant cash flows at current metal prices. Management is planning to increase production in the second full year of operation to approximately 900 tonnes per day, which will contribute to higher cash flows.

With the discovery of the downward extension of the Constancia Vein on the 3140 elevation level there is significant exploration up-side to provide future organic growth for the Company. One of Management's primary goals is to begin the exploration of this area and prove what we believe to be a significant ore body in this area. A timeline will be established regarding the exploration program following the return to production.

Management remains confident and committed to the re-start of operations at the Coricancha Mine and then continue on the path toward achieving the goal of growing the Company and increasing shareholder value.

In response to the receipt of an unsolicited expression of interest regarding all or part of the Company's wholly owned subsidiary and due diligence being conducted on the property by other parties under confidentiality agreements, the Board of Directors has formed a Special Committee and has retained an independent financial advisor in Lima and Fraser Milner Casgrain LLP in Vancouver as its legal advisors.

There is no assurance that a specific proposal will arise as a result of the expressions of interest. Negotiations resulting from an expression of interest may or may not result in any specific transaction and no timetable has been set for the completion of any potential transaction.

Receipt of the final construction permit for the Chinchan tailings facility and the extended repayment date of the new loan facility remove two significant hurdles in the Company's quest to resume operations. With additional funding and relief from the requirement to move the plant, the Company is confident it can resume operations towards the end of the third quarter of 2009.

RISKS AND UNCERTAINTIES

The following is an overview of the risk factors to be considered in relation to our business. Specific risk factors to be considered are as follows:

Going Concern

The Company's cash flow has been adversely affected by the temporary suspension of mine operations and it is expected that cash on hand at April 30, 2008, will not be sufficient to fund the Company's needs for ongoing activities. Management is currently reviewing several funding options including equity and debt financing and is in active discussions with its primary lenders. Specifically, the Company has signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010. The Company has received the net proceeds of the new loan and is completing the legal documentation to formalize the transaction. However, since there is no assurance the Company's financing efforts will succeed, there is substantial doubt regarding the "going concern" assumption. If the Company were unable to continue as a going concern, then significant adjustments would be required to the carrying value of assets and liabilities, and to the balance sheet classifications used.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of asset retirement obligations, future income taxes, recoverability of mineral properties, plant and equipment and the fair values of net assets acquired in business combinations. Actual results could differ from those estimates.

Industry and economic factors affecting the Company's performance

a) Exploration and mining risks

The business of exploration and development for minerals and mining involves a high degree of risk. Few exploration properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, cave-ins, landslides, and the inability to obtain suitable or adequate machinery, equipment, or labor are other risks involved in the conduct of exploration programs. The Company from time to time augments its internal exploration and operating expertise with advice from consultants and others as required. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variation of the grade of ore mined, and fluctuations in the price of any minerals produced.

b) Titles to property

While the Company has diligently investigated title to the various properties in which it has an interest, and to the best of its knowledge, title to those properties are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfer or native or government land claims, and title may be affected by undetected defects.

c) Permits and licenses

The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development, and mining operations at its projects.

d) Metal prices

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities, and worldwide production levels. The effect of these factors cannot be accurately predicted.

e) Competition

The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for recruitment and retention of qualified employees.

f) Environmental regulations

The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving toward stricter standards in which enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

g) Conflicts of interest

Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

h) Stage of development

The Company does not have a history of earnings or the provision of return on investment, and in the future there is no assurance that it will produce revenue, operate profitably, or provide a return on investment.

i) Industry conditions

Mining and milling operations are subject to government regulations. Operations may be affected in varying degrees by government regulations such as restrictions on production, price controls, tax increases, expropriation of property, pollution controls, or changes in conditions under which minerals may be mined, milled or marketed. The marketability of minerals may be affected by numerous factors beyond the control of the Company, such as government regulations. The effect of these factors cannot be accurately determined.

j) Uninsured hazards

Hazards, such as unusual geological conditions, are involved in exploring for and developing mineral deposits. The Company may become subject to liability for pollution or other hazards, which cannot be insured against, or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company.

k) Future financing

Completion of future programs may require additional financing, which may dilute the interests of existing shareholders.

l) Key employees

Management of the Company rests on a few key officers, the loss of any of whom could have a detrimental effect on its operations.

LIQUIDITY AND CAPITAL RESOURCES

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern. The Company's future liquidity will depend upon its ability to arrange additional debt or equity financing, and upon its ability to generate future positive operating cash flow. While the Company has been successful in raising funds in the past, there is no assurance that it will continue to do so in the future. The Company has incurred losses from inception including a net loss before extraordinary items of

$13,601,123 for the year ended December 31, 2008, and has a working capital deficiency of $21,137,877 as at December 31, 2008, as compared to a working capital deficiency of $328,607 at December 31, 2007. The decrease in working capital is due to the current obligation to relocate the tailings and mitigate landslide risks in the area, the recognition of an allowance to account for the uncertainty regarding the recoverability of value-added tax, and the increase in trade payables at year end as the Company had to delay payment while it completed negotiations on the new loan facility.

Cash on hand at April 30, 2008, and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. Therefore, the Company will need funding through equity or debt financing, its insurance claims, or a combination thereof.

Subsequent to the year end, the Company signed an indicative term sheet with one of its lenders to provide the Company with US$2.0 million of new funds, repay the existing bank debt and restructure all of the loans under one new US$13.0 million loan facility. The net funds that were received in February 2009 were used to support ongoing activities at the Coricancha Mine and for general corporate purposes. All fees and interest associated with the new loan agreement are capitalized and become part of the new loan. The loan repayment date will be February 2010, whereas the Company's existing US$9.7 million total debt repayment date was January 29, 2009.

The loan bears interest at 12.0% per annum and a 2.5% Net Smelter Return Royalty for the Coricancha Mine production. The Company will issue the lender 20,000,000 share purchase warrants at an exercise price of $0.05 for the first year and $0.10 for the second year. All warrants will expire at the end of the second year. The Company has the option to reduce the royalty rate to 1.5% in consideration for a payment of US$1.0 million. The new loan agreement and all associated fees will be subject to certain conditions, including receipt of final approval of the TSX Venture Exchange.

Investing activities

Peru – Coricancha Mine

During the year ended December 31, 2008, the Company acquired plant and equipment in the amount of $1,906,464 (2007 $3,962,081). This consisted of the purchase of two filter presses, the continued construction of the Dense Media Separation plant and development at the new Chinchan tailings facility.

Commitments

As at December 31, 2008 the Company has commitments including various office, vehicle and equipment lease agreements, with minimum future payments as follows:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	$ 4,186,422	$ 4,186,422	-	-	-
Capital lease obligation	36,412	36,412	-	-	-
Loan payable	11,799,375	11,799,375	-	-	-
Other lease commitments	155,689	117,236	38,453	-	-
Total*	**$16,177,898**	**$16,139,445**	**$ 38,453**	**-**	**-**

Financial commitments specific to the Coricancha mine and mining in Peru include the following:

- Net smelter return taxes are paid on a sliding scale based on the size of the mine. Small mines pay a lower tax rate than large mines. The Coricancha Mine will pay a 1% tax on its gross revenue, which is the income from the smelter after deducting smelter treatment charges and freight.

- Eight percent (8%) of pre-tax operating profit must, by law, be paid into a workers participation or profit sharing plan which is to be paid out on an annual basis. The operating profit is the gross revenue (net smelter return) minus site operating costs, net smelter return tax, mine closure account funding, loan amortization, and interest charges.
- The corporate tax rate in Peru is 30% on operating profit after deduction of the 8% workers participation tax.

In March of 2007, the Company signed a 10-year electricity supply agreement, effective April 1, 2007. The Company is committed to purchase a minimum monthly volume of power, which it expects to fully utilize in operating the Coricancha Mine. There are provisions in the contract to request more power if necessary. As a result of the suspension of operations the Company sought for and successful negotiated an amendment to the contact to significantly reduce the minimum monthly volume of power requirement.

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Peru and a portion of its revenues and expenses are incurred in US dollars and/or Nuevo Soles. A significant change in the currency exchange rates between the Canadian dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

Asset Retirement Obligations

The Company has prepared a site reclamation and closure cost estimate and engaged an independent engineering firm to assess available alternative methods of restoration and assist in the preparation and implementation of an environmental management plan. Due to the ground displacement in and around the current tailings area, the Company is undertaking mitigation, safety and planning measures to stabilize the area and reduce the risk of a landslide. Management has estimated an approximate cost of US$13.9 million to enact these measures. The Company has estimated and recorded a liability for asset retirement obligations of $29,075,844 as at December 31, 2008 ($11,558,152, December 31, 2007). The estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 12.0% (2007 - 9.0%). The asset retirement obligation represents the legal and contractual obligations associated with the reclamation and monitoring activities and the removal of tangible assets at the Coricancha Mine in Peru.

The mine closure obligation has been calculated on the basis of an estimated life of mine of six years. Like most narrow vein underground mines, the proven and probable reserves of the Coricancha Mine are limited, not because of a lack of resources, but rather because of the cost of converting resources to reserves. There are considerable measured, indicated, and inferred resources available at the Coricancha Mine at this time, and it is Managements' opinion that a significant portion of these resources will be converted into the proven and probable categories as the mine's development progresses. The six-year life of mine used for estimating the asset retirement obligations is based on an estimated 33% conversion of these resources into proven and probable reserves.

Off-Balance Sheet Arrangements

The Company's only off-balance sheet arrangements include the commitments described elsewhere in this MD&A.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, various commitments including capital lease obligations, and debt facility. In management's opinion, the

Company is not exposed to significant interest rate or credit risk arising from these financial instruments, with the exception of advances made to its self-sustaining subsidiary denominated in US dollars, on which the Company could be exposed to a foreign exchange risk. The Company also has cash and certain liabilities denominated in Peruvian Nuevo Soles and in US dollars. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates. As of December 31, 2008, the Company has not yet reached targeted operations, and accordingly, has not entered into any forward exchange contracts or other instruments to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars.

The Company is also exposed to price risk due to changes in commodity prices related to its production. Changes in commodity prices may have a significant affect on potential future cash flows thus exposing the Company to the possibility of impairment write-downs.

The Company is exposed to credit risk through its cash and cash equivalents, restricted cash, and value added tax and trade receivables on concentrate sales. While in operation, the Company managed this risk by requesting advances of up to 95% of the value of the concentrate shipped as per the terms of its off-take agreement. The Company deposits cash and cash equivalents and restricted cash with high credit quality financial institutions, and enters into derivative instruments with a large, well diversified multinational. Credit risk is considered to be minimal. As at December 31, 2008, the Company's maximum exposure to credit risk was the carrying value of value added tax receivables. Given the uncertainty of future sales due to the suspension of mining operations, an allowance of $3,044,229 for value added tax receivable has been recorded.

The Company's short term debt bears interest at fluctuating rates. The Company believes it is not exposed to significant interest rate risk.

Transaction with Related Parties

During the year ended December 31, 2008, the Company received short-term loans of $357,879 (2007 - $NIL) from two directors of the Company. As at December 31, 2008, an amount of $150,000 bearing interest at 13% per annum was due to one director of the Company. Management anticipates that the amount will be repaid within one year and has accordingly classified it as a current liability.

Share Capital Transactions

On July 16, the Company completed a non-brokered private placement of 55,000,000 common shares at a price of $0.06 per share for gross proceeds of $3,300,000. The Company used the net proceeds of the private placement to finance expenditures related to its Coricancha Mine, including moving tailings to the Chinchan facility, and for general corporate purposes.

During the year ended December 31, 2008, options were granted to purchase 3,745,000 shares in the capital stock of the Company at a weighted-average price of $0.12 per share. An additional 5,873,562 warrants were issued at a weighted-averaged price of $0.15 per warrant.

Upon the exercise of 2,080,000 Broker warrants issued in 2006, $436,800 previously recorded as warrants in shareholders' equity was transferred to share capital.

Outstanding Share Data

As at April 30, 2009, the Company had the following issued and outstanding common shares and unexercised stock options and warrants:

	Shares and Potential Shares
Common shares outstanding	284,444,929
Stock options (average exercise price $0.22)	13,900,000
Warrants (average exercise price $0.07)	55,982,061
Total common shares and potential common shares	354,326,990

*6.44 million options issued are subject to receipt of final approval of the TSX Venture Exchange.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These audited consolidated financial statements are prepared in accordance with Canadian GAAP. Certain of our accounting policies are recognized as critical because they require management to make subjective or complex judgments about matters that are inherently uncertain. Our critical accounting policies and estimates relate to:

- Recoverability of long-lived assets including mineral properties and deferred exploration expenditures;
- Fair value of net assets acquired in a business combination;
- Environmental and post-closure obligations;
- Depreciation and depletion of mineral properties, plant and equipment;
- Stock based compensation and other stock-based payments
- Future income taxes; and,
- Accrued and contingent liabilities.

Management believes it has made estimates that best reflect the facts and circumstances, however, actual results may differ from estimates.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital. This section has been adopted effective January 1, 2008. See Note 8 for additional details.

On January 1, 2008, the Company adopted Section 3031, Inventories, which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new section has been adopted effective January 1, 2008 and resulted in no material changes to the Company's financial position or results of operations.

On January 1, 2008, the Company adopted Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863"). Section 3862 requires disclosure of detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections have been adopted effective January 1, 2008. See Note 9 for additional details.

NEW ACCOUNTING PRONOUCEMENTS ISSUED BUT NOT YET IMPLEMENTED

Goodwill and Intangible Assets

The Accounting Standards Board has issued a new Section 3064, "Goodwill and Intangible Assets", to replace current Section 3062, "Goodwill and Other Intangible Assets". The new section establishes revised standards for recognizing, measuring, presenting and disclosing goodwill and intangible assets. CICA 3064 is effective for fiscal years beginning on or after October 1, 2008, and will be adopted by the Company for the year ending December 31, 2009. Concurrent with the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period", will be withdrawn.

International Financial Accounting Standards

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will be mandatory in Canada for all publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed during 2009. The evaluation and implementation plan will address the impact of IFRS on:

- Accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or a prospective basis;
- Information technology and data systems;
- Internal control over financial reporting;
- Disclosure controls and procedures, including investor relations and external communications plans;
- Financial reporting expertise, training requirements and the need for assistance from outside expertise;
- Post implementation monitoring to access any future developments of IFRS.

FORWARD-LOOKING INFORMATION

This document may contain "forward-looking statements" within the meaning of Canadian securities legislation. These forward-looking statements are made as of the date of this document and the Company does not intend, and does not assume any obligation, to update these forward-looking statements. Forward-looking statements relate to future events or future performance and reflect management of the Company's expectations or beliefs regarding future events and include, but are not limited to, statements with respect to the estimation of mineral reserves and resources, the realization of mineral reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, success of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims and limitations on insurance coverage. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks related to actual results of current exploration activities; changes in project parameters as plans continue to be refined; future prices of resources; possible variations in ore reserves, grade or recovery rates; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

Gold Hawk Resources Inc.

Audited Annual Financial Statements

Year Ended December 31, 2008
(and December 31, 2007 comparative)

(In Canadian Dollars, unless otherwise noted)

Gold Hawk Resources Inc.

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company included in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on estimates and judgments of management.

Deloitte & Touche LLP, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements. Their examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures which allow the auditors to report whether the consolidated financial statements prepared by management are presented fairly and in accordance with Canadian generally accepted accounting principles.

The Board of Directors must ensure that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board of Directors has appointed an Audit Committee composed of three independent directors. The Audit Committee meets with the independent auditors to discuss the results of their audit and their audit report prior to submitting the consolidated financial statements to the Board of Directors for its consideration and approval for issuance to shareholders. On the recommendation of the Audit Committee, the Board of Directors has approved the Company's consolidated financial statements.

("Signed") *Gordon Bub*

Gordon Bub
Chairman

("Signed") *Omar Salas*

Omar Salas, CMA
Vice President Finance and C.F.O.

Auditors' report

To the Shareholders of

Gold Hawk Resources Inc.

We have audited the consolidated balance sheets of Gold Hawk Resources Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, shareholders' deficiency 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "Deloitte & Touche, LLP"

Chartered Accountants
Vancouver, BC
April 29, 2009

Gold Hawk Resources Inc.

Consolidated Balance Sheets
For the Years Ended December 31

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 85,718	$ 2,262,895
Restricted cash (Note 4)	57,897	144,796
Accounts receivable (Note 5)	1,190,959	2,865,817
Inventory (Note 6)	672,901	1,715,938
Derivative instruments (Note 10)	-	934,568
Prepaid expenses	91,096	180,081
	2,098,571	8,104,095
Mineral properties, plant and equipment (Note 7)	41,631,185	37,921,278
	$ 43,729,756	**$ 46,025,373**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,186,422	$ 2,824,582
Derivative instruments (Note 10)	-	579,882
Current portion capital lease obligation	36,412	98,582
Loan payable (Note 11)	11,799,375	4,727,999
Current portion of asset retirement obligation (Note 12)	7,577,929	201,657
	23,600,138	8,432,702
Capital lease obligation	-	28,134
Asset retirement obligation (Note 12)	21,497,915	11,356,495
	45,098,053	19,817,331
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 13)	56,766,531	52,509,731
Warrants	760,212	898,330
Contributed surplus	2,642,227	2,075,337
Accumulated other comprehensive income	(1,512,416)	907,882
Deficit	(60,024,851)	(30,183,238)
	(1,368,297)	26,208,042
	$ 43,729,756	**$ 46,025,373**

Going Concern (Note 1)

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

Approved on Behalf of the Board of Directors:

("Signed") Kevin Drover, Director ("Signed") Gordon Bub, Director

Gold Hawk Resources Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31

		2008		2007
Revenue				
Sales	$	5,993,331	$	1,665,525
Operating costs				
Cost of sales		7,408,676		3,815,803
Depreciation and depletion		1,606,144		1,007,100
Accretion of asset retirement obligation (Note 12)		1,043,361		1,061,195
Loss from mining operations		(4,064,850)		(4,218,573)
Care and maintenance		3,053,682		-
Depreciation		904,246		-
General and administration expenses (Note 14)		4,100,740		2,588,458
Allowance for value-added tax		3,044,229		-
Stock-based compensation cost (Note 13)		376,890		1,140,666
General exploration		29,012		77,591
Loss from operations		(15,573,649)		(8,025,288)
Other expenses (income)				
Foreign exchange (gain) loss		(3,631,429)		3,716,961
Interest and financing charges (Note 20)		2,044,681		39,512
(Gain) loss on derivative instruments (Note 10)		(22,088)		491,660
Gain on disposal of marketable securities		-		(11,617)
Net loss before extraordinary loss	**$**	**(13,964,813)**	**$**	**(12,261,804)**
Extraordinary loss (Note 19)	$	(15,416,010)	$	-
Net loss for the period	**$**	**(29,380,823)**	**$**	**(12,261,804)**
Basic and diluted loss per share:				
Before extraordinary gains and losses	$	(0.07)	$	(0.08)
For extraordinary gains and losses	$	(0.08)	$	-
For the period	$	(0.15)	$	(0.08)
Weighted average number of shares outstanding		196,217,486		155,841,236

Consolidated Statements of Comprehensive Loss		2008		2007
Net loss	$	(29,380,823)	$	(12,261,804)
Other comprehensive income:				
Foreign currency translation adjustment		(2,420,298)		96,495
Comprehensive loss	**$**	**(31,801,121)**	**$**	**(12,165,309)**

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

Gold Hawk Resources Inc.

Consolidated Statements of Cash Flows
For the Years Ended December 31

	2008	2007
Operating activities		
Net loss before extraordinary items	$ (13,964,813)	$ (12,261,804)
Asset retirement expenditures included in the extraordinary loss, net of insurance proceeds	444,553	-
Other asset retirement expenditures	(187,471)	(99,687)
Items not affecting cash:		
Accretion expense on asset retirement obligation	1,043,361	1,061,195
Depreciation and depletion	2,525,641	1,007,100
Financing costs	552,629	-
Gain on disposal of marketable securities	-	(11,617)
Gain on derivative instruments	(22,088)	(198,544)
Stock-based compensation cost	376,890	1,140,666
Unrealized foreign exchange (gain) loss	(3,747,025)	2,846,699
Allowance for unrecoverable value-added tax	3,044,229	-
	(9,934,094)	(6,515,992)
Net changes in non-cash components of working capital (note 15)	874,490	(2,555,661)
Cash flows from operating activities	**(9,059,604)**	**(9,071,653)**
Financing activities		
Capital lease obligation	(104,405)	100,128
Exercise of warrants and stock options	520,000	1,293,100
Issuance of share capital	3,300,000	10,056,660
Loan proceeds	4,712,325	1,900,684
Promissory note from acquisition	-	(1,731,900)
Share issue expenses	(37,641)	(841,238)
Cash flows from financing activities	**8,390,279**	**10,777,434**
Investing activities		
Additions to plant and equipment	(1,906,464)	(3,962,081)
Additions to mining properties	-	(85,620)
Deferred exploration and development expenditures	(264,914)	(7,777,927)
Deposits on equipment	-	567,416
Proceeds on disposition of derivative instruments	361,315	-
Proceeds on disposition of marketable securities	-	55,117
Purchase of call options	-	(116,903)
Restricted cash required on investing activities	86,899	(96,207)
Cash flows from investing activities	**(1,723,164)**	**(11,416,205)**
Effect of exchange rate changes on cash and cash equivalents	**215,312**	**(467,976)**
Net change in cash and cash equivalents	**(2,177,177)**	**(10,178,400)**
Cash and cash equivalents at beginning of period	2,262,895	12,441,295
Cash and cash equivalents at end of period	**$ 85,718**	**$ 2,262,895**
Interest paid	$ 677,233	$ 580,071
Income taxes paid	-	-
Non-cash investing and financing activities		
Broker warrants recorded as a share issue expense	$ 173,149	$ 271,530
Lender warrants recorded as financing costs	315,533	-

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

Gold Hawk Resources Inc.
Consolidated Statements of Shareholders' Equity (Deficiency)

	Share Capital (Number of Shares)	Share Capital (Amount)	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	**Total**
At January 01, 2007	147,921,044	40,770,842	967,000	983,600	811,387	(16,808,666)	**26,724,163**
Private Placement	16,761,100	10,056,660	271,530	-	-	-	**10,328,190**
Share issue costs	-	-	-	-	-	(1,112,768)	**(1,112,768)**
Shares issued upon exercise of options	400,000	141,429	-	(48,929)	-	-	**92,500**
Units issued upon exercise of warrants	3,960,000	1,540,800	(340,200)	-	-	-	**1,200,600**
Stock based compensation	-	-	-	1,140,666	-	-	**1,140,666**
Foreign exchange translation adjustment	-	-	-	-	96,495	-	**96,495**
Net loss	-	-	-	-	-	(12,261,804)	**(12,261,804)**
At December 31, 2007	169,042,144	52,509,731	898,330	2,075,337	907,882	(30,183,238)	**26,208,042**
Private Placement	55,000,000	3,300,000	173,149	-	-	-	**3,473,149**
Share issue costs	-	-	-	-	-	(460,790)	**(460,790)**
Units issued upon exercise of warrants	2,080,000	956,800	(436,800)	-	-	-	**520,000**
Warrants issued as a financing fee	-	-	315,533	-	-	-	**315,533**
Expired Warrants	-	-	(190,000)	190,000	-	-	**-**
Stock based compensation	-	-	-	376,890	-	-	**376,890**
Foreign exchange translation adjustment	-	-	-	-	(2,420,298)	-	**(2,420,298)**
Net loss for the period	-	-	-	-	-	(29,380,823)	**(29,380,823)**
At December 31, 2008	226,122,144	$ 56,766,531	$ 760,212	$ 2,642,227	$ (1,512,416)	$ (60,024,851)	**$ (1,368,297)**

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

1. GOING CONCERN

Gold Hawk Resources Inc. ("Gold Hawk" or the "Company") is a precious and base metals producer with reserves and resources containing gold, silver, lead, zinc and copper. The Company's property is located in Peru and reached commercial production in October 2007. In early May 2008, a ground displacement detected near the processing plant and tailings area prompted management to temporarily cease production. The Company's geotechnical consultants determined that the main cause of the movement was a third-party saturation irrigation system installed on neighbouring property uphill from the tailings and processing plant. The Presidential Council of Ministers of Peru (the "Government") have declared a State of Emergency in the Tamboraque area where our property is located, which states that due to the risk created by the saturation irrigation of the hillside, the Company must begin the transport of tailings to new facilities, the stabilization of the hillside and relocation of the processing plant. The Company is complying with all required remediation as recommended by a third party consultant appointed by the Government and is in discussions with the Government for relief from the requirement to relocate the processing plant.

The Company is currently pursuing an insurance claim associated with business interruption and on property affected by the ground displacement. During the year ended December 31, 2008, the Company received a US$2 million dollar advance on its insurance claim (see Note 19). With receipt of its final permit to construct a new permanent tailings facility at Chinchan in early 2009, and all other operational permits in place, the Company foresees a return to production in the third quarter of 2009, contingent on obtaining relief from the requirement to move the plant and receipt of additional financing (see Note 21).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception including a net loss before extraordinary items of $13,964,813 for the year ended December 31, 2008, and has a working capital deficiency of $21,501,567 as at December 31, 2008.

The Company's cash flow has been adversely affected by the temporary suspension of mine operations and it is expected that cash on hand at April 30, 2008, will not be sufficient to fund the Company's needs for ongoing activities. Management is currently reviewing several funding options including equity and debt financing and is in active discussions with its primary lenders. Specifically, the Company has signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010 (see Note 21). However, since there is no assurance the Company's financing efforts will succeed, there is substantial doubt regarding the "going concern" assumption. If the Company were unable to continue as a going concern, then significant adjustments would be required to the carrying value of assets and liabilities, and to the balance sheet classifications used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

These consolidated financial statements include the accounts of Gold Hawk and its direct and indirect wholly-owned subsidiaries Minas San Juan Ltd. (incorporated in the Commonwealth of the Bahamas), Compañia Minera San Juan (Peru) S.A. (incorporated in Peru) and Larizbeascoa & Zapata S.A.C. (incorporated in Peru). All significant inter-company transactions and balances have been eliminated.

b. Measurement uncertainty

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of asset retirement obligations, future income taxes, stock based compensation, depletion and amortization and the related useful lives of property plant and equipment, the recoverability of mineral properties, and plant and equipment. Actual results could differ from those estimates.

c. Cash and cash equivalents

The Company considers cash to be cash on deposit and cash equivalents to be highly liquid short term interest bearing securities with maturities at the date of purchase of three months or less.

d. Inventory

Inventory consists of materials, supplies and spare parts, valued at the lower of cost and estimated net realizable value, and in-process and finished goods, including ore concentrate and gold on carbon and in dore, which are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and depreciation and depletion of mining interests.

e. Mineral properties, plant and equipment

Plant and equipment are recorded at cost and depreciated over the estimated life of the related assets calculated on a straight-line basis once they are put into use. Any gains or losses on disposition of plant and equipment are reflected in the statements of operations. Assets acquired under capital leases are recorded using the financial method where the cost of the leased asset is recorded as plant and equipment and the corresponding lease obligation is recorded as a loan.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. Estimated undiscounted future net cash flows for properties in which a mineral resource has been identified are calculated using estimated future production, commodity prices, operating and capital costs and reclamation and closure costs. If it is determined that the future net cash flows from a property are less than the carrying value, then an impairment loss is recorded to write down the property to fair value.

The mining assets of the Company are comprised of wholly owned mining properties, claims and options to acquire undivided interests in mining properties, a mineral lease agreement, and deferred exploration expenses and are recorded at cost. Mineral property, plant and equipment include interest and financing costs relating to the construction of plant and equipment and operating costs net of revenues prior to the commencement of commercial production of new mines. Interest and financing costs are capitalized only for those projects for which funds have been borrowed.

These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off when they are abandoned or if a project proves to be uneconomical. Proceeds from the sale of a mining asset are applied to reduce the related carrying costs; any excess is reflected as a gain in the consolidated statements of operations and deficit. Losses on partial sales are recognized and reflected in the consolidated statements of operations and deficit.

Management also reviews the carrying value of mineral properties and deferred exploration costs whenever events or changes in circumstances indicate the carrying value may not be recoverable. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest, and an assessment of the likely results to be achieved from performance of further exploration and development. When the results of this review indicate that a condition of impairment exists, the Company estimates the net recoverable amount of the deferred exploration costs and related mining rights by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of the rights. When the carrying values of mining rights or deferred exploration costs are estimated to exceed their net recoverable amounts, a provision is made for the decline in value.

General exploration expenses not related to specific properties are accounted for in the consolidated statements of operations and deficit.

f. Foreign currency translation

The accounts of the Company's foreign subsidiary, Compania Minera San Juan (Peru) S.A., which considers the U.S. dollar as its functional currency, are translated into Canadian dollars using the current rate method using year-end exchange rates, with revenues and expenses translated at the average exchange rate. Gains and losses arising from these translations are recorded in accumulated other comprehensive income as a foreign currency translation adjustment until they are realized by a reduction in the investment.

g. Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future tax assets if it is more likely than not that some or all of the future tax assets will not be realized.

h. Financial instruments

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have material effects on the estimated fair value amounts.

Cash and cash equivalents, restricted cash, accounts receivable and accounts payable are financial instruments, which are valued at their carrying amounts, which are reasonable estimates of fair value, due to the relatively short period to maturity of the instruments.

The carrying value of the capital lease obligation is estimated to approximate its fair value on the basis that the terms and conditions for these instruments would be similar if they were entered into on December 31, 2008. Details of the valuation of the loan payable are described in Note 9f.

i. Revenue recognition

Revenue from the sale of metals is recognized in the accounts when persuasive evidence of an arrangement exists, title and risk passes to the buyer, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals in concentrate are provisionally priced at the time of sale based on the prevailing market price as specified in the sales contracts, and may be subject to adjustment upon final settlement of estimated metal prices, weights and assays. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for the metals sold and result in an embedded derivative in the accounts receivable. The embedded derivative is recorded at fair value each period until final settlement occurs, with changes in fair value classified as a component of sales. Adjustments to revenue for adjustments in weights and assays are recorded on final settlement. Refining and treatment charges are netted against revenue for sales of metal concentrate.

j. Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities.

The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of stock options and other dilutive securities.

k. Stock-based compensation plan

The Company accounts for stock-based compensation in accordance with the fair value based method. The fair value of stock options is determined on their grant date and recorded as compensation expense over the period that the stock options vest, with a corresponding increase to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital.

l. Deferred financing fees

Costs incurred to obtain revolving lines of credit are deferred and amortized over the term of the related credit facility, and netted against amounts drawn on the facility.

m. Derivatives

The Company has determined that its derivative instruments do not qualify for hedge accounting and therefore records the derivatives at their fair value with gains or losses arising from changes in their fair value being recorded in operations.

n. Asset retirement obligations

The Company records the fair value of its asset retirement obligation as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. In subsequent periods, the carrying amount of the liability is accreted by a charge to operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows. Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the asset retirement obligation, and a corresponding change in the carrying amount of the related long-lived asset. Upward revisions in the amounts of estimated cash flows are discounted using the credit adjusted risk free rate applicable at the time of the revision. Downward revisions in the amount of estimated cash flows are discounted using the historical credit-adjusted risk free rate when the original liability was recognized.

o. Impairment assessment

The Company performs impairment tests on its mineral properties, including exploration and development properties, plant and equipment when events or changes in circumstances indicate that the carrying values of these assets may not be recoverable. These tests require the comparison of the expected undiscounted future cash flows derived from these assets with the carrying value of the assets. If shortfalls exist, the assets are written down to fair value, determined primarily using discounted cash flow methods.

p. Accounting changes

On January 1, 2008, the Company adopted Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's objectives, policies, and processes for managing capital. This section has been adopted effective January 1, 2008. See Note 8 for additional details.

On January 1, 2008, the Company adopted Section 3031, Inventories, which provides more guidance on the measurement and disclosure requirements for inventories. Specifically the new pronouncement requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new section has been adopted effective January 1, 2008 and resulted in no material changes to the Company's financial position or results of operations.

On January 1, 2008, the Company adopted Section 3862, Financial Instruments – Disclosures ("Section 3862") and Section 3863, Financial Instruments – Presentation ("Section 3863"). Section 3862 requires disclosure of detail by financial asset and liability categories. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These sections have been adopted effective January 1, 2008. See Note 9 for additional details.

3. NEW ACCOUNTING STANDARDS

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning on or after January 1, 2009. The Company will adopt the requirements on the date specified in each respective section and is considering the impact this will have on the consolidated financial statements.

a. Section 3064 – Goodwill and Intangible Assets

This new standard replaces the former CICA 3062 – Goodwill and other intangible assets and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. CICA 3064 is effective for interim and annual financial statements for years beginning on or after January 1, 2009. The Company believes that adoption of this section will result in no material changes to the results of operations or financial position of the Company.

b. Section 1582 Business combinations, Section 1601 consolidated financial statements and Section 1602 non-controlling interests

These sections replace the former CICA 1581, Business Combinations and CICA 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections provide the Canadian equivalent to FASB Statements No. 141(R), Business Combinations and No. 160 Non-controlling Interests in Consolidated Financial Statements. CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011.

c. International Financial Reporting Standards

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will be mandatory in Canada for all publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The process of changing from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect reported financial position and results of operations, and also affect certain business functions.

The Company has not yet completed a full evaluation of the adoption of IFRS and its impact on its financial position and results of operations. The full evaluation and an implementation plan will be completed during 2009. The evaluation and implementation plan will address the impact of IFRS on:

- Accounting policies, including choices among policies permitted under IFRS and implementation decisions such as whether changes will be applied on a retrospective or a prospective basis;
- Information technology and data systems;
- Internal control over financial reporting;
- Disclosure controls and procedures, including investor relations and external communications plans;
- Financial reporting expertise, training requirements and the need for assistance from outside expertise;
- Post implementation monitoring to access any future developments of IFRS.

4. RESTRICTED CASH

As at December 31, 2008, $2,442 (December 31, 2007 $20,883) was on deposit in an interest bearing account with the Company’s lender as cash collateral under the terms of the Company’s credit facility. It is to be used to fund future interest and principal payments under the Company’s credit facility. As at December 31, 2008, the balance in the account was insufficient to meet the required payments (see Note 11). Subsequent to the year ended December 31, 2008, the Company signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010 (see Note 21).

The Company’s subsidiary entered into a capital lease for mining equipment for its Coricancha Mine. A compensating restricted cash balance of $55,455 (December 31, 2007 $123,913) was deposited by the Company in an interest bearing GIC as security against the lease payments.

5. ACCOUNTS RECEIVABLE

	Dec 31, 2008	Dec 31, 2007
Value added tax receivable	$ 4,808,295	$ 2,758,458
Other receivables	53,824	107,359
Less: allowance for doubtful value added tax receivable	(3,671,160)	-
	$ 1,190,959	**$ 2,865,817**

Value added tax receivable can be offset against future sales. Due to the ground displacement in the Company's tailings area and the resulting temporary suspension of mine operations, it was concluded that there was significant uncertainty with respect to the collection of the full balance of value added tax. An allowance of $3,671,160 (US $3,014,088) has been recorded to reflect this uncertainty.

6. INVENTORY

Inventories are valued at the lower of cost and net realizable value, and consist of:

	Dec 31, 2008	Dec 31, 2007
Consumable parts and supplies	$ 672,901	$ 544,570
In process and finished goods inventory	-	1,171,368
	$ 672,901	**$ 1,715,938**

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

As at December 31, 2008	Cost	Accumulated depreciation and depletion	Write-down	Net book value
Land	$ 138,109	$ -	$ -	$ 138,109
Plant and equipment **(b)**	14,734,287	(2,737,589)	(2,983,644)	9,013,054
	$ 14,872,396	$ (2,737,589)	$ (2,983,644)	$ 9,151,163
Mineral properties and concessions **(c)**	$ 35,934,718	$ (1,089,990)	$ (13,524,616)	$ 21,320,112
Deferred exploration and development costs	11,721,939	(562,029)	-	11,159,910
	$ 47,656,657	$ (1,652,019)	$ (13,524,616)	$ 32,480,022
Total	**$ 62,529,053**	**$ (4,389,608)**	**$ (16,508,260)**	**$ 41,631,185**

As at December 31, 2007	Cost	Accumulated depreciation and depletion	Write-down	Net book value
Land	$ 112,403	$ -	$ -	$ 112,403
Plant and equipment	10,540,833	(638,551)	-	9,902,282
	$ 10,653,236	$ (638,551)	-	$ 10,014,685
Mineral properties and concessions	$ 19,080,991	$ (363,300)	$ -	$ 18,717,691
Deferred exploration and development costs	9,366,586	(177,684)	-	9,188,902
	$ 28,447,577	$ (540,984)	-	$ 27,906,593
Total	**$ 39,100,813**	**$ (1,179,535)**	**-**	**$ 37,921,278**

Coricancha Mine (Peru)

The Company's wholly-owned Coricancha Mine, is located on a paved highway approximately 90 kilometres due east of Lima, the capital city of Peru. The mine includes a 600 tonne per day concentrator and a BIOX® circuit for the recovery of gold and silver from the refractory ore. The Company purchased 100% of the Coricancha Mine in March 2006, refurbished it and declared commercial production on October 1, 2007.

Coricancha (Peru)	Interest (%)	Dec 31, 2007	Additions	Write-down	Depletion	Translation adjustment (a)	Dec 31, 2008
Mineral properties and concessions **(c)**	100	$18,717,691	$12,821,520	$(13,524,616)	$(530,975)	$ 3,836,492	**$21,320,112**
Deferred exploration cost	100	9,188,902	265,946	-	(290,773)	1,995,835	**11,159,910**
		$27,906,593	**$13,087,466**	**$(13,524,616)**	**$(821,748)**	**$ 5,832,327**	**$32,480,022**

(a) The December 31, 2008 balance has been adjusted to reflect the current rate translation of the Company's self-sustaining foreign operation.

(b) The cost of plant and equipment includes a write-down due to the ground displacement in the tailings area (see Note 19).

(c) As at December 31, 2008, the Company wrote off the capitalized costs and related additional reclamation obligations due to the incremental effect of the ground displacement and resulting temporary suspension of mine operations (Note 12 and 19).

For the year ended December 31, 2008 capitalized interest was $Nil (2007 – $453,188).

8. CAPITAL MANAGEMENT

The capital of the Company consists of the items included in shareholders' equity, short term credit facilities, and capital lease obligations. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's cash flow has been adversely affected by the temporary suspension of mine operations at the Coricancha Mine and as part of the initial mitigation, management has initiated a strict cost control program (Note 1) and is currently reviewing several financing options. Specifically, the Company has signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010 (see Note 21).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, restricted cash, receivables, accounts payable and accrued liabilities, loan facilities and capital lease obligations, and derivative instruments.

Cash and cash equivalents, restricted cash and derivative instruments are designated as "held-for-trading" and measured at fair value. Receivables are designated as "loans and receivables". Accounts payable and accrued liabilities, loan facilities, and capital lease obligations are designated as "other financial liabilities".

Financial assets and liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net income. Financial assets and financial liabilities considered "loans and receivables" and "other financial liabilities" are measured at amortized costs except as described below in section (f).

(a) Market Risk

The significant market risk exposures to which the Company is exposed are commodity price risk, interest rate risk, and foreign exchange risk.

(b) Commodity price risk

The Company is exposed to price risk due to changes in commodity prices related to its production. Changes in commodity prices may have a significant effect on potential future cash flows thus exposing the Company to the possibility of impairment write-downs.

For the year ended December 31, 2008, with all other variables unchanged, an increase of 10% in the prices of commodities related to the Company's production would have increased pre-tax earnings by $599,333, not taking into consideration any changes with respect to price participation of smelters on changes to the commodity prices or the derivative financial instruments.

(c) Interest rate risk

Currently the Company's liabilities are based on fixed and/or variable interest rates. The Company is exposed to interest rate risk on its variable rate debt facilities. Variable interest rates are based on the London Inter-bank Offered Rate ("LIBOR") plus a fixed margin. The Company does not enter into derivative contracts to manage this risk. See Note 12 for details of the Company's loan facilities as at December 31, 2008.

At December 31, 2008, with other variables unchanged, a 10% change in interest rates would impact pre-tax loss by $19,324.

(d) Foreign currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and Peru and a portion of its revenues and expenses are incurred in US dollars and/or Nuevo Soles. A significant change in the currency exchange rates between the Canadian Dollar relative to the other currencies could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Nuevo Soles:

	US Dollars	**Nuevo Soles**
Cash and cash equivalents	$ 29,016	$ 7,972
Restricted cash	47,535	-
Accounts receivable	-	933,609
Prepaid expenses	6,464	62,788
Accounts payable and accrued liabilities	(1,597,367)	(970,420)
Capital lease obligations	(29,895)	-
Loan and interest payable	(9,880,929)	-
	$ (11,425,177)	**$ 33,948**

At December 31, 2008, with other variables unchanged, a 10% change in the USD/CAD exchange rate would impact pre-tax earnings by $1,391,587. Likewise, a 10% change in the Nuevo Soles/CAD exchange rate would impact pre-tax earnings by $1,316.

(e) Credit risk

The Company is exposed to credit risk through its cash and cash equivalents, restricted cash, and value added tax and trade receivables on concentrate sales. While in operation, the Company managed this risk by requesting advances of up to 95% of the value of the concentrate shipped as per the terms of its off-take agreement. The Company deposits cash and cash equivalents and restricted cash with high credit quality financial institutions, and enters into derivative instruments with a large, well diversified multinational. Credit risk is considered to be minimal. As at December 31, 2008, the Company's maximum exposure to credit risk was the carrying value of value added tax receivables. Given the uncertainty of future sales due to the suspension of mining operations, an allowance of $3,671,160 for value added tax receivable has been recorded (see notes 5 and 19).

(f) Liquidity risk

The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient committed loan facilities to meet its short term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's expected source of cash flow in 2009 will be the Coricancha Project, equity financing and future loan facilities. As the mine has limited history of operation there can be no assurance that the mine will generate positive cash flow and there can be no assurance that other sources of funding would be available. Failure to generate positive cash flow or obtain additional funding could result in the delay or indefinite postponement of the mining operations and further exploration and development of the Company's properties. The Company has signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010 (see Note 21). It is the Company's intention to replace all of its existing loan facilities with longer term financing prior to the loan becoming due.

Cash on hand at December 31, 2008, and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. Therefore, the Company will need funding through equity or debt financing, insurance claims, or a combination thereof.

As at December 31, 2008 the Company's liabilities have contractual maturities which are summarized below:

	Total	**Less than 1 year**	**1 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	$ 4,186,422	$ 4,186,422	-	-	-
Capital lease obligation	36,412	36,412	-	-	-
Loan payable	11,799,375	11,799,375	-	-	-
Other lease commitments	155,689	117,236	38,453	-	-
Total*	**$16,177,898**	**$16,139,445**	**$ 38,453**	**-**	**-**

*Amounts above do not include payments related to the Company's asset retirement obligations.

(i) Subsequent to the year ended December 31, 2008 the Company signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010 (see Note 21). The Company's balance owing of US$9,687,500 was assumed by the new lender for a discounted value of US$8,760,000. This results in a fair value for the loan payable equal to $10,669,680 (US$8,760,000) as at December 31, 2008.

10. DERIVATIVES

The Company is exposed to price risk due to changes in commodity prices related to its production. To mitigate this anticipated risk, the Company uses derivative instruments including forward sales contracts and call options. The Company has not designated these derivative instruments as hedges and, accordingly, changes in fair value are recognized in the statement of operations under the caption "loss (gain) on derivative instruments."

During the year ended December 31, 2008, the Company settled all of its outstanding derivative instruments for proceeds of $361,315.

11. LOAN PAYABLE

	Dec 31, 2008	Dec 31, 2007
Revolving loan facility (Tranche A and B)	$ 5,709,375	$ 4,727,999
Bridge loan facilities	6,090,000	-
Less: current portion	(11,799,375)	(4,727,999)
	-	-

As at December 31, 2008, $3,806,250 (US$3,125,000) (December 31, 2007 US$3,333,333) was drawn on the revolving loan facility (Tranche A), and $1,903,125 (US$1,562,500) (December 31, 2007 US$1,666,667) was drawn on the non-revolving loan facility (Tranche B). The facilities bear interest at LIBOR + 5.5% and 6.5% for Tranche A and B, respectively. The loans may be repaid at anytime without penalty.

On February 28, 2008, a bridge loan tranche was created within the original US$10 million facility to allow the Company to draw $3,654,000 (US$3.0 million) for working capital and expenditures related to its Coricancha Mine. The Company paid a cash fee upon closing of the bridge loan tranche equal to 2.917% of the proceeds, and the loan will bear interest at a rate of 13% per annum. The funds are available for draw-down in minimum increments of US$1,000,000 with each draw-down bearing a fee of 1% payable at the time of such draw-down. In connection with the bridge loan, the Company issued the Lender warrants to purchase 1,400,000 shares at an exercise price of $0.468 per share, with the warrants expiring on March 12, 2009. The exercise price of these warrants was adjusted to $0.2098 per share as part of a US$2 million bridge loan agreement further described below. The incremental fair value of the adjustments to these warrants was recorded as a finance expense as described in Note 13(e). On March 12, 2008, US$3 million was drawn on the bridge loan tranche with repayment due no later than October 1, 2008.

On June 6, 2008, a new bridge loan subordinated tranche was created to allow the Company to draw $2,436,000 (US$2.0 million) for working capital and expenditures related to its Coricancha Mine. As a pre-condition of closing the bridge loan, the Company negotiated a "standstill" agreement with its primary lender that postponed all scheduled payments until October 1, 2008. The Company paid a cash fee upon closing of the bridge loan tranche equal to 4% of the proceeds, and the loan bears interest at a rate of 13% per annum. The funds are available for draw-down with a fee of 2% payable at the time of such draw-down. In connection with the bridge loan, the Company issued the Lender warrants to purchase 2,000,000 shares at an exercise price of $0.2042 per share, with the warrants expiring on July 6, 2009. On June 6, 2008, $2,436,000 (US$2 million) was drawn on the bridge loan tranche with repayment due no later than October 1, 2008.

As at December 31, 2008 certain loan covenants including the payments of the loan and accrued interest and approval of an environmental impact assessment at the Chinchan tailings facility were not met by the Company.

Although the Company was unable to meet these covenants, its lenders agreed to extend the debt repayment date to January 29, 2009. Subsequent to the year ended December 31, 2008, the Company signed an indicative term sheet with one of its lenders to restructure the existing debt and extend the repayment date of the new facility to February 2010 (see Note 21).

12. ASSET RETIREMENT OBLIGATION

The asset retirement obligation represents the legal and contractual obligations associated with the reclamation and monitoring activities and the removal of tangible assets at the Company's Coricancha Mine in Peru. The Company has recorded the following asset retirement obligations:

	Amount
Balance, December 31, 2007	$ 11,558,152
Accretion expense	1,043,361
Cash payments	(1,827,181)
Changes in estimates **(a)**	13,905,424
Effect of translation of foreign currencies	4,396,088
Balance, December 31, 2008	**$ 29,075,844**
Less: current portion	7,577,929
	$ 21,497,915

(a) During the year ended December 31, 2008, the Company recognized an increase in the value of its asset retirement obligation due to the incremental effect of the ground displacement and resulting temporary suspension of mine operations. This includes costs to relocate tailings from the current tailings facility to a new facility and other expenditures required to stabilize the hillside and mitigate future landslide risks.

The estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 12.0%. As the liability is initially recorded on a discounted basis, it is increased each period until the estimated date of settlement. The resulting expense is referred to as accretion expense and is included in the results from operations.

The estimated future cash flows for the mine closure obligation, on an undiscounted basis, are expected to be paid in various stages over the life of the mine through 2014 and beyond:

Period	Undiscounted cash flows for mine closure
2009 – 2014	$31,304,720 (US$25,701,740)
2015 – 2016	$8,835,241 (US$7,253,893)
2017 – 2032	$14,053,055 (US$11,537,812)

The mine closure obligation, on an undiscounted basis, has been calculated on the basis of an estimated remaining life of mine of six years. Like most underground mines, the proven and probable reserves are limited, not because of a lack of resources, but due to the cost of proving up large quantities of resources to reserves. There are considerable measured, indicated, and inferred resources available at the Coricancha Mine at this time, and it is Managements' opinion that a significant portion of these resources will be converted into the proven and probable categories as the mine's development progresses. The six year life of mine used for estimating the asset retirement obligations is based on an estimated conversion of 33% of these resources into proven and probable reserves.

13. SHARE CAPITAL

(a) Authorized:

The Company's authorized share capital consists of an unlimited number of common shares of no par value.

(b) Issued:

Changes in the Company's share capital during the year ended December 31, 2008 were as follows:

	Number of shares		Amount
Balance, January 01, 2007	147,921,044	$	40,770,842
For cash received from the exercise of stock options	400,000		92,500
For cash received from the exercise of warrants	3,960,000		1,200,600
For cash received from private placements	16,761,100		10,056,660
Transferred to share capital upon exercise of options and warrants	-		389,129
Balance, December 31, 2007	169,042,144	$	52,509,731
For cash received from the exercise of warrants	2,080,000		520,000
For cash received from private placements	55,000,000		3,300,000
Transferred to share capital upon exercise of options and warrants	-		436,800
Balance, December 31, 2008	**226,122,144**	**$**	**56,766,531**

During the year ended December 31, 2008, the Company closed a non-brokered private placement for 55,000,000 common shares at a price of $0.06 per share for gross proceeds of $3,300,000. Fees associated with the closing of the private placement include $250,000 equal to 8% of the gross proceeds and the issuance of 2,473,562 warrants equal to 4.5% of the number of common shares sold pursuant to the private placement. Each warrant entitles the holder to purchase one common share of the Company at $0.06 per share until July 16, 2009 (see Note 13e). Net proceeds of the private placement were used to finance expenditures related to its Coricancha Mine, including moving old tailings to the long-term Chinchan facility, and for general corporate purposes.

(c) Stock option plan

On October 26, 2007, the Company's Board of Directors approved a new stock option plan (The "2007 Plan") and cancelled the previous plan (The "2006 Plan"). With the cancellation of the 2006 Plan, 285,000 unexercised options were transferred to the 2007 Plan. The maximum number of common shares issuable under the 2007 Plan, including the preceding options, is 12,000,000 common shares. Stock options granted to employees, officers and consultants vest one-third immediately, one-third after 12 months from the date of grant and one-third after 24 months from the date of grant, while stock options granted to directors vest immediately. Under the 2007 Plan stock options granted have a maximum term of five years.

A summary of the Company's stock options outstanding as at December 31, 2008 and the changes for the year then ended are as follows:

	Directors and officers	Employees and a consultant	Total Number of options		Weighted average exercise price per share
Balance, January 01, 2007	5,080,000	355,000	5,435,000	$	0.38
Granted	3,005,000	275,000	3,280,000		0.60
Exercised	(175,000)	(225,000)	(400,000)		0.23
Forfeited	-	(35,000)	(35,000)		0.43
Balance, December 31, 2007	7,910,000	370,000	8,280,000	$	0.48
Granted	2,975,000	770,000	3,745,000		0.12
Forfeited	-	(303,334)	(303,334)		0.50
Expired	(3,571,666)	(10,000)	(3,581,666)		0.45
Balance, December 31, 2008	**7,313,334**	**826,666**	**8,140,000**	**$**	**0.32**

The following table summarizes information about common share purchase options outstanding, granted to officers, directors, employees and a consultant of the Company as at December 31, 2008:

Number of stock options outstanding	Number of stock options exercisable	Option Exercise price ($)	Expiry date (Month-Yr)
175,000	175,000	0.30	May-09
100,000	100,000	0.15	August-10
675,000	675,000	0.48	April-11
500,000	500,000	0.43	April-11
250,000	250,000	0.38	June-11
1,000,000	1,000,000	0.35	July-11
35,000	35,000	0.43	November-11
60,000	60,000	0.52	December-11
200,000	133,333	0.54	March-12
755,000	755,000	0.69	June-12
530,000	353,333	0.64	July-12
215,000	71,667	0.52	October-12
500,000	166,666	0.49	February-13
2,985,000	1,278,333	0.07	August-13
160,000	120,000	0.08	August-13
8,140,000	**5,673,332**		
0.32	**0.38**	**Weighted average exercise price**	

(d) Stock Based Compensation

During the year ended December 31, 2008, the Company granted 3,745,000 (2007 - 3,280,000) stock options to directors, officers and employees. An amount of $376,890 (2007 - $1,140,666) was charged as an expense in recognition of stock-based compensation, based on the vesting schedule for the options granted.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Number of Options Granted	**3,745,000**
Weighted average:	
Risk-free interest rate (%)	3.14%
Expected life (years)	3.3
Expected volatility (%)	108%
Expected dividend (%)	- %
Results:	
Weighted average fair value (per option)	$ 0.079

(e) Share Purchase Warrants

The Company's warrants outstanding at December 31, 2008 and the change for the year then ended are as follows:

	Number of warrants		Average price of warrants
Balance, January 01, 2007	7,140,000	$	0.31
Issued to agents on brokered financing	1,508,499		0.60
Exercised and converted to Common shares	(3,960,000)		0.30
Balance, December 31, 2007	4,688,499	$	0.42
Issued to agents on non-brokered financing	2,473,562		0.06
Issued to lender on debt financing	3,400,000		0.21
Exercised and converted to Common shares	(2,080,000)		0.25
Expired	(1,100,000)		0.48
Balance, December 31, 2008	**7,382,061**	**$**	**0.24**

On March 12, 2008, the Company issued 1,400,000 warrants exercisable at a price of $0.468 per share exercisable for a period of one year. The warrants were issued in connection with the bridge loan (Note 12) and had a fair value at the date of grant of $0.10 per warrant. As part of the terms of a second bridge loan tranche (Note 12), the exercise price of the warrants was adjusted to $0.2098, resulting in an incremental fair value of $0.06 per warrant. The fair value of the warrants is recorded as a finance expense. The Company determined the fair value of the warrants based upon a Black-Scholes model using the following assumptions: expected life of 12 months, expected volatility 85.81%, risk free interest rate 3.70%, dividend yield of 0%.

On June 6, 2008, the Company issued 2,000,000 warrants exercisable at a price of $0.2042 per share exercisable for a period of one year. The warrants were issued in connection with a second bridge loan tranche (Note 12) and had a fair value at the date of grant of $0.06 per warrant. The fair value of the warrants is recorded as a finance expense. The Company determined the fair value of the warrants based upon a Black-Scholes model using the following assumptions: expected life of 12 months, expected volatility 85.81%, risk free interest rate 3.70%, dividend yield of 0%.

On July 16, 2008, the Company issued 2,473,562 warrants exercisable at a price of $0.06 per share exercisable for a period of one year. The warrants were issued in connection with a private placement (Note 14b) and had a fair value at the date of grant of $0.07 per warrant. The fair value of the warrants is recorded as a share issue cost. The Company determined the fair value of the warrants based upon a Black-Scholes model using the following assumptions: expected life of 12 months, expected volatility 165.13%, risk free interest rate 3.12%, dividend yield of 0%.

Upon the exercise of 2,080,000 Broker warrants, $436,800 previously recorded as warrants in shareholder's equity was transferred to share capital.

Details of outstanding warrants as at December 31, 2008 are as follows:

Number of warrants		Exercise price	Expiry date
1,400,000	$	0.21	Mar 12, 2009
2,000,000		0.20	Jun 6, 2009
2,473,562		0.06	Jul 16, 2009
1,508,499		0.60	Aug 15, 2009
7,382,061	**$**	**0.24**	

14. GENERAL AND ADMINISTRATION EXPENSES

		2008		2007
Capital tax	$	267,630	$	88,349
Filing costs and shareholders' information		156,476		117,744
Insurance		42,810		190,377
Meals and entertainment		28,454		14,285
Miscellaneous		439,416		74,256
Office expenses		123,539		71,870
Professional and consulting fees		792,017		317,555
Rent		92,144		122,689
Salaries and benefits		1,789,917		1,108,067
Security		-		183,545
Telecommunications		90,457		23,050
Travel		277,880		276,671
	$	**4,100,740**	**$**	**2,588,458**

15. CHANGES IN NON-CASH WORKING CAPITAL

The changes in non-cash working capital items are comprised of:

		Dec 31, 2008		Dec 31, 2007
Accounts receivable	$	(1,369,372)	$	(1,889,718)
Inventory		1,043,037		(1,505,980)
Prepaids		88,985		(71,319)
Accounts payable and accrued liabilities		1,111,840		911,356
Net change in non-cash working capital	**$**	**874,490**	**$**	**(2,555,661)**

16. INCOME TAXES

The provision for income taxes differs from the amounts computed by applying the Canadian statutory income tax rates due to the following:

	Year ended December 31	
	2008	**2007**
Consolidated net loss before extraordinary loss	(13,964,813)	(12,261,804)
Canadian statutory tax rate	31%	34%
Recovery of income taxes at statutory rate	(4,329,092)	(4,169,013)
Lower effective tax rate on loss in foreign jurisdiction	142,666	260,987
Non deductible stock option compensation	116,836	387,826
Permanent differences and non-deductible expenses	(919,346)	1,361,826
Net increase in valuation allowance	4,988,936	2,158,375
Balance at end of year	-	-

The differences that give rise to the Company's future tax assets are summarized as follows:

	2008	**2007**
Future income tax assets		
Mining assets and deferred exploration expenses	6,526,917	581,090
Non-capital losses	7,505,952	2,468,713
Capital (gains) losses	(14,620)	447,241
Share issue costs	369,501	472,812
Derivative instruments	12,313	(70,916)
	14,400,062	3,898,941
Valuation allowance	(14,400,062)	(3,898,941)
Future income tax assets	-	-

As at December 31, 2008, the Company had non-capital loss carry forwards in Peru amounting to approximately $19,004,000 (2007 - $4,804,000), and in Canada amounting to approximately $6,941,000 (2007 - $3,805,000) which can be applied to reduce future income taxes payable. The Peruvian non-capital losses expire on various dates to 2012, and the Canadian non-capital losses expire on various dates to 2028.

17. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, the Company received short-term loans of $357,879 (2007 - $NIL) from two directors of the Company. As at December 31, 2008, an amount of $150,000 bearing interest at 13% per annum was due to one director of the Company. Management anticipates that the amount will be repaid within one year and has accordingly classified it as a current liability.

18. COMMITMENTS

The Company has signed a ten year electricity contract for power supply to its Coricancha Mine. Due to the temporary suspension of mining operations, the Company negotiated a temporary reduction in the monthly compensation of maximum committed demand. This temporary reduction will be effective for the first six months of 2009.

The Company is obligated to pay a royalty of US$1 per ounce of gold processed by its BIOX® plant.

19. EXTRAORDINARY LOSS

In May 9, 2008 the Company suspended operations at its Coricancha Mine in Peru due to an unexpected ground displacement in and around its tailings area caused by the saturation irrigation of the Tamboraque hillside by a third-party irrigation system. Ongoing mitigation work has stabilized the hillside and significantly reduced the risk of a landslide occurring. To account for these measures the Company has written-down some of its related assets and recognized a current liability related to the mitigation efforts. The future income tax recovery in the amount of approximately $4,871,000 resulting from these losses has been fully offset by a valuation allowance.

Details are summarized as follows:

	Amount
Property, plant and equipment	
Tailings extension **(a)**	$ 394,901
Plant **(b)**	2,497,884
Asset retirement obligation	
Relocation of tailings and remediation of plant, tailings and surrounding area **(c)**	14,607,487
Proceeds from insurance claim **(d)**	(2,084,263)
Income tax recovery	-
Extraordinary loss	**$ 15,416,010**

(e) The planned southern extension to the current tailings facility became unusable due to the risks related to the ground displacement in the area. All related capitalized construction costs incurred to date relating to the extension have been written off.

(f) Due to the ground displacement of the tailings area and the related risks it poses to the processing plant located downhill, mitigation efforts were initially believed to require the dismantling of all or part of the processing plant resulting in a write-down of its value (Note 7). The write-down represents the cost of those parts of the processing plant which were determined to have no future use.

(g) The Company recorded a current liability to account for the estimated mitigation costs related to ground displacement in the tailings area and also recorded an extraordinary loss of an equivalent amount (Note 12a).

(h) The Company intends to claim all expenses incurred due to the ground displacement. All funds received from insurance claims will be offset against the losses resulting from these write-downs. During the year ended December 31, 2008, the Company received a US$2.0 million advance on its insurance claims. Insurance proceeds will be recorded when the amounts and ultimate collectability are more readily determinable.

The third-party irrigation system responsible for the ground displacement, declaration of a state of emergency by the Government in the affected area and temporary suspension of mining operations has been classified as an extraordinary event as it is not expected to occur frequently, it does not typify the Company's normal business activities, and it does not depend primarily on decisions made by management.

20. INTEREST AND FINANCING CHARGES

	Dec 31, 2008	Dec 31, 2007
Interest income	$ (21,691)	$ (271,949)
Financing fees related to bridge loans	633,459	-
Interest expense on outstanding debt	1,012,631	226,311
Amortization of previously capitalized financing fees	231,821	85,150
Fees for advisory services	149,472	-
Total interest and financing charges	**$ 2,005,692**	**$ 39,512**

21. SUBSEQUENT EVENTS

(a) Share Capital

Subsequent to the year end, the Company completed a non-brokered private placement of 50,000,000 Units at a price of $0.02 per Unit for aggregate proceeds of $1,000,000. Each Unit is comprised of one common share and one 12-month share purchase warrant at $0.05. The Company will use the net proceeds of the private placement to finance expenditures related to its property and for general corporate purposes.

(b) Stock Option Plan and Granting

Subsequent to the year end, the Board of Directors approved an amendment to the Company's Stock Option Plan increasing the number of shares reserved for issuance under the plan. The amendment has received conditional acceptance from the TSX Venture Exchange and includes an increase in the maximum number of shares reserved for issuance under the plan to 20,000,000 (7.0% of the issued and outstanding common shares of the Company), including a transfer of 7,460,000 unexercised options previously granted.

Subject to regulatory approval, the Board of Directors has granted stock options to directors, officers and employees of the Company as well as to employees of its wholly owned subsidiary, Compañía Minera San Juan (Peru) S.A.

Options were granted to purchase 6,440,000 common shares in the capital of the Company, exercisable for a period of five years at a price of $0.10 per share. The employee share options vest one-third immediately upon the date of grant, one-third will vest 12 months from the date of grant and the final one-third of the options will vest 24 months from the date of grant. Share options granted to Directors vest immediately. Following regulatory approval, the Company will have 6,100,000 remaining options available for grant under the Stock Option Plan.

(c) Loan Payable and Warrants

Subsequent to the year end, the Company signed an indicative term sheet with one of its lenders to provide the Company with US$2.0 million of new funds, repay the existing bank debt and restructure all of the loans under one new US$13.0 million loan facility.

The new funds will be used to support ongoing activities at the Coricancha mine and for general corporate purposes. All fees and interest associated with the new loan agreement are capitalized and become part of the new loan. The loan repayment date will be February 2010, whereas the Company's existing US$9.7 million total debt repayment date was January 29, 2009.

The loan bears interest at 12.0% per annum and a 2.5% Net Smelter Return Royalty for the Coricancha Mine production. The Company will issue the lender 20,000,000 share purchase warrants at an exercise price of $0.05 for the first year and $0.10 for the second year. All warrants will expire at the end of the second year. The Company has the option to reduce the royalty rate to 1.5% in consideration for a payment of US$1.0 million. The new loan agreement and all associated fees will be subject to certain conditions, including receipt of final approval of the TSX Venture Exchange.

(d) Permits

Subsequent to the year end, the Company's Peruvian subsidiary received the final permit for the construction of its new permanent tailings facility at Chinchan. Other permits received include the Certificate of Mining Operations (COM) for 2009, a key permit to allow mining that needs to be renewed annually, and the water use authorization for the new Chinchan tailings facility.

(e) 43-101 Technical Report

Subsequent to the year end, the Company announced the completion of a new National Instrument 43-101 compliant technical report for its Coricancha Mine. The new Technical Report supersedes all information contained in older Technical Reports and outlines a total Proven and Probable reserve of 458,434 tonnes at a gold grade of 4.80 grams per tonne and a silver grade of 170.74 grams per tonne containing a total gold equivalent of approximately 121,000 ounces based on a silver to gold conversion ratio of 50:1.

Gold Hawk Resources Inc.

Corporate Information

Directors and Officers

William Barnett *, Director

Gordon F. Bub, Chairman, Director

Jean Depatie, Director

Kevin Drover, President, CEO and Director

René R. Galipeau *, Director

Rodney Lamond,
Vice-President of Operations

Omar Salas,
CFO and Vice-President of Finance

Michel Tardif *, Director

* Members of the audit committee

Offices

Canada
Gold Hawk Resources Inc.
Suite 570, 789 West Pender Street
Vancouver, BC V6C 1H2
T 604 689 9282
F 604 689 9232
Info@GoldHawkResources.com
www.GoldHawkResources.com

Peru
Baltazar La Torre 915
San Isidro, Lima 27

Shareholder information*

Common shares: 226,122,144
Options: 8,140,000
Warrants: 7,382,061
Fully diluted: 241,644,205
Shares owned by directors and officers: 9.8%
Closing price: $0.01
52 week high/low: $0.52/$0.01
*(as at December 31, 2008)

Regulatory filings
The Company's financial and other regulatory filings can be accessed on SEDAR at www.sedar.com.

Registrar & Transfer Agent
Computershare
Suite 700, 1500 University Street
Montreal, QC H3A 3S8
T: 1-800-564-6253
webservice@computershare.com

Securities listing
TSX Venture Exchange: CGK.V
CUSIP # 38060Q109

Auditors
Deloitte & Touche LLP
Suite 2800, 1055 Dunsmuir Street
Vancouver, BC V7X 1P4

Legal representatives
Fraser Milner Casgrain LLP
15th Floor, 1040 West Georgia Street
Vancouver, BC V6E 4H8

Annual Meeting of Shareholders

Thursday, June 4, 2009 at 2 p.m.
at
the offices of Fraser Milner Casgrain LLP
15th Floor Grosvenor Building
1040 West Georgia Street
Vancouver, British Columbia