# Management's Discussion and Analysis

# Gold Hawk Resources Inc.

**For the Three and Six Months Ended June 30, 2009**

(All figures reported in Canadian dollars, unless otherwise noted)

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**Gold Hawk Resources Inc.**
For the period ended June 30, 2009

# Management Discussion and Analysis

This management's discussion and analysis ("MD&A") relates to the financial condition and results of the operations of Gold Hawk Resources Inc. and its wholly owned subsidiaries. The intent of this document is to allow readers to assess material changes in the financial and operating performance as at and for the three and six months ended June 30, 2009, in comparison with prior-year periods.

This discussion dated August 31, 2009 complements and supplements the Company's unaudited interim consolidated Financial Statements and associated notes for the three and six months ended June 30, 2009, and should be read in conjunction with the annual audited Financial Statements for the year ended December 31, 2008 and related MD&A, which are available at the Company's web site at www.goldhawkresources.com and on www.sedar.com. Please also refer to the cautionary statement of forward-looking information at the end of this document. The Company's consolidated Financial Statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as fully described in Note 1 of the June 30, 2009 unaudited consolidated financial statements, and reported in Canadian dollars unless otherwise noted.

## 1. COMPANY OVERVIEW

Gold Hawk is a precious and base metals producer with reserves and resources containing gold, silver, lead, zinc and copper. The Company operates the Coricancha Mine in Peru through its wholly-owned subsidiary Compañía Minera San Juan (Peru) S.A. Subsequent to its acquisition in March 2006, the mine, which has a processing capacity of 600 tonnes per day, attained commercial production status on October 1, 2007.

In early May 2008, the Company temporarily ceased production after detecting a ground displacement in the area where the processing plant and the tailing handling facilities are located. 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 measurements showing no movement detectable by instrumentation since August 2008.

The Company is currently pursuing insurance claims associated with business interruption and property affected by the ground displacement. The adjuster appointed by the insurance company has determined the damages are covered by the insurance policies in place at the time of the incident. In his last report the adjuster recommends the creation of a US$5 million reserve in relation to this claim by the insurer. This is in addition to the US$2 million already received.

On August 11, 2009, Gold Hawk entered into a non-binding heads of agreement to sell 85% of the shares of its Peruvian subsidiary, Compañía Minera San Juan (CMSJ). The terms of this arrangement establish that Gold Hawk would receive US$15 million cash for an 85% interest in CMSJ. Gold Hawk's new partner would also assume the guarantee of CMSJ's current US$13 million debt and would agree to lend CMSJ an extra US$20 million to fund capital expenditures and costs associated with resuming operations at Coricancha. Gold Hawk has granted a 60-day exclusivity period commencing August 11, 2009, to allow its potential partner to complete its due diligence review and to negotiate the final terms of the arrangement. In addition, the potential partner has granted a US$250,000 bridge loan to CMSJ to fund care and maintenance at the mine site during this period.

Given the preliminary and non-binding nature of the heads of agreement, we note that there is no certainty the current proposal will proceed to completion. The final agreement will be subject to shareholder approval.

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 5 of this MD&A.

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

## 2. SECOND QUARTER 2009 HIGHLIGHTS

*Major highlights and developments during the second quarter of 2009 included:*

- Completion of a non-brokered private placement of 25,050,000 Units at $0.05 per Unit for a total of $1,252,500. Each Unit is comprised of one share and a 12-month share purchase warrant for $0.07.
- Finalized documentation related to the US$13 million restructured loan facility.

*Subsequent to June 30, 2009 the Company:*

- Announced a non-binding heads of agreement to sell 85% of its Peruvian subsidiary.
- Negotiated a US$250,000 bridge loan with its potential partner to finance care and maintenance costs in Peru.

## 3. OPERATIONS UPDATE

Mining operations have been suspended since May 2008 due to the land movement detected on the hillside where the tailings and operating plant are located. Current activities at the site consist of effluent treatment to ensure compliance with regulatory requirements and permits, security of the assets and continued monitoring of the stability of the hillside, and general care and maintenance work. The Minister of Energy and Mines is completing the construction of a drainage tunnel under the surface affected by the landslide. With construction nearing completion, Management and its consultants believe these measures will permanently stabilize the hillside where our facilities are located.

## 4. 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 is 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<br>Total Proven and Probable Diluted Mineral Reserve<br>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<br>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<br>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** |

## 5. EXPLORATION

During the six months ended June 30, 2009 the Company did not advance its exploration program due to cost-control measures implemented as a result of the suspension of operations. The Company remains committed to its primary exploration target in the lower area of the mine at the 3,140 metre level. The Constancia vein in the higher levels of the mine appears to have the same geological trend and mineralogical composition as the newly discovered vein on the 3,140 metre level. There is a high probability that the 3,140 metre level vein is in fact the downward extension of the Constancia vein. The Company believes that there would be a significant increase in the total mineral resources by projecting the Constancia vein down to the 3,140 metre level and extending southward along strike to the property boundary. In addition, the vein is open at depth below the 3,140 metre level.

## 6. RESULTS FROM OPERATIONS

For the quarter ended June 30, 2009, the Company did not realize any revenues or operating costs due to the suspension of mining operations. Site care and maintenance costs totalled $562,344 compared to $594,291 in the previous quarter. Non-cash expenses included depreciation of $425,313 compared to $450,154 in the previous period, and accretion of assets retirement obligations of $835,895 compared to $891,110 in the previous quarter.

### 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:

| | June 30, 2009 | Mar 31, 2009 | Dec 31, 2008 | Sept 30, 2008 | June 30, 2008* | Mar 31, 2008 | Dec 31, 2007 | Sept 30, 2007 |
|---|---|---|---|---|---|---|---|---|
| Sales revenue - $ | - | - | - | - | 3,289 | 2,704 | 1,666 | - |
| Interest income - $ | 1 | - | 2 | 5 | 4 | 11 | 58 | 65 |
| Net loss before extraordinary loss - $ | (8,263) | (2,103) | (599) | (1,792) | (7,843) | (3,731) | (3,199) | (3,568) |
| Basic and diluted loss per share - $ | (0.03) | (0.01) | - | (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 - $ | (8,263) | (2,103) | (4,601) | 292 | (21,340) | (3,731) | (3,199) | (3,568) |
| Basic and diluted loss per share - $ | (0.03) | (0.01) | (0.02) | - | (0.12) | (0.02) | (0.02) | (0.02) |

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

During the quarter, the Company recorded a net loss of $8.2 million ($0.03 basic and diluted loss per share) as compared with a net loss of $7.8 million before extraordinary items ($0.05 basic and diluted loss per share) in the same period of 2008. In addition to the items detailed below, the loss included standby costs for care and maintenance while operations were suspended of $562,344 (Q2, 2008 $NIL) and depreciation of $425,313 (Q2, 2008 $634,728). Care and maintenance costs include power, security, community relations, water treatment and other environmental control activities at the site.

Additional items contributing to the loss included stock-based compensation expense of $176,076 (Q2, 2008 $50,000); interest and financing charges of $3,738,934 (Q2, 2008 $710,273), increasing due to the financial fees associated with the restructuring of the US$13 million loan facility; and administration expenses of $902,015 (Q2, 2008 $1,353,502) with the decrease primarily attributed to:

- A reduction in general office expenses;
- A decrease in capital tax due to accounting treatment. The full cost for 2008 was expensed when incurred, whereas for 2009, the total cost is being evenly expensed throughout the year;
- Reduced consulting costs as the Company suspended its exploration activities; and
- A decrease in travel costs by senior management.

Contributing to the loss was a foreign exchange loss of $1,622,334 (Q2, 2008 $109,185), which resulted primarily from the strengthening of the $Canadian/$US exchange rate.

The only component of other comprehensive income was a gain of $1,946,114 (Q2, 2008 (216,240)) relating to the Company's foreign currency translation adjustment of its foreign operation.

### Extraordinary Loss

For information regarding the Company's extraordinary loss recorded during the year ended December 31, 2008 please refer to Note 17 of the June 30, 2009 interim consolidated financial statements.

## 7. OUTLOOK

In the second quarter, Management focused its efforts on securing financing in order to resume operations at the Coricancha Mine and refinance the US$13 million bridge loan facility due in February 2010. Management held discussions with a number of interested parties and subsequent to the quarter end, a non-binding Heads of Agreement was signed with a major company giving this party the exclusive right to complete due diligence for a period of 60 days.

Under the terms of the Heads of Agreement, Gold Hawk will receive US$15 million in cash for an 85% interest in its operating subsidiary in Peru, Compañía Minera San Juan (Peru) S.A. (CMSJ). In addition, the party would also agree to assume Gold Hawk's guarantee of the US$13 million bridge loan facility and agrees to loan CMSJ up to an additional US$20 million to fund the re-start of the Coricancha Mine.

Following the completion of the proposed transaction, Gold Hawk would be debt free, would have US$15 million cash and would own a 15% carried interest in the Coricancha Mine, which could be in production during the first half of 2010. Gold Hawk management is currently evaluating several opportunities to deploy this cash in a manner that will enhance shareholder value.

## 8. RISKS AND UNCERTAINTIES

For full details on the risks and uncertainties please refer to the Company's audited financial statements and notes and MD&A for the period ended December 31, 2008. For the quarter ended June 30, 2009, there was no change in the Company's risk profile.

### 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 August 31, 2009, will not be sufficient to fund the Company's needs for ongoing activities. Management has negotiated a US$250,000 bridge loan with the potential partner to finance the subsidiary's activities during the due diligence process. 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.

## 9. 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.

| | As at | |
|---|---|---|
| | June 30, 2009 | Dec 31, 2008 |
| Cash and cash equivalents | $ 641,514 | $ 85,718 |
| Restricted cash | - | 57,897 |
| Working Capital | (26,827,246) | (21,501,567) |

Cash and cash equivalents as at June 30, 2009 were $641,514 compared to $85,718 as at December 31, 2008. The increase in cash on hand was mainly due to the funds received as a result of the restructured debt and proceeds from private placements.

Working capital deficiency was $26.8 million as at June 30, 2009, as compared to a working capital deficiency of $21.5 million as at December 31, 2008. The decrease in working capital is mainly due to the increase in the current portion of the asset retirement obligation and the increase in debt.

Cash on hand at August 31, 2009, 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.

During the period ended June 30, 2009, the Company completed the documentation on a new loan facility to repay the previous bank debt and restructure all of the loans under one new US$13 million loan facility. The loan was subject to US$980,000 in upfront fees and US$1,560,000 in prepaid interest calculated at a rate of 12.0% per annum. All fees and interest associated with the new loan agreement are capitalized as part of the new loan. Full repayment of the loan facility is due February 13, 2010.

In addition to the above financing costs, the Company issued the lenders 7,985,067 shares, 20,000,000 share purchase warrants and granted a 2.5% Net Smelter Return Royalty for the Coricancha Mine production. The Company has the option to reduce the royalty rate to 1.5% in consideration for a payment of US$1.0 million. The present value of the royalty commitment was calculated using estimated future cash flows discounted at a rate of 25.5%. All warrants were valued using the Black-Scholes model as described in Note 13e of the June 30, 2009 interim financial statements. Deferred financing costs consisting of prepaid interest, legal fees and withholding taxes, will be amortized evenly throughout the life of the loan.

Subsequent to the quarter the Company negotiated a US$250,000 bridge loan with its potential partner to finance care and maintenance costs at the mine site.

## Investing activities

*Peru – Coricancha Mine*

During the quarter ended June 30, 2009, the Company acquired plant and equipment in the amount of $47,925 (2008 $544,615). This consisted of the continued construction and development at the new Chinchan tailings facility.

## Commitments

As at June 30, 2009 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 | $ 3,242,345 | $ 3,242,345 | - | - | - |
| Loan payable and warrant commitment | 16,630,900 | 15,281,820 | 790,840 | 354,715 | 203,525 |
| Other lease commitments | 95,256 | 92,502 | 2,754 | - | - |
| **Total*** | **$19,968,501** | **$18,616,667** | **$ 793,594** | **$354,715** | **$203,525** |

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

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.
- The Company is required to pay a royalty of US$1 per ounce of gold produced by its BIOX® plant.
- As part of the restructured loan agreement, the Company granted a 2.5% Net Smelter Return Royalty for the Coricancha Mine production. The Company has the option to reduce the royalty rate to 1.5% in consideration for a payment of US$1.0 million.
- 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 2007, the Company 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 charge for maximum committed demand. This temporary reduction was effective for the first six months of 2009. The Company is currently negotiating an extension of this contract amendment.

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 Obligation

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 $28,993,475 as at June 30, 2009 ($29,075,844 December 31, 2008). The estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 12.0% (2008 - 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 June 30, 2009, 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 June 30, 2009, 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 six months ended June 30, 2009 the Company repaid a balance of $75,000 related to a short-term loan due to a director of the Company.

### Share Capital Transactions

On January 07, 2009, the Company issued 3,322,785 shares as compensation for an amount outstanding to a third party. As a result of this issuance, $262,500 was transferred from current liabilities to share capital.

On March 05, 2009, 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 (see section (e) of this note). Fees associated with the closing of the private placement include $5,250 in Finder's Fees and $10,479 in other legal and regulatory expenses. 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.

On May 08, 2009, the Company issued 7,985,067 shares in connection with the restructured loan facility as described in Note 9.

On June 03, 2009, the Company completed a non-brokered private placement of 25,050,000 Units at a price of $0.05 per Unit for aggregate proceeds of $1,252,500. Each Unit is comprised of one common share and one 12-month share purchase warrant at $0.07 (see section (e) of this note). Fees associated with the closing of the private placement include $12,000 in Finder's Fees and $6,591 in other legal and regulatory expenses. Net proceeds of the private placement were used to finance expenditures related to its Coricancha Mine and for general corporate purposes.

**Capitalization**

As at August 31, 2009, the Company had the following issued and outstanding common shares and unexercised stock options and warrants:

| | **Shares and Potential Shares** |
|---|---|
| Common shares outstanding | 312,479,996 |
| Stock options (average exercise price $0.22) | 13,670,000 |
| Warrants (average exercise price $0.06) | 95,050,000 |
| Total common shares and potential common shares | 421,199,996 |

## 10. 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 three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## 11. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These interim consolidated financial statements are prepared in accordance with Canadian GAAP on a basis consistent with those followed in the most recent audited annual consolidated financial statements as at December 31, 2008, except as described in our consolidated financial statements. 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.

## 12. CHANGES IN ACCOUNTING POLICIES

***Accounting policies implemented effective January 1, 2009***

The Company adopted Section 3064, Goodwill and Intangible Assets, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Upon adoption of this standard there were no resulting material changes to the Company's financial position or results of operations.

The Company adopted EIC-173, Credit Risk and the Fair Value of Financial Assets and Liabilities, which provides guidance on how to take into account an entity's own credit risk and that of the counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. Upon adoption of this EIC there were no resulting material changes to the Company's financial position or results of operations.

The Company adopted EIC-174, Mining Exploration Costs, which provides guidance on how to account for mineral exploration costs as well as when and how to assess for impairment when such exploration costs are capitalized. Upon adoption of this EIC there were no resulting material changes to the Company's financial position or results of operations.

***International Financial Reporting Standards***

The Canadian Accounting Standards Board recently confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian standards and interpretations on 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.

***Recent Accounting Pronouncements Issued But Not Yet Implemented***

The CICA issued the new Handbook Section 1582, “Business Combinations”, Section 1601 “Consolidations” and Section 1602 “Non-controlling Interests” to harmonize with International Financial Reporting Standards (“IFRS”). Section 1582 specifies a number of changes including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards become effective beginning on or after January 1, 2011, but early adoption is permitted.

## 13. 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.