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# 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<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** |

## 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.