



Gold Hawk Resources Inc.

Audited Annual Financial Statements

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

(In Canadian Dollars, unless otherwise noted)

Gold Hawk Resources Inc.

Management's Responsibility for Financial Reporting

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

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

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

("Signed") *Gordon Bub*

Gordon Bub
Chairman

("Signed") *Omar Salas*

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

Auditors' report

To the Shareholders of

Gold Hawk Resources Inc.

We have audited the consolidated balance sheets of Gold Hawk Resources Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, shareholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "Deloitte & Touche, LLP"

Chartered Accountants
Vancouver, BC
April 29, 2009

Gold Hawk Resources Inc.
Consolidated Balance Sheets
For the Years Ended December 31

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

Going Concern (Note 1)

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

Approved on Behalf of the Board of Directors:

("Signed") Kevin Drover, Director

("Signed") Gordon Bub, Director

Gold Hawk Resources Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31

	2008	2007
Revenue		
Sales	\$ 5,993,331	\$ 1,665,525
Operating costs		
Cost of sales	7,408,676	3,815,803
Depreciation and depletion	1,606,144	1,007,100
Accretion of asset retirement obligation (Note 12)	1,043,361	1,061,195
Loss from mining operations	(4,064,850)	(4,218,573)
Care and maintenance	3,053,682	-
Depreciation	904,246	-
General and administration expenses (Note 14)	4,100,740	2,588,458
Allowance for value-added tax	3,044,229	-
Stock-based compensation cost (Note 13)	376,890	1,140,666
General exploration	29,012	77,591
Loss from operations	(15,573,649)	(8,025,288)
Other expenses (income)		
Foreign exchange (gain) loss	(3,631,429)	3,716,961
Interest and financing charges (Note 20)	2,044,681	39,512
(Gain) loss on derivative instruments (Note 10)	(22,088)	491,660
Gain on disposal of marketable securities	-	(11,617)
Net loss before extraordinary loss	\$ (13,964,813)	\$ (12,261,804)
Extraordinary loss (Note 19)	\$ (15,416,010)	\$ -
Net loss for the period	\$ (29,380,823)	\$ (12,261,804)
Basic and diluted loss per share:		
Before extraordinary gains and losses	\$ (0.07)	\$ (0.08)
For extraordinary gains and losses	\$ (0.08)	\$ -
For the period	\$ (0.15)	\$ (0.08)
Weighted average number of shares outstanding	196,217,486	155,841,236
Consolidated Statements of Comprehensive Loss	2008	2007
Net loss	\$ (29,380,823)	\$ (12,261,804)
Other comprehensive income:		
Foreign currency translation adjustment	(2,420,298)	96,495
Comprehensive loss	\$ (31,801,121)	\$ (12,165,309)

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

Gold Hawk Resources Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31

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

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

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

1. GOING CONCERN

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

b) **Measurement uncertainty**

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

c) **Cash and cash equivalents**

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

d) **Inventory**

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

e) **Mineral properties, plant and equipment**

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

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

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

These costs will be amortized over the estimated useful life of mining properties following commencement of production or written off when they are abandoned or if a project proves to be uneconomical. Proceeds from the sale of a mining asset are applied to reduce the related carrying costs; any excess is reflected as a

gain in the consolidated statements of operations and deficit. Losses on partial sales are recognized and reflected in the consolidated statements of operations and deficit.

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

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

f) **Foreign currency translation**

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

g) **Income taxes**

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

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

h) **Financial instruments**

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

i) **Revenue recognition**

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

j) **Loss per share**

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

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

k) **Stock-based compensation plan**

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

l) **Deferred financing fees**

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

m) **Derivatives**

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

n) **Asset retirement obligations**

The Company records the fair value of its asset retirement obligation as a long-term liability as incurred and records an increase in the carrying value of the related asset by a corresponding amount. In subsequent periods, the carrying amount of the liability is accreted by a charge to operations to reflect the passage of time and the liability is adjusted to reflect any changes in the timing of the underlying future cash flows. Changes to the obligation resulting from any revisions to the timing or amount of the original estimate of undiscounted cash flows are recognized as an increase or decrease in the asset retirement obligation, and a

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

corresponding change in the carrying amount of the related long-lived asset. Upward revisions in the amounts of estimated cash flows are discounted using the credit adjusted risk free rate applicable at the time of the revision. Downward revisions in the amount of estimated cash flows are discounted using the historical credit-adjusted risk free rate when the original liability was recognized.

o) **Impairment assessment**

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

p) **Accounting changes**

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

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

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

3. NEW ACCOUNTING STANDARDS

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

a) **Section 3064 – Goodwill and Intangible Assets**

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

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

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

c) **International Financial Reporting Standards**

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

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

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

4. RESTRICTED CASH

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements
At December 31, 2008 and 2007

5. ACCOUNTS RECEIVABLE

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

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

6. INVENTORY

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements
At December 31, 2008 and 2007

7. MINERAL PROPERTIES, PLANT AND EQUIPMENT

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

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

Coricancha Mine (Peru)

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

- (a) The December 31, 2008 balance has been adjusted to reflect the current rate translation of the Company's self-sustaining foreign operation.
- (b) The cost of plant and equipment includes a write-down due to the ground displacement in the tailings area (see Note 19).
- (c) As at December 31, 2008, the Company wrote off the capitalized costs and related additional reclamation obligations due to the incremental effect of the ground displacement and resulting temporary suspension of mine operations (Note 12 and 19).

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

8. CAPITAL MANAGEMENT

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

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

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

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

(a) Market Risk

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

(b) Commodity price risk

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

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

(c) Interest rate risk

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

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

(d) Foreign currency risk

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

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

(e) Credit risk

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

(f) Liquidity risk

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

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

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

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

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

10. DERIVATIVES

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

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

11. LOAN PAYABLE

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

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

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

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

12. ASSET RETIREMENT OBLIGATION

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

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

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

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

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

the proven and probable categories as the mine's development progresses. The six year life of mine used for estimating the asset retirement obligations is based on an estimated conversion of 33% of these resources into proven and probable reserves.

13. SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

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

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

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

(c) Stock option plan

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements
At December 31, 2008 and 2007

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

(d) Stock Based Compensation

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

(e) Share Purchase Warrants

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

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

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

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

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

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements
At December 31, 2008 and 2007

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

14. GENERAL AND ADMINISTRATION EXPENSES

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

15. CHANGES IN NON-CASH WORKING CAPITAL

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

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

16. INCOME TAXES

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

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

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

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

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

17. RELATED PARTY TRANSACTIONS

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

18. COMMITMENTS

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

19. EXTRAORDINARY LOSS

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

Details are summarized as follows:

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

20. INTEREST AND FINANCING CHARGES

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

21. SUBSEQUENT EVENTS

(a) Share Capital

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

(b) Stock Option Plan and Granting

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

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

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

(c) Loan Payable and Warrants

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

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements

At December 31, 2008 and 2007

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

(d) Permits

Subsequent to the year end, the Company's Peruvian subsidiary received the final permit for the construction of its new permanent tailings facility at Chinchán. 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 Chinchán tailings facility.

(e) 43-101 Technical Report

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