



# **Gold Hawk Resources Inc.**

## **Interim Consolidated Financial Statements**

**Three and Six Months Ended June 30, 2008**

(In Canadian Dollars, unless otherwise noted)

*The attached interim consolidated financial statements have been prepared by the Management of Gold Hawk Resources Inc. and have not been reviewed by our auditor.*

**Gold Hawk Resources Inc.**  
**Consolidated Balance Sheets** *(Unaudited)*

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
	<i>Unaudited</i>	<i>Audited</i>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 574,907	\$ 2,262,895
Restricted cash (Note 3)	222,587	144,796
Accounts receivable (Note 4)	956,656	2,865,817
Inventory (Note 5)	-	1,715,938
Derivative instruments (Note 9)	-	934,568
Prepaid expenses	119,938	180,081
	<u>1,874,088</u>	<u>8,104,095</u>
Inventory (Note 5)	641,193	-
Mineral properties, plant and equipment (Note 6)	35,268,161	37,921,278
	<u><b>\$ 37,783,442</b></u>	<u><b>\$ 46,025,373</b></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,046,355	\$ 2,824,582
Derivative instruments (Note 9)	-	579,882
Current portion capital lease obligation (Note 10)	80,368	98,582
Loan payable (Note 11)	9,650,526	4,727,999
Current portion of asset retirement obligation (Note 12)	10,725,013	201,657
	<u>24,502,262</u>	<u>8,432,702</u>
Capital lease obligation (Note 10)	-	28,134
Asset retirement obligation (Note 12)	11,097,889	11,356,495
	<u>35,600,151</u>	<u>19,817,331</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 13)	53,466,531	52,509,731
Warrants	777,063	898,330
Contributed surplus	2,201,174	2,075,337
Accumulated other comprehensive income	1,000,523	907,882
Deficit	(55,262,000)	(30,183,238)
	<u>2,183,291</u>	<u>26,208,042</u>
	<u><b>\$ 37,783,442</b></u>	<u><b>\$ 46,025,373</b></u>

Going Concern (Note 1)

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

Approved on Behalf of the Board of Directors:

("Signed") Richard Godfrey, Director

("Signed") Gordon Bub, Director

# Gold Hawk Resources Inc.

## Consolidated Statements of Loss and Comprehensive Loss (Unaudited) For the Three and Six Months Ended June 30, 2008 and 2007

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Revenue</b>				
Sales	\$ 3,289,476	\$ -	\$ 5,993,331	\$ -
<b>Operating costs</b>				
Cost of Sales	5,295,076	-	9,207,399	-
Depreciation and depletion	634,728	-	1,710,257	-
Accretion of asset retirement obligation (Note 12)	259,926	-	518,436	-
<b>Loss from mining operations</b>	<b>(2,900,254)</b>	<b>-</b>	<b>(5,442,761)</b>	<b>-</b>
General and administration expenses (Note 14)	1,353,502	615,437	2,109,798	1,190,767
Stock-based compensation cost (Note 13)	50,000	529,000	125,837	553,170
General exploration	(445)	30,579	28,387	74,887
Accretion of asset retirement obligation (Note 12)	-	271,282	-	560,667
<b>Loss from operations</b>	<b>(4,303,311)</b>	<b>(1,446,298)</b>	<b>(7,706,783)</b>	<b>(2,379,491)</b>
<b>Other expenses (income)</b>				
Foreign exchange loss (gain)	109,185	1,658,095	(355,764)	1,846,359
Interest and bank charges	710,273	(34,781)	1,195,058	(117,735)
Loss (gain) on derivative instruments (Note 9)	(324,297)	1,725,541	(16,379)	1,398,180
Gain on disposal of marketable securities	-	-	-	(11,173)
<b>Net loss before extraordinary loss</b>	<b>\$ (4,798,472)</b>	<b>\$ (4,795,153)</b>	<b>\$ (8,529,698)</b>	<b>\$ (5,495,122)</b>
Extraordinary loss (Note 17)	\$ (16,542,015)	\$ -	\$ (16,542,015)	\$ -
<b>Net loss for the period</b>	<b>\$ (21,340,487)</b>	<b>\$ (4,795,153)</b>	<b>\$ (25,071,713)</b>	<b>\$ (5,495,122)</b>
<b>Basic and diluted loss per share before extraordinary loss</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.05)</b>	<b>\$ (0.04)</b>
<b>Basic and diluted loss per share for extraordinary loss</b>	<b>\$ (0.10)</b>	<b>\$ -</b>	<b>\$ (0.10)</b>	<b>\$ -</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.12)</b>	<b>\$ (0.03)</b>	<b>\$ (0.15)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of shares outstanding</b>	<b>171,122,144</b>	<b>149,245,275</b>	<b>170,367,858</b>	<b>148,837,232</b>

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Consolidated Statements of Comprehensive Loss</b>				
Net loss	\$ (21,340,487)	\$ (4,795,153)	\$ (25,071,713)	\$ (5,495,122)
Other comprehensive income:				
Foreign currency translation adjustment	(216,240)	(17,947)	92,641	(25,577)
<b>Comprehensive loss:</b>	<b>\$ (21,556,727)</b>	<b>\$ (4,813,100)</b>	<b>\$ (24,979,072)</b>	<b>\$ (5,520,699)</b>

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

# Gold Hawk Resources Inc.

## Consolidated Statements of Cash Flows (Unaudited)

For the Three and Six Months Ended June 30, 2008 and 2007

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Operating activities</b>				
Net loss for the period	\$ (21,340,487)	\$ (4,795,153)	\$ (25,071,713)	\$ (5,495,122)
Items not affecting cash:				
Stock-based compensation cost	50,000	529,000	125,837	553,170
Depreciation and depletion	634,728	3,024	1,713,834	5,909
Gain on disposal of marketable securities	-	-	-	(11,173)
Unrealized foreign exchange (gain) loss	(146,093)	1,363,316	(530,289)	1,548,120
Extraordinary loss	16,542,015	-	16,542,015	-
Unrealized loss (gain) on derivative instruments	98,231	1,540,008	366,626	1,212,647
Accretion expense	259,926	271,282	518,436	560,667
	(3,901,680)	(1,088,523)	(6,335,255)	(1,625,782)
Net changes in non-cash components of working capital	1,044,785	224,145	1,101,792	(2,292,968)
<b>Cash flows from operating activities</b>	<b>(2,856,895)</b>	<b>(864,378)</b>	<b>(5,233,463)</b>	<b>(3,918,750)</b>
<b>Financing activities</b>				
Loan Proceeds	1,194,769	2,663,500	5,020,922	4,357,600
Promissory note from acquisition	-	-	-	(1,731,900)
Deferred Financing Costs	-	(36,586)	-	(36,586)
Capital lease obligation	(25,167)	(18,678)	(49,608)	161,302
Exercise of Broker warrants and stock options	-	176,250	520,000	357,500
<b>Cash flows from financing activities</b>	<b>1,169,602</b>	<b>2,784,486</b>	<b>5,491,313</b>	<b>3,107,916</b>
<b>Investing activities</b>				
Addition to plant and equipment	(544,615)	(1,183,538)	(1,515,598)	(2,610,976)
Addition to mining properties	10,976	(37,378)	10,382	(142,362)
Asset retirement expenditures	(189,272)	(22,392)	(189,272)	(42,019)
Deferred exploration and development expenditures	(4,848)	(3,628,378)	(262,095)	(4,707,332)
Deposits on Equipment	-	64,747	-	67,251
Proceeds on disposition of marketable securities	-	-	-	54,673
Purchase of call options	-	-	-	(116,903)
Restricted cash required on investing activities	61,127	1,095	(77,791)	(1,416,849)
<b>Cash flows from investing activities</b>	<b>(666,632)</b>	<b>(4,805,844)</b>	<b>(2,034,374)</b>	<b>(8,914,517)</b>
Effect of exchange rate changes on Cash and Cash Equivalents	35,356	-	88,536	-
<b>Net change in cash and cash equivalents</b>	<b>(2,318,569)</b>	<b>(2,885,736)</b>	<b>(1,687,988)</b>	<b>(9,725,351)</b>
Cash and cash equivalents at beginning of period	2,893,476	5,601,680	2,262,895	12,441,295
<b>Cash and cash equivalents at end of period</b>	<b>\$ 574,907</b>	<b>\$ 2,715,944</b>	<b>\$ 574,907</b>	<b>\$ 2,715,944</b>
<b>Additional information</b>				
Interest paid	\$ 187,741	\$ 102,951	\$ 256,948	\$ 175,769

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

**Gold Hawk Resources Inc.**  
**Consolidated Statements of Shareholders' Equity** *(unaudited)*  
**For the Six Months Ended June 30, 2008 and 2007**

	Share Capital (Number of Shares)	Share Capital (Amount)	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
<b>At January 01, 2007</b>	147,921,044	40,770,842	967,000	983,600	811,387	(16,808,666)	<b>26,724,163</b>
Shares issued upon exercise of options	400,000	141,430	-	(48,929)	-	-	<b>92,501</b>
Units issued upon exercise of warrants	1,060,000	487,600	(222,600)	-	-	-	<b>265,000</b>
Stock based compensation	-	-	-	553,170	-	-	<b>553,170</b>
Foreign exchange translation adjustment	-	-	-	-	(25,577)	-	<b>(25,577)</b>
Net loss	-	-	-	-	-	(5,495,122)	<b>(5,495,122)</b>
<b>At June 30, 2007</b>	149,381,044	41,399,872	744,400	1,487,841	785,810	(22,303,788)	<b>22,114,135</b>
Private Placement	16,761,100	10,056,660	271,530	-	-	-	<b>10,328,190</b>
Share issue costs	-	-	-	-	-	(1,112,768)	<b>(1,112,768)</b>
Units issued upon exercise of warrants	2,900,000	1,053,199	(117,600)	-	-	-	<b>935,599</b>
Stock based compensation	-	-	-	587,496	-	-	<b>587,496</b>
Foreign exchange translation adjustment	-	-	-	-	122,072	-	<b>122,072</b>
Net loss	-	-	-	-	-	(6,766,682)	<b>(6,766,682)</b>
<b>At December 31, 2007</b>	169,042,144	52,509,731	898,330	2,075,337	907,882	(30,183,238)	<b>26,208,042</b>
Share issue costs	-	-	-	-	-	(7,049)	<b>(7,049)</b>
Units issued upon exercise of warrants	2,080,000	956,800	(436,800)	-	-	-	<b>520,000</b>
Warrants issued as a financing fee	-	-	315,533	-	-	-	<b>315,533</b>
Stock based compensation	-	-	-	125,837	-	-	<b>125,837</b>
Foreign exchange translation adjustment	-	-	-	-	92,641	-	<b>92,641</b>
Net loss for the period	-	-	-	-	-	(25,071,713)	<b>(25,071,713)</b>
<b>At June 30, 2008</b>	171,122,144	\$53,466,531	\$ 777,063	\$2,201,174	\$ 1,000,523	\$ (55,262,000)	<b>\$ 2,183,291</b>

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

# Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements *(unaudited)*  
For the Three and Six Months Ended June 30, 2008

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## 1. BASIS OF PRESENTATION AND GOING CONCERN

These consolidated financial statements include the accounts of Gold Hawk Resources Inc. (“Gold Hawk” or the “Company”) 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.

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and on a basis consistent with those followed in the most recent annual consolidated financial statements, except as described in note 2. These interim consolidated financial statements do not include all note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2007.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 \$8,529,698 for the six months ended June 30, 2008, and has a working capital deficiency of \$22,628,174 as at June 30, 2008. Although the Company achieved commercial production at the Coricancha Mine in Peru on October 1, 2007, it has not yet generated a profit from mining operations.

The Company’s capability to continue as a going concern is dependent upon its ability to obtain additional debt or equity financing to meet its obligations as they come due, and to successfully achieve profitable operations in the future. 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.

On May 9, the Company temporarily suspended operations at its Coricancha Mine in Peru due to unexpected ground displacement in and around its tailings area (see Note 17). The Company’s cash flow has been adversely affected by the temporary suspension of mine operations and as part of the initial mitigation, management has initiated a strict cost control program. In spite of these cost control efforts, it is expected that cash on hand at August 29, 2008, will not be sufficient to fund the Company’s needs for the near future. 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 negotiated a “standstill” agreement with its primary lender that postpones all scheduled payments until October 1, 2008 (see Note 11).

Subsequent to the quarter ended June 30, 2008, an Emergency Decree was issued by the Presidential Council of Ministers of Peru that declares a State of Emergency in the Tamboraque hillside near the Company’s Coricancha tailing area and processing plant (Note 18). The Decree states that due to the risk created by the saturation irrigation of the hillside by a third party irrigation system, the Company must begin both the transport of tailings to new facilities and the relocation of its processing plant. The Company is currently pursuing an insurance claim associated with business interruption and on assets affected by the unexpected ground displacement near its Coricancha facilities. Subsequent to the quarter ended June 30, 2008, the Company received a US\$2 million dollar advance on its insurance claim (see Note 18).

While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. With additional financing and the restart of production at the Coricancha

# Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements (*unaudited*)  
For the Three and Six Months Ended June 30, 2008

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Mine, the Company believes that it will have sufficient funds for working capital based on the Company's current mine plan and budget, however, there is no assurance that additional funding and/or the restart of production will be achieved. Future cash flows generated will depend on volumes produced, commodity prices, exchange rates, the level of operating costs and other factors. If the company is unable to secure additional financing, repay liabilities as they come due, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and 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.

## 2. CHANGES IN ACCOUNTING POLICIES

*Accounting policies implemented effective January 1, 2008*

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 7 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 8 for additional details.

## 3. RESTRICTED CASH

As at June 30, 2008, \$135,248 (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 well as to provide security on certain derivative contracts (note 9) undertaken with the lender.

Previous to the quarter ended June 30, 2008, the Company's subsidiary entered into a capital lease for mining equipment for its Coricancha Mine. A compensating restricted cash balance of \$87,339 (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 *(unaudited)*  
For the Three and Six Months Ended June 30, 2008

### 4. ACCOUNTS RECEIVABLE

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Receivable from sales	\$ 32,584	\$ -
Value added tax receivable	3,883,353	2,758,458
Other receivables	114,185	107,359
Less: allowance for doubtful value added tax receivable	(3,073,466)	-
	<b>\$ 956,656</b>	<b>\$ 2,865,817</b>

Value added tax receivable can be offset against future sales. Due to the temporary suspension of mining operations, there is no assurance that the full balance of value added tax is recoverable. An allowance of \$3,073,466 has been recorded to reflect this uncertainty (Note 17).

### 5. INVENTORY

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

	<b>June 30, 2008</b>	<b>Dec 31, 2007</b>
Consumable parts and supplies	\$ 641,193	\$ 544,570
In process and finished goods inventory	-	1,171,368
Less: current portion	-	(1,715,938)
	<b>\$ 641,193</b>	<b>-</b>

Consumable parts and supplies has been reclassified as a long term asset due to the temporary suspension of mining operations.



# Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements (unaudited)  
For the Three and Six Months Ended June 30, 2008

## 6. MINERAL PROPERTIES, PLANT AND EQUIPMENT

As at June 30, 2008	Cost	Accumulated depreciation and depletion	Write-down	Net book value
Land	\$ 115,624	\$ -	\$ -	\$ 115,624
Plant and equipment (b)	12,181,553	(1,555,029)	(2,497,884)	8,128,640
	<u>\$ 12,297,177</u>	<u>\$ (1,555,029)</u>	<u>\$ (2,497,884)</u>	<u>\$ 8,244,264</u>
Mineral properties and concessions (c)	\$ 28,115,848	\$ (917,980)	\$ (9,598,046)	\$ 17,599,822
Deferred exploration and development costs	9,891,129	(467,054)	-	9,424,075
	<u>\$ 38,006,977</u>	<u>\$ (1,385,034)</u>	<u>\$ (9,598,046)</u>	<u>\$ 27,023,897</u>
<b>Total</b>	<b><u>\$ 50,304,154</u></b>	<b><u>\$ (2,940,063)</u></b>	<b><u>\$ (12,095,930)</u></b>	<b><u>\$ 35,268,161</u></b>

  

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>
<b>Total</b>	<b><u>\$ 39,100,813</u></b>	<b><u>\$ (1,179,535)</u></b>	<b><u>-</u></b>	<b><u>\$ 37,921,278</u></b>

### Coricancha Mine (Peru)

The Company's wholly-owned Coricancha Mine is located on a paved highway approximately 90 km 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 and has since refurbished it and the Company declared commercial production on October 1, 2007.

Coricancha (Peru)	Interest (%)	Dec 31, 2007	Additions	Write-down	Depletion	Translation adjustment (a)	June 30, 2008
Mineral properties and concessions	100	\$ 8,251,248	\$ (10,382)	\$ -	\$ (236,825)	\$ 236,392	\$ 8,240,433
Asset retirement cost (c)	100	10,466,443	9,492,241	(10,605,000)	(294,151)	299,856	9,359,389
Deferred exploration costs	100	9,188,902	262,689	-	(290,771)	263,255	9,424,075
		<u>\$ 27,906,593</u>	<u>\$ 9,744,548</u>	<u>\$ (10,605,000)</u>	<u>\$ (821,747)</u>	<u>\$ 799,503</u>	<u>\$ 27,023,897</u>

- (a) The June 30, 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 17).

## Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements *(unaudited)*  
For the Three and Six Months Ended June 30, 2008

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- (c) The fair value of assets acquired has been adjusted to reflect the fair value assessment of the mine closure costs, known as the Asset Retirement Obligation (note 12). The amount of the liability has been added to the fair value of the mining property acquired, and is adjusted to reflect changes in closure cost estimates. As at June 30, 2008, the closure cost estimates have been adjusted to reflect the effects of the temporary suspension of mine operations (note 12)

For the six months ended June 30, 2008, capitalized interest was \$Nil (Q2, 2007 – \$266,865).

### 7. 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). Specifically, the Company has negotiated a "standstill" agreement with its primary lender that postpones all scheduled payments until October 1, 2008 (see Note 11).

### 8. 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 and restricted cash 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". Derivative financial instruments are classified as "held-for-trading".

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.

#### (a) Market Risk

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

#### (b) Commodity price risk

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

## Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements *(unaudited)*  
For the Three and Six Months Ended June 30, 2008

### (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 11 for details of the Company's loan facilities as at June 30, 2008.

At June 30, 2008, with other variables unchanged, a 10% change in interest rates would impact pre-tax loss by \$38,744.

### (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 June 30, 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	\$ 395,261	\$ 385,395
Restricted cash	218,287	-
Accounts receivable	66,171	2,388,723
Prepaid expenses	25,782	-
Accounts payable and accrued liabilities	(1,896,287)	(4,132,538)
Capital lease obligations	(78,816)	-
Loan payable	(9,487,274)	-
	<b>\$ (10,756,876)</b>	<b>\$ (1,358,420)</b>

At June 30, 2008, with other variables unchanged, a 10% change in the USD/CAD exchange rate would impact pre-tax earnings by \$1,096,879. Likewise, a 10% change in the Nuevo Soles/CAD exchange rate would impact pre-tax earnings by \$46,686.

### (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. The Company manages this risk by requesting advances of up to 95% of the value of the concentrate shipped as per the terms of its off-take agreement. The Company deposits cash and cash equivalents and restricted cash with high credit quality financial institutions, and enters into derivative instruments with a large, well diversified multinational. Credit risk is considered to be minimal. As at June 30, 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 temporary suspension of mining operations, an allowance of \$3,073,466 for value added tax receivable has been recorded (see notes 4 and 17).

# Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements *(unaudited)*  
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## (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 2008 will be through equity financing and future loan facilities. The Company is also reasonably assured to obtain funds through its current insurance claim related to the ground displacement in the tailings area (see note 18). 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 negotiated a "standstill" agreement with its primary lender that postpones all scheduled payments until October 1, 2008 (see Note 11). 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 June 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, and insurance claims, or a combination thereof.

## 9. DERIVATIVE INSTRUMENTS

On May 27, 2008, the Company's derivative instruments were settled for proceeds of \$348,175 (US\$350,523)

## 10. CAPITAL LEASE OBLIGATIONS

	June 30, 2008	Dec 31, 2007
Total capital lease obligations	\$ 80,368	\$ 126,716
Less: current portion of capital lease obligations	80,368	98,582
	-	\$ 28,134

Capital lease obligation relates to passenger vehicles and mining equipment for the Coricancha Mine.

## 11. LOAN PAYABLE

	June 30, 2008	Dec 31, 2007
Revolving loan facility (Tranche A and B)	\$ 4,552,026	\$ 4,727,999
Bridge loan facilities	5,098,500	-
Less: current portion	(9,650,526)	(4,727,999)
	-	-

As at June 30, 2008, \$3,186,562 (US\$3,125,000) (December 31, 2007 US\$3,333,333) was drawn on the revolving loan facility (Tranche A), and \$1,593,281 (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 + 3.5% and 4.5% for Tranche A and B, respectively. Financing costs of \$227,818 previously deferred have been offset against the loan payable and are being amortized on a straight line basis over the available period of the facility. In accordance with the refinancing plan initiated in November 2007, a Loan Supplemental Agreement was signed

## **Gold Hawk Resources Inc.**

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and US\$1,250,000 was redrawn on Tranches A and B (US\$833,333 and US\$416,667 respectively) on February 20, 2008. Further principal repayments were suspended and rescheduled for combined equal monthly principal repayments of US\$937,500 due on May 1, 2008 and monthly thereafter, with the final principal repayment due on October 1, 2008. The lender provided the Company with a waiver letter to defer the May 1, 2008 principal repayment until June 2, 2008. On June 2, 2008, the Company made its US\$937,500 scheduled repayment of its current short-term debt. 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 US\$3 million for working capital and expenditures related to its Coricancha Mine, while the refinancing was in progress. 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.

On March 12, 2008, US\$3 million was drawn on the bridge loan tranche and is 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 US\$2 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 postpones 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 will bear 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, US\$2 million was drawn on the bridge loan tranche and is due no later than October 1, 2008.

Management is currently reviewing several funding options including equity and debt financing and is in active discussions with its primary lenders. It is the Company's intention to replace all of its existing loan facilities with longer term financing prior to the loan becoming due.

### **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 Corporation's Coricancha Mine in Peru. The Company has recorded the following asset retirement obligations:

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	<b>Amount</b>
Balance, December 31, 2007	\$ 11,558,152
Accretion expense	518,436
Cash payments	278,654
Changes in estimates <b>(a)</b>	9,598,046
Effect of translation of foreign currencies	(130,386)
<b>Balance, June 30, 2008</b>	<b>\$ 21,822,902</b>
Less: current portion	10,725,013
	<b>\$ 11,097,889</b>

**(a)** Due to the ground displacement at 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 \$10,706,850 (US\$10,500,000) to enact these measures. A value of \$1,108,804 (US\$1,087,383) previously included in the closure costs for the asset retirement calculation are included in the above estimated mitigation costs of stabilizing the hillside and have been netted against the total figure.

The estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 9.0%. 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 2013 and beyond:

<u>Assumed Mine or Closure Year</u>	<u>Undiscounted cash flows for mine closure</u>
2008 – 2013	\$12,816,884 (US\$12,569,269)
2014 – 2016	\$7,064,643 (US\$6,928,158)
2017 – 2021	\$6,351,669 (US\$6,187,695)
Post 2021	\$1,112,847 (US\$1,084,118) per year

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

### 13. SHARE CAPITAL

#### **(a) Authorized:**

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

## Gold Hawk Resources Inc.

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### (b) Issued:

Changes in the Company's share capital during the six months ended June 30, 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
Transferred to share capital upon exercise of options and warrants	-	436,800
Balance, June 30, 2008	171,122,144	\$ 53,466,531

### (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 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. Under the 2007 Plan stock options granted have a maximum term of five years.

A summary of the Company's stock options outstanding as at June 30, 2008 and the changes for the six months 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
Expired		(35,000)	(35,000)	0.43
Balance, December 31, 2007	7,910,000	370,000	8,280,000	\$ 0.48
Granted	500,000	-	500,000	0.49
Expired		(30,000)	(30,000)	0.52
<b>Balance, June 30, 2008</b>	<b>8,410,000</b>	<b>340,000</b>	<b>8,750,000</b>	<b>\$ 0.48</b>

The following table summarizes information about common share purchase options outstanding, granted to officers, directors, employees and a consultant of the Company as at June 30, 2008:

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Number of stock options outstanding	Number of stock options exercisable	Option Exercise price (\$)	Expiry date (Month-Yr)
75,000	75,000	0.25	July-08
1,230,000	1,230,000	0.40	November-08
175,000	175,000	0.30	May-09
200,000	200,000	0.15	August-10
925,000	925,000	0.48	April-11
500,000	500,000	0.43	April-11
250,000	250,000	0.38	June-11
1,000,000	666,667	0.35	July-11
350,000	233,334	0.39	August-11
135,000	111,667	0.43	November-11
160,000	120,000	0.52	December-11
200,000	133,333	0.54	March-12
1,055,000	1,055,000	0.69	June-12
530,000	176,667	0.64	July-12
150,000	50,000	0.60	August-12
315,000	105,000	0.52	October-12
1,000,000	1,000,000	0.53	October-12
500,000	166,666	0.49	February-13
<b>8,750,000</b>	<b>7,173,334</b>		
<b>0.48</b>	<b>0.47</b>	<b>Weighted average exercise price</b>	

### (d) Stock Based Compensation

During the six months ended June 30, 2008, the Company granted 500,000 stock options to an officer of the Company with an exercise price of \$0.49 per share valid for 5 years. An amount of \$75,837 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:

	June 30, 2008	Dec 31, 2007
Assumptions:		
Risk-free interest rate (%)	3.42	4.42
Expected life (years)	5.0	5.0
Expected volatility (%)	75	77
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted <i>(per option)</i>	\$0.49	\$0.45



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### (e) Share Purchase Warrants

The Company's warrants outstanding at June 30, 2008 and the change for the six months 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 lender on financing	3,400,000	0.21
Exercised and converted to Common shares	(2,080,000)	0.25
Balance, June 30, 2008	6,008,499	\$ 0.36

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 11) 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 11), the exercise price of the warrants was adjusted to \$0.2098, resulting in an adjusted 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 11) 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%.

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 June 30, 2008 are as follows:

Number of warrants	Exercise price	Expiry date
500,000	0.45	Sep 8, 2008
600,000	0.50	Sep 14, 2008
1,400,000	0.21	Mar 12, 2009
2,000,000	0.20	Jun 6, 2009
1,508,499	0.60	Aug 15, 2009
<b>6,008,499</b>	<b>\$ 0.35</b>	

## Gold Hawk Resources Inc.

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### 14. GENERAL AND ADMINISTRATION EXPENSES

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Capital tax	\$ 237,073	\$ 31,711	\$ 261,787	\$ 31,711
Filing costs and shareholders' information	60,694	64,785	92,057	83,711
Insurance	10,102	37,395	19,993	75,219
Meals and entertainment	6,963	4,535	12,165	6,785
Miscellaneous	20,390	8,914	66,572	15,596
Office expenses	31,669	11,285	49,857	40,027
Professional and consulting fees	341,828	63,052	439,982	147,314
Rent	24,411	30,619	47,487	49,173
Salaries and benefits	501,328	233,313	911,270	453,431
Security	-	67,226	-	124,814
Telecommunications	24,305	5,798	42,634	10,984
Travel	94,739	56,806	165,994	152,004
	<b>\$ 1,353,502</b>	<b>\$ 615,439</b>	<b>\$ 2,109,798</b>	<b>\$ 1,190,769</b>

Security expenses primarily consist of contracted non-employee security workers at the Coricancha Mine and processing plant sites. At commencement of commercial operations (October 1, 2007), these costs, which had previously been considered general and administrative expenses, were classified as costs of sales.

### 15. RELATED PARTY TRANSACTIONS

There were no related party transactions in the six months ended June 30, 2008 and 2007.

### 16. COMMITMENTS

#### (a) Lease Commitments

The Company has commitments under various office, vehicle and equipment lease agreements, with minimum future payments as follows:

	Amount
2008	\$ 87,650
2009	98,041
2010	19,005
2011	-
<b>Total</b>	<b>\$ 204,696</b>

#### Other

The Company has signed a ten year electricity contract for power supply to its Coricancha Mine and a two-year term gold-stripping contract. The electricity contract calls for a minimum payment obligation of US\$35,000 per year.

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

## Gold Hawk Resources Inc.

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### 17. EXTRAORDINARY LOSS

On May 9, the Company temporarily suspended operations at its Coricancha Mine in Peru due to unexpected ground displacement in and around its tailings area caused by the saturation irrigation of the Tamboraque hillside. Mitigation work has commenced to stabilize the hillside and reduce 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:

	<b>Amount</b>
Value added tax receivable <b>(b)</b>	\$ 3,073,466
Property, plant and equipment	
Tailings extension <b>(c)</b>	398,694
Plant <b>(d)</b>	2,497,884
Asset retirement obligation (Coricancha processing plant and tailings)	
Tailings area mitigation <b>(e)</b>	7,137,900
Processing plant mitigation <b>(e)</b>	3,568,950
Effect of translation of foreign currencies	(134,879)
<b>Extraordinary loss</b>	<b>\$ 16,542,015</b>

- (a)** The company intends to claim all expenses incurred due to the ground displacement caused by a third-party irrigation system. All funds received from the insurance claim will be offset against the losses resulting from these write-downs (see Note 18).
- (b)** Value added tax receivable can be offset against future sales. Due to the temporary suspension of mining operations and the resulting uncertainty of future sales, there is no assurance that the full value can be recovered (Note 4).
- (c)** Use of the planned southern extension to the current tailings facility will no longer occur due to the risks related to the ground displacement in the area. All related capitalized construction costs have been written off.
- (d)** Due to the ground displacement of the tailings area and the related risks it poses to the processing plant located downhill, mitigation efforts may require the dismantling of all or part of the processing plant thus reducing its current value (Note 6).
- (e)** The Company recorded a current liability to account for the estimated mitigation costs related to ground displacement in the tailings area (Note 12(a)). The Company intends to offset these costs using future insurance funds received from the Company's current insurance claim (Note 18).

The third-party irrigation system responsible for the ground displacement 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.

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### **18. SUBSEQUENT EVENTS**

#### **(a) Private Placement**

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 will use the net proceeds of the private placement to finance expenditures related to its Coricancha mine, including moving tailings to the long-term Chinchán facility, and for general corporate purposes.

#### **(b) Emergency Decree**

On July 18, the Company received notice that a “Decreto Supremo” Emergency Decree was issued by the Presidential Council of Ministers of Peru. The Emergency Decree declares a State of Emergency in the District of San Mateo, specifically the Tamboraque hillside near the Company’s Coricancha processing plant and tailings area, and calls for the relocation of these facilities. It also states that the ground instability was caused by a third party irrigation system on the Tamboraque hillside.

#### **(c) Stock Option Grant**

In August, the Company granted stock options to directors, officers and employees of the Company to purchase 3,085,000 and 160,000 common shares in the capital stock of the Company exercisable for a period of five years at a price of \$0.065 per share and \$0.08 per share respectively. Employee and officer 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. Director share options fully vest on the date of grant.

#### **(d) US\$2.0 Million Advance on Insurance Claim**

On August 13, the Company received a US\$2.0 million advance on its insurance claim. The claim is associated with business interruption and property insurance on assets affected by the ground displacement near its Coricancha facilities 90 kms east of Lima, Peru.

The US\$2.0 million advance on the Company’s claim is part of total coverage of US\$14.5 million included in the insurance policy. The company intends to claim all expenses incurred due to the ground displacement caused by a third-party irrigation system, which led to Gold Hawk’s decision to temporarily cease production in May 2008.

Gold Hawk expects to receive additional advances following the insurance company’s evaluation and as the Company submits relocation and mitigation cost estimates. All insurance advances received will be offset against the write-down of assets affected by the unexpected ground displacement.