

# **Consolidated Financial Statements of**



**Gold Hawk Resources Inc.**

**December 31, 2009 and 2008**

# Gold Hawk Resources Inc.

December 31, 2009 and 2008

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## 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, 2009 and 2008 and the consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity (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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
April 29, 2010

# Gold Hawk Resources Inc.

## Consolidated statements of income (loss) and comprehensive income (loss) years ended December 31, 2009 and 2008

(In Canadian dollars)

	2009	2008
	\$	\$
<b>Revenue</b>		
Sales	-	5,993,331
Operating costs		
Cost of sales	-	7,408,676
Depreciation and depletion	-	1,606,144
Accretion of asset retirement obligation (Note 12)	2,866,200	1,043,361
Loss before the undernoted	(2,866,200)	(4,064,850)
Care and maintenance expenses	1,838,040	3,053,682
Depreciation	1,500,012	904,246
General and administration expenses (Note 14)	3,196,986	4,100,740
Allowance for value-added tax (Note 6)	-	3,044,229
Stock-based compensation cost (Note 13 (d))	301,576	376,890
General exploration expenses	780	29,012
Loss from operations	(9,703,594)	(15,573,649)
Other expenses (income)		
Foreign exchange loss (gain)	2,958,880	(3,631,429)
Interest and financing charges (Note 20)	3,818,837	2,044,681
Gain on derivative instruments	-	(22,088)
Gain on marketable securities	(530,609)	-
Gain on dilution (Note 4)	(26,204,158)	-
Income (loss) before extraordinary loss	10,253,456	(13,964,813)
Extraordinary loss (Note 19)	-	(15,416,010)
<b>Net income (loss) for the year</b>	<b>10,253,456</b>	<b>(29,380,823)</b>
Other comprehensive income		
Foreign currency translation adjustment	-	(2,420,298)
<b>Comprehensive income (loss)</b>	<b>10,253,456</b>	<b>(31,801,121)</b>
Basic and diluted income (loss) per share		
Before extraordinary gains and losses	0.87	(1.78)
For extraordinary gains and losses	0.00	(1.96)
For the period	0.87	(3.74)
Weighted average number of shares outstanding	11,747,213	7,848,699

# Gold Hawk Resources Inc.

## Consolidated balance sheets as at December 31, 2009 and 2008

(In Canadian dollars)

	2009	2008
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	13,485,010	85,718
Restricted cash	-	57,897
Investments (Note 5)	1,865,909	-
Accounts receivable (Note 6)	22,945	1,190,959
Inventory (Note 7)	-	672,901
Prepaid expenses	35,612	91,096
	<b>15,409,476</b>	<b>2,098,571</b>
Mineral properties, plant and equipment (Note 8)	<b>26,919</b>	<b>41,631,185</b>
	<b>15,436,395</b>	<b>43,729,756</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	523,737	4,186,422
Current portion of capital lease obligation	-	36,412
Loan payable (Note 11)	-	11,799,375
Current portion of asset retirement obligation (Note 12)	-	7,577,929
	<b>523,737</b>	<b>23,600,138</b>
Asset retirement obligation (Note 12)	-	21,497,915
	<b>523,737</b>	<b>45,098,053</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (Note 13)	60,293,449	56,766,531
Warrants	2,354,181	760,212
Contributed surplus	3,704,015	2,642,227
Accumulated other comprehensive income	-	(1,512,416)
Deficit	<b>(51,438,987)</b>	<b>(60,024,851)</b>
	<b>14,912,658</b>	<b>(1,368,297)</b>
	<b>15,436,395</b>	<b>43,729,756</b>

Continuing operations (Note 1)

Guarantees, contingencies and commitments (Note 18)

Approved by the Directors

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Kevin Drover, Director

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Gordon Bub, Director

# Gold Hawk Resources Inc.

## Consolidated statement of shareholders' equity (deficiency)

years ended December 31, 2009 and 2008

(In Canadian dollars)

	Share capital		Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
	Shares	Amount					
		\$	\$	\$	\$	\$	\$
<b>At January 1, 2008</b>	6,761,264	52,509,731	898,330	2,075,337	907,882	(30,183,238)	<b>26,208,042</b>
Private placement	2,200,000	3,300,000	173,149	-	-	-	<b>3,473,149</b>
Share issue costs	-	-	-	-	-	(460,790)	<b>(460,790)</b>
Shares issued upon exercise of warrants	83,200	956,800	(436,800)	-	-	-	<b>520,000</b>
Warrants issued as a financing fee	-	-	315,533	-	-	-	<b>315,533</b>
Expired warrants	-	-	(190,000)	190,000	-	-	<b>-</b>
Stock-based compensation	-	-	-	376,890	-	-	<b>376,890</b>
Foreign exchange translation adjustment	-	-	-	-	(2,420,298)	-	<b>(2,420,298)</b>
Net loss for the year	-	-	-	-	-	(29,380,823)	<b>(29,380,823)</b>
At December 31, 2008	9,044,464	56,766,531	760,212	2,642,227	(1,512,416)	(60,024,851)	<b>(1,368,297)</b>
Private placement	3,180,192	2,475,240	1,629,785	-	-	-	<b>4,105,025</b>
Share issue costs	-	-	-	-	-	(1,667,592)	<b>(1,667,592)</b>
Shares issued as payment of current liabilities	132,911	262,500	-	-	-	-	<b>262,500</b>
Shares issued to extinguish debt	340,000	425,000	-	-	-	-	<b>425,000</b>
Shares issued for debt restructuring	319,403	364,178	-	-	-	-	<b>364,178</b>
Warrants issued as a financing fee	-	-	724,396	-	-	-	<b>724,396</b>
Expired warrants	-	-	(760,212)	760,212	-	-	<b>-</b>
Stock-based compensation	-	-	-	301,576	-	-	<b>301,576</b>
Foreign exchange translation adjustment	-	-	-	-	3,843,675	-	<b>3,843,675</b>
Recognition of cumulative translation adjustment on dilution of investee (Note 4)	-	-	-	-	(2,331,259)	-	<b>(2,331,259)</b>
Net income for the year	-	-	-	-	-	10,253,456	<b>10,253,456</b>
<b>At December 31, 2009</b>	<b>13,016,970</b>	<b>60,293,449</b>	<b>2,354,181</b>	<b>3,704,015</b>	<b>-</b>	<b>(51,438,987)</b>	<b>14,912,658</b>

# Gold Hawk Resources Inc.

## Consolidated statements of cash flows years ended December 31, 2009 and 2008

(In Canadian dollars)

	2009	2008
	\$	\$
<b>Operating activities</b>		
Net income (loss) before extraordinary items	10,253,456	(13,964,813)
Asset retirement expenditures included in the extraordinary loss, net of insurance proceeds	-	444,553
Other asset retirement expenditures	(139,150)	(187,471)
Items not affecting cash		
Accretion expense on asset retirement obligation	2,866,201	1,043,361
Depreciation and depletion	1,516,970	2,525,641
Financing costs	3,380,574	552,629
Unrealized gain on investments	(530,609)	-
Gain on derivative instruments	-	(22,088)
Stock-based compensation cost	301,576	376,890
Foreign exchange loss (gain)	2,861,564	(3,747,025)
Gain on dilution of investee (Note 4)	(26,204,158)	-
Allowance for unrecoverable value-added tax	-	3,044,229
	<b>(5,693,576)</b>	<b>(9,934,094)</b>
Net changes in non-cash components of working capital (Note 15)	<b>(320,299)</b>	874,490
	<b>(6,013,875)</b>	<b>(9,059,604)</b>
<b>Financing activities</b>		
Capital lease obligation	(37,198)	(104,405)
Proceeds received on return of capital relating to investee (Note 4)	15,778,500	-
Reduction in cash due to de-consolidation of investee (Note 4)	(839,530)	-
Exercise of warrants and stock options	-	520,000
Issuance of share capital	2,475,240	3,300,000
Loan proceeds	3,803,318	4,712,325
Share issue expenses	(37,809)	(37,641)
	<b>21,142,521</b>	<b>8,390,279</b>
<b>Investing activities</b>		
Additions to plant and equipment	(398,496)	(1,906,464)
Deferred exploration and development expenditures	(26,965)	(264,914)
Additions to marketable securities	(1,335,300)	-
Proceeds on disposition of derivative instruments	-	361,315
Release of restricted cash required on investing activities	57,897	86,899
	<b>(1,702,864)</b>	<b>(1,723,164)</b>
Effect of exchange rate changes on cash and cash equivalents	<b>(26,490)</b>	215,312
Net change in cash and cash equivalents	<b>13,399,292</b>	<b>(2,177,177)</b>
Cash and cash equivalents, beginning of year	<b>85,718</b>	<b>2,262,895</b>
<b>Cash and cash equivalents, end of year</b>	<b>13,485,010</b>	<b>85,718</b>
<b>Supplemental cash flow information</b>		
Interest paid	1,925,196	677,233
Income taxes paid	-	-
Non-cash investing and financing activities (Note 22)		

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 1. Continuing operations

Gold Hawk Resources Inc. ("Gold Hawk" or the "Company") is a former precious and base metals producer whose principal assets include marketable securities and a 15% interest in a private Peruvian mining operation.

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. During 2009, the Company recorded a gain on dilution of approximately \$26.2 million as a result of the disposal of an 85% interest in its Peruvian mining property (Note 4), and at December 31, 2009, has a cash balance of \$13,485,010 and working capital of \$14.9 million. The Company is reviewing potential investment opportunities and ultimately continuation of the entity as a going concern is dependent on the Company making strategic investments and achieving profitable operations.

### 2. Summary of significant accounting policies

#### (a) Basis of consolidation

The consolidated financial statements as at December 31, 2009 include the accounts of Gold Hawk and its wholly-owned subsidiary, Minas San Juan Ltd. (incorporated in the Commonwealth of the Bahamas). All significant intercompany transactions and balances have been eliminated. On November 12, 2009, the Company ceased to control Compañía Minera San Juan (Peru) S.A. ("CMSJ") as a result of the dilution of its controlling interest by a third party (Note 4). The Company's remaining interest in CMSJ at December 31, 2009 is 15%.

#### (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, guarantees and contingencies, future income taxes, stock based compensation, depletion and amortization and the related useful lives of property plant and equipment, and the recoverability of mineral properties, 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.

#### (e) Investments

Long-term investments for which the Company does not exert significant influence are designated as available-for-sale and recorded at fair value when the fair value can be reasonably measured.



# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 2. Summary of significant accounting policies (continued)

(f) *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. The office equipment is being depreciated over its estimated life which ranges from four to five years. Any gains or losses on disposition of plant and equipment are reflected in the statements of income (loss). Assets acquired under capital leases are 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.

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 are amortized over the estimated useful life of mining properties using a unit-of-production method 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 income (loss) and comprehensive income (loss).

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 recorded in the consolidated statements of income (loss) and comprehensive income (loss).

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 2. Summary of significant accounting policies (continued)

#### (g) *Foreign currency translation*

Prior to the dilution in the Company's investment in CMSJ on November 12, 2009, the accounts of the Company's self-sustaining foreign subsidiary, CMSJ, which considers the U.S. dollar as its functional currency, were 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 were recorded in accumulated other comprehensive income as a foreign currency translation adjustment until the time they were realized by the reduction in the investment.

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Account balances denominated in foreign currencies are translated as follows:

- Monetary assets and liabilities are translated at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates.
- Exchange gains and losses are included in income.

#### (h) *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.

#### (i) *Financial instruments*

The Company has determined the 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 and restricted cash are designated as held-for-trading and are measured at fair value. Accounts receivable are designated as loans and receivables. Accounts payable are designated as other financial liabilities. Long-term investments not subject to significant influence are designated as available-for-sale and recorded at fair value with unrealized gains and losses recognized in other comprehensive income when the fair value can be reliably measured. Investments in marketable securities are classified as held-for-trading with gains and losses recognized in net income. Financial instruments are measured at fair value on initial recognition and measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 2. Summary of significant accounting policies (continued)

(j) *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.

(k) *Earnings (loss) per share*

Earnings (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, such as warrants issued.

On December 17, 2009, the Company effected a 1:25 share consolidation of the issued and outstanding common stock. As a result, all basic and diluted earnings per share computations have been adjusted retroactively.

As at December 31, 2009, all potentially dilutive shares were excluded from the computation of earnings per share because to include them would have been anti-dilutive.

(l) *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 the 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.

(m) *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.

(n) *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.

(o) *Share issue costs*

Costs directly attributable to the raising of share capital are charged to deficit in the period incurred.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 2. Summary of significant accounting policies (continued)

(p) *Asset retirement obligations*

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

(q) *Accounting policy changes*

On January 1, 2009, in accordance with transitional provisions, the Company adopted the new recommendations for the Canadian Institute of Chartered Accountants ("CICA") Section 3064, *Goodwill and Intangible Assets*. The new recommendations provide guidance on the recognition and measurement criteria of goodwill and intangible assets. The adoption of the new recommendations did not have a material impact on the Company's consolidated financial statements.

In August 2009, the CICA issued amendments to Section 3855, *Financial Instruments - Recognition and Measurement*. The amendments include guidance on reclassifying financial assets, the inclusion of certain debt instruments without quoted prices in an active market in the definition of loans and receivables, and the reversal of impairment losses relating to available-for-sale debt instruments under certain circumstances. The adoption of the amendments did not have a material impact on the Company's consolidated financial statements.

In June 2009, the CICA issued amendments to Section 3862, *Financial Instruments - Disclosures*. The new recommendations require financial instruments to be classified according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The adoption of the amendments resulted in additional disclosures included in Note 10.

In January 2009, the CICA issued Emerging Issues Committee ("EIC") 173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*, which provides guidance on the consideration of the entity's own credit risk and the credit risk of the counterparty in the determination of the fair value of financial assets and financial liabilities for presentation and disclosure purposes. The adoption of EIC-173 did not have a material impact on the Company's consolidated financial statements.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 2. Summary of significant accounting policies (continued)

(q) *Accounting policy changes (continued)*

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*, which provides guidance for mining exploration enterprises on the accounting for exploration costs and the determination of when an impairment test is required. The adoption of EIC-174 did not have a material impact on the Company's consolidated financial statements.

### 3. Future accounting changes

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, 2010. 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 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. 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.

(b) *EIC-175, Multiple Deliverable Revenue Arrangements*

In December 2009, the CICA issued EIC-175 which addresses the determination of whether a multiple deliverable arrangement contains more than one unit of accounting and how the consideration should be measured and allocated to the separate units of accounting. The Company does not expect the adoption of EIC-175 to have a material impact on the Company's consolidated financial statements.

(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.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 4. Disposition of controlling interest in mining operations

On November 12, 2009, the Company completed an arrangement whereby CMSJ, previously a 100% owned subsidiary of the Company, issued 43,210,500 shares to a third party. As a result of the share issue, the Company's interest declined to 15% and control over operations ceased. The Company recorded a gain on dilution of \$26,204,158 calculated as follows:

	\$
Net deficiency in book value of the Company's investment in CMSJ	
on date of dilution (including cumulative translation adjustment)	10,425,658
Cash received by way of return of capital	15,778,500
<u>Gain on dilution of investee</u>	<u>26,204,158</u>

Following the transaction, the Company neither controls nor exercises significant influence over CMSJ. The subsidiary was in a net deficiency position on the date of the transaction and as a result, upon cessation of consolidation, the investment is carried at a value of \$Nil. The investment, which is classified as available-for-sale, does not have a quoted market price in an active market and therefore is accounted for using the cost basis of accounting.

Details of the results of operations of CMSJ included in the consolidated statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
	\$	\$
Sales revenue	-	5,993,331
<u>Operating costs</u>	<u>(2,866,200)</u>	<u>(10,035,353)</u>
Loss before the undernoted	(2,866,200)	(4,042,022)
Care and maintenance	1,838,040	3,053,682
Depreciation	1,500,012	904,246
General and administration	867,150	1,359,269
Allowance for value added tax	-	3,044,229
<u>Interest and financing charges</u>	<u>2,393,641</u>	<u>1,762,175</u>
Loss before extraordinary item	(9,465,043)	(14,165,623)
<u>Extraordinary loss</u>	<u>-</u>	<u>(15,416,010)</u>
<u>Net loss for the year</u>	<u>(9,465,043)</u>	<u>(29,581,633)</u>

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 5. Investments

Investments consist of the following:

	2009	2008
	\$	\$
Shares classified as held-for-trading	1,548,948	-
Warrants classified as held-for-trading	316,961	-
	<b>1,865,909</b>	-

The Company's 15% investment in CMSJ is classified as available-for-sale and has a carrying value of \$Nil at December 31, 2009. It is recorded at cost as the fair value is not readily determinable.

Based on the purchase of the 85% interest as described in Note 4, management estimates the value of its retained 15% interest in CMSJ as not less than \$2.8 million.

### 6. Accounts receivable

Accounts receivable consist of:

	2009	2008
	\$	\$
Value added tax receivable	14,845	4,808,295
Other receivables	8,100	53,824
Less: Allowance for doubtful value added tax receivable	-	(3,671,160)
	<b>22,945</b>	1,190,959

Due to the ground displacement at the Company's former Peruvian mine and the resulting temporary suspension of mine operations which occurred in 2008, 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) was recorded in 2008 to reflect this uncertainty.

As of November 12, 2009, the Company no longer has a controlling interest in CMSJ (Note 4) and as a result, the balance of value added tax receivable and the related allowance relating to CMSJ are not included in the Company's consolidated balance sheet at December 31, 2009.

### 7. Inventories

Inventories at December 31, 2008 consist of consumable parts and supplies and were valued at the lower of cost and net realizable value. At December 31, 2009, the balance of inventories is \$Nil (2008 - \$672,901).

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 8. Mineral properties, plant and equipment

	December 31, 2009			
	Cost	Accumulated depreciation and depletion	Write-down	Net book value
	\$	\$	\$	\$
Office equipment	69,119	42,200	-	26,919
	December 31, 2008			
	Cost	Accumulated depreciation and depletion	Write-down	Net book value
	\$	\$	\$	\$
Land	138,109	-	-	138,109
Plant and equipment	14,734,287	2,737,589	2,983,644	9,013,054
	14,872,396	2,737,589	2,983,644	9,151,163
Mineral properties and concessions	35,934,718	1,089,990	13,524,616	21,320,112
Deferred exploration and development costs	11,721,939	562,029	-	11,159,910
	47,656,657	1,652,019	13,524,616	32,480,022
	62,529,053	4,389,608	16,508,260	41,631,185

### 9. Capital management

Management considers the capital of the Company to consist of the items included in shareholders' equity and short-term credit facilities. 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 expansion 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.



# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 10. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents, restricted cash, marketable securities, long-term investments, accounts receivable, and accounts payable and accrued liabilities. The Company has exposure to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors is responsible for the establishment and oversight of the Company's risk management policies and reviews the policies on an ongoing basis.

(a) *Interest rate risk*

At December 31, 2009, the Company has no short or long-term debt and is therefore not subject to significant interest rate risk on its liabilities. The Company does have cash and cash equivalents of \$13,485,100 and is subject to interest rate risk relating to its return from funds on deposit. The Company does not enter into derivative contracts to manage risks associated with interest rate movements.

(b) *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 has a 15% interest in CMSJ for which a portion of its revenues and expenses are incurred in U.S. dollars and/or Peruvian 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, 2009, the Company is exposed to currency risk through the following assets and liabilities denominated in U.S. dollars:

	US\$
Cash and cash equivalents	7,575,591
Prepaid expenses	7,000
Accounts payable and accrued liabilities	(8,955)
	<u>7,573,636</u>

At December 31, 2009, with other variables unchanged, a 10% change in the U.S. dollar/Canadian dollar exchange rate would impact pre-tax earnings by \$796,670.

(c) *Credit risk*

The Company is exposed to credit risk through its cash and cash equivalents and value added tax. The Company deposits cash and cash equivalents with high credit quality financial institutions. Credit risk is considered to be minimal. As at December 31, 2009, the Company's maximum exposure to credit risk is the balance of cash and accounts receivable.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 10. Financial instruments and risk management (continued)

(d) *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 2010 will be its interest or other returns on its cash and investment balances, equity financing and future loan and credit facilities.

As at December 31, 2009, the Company's liabilities consist of accounts payable and accrued liabilities that have contractual maturities of less than one year.

(e) *Fair value*

The carrying value of accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. Investments that are classified as held-for-trading are recorded at fair value based on quoted market prices at the balance sheet date.

During 2009, the CICA issued amendments to Section 3862, *Financial Instruments - Disclosures*. The new recommendations require financial instruments to be classified according to the fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy are as follows:

	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Marketable securities - shares	1,548,948	1,548,948	-	-
Marketable securities - warrants	316,961	-	316,961	-
<b>Total</b>	<b>1,865,909</b>	<b>1,548,948</b>	<b>316,961</b>	<b>-</b>

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 11. Loan payable

	2009	2008
	\$	\$
Revolving loan facility (Tranche A and B)	-	5,709,375
Bridge loan facilities	-	6,090,000
Less: Current portion	-	(11,799,375)
Long-term portion	-	-

As at December 31, 2008, \$3,806,250 (US\$3,125,000) was drawn on the revolving loan facility ("Tranche A"), and \$1,903,125 (US\$1,562,500) was drawn on the non-revolving loan facility ("Tranche B"). The facilities incurred interest at LIBOR plus 5.5% and 6.5% for Tranche A and B, respectively. The loans were repayable 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 incurred interest at a rate of 13% per annum. The funds were 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. 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, with the loan bearing interest at a rate of 13% per annum. The funds were 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.

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 the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 11. Loan payable (continued)

On February 13, 2009, the Company signed a credit agreement 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. This bridge loan was due on February 13, 2010, bore interest at 12% per annum and was secured by a first charge over all the assets of the Company. In addition, the Company issued to the lender warrants to purchase 20 million Gold Hawk shares at an exercise price of \$1.25 per share for the first year and \$2.50 per share for the second year with an expiry date of May 8, 2011 and paid an upfront cash fee of \$1,010,000. The fee and warrants were recorded as financing expenses and were being amortized over the term of the loan. The Company also granted the lender a net sales royalty of 2.5% on revenues to be earned from the Coricancha Mine. The Company has a one time option to buy 1% of the 2.5% royalty for US\$1,000,000, 18 months from the closing date. The lender has a one time option to sell 1% of the 2.5% royalty back to the Company for \$800,000, 21 months from the closing date. The Company also agreed to indemnify the lender for any claims arising as a result of the extension of credit or in connection with any transaction financed with the proceeds and in connection with the breach of any environmental law by the Company or CMSJ. This guarantee was assigned to the purchaser as a result of the disposal of an 85% interest in CMSJ as described in Note 4 and the Company was released.

On December 10, 2009, the Company signed a US\$12.5 million indicative term sheet for a standby credit facility provided by Renvest Mercantile Bancorp Inc. The proceeds from any drawdown of the credit facility will be used to finance the acquisition of mining assets or a strategic merger with a resource company. The correspondent loan agreement has not been signed and completion of this credit facility is subject to approval of the lender.

### 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 Coricancha Mine in Peru. Details of the asset retirement obligation are as follows:

	2009	2008
	\$	\$
Opening balance	29,075,844	11,558,152
Accretion expense	2,866,200	1,043,361
Payments	475,195	(1,827,181)
Changes in estimates (i)	-	13,905,424
Effect of translation of foreign currencies	(4,646,242)	4,396,088
Adjustment on deconsolidation of investee	(27,770,997)	-
Ending balance	-	29,075,844
Current portion	-	(7,577,929)
Long-term portion	-	21,497,915

- (i) 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.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 12. Asset retirement obligation (continued)

The estimated future cash flows up to the date of deconsolidation of the Coricancha Mine (Note 4) have been discounted using a credit-adjusted risk-free rate of 12.0%. As the liability was 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, were expected to be paid in various stages over the life of the mine through 2014 and beyond:

Period	Undiscounted cash flows for mine closure
2010 - 2014	\$24,294,422 (US\$23,097,949)
2015 - 2016	\$7,784,319 (US\$7,400,950)
2017 - 2032	\$12,135,471 (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 five years, and an estimated conversion of 33% of measured, indicated and inferred resources into proven and probable reserves over five years.

### 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

On December 17, 2009, the Company effected a 1:25 share consolidation of the issued and outstanding common stock. Of this amount, 349,933 pre-consolidation issued and outstanding shares were consolidated at a different rate due to previous share consolidations. Following the share consolidation, the issued and outstanding share capital decreased from 325,424,250 shares of common stock to 13,016,970 shares of common stock. All share amounts have been retroactively adjusted for all periods presented.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 13. Share capital (continued)

#### (b) Issued (continued)

Changes in the Company's share capital during the year ended December 31, 2009 were as follows:

	Number of shares	Amount \$
Balance, January 1, 2008	6,761,264	52,509,731
For cash received from the exercise of stock options	-	-
For cash received from the exercise of warrants	83,200	520,000
For cash received from private placements	2,200,000	3,300,000
Transferred to share capital upon exercise of options and warrants	-	436,800
Balance, December 31, 2008	9,044,464	56,766,531
For debt restructuring (Note 11)	319,403	364,178
For cash received from private placements	3,180,192	2,475,240
To settle current liabilities	132,911	262,500
To extinguish debt (Note 11)	340,000	425,000
Balance, December 31, 2009	13,016,970	60,293,449

On January 7, 2009, the Company issued 132,911 shares as compensation for an amount outstanding to a third party. As a result of this issuance, \$262,500 was transferred from current liabilities to share capital.

On March 5, 2009, the Company completed a non-brokered private placement of 2,000,000 units at a price of \$0.50 per unit for aggregate proceeds of \$1,000,000. Each unit is comprised of one common share and one 12-month share purchase warrant exercisable at a price of \$1.25 per share (see section (e) of this note). Fees associated with the closing of the private placement include \$5,250 in finder's fees and \$10,479 in other legal and regulatory expenses.

On May 8, 2009, the Company issued 319,403 shares and 800,000 two-year common share purchase warrants exercisable at a price of \$1.25 per share for the first year and \$2.50 per share for the second year, in connection with the restructured loan facility as described in Note 11.

On June 3, 2009, the Company completed a non-brokered private placement of 1,002,000 units at a price of \$1.25 per unit for aggregate proceeds of \$1,252,500. Each unit is comprised of one common share and one 12-month share purchase warrant exercisable at a price of \$1.75 per share (see section (e) of this note). Fees associated with the closing of the private placement include \$11,000 in finder's fees and \$6,591 in other legal and regulatory expenses.

On October 9, 2009, the Company issued 340,000 shares at deemed price of \$1.25 per share to extinguish a debt of \$425,000.

On October 19, 2009, the Company issued 178,192 shares at a price of \$1.25 per share for aggregate proceeds of \$222,740.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 13. Share capital (continued)

#### (c) Stock option plan

During 2009, 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 includes an increase in the maximum number of shares reserved for issuance under the plan to 800,000 (7.0% of the issued and outstanding common shares of the Company), including a transfer of 298,400 unexercised options previously granted.

Pursuant to the terms of the Company's stock option plan the Board of Directors may, from time to time, grant options to directors, officers, employees or consultants. Options may be exercisable over periods of up to five years as determined by the Board of Directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date. 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.

A summary of the Company's stock options outstanding as at December 31, 2009 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 1, 2008	316,400	14,800	331,200	12.00
Granted	119,000	30,800	149,800	3.00
Forfeited	(11,333)	(800)	(12,133)	12.50
Expired	(142,867)	(400)	(143,267)	11.25
Balance, December 31, 2008	281,200	44,400	325,600	8.00
Granted	208,000	49,600	257,600	2.50
Forfeited	-	(16,600)	(16,600)	6.31
Expired	(27,000)	(23,200)	(50,200)	7.81
<b>Balance, December 31, 2009</b>	<b>462,200</b>	<b>54,200</b>	<b>516,400</b>	<b>5.47</b>

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 13. Share capital (continued)

#### (c) Stock option plan (continued)

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, 2009:

Number of stock options outstanding	Number of stock options exercisable	Option exercise price \$	Expiry date
4,000	4,000	3.75	August 2010
27,000	27,000	12.00	April 2011
20,000	20,000	10.75	April 2011
40,000	40,000	8.75	July 2011
400	400	10.63	November 2011
8,000	8,000	13.50	March 2012
25,200	25,200	17.25	June 2012
20,000	20,000	16.00	July 2012
2,600	2,600	13.00	October 2012
20,000	13,333	12.25	February 2013
107,000	75,333	1.63	August 2013
4,000	4,000	2.00	August 2013
238,200	187,400	2.50	April 2014
516,400	427,266		
5.47	6.01	Weighted average exercise price	

#### (d) Stock-based compensation

During the year ended December 31, 2009, the Company granted 257,600 (2008 - 149,800) stock options to directors, officers and employees. An amount of \$301,576 (2008 - \$376,890) was charged as an expense in recognition of stock-based compensation, based on the vesting schedule for the options granted.



# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 13. Share capital (continued)

#### (d) Stock-based compensation (continued)

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:

	2009	2008
Number of options granted	257,600	149,800
Weighted average		
Risk-free interest rate (%)	1.20%	3.14%
Expected life (years)	2.8	3.3
Expected volatility (%)	236%	108%
Expected dividend (%)	-%	-%
Results		
Weighted average fair value (per option)	\$0.918	\$1.975

#### (e) Share purchase warrants

The Company's warrants outstanding, which have been adjusted for the effects of the reverse stock-split at December 31, 2009, and the change for the year then ended are as follows:

	Number of warrants	Average price of warrants
		\$
Balance, January 1, 2008	187,540	10.50
Issued to agents on non-brokered financing	98,942	1.50
Issued to agents on debt financing	136,000	5.25
Exercised and converted to common shares	(83,200)	6.25
Expired	(44,000)	12.00
Balance, December 31, 2008	295,282	6.04
Issued to private placement placees	3,002,000	1.42
Issued to lenders	800,000	1.25
Expired	(295,282)	5.92
Balance, December 31, 2009	3,802,000	1.39

On March 5, 2009, the Company issued 2,000,000 warrants exercisable at a price of \$1.25 per share exercisable for a period of one year. The warrants were issued in connection with the private placement described in section (b) of this note and had a fair value at the date of grant of \$0.24 per warrant. The Company determined the fair value of the warrants based upon a Black-Scholes model using the following assumptions: expected life of eight months, expected volatility 229.38%, risk free interest rate of 1.0% and dividend yield of 0%.

On March 12, 2009, 56,000 warrants granted on March 12, 2008 in connection with the Company's previous bridge loan expired. The fair value calculated on the granted date of \$193,808 was transferred to contributed surplus.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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### 13. Share capital (continued)

(e) *Share purchase warrants (continued)*

On May 8, 2009, the Company issued 800,000 warrants exercisable at a price of \$1.25 per share exercisable for a period of two years. After the first year, the exercise price of the warrants increases to \$2.50 per share. The warrants were issued in connection with the restructured loan facility described in Note 11 and had a fair value at the date of grant of \$0.91 per warrant. 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 237.36%, risk free interest rate of 1.1% and dividend yield of 0%.

On June 3, 2009, the Company issued 1,002,000 warrants exercisable at a price of \$1.75 per share exercisable for a period of one year. The warrants were issued in connection with the private placement described in section (b) of this note and had a fair value at the date of grant of \$1.14 per warrant. The Company determined the fair value of the warrants based upon a Black-Scholes model using the following assumptions: expected life of 8 months, expected volatility 228.75%, risk free interest rate of 1.15% and dividend yield of 0%.

On June 6, 2009, a put option was exercised on 80,000 warrants previously issued in connection with the Company's previous bridge loan. The exercise value of the put option totals \$425,000 and is payable to the lender. The fair value of \$121,725 calculated on these warrants was transferred to contributed surplus.

On July 16, 2009, 60,340 warrants previously issued in connection with the Company's 2007 brokered financing expired. The fair value of \$271,530 calculated on these warrants was transferred to contributed surplus.

On August 16, 2009, 98,942 warrants previously issued in connection with the Company's 2007 brokered financing expired. The fair value of \$173,149 calculated on these warrants was transferred to contributed surplus.

Details of outstanding warrants as at December 31, 2009 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
2,000,000	1.25	March 5, 2010
800,000	1.25 first year/ 2.50 second year	May 8, 2011
1,002,000	1.75	June 3, 2010
3,802,000	1.39	

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 14. General and administration expenses

	2009	2008
	\$	\$
Capital tax	122,556	267,630
Filing costs and shareholders' information	116,404	156,476
Insurance	42,310	42,810
Meals and entertainment	10,729	28,454
Miscellaneous	25,398	439,416
Office expenses	71,320	123,539
Professional and consulting fees	795,257	792,017
Rent	105,474	92,144
Salaries and benefits	1,729,482	1,789,917
Telecommunications	57,975	90,457
Travel	120,081	277,880
	<b>3,196,986</b>	<b>4,100,740</b>

### 15. Changes in non-cash working capital

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

	2009	2008
	\$	\$
Accounts receivable	631,226	(1,369,372)
Inventory	113,767	1,043,037
Prepays	29,383	88,985
Accounts payable and accrued liabilities	(1,094,475)	1,111,840
Net change in non-cash working capital	<b>(320,099)</b>	<b>874,490</b>

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 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:

	Years ended December 31,	
	2009	2008
	\$	\$
Consolidated net income (loss) before extraordinary loss	10,253,456	(13,964,813)
Canadian statutory tax rate	30%	31%
Expense (recovery) of income taxes at statutory rate	3,076,037	(4,329,092)
Lower effective tax rate on loss in foreign jurisdiction	-	142,666
Non-deductible stock option compensation	90,473	116,836
Permanent difference relating to gain on dilution	(7,861,247)	-
Other permanent differences and non-deductible expenses	854,840	(919,346)
Net increase in valuation allowance	3,839,897	4,988,936
Balance at end of year	-	-

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

	2009	2008
	\$	\$
Future income tax assets		
Mining assets and deferred exploration expenses	469,728	6,526,916
Non-capital losses	3,031,784	7,505,952
Capital losses (gains)	364,034	(14,620)
Share issue costs	435,438	369,501
Derivative instruments	(48,606)	12,313
	4,252,378	14,400,062
Valuation allowance	(4,252,378)	(14,400,062)
Future income tax assets	-	-

As at December 31, 2009, the Company no longer has non-capital loss carry forwards in Peru (2008 - \$19,004,000) as a result of the dilution in the Company's investment in CMSJ (Note 4). The Company has non-capital loss carryforwards available in Canada amounting to approximately \$9,338,000 (2008 - \$7,049,981) which can be applied to reduce future income taxes payable. The Canadian non-capital losses expire on various dates to 2029.

### 17. Related party transactions

During the year ended December 31, 2009, the Company repaid an amount of \$150,000 bearing interest at 13% per annum that was due to one director of the Company.

The Company had further short-term loans of \$47,254 (2008 - \$357,879) from one director of the Company. These amounts were repaid during the year.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 18. Guarantees, contingencies and commitments

In connection with the dilution of its investment in CMSJ (Note 4), the Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. Such representations include but are not limited to: the Company having paid all tax to which it is liable and is not liable to pay a penalty, surcharge, fine or interest in connection with tax, and is in compliance with its material legal and environmental obligations, has obtained or applied for all material operational and environmental permits to operate the Coricancha Mine. In addition on payment of the purchase price the Company discharges CMSJ from all claims, causes of action, obligations, liabilities or losses whether known or unknown, in relation to events occurring before the closing date of sale. The Company is unable to estimate the maximum potential liability for these indemnifications as the underlying agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred and would recognize any such losses under any guarantees or indemnifications when those losses are probable and estimable.

The Company is committed under the terms of an operating lease for office premises for aggregate payments of \$66,000 expiring in 2010.

### 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 wrote down some of its related assets and recognized a current liability related to the mitigation efforts during the year ending December 31, 2008. 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:

	December 31, 2008
	\$
Property, plant and equipment	
Tailings extension (i)	394,901
Plant (ii)	2,497,884
Asset retirement obligation	
Relocation of tailings and remediation of plant, tailings and surrounding area (iii)	14,607,488
Proceeds from insurance claim (iv)	(2,084,263)
Income tax recovery	-
<b>Extraordinary loss</b>	<b>15,416,010</b>

- (i) 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 were written off.
- (ii) 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. The write-down represents the cost of those parts of the processing plant which were determined to have no future use.

# Gold Hawk Resources Inc.

## Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

### 19. Extraordinary loss (continued)

- (iii) 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 12).
- (iv) The Company intended 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 are recorded when the amounts and ultimate collectability are reasonably assured.

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 was classified as an extraordinary event for the year ending December 31, 2008 as it is not expected to occur frequently, it does not typify the Company's normal business activities, and it does not depend primarily on decisions made by management.

### 20. Interest and financing charges

	2009	2008
	\$	\$
Interest and bank charges	52,779	39,989
Financing fees on outstanding debt	2,227,675	563,608
Interest expense on outstanding debt	1,415,033	1,441,084
Fees for advisory services	123,350	-
<b>Total interest and financing charges</b>	<b>3,818,837</b>	<b>2,044,681</b>

### 21. Subsequent events

(a) *Letter of intent agreement*

Subsequent to the year end, the Company announced the joint signing of a binding letter of intent agreement between Gold Hawk Resources Inc. and Nuinsco Resources Limited to combine the two companies. On January 29, 2010, the Company announced it will not proceed with the proposed combination and that it had terminated the letter of intent agreement.

(b) *Stock option grants*

Subsequent to the year end, the Board of Directors has granted stock options to directors, officers and employees of the Company. Options were granted to purchase 695,000 common shares in the capital of the Company, exercisable for a period of five years at a price of \$1.00 per share. The non-director 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.

# Gold Hawk Resources Inc.

Notes to the consolidated financial statements

December 31, 2009 and 2008

(In Canadian dollars, unless otherwise noted)

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## 22. Non-cash investing and financing activities

Non-cash investing and financing activities consist of the following:

	<b>2009</b>	2008
	\$	\$
Broker warrants recorded as share issue expenses	<b>1,629,785</b>	173,149
Lender warrants recorded as financing costs	<b>724,396</b>	315,533
Shares issued as payment of current liabilities	<b>262,500</b>	-
Shares issued to extinguish debt	<b>425,000</b>	-
Shares issued for debt restructuring	<b>364,178</b>	-
Repayment of prior debt under debt restructuring (Note 11)	<b>10,571,780</b>	-