



# HAWTHORNE GOLD CORP.

TSX-V: HGC    US: HWTHF

## 2009 3rd QUARTER REPORT

**NINE MONTHS ENDED AUGUST 31, 2009**

### **INTERIM FINANCIAL STATEMENTS**

(Unaudited and Prepared by Management)

The accompanying unaudited interim consolidated financial statements of Hawthorne Gold Corp. for the nine months ended August 31, 2009 have been prepared by management and approved by the Company's Board of Directors and Audit Committee. These statements have not been reviewed by the Company's external auditor.

**Hawthorne Gold Corp.**  
**Consolidated Balance Sheets**  
(In Canadian Dollars - unaudited)

	August 31, 2009	November 30, 2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 342,822	\$ 96,311
Short term investments	1,511,500	2,100,000
Accounts receivable	1,166,429	148,133
Prepaid expenses	218,206	67,931
Mine supplies inventory	52,615	52,615
	<u>3,291,572</u>	<u>2,464,990</u>
Reclamation bonds (Note 5)	324,444	324,444
Property, plant and equipment (Note 4)	1,872,377	1,974,326
Mineral properties (Note 5)	36,409,785	30,645,887
	<u>\$ 41,898,178</u>	<u>\$ 35,409,647</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 961,235	\$ 1,069,155
Due to related parties (Note 9)	130,506	205,852
Short term loan (Note 8)	-	170,500
Capital lease obligation - current (Note 7)	109,816	135,042
Mortgage payable - current (Note 4)	80,893	73,964
	<u>1,282,450</u>	<u>1,654,513</u>
<b>Capital lease obligation</b> (Note 7)	108,168	200,096
<b>Mortgage payable</b> (Note 4)	202,979	264,545
<b>Asset retirement obligation</b> (Note 5)	760,669	732,205
	<u>2,354,266</u>	<u>2,851,359</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 6)	33,167,988	29,868,795
<b>Contributed surplus</b> (Note 6(f))	7,990,484	5,095,940
<b>Deficit</b>	(1,614,560)	(2,406,447)
	<u>39,543,912</u>	<u>32,558,288</u>
	<u>\$ 41,898,178</u>	<u>\$ 35,409,647</u>

**Nature and continuance of operations** (Note 1)

**Commitments and contingencies** (Note 12)

**Subsequent events** (Note 13)

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

Approved on behalf of the Board:

"Richard Barclay"

Director

"Harvey Brooks"

Director

**Hawthorne Gold Corp.**  
**Consolidated Statements of Operations and Deficit**  
**For the three and nine months ended August 31, 2009 and 2008**  
(In Canadian Dollars - unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>2009</i>	<i>August 31,</i> <i>2008</i>	<i>2009</i>	<i>August 31,</i> <i>2008</i>
<b>Administrative expenses</b>				
Amortization	\$ 11,920	\$ 5,883	\$ 31,461	\$ 12,526
Accretion of asset retirement obligation	9,488	-	28,464	-
Bank charges and financing interest	21,128	20,423	75,223	53,703
Filing fees and transfer agent	23,062	7,103	46,246	42,830
Investor relations	168,166	72,543	422,051	304,792
Professional fees and consulting	110,003	46,229	252,353	85,418
Project investigation and exploration expenditures	65,476	-	251,525	-
Rent and office expenses	109,050	102,612	319,860	191,721
Shareholder information	14,521	35,954	82,344	83,535
Stock-based compensation	187,504	124,183	318,855	316,826
Travel and entertainment	17,789	18,360	27,613	45,373
Wages and benefits	193,780	121,125	499,273	215,065
<b>Loss before interest income and income taxes</b>	(931,887)	(554,415)	(2,355,268)	(1,351,789)
<b>Interest income</b>	15,831	67,190	56,448	133,751
<b>Loss before income taxes</b>	(916,056)	(487,225)	(2,298,820)	(1,218,038)
Future income tax recovery (Note 6)	-	-	3,090,707	-
<b>(Loss) income for the period</b>	(916,056)	(487,225)	791,887	(1,218,038)
<b>Deficit, beginning of the period</b>	(698,504)	(1,329,660)	(2,406,447)	(598,847)
<b>Deficit, end of the period</b>	\$ (1,614,560)	\$ (1,816,885)	\$ (1,614,560)	\$ (1,816,885)
<b>Basic and diluted loss per common share</b>	\$ (0.01)	\$ (0.02)	\$ 0.01	\$ (0.05)
<b>Weighted average number of common shares outstanding</b>	74,562,790	29,207,987	66,536,857	22,446,383

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

**Hawthorne Gold Corp.**  
**Consolidated Statements of Cash Flows**  
**For the three and nine months ended August 31, 2009 and 2008**  
(In Canadian Dollars - unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>August 31,</i>		<i>August 31,</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
(Loss) income for the period	\$ (916,056)	\$ (487,225)	\$ 791,887	\$(1,218,038)
Items not involving cash:				
Amortization	11,920	5,883	31,461	12,526
Accretion of asset retirement obligations	9,488	-	28,464	-
Stock-based compensation	187,504	124,183	318,855	316,826
Future income tax recovery	-	-	(3,090,707)	-
Changes in non-cash working capital				
Accounts receivable	(95,922)	(226,977)	(4,451)	(133,540)
Prepaid expenses	(57,888)	507,809	(150,275)	104,396
Accounts payable and accrued liabilities	86,973	(18,205)	82,089	642,020
Due to related parties	(18,445)	-	(75,347)	-
<b>Cash used in operating activities</b>	<b>(792,426)</b>	<b>(94,532)</b>	<b>(2,068,024)</b>	<b>(275,810)</b>
<b>Investing activities</b>				
Property, plant and equipment	(47,549)	(109,119)	(59,387)	(137,072)
Mineral properties	(2,857,718)	(7,131,026)	(4,832,843)	(13,144,724)
Reclamation bonds	-	(30,000)	-	(30,000)
Short term investments	3,475,000	6,900,526	588,500	(1,502,988)
<b>Cash provided by (used in) investing activities</b>	<b>569,733</b>	<b>(369,619)</b>	<b>(4,303,730)</b>	<b>(14,814,784)</b>
<b>Financing activities</b>				
Proceeds from shares issued, net of issue costs	(7,766)	8,516	6,713,738	14,346,541
Proceeds from exercise of broker warrants	246,818	-	246,818	-
Repayment of short term loan	-	-	(170,500)	-
Repayment of mortgage	(18,759)	-	(54,637)	-
Repayment of capital lease	(34,291)	(30,113)	(117,154)	(87,482)
<b>Cash provided by (used in) financing activities</b>	<b>186,002</b>	<b>(21,597)</b>	<b>6,618,265</b>	<b>14,259,059</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(36,691)</b>	<b>(485,748)</b>	<b>246,511</b>	<b>(831,535)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>379,513</b>	<b>857,364</b>	<b>96,311</b>	<b>1,203,151</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 342,822</b>	<b>\$ 371,616</b>	<b>\$ 342,822</b>	<b>\$ 371,616</b>
<b>Interest paid</b>	<b>\$ 18,722</b>	<b>\$ 14,007</b>	<b>\$ 61,057</b>	<b>\$ 44,877</b>
<b>Income taxes</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Supplemental cash flow information (Note 10).

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

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**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Hawthorne Gold Corp. (the "Company") was incorporated under the laws of British Columbia on January 18, 2006. The Company's principal business activities include the acquisition, exploration and development of mineral properties. The Company is listed as a Tier 1 Issuer on the TSX Venture Exchange.

The Company is considered to be in the exploration stage with respect to its interests in mineral properties. The recoverability of the amounts comprising mineral properties is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These unaudited interim consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

**2. ACCOUNTING POLICIES**

*Basis of Presentation*

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial statements and do not contain all of the information required for annual financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application of the most recent annual audited consolidated financial statements dated November 30, 2008. Accordingly, they should be read in conjunction with the Company's November 30, 2008 annual audited financial statements.

The interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant inter-company transactions have been eliminated on consolidation.

*Comparative Figures*

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.

**3. NEW ACCOUNTING PRONOUNCEMENTS**

*International Financial Reporting Standards ("IFRS")*

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt IFRS, replacing Canada's own GAAP, for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company with its fiscal year beginning December 1, 2011. The transition date of December 1, 2011 for the Company will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. The conversion to IFRS will impact the Company's accounting policies, information technology, internal controls and disclosure procedures. The Company is currently investing in training of its employees to ensure a timely conversion.

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**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

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*Business Combinations (Section 1582)*

In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The Section applies prospectively to 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. The adoption of Section 1582 will affect the Company's accounting for business combinations, if any, on or after January 1, 2011.

*Consolidated Financial Statements (Section 1601)*

In January 2009, the AcSB issued CICA Handbook Section 1601 to establish standards for the preparation of consolidated financial statements. The Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after December 1, 2011. The Company has not yet determined the impact of the adoption of this new Section.

*Non-Controlling Interests (Section 1602)*

This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after December 1, 2011.

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

**4. PROPERTY, PLANT AND EQUIPMENT**

<i>August 31, 2009</i>			
	Cost	Accumulated Amortization	Net Book Value
Office furniture	\$ 61,473	\$ 14,758	\$ 46,715
Computer equipment	65,211	23,906	41,305
Computer software	26,575	19,275	7,300
Vehicles	215,296	81,287	134,009
Site equipment	516,286	52,196	464,090
Buildings	1,413,037	247,079	1,165,958
Land	13,000	-	13,000
	<b>\$ 2,310,878</b>	<b>\$ 438,501</b>	<b>\$ 1,872,377</b>

<i>November 30, 2008</i>			
	Cost	Accumulated Amortization	Net Book Value
Office furniture	\$ 56,068	\$ 6,986	\$ 49,082
Computer equipment	60,057	13,034	47,023
Computer software	20,653	9,081	11,572
Vehicles	172,040	56,356	115,684
Site equipment	516,286	35,162	481,124
Buildings	1,413,387	156,546	1,256,841
Land	13,000	-	13,000
	<b>\$ 2,251,491</b>	<b>\$ 277,165</b>	<b>\$ 1,974,326</b>

Included in buildings at August 31, 2009, was \$242,360 (2008 – \$507,489) in capital leases. Amortization during the nine months ended August 31, 2009 amounted to \$161,336 (2008 - \$120,630), which has been reflected in the financial statements as follows:

Nine months ended August 31,	2009	2008
Mineral properties - balance sheet	\$ 129,875	\$ 108,104
Amortization - statement of operations and deficit	31,461	12,526
Total amortization recognized, credited to accumulated amortization	<b>\$ 161,336</b>	<b>\$ 120,630</b>

**Mortgage Payable**

In October, 2008, the Company purchased land and buildings adjacent to its Cassiar property for \$385,000 and financed the purchase with a mortgage of \$350,000. The mortgage has a four-year term, bears interest at an annual rate of 12% and is payable at \$9,217 per month. At August 31, 2009, the principal outstanding was \$283,872, of which \$80,893 was included in current liabilities.

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

**5. MINERAL PROPERTIES**

	<b>Cassiar Property \$</b>	<b>Frasergold Property \$</b>	<b>Carruthers Property \$</b>	<b>Total \$</b>
Balance, November 30, 2007	-	3,999,900	151,191	4,151,091
Acquisition and maintenance	15,915,562	137,598	15,000	16,068,160
Amortization	24,502	144,139	-	168,641
Camp and expediting	1,067,892	714,723	11,545	1,794,160
Drilling	344,886	1,885,487	-	2,230,373
Equipment	206,771	76,027	2,837	285,635
Environmental and permits	23,219	380,127	-	403,346
Assaying and metallurgical	115,841	704,208	2,374	822,423
Geological and geophysics	850,814	286,138	19,605	1,156,557
Underground and rehabilitation	441,469	-	-	441,469
Professional and consulting	131,934	95,007	-	226,941
Stock-based compensation	-	71,586	-	71,586
Travel and transportation	209,417	76,771	4,970	291,158
Vehicles costs	23,057	40,611	-	63,668
Insurance and financing costs	11,374	-	-	11,374
Wages and benefits	1,467,704	1,199,123	-	2,666,827
Incurred during the year	20,834,442	5,811,545	56,331	26,702,318
Write-off of mineral property interests			(207,522)	(207,522)
Balance, November 30, 2008	20,834,442	9,811,445	-	30,645,887
Acquisition and maintenance	1,873,840	90,957	-	1,964,796
Amortization	129,876	-	-	129,876
Camp and expediting	472,236	29,627	-	501,863
Drilling	672,632	460,874	-	1,133,505
Equipment	173,226	316	-	173,542
Environmental and permits	55,121	55,597	-	110,718
Assaying and metallurgical	90,219	69,962	-	160,181
Geological and geophysics	144,426	6,528	-	150,954
Underground	724,532	-	-	724,532
Professional and consulting	38,214	17,770	-	55,984
Stock-based compensation	100,533	-	-	100,533
Travel	162,051	2,497	-	164,548
Vehicle costs	55,328	-	-	55,328
Wages and benefits	1,308,484	42,899	-	1,351,383
Incurred during the period	6,000,717	777,026	-	6,777,743
Less: mining exploration tax credit	-	(1,013,845)	-	(1,013,845)
Balance, August 31, 2009	26,835,159	9,574,626	-	36,409,785

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**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

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Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The mineral property interests in which the Company has committed to earn an interest are located in Canada.

Certain government authorities provide incentives to encourage mineral property exploration and development in their jurisdictions. Such incentives include the reimbursement of expenditures to the Company's qualifying activities. Reimbursements are subject to review and approval by government authorities on a specific expenditure basis and are recorded as a reduction of the related mineral expenditure or as a recovery of the related expense when the Company is advised that such reimbursement will be made to the Company.

Subsequent to the period ended August 31, 2009, the Company received a British Columbia mining exploration tax credit from Canada Revenue Agency in the amount of \$1,013,845 for reimbursement of certain qualifying exploration expenditures on the Frasergold Property.

### **Cassiar Property, British Columbia**

The Cassiar Property is a package of mineral claims located in northern British Columbia, Canada. The Cassiar Property, wholly owned by the Company, hosts a number of gold assets including the fully permitted Cassiar Gold mine and the Taurus deposit.

#### Table Mountain

The fully permitted Cassiar Gold mine is an underground mining operation located in northern British Columbia.

#### Taurus

Pursuant to an option agreement, the Company could acquire certain mineral claims near Cassiar, British Columbia from American Bonanza Gold Corp. ("Bonanza") in consideration of an aggregate \$6 million over two years, consisting of \$1 million by December 22, 2007 (paid), \$2 million by June 22, 2008 (paid), \$1.5 million by June 22, 2009 and \$1.5 million by December 22, 2009. A further \$3 million was payable upon completion of a positive feasibility study recommending production, or production, whichever came first. Pursuant to the agreement, the Company was required to issue 250,000 common shares to Bonanza on or before December 22, 2008. On December 23, 2008, the Company signed an amended option agreement and issued 6,750,000 common shares to Bonanza that eliminated all remaining cash and share payments and the Company now owns the underlying mineral claims.

### **Frasergold Property, British Columbia**

At August 31, 2009, the Frasergold property is comprised of the following mineral claims:

#### Eureka Resources Inc.

In October 2006, the Company entered into an option agreement with Eureka Resources, Inc. ("Eureka") to earn up to a 60% interest in the Frasergold property by incurring the following:

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

	Cash payments	Minimum work commitments
On signing (paid)	\$ 25,000	\$ -
September 30, 2007 (expended)	-	500,000
October 31, 2007 (paid)	50,000	-
April 30, 2008 (expended)	-	1,000,000
October 31, 2008 (paid)	50,000	-
April 30, 2009 (expended)	-	1,000,000
October 31, 2009	50,000	-
April 30, 2010 (expended)	-	1,000,000
	\$ 175,000	\$ 3,500,000

In addition to the cash payments of \$175,000 and exploration expenditures of \$3,500,000, the Company must also complete a feasibility study by April 30, 2010 to earn its initial 51% interest. In the event the feasibility study cannot be completed by April 30, 2010, the Company can pay a cash penalty of \$100,000 per quarter to Eureka until January 31, 2012. The Company can earn an additional 9% interest by arranging third party financing for not less than 70% of the estimated capital costs required for commercial production of the property for Eureka on the same terms and conditions as the Company. If the Company fails to arrange third party financing for production, Eureka can arrange third party financing and earn an additional 2% interest from the Company.

*Dajin Resources Corp.*

In May 2007, the Company entered into an option agreement with Dajin Resources Corp. ("Dajin") to earn up to a 70% interest in certain mineral claims by incurring the following:

	Cash payments	Minimum work commitments
On signing (paid)	\$ 100,000	\$ -
May 29, 2008 (expended)	-	150,000
November 30, 2009	-	150,000
November 30, 2010	-	200,000
	100,000	500,000

On the exercise of the option, Dajin may elect to either remain a 30% working interest partner or, for no additional consideration, convert its 30% working interest into a 2% Net Smelter Royalty ("NSR").

*Bourdon Property*

In June 2007, the Company entered into an option agreement with a property vendor, Robert Bourdon ("Bourdon") to earn a 100% interest in a mineral claim. On May 29, 2009, the Company entered into an amended option agreement ("Amended Agreement") with Bourdon. Under the terms of the Amended Agreement, the Company issued 200,000 common shares to Bourdon as a replacement of the prior agreement which required the Company to make additional cash payments of \$90,000 and issue an additional 45,000 common shares to Bourdon over the next 12 months. Bourdon will retain a 2% NSR of which 50% can be purchased by the Company for the sum of \$1 million. In the event the Bourdon property is subject to a positive feasibility study, the Company is also obligated to issue 150,000 common shares to Bourdon.

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

	Cash payments	Share payments
On signing (paid and issued)	\$ 20,000	10,000
May 29, 2008 (paid and issued)	30,000	15,000
May 29, 2009 (issued)	-	200,000
	\$ 50,000	225,000

**Asset Retirement Obligation**

A continuity of the asset retirement obligation relating to the mineral properties is as follows:

	August 31, 2009	November 30, 2008
Asset retirement obligation - beginning balance	\$ 732,205	\$ 22,179
Amount arising from acquisition of mineral properties	-	685,960
Accretion expense	28,464	24,066
Asset retirement obligation - ending balance	\$ 760,669	\$ 732,205

The total undiscounted amount of estimated cash flows required to settle the obligations is \$1,050,052, which was adjusted for inflation at the rate of 2% and then discounted at a credit adjusted risk free rate of 10%. Certain minimum amounts of asset retirement obligations will occur each year with the significant amounts to be paid on abandonment of the mineral property interests estimated in 2015. As at August 31, 2009, the Company has \$324,444 reclamation bonds held at the provincial government of British Columbia as a commitment to meet its regulatory obligations.

**6. SHARE CAPITAL**

a) Authorized

Unlimited Class A common shares, without par value

b) Issued

	Nine months ended		Year ended	
	August 31, 2009		November 30, 2008	
	Shares #	Amount \$	Shares #	Amount \$
<b>Common shares</b>				
Balance, beginning of period	40,993,096	29,868,795	14,462,875	5,717,692
Private placements	26,169,251	7,365,000	20,331,005	17,672,483
Acquisition of Cusac Gold Mines Ltd.	-	-	6,054,228	10,292,188
Shares issued for mineral properties	6,950,000	1,904,500	15,000	20,700
Shares issued for finder's fees	-	-	92,813	148,501
Shares issued on warrant exercises	822,727	307,233	16,375	15,556
Shares issued on option exercises	-	-	20,800	22,506
Less:				
- Costs of financing		(3,186,833)		(4,020,831)
- Tax benefits renounced to subscribers		(3,090,707)		-
Balance, end of period	74,935,074	33,167,988	40,993,096	29,868,795

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

On December 1, 2008, the Company closed a non-brokered private placement for gross proceeds of \$633,500. The private placement consisted of 3,016,667 flow through shares priced at \$0.21 per share. The Company paid a cash commission of \$44,345 or 7% of the gross proceeds and issued 211,167 broker warrants equal to 7% of the number of flow through shares. Each broker warrant is exercisable at \$0.30 per share for a period of 12 months from the closing of the private placement.

On December 17, 2008, the Company closed another non-brokered private placement for gross proceeds of \$500,000. The private placement consisted of 2,380,952 flow through shares priced at \$0.21 per share. The Company paid cash commission of \$27,930 and issued 133,000 broker warrants which both equal to 7% of the number of certain flow through shares sold. Each broker warrant is exercisable at \$0.30 per share for a period of 12 months from the closing of the private placement.

On February 27, 2009, the Company closed a private placement for gross proceeds of \$6,231,500. It consisted of a \$3,892,250 non-brokered private placement of 12,974,166 units at a price of \$0.30 per unit and a \$2,339,250 brokered private placement of 7,797,500 units priced at \$.30 per unit. Each unit consists of one common share and one half of a transferable share purchase warrants. Each warrant is exercisable at a price of \$.40 per share for a period of 12 months from the closing of the private placement. The Company paid a \$163,748 cash commission or 7% of the gross proceeds of the brokered private placement and issued 545,825 broker warrants equal to 7% of the number of units sold under the brokered placement. On the non-brokered private placement, the Company paid cash commissions of \$246,435 and issued 821,450 broker warrants which are both equal to 7% of certain gross proceeds and number of units sold under the non-brokered private placement. Each broker warrant is exercisable at \$0.40 per share for a period of 12 months from the closing of the private placement.

In accordance with the terms of offerings and certain provisions of the Income Tax Act (Canada), in December 2008, the Company renounced for income tax purposes, exploration expenditures of \$9,780,717 to subscribers of the flow through common shares in private placement closed in April, November and December 2008, for which the Company incurred the eligible expenditures. The Company recorded \$3,090,707 for the future effect on income taxes related to flow through shares as a reduction of share capital and as a future income tax recovery in the statement of operations and deficit.

c) Warrants

The continuity of warrants is as follows:

	Number of warrants	Weighted average exercise price
Balance, November 30, 2008	5,989,496	\$ 1.76
Issued	12,097,275	0.40
Expired	(3,442,868)	1.87
Exercised	(822,727)	0.30
Balance, August 31, 2009	13,821,176	\$ 0.57

At August 31, 2009, warrants were outstanding enabling holders to acquire shares as follows:

Number of Broker Warrants	Number of Share Purchase Warrants	Total Number of Warrants	Exercise Price	Expiry Date
346,565	-	346,565	\$ 0.30	November 13, 2009
1,367,275	10,385,831	11,753,106	\$ 0.40	February 27, 2010
-	1,721,503	1,721,503	\$ 2.25	April 17, 2010
1,713,840	12,107,334	13,821,174		

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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**In Canadian Dollars (unaudited)**

*Share Purchase Warrants*

During the period ended August 31, 2009 using fair-value-based method, \$2,209,960 (2008 - \$2,311,743) was recorded for the issuance of share purchase warrants in connection with private placements, which reduces the share capital and increases contributed surplus.

The fair value of share purchase warrants has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk free interest rate	1.15%	4.00%
Expected dividend yield	- %	- %
Stock price volatility	126%	120%
Expected life of warrants	1 year	1.5 years
Fair value of warrants	\$ 0.21	\$ 0.83

*Broker Warrants*

During the period ended August 31, 2009 under the fair-value-based method, \$325,611 (2008 - \$287,500) was recorded as compensation expense for the issuance of broker warrants in connection with private placements, which is included in share issue costs, reducing the share capital and increasing contributed surplus.

The fair value of broker warrants has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk free interest rate	1.42%	4.00%
Expected dividend yield	- %	- %
Stock price volatility	131%	114%
Expected life of warrants	1 year	1 year
Fair value of warrants	\$0.14	\$0.72

d) Options

The Company adopted a rolling stock option plan, whereby 10% of the Company's issued and outstanding common shares on a non-diluted basis may be granted to officers, directors, employees and consultants of the Company. Options granted to consultants have one to two-year terms and are vested generally over a twelve-month period with 25% vested every three months from the date of grant. Options granted to directors, officers and employees have a five-year term and a vesting period of one year with 50% vested every six months from the grant date.

The continuity of options is as follows:

	Number of common shares	Weighted average exercise price
Balance, November 30, 2008	1,231,805	\$ 0.85
Cancelled	(131,000)	(0.76)
Expired	(15,789)	(4.18)
Granted	3,200,000	0.40
Balance, August 31, 2009	4,285,016	\$ 0.51

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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At August 31, 2009, the following options were outstanding:

Number of Options	Exercise Price	Number Exercisable	Expiry Date
26,316	\$ 3.04	26,316	September 5, 2009
20,000	\$ 1.60	20,000	October 2, 2009
50,000	\$ 0.40	-	June 3, 2011
50,000	\$ 0.50	-	June 3, 2011
1,016,700	\$ 0.60	1,016,700	April 25, 2012
72,000	\$ 1.60	72,000	July 22, 2012
50,000	\$ 1.60	50,000	October 2, 2012
100,000	\$ 0.40	75,000	April 1, 2010
100,000	\$ 0.40	-	April 1, 2011
2,800,000	\$ 0.40	-	April 1, 2014
4,285,016		1,260,016	

The fair value of the stock options has been estimated using the Black-Scholes option pricing model with the following assumptions:

Nine months ended August 31,	2009	2008
Risk free interest rate	1.55%	4.25%
Expected dividend yield	- %	- %
Stock price volatility	110%	111%
Expected life of options	5 years	5 years
Fair value of options	\$ 0.28	\$ 0.66

The exercise prices of all stock options granted were at the market price at the grant date. Using an option pricing model with the assumptions noted above, the estimated fair value of all options granted during the nine months ended August 31, 2009, have been reflected in the financial statement as follows:

Nine months ended August 31,	2009	2008
Mineral properties - balance sheet	\$ 100,533	\$ 127,697
Stock-based compensation - statement of operations and deficit	318,855	316,826
Total stock-based compensation recognized, credited to contributed surplus	\$ 419,388	\$ 444,523

e) Shares held in escrow

As at August 31, 2009, there were 1,374,000 common shares (2008 – 3,435,000) of the Company held in escrow. The escrowed shares are released every six months. Subsequent to the period end, on September 18, 2009, all of the remaining shares held in escrow, a total of 1,374,000 shares, were released.

**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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f) Contributed surplus

	Nine months ended August 31, 2009	Year ended November 30, 2008
Balance, beginning of period	\$ 5,095,940	\$ 2,152,424
Stock-based compensation for stock options	419,388	315,647
Valuation of broker warrants	325,611	331,883
Valuation of share purchase warrants	2,209,960	2,311,743
Exercise of stock options	-	(10,026)
Exercise of broker warrants	(60,415)	(5,731)
Balance, end of period	\$ 7,990,484	\$ 5,095,940

**7. CAPITAL LEASE**

The Company is committed to a capital lease for its camp facilities as follows:

Year	2009	\$	44,120
	2010		198,240
Total lease payments and buyout			242,360
Less: amount representing interest			(24,376)
Present value of minimum payments		\$	217,984

**8. SHORT TERM LOAN**

On April 15, 2008, the Company completed a statutory plan of arrangement pursuant to which the Company acquired all of the outstanding common shares and debentures of Cusac Gold Mines Ltd. ("Cusac"). Cusac became a wholly owned subsidiary of the Company and was renamed Cassiar Gold Corp. Under the terms of the Arrangement, the Company assumed a short term loan of \$341,000 due in four quarterly instalments of \$85,250. As at August 31, 2009, \$341,000 has been repaid including \$170,500 during the nine month period.

**9. RELATED PARTY TRANSACTIONS**

- (a) Included in the period at their exchange amounts are the following items paid or accrued to directors and companies controlled by directors for services provided. Exchange amounts are the amounts agreed upon by the transacting parties on terms and conditions similar to arms-length transactions:

Nine months ended August 31,	2009	2008
	\$	\$
Financial advisory fees	18,500	-
Management fees	10,625	-
Consulting fees	4,000	-

- (b) Included in current liabilities at August 31, 2009, was \$130,506 (2008 - \$nil) payable to related parties which is non-interest bearing, unsecured and has no fixed terms of repayment.

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**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
**For the Nine Months Ended August 31, 2009 and 2008**  
**In Canadian Dollars (unaudited)**

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**10. SUPPLEMENTAL CASH FLOW INFORMATION**

Other than disclosed elsewhere in these financial statements, the significant non-cash transaction for the nine months ended August 31, 2009, was the inclusion in accounts payable of \$793,512 (2008 - \$1,148,098) in mineral property expenditures.

During the nine months period ended August 31, 2009, the Company issued 6,750,000 common shares valued at \$1,822,500 to American Bonanza Gold Corp. for the option payment on the Taurus property. The Company also issued 200,000 common shares valued at \$82,000 to Robert Bourdon for the Bourdon Property (Note 5).

**11. SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, being the exploration and development of mineral properties. All of the Company's properties and equipment are located in Canada.

**12. COMMITMENTS AND CONTINGENCIES**

- a) The Company is committed to certain cash payments and exploration expenditures as described in Notes 4 and 5.
- b) The Company's commitment to office lease is as follows:

	Office lease \$
2009	41,544
2010	168,409
2011	173,770
2012	179,130
2013	184,491
2014	109,444

- c) The Company qualifies for a British Columbia mining tax credit as it has incurred qualified mineral exploration expenditures for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as approximately 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred during the qualifying years. In May, 2009, the Company filed for a refund of the British Columbia Mining Exploration Tax Credit in the amount of approximately \$1,800,000 from the 2007 and 2008 fiscal years, which may change pursuant to reviews or audits by the taxation authorities. Subsequent to the period end, on September 25, 2009, the Company received a refund from the 2007 return in the amount of \$1,013,845.

**13. SUBSEQUENT EVENTS**

In September 2009, the Company granted incentive stock options to directors, officers, employees and consultants of the Company to purchase up to 3,200,000 common shares in the capital stock of the Company pursuant to a Share Option Plan approved by shareholders. The options are exercisable at a price of \$0.48 per share, have a term of five years and are subject to vesting restrictions over a period of 18 months from the date of the grant.

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**Hawthorne Gold Corp.**  
**Notes to the Interim Consolidated Financial Statements**  
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On October 6, 2009, The Company announced a non-brokered private placement of up to 6,250,000 units priced at \$0.40 per unit to raise gross proceeds of up to \$2.5 million. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant is exercisable at \$0.50 per share for a period of 12 months following the date of closing. The Company expects to close the private placement on or before November 6, 2009.

On September 24, 2009, the Company announced a brokered private placement of up to 3,710,000 flow-through shares at a price of \$0.54 per share to raise total proceeds of up to \$2.0 million. The Company has not proceeded with this brokered private placement.





HAWTHORNE GOLD CORP.

TSX-V: HGC    US: HWTHF

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF AUGUST 31, 2009 INTERIM FINANCIAL STATEMENTS**

**DATED OCTOBER 26, 2009**

This discussion and analysis of financial position and results of operations, prepared as at October 26, 2009, should be read in conjunction with the unaudited financial statements of Hawthorne Gold Corp. (the "Company"), for the nine months ended August 31, 2009, as well as the audited consolidated financial statements for the year ended November 30, 2008, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts included therein and in the following management discussion and analysis ("MD&A") are expressed in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

The Company is engaged in the exploration and development of mineral properties in British Columbia, Canada. The Company is currently listed as a Tier 1 Issuer on the TSX Venture Exchange under the symbol "HGC", and quoted on the Pink Sheets in the United States under the symbol "HWTHF".

### Mineral Property Interests

Hawthorne currently has three gold projects located in British Columbia, Canada. The Company controls 100% of the Cassiar Gold Camp projects – Table Mountain and Taurus, and also has an option to acquire up to 60% of the Cariboo Gold Camp project – Frasergold.

Sable Resources Ltd. has a 2.5 % Net Smelter Return Royalty (NSR) on ten claims in the Taurus project area. The claims are Mack 1 to 4, Hopeful 1 to 4, Hillside and Highgrade.

Michael Petrina, P.Eng., the Company's Vice President of Mining and a Qualified Person as defined by National Instrument ("NI") 43-101, has reviewed and approved the technical information contained in this MD&A.

### Cassiar Gold Property

The Cassiar Gold Camp property is located in northern British Columbia. It comprises approximately 58,900 hectares of which the Company has 100% interest, and contains the Table Mountain and Taurus gold deposits.

#### ***Table Mountain Gold Project, British Columbia***

The Table Mountain project is a former high-grade underground gold operation located along the north-south provincial Highway 37 in northern British Columbia. The mill facility was put under care and maintenance by the previous owners in October 2007 and the Company acquired it in 2008. The Cassiar airstrip is also accessible some 10 kilometres from the mine site. The Cassiar Gold Mine is 100% owned by the Company.

The Cassiar Gold Mine comprises a permitted 270 tonne per day gravity/flotation mill, power plant and tailings impoundment facility as well as 13 adits/portals, approximately 25 kilometres of underground workings, approximately 23 kilometres of surface access roads throughout the property, an assay lab and a 40 person camp.

In 2008, Hawthorne completed a 2,536-metre diamond drill program, a property-wide geophysical survey and reconnaissance program, general underground rehabilitation work, and established the Cassiar mining camp in preparation for planned underground production in 2010.

A 10,100-metre 2009 drill campaign has been completed at the Cassiar Gold Project, including 6,019 metres at Table Mountain and 4,081 metres on the Taurus project. Results from the Table Mountain area are pending. Ongoing drilling at Table Mountain includes targets identified from the recently completed

## Management's Discussion and Analysis

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digitally compiled geological model, with a focus on defining additional high-grade underground gold zones similar to the East Bain zone.

The East Bain zone is a faulted off-extension of the previously mined West Bain zone located within the Table Mountain underground workings, and will be the first zone targeted for production. In July, the Company commenced underground ramp development to access the East Bain zone. The next step will be to develop or undercut the mineralized gold zone and prepare the sublevels for shrinkage stope mining.

The East Bain zone hosts an indicated gold resource of 13,708 ounces of gold comprising 20,101 tonnes at an average grade of 21.21 g/t Au and an inferred resource of 2,552 ounces of gold comprising 1,158 tonnes at an average grade of 68.57 g/t Au (refer to NI 43-101 technical report titled, "Update of Technical Report on the Table Mountain Property, Liard Mining District, B.C.", prepared by Beacon Hill Consultants (1988) Ltd. on June 1, 2008 and filed at [www.sedar.com](http://www.sedar.com)).

The Company's technical team is also evaluating several zones of the Taurus Deposit for possible mill feed at the Cassiar Gold Mine in order to supplement Table Mountain feed and maximize the throughput at the mill facility. A bulk sample is being stockpiled next to the mill facility and it is anticipated that this sample will be processed with the mill start-up in 2010. The 2009 diamond drill program has delineated several zones of small-tonnage, near-surface gold mineralization greater than 3.5 g/t Au that may be amenable to open pit mining. Samples from this drilling are undergoing metallurgical testing to determine suitability as feed.

Work has confirmed that higher grade mineralization exists immediately north of the test pit at Taurus, and that mineralization is continuous from near-surface to a depth of 85 metres.

The Company has entered into a Resource Funding Agreement with the First Nation Kaska Dena Council on behalf of the BC Kaska in connection with the continued exploration and development of the Cassiar Gold Camp. Under the Agreement, Hawthorne has agreed to provide resource funding to the BC Kaska to contribute to the cost of negotiating a Traditional Knowledge Protocol (the "TK Agreement") and a Socio-Economic Participation Agreement (the "SEPA"). The TK Agreement will assist the parties in establishing the appropriate traditional knowledge protocols for the exploration and development of the Property. The SEPA would include environmental, cultural and socio-economic and business opportunities and benefits for members of the BC Kaska and their businesses.

A feasibility study has not been completed on the Table Mountain property and there is no certainty the disclosed targets will be reached or that the proposed operations will be economically viable.

### ***Taurus Gold Project, British Columbia***

The Taurus gold deposit, an advanced stage exploration and development project, is located approximately eight kilometres from the Cassiar Gold Mine along the main access road to the town of Cassiar, in the Liard Mining Division of northern British Columbia. The site of a former high grade underground gold mine, the Taurus deposit was explored by previous operators as a combination of a large tonnage open pit scenario and a high grade underground mine (over 370 drill holes have been completed to date).

The Taurus deposit, located within the Cassiar Gold Camp, hosts an inferred resource of 1.1 million ounces of gold consisting of 33.1 million tonnes at an average grade of 0.99 g/t Au using a cut-off grade of 0.50 g/t Au (refer to NI 43-101 technical report titled, "Updated Resource Report on the Taurus Project – Liard Mining District, B.C.," dated March 11, 2009 and prepared by Thomas C. Stubens and Morinus Andre de Ruijter of Wardrop Engineering Incorporated, filed at [www.sedar.com](http://www.sedar.com) on March 11, 2009).

The Company is completing a phased drill program at the Cassiar Gold Property, which includes drilling at the Table Mountain and Taurus deposits. A total of approximately 4,081 metres of drilling has been

**Management's Discussion and Analysis**

completed to date at the Taurus project. The goal of the Taurus drilling is to delineate multiple small-tonnage, near-surface gold zones in excess of 3.5 g/t Au, amenable to open pit mining. Once the zones are defined, metallurgical testing is completed and permitting is obtained, the mineralized material could potentially be used as mill feed at the permitted Cassiar Gold Mine when production commences.

Results from the three phase drill program at the Taurus deposit has demonstrated the presence of additional high grade targets on the property in several zones, and that the opportunity exists for near-surface high grade gold zones that may be amendable to surface pit mining. Resource definition continues.

Drill core from Taurus has been sent to SGS Mineral Services North America in Vancouver, British Columbia to carry out metallurgical test work and to determine if the mineralization is amenable to processing through the mill facility at the Cassiar Gold Mine. The Company has also commenced the extraction of a 10,000-tonne bulk sample from the target zone at the Sable zone portal to stockpile material next to the mill.

By delivering material from the Taurus zone averaging greater than 3.5 g/t Au, the Company anticipates that the grade of the combined mill feed from the Taurus zone and underground from the East Bain zone will average approximately 11-12 g/t Au. Environmental data collection is now underway at Taurus in preparation for an application for a Small Mines Permit.

**Frasergold Property, British Columbia**

The Frasergold Property, optioned from Eureka Resources Inc., is located in the Cariboo Gold Camp, situated in the historic Quesnel Trough area of central British Columbia and has a long history of continued exploration since the 1970s. The land position totals 11,293 hectares or 41 claims, and consists of option agreements with Eureka Resources Inc. as well as Dajin Resources Corp.

In 2008, Hawthorne completed a 10,405 metre diamond drill program, a soil sampling program, and a reconnaissance exploration exercise. Total drilling on the property now exceeds 50,000 metres, including work from 2007/2008 and in the 1980s and 1990s.

The 2008 exploration program focused on the two kilometre Main Zone, and the property remains to be tested at depth, up dip and along strike. The exploration goal is to define the size and potential of the gold deposit. On October 1, 2009 the Company announced the completion of an independent Mineral Resource estimate using information from the 2007/2008 drill program on the Main Zone. The Resource Estimate was prepared by K.V. Campbell, Ph.D, P.Geo of ERSi Earth Resource Surveys Inc. and G.H. Giroux, MA.Sc, P.Eng. of Giroux Consultants Ltd. The results of the Resource Estimate are shown in Table 1.

**Table 1  
Mineral Resource Estimate  
Frasergold Property**

Zone	Class	Tonnes	Au		
			(g/t)	(Grams)	Ounces
Main	Measured (M)	11,470,000	0.595	6,824,650	219,418
Main	Indicated (I)	22,610,000	0.540	12,209,400	392,541
	<b>M+I</b>	<b>34,080,000</b>	<b>0.559</b>	<b>19,034,050</b>	<b>611,959</b>
Main	Inferred	26,530,000	0.473	12,548,690	403,450
NW	Inferred	45,790,000	0.538	24,635,020	792,034
SE	Inferred	2,990,000	0.343	1,025,570	32,973
	<b>Inferred</b>	<b>75,310,000</b>	<b>0.507</b>	<b>38,209,280</b>	<b>1,228,457</b>

## Management's Discussion and Analysis

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Both Mr. Campbell and Mr. Giroux are Qualified Persons (QP) in accordance with NI 43-101, Standards of Disclosure for Mineral Projects and have verified this mineral resource information. Mr. Campbell and Mr. Giroux are currently preparing the NI 43-101 Technical Report containing the Mineral Resource Estimate on the property, which will be filed on [www.sedar.com](http://www.sedar.com) in November, 2009. Mr. Campbell and Mr. Giroux have visited the site and reviewed all the Quality Assurance/Quality Control data received to date.

### Corporate Events

#### *Management*

In August, Patrick McGrath stepped down as the Company's Chief Financial Officer to pursue other opportunities. Mr. David McAdam was appointed Interim CFO. Prior to his appointment, Mr. McAdam was engaged as a financial consultant for Hawthorne, and brings over 25 years of international experience in senior financial roles. Mr. McAdam formerly held the positions as CFO of Eastern Platinum Limited, and executive and advisory positions for Yellowcake Mining Inc., Barplats Investments Ltd., Waste Management Inc. and numerous other US and Canadian based companies.

### Results of Operations

#### ***Results of Operations for the nine months ended August 31, 2009 and 2008***

#### **Expenses**

Total operating expenses were \$2,355,268 for the nine months ended August 31, 2009, compared to \$1,351,789 for the comparative nine months, for an increase of \$1,003,479. The Company's expenses increased in most cost categories between periods as a result of the advancement of the Company's projects, as compared to the comparative nine month period when the Company had just acquired the Cassiar Gold property. The Company incurred \$499,273 in wages and benefits as compared to \$215,065 in the comparative nine months. The increase in wages reflects the additional management and administrative staff the Company hired between the periods as it advanced its business plan. During the nine months ended August 31, 2009, the Company also incurred \$319,860 in rent and office expenses as compared to \$191,721 in such expense in the comparative nine months as the Company expanded its office space and overhead to meet its business plan.

#### **Future income tax recovery**

During the nine months ended August 31, 2009, the Company recorded an income tax recovery of \$3,090,707 in connection with flow-through tax deductions of \$9,780,717 the Company renounced to investors in December 2008 as compared to no such recovery in the comparative period.

#### **Net Income/Loss**

The Company recorded net income of \$791,887 for the nine months ended August 31, 2009, primarily as a result of the \$3,090,707 in future income tax recoveries, compared with a net loss of \$1,218,038 in the comparative nine months.

#### ***Results of Operations for the three months ended August 31, 2009 and 2008***

#### **Expenses**

Total operating expenses were \$931,887 for the three months ended August 31, 2009, compared to \$554,415 for the comparative three months, for an increase of \$377,472. The Company incurred \$65,476

**Management's Discussion and Analysis**

in project investigation costs associated with due diligence and review of potential projects of merit as compared to no such costs in the comparative period. During the three months ended August 31, 2009, the Company also incurred \$21,128 in bank charges and financing interest expenses as compared to \$20,423 in the comparative three months. The expenses consist primarily of interest charges on the capital lease and mortgage for the camp and related structures at Cassiar Gold Property.

**Net Loss**

The Company recorded a net loss of \$916,056 for the three months ended August 31, 2009 compared with a net loss of \$487,225 in the comparative three months.

**Summary of Quarterly Results**

**Table 2**

	2009			2008			2007
	Aug 31	May 31	Feb 28	Nov 30	Aug 31	May 31	Nov 30
	\$	\$	\$	\$	\$	\$	\$
Revenues	-	-	-	-	-	-	-
Net income (loss)	(916,056)	(829,210)	2,537,153	(589,562)	(487,225)	(391,113)	(278,338)
Net income (loss) per share							
- basic and diluted	(0.01)	(0.01)	0.05	(0.01)	(0.02)	(0.02)	(0.03)

The Company's expenses and net losses have increased quarter over quarter (with the exception of the quarter ended February 28, 2009) as the Company advanced its business plan of acquiring exploration and development projects. The Company expects its expenses to increase in the coming quarters as it undertakes its exploration and development plans. During the quarter ended February 28, 2009, the Company recorded future income tax ("FIT") recovery of \$3,090,707. Excluding the FIT recovery, it would have been a net loss of \$553,554.

**Liquidity**

The Company's total cash and cash equivalents decreased to \$1,854,322 at August 31, 2009 from \$2,196,311 at November 30, 2008. The Company's working capital was \$2,009,122 as at August 31, 2009, compared to \$810,477 as at November 30, 2008.

During the nine months ended August 31, 2009, the Company used \$4,832,843 of its cash and cash equivalents on its mineral properties as compared to \$13,144,724, including \$1,000,000 cash payment for the Taurus project, during the comparative period. The Company expects to incur additional expenditures on its mineral properties in the future quarters, primarily in the areas of resource development and pre-production work at Cassiar.

The Company has funded its operations from equity financings, exercises of broker warrants and cash on hand during the periods. During the nine months ended August 31, 2009, the Company raised net proceeds of \$6,713,738 from the issuance of capital as compared to \$14,346,541 in the comparative nine month period.

**Capital Resources**

During the nine months ended August 31, 2009, the Company closed three private placements for gross proceeds of \$7,365,000. The private placements consisted of 5,397,619 flow-through shares priced at \$0.21 per share and 20,771,666 units at \$0.30 per share. Each unit consists of one common share and one-half of a transferable share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.40 per common share for a period of 12 months following closing. To keep the Company's mineral claims in good standing, the Company is required to make cash

**Management's Discussion and Analysis**

payments and fulfill work program expenditures. The Company has a capital lease for the purchase of a permanent camp with total commitments of \$132,360 and a mortgage payable of \$283,872 relating to land and buildings. The camp, land and buildings are all related to the Cassiar project.

At the year ended November 30, 2008, the Company received a demand letter from a former drilling contractor ("Contractor"). The demand letter is for certain delay charges relating to the suspension of a drilling project. In July 2009, the Company settled the matter by paying the Contractor a lump sum payment of \$587,500. The total amount was recorded as drilling costs under Frasergold Property.

**Transactions with Related Parties**

Included in current liabilities at August 31, 2009, was \$108,690 (November 30, 2008 - \$205,852) payable to Adriana Resources Inc. ("Adriana"), a company with common officers and directors, for reimbursement of certain management salaries and to Hemmingsen Management Ltd. ("Hemmingsen"), for administrative services. Hemmingsen is jointly owned by the Company and Adriana. During the nine months ended August 31, 2009, the Company paid rent of \$nil (2008 - \$24,000) to Adriana.

Also included in current liabilities at August 31, 2009, was \$21,816 (November 30, 2008 - \$nil) due to directors and consultant of the Company for consulting, management and financial advisory fees.

During the nine months ended August 31, 2009, the Company paid or accrued \$18,500 (2008 - \$nil) in financial advisory fees to a director of the Company, \$10,625 (2008 - \$nil) in management fees to a consultant of the Company and \$4,000 (2008 - \$nil) in consulting fees to a director of the Company.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

**Outstanding Share Data**

The following table details the share capital structure as of the date of this MD&A.

	Expire date	Exercise price	Number of securities	Number of shares
Common share				75,537,319
Share purchase options	April 25, 2012	\$ 0.60	916,700	
	July 22, 2012	\$ 1.60	72,000	
	October 2, 2012	\$ 1.60	50,000	
	April 1, 2010	\$ 0.40	100,000	
	April 1, 2011	\$ 0.40	100,000	
	April 1, 2014	\$ 0.40	2,800,000	
	June 3, 2011	\$ 0.40	50,000	
	June 3, 2011	\$ 0.50	50,000	
	September 10, 2014	\$ 0.48	<u>3,200,000</u>	7,338,700
Share purchase warrants	November 13, 2009	\$ 0.30	317,685	
	February 27, 2010	\$ 0.40	11,179,106	
	April 17, 2010	\$ 2.25	<u>1,721,503</u>	<u>13,218,294</u>
				<u>96,094,313</u>

## Management's Discussion and Analysis

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### Future Accounting Pronouncements

#### *International Financial Reporting Standards ("IFRS")*

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to adopt IFRS, replacing Canada's own GAAP, for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company with its fiscal year beginning December 1, 2011. The transition date of December 1, 2011 for the Company will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. The conversion to IFRS will impact the Company's accounting policies, information technology, internal controls and disclosure procedures. The Company is currently investing in training of its employees to ensure a timely conversion.

#### *Business Combinations (Section 1582)*

In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The Section applies prospectively to 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. The adoption of Section 1582 will affect the Company's accounting for business combinations, if any, on or after January 1, 2011.

#### *Consolidated Financial Statements (Section 1601)*

In January 2009, the AcSB issued CICA Handbook Section 1601 to establish standards for the preparation of consolidated financial statements. The Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after December 1, 2011. The Company is in the process of assessing the impact of applying this section on its financial statements.

#### *Non-Controlling Interests (Section 1602)*

This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after December 1, 2011.

### Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

### Subsequent Events

#### *Appointments to the Board of Directors*

In September, the Company appointed Mr. Donald Siemens and Mr. John Nugent to its Board of Directors.

Donald Siemens has over 30 years of experience as a Chartered Accountant, including 8 years in public practice as a partner with major accounting firms, 8 years in senior executive positions in industry and 18

## Management's Discussion and Analysis

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years as a financial services executive. Currently, as an independent financial advisor, Mr. Siemens specializes in corporate finance, cross-border transactions and mergers & acquisitions. He serves as a director and Audit Committee Chair for Los Andes Copper Ltd., Nikos Explorations Ltd, and Adriana Resources Inc., all listed on the TSX Venture Exchange.

John Nugent currently serves as a director of Nikos Exploration and Los Andes Copper Ltd., and is Chairman of Hansa Resources (previously President & CEO), all which are listed on the TSX Venture Exchange. Initially, MR. Nugent practiced corporate and commercial law in Toronto prior to becoming an investment banker with Midland Doherty Ltd. After a period in senior management at Midland, Mr. Nugent became president of Gardiner Group Stock Brokers Inc. which was sold to the TD Bank. He was a co-founder and president of Romanex Limited, a mineral exploration company which developed properties in South America and Africa that were sold to Sutton Resources Ltd., which was itself acquired by Barrick. John was president of International Barytex Resources Ltd., a public mineral exploration company with properties in Canada and Tanzania.

### *Stock Options*

In September, the Company granted an aggregate of 3,200,000 share purchase options to directors, officers, employees and consultants of the Company. The options are exercisable at a price of \$0.48 per share, have a term of five years and are subject to vesting restrictions over a period of 18 months from the date of the grant.

### *Equity Financing*

On October 6, 2009, The Company announced a non-brokered private placement of up to 6,250,000 units priced at \$0.40 per unit to raise gross proceeds of up to \$2.5 million. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant is exercisable at \$0.50 per share for a period of 12 months following the date of closing. The Company expects to close the private placement on or before November 6, 2009.

On September 24, 2009, the Company announced a brokered private placement of up to 3,710,000 flow-through shares at a price of \$0.54 per share to raise total proceeds of up to \$2.0 million. The Company has not proceeded with this brokered private placement.

## **Cautionary Statement**

This MD&A may contain "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, words such as "estimate", "intend", "expect", "anticipate" and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing, unfavourable studies regarding the Company's projects, fluctuations in the market valuation for metal prices, difficulties in obtaining required approvals for the development of a mine and other factors.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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