

# Hy Lake Gold Inc.

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**Recommendation**  
 Speculative Buy

**Symbol**  
 (HYL-CNSX, HYK-FWB)

**Risk**  
 High

**Target Price**  
 \$0.81

**Price (March 2, 2010)**  
 \$0.15

**52-Week Range**  
 \$0.04- \$0.25

**Shares O/S**  
 32.98 million

**Market Cap**  
 \$4.95 million



## Spotlight on Hy Lake – Ready for the re-launch?

For investors looking to find the next investment “home-run”, we believe junior gold exploration companies present the most compelling case. This is especially true now when the price of gold seems to be in a secular uptrend. In the last two years, there have been a number of junior gold exploration companies, such as Rubicon Minerals (TSX-RMX), Queenston Mining (TSX-QMI) and Rainy River (TSX-VEN-RR), to name a few, which experienced significant gains, their share prices multiplying several times within a short period of time. ***For investors looking for the next line of promising juniors, Hy Lake Gold Inc. presents such a potential opportunity.***

Hy Lake Gold Inc. is a junior gold exploration company with an excellent property package in the famous Red Lake gold mining camp in Northern Ontario, the home to Goldcorp Inc. and many promising junior mining companies, including Rubicon Mineral and Claude Resources.

Major investment highlights for the company include:

- ❖ 12-km long package of contiguous mining properties in Red Lake, Ontario, Canada, on the Pipestone Bay-St. Paul Bay deformation zone, a major, NW-SE trending regional structure that hosts a number of former producing gold mines;
- ❖ Strong working relationship and a joint option with Goldcorp on the Rowan property;
- ❖ Extensive drilling, over 25,000 metres completed by the company on different properties;
- ❖ Strong untapped exploration potential and significant opportunity to expand resource estimates;
- ❖ Ambitious plans to further expand and consolidate property packages in Red Lake district and improve blue sky opportunities; and
- ❖ A likely move to Toronto Stock Exchange that could provide more liquidity to the stock.

## Executive Summary

Hy Lake Gold Inc. is a CNSX or Canadian National Stock Exchange (HYL) and Frankfurt (HYK) listed junior exploration company with several interests in the Red Lake Mining District, including three past producing mines. Its properties now include a 12-km long continuous strike length along the Pipestone Bay - St Paul Bay deformation zone.

Its strategy is focused on leveraging the ability of its talented management and exploration teams to recognize geological opportunities that are adjacent to previous big finds but are overlooked.

Ubika Research initiated coverage of the company in May 2008 and has provided regular updates, the latest on Dec. 10, 2009.

Since we started the research coverage on Hy Lake Gold, the company has followed a consistent strategy that includes a strong focus on its high potential mining properties in the Red Lake mining district. The company encountered serious challenges during the later half of 2008 and during 2009 as the capital markets collapsed, making it difficult for junior resource company such as Hy Lake Gold to raise necessary financing and to carry through its goals of aggressive drilling. This also hampered its plans for a potential move to a larger stock exchange such as the TSE, in order to enable better liquidity and visibility for the stock.

The company has made significant progress in the recent months to refocus and reorganize its operations in order to achieve its goals of becoming a promising junior gold exploration company that can achieve its full potential.

Based on our discussion with management, we understand that management is confident of its ability to position the company as an exciting and emerging junior gold exploration company with high potential exploration projects in the high profile Red Lake mining camp.

We believe that the company is poised to make further progress as it is close to completing the reorganization of its operations and is likely to continue its efforts to move to the Toronto Stock Exchange within a few months that will also see the company raising additional capital for extensive drilling at its Mount Jamie, Rowan and Red Summit Mine Properties.

We continue to be confident in Hy Lake Gold's exploration potential and its strong working relationship with Goldcorp Inc. We believe that the company has an opportunity to further consolidate its land holdings in the Red Lake mining camp, which will allow more blue sky opportunities. We will watch the progress of the company closely in the next six to twelve months, to evaluate whether the company is successfully meeting its objectives for this year and update our readers.

## **Key Investment Thesis**

### **The location – Red Lake Mining Camp**

Successful investors in junior resource companies probably know that most new discoveries are made around past producing mines. Hy Lake Gold owns or controls all its properties in the prolific Red Lake Mining District in north-western Ontario, Canada. Home to the world's second largest and one of the lowest cost gold producers, Goldcorp Inc., the Red Lake mining district has produced more than 30 million ounces of gold worth more than US\$26 billion at today's prices. Hy Lake Gold could not have asked for a better address. Red Lake mining camp is famous for the discovery of high grade gold deposits and Hy Lake Gold could certainly benefit from that trend as it carries through with its exploration program during 2010 and beyond.

### **Compelling exploration potential**

Hy Lake Gold has conducted a considerable amount of drilling on its various properties, over a number of years. These drilling programs have been largely successful. During 2009, the company had announced the final drill results from the 2008 exploration programs. Hy Lake Gold intersected 1.0 metre of 116.64 grams per tonne (g/t) of gold from the Red Summit Property and 1.0 metre of 14.52 g/t of gold from the Rowan Property. Although the widths of those holes were narrow, nevertheless, they showed the promise for the exploration program. We believe that there is significant potential to further expand the mineralization as the company explores both along strike and at depth. There is potentially significant gold mineralization to be found and Hy Lake has the potential to explore for a significant find with an aggressive drilling program.

### **Gold Corp relationship and benefits**

Hy Lake has a strong working relationship with Goldcorp that arises from its joint option with Red Lake Gold Mines on the Rowan property. Hy Lake Gold is ahead in meeting its spending commitment to earn its 60% ownership rights at Rowan, as operator, and is working closely with Goldcorp to develop its Red Lake gold exploration assets. This relationship enables Hy Lake to gain access to the vast knowledge base of Goldcorp technical team and the information base allows it to develop focused and productive exploration programs with higher chances of success.

### **Potential for further expansion of land position**

The company has shown an inclination to further expand its land position in the region. We believe that there are other junior resource companies with properties in Hy Lake's neighbourhood that could be interested in working with Hy Lake in a manner that allows Hy Lake to increase its claim area in the region. Any progress on this front will improve the exploration potential for the company and will be beneficial for its shareholders.

### **M&A potential in the area**

We have stated in the past that the Red Lake Mining District is primed for M&A activities. Goldcorp acquired Gold Eagle Mines for Cdn\$1.47 billion in August 2008 and practically set a benchmark for valuation. More senior

producers are looking to expand resources by acquiring promising juniors. The area has seen increased attention owing to the success of upcoming junior gold exploration companies such as Rubicon Minerals (TSX-RMX). Hy Lake Gold has assembled a 12-km long package of high-potential, contiguous mining properties, hosting three past-producing mines, in the west Red Lake area. It is planning to conduct an extensive exploration program that will likely expand the resource estimates. We believe that these bode very well for attracting potential suitors.

## Key Developments in the last 12 months

Recent key developments include:

- ❖ Closing of a non-brokered private placement of five million units of the company at \$0.20 per unit, resulting in gross proceeds of \$1 million. This investment in the company was made by Platoro West Holdings Inc. (CNSX-PWH). Through this investment, Hy Lake has met necessary financing requirement in the short term and has also expanded its investor base that now includes some strategic investors, who have become Hy Lake's shareholders through their holding in Platoro.
- ❖ The company exercised its option to obtain a 100% interest in the Red Summit Mine Property from Claude Resources Inc. The Red Summit Mine Property is of strategic interest to Hy Lake as it is surrounded by the company's Rowan Property optioned from Goldcorp's Red Lake Gold Mines.
- ❖ The company continued with drilling programs at Red Summit Mine property and at Rowan property, which confirmed the presence of high grades of gold at these properties. These drill programs will help the company in planning future targets and a more productive exploration program.
- ❖ During 2009, the company appointed new directors who have significant experience in areas of exploration, finance and corporate development and have worked extensively with junior resource companies in the past. The company is also looking to strengthen its management team by potentially hiring senior personnel to lead the exploration initiatives.

## Key Future Events and priority areas during 2010

### Upcoming drilling plan

The company's primary goal is to develop and pursue more focused drilling programs at its three past producing mine properties to extend and expand the current resource base.

The company has engaged Vadim Galkin, Ph.D. to complete a structural analysis and technical evaluation of the Hy Lake properties and to prepare an exploration targeting report. Dr. Galkin is a renowned expert in this field

and was the winner of the semi-finalist prize in the Goldcorp Challenge for his interpretation of the structural control on gold ore allocation.

We believe that Hy Lake has done significant work to consolidate all data related to past drillings at its various Red Lake properties and has been developing a regional geological and exploration model in collaboration with Goldcorp.

During 2010, the company will focus on the following:

- ❖ Rowan property data consolidation with Goldcorp geologist that will lead to the development of the model in Goldcorp's Gemcom database.
- ❖ Use the findings from the exploration target report to better locate drill targets and carry a very focused and productive drilling program at both Rowan and Mount Jamie properties during 2010 and beyond. At Rowan, the company will work in collaboration with Goldcorp's technical team.
- ❖ Continue the work to complete Rowan exploration report for Red Lake Gold Mines (Goldcorp) that will help the company to meet the commitment and exercise option to earn its 60% ownership rights, as operator, at the Rowan Property.

We expect the company to focus on Mount Jamie and Rowan properties during 2010, with a renewed drilling program. We anticipate that the company will continue to work towards establishing a firm claim that there is a contiguous stretch of strike zone between its three mine properties, which will bolster its prospects of becoming a junior exploration company with sizable gold exploration assets.

### **New resource estimates**

The company has completed a revision of its resource estimates at its two main properties, Mount Jamie and Rowan. We believe that Hy Lake is working on updating the resource estimates for these properties. The company had not yet filed a NI 43-101 compliant report for Rowan property but we believe that it is working on a technical report that will involve resource calculation for the Rowan property and will compliment an updated technical report on the Mount Jamie property for the inclusion in a NI 43-101 compliant report. We also believe that as the drilling program gets underway at these properties during 2010 and beyond, it will have more opportunities to extend and expand the resource estimates and we believe that it should be one of the core objectives of the company in next 12 to 18 months.

### **Move to the Toronto Stock Exchange**

We understand that the company has been contemplating a move to the Toronto Stock Exchange (TSX) for some time. It has taken the company longer than it anticipated since an impending listing also requires the company to raise additional capital to meet listing requirements. Due to adverse capital market conditions during 2008 and the first half of 2009, the company decided to postpone the capital raise for the listing requirement. We understand that the company continues to actively pursue the listing at the TSX and has put in place the necessary action plan that will enable this

listing over the next three to six-month time period. A move to a bigger exchange will allow the company to showcase its potential to a wider investor audience and will potentially result in improved liquidity and better visibility in the company's stock.

## Analysis and Recommendation

Since we initiated our coverage of the company in May 2008, Hy Lake has worked with a consistent strategy to focus on gold exploration in the Red Lake mining camp. The company had its challenges in meeting some expectations during 2008 and 2009 because of adverse capital market conditions and it is taking longer for the company to achieve its stated objectives than we had originally anticipated.

***We however note that the company could have raised additional capital even during adverse market conditions but deliberately decided to delay such raise.*** The company was in a position to postpone the capital raise since it was ahead in meeting its spending commitment to earn its 60% ownership rights at the Rowan property and did not need immediate capital for this purpose. We believe that although the additional capital raise would have helped the company to expedite a move to the Toronto Stock Exchange and to carry a more aggressive drilling program at different properties, it would have resulted in unnecessary and excessive dilution for the existing shareholders due to low valuation for the company at the time. Hence the decision to move slowly was probably in the best interest of Hy Lake Gold's shareholders.

***We continue to believe that among junior gold companies, Hy Lake has one of the most promising exploration property package.*** It has consistently obtained good drill results and has shown strong exploration promise. There is strong evidence of gold mineralization associated with the favourable Red Lake geology both along strike and below the historic Rowan Mine and Red Summit Mine workings and along the Pipestone Bay - St. Paul Bay Deformation Zone. If the company can follow through on a drilling program that is able to continue along this strike and at depth, there is a strong potential for it to find significant gold deposits and to develop gold exploration assets to a significant size with the drilling programs planned during 2010 and beyond.

Another factor that gives Hy Lake an advantage is its close relationship with Goldcorp. Ubika Research continues to believe that Goldcorp will favour properties that will add to its resource base and those that are in the well-known backyards of its largest mine. Goldcorp has a joint option in Hy Lake Gold's Rowan property with two back-in rights. If Hy Lake can successfully expand its resource base, a possible interest from Goldcorp will be very real.

We expect the company to make a move to the TSX within a few months; this will also provide a momentum to the stock as it gets better profile and more liquidity. We will watch these developments closely and will continue to evaluate and update our readers on the company's progress.

We continue to rate Hy Lake Gold a SPECULATIVE BUY with a 12-month target of Cdn\$0.81 per share. (a potential 440% return from yesterday's close of \$0.15).

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**Note: Ubika Research has NOT visited various mining sites to do any independent physical assessment**

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