



HY LAKE GOLD INC.

(an exploration stage enterprise)

FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT) FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008

Responsibility for Financial Statements:

The accompanying financial statements for HY LAKE GOLD INC. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these policies have been set out in the September 30, 2008 audited financial statements. These statements are presented on an accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment.

Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly stated.

Disclosure Required Under National Instrument 51-102 Continuous Disclosure Obligations - Part 4.3(3)(a)

The auditor of HY LAKE GOLD INC. has not performed a review of the unaudited comparative financial statements for the three month period ended December 31, 2008.

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HY LAKE GOLD INC.

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BALANCE SHEETS**AS AT DECEMBER 31,**

	December 31, 2008 (Unaudited)	December 31, 2007 (Unaudited)	September 30, 2008 (Audited)
ASSETS			
Current			
Cash and cash equivalents	\$ 247,932	\$ 1,871,241	\$ 568,881
Accounts receivable	7,837	343,948	152,774
Prepaid expenses and deposits	16,861	5,741	13,785
	272,630	2,220,930	735,440
Mineral properties and deferred exploration costs (Note 4)	5,318,554	2,236,895	5,298,644
Fixed assets (Note 3)	126,537	79,304	133,815
	\$ 5,717,721	\$ 4,537,129	\$ 6,167,899

LIABILITIES**Current**

Accounts payable and accrued liabilities (Note 6)	\$ 16,617	\$ 501,331	\$ 351,111
Future income tax liabilities	-	774,939	-

SHAREHOLDERS' EQUITY

Share capital (Note 7)	14,455,574	12,824,848	14,455,574
Contributed surplus (Note 8)	2,777,556	2,116,198	2,777,556
Deficit	(11,532,026)	(11,680,187)	(11,416,342)
	5,701,104	3,260,859	5,816,788
	\$ 5,717,721	\$ 4,537,129	\$ 6,167,899

Approved on behalf of the board:*John Siriunas* _____ Director*Robert Seitz* _____ Director

See accompanying notes to the unaudited financial statements

HY LAKE GOLD INC.

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STATEMENTS OF LOSS AND DEFICIT**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31,**

	Three Months December 31,		Cumulative
	2008	2007	from the date of commencement of exploration
Expenses			
Depreciation	\$ 7,278	\$ 5,468	\$ 30,167
Consulting fees	35,440	20,250	340,895
Interest and bank charges	49	373	22,128
Insurance	4,692	1,823	28,047
Management fees	30,000	28,000	296,762
Office, general and administrative	28,403	23,062	238,604
Professional fees	2,863	7,042	86,978
Advertising and promotion	1,794	8,915	87,620
Stock-based compensation	-	719,047	1,289,229
Regulatory and filing fees	2,837	3,126	109,381
Travel and promotion	2,449	9,729	63,932
License, taxes and fees	-	-	23,372
Loss before undernoted items	115,805	826,835	2,617,115
Interest and other income	(121)	(227)	(12,532)
Future income tax (recovery)	-	-	(1,300,235)
Forgiveness of advances from officers, directors and shareholders	-	-	(50,006)
Loss for the period	\$ 115,684	\$ 827,062	\$ 1,254,342
Deficit, beginning of period	11,416,342	10,853,125	
Deficit, end of period	\$ 11,532,026	\$ 11,680,187	
Loss per share			
Basic	\$ (0.005)	\$ (0.050)	
Diluted	\$ (0.005)	\$ (0.050)	
Weighted average number of common shares outstanding			
Basic	24,769,195	16,585,751	
Diluted	24,769,195	16,585,751	

See accompanying notes to the unaudited financial statements

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STATEMENTS OF CASH FLOWS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31,**

	Three Months December 31,		Cumulative from the date of commencement of exploration
	2008	2007	
Cash flows from operating activities			
Net loss for the year	\$ (115,684)	\$ (827,062)	\$ (1,254,342)
Add (deduct) items not affecting cash:			
Depreciation	7,278	5,468	30,167
Stock-based compensation	-	719,047	1,289,229
Future income tax (recovery)	-	600,700	(1,300,235)
Consulting services	-	-	30,000
	(108,406)	(498,153)	(1,205,181)
Changes in non-cash working capital balances (Note 11)	(192,633)	(160,035)	(12,701)
Cash flows used in operating activities	(301,039)	338,118	(1,217,882)
Cash flows from investing activities			
Purchase of fixed assets	-	(1,888)	(156,705)
Increase in mineral properties - acquisition	-	(49,972)	(93,000)
Increase in mineral properties - exploration	(19,910)	(567,914)	(3,688,554)
Cash flows used in investing activities	(19,910)	(619,774)	(3,938,259)
Cash flows from financing activities			
Issue of common shares, net of issue cost	-	1,073,268	5,892,479
Decrease in advances from officers, directors and shareholders	-	-	(139,831)
Decrease in loan payable	-	-	(348,575)
Cash flows provided from financing activities	-	1,073,268	5,404,073
Net (decrease) increase in cash	(320,949)	791,612	247,932
Cash, beginning of year	568,881	1,079,629	-
Cash and cash equivalents, end of year	\$ 247,932	\$ 1,871,241	\$ 247,932

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

See accompanying notes to the unaudited financial statements

HY LAKE GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007

1. NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS

Hy Lake Gold Inc. (the "Company") was incorporated on November 29, 1991 under the Business Corporations Act (Ontario). The Company is in the business of acquiring, exploring and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenue and is considered to be in the exploration stage. The ability of the Company to carry out its business plan rests with its ability to secure equity and other financing.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Estimates*

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada. Precise determination of amounts of some assets and liabilities is dependent on future events. This requires that management make estimates in the preparation of the financial statements. Actual results could vary from the estimates.

(b) *Mineral resource properties and deferred exploration costs*

Mineral properties have been recorded at cost. These costs are deferred, or capitalized until commencement of commercial mining operations when the deferred costs applicable to the specific property will be amortized on the unit of production basis. If in any year the interests in specific properties are disposed of, or abandoned, the deferred expenditures will be written off in that year.

The Company reviews its exploration properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) *Income taxes*

Future income tax assets and liabilities are determined based on differences between the financial statements carrying values and their respective income tax basis generally using the enacted income tax rates at each balance sheet date. Future income tax assets also arise from unused loss carry forwards and other deductions. The amount of the future income tax asset recognized is limited to the amount that is more likely than not to be realized. The estimated amount is reviewed annually and adjusted, if necessary, by use of a valuation allowance.

(d) *Stock based compensation*

The Company has a stock option plan, which is described in note 7(b). The Company accounts for stock-based compensation using the fair-value method. Under the fair value method, stock-based payments are measured at the fair value of equity instruments and are amortized over the vesting period. The offset to the recorded cost is contributed surplus in shareholders' equity.

(e) *Fixed Assets*

Fixed assets are stated at cost. Depreciation is provided on the diminishing balance basis at the following annual rates:

Computer equipment	30%
Machinery and equipment	20%
Vehicles	30%

(f) *Flow through shares*

The Company finances a portion of its exploration program with flow-through common share issues. Income tax deductions relating to these expenditures are claimable only by the investors. Proceeds from common share issues pursuant to flow-through financing are credited to capital stock.

(g) *Asset retirement obligation*

The fair value of the liability for an asset retirement obligation is recorded when it is incurred or can be reasonably estimated, and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2008, the Company has not incurred or committed any asset retirement obligations related to its exploration properties.

(h) *Impairment of long-lived assets*

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount which the carrying amount of the asset exceeds the fair value of the asset.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) *Earning (loss) per share*

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value.

(j) *Revenue recognition*

Interest income is recognized on an accrual basis.

(k) *Cash and cash equivalents*

Cash and short-term investments with a remaining maturity of three months or less at the date of acquisition are classified as cash and cash equivalents. The Company places its cash and cash equivalents with institutions of high credit worthiness.

(l) *Cumulative information for exploration stage companies*

The Company has adopted CICA Handbook Accounting Guideline #11 with respect to financial statement presentation for exploration stage companies. Accordingly the statements of loss and cash flows have been altered to include a column outlining the cumulative revenues, expenses and cash flows from the date of commencement of exploration stage activities being October 1, 2005 to the fiscal year end date of the financial statements.

(m) *Share capital*

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the price per share paid in the most recent prior sale of shares for cash.

Costs incurred to issue common shares are deducted from share capital.

(n) *Change in accounting policies*

Effective October 1, 2006, the Company adopted the following accounting policies as recommended by the CICA handbook:

Section 3855 - Financial Instruments - Recognition and Measurement: Section 3855 requires that all financial assets, except those classified as held-to-maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held-for-trading; otherwise, they are measured at cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

Section 1530 - Comprehensive Income: This standard introduces new rules for the reporting and display of comprehensive income. Comprehensive income represents a change in shareholders' equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company has designated its financial instruments as follows:

- i. Cash and cash equivalents are classified as “Held-for-Trading”. Due to their short-term nature, their carrying value is equal to their fair value. The classification did not have a material impact on the financial statements;
- ii. Accounts receivable are classified as “Loans and Receivables”. These financial assets are recorded at values that approximate their amortized cost using the effective interest method. The classification did not have a material impact on the financial statements; and
- iii. Accounts payable and accrued liabilities are classified as “Other Financial Liabilities”. These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method. The classification did not have a material impact on the financial statements.

Transition adjustment to opening balance: The adoption of Sections 1530 and 3855 did not impact the opening equity and losses of the Company.

Effective October 1, 2007, the Company adopted the following accounting policies as recommended by the CICA handbook:

- i. The Company adopted the revised CICA Handbook Section 1506, Accounting Changes, which requires that: (a) a voluntary change in accounting principals can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.
- ii. Capital Disclosures – Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 10 to these financial statements.
- iii. Financial instruments – Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in note 9 to these financial statements.

3. FIXED ASSETS

	Cost	Accumulated Depreciation	December 31, 2008 Net Book Value	September 30, 2008 Net Book Value
Computer equipment	\$ 2,488	\$ 874	\$ 1,614	\$ 1,848
Machinery and equipment	139,676	31,264	108,412	118,873
Vehicles	30,000	13,489	16,511	13,094
	<u>\$ 172,164</u>	<u>\$ 45,627</u>	<u>\$ 126,537</u>	<u>\$ 133,815</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS**

Accumulated mineral property explorations have been incurred as follows:

December 31, 2008

	Balance, beginning of year	Acquisition	Exploration	Recoveries	Write-off	Balance, end of year
Mount Jamie	\$ 3,473,575	\$ -	\$ -	\$ -	\$ -	\$ 3,473,575
Rowan Lake	1,287,536	-	16,663	-	-	1,304,199
Golden Tree	194,792	-	-	-	-	194,792
Red Summit	329,311	-	3,247	-	-	332,558
Rubicon	13,430	-	-	-	-	13,430
	<u>\$ 5,298,644</u>	<u>\$ -</u>	<u>\$ 19,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,318,554</u>

September 30, 2008

	Balance, beginning of year	Acquisition	Exploration	Recoveries	Write-off	Balance, end of year
Mount Jamie	\$ 1,486,217	\$ 1,420,000	\$ 567,358	\$ -	\$ -	\$ 3,473,575
Rowan Lake	-	-	1,287,536	-	-	1,287,536
Golden Tree	132,792	62,000	-	-	-	194,792
Red Summit	-	25,000	304,311	-	-	329,311
Rubicon	-	10,000	3,430	-	-	13,430
	<u>\$ 1,619,009</u>	<u>\$ 1,517,000</u>	<u>\$ 2,162,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,298,644</u>

During the quarter, the Company announced the completion of the first phase diamond drilling program at the Red Lake project, including the Rowan Property and the Red Summit Mine Property. The drilling consisted of 15 holes totaling 6342 metres.

Highlights:

Testing the extension of the Porphyry Hill mineralized zone along strike toward the Newman-Todd Au occurrence

Testing of the mineralized zone at the Red Summit Mine downdip and along strike of the historic workings

Testing a structural target represented by the intersection of the Pipestone Bay - St. Paul Bay Deformation Zone with the Golden Arm Structure

Testing for strike extensions of the Rowan Mine Structure

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****5. COMMITMENTS**

	2009	2010	2011	2012	Total Required	Outstanding as at 12/31/2008
Rowan Lake Property						
Work Commitments	\$ 909,589	\$ 1,000,000	\$ 180,822	\$ -	\$ 2,500,000	\$ 1,195,801
Golden Tree Property						
Cash payments	\$ 20,000	\$ 20,000	\$ -	\$ -	\$ 60,000	\$ 30,000
Common shares	100,000	100,000	-	-	300,000	150,000
Work Commitments	\$ 30,000	\$ 40,000	\$ 50,000	\$ -	\$ 140,000	\$ 60,208
Red Summit						
Cash payments	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ -
Work Commitments	\$ 40,000	\$ 30,000	\$ 30,000	\$ -	\$ 100,000	\$ -
Rubicon						
Cash payments	\$ 6,000	\$ 9,000	\$ 12,000	\$ 20,000	\$ 50,000	\$ 47,000
Common shares	15,000	20,000	-	30,000	75,000	65,000

6. RELATED PARTY TRANSACTIONS

The following related party transactions occurred and were reflected in the audited consolidated financial statements.

	Three Months	
	December 2008	December 2007
Management fees expense:		
Management fees were charged by a company controlled by the President and CEO.	\$ 30,000	\$ 10,000
Management fees were charged by the President and CEO.	-	\$ 18,000
Legal fees		
Legal fees were charged by law firm whose partner is an Officer.	\$ -	\$ 3,684

Accounts payable at December 31, 2008 includes \$Nil (2007 - \$Nil) owing to officers, directors and companies controlled by officers and directors.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****7. CAPITAL STOCK****(a) Authorized** - Unlimited number of Common shares without par value

Unlimited number of Special shares

Common shares

	Number of Shares	Amount
Balance, September 30, 2006	11,307,060	\$ 10,593,057
Issued for cash (i)	4,252,000	2,452,500
Issued for property	300,000	68,000
Issued for services	26,721	9,352
Issued on exercise of options for services (ii)	100,000	30,000
Issued on exercise of options	590,000	352,569
Issued on exercise of warrants	10,000	14,200
Tax effect of Flow-Through shares	-	(434,343)
Value attributed to warrants on private placement	-	(1,252,886)
Share issue costs	-	(80,869)
	<u> </u>	<u> </u>
Balance, September 30, 2007	16,585,781	\$ 11,751,580
Issued for cash (i)	5,643,914	2,546,741
Share issue costs	-	(182,245)
Tax effect of Flow-Through shares	-	(865,892)
Issued on exercise of options	120,000	36,000
Issued on exercise of warrants	109,500	87,600
Issued for property	2,310,000	1,469,000
Value attributed to warrants on private placement	-	(481,416)
Fair value of options exercised	-	26,316
Fair value of warrants exercised	-	67,890
	<u> </u>	<u> </u>
Balance, September 30, 2008 and December 31, 2008	<u>24,769,195</u>	<u>\$ 14,455,574</u>

(i) Private Placements

The Company did not issue any new shares during the quarter dending December 31, 2008.

(b) Stock-option plan

The Company has a stock option plan ("Plan") under which the directors of the Company may grant options to acquire common shares of the Company to qualified directors and officers, employees, and consultants of the Company. Exercise prices cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant and the maximum term of any option cannot exceed five years. The maximum aggregate number of common shares under options any time under the Plan cannot exceed 10% of the issued shares.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007**

The fair value of each option was estimated on the date of grant. Under Black Scholes, the options issued during the year ended September 30, 2008 have been valued at \$993,195 (2007 - \$296,034) and expensed to loss using the following assumptions at the measurement date:

	<u>2008</u>	<u>2007</u>
Risk free interest rate	3.13%-4.11%	4.1%
Expected life	5 years	5 years
Price volatility	175%-225%	127%
Dividend yield	nil	nil

7. CAPITAL STOCK (CONTINUED)

The following table reflects the activity during the three month periods ended December 31, 2008 and 2007 of options granted, exercised and expired under the plan.

	<u>2008</u>		<u>2007</u>	
	Shares	Weighted Average exercise price	Shares	Weighted Average exercise price
Outstanding at beginning of period	2,340,000	\$ 0.63	-	\$ -
Granted during the period	-	\$ -	1,000,000	\$ 0.30
Exercised during the period	-		(660,000)	
Expired during the period	-		-	
Outstanding at end of period	<u>2,340,000</u>	\$ 0.63	<u>340,000</u>	\$ 0.30

The following summarizes information on the stock options outstanding at December 31, 2008.

Weighted average exercise price	\$ 0.63
Remaining contractual life	4 years
Options exercisable as at December 31, 2008	2,340,000

(c) Common Share Purchase Warrants

The following summaries warrants that have been issued:

	Number of Warrants	
	<u>2008</u>	<u>2007</u>
Balance, beginning of period	5,408,550	-
Warrants issued on issuance of shares for cash	-	2,051,000
Warrants issued as part of finders fees	-	57,050
Warrants exercised during the period	-	(10,000)
Warrants expired during the period	-	-
Balance, end of period	<u>5,408,550</u>	<u>2,098,050</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****7. CAPITAL STOCK (CONTINUED)**

The exercise price and expiry date of the warrants outstanding at period end are as follows:

<u>Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
300,000	0.50-0.75	September 17, 2010
3,000,000	0.50-0.75	September 16, 2010
120,000	0.50-0.75	September 29, 2010
57,050	0.60	April 10, 2009
1,380,500	0.80	April 10, 2009
350,000	1.25	July 25, 2009
<u>201,000</u>	1.50	July 25, 2009
<u>5,408,550</u>		

1) The fair value of 3,120,000 warrants issued along with the private placements in fiscal 2008 has been estimated at \$481,416 using the Black Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate 3.13%; expected volatility - 175%; Dividend yield - Nil; and expected life 2 years.

2) The fair value of 57,050 warrants issued along with the private placements in fiscal 2007 has been estimated at \$35,371 using the Black Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate 4.1%; expected volatility - 150%; Dividend yield - Nil; and expected life 2 years.

3) The fair value of 1,500,000 warrants issued along with the private placements in fiscal 2007 has been estimated at \$930,000 using the Black Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate 4.1%; expected volatility - 150%; Dividend yield - Nil; and expected life 2 years.

4) The fair value of 350,000 warrants issued along with the private placements in fiscal 2007 has been estimated at \$188,111 using the Black Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate 4.7%; expected volatility - 150%; Dividend yield - Nil; and expected life 2 years.

5) The fair value of 201,000 warrants issued along with the private placements in fiscal 2007 has been estimated at \$99,404 using the Black Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate 4.1%; expected volatility - 150%; Dividend yield - Nil; and expected life 2 years.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****8. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of the following:

	December 31, 2008	September 30, 2008
Balance, beginning of the period	\$ 2,777,556	\$ 1,397,151
Stock-based compensation cost	-	993,195
Stock options exercised	-	(26,316)
Fair value of warrants exercised	-	(67,890)
Fair value of warrants issued	-	481,416
Balance, end of the period	<u>\$ 2,777,556</u>	<u>\$ 2,777,556</u>

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Fair value

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

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and sundry receivables. The Company has no material concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to sundry receivables is remote. Management does not believe the receivables are impaired. Cash and cash equivalents consists of bank deposits and short-term investments which are with a Canadian Chartered Bank, from which management believes the risk of loss is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had cash and cash equivalents of \$247,932 (December 31, 2007- \$1,871,241) to settle accounts payable and accrued liabilities of \$16,617 (December 31, 2007- \$501,331). The ability of the Company to continue to pursue its exploration activities is dependant on its ability to secure additional equity or other financing.

Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

As at December 31, 2008, the carrying value amounts of the Company's financial instruments approximates their fair value.

HY LAKE GOLD INC.

(an exploration stage enterprise)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007****10. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will continue to assess its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended December 31, 2008. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months December 31, 2008	Three months December 31, 2007	Cumulative from the Date of Commencement of Exploration Stage
Accounts receivable	\$ 144,937	\$ (234,465)	\$ (5,634)
Prepaid expenses and deposit	(3,076)	82,808	(16,861)
Accounts payable and accrued liabilities	<u>(334,494)</u>	<u>(8,379)</u>	<u>9,794</u>
Changes in non-cash working capital balances	<u>\$ (192,633)</u>	<u>\$ (160,036)</u>	<u>\$ (12,701)</u>
Interest received	<u>\$ 121</u>	<u>\$ 227</u>	<u>\$ (12,176)</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Non-cash activities were conducted by the Company as follows:

	December 31, 2008	September 30, 2008
Issuance of common shares for property acquisitions	\$ -	\$ 68,000
Issuance of common shares for services	<u>-</u>	<u>39,353</u>
	<u>\$ -</u>	<u>\$ 107,353</u>

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(an exploration stage enterprise)

NOTES TO THE FINANCIAL STATEMENTS**FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2008 and 2007**

12. LOSS PER SHARE

Basic loss per share has been calculated by dividing the net loss per the financial statements by the weighted average number of shares outstanding during the year. The fully diluted loss per share would be calculated using a common share balance increased by the number of common shares that could be issued under outstanding warrants and options of the Company. As the Company is in a loss position for the years ended December 31, 2008 and 2007, no dilutive effect would result from the potential increase in common shares.

13. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2006, the Canadian Accounting Standards Board published a new strategic plan that will significantly affect financial reporting requirements for Canadian public companies. The Standards Board plan outlines the convergence of Canadian Generally Accepted Accounting Principles (“GAAP”) with International Financial Reporting Standards (“IFRS”) over an extended five-year transitional period. In February, 2008, the Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company’s management will continue to monitor these developments.

14. COMPARATIVE FIGURES

Certain December 31, 2007 comparative figures have been reclassified to conform with the current year's presentation adopted for December 31, 2008.