



HY LAKE GOLD INC.

(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 and 2008

HY LAKE GOLD INC.

(An Exploration Stage Enterprise)

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AUDITORS' REPORT

To the Shareholders of
Hy Lake Gold Inc.:

We have audited the balance sheets of Hy Lake Gold Inc. as at September 30, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "*Edmund Cachia & Co. LLP*"

Toronto, Canada
January 18, 2010

Chartered Accountants
Licensed Public Accountants

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HY LAKE GOLD INC.

(An Exploration Stage Enterprise)

**BALANCE SHEETS
AS AT SEPTEMBER 30,**

	2009	2008
ASSETS		
Current		
Cash and cash equivalents	\$ 217,906	\$ 568,881
Accounts receivable	3,883	152,774
Prepaid expenses and deposits	488	13,785
	222,277	735,440
Mineral properties and deferred exploration costs (Note 4)	5,408,525	5,298,644
Fixed assets (Note 3)	106,197	133,815
	\$ 5,736,999	\$ 6,167,899

LIABILITIES**Current**

Accounts payable and accrued liabilities (Note 6)	\$ 23,771	\$ 351,111
Future income tax liabilities (Note 12 (b))	142,736	-

Shares to be issued (Note 7 (d))	17,250	-
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SHAREHOLDERS' EQUITY

Share capital (Note 7 (a))	14,529,469	14,455,574
Contributed surplus (Note 8)	2,947,361	2,777,556
Deficit	(11,923,588)	(11,416,342)
	5,553,242	5,816,788
	\$ 5,736,999	\$ 6,167,899

Commitments and Subsequent Events (Notes 1, 4 and 14)

Approved on behalf of the Board:

"Stephen Jakob" Director"Robert Seitz" Director*The accompanying notes are an integral part of these financial statements.*

HY LAKE GOLD INC.

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**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED SEPTEMBER 30,**

	2009	2008	Cumulative from beginning of exploration stage
Expenses			
Depreciation	\$ 27,618	\$ 11,787	\$ 50,507
Consulting fees	93,259	128,072	398,714
Interest and bank charges	263	22,079	22,342
Insurance	18,542	14,175	41,897
Management fees	122,917	152,262	389,679
Office, general and administrative	59,645	137,403	269,846
Professional fees	29,718	46,210	113,833
Advertising and Promotion	13,175	34,909	99,001
Stock-based compensation (Note 7 (b))	58,000	993,195	1,347,229
Regulatory and filing fees	33,555	22,990	140,099
Travel and promotion	10,495	29,190	71,978
Licenses, taxes and fees	-	23,372	23,372
Loss before under noted items	467,187	1,615,644	2,968,497
Interest and other income	(377)	(12,297)	(12,788)
Future income tax (recovery)	40,436	(1,040,131)	(1,259,799)
Forgiveness of advances from officers, directors and shareholders	-	-	(50,006)
Net loss and comprehensive loss for the year	\$ 507,246	\$ 563,216	\$ 1,645,904
Deficit, beginning of year	11,416,342	10,853,126	
Deficit, end of year	\$ 11,923,588	\$ 11,416,342	
Loss per share (Note 13)			
Basic	\$ (0.02)	\$ (0.02)	
Diluted	\$ (0.02)	\$ (0.02)	
Weighted average number of common shares outstanding			
Basic	25,126,887	23,963,871	
Diluted	25,126,887	23,963,871	

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

HY LAKE GOLD INC.

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**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30,**

	2009	2008	Cumulative from beginning of exploration stage
Cash flows from operating activities			
Net Loss for the year	\$ (507,246)	\$ (563,216)	\$ (1,645,904)
Add (deduct) items not affecting cash:			
Depreciation	27,618	11,787	50,507
Stock-based compensation	58,000	993,195	1,347,229
Future income tax (recovery)	40,436	(1,040,131)	(1,259,799)
Consulting services	-	-	30,000
	(381,192)	(598,365)	(1,477,967)
Changes in non-cash working capital balances (Note 11)	(165,152)	(127,125)	14,780
Cash flows used in operating activities	(546,344)	(725,490)	(1,463,187)
Cash flows from investing activities			
Purchase of fixed assets	-	(62,719)	(156,705)
Increase in mineral properties - acquisition	(26,000)	(48,000)	(119,000)
Increase in mineral properties - exploration	(66,631)	(2,162,635)	(3,735,275)
Cash flows used in investing activities	(92,631)	(2,273,354)	(4,010,980)
Cash flows from financing activities			
Issue of common shares, net of issue cost	288,000	2,488,096	6,180,479
Decrease in advances from officers, directors and shareholders	-	-	(139,831)
Decrease in loan payable	-	-	(348,575)
Cash flows provided by financing activities	288,000	2,488,096	5,692,073
Net (decrease) increase in cash position	(350,975)	(510,748)	217,906
Cash and cash equivalents, beginning of year	568,881	1,079,629	-
Cash and cash equivalents, end of year	\$ 217,906	\$ 568,881	\$ 217,906

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

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

HY LAKE GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

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 commenced its current business activities of acquiring, exploring and developing mineral properties on October 1, 2005 (see note 2 (l)). 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.

As at September 30, 2009, the Company has net working capital of \$198,506 (2008- \$384,329) and incurred a net loss of \$507,246 (2008- \$563,216). The Company is in the exploration stage and has no proven reserves or production relating to its operations. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so.

Management believes the Company has sufficient funds to cover planned operations throughout the next twelve month period. However, management plans on securing additional financing through the issue of new equity (certain financings were secured subsequent to year end; see note 14), among other things. Nevertheless, there is no assurance that these initiatives will be successful.

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.

Management believes the going concern assumption to be appropriate for these financial statements. If the going concern assumption was not appropriate, adjustments might be necessary to the carrying value of the assets and liabilities, reported revenues and expenses, and the balance sheet classifications used in the financial statements.

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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

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. Examples of significant estimates made by management include rates for depreciation, the provision for future tax recoveries and composition of future income tax assets and future income tax liabilities, valuation of mineral interests (and impairment thereof), fixed assets, asset retirement obligations and assumptions used in valuing stock-based compensation and warrants. 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 change in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

(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 at fair-value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense or share capital as awards vest, with the offsetting amounts recognized as contributed surplus. If and when the stock options are exercised the applicable amounts of contributed surplus are transferred to share capital.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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%
Vehicle	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 September 30, 2009, 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.

(i) Earnings (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.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 comprehensive 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) *Financial Instruments*

Under Section 3251, *Equity* and Section 3855, *Financial Instruments - Recognition and Measurement*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held- to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing will be expensed in the period incurred. The Company has designated its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

(o) *Comprehensive income*

Section 1530, *Comprehensive Income*, provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian GAAP.

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FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) *Change in accounting policies*

Section 3064

The new section 3064 – Goodwill and Intangible Assets ensures that intangible assets meet the definition of an asset and eliminates the “matching” principle, whereby certain costs were being deferred and expensed to match with revenue earned. The new standard applies for interim and annual financial statements for years beginning on or after October 1, 2008.

The adoption of this standard did not have an impact on the Company’s financial statements.

Section 1400

CICA Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. See note 1 for disclosures relevant to Section 1400.

EIC 174

On March 27, 2009, the CICA approved EIC 174, “Mining Exploration Costs”. This EIC provides guidance on capitalization of exploration costs related to exploration properties in particular and on impairment of long-lived assets in general. The application of this new accounting standard did not have a material impact on the Company’s financial statements.

EIC 173

In January 2009, the CICA issued EIC 173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. The committee reached a consensus that a company’s credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions resulting from the implementation of EIC 173 require the abstract to be applied retrospectively without restatement of prior periods. The Company adopted this EIC effective January 20, 2009. The adoption of the EIC did not have a significant impact on the Company’s financial statements.

Section 3031

Effective October 1, 2008, the Company adopted Section 3031 – *Inventory* of the CICA handbook. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of ‘cost’ to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. The adoption of this new standard did not have a impact on the Company’s financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Future accounting changes

Section 1582

The new Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. The new standard applies 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. Earlier application is permitted.

The Company does not expect the adoption of this new standard to have an impact on its financial statements.

Section 1601 & 1602

The new section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interest, together replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes the accounting for a non-controlling interest in a subsidiary, in the consolidated financial statements, subsequent to a business combination. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

The Company does not expect the adoption of these new standards to have an impact on its financial statements.

International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles (“Canadian GAAP”) with IFRS over an expected five year transitional period. The AcSB announced in February 2008 that 2011 will be the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. These standards will apply to the Company for interim and fiscal reporting periods commencing October 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 ending September 30, 2011. The Company has begun an internal diagnostic review to understand, identify and assess the overall effort required to produce financial information under IFRS, however, at this time, the financial reporting impact of the transition to IFRS has not been determined.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****3. FIXED ASSETS**

	Cost	Accumulated Depreciation	2009 Net Book Value	2008 Net Book Value
Computer Equipment	\$ 2,488	\$ 1,237	\$ 1,251	\$ 1,848
Machinery and equipment	139,676	47,526	92,150	118,873
Vehicles	30,000	17,204	12,796	13,094
	<u>\$ 172,164</u>	<u>\$ 65,967</u>	<u>\$ 106,197</u>	<u>\$ 133,815</u>

4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS

Accumulated mineral property costs have been incurred as follows:

September 30, 2009

	Balance, beginning of year	Acquisition	Exploration	Balance, end of year
Mount Jamie	\$ 3,473,575	\$ -	\$ 1,649	
- reclassification (i)	-	-	(506,051)	\$ 2,969,173
Rowan Lake	1,287,536	-	52,850	
- reclassification (i)	-	-	506,051	1,846,437
Golden Tree	194,792	35,000	-	229,792
Red Summit	329,311	-	11,810	341,121
Rubicon	13,430	8,250	322	22,002
	<u>\$ 5,298,644</u>	<u>\$ 43,250</u>	<u>\$ 66,631</u>	<u>\$ 5,408,525</u>

(i) The Company reviewed its exploration data for the fiscal year ended 2008 and it was determined that Rowan Lake expenditures of \$506,051 were allocated to Mount Jamie. A reclassification was made accordingly.

September 30, 2008

	Balance, beginning of year	Acquisition	Exploration	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>\$ 5,298,644</u>

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**NOTES TO THE AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008**

4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Mount Jamie

During 2008, the Company completed a series of transactions resulting in the acquisition of a 100% interest in the Mount Jamie Property for 2,000,000 shares. The 9 mining claims are located in the Red Lake Mining District in Ontario.

The property is subject to a 3% NSR.

Rowan Lake

During 2008, the Company entered an Option Agreement with Red Lake Gold Mines, a general partnership of Goldcorp Inc. and Goldcorp Canada Ltd. (collectively "Goldcorp Red Lake Gold Mines" or "Goldcorp") on Goldcorp Red Lake Gold Mines' Rowan Lake Property in Todd Township, Red Lake, Ontario. Under the terms of the Option Agreement, the Company can earn a 60% interest in the property, as operator, through incurring exploration expenditures of \$2,500,000 over 3 years with a minimum \$500,000 commitment in the first year (see note 5). Goldcorp shall have an option back-in right to purchase a 20% interest in the property from the Company for \$5,000,000 within 90 days of the exercise of the option by the Company. If Goldcorp exercises the option back-in right, it will thereafter have a 60% joint venture interest and the Company will have a 40% joint venture interest in the Rowan Property.

If Goldcorp does not exercise the option back-in right, the Company will issue and deliver to Goldcorp 1,000,000 common shares of the Company. Furthermore, subsequent to the formation of the joint venture, Goldcorp shall have a joint venture back-in right to purchase an 11% interest in the property from the Company, within 90 days of the joint venture expending \$5,000,000 on operations, for \$7,000,000. If Goldcorp exercises the joint venture back-in right, it will thereafter have a 51% joint venture interest and the Company will have a 49% joint venture interest in the Rowan Property.

The property is subject to a 2% NSR.

Golden Tree

During 2008, the Company entered into an Option Agreement to acquire a 100% interest in a six claim addition to the Golden Tree Property, in the Ball Township / Hammell Lake areas of the Red Lake Mining District. The claims, to be known as the Pipestone Bay Property, are contiguous, west-north-west along strike, with the Company's Mount Jamie Property. Total consideration charged for the claims includes the issuance of 150,000 common shares, in aggregate, over a three year period (see note 5).

The property is subject to a 3% NSR.

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**NOTES TO THE AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008**

4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)

Golden Tree (Continued)

During 2007, the Company entered into an Option Agreement to earn a 100% interest in five mining claims in the Rowan Lake area of Red Lake, Ontario. The claims total approximately 200 hectares and are contiguous with the Mount Jamie Property. Total consideration charged and committed for these claims includes cash payments totaling \$70,000, the issuance of 200,000 common shares of the Company and completion of exploration work totaling \$140,000 over a four year period (see note 5).

The property is subject to a 3% NSR.

As at September 30, 2009, the Company was in arrears with the issuance of 100,000 shares with respect to the above stated Option Agreements. However, subsequent to year end, the Company satisfied this commitment by issuing the aforementioned shares. Moreover, as a result of the Company's commitment to issue these shares they have been recorded as "Shares to be Issued" in these financial statements (see notes 7 (d) and 14).

Red Summit

During 2008, the Company entered into an Option Agreement with Claude Resources Inc. to earn a 100% interest in two patented mineral claims in Todd Township, Ontario. Total consideration charged for the claims includes a cash payment of \$25,000 plus work commitments of \$100,000 (see note 5).

The property is subject to a 3% NSR.

Rubicon

During 2008, the Company entered into an Option Agreement with Rubicon Minerals Corporation to earn a 100% interest in four mining claims in Todd Township, Red Lake Mining District, Ontario. The aggregate purchase price for the claims is as follows: Cash payments totaling \$50,000 of which \$9,000 has been paid, and the issuance of 75,000 shares of the Company, of which 10,000 have been issued in 2008 (see note 5).

The property is subject to a 2% NSR.

As at September 30, 2009, the Company was in arrears with the issuance of 15,000 shares with respect to the above stated Option Agreements. However, subsequent to year end, the Company satisfied this commitment by issuing the aforementioned shares. Moreover, as a result of the Company's commitment to issue these shares they have been recorded as "Shares to be Issued" in these financial statements (see notes 7 (d) and 14).

See note 5 for additional mineral property information.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****5. COMMITMENTS AND CONTINGENCIES**

	2009	2010	2011	2012	Total Required	Outstanding as at 9/30/2009
Rowan Lake Property						
Work Commitments	\$ 909,589	\$ 1,000,000	\$ 180,822	\$ -	\$ 2,500,000	\$ 653,563
Golden Tree Property						
Cash Payments	\$ 20,000	\$ 20,000	\$ -	\$ -	\$ 70,000	\$ 20,000
Common Shares	100,000	100,000	-	-	350,000	200,000
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	\$ 41,000
Common Shares	15,000	20,000	-	30,000	75,000	65,000

FLOW-THROUGH SHARES

The Company is partly financed by the issuance of flow-through shares. However, there is no guarantee that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has committed to take all the necessary measure for this purpose.

6. RELATED PARTY TRANSACTIONS

Officers, directors and companies controlled by officers and directors of the Company and individuals related to them charged management and consulting fees in the amount of \$158,917 (2008 - \$200,262) to the Company during the year.

The Company was charged \$593 (2008 - \$Nil) for legal fees by a law firm of which an officer of the Company is a partner.

Accounts payable at September 30, 2009 includes \$Nil (2008 - \$4,200) owing to officers, directors and companies controlled by officers and directors and a law firm which an officer of the Company is a partner.

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 YEARS ENDED SEPTEMBER 30, 2009 and 2008****7. CAPITAL STOCK****(a) Authorized – Unlimited number of Common shares without par value****Unlimited number of Special shares****Common shares – issued and outstanding:**

	Number of Shares	Amount
Balance, September 30, 2007	16,585,781	\$ 11,751,580
Issued for cash (ii)	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
Balance, September 30, 2008	24,769,195	\$ 14,455,574
Issued for cash (i)	3,100,000	\$ 310,000
Share issue costs	-	(22,000)
Tax effect of Flow-Through shares	-	(102,300)
Value attributed to warrants on private placement	-	(103,000)
Fair value of warrants issued as finders fees	-	(8,805)
Balance, September 30, 2009	27,869,195	\$ 14,529,469

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

7. CAPITAL STOCK (Continued)

(i) Private Placement - 2009

During 2009, the Company completed a non-brokered private placement of 3,100,000 flow-through units ("Units") of the Company at \$0.10 per Unit for gross proceeds of \$310,000. Each Unit consists of one flow-through common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional (non flow-through) common share for a period of two years at a price of \$0.20 in the first year and \$0.30 in the second year. A cash finders fee in the amount of \$22,000 was paid to eligible finders as well as 265,000 warrants (see note 7 (c)).

(ii) Private Placements - 2008

During 2008, the Company completed a non-brokered private placement of 2,523,914 flow-through common shares ("Shares") of the Company at \$0.70 per Share for gross proceeds of \$1,766,741. A cash finder's fee of 7% was paid to eligible finders.

During 2008, the Company completed a non-brokered private placement of \$750,000 through the sale of 3,000,000 flow-through units ("FT Units") at \$0.25. Each FT Unit consisted of one flow-through common share, and one common share purchase warrant, which entitles the holder to purchase one additional (non flow-through) common share for a period of two years, at a price of \$0.50 in the first year and \$0.75 in the second year. A cash finder's fee of 5% was paid to eligible finders as well as 300,000 compensation options. Each compensation option entitles the holder to one unit exercisable over a two year period at \$0.25. Each unit includes one common share and one common share purchase warrant. Each of the 300,000 warrants (see note 7 (c)) is exercisable into one common share for a period of two years at \$0.50 in year one and \$0.75 in year two.

An additional 120,000 units were issued in 2008, for gross proceeds of \$30,000, on the same terms as above (but excluding any finder's fees).

(b) Stock-option plan

The Company has a stock option plan (the "Plan") under which the directors of the Company may grant options to acquire common shares of the Company to 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.

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, 2009 have been valued at \$58,000 (2008 - \$993,195) and expensed to loss, using the following assumptions at the measurement date:

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****7. CAPITAL STOCK (Continued)****(b) Stock-option plan (continued)**

	<u>2009</u>	<u>2008</u>
Risk free interest rate	2.64%	3.13% - 4.11%
Expected life	5 years	5 years
Price volatility	191.19%	175%-225%
Dividend yield	nil	nil

The following table reflects the continuity for the years ended September 30, 2009 and 2008 of options granted, exercised and expired under the plan.

	<u>2009</u>		<u>2008</u>	
	Shares	Weighted Average Exercise price	Shares	Weighted Average Exercise price
Outstanding at beginning of year	2,340,000	\$ 0.63	660,000	0.35
Granted during the year	600,000	0.15	1,800,000	0.71
Exercised during the year	-	-	(120,000)	0.30
Expired during the year	(400,000)	0.30	-	-
Expired during the year	<u>(300,000)</u>	1.00	<u>-</u>	-
Outstanding at end of year	<u>2,240,000</u>	\$ 0.48	<u>2,340,000</u>	\$ 0.63

The following summarizes information on the stock options outstanding at September 30, 2009:

Weighted average exercise price	0.48
Remaining contractual life	3.67 years
Options exercisable as at September 30, 2009	2,240,000

The following table summarizes the options outstanding at September 30, 2009:

Number of Options	Exercise Price	Expiry Date
140,000	0.30	November 7, 2011
200,000	0.50	February 15, 2012
750,000	1.00	November 13, 2012
550,000	0.30	September 18, 2013
600,000	0.15	August 10, 2014
<u>2,240,000</u>		

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****7. CAPITAL STOCK (Continued)****(c) Common Share Purchase Warrants**

The following summarizes warrants that have been issued:

	Number of Warrants	
	2009	2008
Balance, beginning of year	5,408,550	2,098,050
Warrants issued on issuance of units for cash	3,100,000	3,120,000
Warrants issued as part of finders fees	265,000	300,000
Warrants exercised during the year	-	(109,500)
Warrants expired during the year	(1,988,550)	-
Balance, end of year	<u>6,785,000</u>	<u>5,408,550</u>

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

Warrants	Exercise Price	Expiry Date
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
265,000	0.20-0.30	August 18, 2011
3,100,000	0.20-0.30	August 19, 2011
<u>6,785,000</u>		

The fair value of 3,365,000 warrants issued along with the private placements in fiscal 2009 has been estimated at \$111,805 using the Black Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate - 1.18%; expected volatility - 135.52%; Dividend yield - Nil; and expected life - 1 year.

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.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****7. CAPITAL STOCK (Continued)****(d) Shares to be issued**

As at September 30, 2009, the Company had a commitment to issue 115,000 common shares at a deemed value of \$0.15 per share amounting to \$17,250 pursuant to certain property option agreements entered into by the Company. Subsequent to year end these shares were issued (see note 14).

8. CONTRIBUTED SURPLUS

Contributed surplus is comprised of the following:

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	\$ 2,777,556	\$ 1,397,151
Fair value of stock-based compensation cost	58,000	993,195
Fair value of stock options exercised	-	(26,316)
Fair value of warrants exercised	-	(67,890)
Fair value of warrants issued	111,805	481,416
Balance, end of year	<u>\$ 2,947,361</u>	<u>\$ 2,777,556</u>

9. FINANCIAL INSTRUMENTS*Fair value*

The Company's financial instruments as at September 30, 2009 include cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The Company records its financial instruments at their carrying amounts which approximates fair value, unless otherwise disclosed in the financial statements. The carrying amounts approximate fair values due to the short-term maturities of these financial instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to cash and cash equivalents and receivables included in current assets. The Company has no material concentration of credit risk arising from operations. Cash and cash equivalents consists of bank deposits and a term deposit, which have been invested with or purchased from a Canadian chartered bank, from which management believes the risk of loss is remote. As at September 30, 2009, the Company's receivables primarily consist of amounts due from the Canadian government. The Company's receivables are normally collected within a 60-90 day period. The Company has not experienced any significant collection issues to September 30, 2009. The Company is exposed to credit risk with regards to debtors refusing payment and the government denying the Company claims filed.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

9. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

The Company's maximum exposure to credit risk as at September 30, 2009 is the carrying value of cash, cash equivalents and accounts receivable.

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 September 30, 2009, the Company had cash and cash equivalents of \$217,906 (September 30, 2008- \$568,881) to settle accounts payable and accrued liabilities of \$23,771 (September 30, 2008- \$351,111). The ability of the Company to continue to pursue its exploration activities and continue as a going concern is dependant on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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 monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Interest rate risk

The Company has cash and cash equivalent balances bearing fixed interest rates and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Sensitivity analysis

As at September 30, 2009, the carrying value amounts of the Company's financial instruments approximates their fair value.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

10. CAPITAL MANAGEMENT

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

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.

The Company's investment policy is to invest its cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its capital resources will be sufficient to carry out its exploration plans and operations through its current operating period. 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 year ended September 30, 2009. The Company is not subject to externally imposed capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****11. SUPPLEMENTAL CASH FLOW INFORMATION**

	2009	2008	Cumulative from beginning of exploration stage
Accounts receivable	\$ 148,891	\$ (43,291)	\$ (1,680)
Prepaid expenses and deposits	13,297	74,764	(488)
Accounts payable and accrued liabilities	(327,340)	(158,598)	16,948
Changes in non-cash working capital balances	<u>\$ (165,152)</u>	<u>\$ (127,125)</u>	<u>\$ 14,780</u>
Interest received	<u>\$ 377</u>	<u>\$ 12,297</u>	<u>\$ 12,674</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	2009	2008
Issuable and issued common shares for property acquisitions	\$ 17,250	\$ 1,469,000
Fair value attributed to warrants on private placement	<u>\$ 103,000</u>	<u>\$ 481,416</u>
Fair value of options exercised reallocated from contributed surplus to share capital	<u>\$ -</u>	<u>\$ 26,316</u>
Fair value of warrants exercised reallocated from contributed surplus to share capital	<u>\$ -</u>	<u>\$ 67,890</u>
Fair value attributed to warrants issued as part of a finders fee	<u>\$ 8,805</u>	<u>\$ -</u>
Tax effect of flow-through shares	<u>\$ 102,300</u>	<u>\$ 865,892</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008****12. INCOME TAXES**

(a) Income tax expense (recovery) varies from the amounts that would be computed by applying current rates to loss before income taxes, as shown in the following table:

	<u>2009</u>	<u>2008</u>
Combined federal and provincial income tax rates	33%	34%
Statutory rate applied to loss for the year before income taxes	\$ (154,047)	\$ (545,138)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	19,140	337,686
Other items	(12,993)	(12,680)
Effect of reduction in statutory rates	56,257	-
Utilization of loss carry forward	45,601	-
Loss not tax benefited	-	220,132
Tax effect of reversal of temporary differences	1,867,835	-
Reduction of valuation allowance	(1,781,357)	-
Tax benefit renounced to flow-through shareholders	-	(1,040,131)
Future income tax (recovery)	<u>\$40,436</u>	<u>\$(1,040,131)</u>

(b) The tax effects of temporary differences that give rise to future income tax assets and liabilities at September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Future tax assets:		
Share issue costs	\$ 66,910	\$ 77,673
Fixed assets	21,769	4,110
Non-capital losses	602,003	2,392,265
Capital losses	506,132	582,051
	<u>1,196,814</u>	<u>3,056,099</u>
Less: valuation allowance	-	(1,781,357)
	<u>\$ 1,196,814</u>	<u>\$ 1,274,742</u>
Future tax liabilities		
Mineral properties	(1,339,550)	(1,274,742)
Net asset (liabilities)	<u>\$ (142,736)</u>	<u>\$ -</u>

(c) The Company has non-capital losses of approximately \$1,824,000 in Canada which expire through 2029. The benefit of these losses has not been recognized in these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2009 and 2008

13. 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 September 30, 2009 and 2008, no dilutive effect would result from the potential increase in common shares.

14. SUBSEQUENT EVENTS

On October 2, 2009 the Company issued 115,000 common shares with a deemed value of \$0.15 to satisfy property acquisition commitments that were in arrears.

On December 4, 2009 the Company closed a non-brokered private placement of 5,000,000 Units at \$0.20 per Unit for gross proceeds of \$1,000,000 with Platoro West Holdings Inc. ("Platoro"). Each Unit consists of one common share and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional common share at a price of \$0.30 for a period of 18 months from the date of closing (the "Warrant Term"). If after the date that is nine months following closing, the common shares of the Company close at \$0.50 or more for 20 consecutive trading days, then the Warrant Term shall be automatically reduced to 30 days from the date that the Company provides Platoro with written notice of the new expiry date.

On December 4, 2009 the Company granted stock options to purchase 400,000 shares of the Company at an exercise price of \$0.20 for a 5 year period to directors of the Company. In addition, 170,000 stock options were cancelled subsequent to year end.

On December 31, 2009 the Company closed a non-brokered private placement of 1,200,000 Flow Through shares at \$0.25 per Flow Through share for gross proceeds of \$300,000.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. These reclassifications did not affect prior year's net losses.