

HY LAKE GOLD INC.
(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 and 2007

HY LAKE GOLD INC.
(An Exploration Stage Enterprise)
FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 and 2007

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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. (the "Company", an exploration stage enterprise) as at September 30, 2008 and 2007 and the statements of 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, 2008 and 2007 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"
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
January 19, 2009

HY LAKE GOLD INC.
(an exploration stage enterprise)
BALANCE SHEETS
AS AT SEPTEMBER 30

	2008	2007
ASSETS		
Current		
Cash and cash equivalents	\$ 568,881	\$ 1,079,629
Accounts receivable	152,774	109,483
Prepaid expenses and deposits	13,785	88,549
	735,440	1,277,661
Mineral properties and deferred exploration costs (Note 4)	5,298,644	1,619,009
Fixed assets (Note 3)	133,815	82,884
	\$ 6,167,899	\$ 2,979,554
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 351,111	\$ 509,709
Future income tax liabilities (Note 12)	-	174,239
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	14,455,574	11,751,580
Contributed surplus (Note 8)	2,777,556	1,397,151
Deficit	(11,416,342)	(10,853,125)
	5,816,788	2,295,606
	\$ 6,167,899	\$ 2,979,554

Approved on behalf of the board:

'John Siriunas' Director

'Robert Seitz' Director

See accompanying notes to the financial statements

HY LAKE GOLD INC.

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

	2008	2007	Cumulative from the date of commencement of exploration
Expenses			
Depreciation	\$ 11,787	\$ 11,027	\$ 22,889
Consulting fees	128,072	122,833	305,455
Interest and bank charges	22,079	-	22,079
Insurance	14,175	9,180	23,355
Management fees	152,262	97,500	266,762
Office, general and administrative	137,403	66,170	210,201
Professional fees	46,210	27,624	84,115
Advertising and promotion	34,909	50,917	85,826
Stock-based compensation	993,195	296,034	1,289,229
Regulatory and filing fees	22,990	67,934	106,544
Travel and promotion	29,190	29,923	61,483
Licenses, taxes and fees	23,372	-	23,372
Loss before undernoted items	1,615,644	779,142	2,501,310
Interest and other income	(12,297)	(114)	(12,411)
Future income tax (recovery)	(1,040,131)	(260,104)	(1,300,235)
Forgiveness of advances from officers, directors and shareholders	-	-	(50,006)
Loss for the period	\$ 563,216	\$ 518,924	\$ 1,138,658
Deficit, beginning of year	10,853,126	10,334,201	
Deficit, end of year	\$ 11,416,342	\$ 10,853,125	
Loss per share			
Basic	\$ (0.02)	\$ (0.04)	
Diluted	\$ (0.02)	\$ (0.04)	
Weighted average number of common shares outstanding			
Basic	23,963,871	14,215,950	
Diluted	23,963,871	14,479,809	

See accompanying notes to the financial statements

HY LAKE GOLD INC.

(an exploration stage enterprise)

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

	2008	2007	Cumulative from the date of commencement of exploration
Cash flows from operating activities			
Net loss for the year	\$ (563,216)	\$ (518,924)	\$ (1,138,658)
Add (deduct) items not affecting cash:			
Depreciation	11,787	11,027	22,889
Stock-based compensation	993,195	296,034	1,289,229
Future income tax (recovery)	(1,040,131)	(260,104)	(1,300,235)
Consulting services	-	30,000	30,000
	(598,365)	(441,967)	(1,096,775)
Changes in non-cash working capital balances (Note 11)	(127,125)	298,123	179,932
Cash flows used in operating activities	(725,490)	(143,844)	(916,843)
Cash flows from investing activities			
Purchase of fixed assets	(62,719)	(93,230)	(156,705)
Increase in mineral properties - acquisition	(48,000)	(30,000)	(93,000)
Increase in mineral properties - exploration	(2,162,635)	(1,436,904)	(3,668,644)
Cash flows used in investing activities	(2,273,354)	(1,560,134)	(3,918,349)
Cash flows from financing activities			
Issue of common shares, net of issue cost	2,488,096	2,595,983	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	2,488,096	2,595,983	5,404,073
Net (decrease) increase in cash	(510,748)	892,005	568,881
Cash, beginning of year	1,079,629	187,624	-
Cash and cash equivalents, end of year	\$ 568,881	\$ 1,079,629	\$ 568,881

SUPPLEMENTAL CASH FLOW INFORMATION (Note 11)

See accompanying notes to the financial statements

HY LAKE GOLD INC.

(an exploration stage enterprise)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 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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FOR THE YEARS ENDED SEPTEMBER 30, 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 September 30, 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.

HY LAKE GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 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 YEARS ENDED SEPTEMBER 30, 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	2008 Net Book Value	2007 Net Book Value
Computer equipment	\$ 2,488	\$ 640	\$ 1,848	\$ 477
Machinery and equipment	139,676	20,803	118,873	56,907
Vehicles	30,000	16,906	13,094	25,500
	<u>\$ 172,164</u>	<u>\$ 38,349</u>	<u>\$ 133,815</u>	<u>\$ 82,884</u>

HY LAKE GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007****4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS**

Accumulated mineral property explorations have been incurred as follows:

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>

September 30, 2007

	Balance, beginning of year	Acquisition	Exploration	Balance, end of year
Mount Jamie	\$ 84,105	\$ 45,000	\$ 1,357,112	\$ 1,486,217
Golden Tree	-	53,000	79,792	132,792
	<u>\$ 84,105</u>	<u>\$ 98,000</u>	<u>\$ 1,436,904</u>	<u>\$ 1,619,009</u>

Mount Jamie

During 2008, the Company completed a series of transactions resulting in the acquisition of 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 the year, 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. 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.

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

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 in to 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. Consideration paid for the claims included the issuance of 50,000 common shares of the Company (with a deemed value of \$21,000) plus an additional 50,000 common shares to be issued in each of 2009 and 2010.

The property is subject to a 3% NSR.

During 2007, the Company entered in to 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. Initial consideration paid for these claims included cash payments totaling \$10,000 and the issuance of 50,000 common shares with a total deemed value of \$43,000.

The property is subject to a 3% NSR.

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. Initial consideration paid for the claims include a cash payment of \$25,000 plus work commitments of \$100,000 (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 \$3,000 has been paid, and issue 75,000 shares of the Company, of which 10,000 have been issued in 2008 (note 5).

The property is subject to a 2% NSR.

See note 5 for additional mineral property information.

HY LAKE GOLD INC.

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007****5. COMMITMENTS**

	2008	2009	2010	2011	2012	Total Required	Outstanding as at 9/30/2008
Rowan Lake Property							
Work Commitments	\$ 409,589	\$ 909,589	\$ 1,000,000	\$ 180,822	\$ -	\$ 2,500,000	\$ 1,212,464
Golden Tree Property							
Cash payments	\$ 20,000	\$ 20,000	\$ 20,000	\$ -	\$ -	\$ 60,000	\$ 30,000
Common shares	100,000	100,000	100,000	-	-	300,000	150,000
Work Commitments	\$ 20,000	\$ 30,000	\$ 40,000	\$ 50,000	\$ -	\$ 140,000	\$ 60,208
Red Summit							
Cash payments	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ -
Work Commitments	\$ -	\$ 40,000	\$ 30,000	\$ 30,000	\$ -	\$ 100,000	\$ -
Rubicon							
Cash payments	\$ 3,000	\$ 6,000	\$ 9,000	\$ 12,000	\$ 20,000	\$ 50,000	\$ 47,000
Common shares	10,000	15,000	20,000	-	30,000	75,000	65,000

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 \$200,262 (2007 - \$149,519) to the Company during the year.

The Company was charged \$Nil (2007 - \$18,474) for legal fees by a law firm of which an officer of the Company is a partner.

Capitalized exploration expenditures totaling \$Nil (2007 - \$31,500) were charged by a director of the Company.

Accounts payable at September 30, 2008 includes \$4,200 (2007 - \$23,982) 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, 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	<u>-</u>	<u>(80,869)</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	<u>-</u>	<u>67,890</u>
Balance, September 30, 2008	<u>24,769,195</u>	<u>\$ 14,455,574</u>

(i) Private Placements

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 \$750,000.00 through the sale of 3,000,000 flow-through units ("FT Units") at \$0.25. Each FT Unit will consisted of one flow-through common share, and one common share purchase warrant, which shall entitle 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 two year period at \$0.25. Each unit includes one common share and one common share purchase warrant. Each warrant is exercisable into one common share for a period of two years at \$0.50 in year one and \$0.75 in year two.

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FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007

7. CAPITAL STOCK (CONTINUED)

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).

On February 15th, 2007, the Company completed a flow-through common share private placement financing, issuing 392,072 flow through common shares at \$0.35 per share raising an additional \$137,225.20. A finders fee of 3% cash and 5% in shares has been paid to eligible finders.

On April 11th, 2007, the Company closed a non-brokered private placement of 1,500,000 units at a price of \$0.60 per unit for gross proceeds of \$900,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a strike price of \$0.80 for a period of 24 months from the date of closing.

On August 13th, 2007, the Company closed a non-brokered private placement financing issuing 350,000 hard dollar units at \$1.00 and 402,000 flow through units at \$1.25 per unit for an aggregate total of 752,000 units and gross proceeds of \$852,500. Each flow through unit consists of one flow through common share and one-half one common share purchase warrant (a "Series A Warrant"). Each hard dollar unit consists of one common share and one common share purchase warrant (a "Series B Warrant"). A finder's fee of 7% in cash has been paid to eligible finders. The securities issued are subject to hold period of four months and one day from the date of issue.

(ii) Shares issued on exercise of options for services to a shareholder for consulting services.

The Company issued Nil (2007 - 50,000) common shares for a deemed value of \$Nil (2007 - \$15,000).

(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 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.

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

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007****7. CAPITAL STOCK (CONTINUED)**

The following table reflects the continuity for the years ended September 30, 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 year	660,000	-	-	-
Granted during the year	1,800,000	\$ 0.71	1,350,000	\$ 0.35
Exercised during the year	(120,000)	\$ 0.30	(690,000)	\$ 0.36
Expired during the year	-	-	-	-
Outstanding at end of year	<u>2,340,000</u>	\$ 0.63	<u>660,000</u>	\$ 0.35

The following summarizes information on the stock options outstanding at September 30, 2008.

Weighted average exercise price	\$ 0.63
Remaining contractual life	4.2 years
Options exercisable as at September 30, 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 year	2,098,050	-
Warrants issued on issuance of shares for cash	3,120,000	2,051,000
Warrants issued as part of finders fees	300,000	57,050
Warrants exercised during the year	(109,500)	(10,000)
Warrants expired during the year	-	-
Balance, end of year	<u>5,408,550</u>	<u>2,098,050</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007****7. CAPITAL STOCK (CONTINUED)**

The exercise price and expiry date of the warrants outstanding at year 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 YEARS ENDED SEPTEMBER 30, 2008 and 2007****8. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of the following:

	<u>2008</u>	<u>2007</u>
Balance, beginning of the year	\$ 1,397,151	\$ -
Stock-based compensation cost	993,195	296,034
Stock options exercised	(26,316)	(145,569)
Fair value of warrants exercised	(67,890)	(6,200)
Fair value of warrants issued	<u>481,416</u>	<u>1,252,886</u>
Balance, end of the year	<u>\$ 2,777,556</u>	<u>\$ 1,397,151</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 September 30, 2008, the Company had cash and cash equivalents of \$568,881 (September 30, 2007- \$1,079,629) to settle accounts payable and accrued liabilities of \$351,111 (September 30, 2007- \$509,709). 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 September 30, 2008, 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, 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 year ended September 30, 2008. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2008</u>	<u>2007</u>	Cumulative from the Date of Commencement of Exploration Stage
Accounts receivable	\$ (43,291)	\$ (102,043)	\$ (150,571)
Prepaid expenses and deposit	74,764	(88,549)	(13,785)
Accounts payable and accrued liabilities	<u>(158,598)</u>	<u>488,715</u>	<u>344,288</u>
Changes in non-cash working capital balances	\$ <u>(127,125)</u>	\$ <u>298,123</u>	\$ <u>179,932</u>
Interest received	\$ <u>12,297</u>	\$ <u>114</u>	\$ <u>12,297</u>
Income tax paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

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

	<u>2008</u>	<u>2007</u>
Issuance of common shares for property acquisitions	\$ 1,469,000	\$ 68,000
Issuance of common shares for services	<u>-</u>	<u>39,353</u>
	<u>\$ 1,469,000</u>	<u>\$ 107,353</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007****12. INCOME TAXES**

(a) Income tax 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>2008</u>	<u>2007</u>
Statutory rate applied to loss for the year before income taxes	\$ (545,138)	\$ (187,435)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	337,686	106,928
Other items	(12,680)	18,784
Loss not taxed-benefited	220,132	61,723
Tax benefit renounced to flow-through shareholders	<u>(1,040,131)</u>	<u>(260,104)</u>
Future income tax (recovery)	<u>\$ (1,040,131)</u>	<u>\$ (260,104)</u>

(b) The tax effects of temporary differences that give rise to future income tax assets and liabilities at September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Future tax assets:		
Share issue costs	\$ 77,673	\$ 10,596
Fixed assets	4,110	4,111
Non-capital losses	2,392,265	245,397
Capital losses	<u>582,051</u>	<u>-</u>
	3,056,099	260,104
Less: valuation allowance	<u>(1,781,357)</u>	<u>-</u>
	\$ 1,274,742	260,104
Future tax liabilities:		
Mineral properties	<u>(1,274,742)</u>	<u>(434,343)</u>
Net asset (liabilities)	<u>\$ -</u>	<u>\$ (174,239)</u>

(c) The Company has non-capital losses of approximately \$7,036,073 in Canada which expire through 2028. The benefit of these losses has not been recognized for financial statement purpose.

(d) During the year, the Company paid \$Nil (2007 - \$Nil) in respect of income taxes.

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, 2008 and 2007, no dilutive effect would result from the potential increase in common shares.

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007

14. 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.

15. COMPARATIVE FIGURES

Certain September 30, 2007 comparative figures have been reclassified to conform with the current year's presentation adopted for September 30, 2008.