HY LAKE GOLD INC

# Hy Lake Gold Inc.

(An Exploration Stage Enterprise)

**Interim Financial Statements**
**(Expressed in Canadian Dollars)**

**Three and Six Months Ended March 31, 2011**
**(Unaudited)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim financial statements of Hy Lake Gold Inc. (an exploration stage enterprise) were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the September 30, 2010 audited financial statements. Only changes in accounting policies have been disclosed in these unaudited interim financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim financial statements and (ii) the unaudited interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

## NOTICE TO READER

Under National Instrument 51 102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

# Hy Lake Gold Inc.

(An Exploration Stage Enterprise)

**Interim Balance Sheets**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| As at | March 31, 2011 | September 30, 2010 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 2,043,431 | $ 640,302 |
| Restricted cash (Note 5) | 22,000 | 22,393 |
| Accounts receivable | 121,545 | 70,661 |
| Prepaid expenses and deposits | 13,423 | 4,670 |
| | 2,200,399 | 738,026 |
| **Property and equipment** (Note 6) | 98,210 | 88,709 |
| **Mineral properties and deferred exploration costs** (Note 7) | 7,142,983 | 6,133,306 |
| | $ 9,441,592 | $ 6,960,041 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | $ 767,695 | $ 532,053 |
| **Future income tax liabilities** | 544,000 | 544,000 |
| | 1,311,695 | 1,076,053 |
| **Shareholders' Equity** | | |
| **Share capital** (Note 8(b)) | 16,887,798 | 15,482,719 |
| **Contributed Surplus** | 4,405,801 | 3,294,361 |
| **Deficit** | (13,163,702) | (12,893,092) |
| | 8,129,897 | 5,883,988 |
| | $ 9,441,592 | $ 6,960,041 |

**Nature of Operations and Going Concern** (Note 1)
**Commitment** (Note 12)
**Subsequent Events** (Note 13)

Approved by the Board:

*signed* "Stephen Jakob", Director

*signed* "Robert Seitz", Director

*The accompanying notes are an integral part of these unaudited interim financial statements*

# Hy Lake Gold Inc.

(An Exploration Stage Enterprise)

**Interim Statements of Loss and Comprehensive Loss**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Management fees | **$ 43,500** | $ 17,500 | **$ 97,167** | $ 66,000 |
| Office, general and administrative | **35,315** | 23,171 | **50,535** | 42,463 |
| Professional fees | **16,126** | 12,341 | **46,667** | 16,304 |
| Shareholder information | **6,073** | 5,281 | **31,804** | 16,006 |
| Travel and entertainment | **2,095** | 6,048 | **19,911** | 13,004 |
| Insurance | **4,246** | - | **8,980** | 16,573 |
| Consulting fees | **1,000** | 22,368 | **4,326** | 84,571 |
| Stock-based compensation | **1** | (14,000) | **1,001** | 63,000 |
| Depreciation | **5,311** | 5,288 | **10,519** | 12,068 |
| Part XII.6 tax | **-** | 2,415 | **-** | 2,415 |
| | **113,667** | 80,412 | **270,910** | 332,404 |
| Loss before under noted items | **(113,667)** | (80,412) | **(270,910)** | (332,404) |
| Interest and other income | **-** | - | **300** | 5,000 |
| Future income tax expense | **-** | (333,264) | **-** | (333,264) |
| **Net loss and comprehensive loss for the period** | **$ (113,667)** | $ (413,676) | **$ (270,610)** | $ (660,668) |
| **Basic and fully diluted loss per share** | **$ (0.00)** | $ (0.01) | **$ (0.01)** | $ (0.02) |
| **Weighted average number of common shares outstanding** | **40,064,148** | 34,206,861 | **37,708,054** | 31,836,530 |

## Interim Statements of Deficit
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Deficit** | | | | |
| Balance, beginning of period | **$ (13,050,035)** | $ (12,170,580) | **$ (12,893,092)** | $ (11,923,588) |
| Net loss for the period | **(113,667)** | (413,676) | **(270,610)** | (660,668) |
| Balance, end of period | **$ (13,163,702)** | $ (12,584,256) | **$ (13,163,702)** | $ (12,584,256) |

*The accompanying notes are an integral part of these unaudited interim financial statements*

HY LAKE GOLD INC

# Hy Lake Gold Inc.

(An Exploration Stage Enterprise)

**Interim Statements of Changes in Shareholders' Equity**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|
| **Balance, September 30, 2009** | $ 14,529,469 | $ 2,947,361 | $ (12,272,852) | $ 5,203,978 |
| Issued for cash | 1,300,000 | - | - | 1,300,000 |
| Share issue costs net of future income tax benefits | (15,000) | - | - | (15,000) |
| Issued for property | 17,250 | - | - | 17,250 |
| Value attributed to warrants on private placement | (219,000) | 219,000 | - | - |
| Stock-based compensation | - | 77,000 | - | 77,000 |
| Net loss for the period | - | - | (660,668) | (660,668) |
| **Balance, March 31, 2010** | **$ 15,612,719** | **$ 3,243,361** | **$ (12,933,520)** | **$ 5,922,560** |
| Share issue costs net of future income tax benefits | 4,000 | - | - | 4,000 |
| Issued for property | 18,000 | - | - | 18,000 |
| Future tax liability pursuant to flow through shares renunciation | (152,000) | - | - | (152,000) |
| Stock-based compensation | - | 51,000 | - | 51,000 |
| Net loss for the period | - | - | 40,428 | 40,428 |
| **Balance, September 30, 2010** | **$ 15,482,719** | **$ 3,294,361** | **$ (12,893,092)** | **$ 5,883,988** |
| Issued for cash | 2,563,474 | - | - | 2,563,474 |
| Share issue costs | (115,456) | - | - | (115,456) |
| Value attributed to warrants on private placement | (1,080,805) | 1,080,805 | - | - |
| Value attributed to broker warrants on private placement | (70,259) | 70,259 | - | - |
| Warrant exercise | 38,536 | (13,036) | - | 25,500 |
| Stock option exercise | 69,589 | (27,589) | - | 42,000 |
| Stock-based compensation | - | 1,001 | - | 1,001 |
| Net loss for the period | - | - | (270,610) | (270,610) |
| **Balance, March 31, 2011** | **$ 16,887,798** | **$ 4,405,801** | **$ (13,163,702)** | **$ 8,129,897** |

*The accompanying notes are an integral part of these unaudited interim financial statements*

HY LAKE GOLD INC

# Hy Lake Gold Inc.

(An Exploration Stage Enterprise)

**Interim Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 | Six Months Ended March 31, 2011 | Six Months Ended March 31, 2010 |
|---|---|---|---|---|
| **Cash flows (used in) provided by:** | | | | |
| **Operating activities** | | | | |
| Net loss for the period | **$ (113,667)** | $ (413,676) | **$ (270,610)** | $ (660,668) |
| Adjustments for non-cash items: | | | | |
| Stock-based compensation | **1** | 5,288 | **1,001** | 12,068 |
| Depreciation | **5,311** | (14,000) | **10,519** | 63,000 |
| Future income tax recovery | **-** | 333,264 | **-** | 333,264 |
| Net changes in non-cash working capital balances: | | | | |
| Accounts receivable | **(91,312)** | (6,576) | **(50,884)** | (11,889) |
| Prepaid expenses and deposits | **3,496** | 12,500 | **(8,753)** | - |
| Accounts payable and accrued liabilities | **568,388** | (47,735) | **235,642** | 1,377 |
| | **372,217** | (130,935) | **(83,085)** | (262,848) |
| **Investing activities** | | | | |
| Expenditures on mineral properties - acquisition | **(17,248)** | (29,000) | **(32,248)** | (29,000) |
| Expenditures on mineral properties - exploration | **(881,065)** | (72,117) | **(977,429)** | (144,224) |
| Restricted cash | **-** | - | **393** | - |
| Purchase of property and equipment | **(4,089)** | (3,389) | **(20,020)** | (3,389) |
| | **(902,402)** | (104,506) | **(1,029,304)** | (176,613) |
| **Financing activities** | | | | |
| Issue of common shares, net of issue cost | **43,500** | - | **2,515,518** | 1,285,000 |
| **Change during the period** | **(486,685)** | (235,441) | **1,403,129** | 845,539 |
| **Cash, beginning of period** | **2,530,116** | 1,298,886 | **640,302** | 217,906 |
| **Cash, end of period** | **$ 2,043,431** | $ 1,063,445 | **$ 2,043,431** | $ 1,063,445 |

*The accompanying notes are an integral part of these unaudited interim financial statements*

## 1. Nature of Operations and Going Concern

Hy Lake Gold Inc. (the "Company" or "Hy Lake Gold") 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. 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 March 31, 2011, the Company had working capital of $1,432,704 (September 30, 2010 - $205,973) had, not yet achieved profitable operations, has accumulated losses of $13,163,702 (September 30, 2010 - $12,893,092) and expects to incur further losses in the development of its business, all of which casts doubt upon the Company's ability to continue as a going concern. The Company is in the exploration stage 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, among other things. Nevertheless, there is no assurance that these initiatives will be successful.

These unaudited interim 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.

## 2. Basis of Presentation and Accounting Policies

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and six months ended March 31, 2011 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2011.

The balance sheet at September 30, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for annual financial statements. The unaudited interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended September 30, 2010, except as noted below. For further information, refer to the audited financial statements and notes thereto included in the Company's annual financial statements for the year ended September 30, 2010.

### Future Accounting Changes

***Section 1582***
The new Section 1582 of the CICA Handbook – 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 October 1, 2010 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.

## 3. Capital Management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, contributed surplus and deficit which at March 31, 2011 totaled $8,129,897 (September 30, 2010 - $5,883,988).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the three and six months ended March 31, 2011.

The Company is not subject to any externally imposed capital requirements.

## 4. Property and Financial Risk Factors

***Fair value***
The Company's financial instruments as at March 31, 2011 include cash, accounts receivable, and accounts payable and accrued liabilities. Fair value of cash is determined based on transaction value and is categorized as Level 1 measurement. Fair value of accounts payable and accrued liabilities are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements. 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:

**4. Property and Financial Risk Factors (continued)**

***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, restricted cash and receivables included in current assets. The Company has no material concentration of credit risk arising from operations. Cash and restricted cash consists of cash 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 March 31, 2011, the Company's receivables primarily consist of an amount due from the Canadian government. The Company's receivables are normally collected within a 60-90 day period.

The Company's maximum exposure to credit risk as at March 31, 2011 is the carrying value of cash, restricted cash and accounts receivable.

***Interest rate risk***
The Company has cash and restricted cash balances bearing fixed and variable 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.

***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 March 31, 2011, the Company had current assets of $2,200,399 (September 30, 2010 - $738,026) to settle accounts payable and accrued liabilities of $767,695 (September 30, 2010 - $532,053). 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. As at March 31, 2011, the Company had working capital of $1,432,704 (September 30, 2010 - $205,973).

***Sensitivity Analysis***
The sensitivity analysis shown in the notes below may differ materially from actual results.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a six month period:

(i) Cash and restricted cash are subject to fixed and variable interest rates. Sensitivity to a plus or minus 1% change in interest rates would not have a material impact on the reported net loss for the three and six months ended March 31, 2011.

**(Expressed in Canadian Dollars)**

## 5. Restricted Cash

The Company has one company credit card with a major financial institution with an aggregate credit limit of $22,000. The financial institution holds $22,000 in a Guaranteed Investment Certificate as collateral on the credit amount as long as the credit card is active. The restricted cash amount would change if there were any change in the credit limit on the card.

## 6. Property and Equipment

| | | | | | | **March 31, 2011** | | September 30, 2010 |
|---|---|---|---|---|---|---|---|---|
| | | **Cost** | | **Accumulated Amortization** | | **Net Book Value** | | Net Book Value |
| Computer equipment | $ | 8,554 | $ | 3,426 | **$** | **5,128** | $ | 6,032 |
| Machinery and equipment | | 159,697 | | 74,227 | | **85,470** | | 73,720 |
| Vehicles | | 30,000 | | 22,388 | | **7,612** | | 8,957 |
| | $ | 198,251 | $ | 100,041 | **$** | **98,210** | $ | 88,709 |

## 7. Mineral properties and deferred exploration costs

For a description of the mineral properties owned by the Company, refer to Note 4 of the audited financial statements as at September 30, 2010.

On a quarterly basis, management of the Company reviews exploration costs to ensure mineral properties and deferred exploration expenditures include only costs and projects that are eligible for capitalization.

| **March 31, 2011** | | **Beginning Balance** | | **Acquisition** | | **Exploration** | | **Ending Balance** |
|---|---|---|---|---|---|---|---|---|
| Mount Jamie | $ | 3,004,245 | $ | - | $ | 618,977 | **$** | **3,623,222** |
| Rowan Lake | | 2,479,645 | | - | | 97,224 | | **2,576,869** |
| Golden Tree | | 268,392 | | - | | 20,000 | | **288,392** |
| Red Summit | | 347,022 | | - | | 237,475 | | **584,497** |
| Rubicon (a) | | 34,002 | | 32,248 | | 3,753 | | **70,003** |
| | $ | 6,133,306 | $ | 32,248 | $ | 977,429 | **$** | **7,142,983** |

| **September 30, 2010** | | **Beginning Balance** | | **Acquisition** | | **Exploration** | | **Ending Balance** |
|---|---|---|---|---|---|---|---|---|
| Mount Jamie | $ | 2,969,173 | $ | - | $ | 35,072 | **$** | **3,004,245** |
| Rowan Lake | | 1,846,437 | | - | | 633,208 | | **2,479,645** |
| Golden Tree | | 229,792 | | 35,000 | | 3,600 | | **268,392** |
| Red Summit | | 341,121 | | - | | 5,901 | | **347,022** |
| Rubicon (a) | | 22,002 | | 12,000 | | - | | **34,002** |
| | $ | 5,408,525 | $ | 47,000 | $ | 677,781 | **$** | **6,133,306** |

**(Expressed in Canadian Dollars)**

**7. Mineral properties and deferred exploration costs (continued)**

(a) On November 24, 2010, the Company signed an agreement with Rubicon Minerals Corporation whereby the Company has the option to acquire a 100% interest in the Rubicon Property through the issuance of 100,000 shares of the Company (no shares issued) and cash commitments of $125,000. The Company grants to Rubicon a 2% net smelter return royalty (the "Royalty") on the Property. The Company shall have the right to purchase one half of the Royalty from Rubicon for sum of $1,000,000.

**8. Share capital**

**(a) Authorized**
Unlimited number of common shares without par value
Unlimited number of Special shares

**(b) Issued**

| | Number of Shares | Amount |
|---|---|---|
| Balance, September 30, 2010 | 34,304,195 | $ 15,482,719 |
| Issued for cash (i) | 5,569,953 | 2,563,474 |
| Share issue costs | - | (115,456) |
| Value attributed to warrants on private placement (i) | - | (1,151,064) |
| Warrant exercise | 85,000 | 38,536 |
| Stock option exercise | 165,000 | 69,589 |
| **Balance, March 31, 2011** | **40,124,148** | **$ 16,887,798** |

(i) On November 19, 2010, the Company closed a non-brokered private placement of 2,000,000 Units at $0.30 per Unit for gross proceeds of $600,000. 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 $0.50 for a period of 24 months from the date of closing (the "Warrant Term"). If after the date that is four months and one day following closing, the common shares of the Company close at $1.00 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 the holders of the warrants with written notice of the new expiry date.

The fair value of 2,000,000 warrants issued with the private placement has been estimated at $246,000 using the Black-Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate – 1.64%; expected volatility – 101%; Dividend yield - Nil; and expected life – 2 years.

**(Expressed in Canadian Dollars)**

## 8. Share capital (continued)

(i) On January 11, 2011, the Company announced the closing on December 23, 2010 and December 31, 2010, respectively of two tranches of a brokered flow through private placement totalling 3,569,953 Units of the Company at $0.55 per Unit for gross proceeds of $1,963,474. Each Unit consists of one flow-through common share and one common share purchase price warrant. Each warrant has a 24 month term and entitles the holder to purchase one additional common share of Hy Lake Gold at a price of $0.75 for a period of 12 months from the date of closing and at a price of $1.00 for the subsequent 12 months period.

The fair value of 3,866,521 warrants (3,569,953 warrants and 296,568 broker warrants) issued on the private placement has been estimated at $905,064 using the Black-Scholes pricing model. The following weighted average assumptions were used: Risk free interest rate – 1.66%; expected volatility – 101%; Dividend yield - Nil; and expected life – 2 years.

## 9. Warrants

The following summarizes the warrant activity for the three and six months ended March 31, 2011:

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, September 30, 2010 | 8,425,000 | $ | 0.26 |
| Exercised | (85,000) | | 0.30 |
| Issued (Note 8(b)(i)) | 5,876,521 | | 0.61 |
| **Balance, March 31, 2011** | **14,216,521** | **$** | **0.42** |

**(Expressed in Canadian Dollars)**

## 9. Warrants (continued)

As at March 31, 2011, the following warrants were outstanding:

| Expiry Date | Number of Warrants | Exercise Price |
|---|---|---|
| August 18, 2011 | 250,000 | $ 0.30 |
| August 19, 2011 | 3,100,000 | 0.30 |
| June 4, 2011 | 5,000,000 | 0.30 |
| November 19, 2012 | 2,000,000 | 0.50 (1) |
| December 23, 2012 | 3,226,453 | 0.75 - $ 1.00 (2) |
| December 23, 2012 | 181,818 | 0.55 |
| December 31, 2012 | 283,500 | 1.00 (2) |
| December 31, 2012 | 174,750 | 0.55 (3) |
| | **14,216,521** | **$ 0.42** |

(1) If after the date that is four months and one day following closing, the common shares of the Company close at $1.00 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 the holders of the warrants with written notice of the new expiry date.

(2) Each warrant has a 24 month term and entitles the holder to purchase one additional common share of Hy Lake at a price of $0.75 for a period of 12 months from the date of closing and at a price of $1.00 for the subsequent 12 months period.

(3) Each Unit exercisable at $0.55 consists of one flow-through common share and one common share purchase price warrant. Each warrant has a 24 month term and entitles the holder to purchase one additional common share of Hy Lake at a price of $0.75 for a period of 12 months from the date of closing and at a price of $1.00 for the subsequent 12 months period.

## 10. Stock Options

The following summarizes the stock option activity for the three and six months ended March 31, 2011:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, September 30, 2010 | 3,395,000 | $ 0.36 |
| Exercised | (165,000) | (0.19) |
| Expired | (225,000) | (0.58) |
| **Balance, March 31, 2011** | **3,005,000** | **$ 0.34** |

**(Expressed in Canadian Dollars)**

**10. Stock Options (continued)**

The following table provides additional information about outstanding stock options as at March 31, 2011:

| Expiry | Weighted Average Exercise Price ($) | Weighted Average Contractual Life (Years) | Number of Options Outstanding |
|---|---|---|---|
| November 7, 2011 | 0.30 | 0.61 | 100,000 |
| February 15, 2012 | 0.50 | 0.88 | 200,000 |
| November 13, 2012 | 1.00 | 1.62 | 500,000 |
| September 10, 2013 | 0.30 | 2.45 | 330,000 |
| August 10, 2014 | 0.15 | 3.36 | 600,000 |
| December 7, 2014 | 0.20 | 3.69 | 400,000 |
| March 1, 2015 | 0.20 | 3.92 | 100,000 |
| June 15, 2015 | 0.15 | 4.21 | 775,000 |
| | **0.34** | **3.00** | **3,005,000** |

**11. Related Party Transactions**

Officers, directors and companies controlled by officers and directors of the Company and individuals related to them charged consulting fees for the three and six months ended March 31, 2011, in the amount of $94,500 and $190,750, respectively (three and six months ended March 31, 2010 - $41,000 and $102,000 respectively) to the Company during the period.

Officers and directors of the Company were also reimbursed out of pocket expenses that occured in the normal course of operations.

The Company was charged $Nil and $21,541 respectively for the three and six months ended March 31, 2011 (three and six months ended March 31, 2010 - $3,341 and $5,304) for legal fees by a law firm of which a former officer of the Company is a partner.

Accounts payable at March 31, 2011 includes $16,521 (September 30, 2010 - $26,724) 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.

**12. Commitment**

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the Income Tax Act (Canada) requirements for the look-back rule. The look-back rule requires the Company to incur qualifying exploration expenditures in Canada ("CEE") within 12 months from the effective date of renunciation. As at December 31, 2010, the Company is committed to incurring approximately $2.0 million in CEE by December 31, 2011 arising from the flow-through offerings.

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**13. Subsequent Events**

i) Subsequent to the quarter, 50,000 options were exercised with an exercise price of $0.15 and 425,000 warrants were exercised with an exercise price of $0.30.

ii) On May 6, 2011, the Company announced that they had completed the earn-in conditions of the Rowan Property Option and Joint Venture Agreement dated December 5, 2007 between Hy Lake Gold and Red Lake Gold Mines ("RLGM"), a partnership of Goldcorp Inc. (TSX:G: NYSE:GG) and Goldcorp Canada Ltd. (see news release dated December 13, 2007).

As a result of Hy Lake Gold having incurred the requisite exploration expenditures of $2,500,000 on the Rowan Lake Mine Property, the Company has elected to exercise its option to acquire a 60% ownership interest in the property. RLGM has advised Hy Lake Gold that it does not intend to exercise the Option Back-In Right to purchase a 20% interest in the Property for $5,000,000. The Company issued and delivered to RLGM 1,000,000 common shares of Hy Lake Gold. The Initial Participating Interests of the Joint Venture are 60% in favour of Hy Lake Gold and 40% in favour of RLGM, with Hy Lake Gold being the Manager of the Joint Venture. The Joint Venture Effective Date is October 4, 2010.

Further to the formation of the Joint Venture, RLGM has a Joint Venture Back-In Right to acquire an 11% interest in the Rowan Lake Mine Property from Hy Lake Gold, within 90 days of the Joint Venture expending $5,000,000 on Operations, for $7,000,000. If RLGM exercises the Joint Venture Back-In Right, the resulting Participating Interests of the Joint Venture shall be 51% in favour of RLGM and 49% in favour of Hy Lake Gold.

iii) On April 28, 2011, the Company granted incentive stock options for the purchase of 670,000 common shares of Hy Lake Gold to directors, officers and consultants of the Company. The options have an exercise price of $0.40 and expire five years from the date of grant.

**14. Comparative Figures**

Certain comparative figures have been reclassified to conform with the current period financial statement presentation.