



**HY LAKE GOLD INC.**

(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 and 2009

**HY LAKE GOLD INC.**

(An Exploration Stage Enterprise)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 and 2009

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## AUDITORS' REPORT

To the Shareholders of  
Hy Lake Gold Inc.

We have audited the balance sheet of Hy Lake Gold Inc. (An Exploration Stage Enterprise) as at September 30, 2010 and the statements of loss, comprehensive loss and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at September 30, 2009 and for the year then ended were audited by another firm of chartered accountants who rendered an unqualified opinion on the financial statements in their audit report dated January 18, 2010.

***“McCarney Greenwood LLP”***

Toronto, Canada  
December 3, 2010  
Except for Note 16 which is dated January 11, 2011

McCarney Greenwood LLP  
Chartered Accountants  
Licensed Public Accountants

**HY LAKE GOLD INC.**

(An Exploration Stage Enterprise)

**BALANCE SHEETS****AS AT SEPTEMBER 30,**

	2010	2009
<b>ASSETS</b>		(Restated)
<b>Current</b>		(Note 15)
Cash (Note 12)	\$ 640,302	\$ 195,530
Restricted cash (Note 12)	22,393	22,376
Accounts receivable	70,661	3,883
Prepaid expenses and deposits	4,670	488
	<b>738,026</b>	222,277
<b>Mineral properties and deferred exploration costs</b> (Note 4)	<b>6,133,306</b>	5,408,525
<b>Property and equipment</b> (Note 3)	<b>88,709</b>	106,197
	<b>\$ 6,960,041</b>	<b>\$ 5,736,999</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 532,053	\$ 23,771
	<b>532,053</b>	23,771
<b>Shares to be issued</b> (Note 7 (d))	-	17,250
<b>Future income tax liabilities</b> (Note 13)	<b>544,000</b>	492,000
	<b>1,076,053</b>	533,021
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7 (a))	<b>15,482,719</b>	14,529,469
Contributed surplus (Note 8)	<b>3,294,361</b>	2,947,361
Deficit	<b>(12,893,092)</b>	(12,272,852)
	<b>5,883,988</b>	5,203,978
	<b>\$ 6,960,041</b>	<b>\$ 5,736,999</b>

Nature of Operations and Going Concern (Note 1)

Commitments (Note 5)

Subsequent Events (Note 16)

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.**

(An Exploration Stage Enterprise)

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

	2010	2009
		(Restated) (Note 15)
<b>Expenses</b>		
Depreciation	\$ 23,554	\$ 27,618
Consulting fees	99,165	93,259
Interest and bank charges	183	263
Insurance	16,573	18,542
Management fees (Note 6)	158,500	122,917
Office, general and administrative	71,036	59,645
Professional fees (Note 6)	42,532	29,718
Advertising and promotion	60,057	13,175
Stock-based compensation (Note 7 (b))	128,000	58,000
Shareholder information	41,111	33,555
Travel and promotion	10,429	10,495
Part XII.6 tax	65,159	-
<b>Loss before under noted items</b>	<b>716,299</b>	<b>467,187</b>
Interest and other income	(59)	(377)
Future income tax expense (recovery) (Note 13)	(96,000)	389,700
<b>Net loss and comprehensive loss for the year</b>	<b>\$ 620,240</b>	<b>\$ 856,510</b>
Deficit, beginning of year	12,272,852	11,416,342
Deficit, end of year	\$12,893,092	\$12,272,852
<b>Loss per share</b>		
Basic	\$ (0.03)	\$ (0.03)
Diluted	\$ (0.03)	\$ (0.03)
Weighted average number of common shares outstanding		
Basic	33,081,963	25,126,887
Diluted	33,081,963	25,126,887

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

**HY LAKE GOLD INC.**

(An Exploration Stage Enterprise)

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

	2010	2009
		(Restated) (Note 15)
<b>Cash flows from operating activities</b>		
Net Loss for the year	\$ (620,240)	\$ (856,510)
Add items not affecting cash:		
Depreciation	23,554	27,618
Stock-based compensation	128,000	58,000
Future income tax expense	(96,000)	389,700
	(564,686)	(381,192)
Changes in non-cash working capital balances (Note 11)	67,171	(165,152)
Cash flows used in operating activities	(497,515)	(546,344)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(6,066)	-
Restricted cash	(17)	(376)
Increase in mineral properties - acquisition	(29,000)	(26,000)
Increase in mineral properties - exploration	(307,630)	(66,631)
Cash flows used in investing activities	(342,713)	(93,007)
<b>Cash flows from financing activities</b>		
Issue of common shares, net of issue cost	1,285,000	288,000
Cash flows provided from financing activities	1,285,000	288,000
Net (decrease) increase in cash	444,772	(351,351)
Cash at beginning of year	195,530	546,881
<b>Cash at end of year</b>	<b>\$ 640,302</b>	<b>\$ 195,530</b>

**SUPPLEMENTAL CASH FLOW INFORMATION** (Note 11)

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

## HY LAKE GOLD INC.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

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#### 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. 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, 2010, the Company had working capital of \$205,973 (2009 - \$198,506) had, not yet achieved profitable operations, has accumulated losses of \$12,893,092 (2009 - \$12,272,852) 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 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.

## HY LAKE GOLD INC.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

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## 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 depreciation, the provision for future tax recoveries and composition of future income tax assets and future income tax liabilities, valuation of mineral interests, fixed assets, asset retirement obligations and stock-based compensation. 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*

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on the differences between the carrying amount of assets and liabilities on the balance sheet and their corresponding tax values, using the substantively enacted tax rates expected to apply when these temporary differences are expected to reverse. Future income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

### (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.

**HY LAKE GOLD INC.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(e) Property and equipment*

Property and equipment 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*

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

The Emerging Issues Committee of the Canadian Institute of Chartered Accountants issued EIC 146 under which the Company is required to recognize the future income tax liability upon filing renunciation documents with the tax authorities and to treat it as a cost of issuing the flow-through shares.

*(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, 2010, 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) 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.

## HY LAKE GOLD INC.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

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#### 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) *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.

(m) *Financial Instruments*

Under Section 3251 of the CICA Handbook, *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.

(n) *Comprehensive income*

Section 1530 of the CICA Handbook, *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.

(o) *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.

**HY LAKE GOLD INC.**

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****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. PROPERTY AND EQUIPMENT**

September 30,	2010		2009	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Computer Equipment	\$ 8,554	\$ 2,522	\$ 2,488	\$ 1,237
Machinery and equipment	139,676	65,956	139,676	47,526
Vehicles	30,000	21,043	30,000	17,204
	<u>\$ 178,230</u>	<u>\$ 89,521</u>	<u>\$ 172,164</u>	<u>\$ 65,967</u>
Net Book Value	<u>\$ 88,709</u>		<u>\$ 106,197</u>	

**HY LAKE GOLD INC.**

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS**

Accumulated mineral property costs have been incurred as follows:

**SEPTEMBER 30, 2010**

	Balance, beginning of year	Acquisition	Exploration	Balance, end of year
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	22,002	12,000	-	34,002
	<u>\$ 5,408,525</u>	<u>\$ 47,000</u>	<u>\$ 677,781</u>	<u>\$ 6,133,306</u>

**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)			506,021	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.

**HY LAKE GOLD INC.**

(An Exploration Stage Enterprise)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009**

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**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. 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.

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 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 carry out exploration work totaling \$140,000 over a four year period (see note 5).

The property is subject to a 3% NSR.

**HY LAKE GOLD INC.**

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****4. MINERAL RESOURCE PROPERTIES AND DEFERRED EXPLORATION COSTS (Continued)*****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.

The property is subject to a 3% NSR.

***Rubicon***

During 2008, the Company entered into an Option Agreement with Rubicon Minerals Corporation ("Rubicon") 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 \$18,000 has been paid, and the issuance of 75,000 shares of the Company, of which 45,000 have been issued as of September 30, 2010 (see note 5).

The property is subject to a 2% NSR.

See note 5 for additional mineral property information.

**5. COMMITMENTS**

	2011	2012	Outstanding as at 9/30/2010
<b>Rowan Lake Property</b>			
Work Commitments	\$20,355	\$ -	\$ 20,355
<b>Golden Tree Property</b>			
Work Commitments	\$ 56,608	\$ -	\$ 56,608
Common shares	100,000	-	100,000
<b>Rubicon</b>			
Cash payments	\$ 12,000	\$ 20,000	\$ 32,000
Common shares	-	30,000	30,000

**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 measures for this purpose. The Company has a current obligation to spend \$nil (2009 - \$308,000) on Canadian exploration expenditure prior to December 31, 2010.

**HY LAKE GOLD INC.**

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****6. RELATED PARTY TRANSACTIONS**

Officers, directors and companies controlled by officers and directors of the Company and individuals related to them charged management fees in the amount of \$158,500 (2009 - \$158,917) to the Company during the period.

The Company was charged \$28,557 (2009 - \$593) for legal fees by a law firm of which an officer of the Company is a partner.

The Company was charged \$38,534 (2009 - \$nil) for exploration expense by the VP of Exploration.

Accounts payable at September 30, 2010 includes \$26,724 (2009 - \$nil) 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.

**7. SHARE CAPITAL**

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

**Common shares**

	Number of Shares	Amount
Balance, September 30, 2008	24,769,195	\$ 14,455,574
Issued for cash (ii)	3,100,000	\$ 310,000
Share issue costs (ii)	-	(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
Issued for cash (i)	<b>5,000,000</b>	<b>\$ 1,000,000</b>
Issued for cash (i)	<b>1,200,000</b>	<b>300,000</b>
Cash share issue costs net of future income tax benefits	-	(11,000)
Issued for property	<b>235,000</b>	<b>35,250</b>
Value attributed to warrants on private placement	-	(219,000)
Future tax liability pursuant to flow through shares renunciation	-	(152,000)
<b>Balance, September 30, 2010</b>	<b>34,304,195</b>	<b>\$ 15,482,719</b>

## HY LAKE GOLD INC.

(An Exploration Stage Enterprise)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

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#### 7. SHARE CAPITAL (Continued)

##### (i) Transactions during - 2010

On February 18, 2010 the Company issued 120,000 common shares with a deemed value of \$18,000 to satisfy property acquisition commitments.

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.

The fair value of 60,000 warrants issued to brokers along with the private placement has been estimated at \$2,000 using the Black-Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate – 1.46%; expected volatility – 101%; Dividend yield - Nil; and expected life – 1 year.

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.

The fair value of 5,000,000 warrants issued along with the private placement has been estimated at \$217,000 using the Black-Scholes pricing model. The following weighted average assumptions were used:

Risk free interest rate – 1.21%; expected volatility – 101%; Dividend yield - Nil; and expected life – 1.5 years.

On October 2, 2009 the Company issued 115,000 common shares with a deemed value of \$17,250 to satisfy property acquisition commitments that were in arrears.

##### (ii) Transactions during – 2009

In August, 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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****7. SHARE CAPITAL (Continued)****(b) Options**

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 options vest immediately unless otherwise specified. The maximum aggregate number of common shares under options any time under the Plan cannot exceed 10% of the issued shares. As at September 30, 2010, the Company had 35,420 (2009 – 546,919) options available for issuance under the plan. Continuity of the options outstanding to purchase common shares is as follows:

	2010		2009	
	Options	Weighted Average Exercise price	Options	Weighted Average Exercise price
Outstanding at beginning of year	2,240,000	\$ 0.51	2,340,000	\$ 0.63
Transaction during the year				
Granted	1,325,000	0.17	600,000	0.15
Expired during the year	<u>(170,000)</u>	0.92	<u>(700,000)</u>	0.60
Outstanding at end of year	<u>3,395,000</u>	\$ 0.36	<u>2,240,000</u>	\$ 0.51
Exercisable at end of year	<u>3,345,000</u>	\$ 0.36	<u>2,240,000</u>	\$ 0.51

The following summarizes information on the stock option outstanding at September 30, 2010.

Range of Exercise Prices (\$)	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (\$)	No. of Options Currently Exercisable	Weighted Average Exercise Price (\$) of Exercisable Options
0.15-0.20	1,925,000	4.57	0.16	1,875,000	0.16
0.30-0.50	870,000	2.60	0.35	870,000	0.35
1.00	600,000	2.37	1.00	600,000	1.00
<b>0.15-1.00</b>	<b>3,395,000</b>	<b>3.68</b>	<b>0.36</b>	<b>3,345,000</b>	<b>0.36</b>

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****7. SHARE CAPITAL (Continued)****(b) Options (Continued)**

The fair value of each option was estimated on the date of grant. The following is the assumptions used under Black-Scholes at the measurement date for the year ended September 30, 2010:

	<b>June 15, 2010</b>	<b>March 1, 2010</b>	<b>December 7, 2009</b>	<b>Total</b>
Options Issued	825,000	100,000	400,000	1,325,000
Risk free interest rate	2.76%	2.52%	2.21%	
Expected life	5 years	5 years	5 years	
Exercise Price	\$0.15	\$0.20	\$0.20	
Price volatility	101%	101%	101%	
Dividend yield	Nil	Nil	nil	
Fair Value of options granted	\$72,000	\$11,000	\$46,000	\$129,000
Vesting	Immediately	1/4 every 3 months	Immediately	
Stock-based Compensation	\$72,000	\$10,000	\$46,000	\$128,000

The following is the assumptions used under Black-Scholes at the measurement date for the year ended September 30, 2009:

	<b>August 10, 2009</b>	<b>Total</b>
Options Issued	600,000	600,000
Risk free interest rate	2.64%	
Expected life	5 years	
Exercise Price	\$0.15	
Price volatility	191.19%	
Dividend yield	nil	
Vesting	Immediately	
Stock-based Compensation	\$58,000	\$58,000

The weighted average grant-date fair value of options granted during the year was \$0.10 (September 30, 2009 – \$0.10) per option issued.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****7. SHARE CAPITAL** (Continued)**(c) Common Share Purchase Warrants**

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

Warrants	Exercise Price	Expiry Date
60,000	0.30	December 31, 2010
265,000	0.20 <sup>(1)</sup>	August 18, 2011
3,100,000	0.20 <sup>(1)</sup>	August 19, 2011
5,000,000	0.30	June 4, 2011
<u>8,425,000</u>		

<sup>(1)</sup> These warrants are exercisable at \$0.20 until August 18 and 19, 2010 and then at \$0.30 until expiry.

**(d) Shares to be issued**

As at September 30, 2010, the Company had no commitment (2009 - 115,000) to issue common shares pursuant to certain property option agreements entered into by the Company.

**8. CONTRIBUTED SURPLUS**

Contributed surplus is comprised of the following:

	2010	2009
Balance, beginning of the year	\$ 2,947,361	\$ 2,777,556
Fair value of stock-based compensation cost	128,000	58,000
Fair value of warrants issued	219,000	111,805
Balance, end of year	<u>\$ 3,294,361</u>	<u>\$ 2,947,361</u>

**9. FINANCIAL INSTRUMENTS***Fair value*

The Company's financial instruments as at September 30, 2010 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:

## HY LAKE GOLD INC.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

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#### 9. FINANCIAL INSTRUMENTS (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 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, 2010, the Company's receivables primarily consist of amount 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, 2010. The Company is exposed to credit risk with regards to debtors refusing payment and the government denying the Company claims filed.

The Company's maximum exposure to credit risk as at September 30, 2010 is the carrying value of cash, cash equivalents and accounts receivable.

##### *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.

##### *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, 2010, the Company had current assets of \$738,026 (2009 - \$222,277) to settle accounts payable and accrued liabilities of \$532,053 (2009 - \$23,771). 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 September 30, 2010, the Company had working capital of \$205,973 (2009 - \$198,506).

#### **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 one year period:

- (i) Cash and restricted cash include short-term money market mutual fund units that are subject to floating interest rates. As at September 30, 2010, if interest rates had fluctuate by 1% with all other variables held constant, the loss for the year ended September 30, 2010 would be changed by \$6,000, as a result of a change in interest income from cash and restricted cash.

## HY LAKE GOLD INC.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009

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#### 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 considers its capital to be shareholders' equity, which is comprised of share capital, contributed surplus, and deficit, which as at September 30, 2010 totaled \$5,883,988 (2009 - \$5,203,978).

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, 2010. Neither 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, 2010 and 2009****11. SUPPLEMENTAL CASH FLOW INFORMATION**

YEARS ENDED SEPTEMBER 30,	2010	2009
		(Restated) (Note 15)
Accounts receivable	\$ (66,778)	\$ 148,891
Prepaid expenses and deposits	(4,182)	13,297
Accounts payable and accrued liabilities	138,131	(327,340)
Changes in non-cash working capital balances	\$ 67,171	\$ (165,152)
Interest received	\$ 59	\$ 377
Income tax paid	\$ -	\$ -
Non-cash activities were conducted by the Company as follows:		
Issuable and issued common shares for property acquisitions	\$ 35,250	\$ 17,250

**12. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on deposit with the banks in general non-interest bearing accounts totalling \$640,302 (2009 - \$195,530).

Restricted cash balances consist of short-term cash on deposit with banks in interest-generating money-market accounts, of \$22,393 (2009 - \$22,376).

	September 30, 2010	September 30, 2009
	\$	\$
		(Restated) (Note 15)
<b>General purpose</b>		
Cash	640,302	195,530
<b>Total cash</b>	\$ 640,302	\$ 195,530
<b>Restricted</b>		
Cash equivalents (1)	22,393	22,376
<b>Total restricted cash</b>	\$ 22,393	\$ 22,376

(1) This cash is made up of \$22,393 is restricted in concert with the Company's credit cards.

**HY LAKE GOLD INC.**

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009****13. INCOME TAXES****Future Income Tax Expense**

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the year ended September 30, 2010 and year ended September 30, 2009 is as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
		(Restated)
		(Note 15)
Loss before income taxes	(716,241)	(466,810)
Combined Statutory rate	<u>31.75%</u>	<u>33.00%</u>
Estimated recovery of income taxes	(227,000)	(154,000)
Tax effect of reversal of temporary differences	53,000	1,573,264
Stock-based compensation	41,000	19,000
Other	37,000	32,436
Change in valuation allowance	-	(1,081,000)
Future income tax expense (recovery)	<u>(96,000)</u>	<u>389,700</u>

The Canadian statutory income tax rate of 31.75% (2009 – 33.0%) is comprised of the federal income tax rate at approximately 18.25% (2009 – 19.0%) and the provincial income tax rate of approximately 13.5% (2009 – 14%).

**Future Income Tax Expense (Continued)**

The primary differences which give rise to the future income tax recoveries at September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
		(Restated)
		(Note 15)
<b><i>Future income tax assets</i></b>		
Share issuance costs and other	54,000	51,000
Fixed Assets	22,000	16,000
Capital losses carried forward	316,000	316,000
Non-capital losses carried forward	<u>546,000</u>	<u>456,000</u>
	938,000	839,000
Less : valuation allowance	<u>(316,000)</u>	<u>(316,000)</u>
Net future tax assets	<u>622,000</u>	<u>523,000</u>
<b><i>Future tax liabilities</i></b>		
Deferred exploration expenses	<u>(1,166,000)</u>	<u>(1,015,000)</u>
Net future tax liability	<u>(544,000)</u>	<u>(492,000)</u>

## **HY LAKE GOLD INC.**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009**

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#### **14. 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.

#### **15. RESTATEMENT OF FUTURE INCOME TAX**

In 2009, the Company recorded in its financial statements the portion of its future income tax liability which exceeded all of its deductible temporary differences and unused tax losses. Included in these unused tax losses was an amount for capital losses to which the Company does not have any assets which when disposed would generate capital gains. Therefore, under the more likely than not concept the future tax asset relating to the capital losses should have been provided in full. Also in 2009, the Company's future tax amounts were measured using the current tax rate rather than the substantively enacted future tax rates at the time that the future tax differences are expected to be reversed.

These differences have resulted in the Company restating its comparative figures in the current year's financial statements. As a result of this restatement, the future income tax liability on the Company's balance sheet for 2009 will be \$492,000 which is \$349,264 more than originally reported. The Company's net loss for 2009 will increase by \$349,264 from the amount originally reported. Hence the Company's restated closing deficit for 2009 will be \$12,272,852 which is \$349,264 more than originally reported. These changes have no impact on the Company's cash used in operating activities and overall cash position. This restatement will not impact the Company's current and future mining exploration on the properties.

#### **16. SUBSEQUENT EVENT**

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.

On November 26<sup>th</sup>, 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 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.

On January 11, 2011 the Company announced the closing on December 23, 2010 and December 31, 2010, respectively of two tranches of a non-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.