

HY LAKE GOLD INC.
(A Development Stage Enterprise)

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006 AND 2005



HY LAKE GOLD INC.
(A Developments Stage Enterprise)

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SEPTEMBER 30, 2006 AND 2005

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AUDITORS' REPORT

To the Shareholders of
Hy Lake Gold Inc.
(A Development Stage Enterprise):

We have audited the balance sheets of Hy Lake Gold Inc. (A Development Stage Enterprise) as at September 30, 2006 and 2005 and the statements of operations 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, December 4, 2006

(Signed) "*Edmund Cachia & Co.*"
CHARTERED ACCOUNTANTS

HY LAKE GOLD INC.
(A Development Stage Enterprise)

BALANCE SHEETS

SEPTEMBER 30, 2006 AND 2005

ASSETS

	2006	2005
CURRENT		
Cash	\$ 187,624	\$ -
Accounts receivable	<u>7,440</u>	<u>2,203</u>
	195,064	2,203
MINERAL PROPERTIES AND DEFERRED COSTS (note 4)	84,105	-
FIXED ASSETS (note 3)	<u>681</u>	<u>-</u>
	<u>\$ 279,850</u>	<u>\$ 2,203</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities (note 5)	\$ 20,994	\$ 6,823
Advances from officers, directors and shareholders (note 5)		-
139,831		
Loan payable (note 7)	<u>-</u>	<u>348,575</u>
	20,994	495,229

SHAREHOLDERS' EQUITY (DEFICIENCY)

SHARE CAPITAL (note 8)	10,593,057	9,784,657
DEFICIT	<u>(10,334,201)</u>	<u>(10,277,683)</u>
	<u>258,856</u>	<u>(493,026)</u>
COMMITMENTS (notes 12 and 15)		
SUBSEQUENT EVENTS (note 15)	<u>\$ 279,850</u>	<u>\$ 2,203</u>

Approved by the Board:

 "John Siriunas" , Director

 "Michael Meredith" , Director

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

HY LAKE GOLD INC.
(A Development Stage Enterprise)

STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
EXPENSE		
Consulting fees	\$ 54,850	\$ 3,250
General, office and administration	6,403	4,068
Management fees	17,000	6,000
Financing costs	-	48,575
Professional fees	10,281	13,310
Transfer agent and filing fees	15,620	-
Travel and promotion	<u>2,370</u>	<u>-</u>
Loss before under noted items	106,524	75,203
Forgiveness of advances from officers, directors, and shareholders	(50,006)	-
Gain on disposal of subsidiary (note 6)	<u>-</u>	<u>(679,709)</u>
NET INCOME (LOSS) FOR THE YEAR (note 9)	(56,518)	604,506
DEFICIT AT BEGINNING OF THE YEAR	<u>(10,277,683)</u>	<u>(10,882,189)</u>
DEFICIT AT END OF THE YEAR	<u>(10,334,201)</u>	<u>(10,277,683)</u>
Basic and diluted earnings (loss) per share	<u>(\$ 0.005)</u>	<u>\$ 0.02</u>
Weighted average number of common shares outstanding	<u>7,769,360</u>	<u>32,230,505</u>

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

HY LAKE GOLD INC.
(A Development Stage Enterprise)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income (loss) for the year	(\$ 56,518)	\$ 604,506
Add items not affecting cash:		
Gain on disposal of subsidiary	-	(679,709)
Depreciation	75	-
Net changes in working capital balances:		
Increase in accounts receivable	(5,237)	(1,216)
Increase in accounts payable and accrued liabilities	<u>14,171</u>	<u>76,418</u>
Cash used in operations	<u>(47,509)</u>	<u>(1)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of fixed assets	(756)	-
Additions to mineral properties	(84,105)	-
Proceeds on disposal of subsidiary	<u>-</u>	<u>1</u>
Cash provided by (used in) investing	<u>(84,861)</u>	<u>1</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Issue of common shares	808,400	-
Decrease in advances from officers, directors, and shareholders	(139,831)	-
Decrease in loan payable	<u>(348,575)</u>	<u>-</u>
Cash provided by financing	<u>319,994</u>	<u>-</u>
INCREASE IN CASH POSITION	187,624	-
CASH POSITION AT BEGINNING OF THE YEAR	<u>-</u>	<u>-</u>
CASH POSITION AT END OF THE YEAR	<u>\$ 187,624</u>	<u>\$ -</u>

SUPPLEMENTARY CASH FLOW INFORMATION (note 13)

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

HY LAKE GOLD INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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 exploring for 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 development stage. The ability of the Company to carry out its business plan rests with its ability to secure equity and other financing.

2 - SIGNIFICANT ACCOUNTING POLICIES:

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 financial statements. Actual results could vary from the estimates.

MINERAL PROPERTIES AND DEFERRED 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 applicable deferred expenditures will be written off in that year.

FINANCIAL INSTRUMENTS

Financial instruments are initially recorded at cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts. The fair value of accounts receivable, advances payable and accounts payable approximate their recorded amounts because of the short period to receipt, payment of cash or due date.

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 realizable amount is reviewed annually and adjusted, if necessary, by use of a valuation allowance.

HY LAKE GOLD INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

STOCK-BASED COMPENSATION PLAN

The Company adopted the recommendations of the CICA handbook, regarding accounting for stock-based compensation plans. Applying this method, the Company recognizes compensation expense for all options awarded based on the fair value of the options on the date of grant which is determined using the Black Scholes option pricing model. Due to the Company's trading status the fair market value of the options can not be readily determined. As a result, no compensation cost on options issued has been recognized in the financial statements.

FIXED ASSETS

Fixed assets are carried at the lower of cost or net realizable value. Depreciation is provided on the diminishing balance basis at the following annual rate:

Computer equipment	30%
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FLOW-THROUGH SHARES

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

ASSET RETIREMENT OBLIGATION

Effective October 1, 2005 the Company adopted the CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. 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, 2006, the Company has not incurred or committed any asset retirement obligations related to the development of its exploration properties.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property and equipment and other assets, are reviewed for impairment whenever events or changes in circumstances indicate that 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 by which the carrying amount of the asset exceeds the fair value of the asset.

HY LAKE GOLD INC.
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (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.

3 - FIXED ASSETS:

	2006		2005	
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	\$ 756	\$ 75	\$ 681	\$ -

The fixed assets, held by HYWY Software Corp., were disposed of during 2005 (see note 6).

4 - MINERAL PROPERTIES AND DEFERRED COSTS:

RED LAKE

During the year the Company acquired an option to earn up to a 75% interest in 9 mining claims in the Red Lake area, Ontario. Initial consideration paid for these claims included a cash payment of \$15,000.

Accumulated mineral property costs have been incurred as follows:

	2006	2005
Balance, Beginning of the year	\$ -	\$ -
Acquisition costs	15,000	-
Exploration costs	69,105	-
Balance, End of the period	\$ 84,105	\$ -

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FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

5 - RELATED PARTY ADVANCES AND TRANSACTIONS:

The advances from officers, directors and shareholders are interest free and have no fixed repayment terms.

Companies controlled by officers and directors of the Company and individuals related to them charged management and consulting fees in the amount of \$44,500 to the Corporation during 2006 (2005- \$9,000).

Exploration expenditures totalling \$20,000 (2005- \$nil) were charged by a director of the Company.

The Company was charged \$5,656 (2005- \$nil) for legal fees by a law firm of which an officer of the Company is a partner.

Accounts payable at September 30, 2006 includes \$7,185 (2005-\$nil) owing to 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 parties.

See note 8 for additional related party information.

6 - DISPOSAL OF SUBSIDIARY:

On September 27, 2005, the Company sold its interest in its wholly-owned subsidiary HYWY Software Corp. to Giftsearch-Online.Net Inc., an arms length party.

The disposal took place as follows:

Proceeds	\$ 1
Consideration given:	
Fixed assets, net book value	(9,455)
Accounts payable and accrued liabilities	<u>689,163</u>
Gain on disposal of subsidiary	<u>\$ 679,709</u>

In addition, the Company is entitled to contingent consideration equal to 5% of any profits realized from the licensing of HYWY Software's Technology. This profit has not been included in the calculation of the gain because the amount can not be reasonable estimated, however; upon the event occurring the Company's financial statements will reflect the profit accordingly.

7 - LOAN PAYABLE:

The loan payable is secured by a debenture, is due on demand, bears interest at a rate of 5% per annum, and is convertible into common shares at the option of the debenture holder. During the year, the lender demanded repayment of the debenture and converted the full amount of the loan into common shares (see note 8).

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FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

8 - SHARE CAPITAL:

(a) AUTHORIZED

An unlimited number of common shares
An unlimited number of special shares

ISSUED

11,307,060 Common shares \$10,593,057

Transactions as follows:

	Shares #	Amount \$
Balance, September 30, 2005 and 2004	32,230,505	9,784,657
Share consolidation, 1 for 10	3,223,060	9,784,657
Shares issued on settlement of debt (i)	898,250	89,825
Shares issued for cash	3,500,000	350,000
Shares issued for services (ii)	200,000	20,000
Shares issued on conversion of loan payable (iii)	<u>3,485,750</u>	<u>348,575</u>
Balance, September 30, 2006	<u>11,307,060</u>	<u>10,593,057</u>

(i) Shares issued on settlement of debt

The Company issued 898,250 (2005- nil) Common shares to shareholders in settlement of debt owed by the Company for a total deemed value of \$89,825 (2005 \$ nil).

(ii) Shares issued for services

The Company issued 200,000 (2005- nil) common shares for consulting services charged by individuals related to an officer of the Company totalling \$20,000 (2005- \$nil).

(iii) Shares issued on conversion of loan payable

The Company issued 3,485,750 (2005- nil) common shares to shareholders in conversion of a loan payable owed by the Company for a deemed value of \$348,575 (2005- \$nil).

(b) Stock-option plan

Under a management and key employee incentive option plan the Company has granted to certain officers, directors and key employees, stock options to purchase up to 10% of the issued and outstanding common shares of the Company at any given time.

During 2005, options to acquire up to 1,500,000 common shares exercisable at \$0.25 expired on June 16, 2005. As at September 30, 2006 no stock options were outstanding.

See note 15 for additional stock option information.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

9 – INCOME TAXES:

- (a) At September 30, 2006, the Company has non-capital losses of \$243,956 that can be used to reduce future taxable income. These losses expire as follow:

2016	-	\$ 56,426
2015	-	26,629
2011	-	31,297
2010	-	<u>129,604</u>
		<u>\$ 243,956</u>

The future tax benefits, if any, resulting from the application of these losses have not been reflected in these financial statements as it cannot be considered likely that these amounts will be utilized.

- (b) The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to income (loss) for the year before taxes, as shown in the following table:

	2006	2005
Statutory rate applied to income (loss) for the year before income taxes	(\$ 20,414)	\$265,983
Elimination of current year tax on account of non taxability of gain on disposal of subsidiary	-	(265,983)
Other non-deductible items	33	
Tax benefit not recognized on current year's losses	<u>20,381</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

10 - COMPARATIVE FIGURES:

Certain 2005 comparative figures have been reclassified to conform with the current year's presentation adopted for 2006.

12 - COMMITMENTS:

Red Lake Property

As provided in the letter of intent dated December 12, 2005, in order to earn a 75% interest in the property, the Company assumed the following option commitments:

COMMITMENT	TOTAL REQUIRED	OUTSTANDING SEPTEMBER 30, 2006
Cash payments	\$ 80,000	\$ 65,000
Common shares to be issued	550,000	550,000
Work commitments	\$ 1,000,000	\$ 930,895

HY LAKE GOLD INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

12 - COMMITMENTS (continued):

Red Lake Property (continued):

In addition, as part of the letter of intent, the Company is committed to pay annual lease payments and property taxes relating to the property. The estimated annual costs are \$ 1,000.

The Company is currently in arrears in meeting certain property commitments. However, in order for the property vendor to exercise default mechanisms, the vendor must issue a default notice in writing, the date from which the Company has six months to satisfy the commitments that are in arrears. To date, the property vendor has not issued a default notice.

See note 15 for additional commitment information.

13 - SUPPLEMENTARY CASH FLOW INFORMATION:

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

	2006	2005
Issuance of common shares for services	\$ 20,000	\$ -
Conversion of loan payable for common shares	348,575	-
Issuance of common shares for debt	89,825	-

14 - NAME CHANGE:

By articles of amendment, dated January 19, 2006 the Company changed its name from HYWY Corp. to Hy Lake Gold Inc.

15 - SUBSEQUENT EVENTS AND COMMITMENTS:

On October 23, 2006 HY Lake Gold Inc. commenced trading on the Canadian Trading and Quotation System Inc. ("CNQ") with symbol "HYLK".

On December 22, 2006, the Company completed the first tranche of 1,607,928 shares in a flow-through placement of up to 2,000,000 shares at \$0.35 per share, raising a total of \$562,774.80 in funds, to be used for exploration on the Company's mineral properties. A finders' fee of 3% cash and 5% shares will be paid to eligible finders.

The Company granted options to purchase one million shares to officers, directors and consultants of the Company at an exercise price of \$0.30 per share for a period of five years, subject to regulatory approval.

Subsequent to year end the Company entered into an office lease and office management contract with payments of \$5,000 per month for a period of one year ending December 31, 2007.