

Financial Statements of
HOUSTON LAKE MINING INC.

Three months ending June 30, 2011 and 2010
(Unaudited and Prepared by Management)



Houston Lake Mining Inc.
Statement of Financial Position
Unaudited

	June 30, 2011	March 31, 2011 (Note 8)	April 1, 2010 (Note 8)
Assets			
Current			
Cash and cash equivalents	\$ 33,818	\$ 6,676	\$ 21,610
Cash restricted for flow-through expenditures	214,865	567,590	824,480
GST/HST receivable	18,294	50,862	27,613
Prepaid expenses	21,336	23,381	30,714
	288,313	648,509	904,417
Exploration and evaluation assets (Note 3)	9,723,719	9,529,320	8,785,043
Property, plant and equipment (Note 4)	28,790	27,273	30,831
	\$ 10,040,822	\$10,205,102	\$ 9,720,291
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities (Note 5)	\$ 386,180	\$ 384,306	\$ 164,352
Due to related party (Note 5)	250,000	250,000	125,000
	636,180	634,306	289,352
Deferred tax liability	673,413	673,413	499,285
Shareholders' equity			
Share capital (Notes 6 and 8)	12,250,543	12,250,543	11,543,495
Contributed surplus (Note 6)	2,840,954	2,645,074	2,122,942
Deficit (Note 8)	(6,360,268)	(5,998,234)	(4,734,783)
	8,731,229	8,897,383	8,931,654
	\$ 10,040,822	\$ 10,205,102	\$ 9,720,291

Houston Lake Mining Inc.
Statement of Operations and Comprehensive Loss
(Unaudited)

For the three months ended June 30	2011	2010 (Note 8)
Revenue	\$ -	\$ -
Expenses		
Stock option compensation, directors	195,880	-
Consulting	54,534	7,025
General and administrative	39,383	52,226
Wages and benefits	37,794	11,649
Vehicle and travel	17,562	19,868
Insurance	5,851	6,545
Telephone	3,816	4,777
Office and equipment rental	3,750	3,750
Amortization	2,072	2,296
Professional fees	862	5,000
Bank charges and interest	562	214
Currency exchange and rounding		640
	<u>362,066</u>	113,990
Less: Other income	<u>(32)</u>	<u>(83)</u>
	<u>362,034</u>	113,907
Net loss before income tax	(362,034)	(113,907)
Income tax expense (recovery)		
Deferred (Note 8)	-	250,000
	<u>(362,034)</u>	<u>(363,907)</u>
Deficit, beginning of period (Note 8)	(5,998,234)	(4,734,783)
Deficit, end of period	\$ (6,360,268)	\$ (5,098,690)
Net loss per share (basic)	\$ (0.007)	\$ (0.009)
Common shares outstanding	49,532,637	42,497,638

Houston Lake Mining Inc.
Statement of Cash Flows
(Unaudited)

For the three months ended June 30

2011

2010
(Note 8)

Cash provided by (used in)

Operating activities

Net income (loss) for the period	\$ (362,034)	\$ (363,907)
Items not involving cash		
Amortization of property, plant and equipment	2,072	2,296
Deferred income tax expense	-	250,000
Stock option compensation, directors	195,880	-
	<u>(164,082)</u>	<u>(111,611)</u>
Changes in non-cash working capital balances		
GST/HST receivable	32,568	20,146
Prepaid expenses	2,045	6,153
Accounts payable and accrued liabilities	1,874	49,146
	<u>(127,595)</u>	<u>(36,166)</u>

Investing activities

Addition to exploration and evaluation assets	(194,399)	(208,961)
Cash restricted for flow-through expenditures	352,725	226,380
Purchase of property, plant and equipment	(3,589)	(893)
	<u>154,737</u>	<u>16,526</u>

Increase (decrease) in cash during the period

27,142 (19,640)

Cash and cash equivalents, beginning of period

6,676 21,610

Cash and cash equivalents, end of period

\$ 33,818 \$ 1,970

Houston Lake Mining Inc
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

1. Nature of Operations and Going Concern

Houston Lake Mining Inc. (the "Company") was incorporated as 646215 Alberta Inc. by Certificate of Incorporation issued pursuant to the Business Corporations Act (Alberta) on March 13, 1995. The name of the Company was changed to its present name, Houston Lake Mining Inc., by Certificate of Amendment dated April 21, 1995.

These unaudited interim financial statements, including comparatives, have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from June 30, 2011. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration. As a result of these risks, there is significant doubt as to the appropriateness of the going concern assumption. There is no assurance that the Company's funding initiatives will continue to be successful and these financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material. The Company will have to raise additional funds to advance its exploration and development efforts and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

2. Significant Accounting Policies

Basis of Presentation

These are the Company's first interim financial statements prepared in accordance with IFRS applicable to the preparation of interim financial statements, including *International Accounting Standards 34: Interim Financial Reporting ("IAS 34")* and *IFRS 1: First-time Adoption of International Financial Reporting Standards ("IFRS 1")*, as adopted by the International Accounting Standards Board ("IASB")

The Company's IFRS accounting policies are presented in this note below. They have been applied in preparing the interim financial statements for the period ended June 30, 2011, the comparative information and the opening statement of financial position as at April 1, 2010 transition date ("**Transition Date**").

The Company applied IFRS 1 in preparing these first IFRS interim financial statements. Reconciliations, descriptions and explanations of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company are outlined in Note 8.

The accounting policies applied in these interim financial statements are based on IFRSs issued and outstanding as of August 29, 2011, the date the Board of Directors approved these interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending March 31, 2012 could result in the restatement of these interim financial statements, including the transition adjustments recognized on the change-over to IFRS.

The interim financial statements should be read in conjunction with the Company's Canadian generally accepted accounting principles ("**Canadian GAAP**") annual financial statements for the year ended March 31, 2011. Note 8 discloses the IFRS adjustment made to these previously published Canadian GAAP financial statements for the year ended March 31, 2011.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Cost is net of related investment tax credits and government grants. Amortization based on the estimated useful life of the asset is calculated as follows:

Computer equipment	- 55/45/30%	diminishing balance basis
Computer software	- 33 %	diminishing balance basis
Furniture and fixtures	- 20 %	diminishing balance basis
Vehicles	- 30 %	diminishing balance basis
Field equipment	- 30%	diminishing balance basis

Property, plant and equipment that is acquired during the year is amortized at one-half of the stated rate.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments with maturities of three months or less.

Exploration and Evaluation Assets

The Company follows the practice of capitalizing all costs related to acquisition, exploration and development of mineral properties until such time as mineral properties are put into commercial production, sold or abandoned. If commercial production commences, these capitalized costs will be amortized prospectively on a unit-of-production basis based on estimated reserves. If the mineral properties are abandoned, the related capitalized costs are expensed.

The carrying value is reduced by the option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts.

The amounts shown for exploration and evaluation assets represent costs incurred to date less write-downs, and are not intended to reflect present or future values.

General

Administrative, prospecting and general expenses are expensed in the year in which they are incurred.

Income Taxes

The Company follows the asset/liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

2. Significant Accounting Policies (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

The effect on deferred income tax assets and liabilities resulting from a change in enacted tax rates is included in income in the year in which the change is enacted or substantively enacted. Deferred income taxes related to flow-through share tax renunciation is recognized in the year in which the company has finished incurring all eligible expenditures under the flow-through share agreement.

Flow-Through Shares

The Company will, from time to time, issue flow-through shares to finance a portion of its exploration programs. Pursuant to the terms of flow-through share agreements, the Company agrees to incur qualifying expenditures and renounce the tax deductions associated with these qualifying expenditures to the flow-through subscribers at an agreed upon time.

Flow-through shares are reported at issue price. If the flow-through shares are issued at a premium to the market price of non-flow through or hard dollar shares at the date of announcement, such premium or excess proceeds is reported as a liability on the Statement of Financial Position. The subsequent renunciation of such qualifying expenditures incurred by the Company in favor of the flow-through subscribers is reported as a reduction in the liability on the Statement of Financial Position and as other income or a reduction of the deferred tax expenses on the Statement of Operations and Comprehensive Loss.

Critical Accounting Estimates and Judgments

The preparation of interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant areas requiring the use of management estimates include, but are not limited to, the determination of carrying value of exploration and evaluation assets, the valuation of share-based compensation transactions, the valuation of purchase warrants issued on financings, deferred income tax assets and liabilities, and accrued liabilities.

Revenue Recognition

Revenue from the sale of mineral products are recorded on a gross basis when title passes to an external party. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product.

2. Significant Accounting Policies (continued)

Financial Instruments

The carrying amounts for cash and cash equivalents, cash restricted for flow-through expenditures, GST/HST receivable, accounts payable and accrued liabilities, and due to related party on the balance sheet approximate fair value due to their short-term maturity or capacity for prompt liquidation.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Financial Assets

Held for Trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income or expense during the period.

Held to Maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held to maturity, and are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and Receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available for Sale

Available for sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available for sale are subsequently re-measured if they have quoted market value in an active market. Otherwise, these investments are carried at cost and are written down when impairment is considered that is other than temporary.

2. Significant Accounting Policies (continued)

Financial Liabilities

Held for Trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other Financial Liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The company has made the following classifications

- Cash and cash equivalents is classified as a financial asset “held for trading” and is measured at fair value. Gains and losses resulting from period revaluation are recorded in net loss;
- Cash restricted for flow-through expenditures is classified as a financial asset “held for trading” and is measured at fair value. Gains and losses resulting from period revaluation are recorded in net loss;
- GST/HST receivable is classified as “loans and receivables” and is recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method; and
- Accounts payable, accrued liabilities and due to related party are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for all financial instruments.

Loss Per Share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share.

2. Significant Accounting Policies (continued)

Share-based compensation transactions

Stock Options

The fair value of stock options granted to directors, officers, employees and consultants is measured at grant date using the Black-Scholes valuation model using assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, expected forfeitures and expected life of the options. The fair value of this share-based payment is recognized as a charge to the Statements of Operations and Comprehensive Loss with a corresponding credit to contributed surplus on the Statement of Financial Position.

The fair value of stock options, subject to a vesting schedule, is recognized using the accelerated method. The fair value of each vested tranche is measured using Black Scholes using assumptions at the time of vesting.

Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

Comprehensive Income

Comprehensive income is the change in equity of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes to equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income is comprised of net income for the period and other comprehensive income, and this standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income" until it is considered appropriate to recognize into net earnings.

The Company had no comprehensive income or loss transactions, other than its net loss. The Company's Loss from Operations and its Comprehensive Loss are equal.

Asset retirement obligations

Asset retirement obligations are legal and/or constructive obligations. These obligations include, but are not limited to, the retirement of exploration and evaluation assets such as restoration, reclamation and re-vegetation of affected areas.

The Company records the estimated fair value of a liability, and corresponding increase in the related property, for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The fair value of a liability for an asset retirement obligation is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction and, in the absence of observable market transactions, is determined as the present value of expected cash flows. The Company subsequently allocates the cost of the asset retirement to expense using a systematic and rational method over its useful life, and records the accretion of the liability as a charge to the Consolidated Statements of Operations and Comprehensive Loss.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

2. Significant Accounting Policies (continued)

As of June 30, 2011, the Company has no environmental expenditures or known liabilities.

3. Exploration and Evaluation Assets

	<u>June 30, 2011</u>	<u>March 31, 2011</u>
Acquisition Costs:		
Dogpaw Lake Property – Kenora, Ontario (a)	\$ 237,720	\$ 237,720
West Cedartree Property - Kenora, Ontario (b)	192,156	192,156
North Block Property – Kenora, Ontario (c)	4,000	4,000
Tib Lake Property - Thunder Bay, Ontario (d)	71,395	71,395
Pakeagama Lake Property - Red Lake, Ontario (e)	260,250	260,250
Dubenski Property – Kenora, Ontario (f)	576,000	476,000
	<u>1,341,521</u>	<u>1,241,521</u>
Deferred Exploration Costs:		
Dogpaw Lake Property – Kenora, Ontario (a)	\$ 2,157,945	\$ 2,127,987
West Cedartree Property - Kenora, Ontario (b)	2,177,902	2,135,224
North Block Property - Kenora, Ontario (c)	5,182	5,182
Tib Lake Property - Thunder Bay, Ontario (d)	513,134	513,134
Pakeagama Lake Property - Red Lake, Ontario (e)	355,987	320,120
Dubenski Property – Kenora, Ontario (f)	3,192,048	3,186,152
	<u>8,402,198</u>	<u>8,287,799</u>
	<u>\$ 9,743,719</u>	<u>\$ 9,529,320</u>

(a) Dogpaw Lake Property – Kenora, Ontario

The Dogpaw Lake Gold Property is located adjacent to the Company's West Cedartree Property. The Company holds a 100% earn in interest subject to a 2.5% net smelter royalty ("NSR"). Houston Lake may purchase back up to 1.5% of the NSR for \$500,000 per 0.5%. The property consists of 13 patented mining claims and one License of Occupation.

(b) West Cedartree Property – Kenora, Ontario

The West Cedartree Gold Property is located in the Cedartree Lake area within the Kenora Mining District of Ontario, Canada. The property consists of four (4) parts: the Jesse (North) Property, the West Cedartree Property, the McLennan Property and the Dogpaw West and Gold Sun Properties. All four are contiguous and considered as one property for exploration purposes.

Jesse (North) Property

The Company earned a 100% interest in 1 unpatented mining claim in the Jesse (North) Property. The vendor is a related party and holds a 2.5% net smelter royalty.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

3. Exploration and Evaluation Assets (Continued)

West Cedartree Property

The Company holds a 100% interest in the 20 claim unit West Cedartree Property comprising 3 unpatented claims.

McLennan Property

The Company has a 100% interest in 7 patented mining claims comprising the McLennan Property. One of the vendors retains a 0.75% net smelter royalty while a related party retains a 1.5% net smelter royalty.

Dogpaw West and Gold Sun Properties

The Company has a 100% interest in the Dogpaw West and the Gold Sun properties. This area includes 4 unpatented mining claims. The ownership interest is subject to a 2.5% net smelter royalty ("NSR"). The Company can purchase up to 1.5% of the NSR for \$500,000 per 0.5%.

(c) North Block – Kenora, Ontario

The Company has a 100% interest in the 1 unpatented claim of the North Block Gold Property in the Cedartree Lake area within the Kenora Mining District of Ontario, Canada. The vendor retains a 2% net smelter royalty ("NSR").

(d) Tib Lake - Thunder Bay, Ontario

The Company holds a 100% interest in the 20 unpatented Tib Lake PGM Property located in the Thunder Bay Mining District of Ontario. The vendor retains 2.5% NSR subject to a 1.0% buyback for \$1 million.

(e) Pakeagama Lake – Red Lake, Ontario

Pakeagama Lake West Property

The Company has a 100% interest in the Pakeagama Lake Property. The 100% ownership interest is subject to a 2.5% NSR subject to a 1.0% buyout provision. During fiscal year 2007, the Company issued 140,000 common shares to an arms length individual for total consideration of \$91,000 and must make annual payments of \$1,000 until 2011 (inclusive) in order to retire the advance royalty on the property.

The Company did not spend the required amount of funds on the eight mining claims surrounding the Pakeagama Lake Property in order to renew them. As a result, the Company had to write down all costs relating to the acquisition of these claims, resulting in a \$194,458 write-down against income in the year ending March 31, 2011. Three claims contiguous to the Pakeagama Lake Property have been acquired in the fiscal year ending March 31, 2011 and are collectively known as the "Pakeagama Lake Southeast Property."

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

3. Exploration and Evaluation Assets (Continued)

Pakeagama Lake Southeast Property

The Company has a 100% interest in 3 unpatented mining claims in the Pakeagama Lake Southeast Property. The 100% ownership interest is subject to a 2.5% NSR subject to a 1.0% buyout provision. During fiscal year 2011, the Company issued 100,000 common shares and paid \$10,000 in a cash payment to two private arms length individuals. The Company will issue 500,000 common shares and pay \$125,000 over the course of the remaining four years without exploration expenditure guarantees to earn a 100 percent interest from the two private individuals.

(f) Dubenski Property – Kenora, Ontario

The Company has a 100% option interest in Dubenski Gold Property. The property consists of 22 leased claims and is located adjacent the West Cedartree properties in the Kenora Mining District of Ontario. The vendor retains 2.5% NSR subject to a 500,000 buyback for every 0.5%.

The Company can exercise its option by making cash payments of \$3.5 million and issuing 500,000 common shares by April 30, 2017. The option cannot be exercised until the Company has made cash payments of \$1,000,000 and issued 200,000 common shares to the vendor within the prescribed period. As at March 31, 2011, Houston Lake Mining Inc. has paid \$400,000 and issued 200,000 common shares at a deemed price of \$0.88 per share on May 11, 2007 to the vendor.

4. Property, Plant and Equipment

	June 30, 2011		March 31, 2011	
	(unaudited)		(audited)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 26,091	\$ 18,235	\$ 26,091	\$ 17,822
Exploration equipment	31,501	20,724	28,501	19,972
Computer equipment	50,753	49,152	50,164	48,940
Computer software	10,042	9,940	10,042	9,931
Vehicles	50,081	41,627	50,081	40,941
	\$ 168,468	\$ 139,678	\$ 164,879	\$ 137,606
Net book value		\$ 28,790		\$ 27,273

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

6. Share Capital Continued

Warrant Issues:

As at June 30, 2011, the following warrants were outstanding:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Shares</u>
September 29, 2011	0.40/0.50	650,000
November 24, 2011	0.30/0.35	2,000,000
December 22, 2011	0.30/0.35	1,000,000
December 31, 2011	0.30/0.35	270,000
July 9, 2012	0.20/0.25	833,333
December 16, 2012	0.20/0.25	1,562,500
January 18, 2013	0.20	<u>2,143,333</u>
		<u>8,459,166</u>

Stock Option Plan:

The Company has a share option plan under which options to purchase common shares may be granted by the Board of Directors to directors, officers and employees of the Company and private corporations for terms of up to five years at a price not to exceed that permitted by any stock exchange on which the Company's shares are listed. The maximum number of options available for grant under the plan is 10% of the issued and outstanding shares with no more than 5% granted to any one director.

The following is a summary of the options outstanding at June 30, 2011, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Shares</u>
November 24, 2011	0.25	320,000
December 22, 2011	0.25	160,000
December 30, 2011	0.25	43,200
May 10, 2012	1.00	450,000
June 30, 2012	0.20 / 0.25	133,333
November 6, 2012	0.64	200,000
December 16, 2012	0.20 / 0.25	250,000
February 12, 2013	0.40	187,500
October 1, 2013	0.40	250,000
December 18, 2013	0.30	400,000
June 1, 2015	0.20	1,000,000
January 27, 2016	0.145	300,000
June 7, 2016	0.14	<u>1,400,000</u>
		<u>5,094,033</u>

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

6. Share Capital Continued

In the quarter, 1,400,000 stock options were issued to directors of the Company. Using the Black-Scholes option pricing model, the fair value of each option granted is approximately \$0.14. Stock based compensation of \$195,880 was recognized in the year and credited to contributed surplus.

The assumptions used in the Black-Scholes model are as follows:

Risk free rate of return	0.93%
Volatility	235%
Dividend yield	0%
Expected option life	5 years

Contributed Surplus

Contributed surplus represents the amount reported as the fair value of stock options issued.

7. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's method of presentation.

8. First Time Adoption of IFRS

These are the Company's first unaudited interim financial statements prepared in accordance with IFRS. IFRS accounting policies are presented in Note 2 and have been applied in preparing the unaudited interim financial statements for the three months ended June 30, 2011, the comparative information for the three months ended June 30, 2010, the financial statements for the year ended March 31, 2011 and the preparation of an opening IFRS statement of financial position on the April 1, 2010 Transition Date.

In preparing its opening IFRS statement of financial position, comparative information for the three months ended June 30, 2010 and financial statements for the year ended March 31, 2011, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. Guidance for the first time adoption of IFRS is set out in *IFRS 1*, which provides for certain mandatory exceptions and optional exemptions for initial adoption of IFRS.

The Company has elected to apply the following *IFRS 1* optional exemption:

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2: Share-based Payment ("**IFRS 2**"), to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected to apply the requirements of IFRS 2 only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.

8. First Time Adoption of IFRS

IFRS does not provide guidance on flow-through shares of the related tax consequences however the Company has adopted the following policy under IFRS. If flow-through shares are issued at a premium to the market price of non-flow-through or hard dollar shares at the date of announcement, such premium or excess proceeds is reported as a liability on the Statement of Financial Position. The subsequent renunciation of the exploration expenses incurred by the Company in favor of the flow-through subscriber is reported as a reduction in the liability on the Statement of Financial Position and other income or a reduction of the deferred tax expenses on the Statements of Operations and Comprehensive Loss.

Changes to accounting policies on adoption of IFRS

(a) Asset Retirement Obligations

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

This change in accounting policy had no impact on the unaudited interim financial statements.

(b) Presentation

Certain amounts in the unaudited interim financial statements have been renamed to follow IFRS.

(c) Exploration and Evaluation Expenditures

On transition to IFRS, the Corporation elected to capitalize exploration and evaluation expenditures as incurred. The Company's previous accounting policy under Canadian GAAP was to capitalize exploration and evaluation expenditures as incurred. There is no impact on the unaudited interim financial statements.

(d) Flow-through shares

Proceeds from the issuance of flow-through shares are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the market value of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by investors and is then recognized in operations in the period all the flow-through expenditures are fully expended.

The Company's previous policy under Canadian GAAP was to adopt the recommendations of EIC 146 with respect to the accounting for flow-through shares. This resulted in the Corporation reducing the net proceeds of the flow-through share issuance by the future tax liability of the Corporation resulting from the renunciation of the exploration and development expenditures in favour of the flow-through share subscribers.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

The Canadian GAAP Statement of Financial Position as at April 1, 2010 has been reconciled to IFRS as follows:

As at April 1, 2010	Notes	Balance under GAAP	IFRS Adjustments	Balance under IFRS
Current assets				
Cash and cash equivalents		21,610		21,610
Cash restricted for flow-through expenditures		824,480		824,480
GST/HST receivable		27,613		27,613
Prepaid expenses		30,714		30,714
Total current assets		904,417	-	904,417
Property, plant and equipment				
Exploration and evaluation assets		30,831		30,831
		8,785,043		8,785,043
		9,720,291	-	9,720,291
Current liabilities				
Accounts payable and accrued liabilities		164,352		164,352
Due to related party		125,000		125,000
Total current liabilities		289,352	-	289,352
Deferred income tax liability	(i)	908,035	(408,750)	499,285
Shareholders' equity				
Capital stock		11,134,745	408,750	11,543,495
Contributed surplus		2,122,942		2,122,942
Deficit		(4,734,783)		(4,734,783)
Total shareholders' equity		8,522,904	-	8,931,654
		9,720,291	-	9,720,291

- (i) Under Canadian GAAP, the Company recognized deferred tax liability (formerly future income tax liability) in respect of the renunciation of tax deductions pursuant to flow-through share agreements in the year the relevant forms were filed with the government authority (pursuant to EIC 146). Such deferred tax liabilities were subtracted from share capital.

Under IFRS, the Company recognizes deferred tax liability at the time all related flow-through expenditures are incurred. The increase in deferred tax liability also results in deferred tax expense on the Statement of Operations and Comprehensive Loss.

In the year ending March 31, 2010, flow-through shares were issued for proceeds of \$1,635,000. The expenditures were renounced during the year, but the money was not spent until subsequent to year-end.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

The Canadian GAAP Statement of Financial Position as at March 31, 2011 has been reconciled to IFRS as follows:

As at March 31, 2011	Notes	Balance under GAAP	IFRS Adjustments	Balance under IFRS
Current assets				
Cash and cash equivalents		6,676		6,676
Cash restricted for flow-through expenditures		567,590		567,590
GST/HST receivable		50,862		50,862
Prepaid expenses		23,381		23,381
Total current assets		648,509	-	648,509
Property, plant and equipment				
Exploration and evaluation assets		27,273		27,273
		9,529,320		9,529,320
		10,205,102	-	10,205,102
Current liabilities				
Accounts payable and accrued liabilities		384,306		384,306
Due to related party		250,000		250,000
Total current liabilities		634,306	-	634,306
Deferred income tax liability	(ii)	860,913	(187,500)	673,413
Shareholders' equity				
Capital stock	(ii)	11,654,293	596,250	12,250,543
Contributed surplus		2,645,074		2,645,074
Deficit	(ii)	(5,589,484)	(408,750)	(5,998,234)
Total shareholders' equity		8,709,883	-	8,897,383
		10,205,102	-	10,205,102

- (ii) Under Canadian GAAP, the Company recognized deferred tax liability (formerly future income tax liability) in respect of the renunciation of tax deductions pursuant to flow-through share agreements in the year the relevant forms were filed with the government authority (pursuant to EIC 146). Such deferred tax liabilities were subtracted from share capital.

Under IFRS, the Company recognizes deferred tax liability at the time all related flow-through expenditures are incurred. The increase in deferred tax liability also results in deferred tax expense on the Statement of Operations and Comprehensive Loss.

In the year ending March 31, 2011, the company spent proceeds from the flow-through issuances of the prior fiscal year (\$1,635,000). As a result, the company recognized deferred tax liability of \$408,750, and deferred tax expense of \$408,750.

During the year, the Company raised \$750,000 in two flow-through private placements. The money had not been fully expended at year-end. As a result, the deferred income tax liability of \$187,500 is not recognized until a subsequent year.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

The Canadian GAAP Statement of Financial Position as at June 30, 2011 has been reconciled to IFRS as follows:

As at March 31, 2011	Notes	Balance under GAAP	IFRS Adjustments	Balance under IFRS
Current assets				
Cash and cash equivalents		33,818		33,818
Cash restricted for flow-through expenditures		214,865		214,865
GST/HST receivable		18,294		18,294
Prepaid expenses		21,336		21,336
Total current assets		288,313	-	288,313
Property, plant and equipment				
Exploration and evaluation assets		28,790		28,790
		9,723,719		9,723,719
		10,040,822	-	10,040,822
Current liabilities				
Accounts payable and accrued liabilities		386,180		386,180
Due to related party		250,000		250,000
Total current liabilities		636,180	-	636,180
Deferred income tax liability	(iii)	860,913	(187,500)	673,413
Shareholders' equity				
Capital stock	(iii)	11,654,293	596,250	12,250,543
Contributed surplus		2,840,954		2,840,954
Deficit	(iii)	(5,951,518)	(408,750)	(6,360,268)
Total shareholders' equity		8,543,729	-	8,731,229
		10,040,822	-	10,040,822

(iii) Under Canadian GAAP, the Company recognized deferred tax liability (formerly future income tax liability) in respect of the renunciation of tax deductions pursuant to flow-through share agreements in the year the relevant forms were filed with the government authority (pursuant to EIC 146). Such deferred tax liabilities were subtracted from share capital.

Under IFRS, the Company recognizes deferred tax liability at the time all related flow-through expenditures are incurred. The increase in deferred tax liability also results in deferred tax expense on the Statement of Operations and Comprehensive Loss.

In the previous fiscal year, the Company spent the flow-through proceeds from the fiscal year ending March 31, 2010. As a result, \$408,750 was required to be expensed in the previous fiscal year, resulting in a \$408,750 increase to the deficit as at June 30, 2011.

Houston Lake Mining Inc.
Notes to Financial Statements
For Three Months Ended June 30, 2011 and 2010 (Unaudited)

The increase to capital stock is an accounting policy adjustment. Under the IFRS accounting policy for flow-through shares, the Company no longer reduces share capital by deferred taxes resulting from renunciation of flow-through expenditures. The increase of \$596,250 relates to the deferred taxes resulting from renunciation of expenditures in the year ending March 31, 2010 (\$408,750) and March 31, 2011 (\$187,500).

The Canadian GAAP Statement of Operations and Comprehensive Loss for the quarter ended June 30, 2010 is reconciled to IFRS as follows:

For the three months ended June 30, 2010	Notes	Balance under GAAP	IFRS Adjustments	Balance under IFRS
Expenses				
Consulting		7,025		7,025
General and administrative		52,226		52,226
Wages and benefits		11,649		11,649
Vehicle and travel		19,868		19,868
Insurance		6,545		6,545
Telephone		4,777		4,777
Office and equipment rental		3,750		3,750
Amortization		2,296		2,296
Professional fees		5,000		5,000
Bank charges and interest		214		214
Currency exchange and rounding		640		640
		113,990		- 113,990
<hr/>				
Net income before items below		(113,990)	-	(113,990)
Other income		83		83
<hr/>				
Net income before taxes		(113,907)	-	(113,907)
Income tax expense (recovery)				
Deferred	(iv)	-	250,000	250,000
<hr/>				
		(113,907)	250,000	(363,907)

(iv) Under Canadian GAAP, the Company recognized deferred tax liability (formerly future income tax liability) in respect of the renunciation of tax deductions pursuant to flow-through share agreements in the year the relevant forms were filed with the government authority (pursuant to EIC 146). Such deferred tax liabilities were subtracted from share capital.

Under IFRS, the Company recognizes deferred tax liability at the time all related flow-through expenditures are incurred. The increase in deferred tax liability also results in deferred tax expense on the Statement of Operations and Comprehensive Loss.

In the quarter ending June 30, 2011, the company spent \$1,000,000 raised in a flow-through private placement raised in the previous year. As a result, the company recognizes deferred tax liability of \$250,000, and deferred tax expense of \$250,000 for this quarter.