

Houston Lake Mining Inc.
Financial Statements
For the years ended March 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Houston Lake Mining Inc.**

We have audited the accompanying financial statements of Houston Lake Mining Inc. which comprise the balance sheet as at March 31, 2012, March 31, 2011, and April 1, 2010, and the statement of operations, comprehensive loss and deficit, statement of changes in shareholders' equity and statement of cash flows for the years ending March 31, 2012 and March 31, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Houston Lake Mining Inc. as at March 31, 2012, March 31, 2011 and April 1, 2010, and their financial performance and their cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes that Houston Lake Mining Inc. is in the development stage and will require additional financing to fund the development of its properties. This condition indicates the existence of a material uncertainty that may cast doubt about Houston Lake Mining Inc.'s ability to continue as a going concern.



July 27, 2012
Toronto, Canada

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public
Accountants

Houston Lake Mining Inc. Balance Sheet

	March 31 2012	March 31 2011 (Note 3)	April 1 2010 (Note 3)
Assets			
Current			
Cash and cash equivalents	\$ 7,005	\$ 6,676	\$ 21,610
Cash restricted for flow-through expenditures (Note 9)	14,499	567,590	824,480
HST receivable	5,886	50,862	27,613
Prepaid expenses	4,721	23,381	30,714
	32,111	648,509	904,417
Property, plant and equipment (Note 5)	22,661	27,273	30,831
Exploration and evaluation assets (Note 4)	9,831,756	9,529,320	8,785,043
	\$ 9,886,528	\$ 10,205,102	\$ 9,720,291
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities (Note 7)	\$ 349,306	\$ 384,306	\$ 164,352
Due to related party (Note 7)	388,648	250,000	125,000
	737,954	634,306	289,352
Deferred tax liability (Note 6)	627,441	673,413	499,285
	1,365,395	1,307,719	788,637
Going concern (Note 1)			
Subsequent events (Note 13)			
Shareholders' equity			
Share capital (Note 8b)	12,524,728	12,250,543	11,543,495
Contributed surplus	2,840,954	2,645,074	2,122,942
Deficit	(6,844,549)	(5,998,234)	(4,734,783)
	8,521,133	8,897,383	8,931,654
	\$ 9,886,528	\$ 10,205,102	\$ 9,720,291

On behalf of the Board:

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Director

Houston Lake Mining Inc.
Statement of Changes in Shareholders' Equity
For the years ended March 31, 2012 and 2011

	Share Capital		Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit
	Shares (#)	\$	\$	\$	\$
Balance April 1, 2010	42,497,638	11,543,495	2,122,942	-	(4,734,783)
Net loss and comprehensive loss for the year					(1,263,451)
Stock based compensation			243,384		
Value of warrants issued to brokers for private placements			25,060		
Shares issued to acquire property	100,000	15,500			
Shares issued under private placement	6,934,999	1,068,667			
Less: share issue costs	-	(123,431)			
Less: value of warrants	-	(253,688)	253,688		
Balance March 31, 2011	49,532,637	12,250,543	2,645,074	-	(5,998,234)
Net loss and comprehensive loss for the year					(846,315)
Shares issued to acquire property	100,000	5,000			
Shares issued to settle debt	4,486,419	269,185			
Stock based compensation			195,880		
Balance March 31, 2012	54,119,056	12,524,728	2,840,954	-	(6,844,549)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Houston Lake Mining Inc. Statement of Operations, Comprehensive Loss and Deficit

For the years ended	March 31 2012	March 31 2011 (Note 3)
Expenses		
Consulting (Note 7)	\$ 279,732	\$ 128,116
Stock option compensation (Note 7, 8e)	195,880	243,384
Wages and benefits	126,193	95,570
General and administrative	96,489	96,926
Vehicle and travel	95,140	91,436
Professional fees	38,005	88,521
Insurance	22,002	24,325
Telephone	12,548	16,408
Office and equipment rental (Note 7)	12,500	15,000
Amortization	8,201	9,739
Shareholder and investor relations	3,245	78,598
Bank charges and interest	2,380	960
Foreign exchange	12	1,622
Interest (Note 7)	-	4,452
	<u>892,327</u>	<u>895,057</u>
Net loss before items below	(892,327)	(895,057)
Other income	40	192
Write-down of investment in mining properties (Note 4e)	-	(194,458)
	<u>(892,287)</u>	<u>(1,089,323)</u>
Net loss before income taxes	(892,287)	(1,089,323)
Income tax recovery (expense)		
Current	-	-
Deferred	45,972	(174,128)
	<u>45,972</u>	<u>(174,128)</u>
Net loss and comprehensive loss for the year	\$ (846,315)	\$ (1,263,451)
Deficit, beginning of year	(5,998,234)	(4,734,783)
Deficit, end of year	(6,844,549)	(5,998,234)
Basic and diluted loss per share	\$ (0.02)	\$ (0.03)
Weighted average number of shares	50,792,752	45,065,711

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Houston Lake Mining Inc. Statement of Cash Flows

For the years ended	March 31 2012	March 31 2011
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (846,315)	\$ (1,263,451)
Items not involving cash		
Amortization	8,201	9,739
Deferred income tax expense (recovery)	(45,972)	174,128
Stock option compensation	195,880	243,384
Write-down of exploration and evaluation assets	-	194,458
	<u>(688,206)</u>	<u>(641,742)</u>
Changes in non-cash working capital balances		
HST receivable	44,976	(23,249)
Prepaid expenses	18,660	7,333
Accounts payable and accrued liabilities	234,185	219,954
	<u>(390,385)</u>	<u>(437,704)</u>
Investing activities		
Purchase of property, plant and equipment	(3,589)	(6,181)
Net addition to exploration and evaluation assets	(297,436)	(938,735)
Cash restricted for flow-through expenditures	553,091	256,890
	<u>252,066</u>	<u>(688,026)</u>
Financing activities		
Issuance of common shares	-	732,108
Issuance of warrants	-	253,688
Due to related party	138,648	125,000
	<u>138,648</u>	<u>1,110,796</u>
Increase (decrease) in cash and cash equivalents in year	329	(14,934)
Cash and cash equivalents, beginning of year	6,676	21,610
Cash and cash equivalents, end of year	\$ 7,005	\$ 6,676
Cash and Cash Equivalents		
Cash	\$ 7,005	\$ 6,676
Cash equivalents	-	-
Supplementary Cash Flow Disclosure		
Interest paid	\$ -	\$ -
Income tax paid	-	-
Common shares issued to acquire exploration and evaluation assets	5,000	15,500
Common shares issued to settle debt	269,185	-

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2012 and 2011

1. Nature of Operations and Going Concern

Houston Lake Mining Inc. (the "Company" or "HLM") 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.

The registered address of the Company is 2892 White Street, Val Caron, Ontario, P3N 1B2.

The Company is listed on the Toronto Venture Exchange ("TSX-V") under the symbol "HLM".

The Company's principal activity is the acquisition, exploration and development of mining properties.

The ability of the Company to recover the amounts shown for its investment in mining properties, and property, plant and equipment is dependent upon the existence of economically recoverable reserves; the ability of the Company to obtain the necessary financing to complete exploration and development; and future profitable production or proceeds from the disposition of such investment in mining properties, and property, plant and equipment.

These financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and obtaining sufficient financing to meet its liabilities, and its obligations with respect to operating expenditures and expenditures required on its mineral properties.

As at March 31, 2012, the Company had working capital of \$(705,843) (2011 - \$14,203) and an accumulated deficit of \$6,844,549 (2011 - \$5,998,234). The Company also incurred a net loss of \$846,315 (2011 - \$1,263,451) and an operating cash flow deficit of \$390,385 (2011 - \$437,704).

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies

(a) Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before adoption of IFRS. As these financial statements represent the Company's initial presentation of its results and financial position under IFRS, they were prepared in accordance with IFRS 1, First Time Adoption of IFRS ("IFRS 1"). 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 disclosed in Note 3.

The Company's IFRS accounting policies have been applied consistently in all periods in preparing the financial statements for the year ended March 31, 2012, the restated comparative information 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").

(b) Presentation and functional currency

The Company's presentation currency and functional currency is the Canadian dollar.

(c) Financial Instruments

Financial instruments recognized in the statement of financial position include cash and cash equivalents, HST receivable, accounts payable and accrued liabilities, and due to related party. The respective accounting policies are described below:

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and investments in money market instruments with maturities of 90 days or less. Cash and cash equivalents are classified as held-for-trading and measured at fair value.

Cash restricted for flow-through expenditures

Cash restricted for flow-through expenditures consists of cash on hand and is classified as held-for-trading and measured at fair value.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

HST receivable

HST receivable is initially recognized at fair value and is subsequently measured at amortized cost using an effective interest rate method. HST receivable is classified as loans and receivables.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are initially recognized at fair value and classified as other financial liabilities, and subsequently measured at amortized cost.

Due to related party

Due to related party is initially recognized at fair value and classified as other financial liabilities and subsequently measured at amortized cost.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. 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 annual rate.

(e) 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 the 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 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 eligible costs incurred to date less write-downs, and are not intended to reflect present or future values.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(f) General

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

(g) Income Taxes

The Company follows the deferred income tax method of accounting for income taxes. Under this method income taxes are recognized for the estimated income taxes payable for the current year. Deferred income taxes are recognized for temporary differences between tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Deferred income tax assets and liabilities are measured using tax rates expected to be recovered or settled. Tax benefits have not been recorded due to uncertainty regarding their utilization. The amount of deferred income tax assets recognized is limited to the amount of the benefit that is more likely than not to be recognized.

(h) 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 date.

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 Balance Sheet. When the related expenditures are incurred, and the tax deductions renounced to the unit holders, the Company recognizes the related deferred tax liability on the Balance Sheet, and reduces the deferred tax expense on the Statement of Operations, Comprehensive Loss and Deficit.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(i) Decommissioning and restoration provision

The Company records the fair value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The estimated fair value of a liability, and corresponding increase in the related property, is reported in the year in which it is incurred and when a reasonable estimate of fair value can be made. The fair value 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 to expense using a systematic and rational method over its useful life, and records the accretion of the liability as a charge to the Statement of Operations, Comprehensive Loss and Deficit.

As the Company has not commenced construction and development of any mining operations it does not have any provisions for decommissioning or restoration costs.

(j) Use of Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(j) Use of Estimates (continued)

Rehabilitation provisions

Rehabilitation provisions are based on internal estimates. Assumptions, based on the current economic environment, are made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the recognized provisions may be higher or lower than currently provided for.

As at March 31, 2012 there were no rehabilitation provisions.

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(j) Use of Estimates (continued)

Income taxes (continued)

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 8(e).

(k) Stock Based Payments

Where equity-settled stock options are awarded to employees, the fair value of the stock options at the date of grant is charged to the Statement of Operations, Comprehensive Loss and Deficit over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Operations, Comprehensive Loss and Deficit over the remaining vesting period. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(k) Stock Based Payments (continued)

When equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the stock based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. All equity-settled stock based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

(l) Income Recognition

Income from the sale of mineral products, when they occur, are recorded on a gross basis when title passes to an external party. The Company recognizes income 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.

(m) Comprehensive Income

Comprehensive income is the change in equity (net assets) 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. 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 in net earnings.

The Company had no comprehensive income or loss transactions, other than its net loss, presented in the Statement of Operations, Comprehensive Loss and Deficit, nor has the Company accumulated other comprehensive income during the reporting periods.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(n) Loss Per Share

Basic earnings (loss) per share are computed by dividing income (loss) and comprehensive income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings 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. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. The assumed conversion of outstanding common share options and warrants has an anti-dilutive impact in 2012 and 2011.

(o) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

A previously recognized impairment loss may be reversed, to the extent of previously recorded losses, if the asset subsequently recovers.

Non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Indications of impairment such as significant decrease in its market price, evidence of obsolescence and physical damage, carrying amount of the net assets is more than its market capitalization, or significant adverse change in use.

Where the carrying value of an asset exceeds its recoverable amount, which is the greater of value in use and fair value less disposal costs, the asset is written down accordingly. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down and the impairment loss is recognized in the Statement of Operations, Comprehensive Loss and Deficit.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the smallest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(o) Impairment (continued)

Non-financial assets (continued)

A previously recognized impairment loss may be reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset. If this is the case, the carrying amount of the asset is increased to its recoverable amount and is recognized in the Statement of Operations, Comprehensive Loss and Deficit. The increased amount cannot exceed the carrying amount that would have been determined had no impairment been recognized for the asset.

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

(p) Recent accounting pronouncements

The company is currently evaluating the impact on its financial statements of recent accounting pronouncements, as follows:

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* was issued by the IASB and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, was issued by the IASB to replace IAS 27, Consolidated and Separate Financial Statement and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11, Joint Arrangements, supercedes IAS 31, Interest in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by joint venture partners. IFRS 11 requires a joint venture partner to classify its interest in a joint arrangement as a joint venture or a joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the joint venture partners will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2012 and 2011

2. Significant Accounting Policies (continued)

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 Disclosures of Interests in Other Entities was issued by the IASB to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

3. IFRS Conversion

The accounting policies presented in Note 2 have been applied consistently in all periods in preparing the financial statements for the year ended March 31, 2012, the restated comparative information for the year ended March 31, 2011, and the preparation of an opening IFRS statement of financial position on April 1, 2010 ("Transition Date").

When transitioning to IFRS, 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. There were no changes during the year in the initial IFRS 1 optional exemption elections disclosed in the interim financial statements during the year ending March 31, 2012 which provided for certain mandatory exceptions and optional exemptions for initial adoption of IFRS. The Company elected to apply the following IFRS 1 option 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.

An explanation of how the transition from the previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance, and cash flows is set out in the following tables.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

3. IFRS Conversion (continued)

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

	Balance under GAAP	IFRS Adjustments	Balance under IFRS
ASSETS			
Current			
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
	<u>904,417</u>	-	<u>904,417</u>
Property, plant and equipment	30,831	-	30,831
Exploration and evaluation assets	8,785,043	-	8,785,043
	<u>\$ 9,720,291</u>	<u>\$ -</u>	<u>\$ 9,720,291</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 164,352	\$ -	\$ 164,352
Due to related party	125,000	-	125,000
	<u>289,352</u>	-	<u>289,352</u>
Deferred tax liability	908,035	(408,750)	499,285
	<u>1,197,387</u>	<u>(408,750)</u>	<u>788,637</u>
Shareholders' equity			
Share capital	11,134,745	408,750	11,543,495
Contributed surplus	2,122,942	-	2,122,942
Deficit	(4,734,783)	-	(4,734,783)
	<u>8,522,904</u>	<u>408,750</u>	<u>8,931,654</u>
	<u>\$ 9,720,291</u>	<u>\$ -</u>	<u>\$ 9,720,291</u>

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

3. IFRS Conversion (continued)

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

	Balance under GAAP	IFRS Adjustments	Balance under IFRS
ASSETS			
Current			
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
	<hr/> 648,509	-	<hr/> 648,509
Property, plant and equipment	27,273	-	27,273
Exploration and evaluation assets	9,529,320	-	9,529,320
	<hr/> \$ 10,205,102	\$ -	<hr/> \$ 10,205,102
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 384,306	\$ -	\$ 384,306
Due to related party	250,000	-	250,000
	<hr/> 634,306	-	<hr/> 634,306
Deferred tax liability	860,913	(187,500)	673,413
	<hr/> 1,495,219	<hr/> (187,500)	<hr/> 1,307,719
Shareholders' equity			
Share capital	11,654,293	596,250	12,250,543
Contributed surplus	2,645,074	-	2,645,074
Deficit	(5,589,484)	(408,750)	(5,998,234)
	<hr/> 8,709,883	<hr/> 187,500	<hr/> 8,897,383
	<hr/> \$ 10,205,102	\$ -	<hr/> \$ 10,205,102

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

3. IFRS Conversion (continued)

The Canadian GAAP Statement of Operations and Comprehensive Loss for the year ended March 31, 2011 has been reconciled to IFRS as follows:

	Balance under GAAP	IFRS Adjustments	Balance under IFRS
Expenses			
Consulting	\$ 128,116	\$ -	\$ 128,116
Stock option compensation, directors	243,384	-	243,384
Wages and benefits	95,570	-	95,570
General and administrative	96,926	-	96,926
Vehicle and travel	91,436	-	91,436
Insurance	24,325	-	24,325
Telephone	16,408	-	16,408
Office and equipment rental	15,000	-	15,000
Professional fees	88,521	-	88,521
Amortization	9,739	-	9,739
Shareholder and investor relations	78,598	-	78,598
Bank charges and interest	960	-	960
Foreign exchange	1,622	-	1,622
Interest	4,452	-	4,452
	<u>895,057</u>	<u>-</u>	<u>895,057</u>
Net loss before items below	(895,057)	-	(895,057)
Other income	192	-	192
Write-down of exploration and evaluation asset	(194,458)	-	(194,458)
Net loss before income taxes	(1,089,323)	-	(1,089,323)
Income tax recovery (expense)			
Current	-	-	-
Deferred	234,622	(408,750)	(174,128)
Net loss and comprehensive loss	<u>\$ (854,701)</u>	<u>\$ (408,750)</u>	<u>\$ (1,263,451)</u>
Basic and diluted loss per share	0.02		0.03
Weighted average number of shares	<u>45,065,711</u>		<u>45,065,711</u>

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2012 and 2011

4. Exploration and Evaluation Assets

Year Ending March 31, 2012

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
Acquisition costs							
Opening balance	\$ 237,720	\$ 192,156	\$ 4,000	\$ 71,395	\$ 260,250	\$ 476,000	\$ 1,241,521
Additions	-	-	-	-	21,000	100,000	121,000
Disposals	-	-	-	(40,000)	-	-	(40,000)
Impairments	-	-	-	-	-	-	-
Balance at March 31, 2012	237,720	192,156	4,000	31,395	281,250	576,000	1,322,521
Deferred exploration costs							
Opening balance	2,127,987	2,135,224	5,182	513,134	320,120	3,186,152	8,287,799
Additions	64,556	61,370	-	-	90,275	5,235	221,436
Disposals	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Balance at March 31, 2012	2,192,543	2,196,594	5,182	513,134	410,395	3,191,387	8,509,235
	\$ 2,430,263	\$ 2,388,750	\$ 9,182	\$ 544,529	\$ 691,645	\$ 3,767,387	\$ 9,831,756

**Houston Lake Mining Inc.
Notes to Financial Statements**

Years Ending March 31, 2012 and 2011

4. Exploration and Evaluation Assets (continued)

Year Ending March 31, 2011

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
Acquisition costs							
Balance at April 1, 2010	\$ 237,720	\$ 192,156	\$ 4,000	\$ 71,395	\$ 428,208	\$ 376,000	\$ 1,309,479
Additions	-	-	-	-	26,500	100,000	126,500
Dispositions	-	-	-	-	-	-	-
Impairments	-	-	-	-	(194,458)	-	(194,458)
Balance at March 31, 2011	237,720	192,156	4,000	71,395	260,250	476,000	1,241,521
Deferred exploration costs							
Balance at April 1, 2010	2,120,682	1,653,334	5,182	513,134	311,527	2,871,705	7,475,564
Additions	7,305	481,890	-	-	8,593	314,447	812,235
Dispositions	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Balance at March 31, 2011	2,127,987	2,135,224	5,182	513,134	320,120	3,186,152	8,287,799
	\$ 2,365,707	\$ 2,327,380	\$ 9,182	\$ 584,529	\$ 580,370	\$ 3,662,152	\$ 9,529,320

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

4. Exploration and Evaluation Assets (continued)

(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.

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 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").

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

4. Exploration and Evaluation Assets (continued)

(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 a 2.5% NSR subject to a 1.0% buyback for \$1 million.

(e) Pakeagama Lake - Red Lake, Ontario

Pakeagama Lake 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.

In the prior fiscal year, 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. Three claims that are contiguous to the Pakeagama Lake Property were acquired in the prior fiscal year and are collectively known as the "Pakeagama Lake Southeast Property."

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 2012, the Company issued 100,000 common shares and paid \$15,000 to two arms length individuals. The Company will issue 400,000 common shares and pay \$110,000 over the course of the remaining 3 years without exploration expenditure guarantees to earn a 100 percent interest from the two 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, 2012, Houston Lake Mining Inc. has paid \$500,000 and issued 200,000 common shares to the vendor.

**Houston Lake Mining Inc.
Notes to Financial Statements**

Years Ending March 31, 2012 and 2011

5. Property, Plant and Equipment

Year Ending March 31, 2012

	Exploration Equipment	Furniture and Fixtures	Vehicles	Computer Equipment	Computer Software	Total
Cost						
Cost at April 1, 2011	\$ 28,501	\$ 26,091	\$ 50,081	\$ 50,164	\$ 10,042	\$ 164,879
Additions	3,000	-	-	589	-	3,589
Disposals	-	-	-	-	-	-
Cost at March 31, 2012	31,501	26,091	50,081	50,753	10,042	168,468
Accumulated depreciation						
Balance at April 1, 2011	19,972	17,822	40,941	48,940	9,931	137,606
Depreciation for year	3,009	1,653	2,742	686	111	8,201
Balance at March 31, 2012	22,981	19,475	43,683	49,626	10,042	145,807
Net book value	\$ 8,520	\$ 6,616	\$ 6,398	\$ 1,127	\$ -	\$ 22,661

**Houston Lake Mining Inc.
Notes to Financial Statements**

Years Ending March 31, 2012 and 2011

5. Property, Plant and Equipment (continued)

Year Ending March 31, 2011

	Exploration Equipment	Furniture and Fixtures	Vehicles	Computer Equipment	Computer Software	Total
Cost						
Opening balance	\$ 26,214	\$ 22,196	\$ 50,081	\$ 50,164	\$ 10,042	\$ 158,697
Additions	2,287	3,895	-	-	-	6,182
Disposals	-	-	-	-	-	-
Cost at March 31, 2011	28,501	26,091	50,081	50,164	10,042	164,879
Accumulated depreciation						
Opening balance	16,807	16,241	37,025	47,918	9,875	127,866
Depreciation	3,165	1,581	3,916	1,022	56	9,740
Balance at March 31, 2011	19,972	17,822	40,941	48,940	9,931	137,606
Net book value	\$ 8,529	\$ 8,269	\$ 9,140	\$ 1,224	\$ 111	\$ 27,273

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

6. Income Taxes

The Company has \$4,134,440 (2011 - \$3,309,580) of non-capital losses available to offset future income for tax purposes. The non-capital losses will expire as follows:

2014	\$	137,891
2015		135,254
2026		108,637
2027		289,132
2028		577,844
2029		662,731
2030		595,428
2031		802,663
2032		824,860
		<u>824,860</u>
	\$	4,134,440

The Company has a deferred tax liability, which arose from a difference between the carrying amount of the exploration and evaluation assets and their tax bases. The reason for the difference on the mining properties is due to the issuance of flow-through shares to investors, which results in the expenditures being renounced to the investors. As a result, the tax basis is much lower than the properties' carrying amount for accounting purposes. Since the mining properties are classified as long-term on the balance sheet, the associated deferred income tax liability is also classified as long-term.

The deferred tax liability and asset calculated using a tax rate expected to be recovered or settled of 25% (2011 - 25%) is as follows:

	2012	2011
Deferred tax liability		
Investment in exploration and evaluation assets	\$ 1,753,564	\$ 1,628,340
Deferred tax asset		
Property, plant and equipment	38,516	36,466
Undeducted share issuance costs	53,997	91,066
Undeducted non-capital losses	1,033,610	827,395
	<u>1,033,610</u>	<u>827,395</u>
Net deferred tax liability	\$ 627,441	\$ 673,413

Also, approximately \$2,568,403 (2011 - \$2,265,967) of Canadian exploration and development expenses (net of renounced expenditures) are available for application towards future taxable income.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

6. Income Taxes (continued)

The Company's effective tax rate, which differs from the combined federal and provincial statutory rate of 26.5% (2011 - 28.5%), is reconciled as follows:

	2012	2011
Loss before income taxes	\$ (892,287)	\$ (1,089,323)
Income tax recovery @ 26.5% (2011 - 28.5%)	(236,456)	(310,457)
Write-down of investment in exploration and evaluation assets	-	55,420
Share compensation	51,908	69,362
Share issue costs	(39,293)	(47,521)
Other	5,253	4,437
Valuation allowance	218,588	228,759
	\$ -	\$ -
Actual income tax (recovery) expense	\$ -	\$ -

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

7. Related Party Balances and Transactions

During the year, the Company incurred the following expenditures with a director and companies controlled by directors of the Company:

	<u>2012</u>	<u>2011</u>
Consulting	\$ 137,500	\$ 110,000
Office and equipment rental	9,000	9,000

Included in stock compensation is \$195,880 (2011 - \$243,384) granted to directors and consultants of the Company.

These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for sales of product.

Included in accounts payable is \$NIL (2011 - \$86,756) due to a company controlled by a former officer and director for management and consulting services provided to the Company under ongoing contracts, \$168,112 (2011 - \$195,972) owing to companies controlled by a director and \$62,415 (2011 - \$2,505) owing to corporate directors.

A loan payable of \$388,648 (2011 - \$250,000) is owed to a corporation controlled by a director and bears interest at the Royal Bank prime lending rate plus 2%, is unsecured and is due on demand. Interest in the amount of \$NIL (2011 - \$4,452) has been accrued and remains unpaid at year-end.

8. Share Capital

(a) Authorized

Unlimited number of common voting shares without nominal or par value
Unlimited number of first preferred shares
Unlimited number of second preferred shares

The First and Second Preferred Shares may be issued in one or more series. The Directors are authorized to fix the number of shares of each series to determine the designation, rights privileges, restrictions, and conditions attached to the shares of each series.

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2012 and 2011

8. Share Capital (continued)

(b) Issued

	Shares	Amount
Balance at April 1, 2010	42,497,638	\$ 11,543,495
Issued during the year pursuant to:		
Private placement	6,934,999	1,068,667
Shares to acquire property	100,000	15,500
Less: Share issue costs	-	(123,431)
Less: Value of warrants	-	(253,688)
	49,532,637	\$ 12,250,543
Balance at March 31, 2011	49,532,637	\$ 12,250,543
Shares to settle debt	4,486,419	269,185
Shares to acquire property	100,000	5,000
	54,119,056	\$ 12,524,728

(c) Warrants Outstanding

Balance at April 1, 2010	8,340,843	
Warrants issued during the year	4,539,166	
Warrants expiring during the year	(4,220,843)	
	8,659,166	
Balance at March 31, 2011	8,659,166	
Warrants issued during the year	-	
Warrants expiring during the year	(4,120,000)	
	4,539,166	
Balance at March 31, 2012	4,539,166	

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Warrants</u>
July 9, 2012	0.20/0.25	833,333
December 16, 2012	0.20/0.25	1,562,500
January 18, 2013	0.20	2,143,333
		4,539,166

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

8. Share Capital (continued)

(d) Stock Based Compensation

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.

(e) Options Outstanding

The following is a summary of the options outstanding at March 31, 2012, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Options</u>
May 10, 2012	1.00	450,000
December 18, 2013	0.30	400,000
June 30, 2012	0.20/0.25	133,333
December 16, 2012	0.20/0.25	250,000
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>3,933,333</u>

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2012 and 2011

8. Share Capital (continued)

(e) Options Outstanding (continued)

	Options	Weighted Average Exercise Price
Balance at April 1, 2010	2,965,700	\$ 0.51
Options granted during year	1,683,333	0.18
Options expiring during year	(840,000)	0.50
Balance at March 31, 2011	3,809,033	0.50
Options granted during year	1,400,000	0.14
Options expiring during year	(1,275,700)	0.13
Balance at March 31, 2012	3,933,333	\$ 0.50

During the year, 1,400,000 (2011 - 1,683,333) in stock options were issued to directors and consultants of the Company. Using the Black-Scholes option pricing model with the assumptions below the average fair value of each option granted is approximately \$0.14 (2011 - \$0.15). Stock-based compensation of \$195,880 (2011 - \$268,444) was recognized in the year (stock option compensation) and credited to Contributed Surplus.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

8. Share Capital (continued)

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

Risk free interest rate	0.93%
Dividend yield	0%
Volatility factor	235%
Expected option life	5 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

(f) Debt Settlement

On December 22, 2011, a Share for Debt settlement of \$269,185 was completed with two of the Company's creditors: \$234,483 to a corporation controlled by a director of the company, and \$34,702 to a company owned by an arm's length individual.

9. Cash Restricted for Flow Through Expenditures

Flow-Through common shares require the Company to spend an amount equivalent to the proceeds of the issued Flow-Through common shares on Canadian (Flow-Through) qualifying exploration expenditures. The Company has indemnified the holders of such shares for any tax and other costs payable by them as a result of the Company not making the required exploration expenditures. As at March 31, 2012, the Company's remaining cash with respect to unspent resource expenditures under flow-through common share agreements is \$14,499 (2011– \$567,590), which is held as restricted cash (see Note 12).

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2012 and 2011

10. Capital Management

The Company manages capital, based on its cash and equivalents and ongoing working capital, with an objective of safeguarding the Company's ability to continue as a going concern, maximizing the funds invested into exploration and development activities, exploring and developing gold resources, and considering additional financings which minimize shareholder dilution. There were no changes in the Company's approach to capital management during the year ending March 31, 2012.

The Company's capital structure reflects a company focused on mineral exploration and financing both internal and external growth opportunities. The exploration for and development of mineral deposits involves significant risk which even a combination of careful evaluation, experience and knowledge may not adequately mitigate.

The Company manages capital in proportion to risk and manages the mineral properties and capital structure based on economic conditions and prevailing gold commodity pricing and trends. The Company relies on equity financings to maintain adequate liquidity to support its ongoing exploration and development activities and ongoing working capital commitments.

11. Financial Risk Factors

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objective of the Company's risk management processes is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below:

Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and HST receivable. Cash and cash equivalents consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. HST receivable is subject to CRA's assessment prior to receipt. Management believes credit risk with respect to cash and cash equivalents and HST receivable is low.

Liquidity Risk

The Company ensures that there is sufficient cash and other short-term assets readily convertible into cash in order to meet its liabilities when they come due. The Company's cash is held in business accounts with a Canadian Schedule 1 bank. Management believes that liquidity risk is low.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

11. Financial Risk Factors (continued)

Fair Value

The carrying value of cash and cash equivalents, HST receivable, accounts payable and accrued liabilities, and due to related party approximate their fair value due to the relatively short periods to maturity of these instruments.

All financial instruments that are measured at fair value are categorized into one of three hierarchy levels, as described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

- Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the comparable asset or liability, either directly or indirectly.
- Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments

The Corporation's only instrument that is carried at fair value is cash and cash equivalents and is considered Level 1 in the hierarchy.

Interest Rate Risk

The Company's cash is held in business accounts with nominal interest rates. Management considers interest rate risk to be low. The Company's loans bear interest at a variable interest rate. Interest on these loans could change due to changes in the market interest rate.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company retains a US Bank Account with a nominal balance. Management considers currency risk to be low.

Commodity Price Risk

Commodity prices fluctuate and are affected by factors outside of the Company's control. The current and expected future spot prices have a significant impact on the market sentiment for investment in exploration companies and may impact the Company's ability to raise equity financing for its ongoing working capital requirements.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates and foreign exchange rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2012 and 2011

12. Commitments

The Company has a commitment to spend amounts raised through flow-through financing on eligible Canadian exploration and development expenses. At March 31, 2012, the Company was required to spend \$52,029 on eligible flow-through expenditures. The Company has not incurred the required eligible expenses.

13. Subsequent Events

On May 8, 2012, the Company announced that it had reached an agreement with North American Palladium Ltd. ("NAP") whereby NAP has the option to purchase the Company's Tib Lake Platinum Group Elements (PGE) property with completion of cash payments and exploration expenditures. The agreement provides NAP with an option to earn a 100% interest in Tib Lake PGE Property after making staged payments totaling \$450,000 to HLM, and incurring exploration expenditures of \$1,600,000 over five years. After completion of the payments and exploration expenditures, HLM will have a 2.5% net smelter return royalty (NSR) in favour of a third party (or HLM depending on the claim). HLM also retains the right to buy back 1% of the third party NSR for \$1,000,000 and to purchase the remaining 1.5% of the third party NSR on such terms and conditions that the two parties may agree on. On claim areas where HLM is the royalty holder, NAP will have the right to purchase 1% of the NSR for \$1,000,000.

On June 27, 2012, the company announced that it signed a Letter of Intent to sell its 100% interest in its West Cedartree Gold Project (WCGP) to Coventry Resources Limited ("Coventry"). Under the terms of the agreement, HLM will receive \$100,000 on execution of the agreement (which has been received), \$400,000 on completion of due diligence and execution of a Definitive Sale and Purchase Agreement, 7.7 million Coventry shares representing 3.6% of the currently outstanding shares of Coventry, and a 2.5% net smelter return royalty (NSR) on the West Cedartree Claim Block.
