

Financial Statements of

HOUSTON LAKE MINING INC.

Six months ending September 30, 2012 and 2011
(Unaudited and Prepared by Management)



NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, the financial statements must be accompanied by a notice indicating that the statements have not been reviewed by an auditor. The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Houston Lake Mining Inc.
Statement of Financial Position
Unaudited

	Sept 30, 2012	March 31, 2012 (Note 8)
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 7,005
Cash restricted for flow-through expenditures	81,541	14,499
HST receivable	12,249	5,886
Prepaid expenses	7,563	4,721
	101,353	32,111
Loan receivable (Note 3d)	410,000	-
Exploration and evaluation assets (Note 3)	9,213,628	9,831,756
Property, plant and equipment (Note 4)	19,504	22,661
	\$ 9,744,485	\$9,886,528
Liabilities and Shareholders' Equity		
Current		
Bank overdraft	\$ 4,565	\$ -
Accounts payable and accrued liabilities (Note 5)	301,176	349,306
Due to related party (Note 5)	356,433	388,648
	662,174	737,954
Deferred tax liability	627,441	627,441
	1,289,615	1,365,395
Shareholders' equity		
Share capital (Note 6)	12,640,624	12,524,728
Contributed surplus (Note 6)	2,910,058	2,840,954
Deficit (Note 8)	(7,095,812)	(6,844,549)
	8,454,870	8,521,133
	\$9,744,485	\$ 9,886,528

Houston Lake Mining Inc.
Statement of Operations
(Unaudited)

	Six Months Ended Sept. 30, 2012	Six Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2012	Three Months Ended Sept. 30, 2011
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses				
Stock option compensation, directors	-	195,880	-	-
Consulting	30,000	164,732	-	110,198
Wages and benefits	24,530	95,931	13,184	58,137
Vehicle and travel	8,246	71,047	8,057	53,485
General administrative	18,925	61,424	15,048	22,041
Insurance	7,721	11,381	2,477	5,530
Office and equipment rental	4,500	7,500	2,250	3,750
Telephone	5,333	6,969	2,337	3,153
Professional fees	10,475	4,989	4,314	4,127
Depreciation	3,157	4,145	1,578	2,073
Shareholder and investor relations	200	1,500	200	1,500
Bank charges and interest	1,147	1,342	369	780
Currency exchange and rounding	-	-	-	-
	114,234	626,840	49,814	264,774
Less: Other income	-	(40)	-	(8)
Net loss before tax and items below	114,234	626,800	49,814	264,766
Loss on sale of exploration and evaluation asset	(137,029)	-	-	-
Net loss before tax	(251,263)	(626,800)	(49,814)	(264,766)
Income tax expense Deferred	-	-	-	-
Net loss for the period	(251,263)	(626,800)	(49,814)	(264,766)
Deficit, beginning of period	(6,844,549)	(5,998,234)	(7,045,998)	(6,360,268)
Deficit, end of period	(7,095,812)	(6,625,034)	(7,095,812)	\$ (6,625,034)
Net loss per share (basic)	\$ (0.005)	\$ (0.012)	\$ (0.001)	\$ (0.005)
Weighted average common shares outstanding	55,474,247	49,532,637	56,814,708	49,532,637

Houston Lake Mining Inc.
Statement of Changes in Shareholders' Equity
Unaudited

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit
	Shares (#)	\$	\$	\$
<u>Period Ending Sept 30, 2011</u>				
Balance March 31, 2011	49,532,637	12,250,543	2,645,074	(5,998,234)
Net income and comprehensive loss for the period				(626,800)
Share based compensation on vested options	-	-	195,880	
Balance at Sept 30, 2011	49,532,637	12,250,543	2,840,954	(6,625,034)
<u>Period Ending Sept 30, 2012</u>				
Balance March 31, 2012	54,119,056	12,524,728	2,840,954	(6,844,549)
Net income and comprehensive loss for the period	-			(251,263)
Private placement proceeds	4,000,000	200,000	-	-
Less: share issue costs		(17,053)		
Warrant valuation	-	(67,051)	67,051	-
Warrants issued to brokers	-		2,053	-
Balance at Sept 30, 2012	58,119,056	12,640,624	2,910,058	(7,095,812)

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

	Six Months Ended Sept. 30, 2012	Six Months Ended Sept. 30, 2011	Three Months Ended Sept. 30, 2012	Three Months Ended Sept. 30, 2011
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	\$ (251,263)	\$ (626,800)	\$ (49,814)	\$ (264,766)
Items not involving cash				
Loss on disposal of exploration and evaluation properties	137,029	-	-	-
Stock option compensation	-	195,880	-	-
Accounts payable settled by issuance of shares	-	234,483	-	234,483
Amortization	3,157	4,145	1,578	2,073
	(111,077)	(192,292)	(48,236)	(28,210)
Changes in non-cash working capital balances				
HST receivable	(6,363)	32,198	(10,909)	(370)
Prepaid expenses	(2,842)	7,731	2,477	5,686
Accounts payable and accrued liabilities	(48,130)	(146,641)	(79,675)	(148,513)
	(168,412)	(299,004)	(136,343)	(171,409)
Investing activities				
Investment in exploration and evaluation assets	(28,886)	(252,307)	(26,333)	(57,908)
Proceeds for sale of exploration and evaluation properties	99,985	-	-	-
Cash restricted for flow-through expenditures	(67,042)	546,599	(81,049)	193,874
Purchase of property, plant and equipment	-	(3,589)	-	-
	4,057	290,703	(107,382)	135,966
Financing activities				
Loan from related party	(32,215)	-	(44,792)	-
Issuance of common shares	132,949	-	132,949	-
Issuance of warrants	67,051	-	67,051	-
Share issue costs	(15,000)	-	(15,000)	-
	152,785	-	140,208	-
Decrease in cash during the period	(11,570)	(8,301)	(103,517)	(35,443)
Cash and cash equivalents, beginning of period	7,005	6,676	98,952	33,818
Cash and cash equivalents, end of period	\$ (4,565)	\$ (1,625)	\$ (4,565)	\$ (1,625)

Houston Lake Mining Inc
Notes to Financial Statements
For Six Months Ended September 30, 2012 and 2011 (Unaudited)

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.V."

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 September 30, 2012. 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 were 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.

Houston Lake Mining Inc
Notes to Financial Statements
For Six Months Ended September 30, 2012 and 2011 (Unaudited)

2. Critical Accounting Policies

Basis of Presentation

These interim financial statements are compliant with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Presentation and functional currency

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

Financial instruments

Financial instruments recognized in the statement of financial position include cash and cash equivalents, HST receivable, loan 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.

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.

Loan receivable

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

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.

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 rate.

Houston Lake Mining Inc
Notes to Financial Statements
For Six Months Ended September 30, 2012 and 2011 (Unaudited)

2. Critical Accounting Policies (Continued)

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 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 accounting and tax bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not 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.

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, Comprehensive Loss and Deficit.

2. Critical Accounting Policies (Continued)

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 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 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 a provision for decommissioning or restoration costs.

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:

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 of September 31, 2012, there were no rehabilitation provisions.

2. Critical Accounting Policies (Continued)

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.

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. Estimated fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent upon 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.

2. Critical Accounting Policies (Continued)

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.

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 behavioral 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.

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.

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.

2. Critical Accounting Policies (continued)

Comprehensive Income (Continued)

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.

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.

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.

2. Critical Accounting Policies (Continued)

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.

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.

2. Critical Accounting Policies (continued)

Recent Accounting Pronouncements (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
For Six Months Ended September 30, 2012 and 2011 (Unaudited)

3. Exploration and Evaluation Assets

Period Ending September 30, 2012

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
Acquisition Costs:							
Cost at March 31, 2012	\$ 237,720	\$ 192,156	\$ 4,000	\$ 31,395	\$ 281,250	\$ 576,000	\$1,322,521
Additions during the period	-	-	-	2,500	-	-	2,500
Disposals during the period	(28,270)	(27,786)	(107)	(33,895)	-	(43,822)	(133,880)
Balance at September 30, 2012	<u>209,450</u>	<u>164,370</u>	<u>3,893</u>	<u>-</u>	<u>281,250</u>	<u>532,178</u>	<u>1,191,141</u>
Deferred Exploration Costs:							
Balance at March 31, 2012	\$ 2,192,543	\$ 2,196,594	\$ 5,182	\$ 513,134	\$ 410,395	\$ 3,191,387	\$ 8,509,235
Additions during the period	2,668	46	-	-	23,672	-	26,386
Disposals during the period	-	-	-	(513,134)	-	-	(513,134)
Balance at September 30, 2012	<u>2,195,211</u>	<u>2,196,640</u>	<u>5,182</u>	<u>-</u>	<u>434,067</u>	<u>3,191,387</u>	<u>8,022,487</u>
Total acquisition and deferred exploration costs	\$ 2,404,661	\$ 2,361,010	\$ 9,075	\$ -	\$ 715,317	\$ 3,723,565	\$ 9,213,628

3. Exploration and Evaluation Assets

(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 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

During the quarter the Company optioned the Tib Lake property in return for cash payments totaling \$450,000. At September 30, 2012, \$410,000 of the proceeds were still outstanding.

3. Exploration and Evaluation Properties (Continued)

(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."

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 in a cash payment 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 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 June 30, 2012, Houston Lake Mining Inc. has paid \$500,000 and issued 200,000 common shares to the vendor.

Houston Lake Mining Inc.
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For Six Months Ended September 30, 2012 and 2011 (Unaudited)

4. Property, Plant and Equipment

Period Ending September 30, 2012

	Exploration Equipment	Furniture & Fixtures	Vehicles	Computer Equipment	Computer Software	Total
Cost						
Cost at March 31, 2012	\$ 31,501	\$ 26,091	\$ 50,081	\$ 50,753	\$ 10,042	\$ 168,468
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Closing balance	31,501	26,091	50,081	50,753	10,042	168,468
Accumulated depreciation						
Balance at March 31, 2012	\$ 22,981	\$ 19,475	\$ 43,683	\$ 49,626	\$ 10,042	\$ 145,807
Depreciation for period	1,278	662	960	257	-	3,157
Closing balance	24,259	20,137	44,643	49,883	10,042	148,964
Net book value	\$ 7,242	\$ 5,954	\$ 5,438	\$ 870	\$ -	\$ 19,504

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2012 and 2011 (Unaudited)

5. Related Party Transactions

During the six months ended September 30, 2012 and 2011, the Company incurred the following expenditures with a director and companies controlled by directors of the company:

	Sept 30,2012 (Unaudited)	Sept 30,2011 (Unaudited)
Office and equipment rental	\$ 4,500	\$ 4,500

The transactions above are in the normal course of operation and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable is \$178,972 owing to two corporations controlled by a director of the company.

The amounts due to related party are owed to a corporation controlled by a director. The amount bears interest at the Royal Bank prime rate + 2%, is unsecured, and is due on demand. Interest in the amount of \$4,452 has been accrued and remains unpaid at September 30, 2012.

6. Share Capital

Authorized:

- a) unlimited number of common voting shares without nominal or par value
- b) unlimited number of first preferred shares
- c) 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 in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2012 and 2011 (Unaudited)

6. Share Capital Continued

Warrant Issues:

Balance at April 1, 2011	8,659,166
Warrants expiring during the period ending Sept 30, 2011	(850,000)
	<hr/>
Balance at Sept 30, 2011	7,809,166
Warrants expiring during the period ending March 31, 2012	(3,270,000)
	<hr/>
	4,539,166
Warrants issued during the period ending Sept 30, 2012	4,000,000
	<hr/>
	<u>8,539,166</u>

As at September 30, 2012, the following warrants were outstanding:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Shares</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
July 17, 2014	0.12	2,000,000
August 14, 2014	0.12	<u>2,000,000</u>
		<u>8,539,166</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 September 30, 2011, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Shares</u>
December 16, 2012	0.20 / 0.25	250,000
December 18, 2013	0.30	400,000
August 14, 2014	0.12	100,000
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>3,450,000</u>

Houston Lake Mining Inc.
Notes to Financial Statements
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6. Share Capital Continued

	Options	Weighted Average Exercise Price
Balance at April 1, 2011	3,809,033	\$ 0.50
Issued during the period ending Sept 30, 2011	1,400,000	0.14
Options expiring during the period ending Sept 30, 2011	(115,000)	0.42
Balance at Sept 30, 2011	5,094,033	0.30
Options expiring during the period ending Mar 31, 2012	(1,160,700)	0.37
Balance at March 31, 2012	3,933,333	0.50
Options issued during the period ending Sept 30, 2012	100,000	0.12
Options expiring during the period ending Sept 30, 2012	(583,333)	0.81
Balance at Sept. 30, 2012	3,450,000	0.18

In the last quarter, 100,000 stock options were issued to the broker of the private placement. Using the Black-Scholes option pricing model, the fair value of each option granted is approximately \$0.02.

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

Risk free rate of return	1.03%
Volatility	145%
Dividend yield	0%
Expected option life	2 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. Letter of Intent for West Cedartree Gold Project

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 royalty (NSR) on the West Cedartree Claim Block.

Coventry and the company have not yet completed the Definitive Sale and Purchase Agreement.
