Houston Lake Mining Inc.
Financial Statements
For the years ended March 31, 2010 and 2009

Houston Lake Mining Inc.
Financial Statements
For the years ended March 31, 2010 and 2009

Contents

SIEVERT & SAWRANTSCHUK LLP
CHARTERED ACCOUNTANTS

43 Colborne Street, PH
Toronto, Ontario M5E 1E3
Tel: (416) 979-7444 Fax: (416) 979-8432
email: sievertca@baxter.net
www.sievert.on.ca

Auditors' Report

To the Shareholders of
Houston Lake Mining Inc.

We have audited the balance sheets of Houston Lake Mining Inc. (the "Company") as at March 31, 2010 and the statements of operations and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Sievert & Sawrantschuk LLP CA's

Toronto, Canada
August 4, 2010

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public Accountants

Houston Lake Mining Inc.
Balance Sheet

March 31		2010		2009 (restated)
Assets				
Current				
Cash and cash equivalents	$	**21,610**	$	34,343
Goods and services tax receivable		**27,613**		32,678
Prepaid expenses		**30,714**		35,281
Cash restricted for flow-through expenditures		**824,480**		413,073
		904,417		515,375
Property, plant and equipment (Note 5)		**30,831**		42,617
Investment in mining properties (Note 4)		**8,785,043**		7,634,078
	$	**9,720,291**	$	8,192,070
Liabilities and Shareholder's Equity				
Current				
Accounts payable and accrued liabilities (Note 7)	$	**164,352**	$	237,033
Due to related party (Note 7)		**125,000**		-
		289,352		237,033
Future income tax liability (Note 6)		**908,035**		756,795
Shareholder's equity				
Share capital (Note 8)		**11,134,745**		10,009,463
Advances for shares to be issued		**-**		56,000
Contributed surplus (Note 8)		**2,122,942**		1,541,594
Deficit		**(4,734,783)**		(4,408,815)
		8,522,904		7,198,242
	$	**9,720,291**	$	8,192,070

On behalf of the Board:

______________________ Director

______________________ Director

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

Houston Lake Mining Inc.
Statement of Deficit

For the years ended March 31		2010		2009
Deficit, beginning of year	**$**	**(4,408,815)**	$	(3,528,252)
Net loss for the year		**(325,968)**		(351,767)
Prior period adjustment (Note 2)		**-**		(528,796)
Deficit, end of year	**$**	**(4,734,783)**	$	(4,408,815)

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

Houston Lake Mining Inc.
Statement of Operations and Comprehensive Loss

For the years ended March 31	2010	2009 (restated)
Expenses		
Shareholder and investor relations	**$ 195,315**	$ 238,653
General and administrative	**71,848**	127,345
Vehicle and travel	**52,947**	34,911
Stock option compensation, directors	**44,759**	73,040
Wages and benefits	**41,936**	40,199
Consulting	**91,500**	79,133
Professional fees	**27,330**	24,326
Insurance	**26,532**	31,083
Amortization	**13,063**	19,566
Telephone	**11,752**	12,770
Office and equipment rental	**9,500**	9,000
Foreign exchange	**1,727**	10,550
Bank charges and interest	**1,188**	1,607
	589,397	702,183
Other income	**(5,919)**	(10,015)
Net loss before taxes	**(583,478)**	(692,168)
Income tax expense (benefit)		
Current	**-**	-
Future (recovery)	**(257,510)**	(340,401)
Net loss and comprehensive loss for the year	**$ (325,968)**	$ (351,767)
Basic and diluted loss per share	**$ (0.01)**	$ (0.01)
Weighted average number of shares	**37,199,343**	**30,724,646**

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		2010		2009
Cash provided by (used in)				
Operating activities				
Net loss for the year	$	(325,968)	$	(351,767)
Items not involving cash				
Amortization of capital assets property, plant and equipment		13,063		19,566
Future income tax benefit		(257,510)		(340,401)
Consultant and director fees paid by options		44,759		109,765
		(525,656)		(562,837)
Changes in non-cash working capital balances				
Goods and services tax receivable		5,065		15,075
Prepaid expenses		4,567		13,217
Accounts payable and accrued liabilities		(72,681)		(139,909)
		(588,705)		(674,454)
Investing activities				
Purchase of property, plant and equipment		(1,276)		-
Net addition to investment in mining properties		(1,150,965)		(2,415,025)
		(1,152,241)		(2,415,025)
Financing activities				
Issuance of common shares		1,557,071		2,323,350
Issuance of warrants		457,549		455,338
Advances for shares to be issued		-		56,000
Loan from related party		125,000		-
Cash restricted for flow-through expenditures		(411,407)		21,020
		1,728,213		2,855,708
Decrease in cash and cash equivalents in year		(12,733)		(233,771)
Cash and cash equivalents, beginning of year		34,343		268,114
Cash and cash equivalents, end of year	$	21,610	$	34,343

Supplementary Cash Flow Disclosure				
Interest paid	$	-	$	-
Income tax paid		-		-

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

1. Nature of Operations and Going Concern

Houston Lake Mining Inc. 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 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.

2. Prior Period Adjustment

In 2008 and 2009, the Company did not have sufficient future income tax assets to offset the future income tax liabilities arising from the renunciation of exploration expenditures to holders of flow-through shares. No future income tax liability was recorded in those years.

The effect of the adjustment is to decrease opening retained earnings in 2009 by $528,796, decrease future income tax recovery by $227,999 and increase future income tax liability by $227,999.

3. Significant Accounting Policies

(a) Cash and Cash Equivalents

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

3. Significant Accounting Policies (continued)

(b) Financing Instruments

Effective January 1, 2007, the Company has adopted the accounting recommendations of CICA Handbook Section 3855 "Financial Instruments - Recognition and Measurement", Section 3862 "Financial Instruments Disclosure", and Section 3863 "Financial Instrument Presentation". Section 3855 describes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. The result of the preceding is that financial assets, financial liabilities, or non-financial derivatives will be reflected on the financial statements at fair value. In subsequent periods all financial instruments will be re-measured based on one of the following five classifications adopted for the financial instruments: held to maturity, loans and receivables, held for trading, available for sale, or other liabilities. The Company will then make the appropriate adjustments.

The carrying amounts for cash and cash equivalents, goods and services taxes receivable and accounts payable and accrued liabilities on the balance sheet approximate fair value due to their short-term maturity or capacity for prompt liquidation.

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

Financial Assets

Held for Trading

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

Held to Maturity

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

3. Significant Accounting Policies (continued)

Loans and Receivables

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

Available for Sale

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

Financial Liabilities

Held for Trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading.

These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other Financial Liabilities

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

3. Significant Accounting Policies (continued)

The company has made the following classifications

- Cash and cash equivalents is classified as a financial asset “held for trading” and is measured at fair value. Gains and losses resulting from period revaluation are recorded in net loss

- Goods and services tax receivable is classified as “loans and receivables” and is recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

- Accounts payable and accrued liabilities are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for all financial instruments.

Comprehensive Income

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gain or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining operations. The Company has evaluated the impact of section 1530 on its financial statements and determined that it has no impact.

Hedges

Section 3865 provides alternative treatments to Section 3855 for entities, which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 “Hedging Relationships”, and the hedging guidance in Section 1650 “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The Company currently does not have any components of hedges in place and therefore this policy has had no impact on the financial statements.

3. Significant Accounting Policies (continued)

(c) Property, Plant and Equipment

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

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

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

(d) Investment in Mining Properties

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 mineral properties represent costs incurred to date less write-downs, and are not intended to reflect present or future values.

(e) General

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

3. Significant Accounting Policies (continued)

(f) Income Taxes

The Company follows the asset/liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

(g) Flow-Through Shares

The Company has financed a portion of its exploration activities with flow-through shares. Shares were issued for cash in exchange for the company giving up the tax benefits arising from the exploration expenditures. The expenditures funded by flow-through arrangements are renounced to investors in accordance with tax legislation. The Company records such share issuances by crediting share capital for the value of cash consideration received. Share capital is reduced and future income taxes are increased by the foregone tax benefits related to the renounced tax deductions on the date the tax deductions are renounced. During the current year, the Company renounced $1,635,000 (2009 - $1,960,000) in expenditures.

Effective April 1, 2003, the Company adopted, on a prospective basis, the guidelines issued by the Emerging Issues Committee of the Canadian Institute of Chartered Accountants found in EIC 146 "Flow-Through Shares." The Company reduces share capital and records a Future Income Tax Liability on the date the tax deduction for expenditures is renounced to shareholders for the tax effect of the resulting taxable temporary differences using a substantially enacted tax rate.

(h) Asset Retirement Obligation

The Company recognizes asset retirement obligations associated with the retirement of tangible long-lived assets that the Company is obliged to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long lived asset is increased by the amount of the recorded liability. To date, the Company has not recorded any asset retirement obligations because the mining and processing activities that give rise to this obligation have not yet occurred and the environmental disturbance which has occurred has not been significant.

3. Significant Accounting Policies (continued)

(i) Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant area requiring estimates relates to the Company's investment in mining properties.

The carrying amounts of the investment in mining properties represent total expenditures for exploration and development at the balance sheet date. The amounts ultimately recovered could be materially different than the estimated values.

(j) Stock Based Compensation

The Company follows the fair value method of accounting for all stock option awards. Under this method, the company recognizes a compensation expense for all stock options awarded since April 1, 2002, based on the fair value of the options on the date of grant which is determined by using an option-pricing model. The fair value of the options is expensed when granted. No compensation expense has been recorded for stock options issued to employees or directors before April 1, 2002.

(k) Revenue Recognition

Revenues 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 revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product.

(l) Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing income 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 2010 and 2009.

3. Significant Accounting Policies (continued)

(m) Impairment of Long Lived Assets

CICA Section 3063 "Impairment of long-lived assets" requires the Company to assess the impairment of long-lived assets, which consists primarily of resource properties and plant and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used are measured by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

For the Company, the adoption of CICA Section 3063 had no impact on results of operations previously and currently presented.

(n) Goodwill and Intangible Assets

The Company follows CICA 3064 "Goodwill and Intangible Assets." The section establishes standards for the recognition, measurement, presentation of goodwill and other intangible assets.

For the Company, this section has had no impact on results of operations. The company does not have recognized goodwill or identifiable intangible assets.

(o) Future Accounting Changes

International Financial Reporting Standards (“IFRS”)

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will occur on January 1, 2011 for public entities. The new standard applies to interim and annual financial statements. The impact of this transition on the Company’s financial statements has not yet been determined; however, management continues to monitor these developments.

4. Investment in Mining Properties

		2010		2009
Acquisition costs				
Dogpaw Lake Property - Kenora, Ontario (a)	**$**	**237,720**	$	237,720
West Cedartree Property - Kenora, Ontario (b)		**192,156**		192,156
North Block - Kenora, Ontario (c)		**4,000**		4,000
Tib Lake - Thunder Bay, Ontario (d)		**71,395**		71,395
Pakeagama Lake - Red Lake, Ontario (e)		**428,208**		427,208
Dubenski Property - Kenora, Ontario (f)		**376,000**		276,000
	$	**1,309,479**	$	1,208,479
Deferred exploration costs				
Dogpaw Lake Property - Kenora, Ontario (a)	**$**	**2,120,682**	$	2,010,007
West Cedartree Property - Kenora, Ontario (b)		**1,653,334**		1,551,513
North Block - Kenora, Ontario (c)		**5,182**		5,182
Tib Lake - Thunder Bay, Ontario (d)		**513,134**		513,134
Pakeagama Lake - Red Lake, Ontario (e)		**311,527**		308,827
Dubenski Property - Kenora, Ontario (f)		**2,871,705**		2,036,936
	$	**7,475,564**	$	6,425,599
	$	**8,785,043**	$	7,634,078

(a) Dogpaw Lake Property – Kenora, Ontario

The 226.4 hectare (566 acre) 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 176 hectare (435 acre) Jesse (North) Property. The vendor is a related party and holds a 2.5% net smelter royalty.

4. Investment in Mining Properties (continued)

West Cedartree Property

The Company holds a 100% interest in the 20 claim unit West Cedartree Property. The 3 unpatented claims comprising the property cover 320 hectares (790 acres).

McLennan Property

The Company has a 100% interest in 7 patented mining claims comprising the McLennan Property and covering 139.6 hectares (344.8 acres). 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 on the 80 hectare (198 acre) Dogpaw West and the 368 hectare (909 acre) 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, 80 acre North Block Gold Property in the Cedartree Lake area within the Kenora Mining District of Ontario, Canada. The vendor retains a 2% net smelter royalty (“NSR”).

(d) Tib Lake – Thunder Bay, Ontario

The Company holds a 100% interest in the 20 unpatented, 2,496 hectare (6,167 acre) 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

The Pakeagama Lake Rare Metals Property consists of three (3) contiguous properties known as Pakeagama Lake, Pakeagama Lake West and Pakeagama Lake Northwest Properties. All are located in the Red Lake Mining District of Ontario, Canada.

4. Investment in Mining Properties (continued)

Pakeagama Lake Property

The Company has a 100% interest in the Pakeagama Lake Property. The 7 unpatented mining claims cover 1,792 hectares (4426 acres). 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 a total consideration of $91,000 and must make annual payments of $1,000 until 2011 in order to retire the advance royalty on the property.

Pakeagama Lake West Property

The Company has a 100% interest in the 1 mining claim (16 claim unit) Pakeagama Lake West Property covering 256 hectares (632 acres). The vendor has the option to retain a 2.5% NSR. The Company has the right to purchase 1.0% of the royalty for $1,000,000.

Pakeagama Lake Northwest Property

The Company has a 100% interest in the 1 mining claim (16 claim unit) Pakeagama Lake Northwest Property covering 256 hectares (632 acres). The vendor has the option to retain a 2.5% NSR. The Company may purchase 1.5% of the royalty for $1,500,000.

(f) Dubenski Property – Kenora, Ontario

The Company has a 100% option interest in the 363.6 hectare (898.5 acre) 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, 2010, Houston Lake Mining Inc. has paid $300,000 and issued 200,000 common shares at a deemed price of $0.88 per share on May 11, 2007 to the vendor.

5. Property, Plant and Equipment

		2010		2009
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Exploration equipment	**$ 26,214**	**$ 16,807**	**$ 9,407**	$ 13,439
Furniture and fixtures	**22,196**	**16,241**	**5,955**	6,555
Vehicles	**50,081**	**37,025**	**13,056**	18,652
Computer equipment	**50,164**	**47,918**	**2,246**	3,723
Computer software	**10,042**	**9,875**	**167**	248
	$ 158,697	**$ 127,866**	**$ 30,831**	$ 42,617

6. Income Taxes

The Company has $2,506,917 (2009 - $2,006,216) 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
	$ 2,506,917

The Company has a future tax liability, which arose from a difference between the carrying amount of the mining properties 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 future income tax liability is also classified as long-term.

6. Income Taxes (continued)

The future tax liability and asset are as follows:

	2010	2009
Future tax liability		
Investment in mining properties	**$ 1,676,953**	$ 1,471,115
Future tax asset		
Property, plant and equipment	**34,031**	35,688
Undeducted share issuance costs	**108,158**	96,830
Undeducted non-capital losses	**626,729**	581,802
Net future tax liability	**$ 908,035**	$ 756,795

Also, approximately $2,077,232 (2009 - $2,569,631) of Canadian exploration and development expenses (net of renounced expenditures) are available for application towards future taxable income.

The Company's effective tax rate, which differs from the combined federal and provincial statutory rate of 25% (2009 - 29%), is reconciled as follows:

	2010	2009
Loss before income taxes	**$ (583,478)**	$ (692,168)
Income tax recovery @ 25% (2009 - 29%)	**(145,870)**	(200,729)
Share compensation	**11,189**	31,832
Share issue costs	**(37,670)**	(29,231)
Other	**3,733**	5,936
Valuation allowance	**168,618**	192,192
Actual income tax (recovery) expense	**-**	-

7. Related Party Transactions

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

		2010		2009
Investment in mining properties	**$**	**53,700**	$	86,933
Consulting		**31,500**		19,133
Office and equipment rental		**9,000**		9,000

Included in stock compensation is $44,759 (2009 - $73,040) granted to directors 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 $134,134 (2009 - $140,434) due to a company controlled by a former officer and director for management and consulting services provided to the Company under ongoing contracts and $12,587 owing to a company controlled by a director.

A loan payable of $125,000 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.

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.

8. Share Capital (continued)

(b) Issued

	2010		2009	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	33,716,213	$ 10,009,463	27,364,746	$ 8,254,513
Issued during the year pursuant to:				
Private placement[1]	8,671,425	2,210,999	6,222,301	2,960,000
Less: Share issue costs	-	(249,418)	-	(226,312)
Less: Value of warrants	-	(457,549)	-	(455,338)
Options exercised[2]	110,000	30,000	129,166	45,000
Income tax benefits renounced on flow through shares[3]	-	(408,750)	-	(568,400)
	42,497,638	$ 11,134,745	33,716,213	$ 10,009,463

[1] In April 2009, 431,425 common shares were issued for cash in a private placement for proceeds of $150,999. Each unit consisted of one common share and one half of one common share purchase warrant.

In June 2009, 400,000 common shares were issued for cash in a private placement financing for proceeds of $100,000. Each unit consisted of one common share and one half of one common share purchase warrant.

In September 2009, 1,300,000 common shares were issued for cash in a private placement financing for proceeds of $325,000. Each unit consisted of one common share and one half of one common share purchase warrant.

In November 2009, 4,000,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of $1,000,000. Each unit consisted of one common share and one half of one common share purchase warrant

In December 2009, 2,000,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of $500,000. Each unit consisted of one common share and one half of one common share purchase warrant

8. Share Capital (continued)

In January 2010, 540,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of $135,000. Each unit consisted of one common share and one half of one common share purchase warrant.

(2) During the year, 110,000 stock options were exercised for total proceeds of $30,000.

(3) In December 2009, the Company renounced $1,635,000 (2009 - $1,960,000) of expenditures on flow-through common shares issued in 2009, resulting in a $408,750 (2009 - $568,400) reduction in share capital and corresponding decrease to future income tax assets.

(c) Warrants Outstanding

	Number of Warrants
Balance, beginning of year	3,789,418
Warrants issued	4,551,425
Warrants exercised	-
Warrants expired during the year	-
	8,340,843

Expiry Date	Exercise Price	Number of Warrants
May 15, 2010	0.70	725,000
May 20, 2010	0.70	162,980
June 16, 2010	0.70	276,660
July 18, 2010	0.70	773,333
August 20, 2010	0.70	392,726
December 30, 2010	0.35	1,458,719
March 24, 2011	0.50	431,425
June 16, 2011	0.35	200,000
September 29, 2011	0.40/0.50	650,000
November 24, 2011	0.30/0.35	2,000,000
December 22, 2011	0.30/0.35	1,000,000
December 31, 2011	0.30/0.35	270,000
		8,340,843

The fair value of the warrants was estimated using the Black-Scholes pricing model. In 2010, the assumptions used for the valuation of the warrants were a dividend yield of 0%, expected volatility of 105% - 124%, a 0.23% - 0.28% risk-free rate of return and an expected life of 2 years. The value of the warrants issued during the year was $457,550.

8. Share Capital (continued)

(d) Contributed Surplus

The following is a continuity of contributed surplus:

Balance, March 31, 2006	$ 565,766
Stock option compensation	19,075
Value of warrants issued	96,585
Balance, March 31, 2007	681,426
Stock option compensation	278,000
Value of warrants issued	17,065
Balance, March 31, 2008	976,491
Stock option compensation	109,765
Value of warrants issued	455,338
Balance, March 31, 2009	1,541,594
Stock option compensation	123,798
Value of warrants issued	457,550
Balance, March 31, 2010	$ 2,122,942

(e) 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.

8. Share Capital (continued)

(f) Options Outstanding

The following is a summary of the options outstanding at March 31, 2010, which have been granted by the Board of Directors:

Expiry Date	Option Price	Number of Options
August 23, 2010	0.225	150,000
January 9, 2011	0.27	100,000
March 3, 2011	0.32	200,000
April 26, 2011	0.47	50,000
May 10, 2012	1.00	700,000
December 18, 2013	0.30	540,000
May 11, 2011	0.61	25,000
June 16, 2011	0.25	40,000
November 24, 2011	0.25	320,000
December 22, 2011	0.25	160,000
December 30, 2011	0.25	43,200
November 6, 2012	0.64	200,000
February 12, 2013	0.40	187,500
October 1, 2013	0.40	250,000
		2,965,700

	2010			2009		
	Options		**Weighted Average Exercise Price**	Options		Weighted Average Exercise Price
Outstanding, beginning of year	**2,912,500**	**$**	**0.51**	2,325,000	$	0.56
Granted	**813,200**		**0.24**	800,000		0.33
Exercised	**(110,000)**		**0.27**	(129,166)		0.35
Cancelled	**(650,000)**		**0.28**	(83,334)		0.30
	2,965,700	**$**	**0.50**	2,912,500	$	0.51

During the year, 813,200 (2009 - 800,000) 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 $0.15 (2009 - $0.14). Stock-based compensation of $123,798 (2009 - $109,765) was recognized in the year ($44,798 to Stock option compensation, directors; $79,039 to Financing fees) and credited to Contributed Surplus.

8. Share Capital (continued)

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

Risk free interest rate	0.28%
Dividend yield	0%
Volatility factor	105% - 135%
Expected option life	1 - 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.

(g) Debt Settlement

On February 18, 2009, a Shares for Debt settlement of $134,134 with a non-arms length company was approved by a majority of the Shareholders. The non-arms length company is controlled by a director and officer for management and consulting services. To date, no movement has been made in regards to this arrangement.

9. Cash Restricted for Flow Through Expenditures

In November 2009, 4,000,000 Flow-Through common shares were issued for cash in a private placement for proceeds of $1,000,000.

In December 2009, 2,540,000 Flow-Through common shares were issued for cash in a private placement for proceeds of $635,000.

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, 2010, the Company's remaining commitment with respect to unspent resource expenditures under flow-through common share agreements is $824,480 (2009– $413,073), which is held as restricted cash.

10. 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 GST receivable. Cash consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. GST receivable is subject to CRA's assessment prior to receipt. Management believes credit risk with respect to cash and GST 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.

Interest Rate Risk

The Company does not have any loans or notes payable. The Company's cash is held in business accounts with nominal interest rates. Management considers interest rate risk to be low.

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.

Sensitivity Analysis

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

11. Subsequent Event

On July 9, 2010, the Company was approved to issue a maximum of 1,666,667 Flow Through common shares at a subscription price of $0.15 per share. Each Unit will consist of one common share of the company and one half of one share purchase warrant. Each full warrant will entitle the holder to purchase one additional common share at an exercise price of $0.20 for the first 12 months from closing and at $0.25 for a further 12 month period.