Houston Lake Mining Inc.
Financial Statements
For the years ended March 31, 2011 and 2010

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Contents

SIEVERT & SAWRANTSCHUK LLP
CHARTERED ACCOUNTANTS

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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 sheets as at March 31, 2011 and 2010, and the statements of deficit, operations and comprehensive loss and statements of cash flows for the years then ended, 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 Canadian generally accepted accounting principles 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 judgement, 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Houston Lake Mining Inc. as at March 31, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements regarding the going concern assumption. The Company incurred a net loss of $1,089,323 as well as an operating cash flow deficiency of $437,704. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

July 28, 2011
Toronto, Canada

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public Accountants

Houston Lake Mining Inc.
Balance Sheet

March 31	2011	2010
Assets		
Current		
Cash and cash equivalents	$ 6,676	$ 21,610
Cash restricted for flow-through expenditures	567,590	824,480
GST/HST receivable	50,862	27,613
Prepaid expenses	23,381	30,714
	648,509	904,417
Property, plant and equipment (Note 4)	27,273	30,831
Investment in mining properties (Note 3)	9,529,320	8,785,043
	$ 10,205,102	$ 9,720,291
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (Note 6)	$ 384,306	$ 164,352
Due to related party (Note 6)	250,000	125,000
	634,306	289,352
Future income tax liability (Note 5)	860,913	908,035
Shareholders' equity		
Share capital (Note 7b)	11,654,293	11,134,745
Contributed surplus (Note 7d)	2,645,074	2,122,942
Deficit	(5,589,484)	(4,734,783)
	8,709,883	8,522,904
	$ 10,205,102	$ 9,720,291

On behalf of the Board:

______________________ Director

for Bob McLean 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	2011	2010
Deficit, beginning of year	**$ (4,734,783)**	$ (4,408,815)
Net loss for the year	**(854,701)**	(325,968)
Deficit, end of year	**$ (5,589,484)**	$ (4,734,783)

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	2011	2010
Expenses		
Stock option compensation, directors (Note 7f)	$ 243,384	$ 44,759
Consulting (Note 6)	128,116	91,500
General and administrative	96,926	71,848
Wages and benefits	95,570	41,936
Vehicle and travel	91,436	52,947
Professional fees	88,521	27,330
Shareholder and investor relations	78,598	195,315
Insurance	24,325	26,532
Telephone	16,408	11,752
Office and equipment rental (Note 6)	15,000	9,500
Amortization	9,739	13,063
Interest (Note 6)	4,452	-
Foreign exchange	1,622	1,727
Bank charges and interest	960	1,188
	895,057	589,397
Net loss before items below	(895,057)	(589,397)
Other income	192	5,919
Write-down of investment in mining properties (Note 3e)	(194,458)	-
Net loss before income taxes	(1,089,323)	(583,478)
Income tax expense (recovery)		
Current	-	-
Future	(234,622)	(257,510)
Net loss and comprehensive loss for the year	$ (854,701)	$ (325,968)
Basic and diluted loss per share	$ (0.02)	$ (0.01)
Weighted average number of shares	45,065,711	37,199,343

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	2011	2010
Cash provided by (used in):		
Operating activities		
Net loss for the year	**$ (854,701)**	$ (325,968)
Items not involving cash		
Amortization	**9,739**	13,063
Future income tax recovery	**(234,622)**	(257,510)
Stock option compensation, directors	**243,384**	44,759
Write-down of investment in mining properties	**194,458**	-
	(641,742)	(525,656)
Changes in non-cash working capital balances		
GST/HST receivable	**(23,249)**	5,065
Prepaid expenses	**7,333**	4,567
Accounts payable and accrued liabilities	**219,954**	(72,681)
	(437,704)	(588,705)
Investing activities		
Purchase of property, plant and equipment	**(6,181)**	(1,276)
Net addition to investment in mining properties	**(938,735)**	(1,150,965)
	(944,916)	(1,152,241)
Financing activities		
Issuance of common shares	**732,108**	1,557,071
Issuance of warrants	**253,688**	457,549
Due to related party	**125,000**	125,000
Cash restricted for flow-through expenditures	**256,890**	(411,407)
	1,367,686	1,728,213
Decrease in cash and cash equivalents in year	**(14,934)**	(12,733)
Cash and cash equivalents, beginning of year	**21,610**	34,343
Cash and cash equivalents, end of year	**$ 6,676**	$ 21,610
Cash and Cash Equivalents		
Cash	**$ 6,676**	21,610
Cash equivalents	**-**	-
Supplementary Cash Flow Disclosure		
Interest paid	**$ -**	$ -
Income tax paid	**-**	-
Common shares issued to acquire mineral properties	**15,500**	-

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

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, 2011, the Company had working capital of $14,203 (2010 - $615,065) and an accumulated deficit of $5,589,484 (2010 - $4,734,783). The company also incurred a net loss of $854,701 (2010 - $325,968) and an operating cash flow deficit of $437,704 (2010 - $588,705). Management believes that it has sufficient funds to pay its ongoing administrative and exploration expenses and meet its liabilities for the next twelve months as they fall due.

2. 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.

(b) Financial Instruments

The carrying amounts for cash and cash equivalents, GST/HST 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.

2. Significant Accounting Policies (continued)

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.

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.

2. Significant Accounting Policies (continued)

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

Other Financial Liabilities

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

The company has made the following classifications

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

Transaction costs are expensed as incurred for all financial instruments.

During 2009, CICA Handbook Section 3862, Financial Instruments - Disclosures was amended to require disclosure about the inputs to fair value measurements, including their classifications within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability either director or indirectly; and
Level 3 - Inputs that are not based on observable market data.

Cash and cash equivalents are carried at fair value and are considered Level 1 in the hierarchy. No other assets are recorded at fair value.

2. Significant Accounting Policies (continued)

Comprehensive Income

Section 1530 provides a 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.

(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.

2. Significant Accounting Policies (continued)

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.

(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 $750,000 (2010 - $1,635,000) 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.

2. Significant Accounting Policies (continued)

(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.

(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.

Significant areas requiring the use of management estimates relate to the determination of carrying values of mineral properties and deferred costs, stock-based compensation, future tax assets and liabilities and contingencies.

(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 the Black-Scholes 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.

2. Significant Accounting Policies (continued)

(l) Loss Per Share

Basic earnings (loss) per share are computed by dividing 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 2011 and 2010.

(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.

(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.

(o) Environmental Expenditures

The operations of the Company may, in the future, be affected by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries. As of March 31, 2011, the Company has no environmental expenditures or known liabilities.

2. Significant Accounting Policies (continued)

(p) Future Accounting Changes

International Financial Reporting Standards (“IFRS”)

The Canadian Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles ("Canadian GAAP") for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements using IFRS beginning with the quarter ended June 30, 2011 which will contain IFRS compliant disclosure on a comparative basis and reconciliations for the interim and annual periods as at the April 1, 2011 transition date.

IFRS uses a conceptual framework similar to Canadian GAAP, however there are significant differences in recognition, measurement, and both qualitative and quantitative disclosure. The company is currently in the process of assessing the impact of the conversion.

3. Investment in Mining Properties

		2011		2010
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)		**260,250**		428,208
Dubenski Property - Kenora, Ontario (f)		**476,000**		376,000
	$	**1,241,521**	$	1,309,479
Deferred exploration costs				
Dogpaw Lake Property - Kenora, Ontario (a)	**$**	**2,127,987**	$	2,120,682
West Cedartree Property - Kenora, Ontario (b)		**2,135,224**		1,653,334
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)		**320,120**		311,527
Dubenski Property - Kenora, Ontario (f)		**3,186,152**		2,871,705
	$	**8,287,799**	$	7,475,564
	$	**9,529,320**	$	8,785,043

(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.

3. Investment in Mining Properties (continued)

West Cedartree Property

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

McLennan Property

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

Dogpaw West and Gold Sun Properties

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

(c) North Block – Kenora, Ontario

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

(d) Tib Lake – Thunder Bay, Ontario

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

3. Investment in Mining Properties (continued)

(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.

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 have been acquired in the 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 2011, the Company issued 100,000 common shares and $10,000 in a cash payment which was divided evenly between two private arms length individuals. The Company will issue 500,000 common shares and pay $125,000 over the course of the remaining 4 years without exploration expenditure guarantees to earn a 100 percent interest from the two private individuals.

(f) Dubenski Property – Kenora, Ontario

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

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

4. Property, Plant and Equipment

		2011		2010
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Exploration equipment	**$ 28,501**	**$ 19,972**	**$ 8,529**	$ 9,407
Furniture and fixtures	**26,091**	**17,822**	**8,269**	5,955
Vehicles	**50,081**	**40,941**	**9,140**	13,057
Computer equipment	**50,164**	**48,940**	**1,224**	2,246
Computer software	**10,042**	**9,931**	**111**	166
	$ 164,879	**$ 137,606**	**$ 27,273**	$ 30,831

5. Income Taxes

The Company has $3,309,580 (2010 - $2,506,917) 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
	$ 3,309,580

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.

5. Income Taxes (continued)

The future tax liability and asset calculated using a substantially enacted tax rate of 25% (2010 - 25%) is as follows:

	2011	2010
Future tax liability		
Investment in mining properties	**$ 1,815,840**	$ 1,676,953
Future tax asset		
Property, plant and equipment	**36,466**	34,031
Undeducted share issuance costs	**91,066**	108,158
Undeducted non-capital losses	**827,395**	626,729
Net future tax liability	**$ 860,913**	$ 908,035

Also, approximately $2,265,967 (2010 - $2,077,232) 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 28.5% (2010 - 32%), is reconciled as follows:

	2011	2010
Loss before income taxes	**$ (1,089,323)**	$ (583,478)
Income tax recovery @ 28.5% (2010 - 32%)	**(310,457)**	(186,713)
Write-down of investment in mining properties	**55,420**	-
Share compensation	**69,362**	39,615
Share issue costs	**(47,521)**	(48,218)
Other	**4,437**	4,778
Valuation allowance	**228,759**	190,538
Actual income tax (recovery) expense	**-**	-

6. Related Party Transactions

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

		2011		2010
Investment in mining properties	**$**	**-**	$	53,700
Consulting		**110,000**		31,500
Office and equipment rental		**9,000**		9,000

Included in stock compensation is $243,384 (2010 - $44,759) 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 $86,756 (2010 - $134,134) due to a company controlled by a former officer and director for management and consulting services provided to the Company under ongoing contracts, $195,972 (2010 - $12,587) owing to companies controlled by a director and $2,505 (2010 - $350) owing to corporate directors.

A loan payable of $250,000 (2010 - $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. Interest in the amount of $4,452 (2010 - $-) has been accrued and remains unpaid at year-end.

7. 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.

7. Share Capital (continued)

(b) Issued

	2011		2010	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	42,497,638	$ 11,134,745	33,716,213	$ 10,009,463
Issued during the year pursuant to:				
Private placement[1]	6,934,999	1,068,667	8,671,425	2,210,999
Shares to acquire property[2]	100,000	15,500	-	-
Less: Share issue costs	-	(123,431)	-	(249,418)
Less: Value of warrants	-	(253,688)	-	(457,549)
Options exercised	-	-	110,000	30,000
Income tax benefits renounced on flow through shares[3]	-	(187,500)	-	(408,750)
	49,532,637	$ 11,654,293	42,497,638	$ 11,134,745

(1) In July 2010, 1,666,666 Flow-Through common shares were issued for cash in a private placement for proceeds of $250,000. Each unit consisted of one common share and one half of one common share purchase warrant.

In December 2010, 3,125,000 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.

In January 2011, 2,143,333 common shares were issued for cash in a private placement financing for proceeds of $318,667. Each unit consisted of one common share and one common share purchase warrant.

(2) In January 2011, 100,000 common shares were issued pursuant to an option agreement to acquire an interest in a mining property.

7. Share Capital (continued)

(3) In December 2010, the Company renounced $750,000 (2010 - $1,635,000) of expenditures on flow-through common shares issued in 2010, resulting in a $187,500 (2010 - $408,750) reduction in share capital and corresponding decrease to future income tax assets.

(c) Warrants Outstanding

	2011	2010
Balance, beginning of year	**8,340,843**	3,789,418
Warrants issued	**4,539,166**	4,551,425
Warrants expired during the year	**(4,220,843)**	-
	8,659,166	8,340,843

Expiry Date	**Exercise Price**	**Number of Warrants**
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
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
		8,659,166

The fair value of the warrants was estimated using the Black-Scholes pricing model. In 2011, the assumptions used for the valuation of the warrants were a dividend yield of 0%, expected volatility of 100% - 109%, a 0.65% - 0.98% risk-free rate of return and an expected life of 2 years. The value of the warrants issued during the year was $253,688.

7. Share Capital (continued)

(d) Contributed Surplus

The following is a continuity of contributed surplus:

Balance, March 31, 2009	1,541,594
Stock option compensation - directors and officers	44,759
Stock option compensation - financing fees	79,039
Value of warrants issued	457,550
Balance, March 31, 2010	2,122,942
Stock option compensation - directors and officers	243,384
Stock option compensation - financing fees	25,060
Value of warrants issued	253,688
Balance, March 31, 2011	$ 2,645,074

(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.

7. Share Capital (continued)

(f) Options Outstanding

The following is a summary of the options outstanding at March 31, 2011, which have been granted by the Board of Directors:

Expiry Date	Option Price	Number of Options
April 26, 2011	0.47	50,000
May 10, 2012	1.00	450,000
December 18, 2013	0.30	400,000
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
June 30, 2012	0.20/0.25	133,333
November 6, 2012	0.64	200,000
December 16, 2012	0.20/0.25	250,000
February 12, 2013	0.40	187,500
October 1, 2013	0.40	250,000
June 1, 2015	0.20	1,000,000
January 27, 2016	0.145	300,000
		3,809,033

	2011		2010	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**2,965,700**	**$ 0.51**	2,912,500	$ 0.51
Granted	**1,683,333**	**0.18**	813,200	0.24
Exercised	**-**	**-**	(110,000)	0.27
Expired	**(840,000)**	**0.50**	(650,000)	0.28
	3,809,033	**$ 0.50**	2,965,700	$ 0.51

During the year, 1,683,333 (2010 - 813,200) 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 (2010 - $0.15). Stock-based compensation of $268,444 (2010 - $123,798) was recognized in the year ($243,384 to Stock option compensation, directors; $25,060 to Financing fees) and credited to Contributed Surplus.

7. Share Capital (continued)

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

Risk free interest rate	0.50% to 0.98%
Dividend yield	0%
Volatility factor	100% - 280%
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 Share 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 former director and officer and was engaged to provide management and consulting services. During the year, the Company began repaying the loan in cash and will not be issuing shares. At March 31, 2011, the balance on the loan was $86,756 (2010 - $134,134).

8. Cash Restricted for Flow Through Expenditures

In July 2010, 1,666,666 Flow-Through common shares were issued for cash in a private placement for proceeds of $250,000.

In December 2010, 3,125,000 Flow-Through common shares were issued for cash in a private placement for proceeds of $500,000.

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, 2011, the Company's remaining commitment with respect to unspent resource expenditures under flow-through common share agreements is $567,590 (2010– $824,480), which is held as restricted cash.

9. 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, 2011.

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.

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

10. Financial Risk Factors (Continued)

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 mineral 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.

11. Comparative Figures

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

12. Subsequent Event

On June 7, 2011, 1,400,000 options were granted to officers, directors, employees and consultants of the Company. The options are set for a period of five years and expire on June 7, 2016. The exercise price is $0.14 per share.