

Houston Lake Mining Inc.
Financial Statements
For the years ended March 31, 2014 and 2013

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Contents

Auditor's Report	2 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Changes in Shareholders' Equity	5
Statement of Operations, Comprehensive Loss and Deficit	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 43

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 statement of financial position as at March 31, 2014 and March 31, 2013, and the statement of operations, comprehensive loss and deficit, statement of changes in shareholders' equity and statement 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Houston Lake Mining Inc. as at March 31, 2014 and March 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which discloses conditions that indicate the existence of a material uncertainty that may cast significant doubt about Houston Lake Mining Inc.'s ability to continue as a going concern and to Note 2 in the financial statements which describes the prior period error relating to the recognition exploration and evaluation option payments.

S & W LLP

July 24, 2014
Toronto, Canada

S&W LLP
Chartered Professional Accountants, Licensed Public Accountants

Houston Lake Mining Inc.
Statement of Financial Position

March 31 March 31
2014 2013

(restated - Note 2)

Assets

Current

Cash and cash equivalents	\$	153,347	\$	355,211
Cash restricted for flow-through expenditures (Note 10)		6,999		154,163
HST receivable and other receivables		48,523		38,949
Prepaid expenses		3,704		1,705

	212,573		550,028
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Property, plant and equipment (Note 6)

	7,600		10,214
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Investments - FVTPL (Note 4)

	185,403		464,402
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Exploration and evaluation assets (Notes 2 and 5)

	2,007,994		1,332,888
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	\$ 2,413,570		\$ 2,357,532
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Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities (Note 8)	\$	598,725	\$	642,615
Due to related party (Note 8)		114,923		114,923

	713,648		757,538
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Going concern (Note 1)

Commitments (Note 14)

Subsequent events (Note 15)

Shareholders' equity

Share capital (Note 9b)	13,566,621		12,789,682
Advances for shares to be issued	-		183,058
Contributed surplus	3,360,796		3,061,242
Deficit	(15,227,495)		(14,433,988)

	1,699,922		1,599,994
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	\$ 2,413,570		\$ 2,357,532
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On behalf of the Board:

_____	Director	_____	Director
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Houston Lake Mining Inc.
Statement of Changes in Shareholders' Equity
For the years ended March 31, 2014 and 2013

	Share Capital	Advances for Shares to be Issued	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	
	Shares (#)	\$	\$	\$	\$	
Balance April 1, 2012	54,119,056	12,524,728	-	2,840,954	-	(6,844,549)
Net loss and comprehensive loss for the year						(7,589,439)
Value of warrants issued to brokers for private placements				8,310		
Shares issued to acquire property	400,000	16,000				
Shares issued under private placement	8,500,000	425,000				
Less: share issue costs	-	(46,060)				
Less: value of warrants	-	(129,986)		129,986		
Stock based compensation				81,992		
Advances for shares to be issued	-	-	183,058			
Balance March 31, 2013	63,019,056	12,789,682	183,058	3,061,242	-	(14,433,988)
Net loss and comprehensive loss for the year						(793,507)
Shares issued to acquire property	100,000	6,000				
Shares issued under private placement	12,096,639	785,088	(183,058)			
Less: share issue costs	-	(28,252)				
Less: value of warrants	-	(276,432)		276,432		
Value of options issued to brokers for private placements	-	(9,465)		9,465		
Shares issued to settle debt	5,000,000	300,000				
Stock based compensation				13,657		
Balance March 31, 2014	80,215,695	13,566,621	-	3,360,796	-	(15,227,495)

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

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

For the years ended	March 31 2014	March 31 2013
		(restated - Note 2)
Expenses		
Consulting (Notes 8 and 13)	\$ 195,000	\$ 120,000
Vehicle and travel	85,196	63,474
Wages and benefits	50,589	57,643
General and administrative	40,391	55,397
Professional fees	41,612	30,537
Stock option compensation (Notes 8 and 9(e))	13,657	81,992
Telephone	11,228	11,379
Insurance	9,928	12,595
Office rental (Note 8)	9,000	9,000
Amortization (Note 6)	2,614	3,299
Shareholder and investor relations	2,570	2,705
Bank charges and interest	2,096	2,074
Foreign exchange	734	89
	464,615	450,184
Net loss before items below	(464,615)	(450,184)
Other income	107	-
Gain on disposal of property, plant and equipment	-	16,227
Impairment of investment in mining properties (Notes 2 and 13)	-	(137,029)
Unrealized loss on investments - FVTPL (Note 4)	(278,999)	(251,598)
Loss on disposal of mining properties (Notes 2, 5g and 13)	-	(7,394,296)
Loss on extinguishment of debt (Notes 8 and 9f)	(50,000)	-
	(793,507)	(8,216,880)
Net loss before income taxes	(793,507)	(8,216,880)
Income tax recovery (expense)		
Current	-	-
Deferred (Note 7)	-	627,441
	-	627,441
Net loss and comprehensive loss for the year	\$ (793,507)	\$ (7,589,439)
Deficit, beginning of year	(14,433,988)	(6,844,549)
Deficit, end of year	(15,227,495)	(14,433,988)
Basic and diluted loss per share	\$ (0.01)	\$ (0.13)
Weighted average number of shares	76,359,940	58,068,645

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 2014	March 31 2013 (restated - Note 2)
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (793,507)	\$ (7,589,439)
Items not involving cash		
Amortization	2,614	3,299
Unrealized loss on investments - FVTPL	278,999	251,598
Deferred income tax expense (recovery)	-	(627,441)
Loss on extinguishment of debt	50,000	-
Stock option compensation	13,657	81,992
Impairment of exploration and evaluation assets	-	137,029
Loss on disposal of exploration and evaluation assets	-	7,394,296
Gain on disposal of property, plant and equipment	-	(16,227)
	(448,237)	(364,893)
Changes in non-cash working capital balances		
HST receivable and other receivables	(9,574)	(33,063)
Prepaid expenses	(1,999)	3,016
Accounts payable and accrued liabilities	(43,890)	293,309
	(503,700)	(101,631)
Investing activities		
Proceeds on sale of property, plant and equipment	-	25,375
Proceeds from optioning exploration and evaluation assets	-	600,000
Net addition to exploration and evaluation assets	(669,106)	(332,457)
Cash restricted for flow-through expenditures	147,164	(139,664)
	(521,942)	153,254
Financing activities		
Issuance of common shares	575,598	295,014
Share issue costs	(28,252)	(37,750)
Issuance of warrants	276,432	129,986
Advances for shares to be issued	-	183,058
Repayment of loans from related party	-	(273,725)
	823,778	296,583
(Decrease) increase in cash and cash equivalents in year	(201,864)	348,206
Cash and cash equivalents, beginning of year	355,211	7,005
Cash and cash equivalents, end of year	\$ 153,347	\$ 355,211
Cash and Cash Equivalents		
Cash	\$ 153,347	\$ 355,211
Cash equivalents	-	-

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

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2014 and 2013

1. Nature of Operations and Going Concern

Nature of Operations

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 2736 Belisle Drive, Val Caron, Ontario, P3N 1B3.

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

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

Going Concern

These 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 March 31, 2014. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. 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 reporting expenses and statements of financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material. The Company will have to raise additional funds to advance its exploration and development efforts and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

2. Prior Period Adjustment

In the year ending March 31, 2013, the Company optioned its Tib Lake property to an arm's length party. Under the option agreement, the Company is to receive \$450,000 over a period of four years. The optionee is required to spend \$1,600,000 on mineral exploration prior to exercising the option.

The Company recorded the optioning as a disposition of the mining interest on its financial statements for the year ending March 31, 2013. The company should have recorded an impairment in value of the mining property and reduced the cost of the property by the option proceeds.

The changes to the Statement of Position are summarized in the table below:

Assets	original	change	restated
Current portion of loan receivable	60,000	(60,000)	-
Loan receivable	250,000	(250,000)	-
Exploration and evaluation assets	1,022,888	310,000	1,332,888

The changes to the Statement of Operations, Comprehensive Loss and Deficit are summarized in the table below:

	original	change	restated
Loss on disposal of mining properties	(7,531,325)	137,029	(7,394,296)
Impairment of investment in mining properties	-	(137,029)	(137,029)

The changes to the Statement of Cash Flows are summarized in the table below:

	original	change	restated
Impairment of exploration and evaluation assets	-	137,029	137,029
Loss on disposal of exploration and evaluation assets	7,531,325	(137,029)	7,394,296

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies

(a) Basis of presentation and statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company operates in one segment defined as the cash generating unit (CGU) which is Canada.

The Company's IFRS accounting policies have been applied consistently in all periods in preparing the financial statements for the year ended March 31, 2014, and the comparative information for the year ended March 31, 2013. The policies applied in these audited financial statements are based on IFRS issued and outstanding as of July 24, 2014, the date of approval by the Company's Board of Directors.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for financial instruments designated at fair value through profit and loss, which are stated at their fair value.

(c) Presentation and functional currency

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

(d) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at statement of financial position date and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred.

Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in Statement of Operations, Comprehensive Loss and Deficit, except for differences arising on the translation of available for sale equity instruments that are recorded in other accumulated comprehensive income.

(e) Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes party to a contractual agreement.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(e) Financial Instruments (Continued)

Financial assets are initially measured at fair value and classified into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS") and loans and receivables. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Statement of Operations, Comprehensive Loss and Deficit. HTM instruments and loans and receivables are measured at amortized cost using the effective interest rate method. AFS instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income.

Financial liabilities are classified as either FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Statement of Operations, Comprehensive Loss and Deficit. Other financial liabilities, including borrowings, are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

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

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the comparable asset or liability, either directly or indirectly.

Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments

Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities recorded at fair value through profit or loss for the period are recognized immediately in the Statement of Operations, Comprehensive Loss and Deficit.

Financial assets and financial liabilities are offset and reported on the Statement of Financial Position only if there is an enforceable legal right to offset the recognized amounts, and an intention to realize the asset and settle the liability simultaneously.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) is based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price.

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(e) Financial Instruments (Continued)

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

Financial instruments recognized in the statement of financial position include cash and cash equivalents, cash restricted for flow-through expenditures, HST receivable and other receivables, 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 in Canada with maturities of three months or less. Cash and cash equivalents are classified as fair value through profit or loss and is measured at fair value.

Cash restricted for flow-through expenditures

Cash restricted for flow-through expenditures consists of bank balances and is classified as fair value through profit or loss and is measured at fair value.

HST receivable and other receivables

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

Investments

Investments reported at fair-value-through-profit-and-loss (FVTPL) are recorded at fair value with the difference between fair value and cost being recorded as unrealized gain or loss in value of investments on the Statement of Operations, Comprehensive Loss and Deficit. In the case of securities listed on stock exchanges, the fair value means the latest bid price. Investments available for sale are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired. Investments for which reliable quotations are not readily available are valued at their fair value using a valuation model and market inputs.

Accounts payable and accrued liabilities

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

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(e) Financial Instruments (Continued)

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.

(f) Property, Plant and Equipment

On initial recognition, property, plant and equipment are valued at cost, being the purchase price which includes the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties and those directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within the provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Operations, Comprehensive Loss and Deficit during the financial period in which they are incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized in the Statement of Operations, Comprehensive Loss and Deficit.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(f) Property, Plant and Equipment (continued)

Property, plant and equipment are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

(g) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are split between interest and capital. The interest element is charged to the Statement of Operations, Comprehensive Loss and Deficit over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the Statement of Operations, Comprehensive Loss and Deficit on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(h) Exploration and evaluation assets

Exploration assets

Exploration expenditures relating to resource properties in which a legal right to explore has been obtained and an interest is retained are deferred and are carried as an asset until the results of the projects are known. If a project is unsuccessful or if exploration has ceased because continuation is not economically feasible, the cost of the property is written off. The fair value of resource properties acquired in exchange for the issuance of the Company's shares is determined by the trading price of the Company's shares on the date the shares are issued.

Option payments paid by the Company are capitalized against resource property costs when paid. Option payments received by the Company are deducted from resource property costs when received. No gain or loss on disposition of a partial interest is recorded until all carrying costs of the interest have been offset by proceeds of sale or option payments received or paid.

Evaluation assets

Evaluation expenditures relating to the evaluation of resource properties are capitalized until properties brought into production, at which time costs are amortized on a unit-of-production basis over economically recoverable reserves, or abandoned or the interest is sold.

If a project is successful and production has occurred, the exploration expenditures and related deferred evaluation expenditures are first tested for impairment and reclassified to mine property and development, and then amortized by charges against income from future mining operations.

Exploration and evaluation expenditures, which are general in nature and cannot be associated with a specific group of mining claims, and general administrative expenses, are expensed in the year in which they are incurred.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(i) General

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

(j) Income Taxes

Income taxes are calculated using the asset and liability method. Under this method deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management are more likely than not to be realized before expiry. Deferred tax assets and liabilities are presented as a non-current item and measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on the tax rates that have been enacted or substantially enacted by the end of the reporting period. The effect on deferred income tax assets and liabilities resulting from a change in enacted or substantially enacted tax rates is included in income in the period in which the change is enacted or substantively enacted.

(k) Flow-Through Shares

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

Flow-through shares are reported at issue price. If the flow-through shares are issued at a premium to the market price of non-flow through or hard dollar shares at the date of announcement, such premium or excess proceeds is reported as a liability on the Statement of Financial Position. When the related expenditures are incurred, and the tax deductions renounced to the unit holders, the Company reverses the related premium liability on the Statement of Financial Position, and reduces the deferred tax expense on the Statement of Operations, Comprehensive Loss and Deficit.

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(l) Provisions

Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur.

The Company did not have a rehabilitation provision as at March 31, 2014 or March 31, 2013.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. If the Company is virtually certain that some or all of a provision will be reimbursed, for example under an insurance contract, such reimbursement is recognized as a separate asset. Provisions may be discounted using a current pre-tax rate that reflects the risks specific to the liability. The expense relating to any provision is presented in the Statement of Operations, Comprehensive Loss and Deficit.

(m) Share capital

Financial instruments issued by the Company are defined as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, stock options or warrants are shown in equity as a deduction, net of tax, from the proceeds.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(n) 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 at March 31, 2014 there were no rehabilitation provisions.

Exploration and evaluation assets

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

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(n) Use of Estimates (continued)

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. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The Company uses the Black-Scholes model to value stock options. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Notes 9(c) and 9(e).

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(o) 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 behavioural considerations. All equity-settled stock based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

The Company values stock options using the Black-Scholes model.

(p) 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.

Interest income is accrued as earned.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(q) Comprehensive Income

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

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

(r) Loss Per Share

Basic earnings (loss) per share is 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 2014 and 2013.

(s) 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.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(s) Impairment (continued)

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.

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

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

3. Significant Accounting Policies (continued)

(t) 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.

4. Investments - FVTPL

The Company holds securities that have been designated as fair value through profit or loss (FVTPL) as follows:

	March 31, 2014		March 31, 2013	
	Market Value	Cost	Market Value	Cost
Long-term:				
Common shares in public company	\$185,403	\$716,000	\$464,402	\$716,000

Market value is based on the quoted closing bid price of the securities at March 31, 2014 and 2013. The fair value of these securities may differ from the quoted trading price due to the effect of market fluctuations and adjustment for quantities traded.

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2014 and 2013

5. Exploration and Evaluation Assets

Year Ending March 31, 2014

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
Acquisition costs							
Balance at April 1, 2013	\$ -	\$ -	\$ -	\$ 33,895	\$ 305,250	\$ -	\$ 339,145
Additions	-	-	-	-	31,000	-	31,000
Disposals	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Balance at March 31, 2014	-	-	-	33,895	336,250	-	370,145
Deferred exploration costs							
Balance at April 1, 2013	-	-	-	276,105	717,638	-	993,743
Additions	-	-	-	-	644,106	-	644,106
Disposals	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-
Balance at March 31, 2014	-	-	-	276,105	1,361,744	-	1,637,849
	\$ -	\$ -	\$ -	\$ 310,000	\$ 1,697,994	\$ -	\$ 2,007,994

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2014 and 2013

5. Exploration and Evaluation Assets (continued)

Year Ending March 31, 2013

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
Acquisition costs							
Balance at April 1, 2012	\$ 237,720	\$ 192,156	\$ 4,000	\$ 31,395	\$ 281,250	\$ 576,000	\$ 1,322,521
Additions	-	-	-	2,500	24,000	12,000	38,500
Dispositions (Note 5g)	(237,720)	(192,156)	(4,000)	-	-	(588,000)	(1,021,876)
Impairments	-	-	-	-	-	-	-
Balance at March 31, 2013	-	-	-	33,895	305,250	-	339,145
Deferred exploration costs							
Balance at April 1, 2012	2,192,543	2,196,594	5,182	513,134	410,395	3,191,387	8,509,235
Additions	2,668	46	-	-	307,243	-	309,957
Dispositions (Note 5g)	(2,195,211)	(2,196,640)	(5,182)	-	-	(3,191,387)	(7,588,420)
Option proceeds	-	-	-	(100,000)	-	-	(100,000)
Impairments	-	-	-	(137,029)	-	-	(137,029)
Balance at March 31, 2013	-	-	-	276,105	717,638	-	993,743
	\$ -	\$ -	\$ -	\$ 310,000	\$ 1,022,888	\$ -	\$ 1,332,888

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

5. Exploration and Evaluation Assets (continued)

(a) Dogpaw Lake Property – Kenora, Ontario

The Dogpaw Lake Gold Property is located adjacent to the Company's West Cedartree Property. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g).

(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 held a 100% interest in the Jesse (North) Property. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g).

West Cedartree Property

The Company held a 100% interest in the West Cedartree Property. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g). The Company holds a net smelter royalty (NSR) of 2.5% of net smelter returns from this property.

McLennan Property

The Company held a 100% interest in the McLennan Property. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g).

Dogpaw West and Gold Sun Properties

The Company held a 100% interest in the Dogpaw West and the Gold Sun properties. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g).

(c) North Block – Kenora, Ontario

The Company held a 100% interest in North Block Gold Property in the Cedartree Lake area within the Kenora Mining District of Ontario, Canada. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g).

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

5. Exploration and Evaluation Assets (continued)

(d) Tib Lake – Thunder Bay, Ontario

The Company held a 100% interest in the Tib Lake PGM Property located in the Thunder Bay Mining District of Ontario. In May of 2012, the Company optioned the property (see Notes 2 and 5g).

(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.

Pakeagama Lake Southeast Property

The Company has a 100% interest 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 2014, the Company issued 100,000 common shares and paid \$25,000 to two arms length individuals. The Company will issue 200,000 common shares and pay \$65,000 over the course of the remaining 2 years without exploration expenditure guarantees to earn a 100 percent interest from the two individuals.

(f) Dubenski Property – Kenora, Ontario

The Company had a 100% option interest in Dubenski Gold Property. The property is located adjacent the West Cedartree properties in the Kenora Mining District of Ontario. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 5g).

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

5. Exploration and Evaluation Assets (continued)

(g) Optioning and Sale of Properties

In May of 2012, the Company optioned the Tib Lake property to an arm's length party. The company received \$40,000 in the prior year, and \$100,000 in the current fiscal year. At the end of the current year, the Company is owed \$310,000. The purchaser is required to spend \$1,600,000 on mineral exploration prior to exercising the option. Once the option is exercised, the Company will maintain a 2.5% net smelter royalty on certain mining claims. The purchaser has the option to buy back 1% of the net smelter royalty for \$1,000,000.

A summary of the required cash payments are as follows:

Cash Payments	Due Date
\$40,000	signing of Letter of Intent (received second prior year)
50,000	six month anniversary of signing of LOI (received prior year)
50,000	first anniversary of signing of LOI (received prior year)
60,000	second anniversary of signing of LOI (received subsequent to year end)
100,000	third anniversary of signing of LOI
150,000	fourth anniversary of signing of LOI
<u>\$450,000</u>	

In January of 2013, the Company optioned the following properties to an arm's length party: Dogpaw Lake, West Cedartree (Jesse, West Cedartree, McLennan, Dogpaw West and Gold Sun), North Block, and Dubenski.

The company received in the year proceeds of \$100,000 at the time the Letter of Intent was signed, \$400,000 cash when the Asset Purchase Agreement was signed, plus 1,935,000 common shares of Coventry Resources Inc. (TSX.V: CYY) worth \$716,000 at the time the Asset Purchase Agreement was signed.

The Company maintains a 2.5% net smelter royalty (NSR) on net smelter returns from the West Cedartree property.

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2014 and 2013

5. Exploration and Evaluation Assets (Continued)

(g) Optioning of Properties (Continued)

The loss on disposal of these properties is reconciled as follows:

Proceeds of disposition - cash	\$ 500,000	
Proceeds of disposition - shares	<u>716,000</u>	\$ 1,216,000
Net book value of properties		<u>8,610,296</u>
Loss on disposal		<u>(7,394,296)</u>

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

Years Ending March 31, 2014 and 2013

6. Property, Plant and Equipment

Year Ending March 31, 2014

	Exploration Equipment	Furniture and Fixtures	Vehicles	Computer Equipment	Computer Software	Total
Cost						
Cost at April 1, 2013	\$ 28,301	\$ 26,091	\$ -	\$ 50,753	\$ 10,042	\$ 115,187
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Cost at March 31, 2014	28,301	26,091	-	50,753	10,042	115,187
Accumulated depreciation						
Balance at April 1, 2013	23,992	20,798	-	50,141	10,042	104,973
Disposals	-	-	-	-	-	-
Depreciation for year	1,293	1,058	-	263	-	2,614
Balance at March 31, 2014	25,285	21,856	-	50,404	10,042	107,587
Net book value	\$ 3,016	\$ 4,235	\$ -	\$ 349	\$ -	\$ 7,600

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

Years Ending March 31, 2014 and 2013

6. Property, Plant and Equipment (continued)

Year Ending March 31, 2013

	Exploration Equipment	Furniture and Fixtures	Vehicles	Computer Equipment	Computer Software	Total
Cost						
Cost at April 1, 2012	\$ 31,501	\$ 26,091	\$ 50,081	\$ 50,753	\$ 10,042	\$ 168,468
Additions	-	-	-	-	-	-
Disposals	(3,200)	-	(50,081)	-	-	(53,281)
Cost at March 31, 2013	28,301	26,091	-	50,753	10,042	115,187
Accumulated depreciation						
Balance at April 1, 2012	22,981	19,475	43,683	49,626	10,042	145,807
Disposals	(450)	-	(43,683)	-	-	(44,133)
Depreciation	1,461	1,323	-	515	-	3,299
Balance at March 31, 2013	23,992	20,798	-	50,141	10,042	104,973
Net book value	\$ 4,309	\$ 5,293	\$ -	\$ 612	\$ -	\$ 10,214

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

7. Income Taxes

The Company has \$4,994,931 (2013 - \$4,625,277) of non-capital losses available to offset future income for tax purposes. The non-capital losses will expire as follows:

2015	\$	135,254
2026		108,637
2027		289,132
2028		577,844
2029		662,731
2030		595,428
2031		802,663
2032		824,860
2033		490,837
2034		<u>507,545</u>
	\$	<u>4,994,931</u>

The deferred tax liability and asset calculated using a tax rate expected to be recovered or settled of 26.5% (2013 - 25%) is as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax liability		
Investment in exploration and evaluation assets	\$ 144,966	\$ 5,503
Deferred tax asset		
Property, plant and equipment	(38,093)	(35,284)
Undeducted share issuance costs	(16,701)	(31,520)
Undeducted non-capital losses	(1,323,657)	(1,160,694)
Valuation allowance	1,233,485	1,221,995
Net deferred tax liability	\$ -	\$ -

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

7. Income Taxes (continued)

The Company's effective tax rate, which differs from the combined federal and provincial statutory rate of 26.5% (2013 - 26.5%), is reconciled as follows:

	2014	2013
Loss before income taxes	\$ (793,507)	\$ (8,216,880)
Income tax recovery @ 26.5% (2012 - 26.5%)	(210,279)	(2,177,473)
Loss on disposal of exploration and evaluation assets	-	1,995,805
Gain on sale of property, plant and equipment	-	(4,300)
Unrealized loss on investments - FVTPL	73,935	66,673
Share compensation	4,239	21,728
Share issue costs	(21,915)	(36,032)
Other	6,891	3,526
Valuation allowance	147,129	130,073
	\$ -	\$ -
Actual income tax (recovery) expense	\$ -	\$ -

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

8. Related Party Balances and Transactions

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

	<u>2014</u>	<u>2013</u>
Consulting	\$ 195,000	\$ 120,000
Investment in exploration and evaluation assets	98,744	-
Office rental	9,000	9,000

Included in stock option compensation is \$13,657 (2013 - \$81,992) granted to directors and consultants of the Company (Note 9e).

The Company granted 400,000 (2013 - 1,200,000) stock options to corporate directors and no stock options (2013 - 850,000) to officers of the Company.

The debt settlement for the year was \$250,000 (2013 - \$nil) (Note 9f) to a corporation controlled by a director of the company and to an officer of the company. There was a loss of \$50,000 on extinguishment of the debt.

Included in accounts payable is \$306,065 (2013 - \$327,785) owing to companies controlled by a director, \$- (2013 - \$2,191) owing to corporate directors, \$89,934 (2013 - \$53,906) owing to corporate officers for consulting fees and \$39,603 (2013 - nil) owing to a company controlled by a corporate officer for fees concerning exploration and evaluation work.

A loan payable of \$114,923 (2013 - \$114,923) 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 (2013 - \$4,452) has been accrued and remains unpaid at year-end.

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.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

9. 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.

(b) Issued

	Shares	Amount
Balance at April 1, 2012	54,119,056	\$ 12,524,728
Private placement ^{a,b,d}	8,500,000	425,000
Less: Value of warrants	-	(129,986)
Less: Share issue costs - cash	-	(37,750)
- options	-	(8,310)
Shares issued to acquire property ^{c,e}	400,000	16,000
Balance at March 31, 2013	63,019,056	\$ 12,789,682
Private placement ^{f,h,j,k}	12,096,639	785,088
Less: Value of warrants	-	(276,432)
Less: Share issue costs - cash	-	(28,252)
- options		(9,465)
Shares to settle debt ^g	5,000,000	300,000
Shares to acquire property ⁱ	100,000	6,000
Balance at March 31, 2014	80,215,695	\$ 13,566,621

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

9. Share Capital (continued)

- (a) In July 2012, the Company completed a non-brokered private placement financing. The Company issued 2,000,000 units at \$0.05 per unit for total gross proceeds of \$100,000. Each unit consisted of one common share of the Company and one share purchase warrant, each warrant exercisable at \$0.12 for twenty-four months.
- (b) In August 2012, the Company completed a non-brokered private placement financing. The Company issued 2,000,000 units at \$0.05 per unit for total gross proceeds of \$100,000. Each unit consisted of one common share of the Company and one share purchase warrant, each warrant exercisable at \$0.12 for twenty-four months.
- (c) In December 2012, the Company issued 100,000 common shares to an arm's length party under the Pakeagama option agreement. The shares were worth \$4,000 on the date of issue.
- (d) In December 2012, the Company issued completed a non-brokered private placement financing. The Company issued 4,500,000 units at \$0.05 per unit for total gross proceeds of \$225,000. Each unit consisted of one flow-through common share of the Company and three quarters of one share purchase warrant, each warrant exercisable at \$0.10 for twenty-four months.
- (e) In January 2013, the Company issued 300,000 common shares to an arm's length party under the Dubenski option agreement. The shares were worth \$12,000 on the date of issue.
- (f) In April 2013, the Company completed a non-brokered private placement financing. The Company issued 7,217,639 units at \$0.06 per unit for total gross proceeds of \$433,058. Each unit consisted of one common share and one share purchase warrant, each warrant exercisable at \$0.10 for twenty-four months. The fair value attributed to the 7,217,639 warrants is estimated to be \$182,079 using the Black-Scholes option pricing model (see below).
- (g) In April 2013, the Company issued 5,000,000 common shares to settle \$250,000 of debt. The fair value of the shares issued to settle the debt was \$300,000 resulting in a loss on extinguishment of debt of \$50,000.
- (h) In August 2013, the Company completed a non-brokered private placement financing. The Company issued 1,429,000 units at \$0.07 per unit for total gross proceeds of \$100,030. Each unit consisted of one flow-through common share and one half of one share purchase warrant, each warrant exercisable at \$0.10 for twenty-four months. The fair value attributed to the 714,500 share purchase warrants is estimated to be \$20,796 using the Black-Scholes option pricing model (see below).
- (i) In December 2013, the Company issued 100,000 common shares under the Pakeagama option agreement. The shares were worth \$6,000 at the date of issue.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

9. Share Capital (continued)

- (i) In January 2014, the Company completed a non-brokered private placement financing. The Company issued 3,000,000 units at \$0.075 per unit for total gross proceeds of \$225,000. Each unit consisted of one flow-through common share and one half of one share purchase warrant, each warrant exercisable at \$0.11 for twenty-four months. The fair value attributed to the 1,500,000 share purchase warrants is estimated to be \$61,857 using the Black-Scholes option pricing model (see below).
- (k) In February 2014, the Company completed a non-brokered private placement financing. The Company issued 450,000 units at \$0.06 per unit for total gross proceeds of \$27,000. Each unit consisted of one common share and one share purchase warrant, each warrant exercisable at \$0.10 for twenty-four months. The fair value attributed to the 450,000 share purchase warrants is estimated to be \$11,700 using the Black-Scholes option pricing model (see below).

(c) Warrants Outstanding

Balance at April 1, 2012	4,539,166
Warrants issued during the year	7,250,000
Warrants expired during the year	<u>(4,539,166)</u>
Balance at March 31, 2013	7,250,000
Warrants issued during the year	9,882,139
Warrants expired during the year	<u>-</u>
Balance at March 31, 2014	<u>17,132,139</u>

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Warrants</u>
July 14, 2014	0.12	2,000,000
August 14, 2014	0.12	2,000,000
December 24, 2014	0.10	250,000
December 27, 2014	0.10	3,000,000
April 10, 2015	0.10	7,217,639
August 27, 2015	0.10	714,500
January 8, 2016	0.11	1,500,000
February 7, 2016	0.10	<u>450,000</u>
		<u>17,132,139</u>

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

9. Share Capital (continued)

The Black-Scholes model was used to value warrants issued under private placements. The assumptions used to calculate the warrant values are listed in the table below:

	Year Ending March 31, 2014	Year Ending March 31, 2013
Risk free interest rate	0.81% - 0.99%	0.92% - 0.96%
Dividend yield	0%	0%
Volatility factor	174%-188%	141%-166%
Expected option life	2 years	2 years

(d) Stock Based Compensation

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

(e) Options Outstanding

The following is a summary of the options outstanding at March 31, 2014, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Options</u>
July 17, 2014	0.12	100,000
August 14, 2014	0.12	100,000
December 24, 2014	0.10	40,000
December 27, 2014	0.10	200,000
June 1, 2015	0.20	1,000,000
August 27, 2015	0.07	71,450
January 8, 2016	0.11	150,000
January 27, 2016	0.145	300,000
June 7, 2016	0.14	1,400,000
February 1, 2018	0.10	2,050,000
September 26, 2018	0.10	400,000
		<hr/> 5,811,450 <hr/>

Houston Lake Mining Inc.
Notes to Financial Statements

Years Ending March 31, 2014 and 2013

9. Share Capital (continued)

	Options		Weighted Average Exercise Price
Balance at April 1, 2012	3,933,333	\$	0.50
Options granted during year	2,490,000		0.10
Options expired during year	(833,333)		0.61
Balance at March 31, 2013	5,590,000		0.15
Options granted during year	621,450		0.10
Options expired during year	(400,000)		0.30
Balance at March 31, 2014	5,811,450	\$	0.15

During the year, 400,000 (2013 - 2,250,000) 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 \$0.04 (2013 - \$0.14). Stock-based compensation of \$13,657 (2013 - \$81,992) was recognized in the year (stock option compensation) and credited to Contributed Surplus.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

9. Share Capital (continued)

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

	Year Ending March 31, 2014	Year Ending March 31, 2013
Risk free interest rate	0.83% - 0.98%	0.92% - 1.03%
Dividend yield	0%	0%
Volatility factor	148% - 190%	141% - 395%
Expected option life	2-5 years	2-5 years

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

(f) Debt Settlement

On April 25, 2013, a Share for Debt settlement of \$250,000 was completed with two of the Company's creditors: \$200,000 to a corporation controlled by a director of the company, and \$50,000 to an officer of the company. These shares were issued when the fair value was \$300,000 resulting in a loss on extinguishment of debt of \$50,000.

10. Cash Restricted for Flow Through Expenditures

Flow-Through common shares require the Company to spend an amount equivalent to the proceeds of the issued Flow-Through common shares on Canadian (Flow-Through) qualifying exploration expenditures. As at March 31, 2014, the Company's remaining cash with respect to unspent resource expenditures under flow-through common share agreements is \$6,999 (2013– \$154,163), which is held as restricted cash.

Houston Lake Mining Inc.

Notes to Financial Statements

Years Ending March 31, 2014 and 2013

11. 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 ended March 31, 2014.

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.

12. 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 fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. Cash and cash equivalents consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. Accounts receivable includes HST receivable and is subject to CRA's assessment prior to receipt. Management believes credit risk with respect to cash and cash equivalents and accounts 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 bank. Management believes that liquidity risk is low.

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

12. Financial Risk Factors (continued)

Fair Value

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

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

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

The Corporation's only instruments that are carried at fair value are cash and cash equivalents, cash restricted for flow-through expenditures, and investments - FVTPL each of which is considered Level 1 in the hierarchy.

Interest Rate Risk

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

Currency Risk

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

Commodity Price Risk

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

Houston Lake Mining Inc. Notes to Financial Statements

Years Ending March 31, 2014 and 2013

12. Financial Risk Factors (continued)

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes that a 10% movement in interest rates and foreign exchange rates that may reasonably be expected to occur over the next twelve month period will not have a significant impact on the Company.

13. Comparative Figures

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

14. Commitments

The Company has a commitment to spend amounts raised through flow-through financing on eligible Canadian exploration and development expenses. At March 31, 2014, the Company was required to spend \$6,999 on eligible flow-through expenditures. The Company has not incurred the required eligible expenses.

15. Subsequent Events

On June 4, 2014, the Company issued 6,200,000 flow through share units at a price of \$0.09 per unit for total proceeds of \$558,000. Each unit consists of one flow through common share of the company and one half of one share purchase warrant. Each full warrant would entitle the holder to purchase one additional common share of the company at a price of \$0.13 for a twenty four month period.
