

Financial Statements of  
**HOUSTON LAKE MINING INC.**  
Years ended March 31, 2008 and 2007

# **Houston Lake Mining Inc.**

## **Financial Statements**

**For the years ended March 31, 2008 and 2007**

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## **Auditors' Report**

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

We have audited the balance sheets of Houston Lake Mining Inc. as at March 31, 2008 and 2007 and the statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada  
July 14, 2008

Sievert & Sawrantschuk LLP  
Chartered Accountants, Licensed Public Accountants

**Houston Lake Mining Inc.  
Balance Sheets**

<b>March 31</b>	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	268,114	435,851
Cash restricted for flow-through expenditures (note 8)	434,093	747,250
Goods and Services tax receivable	47,753	46,709
Prepaid and sundry	48,498	200
	798,458	1,230,010
<b>Investment in mining properties (Note 3)</b>	<b>5,219,053</b>	<b>3,325,834</b>
<b>Property, plant and equipment (Note 4)</b>	<b>62,183</b>	<b>64,892</b>
	<b>6,079,694</b>	<b>4,620,736</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	376,942	319,011
<b>Shareholders' Equity</b>		
Share capital (Note 7)	8,254,513	6,868,227
Contributed surplus (Note 7)	976,491	681,426
Deficit	(3,528,252)	(3,247,928)
	5,702,752	4,301,725
	<b>6,079,694</b>	<b>4,620,736</b>

Approved on behalf of the Board:

"Robert J. McLean" Director

"E. Grayme Anthony" Director

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

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**Houston Lake Mining Inc.**  
**Statements of Deficit**

<b>For the years ended March 31</b>	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Deficit, beginning of year</b>	<b>(3,247,928)</b>	(3,397,002)
<b>Net income (loss) for the year</b>	<b>(280,324)</b>	149,074
<b>Deficit, end of year</b>	<b>(3,528,252)</b>	(3,247,928)

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

## Houston Lake Mining Inc. Statements of Operations

For the years ended March 31	2008	2007
<b>Revenue</b>	-	114,610
<b>Cost of sales</b>	-	62,762
	-	51,848
<b>Expenses</b>		
Shareholder and investor relations	212,820	110,528
Stock option compensation, directors (Notes 6 and 7)	210,000	43,936
Consulting (Note 6)	99,050	41,200
General and administrative	96,016	93,031
Wages and benefits	35,566	-
Insurance	25,165	2,003
Professional fees	24,383	37,531
Amortization	23,654	13,465
Vehicle and travel	19,925	17,906
Office and equipment rental (Note 6)	9,000	9,000
Telephone	7,579	4,476
Bank charges and interest	5,704	582
	768,862	373,658
<b>Less: Interest income</b>	(914)	(143)
	767,948	373,515
<b>Net loss before taxes</b>	(767,948)	(321,667)
<b>Income taxes</b>		
Current	-	-
Future income tax benefit (Note 5)	487,624	470,741
<b>Net income (loss) for the year</b>	(280,324)	149,074
<b>Basic and diluted earnings (loss) per share (Note 2(k))</b>	(0.01)	0.01
<b>Weighted average number of shares</b>	25,893,013	21,755,985

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

## Houston Lake Mining Inc. Statements of Cash Flows

**For the years ended March 31** **2008** **2007**

**Cash provided by (used in)**

**Operating activities**

Net income (loss) for the year	(280,324)	149,074
Items not involving cash		
Amortization of property, plant and equipment	23,654	13,465
Future income tax benefit	(487,624)	(470,741)
Consulting and director fees paid by options	278,000	19,075
	(466,294)	(289,127)
Changes in non-cash working capital balances		
Goods and Services tax receivable	(1,044)	(15,262)
Prepaid and sundry	(48,298)	24,861
Accounts payable and accrued liabilities	57,931	36,569
	(457,705)	(242,959)

**Investing activities**

Purchase of property, plant and equipment	(20,946)	(68,202)
Cash restricted for flow-through expenditures	313,157	(747,250)
Net addition to investment in mining properties	(1,893,219)	(860,574)
	(1,601,008)	(1,676,026)

**Financing activities**

Issuance of common shares	1,640,512	2,118,205
Issuance of warrants	250,464	96,585
	1,890,976	2,214,790

<b>Increase (decrease) in cash during the year</b>	<b>(167,737)</b>	<b>295,805</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>435,851</b>	<b>140,046</b>

<b>Cash and cash equivalents, end of year</b>	<b>268,114</b>	<b>435,851</b>
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**Supplementary Cash Flow Information**

Shares issued for mining property acquisition	176,000	399,000
Interest paid	-	-
Income taxes paid	-	-

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

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# Houston Lake Mining Inc.

## Notes to Financial Statements

**March 31, 2008 and 2007**

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### 1. Nature of Operations and Going Concern

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

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

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

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

### 2. Significant Accounting Policies

#### (a) Changes in accounting policy

CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement, 1530, "Comprehensive Income", and 3865 "Hedges" were adopted, effective January 1, 2007, on a prospective basis; accordingly, comparative amounts for prior periods have not been restated

##### a) Financial Instruments – Recognition and Measurement

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented and requires that:

- i) All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- ii) All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial are measured at amortized cost using the effective interest method; and
- iii) All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

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# Houston Lake Mining Inc.

## Notes to Financial Statements

March 31, 2008 and 2007

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### 2. Significant Accounting Policies (continued)

b) Comprehensive Income

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gain or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining operations.

c) Hedges

Section 3865 provides alternative treatments to Section 3855 for entities, which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any components of hedges in place and therefore this policy has had no impact on the financial statements.

d) Impact upon adoption of Sections 1530, 3855 and 3865

The Company has evaluated the impact of Sections 1530, 3855 and 3865 on its financial statements and determined that no adjustments are currently required.

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
- Accounts receivable and due from director are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities, due to directors, accrued property taxes and long-term debt 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.

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# Houston Lake Mining Inc.

## Notes to Financial Statements

March 31, 2008 and 2007

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### 2. Significant Accounting Policies (continued)

#### (b) 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

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

#### (c) 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.

#### (d) Investment in Mining Properties

The Company follows the practice of capitalizing all costs related to acquisition, exploration and development of mineral properties until such time as mineral properties are put into commercial production, sold or abandoned. If commercial production commences, these capitalized costs will be amortized prospectively on a unit-of-production basis based on estimated reserves. If the mineral properties are abandoned, the related capitalized costs are expensed.

The carrying value is reduced by the option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts.

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

#### (e) General

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

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# Houston Lake Mining Inc.

## Notes to Financial Statements

March 31, 2008 and 2007

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### 2. Significant Accounting Policies (continued)

#### (f) Income Taxes

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

#### (g) Flow-Through Shares

The Company has financed a portion of its exploration activities with flow-through shares. Shares were issued for cash in exchange for the company giving up the tax benefits arising from the exploration expenditures. The expenditures funded by flow-through arrangements are renounced to investors in accordance with tax legislation. The Company records such share issuances by crediting share capital for the value of cash consideration received. Share capital is reduced and future income taxes are increased by the foregone tax benefits related to the renounced tax deductions on the date the tax deductions are renounced. During the current year, the Company renounced \$1,350,010 (2007-\$1,303,270) in expenditures.

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

#### (h) Asset retirement obligation

An asset retirement obligation 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 is not 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

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# Houston Lake Mining Inc.

## Notes to Financial Statements

March 31, 2008 and 2007

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### 2. Significant Accounting Policies (continued)

reported amounts of revenues and expenses during the reporting period. The most significant area requiring estimates relates to the Company's investment in mining properties.

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

#### (j) Stock Based Compensation

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

#### (k) Financial Instruments

The carrying amounts for cash, Goods and Services taxes receivable, sundry receivables and accounts payable on the balance sheet approximate fair value because of the limited term to expected maturity of these instruments.

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.

#### (l) 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.

#### (m) Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in

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# Houston Lake Mining Inc.

## Notes to Financial Statements

March 31, 2008 and 2007

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### 2. Significant Accounting Policies (continued)

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 2008 and 2007.

#### (n) New Accounting Pronouncements

CICA Handbook Section 1535 *Capital Disclosures*; 3862 *Financial Statement Instruments-Disclosures*; and 3863 *Financial Instruments-Presentation*, are effective for interim and annual financial statements beginning on October 1, 2007. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 replace Handbook Section 3861 *Financial Instruments-Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. The new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

CICA Handbook Section 3031 *Inventories* replaces Section 3030 *Inventories*, effective for interim and annual statements beginning on January 1, 2008. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards (IFRS) over a transition period to be complete by 2011.

The company is currently assessing the impact of these new standards.

## Houston Lake Mining Inc. Notes to Financial Statements

**March 31, 2008 and 2007**

<b>3. Investment in Mining Properties</b>	<u>2008</u>	<u>2007</u>
<b>Acquisition costs</b>		
Dogpaw Lake Property Phase I – 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)	427,208	427,208
Dubenski Property – Kenora, Ontario (f)	276,000	-
	<u>1,208,479</u>	<u>932,479</u>
<b>Deferred exploration costs</b>		
Dogpaw Lake Property Phase I – Kenora, Ontario (a)	\$ 1,005,502	\$ 545,657
West Cedartree Property (b)	1,369,728	1,072,267
North Block (c)	5,182	5,182
Tib Lake (d)	486,972	534,573
Pakeagama Lake (e)	255,428	235,676
Dubenski Property – Kenora, Ontario (f)	887,762	-
	<u>4,010,574</u>	<u>2,393,355</u>
	<u><b>\$ 5,219,053</b></u>	<u><b>\$ 3,325,834</b></u>

**(a) Dogpaw Lake Property Phase I - Kenora**

The Company holds a 100% interest in the 226.4 hectare (566 acre) Dogpaw Lake Gold Property. The property consists of 13 patented mining claims and one License of Occupation. The 100% ownership interest is subject to a 2.5% net smelter royalty. Houston Lake may purchase back up to 1.5% of the NSR for \$500,000 per 0.5%.

**(b) West Cedartree Property - Kenora**

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 considered as one property for exploration purposes.

*Jesse (North) Property*

The Company holds a 100% interest in 1 unpatented mining claim in the 176 hectare (435 acre) Jesse (North) Property. The vendor is a related party and holds a 2.5% net smelter royalty (NSR).

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# Houston Lake Mining Inc.

## Notes to Financial Statements

**March 31, 2008 and 2007**

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### 3. Investment in Mining Properties (continued)

#### West Cedartree Property

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

#### McLennan Property

The Company has a 100% interest in the 7 patented mining claim McLennan Property and covering 139.6 hectares (344.8 acres). One of the vendors retains a 0.75% net smelter royalty while a related party retains a 1.5% net smelter royalty.

#### Dogpaw West and Gold Sun Properties

During the year, the Company earned a 100% interest in the 80 hectare (198 acre) Dogpaw West and the 368 hectare (909 acre) Gold Sun properties. This area includes 4 unpatented mining claims. The 100% 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

The Company has a 100% interest in 1 unpatented mining claim in the 80 acre North Block Gold Property in the Cedartree Lake area. The vendor retains a 2% net smelter royalty ("NSR").

#### (d) Tib Lake - Thunder Bay

The Company holds a 100% interest in 20 unpatented mining claims in the 2496 hectare (6167 acre) Tib Lake PGM Property located in the Thunder Bay Mining District of Ontario. The vendor retains 2.5% NSR subject to a 1.0% buyback for \$1 million.

The Company had granted an option to Magma Metals of Australia to earn a 70% interest in the Tib Lake Property. Magma was required to make exploration expenditures of \$2.6 million and a total of \$400,000 in cash payments over a five year period. In accordance with the Company's accounting policy in note 2(c), a cumulative total of \$103,037 in option payments has been credited against the Tib Lake deferred exploration costs for a net total cost of \$484,994. Magma formally withdrew from the option on January 26, 2007.

#### (e) Pakeagama Lake - Red Lake

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

#### *Pakeagama Lake Property*

The Company has a 100% interest in the Pakeagama Lake Property. The 7 unpatented mining claims cover 1,792 hectares (4426 acres). The 100% ownership interest is subject

# Houston Lake Mining Inc.

## Notes to Financial Statements

**March 31, 2008 and 2007**

### 3. Investment in Mining Properties (continued)

to a 2.5% NSR subject to a 1.0% buyout provision. During fiscal year 2007, the Company issued 140,000 common shares to an arms length individual for a total consideration of \$91,000 and must make annual payments of \$1,000 until 2011 in order to retire the advance royalty on the property

#### *Pakeagama Lake West Property*

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

#### *Pakeagama Lake Northwest Property*

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

#### **(f) Dubenski Property – Kenora**

The Company has a 100% option interest in the 363.6 hectare (898.5 acre) Dubenski Gold Property. The Company can exercise its option by making cash payments totaling \$1.0 million over a 9 year period, then making a lump sum cash payment of \$3.5 million and issuing 500,000 Common Shares by April 30, 2017. The property consists of 22 leased claims and adjoins the West Cedartree properties in the Kenora Mining District of Ontario. The vendor retains 2.5% NSR subject to a \$500,000 buyback per 0.5%. The option cannot be exercised until the Corporation 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, 2008 Houston Lake Mining Inc. has paid \$100,000 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

	2008		2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 21,406	\$ 13,212	\$ 17,801	\$ 12,047
Exploration equipment	26,214	7,015	12,093	1,814
Computer equipment	49,678	41,904	46,914	36,652
Computer software	10,042	9,672	10,043	9,491
Organization Costs	1,000	1,000	1,000	1,000
Vehicles	50,081	23,435	50,081	12,036
	<b>\$ 158,421</b>	<b>\$ 96,238</b>	<b>\$ 137,932</b>	<b>\$ 73,040</b>
Net book value		<b>\$ 62,183</b>		<b>\$ 64,892</b>

## Houston Lake Mining Inc. Notes to Financial Statements

**March 31, 2008 and 2007**

### 5. Income Taxes

The Company has \$1,650,140 (2007 - \$1,275,986) of non-capital losses available to offset future income for tax purposes. The non-capital losses will expire as follows:

2008	\$	218,140	
2009		117,015	
2010		94,727	
2011		137,891	
2015		135,254	
2016		108,637	
2017		289,132	
2018		577,844	
		\$ 1,678,640	

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. The future tax liability and asset are as follows:

	2008	2007
Future tax liability		
Investment in mining properties	\$ 487,624	\$ 470,741
Future tax asset		
Canadian exploration and development expenses	487,624	470,741
Net future tax liability	\$ -	\$ -

The Company has two future tax assets as follows:

	2008	2007
Future tax assets		
Property, plant and equipment	\$ 37,382	\$ 28,839
Non-capital loss carry forwards	606,325	460,886
Total future tax assets	643,707	489,725
Valuation allowance	(643,707)	(489,725)
Net future income tax assets	\$ -	\$ -

# Houston Lake Mining Inc.

## Notes to Financial Statements

**March 31, 2008 and 2007**

### 5. Income Taxes (continued)

Also, approximately \$2,106,243 (2007 - \$1,563,034) 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 income tax rate of 36.12% (2007 – 36.12%), is reconciled as follows:

	<b>2008</b>	2007
Loss before income taxes	<b>\$ (767,948)</b>	\$ (321,667)
Income tax recovery at the rates of 33%	<b>(277,383)</b>	(116,186)
Share compensation	<b>75,852</b>	15,870
Share issue costs	<b>(15,989)</b>	( 9,050)
Other	<b>8,802</b>	4,932
Future income tax asset not recognized	<b>208,718</b>	104,434
	<b>\$ -</b>	-
Actual income tax (recovery) expense	<b>\$ -</b>	-

### 6. Related Party Transactions

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

	<b>2008</b>	2007
Investment in mining properties	<b>\$ 62,450</b>	\$ 48,800
Consulting	<b>36,049</b>	41,200
Office and equipment rental	<b>9,000</b>	9,000
	<b>\$ 107,499</b>	\$ 99,000
	<b>\$ 107,499</b>	\$ 99,000

Included in stock option compensation is \$126,000 (2007 - \$6,525) granted to directors of the Company (see note 7(f)).

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

Included in accounts payable and accrued liabilities is \$134,134 (2007 - \$153,439) due to related parties.

# Houston Lake Mining Inc. Notes to Financial Statements

**March 31, 2008 and 2007**

## 7. Share Capital

(a) Authorized:

Unlimited number of common voting shares without nominal or par value

Unlimited number 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 in each series to determine the designation, rights privileges, restrictions, and conditions attached to the shares of each series.

(b) Issued – Common Shares:

	2008		2007	
	Shares	Amount	Shares	Amount
Balance, beginning of year	24,144,156	6,868,227	19,866,675	\$ 4,821,763
Issued during the year				
pursuant to:				
Private placement	1,780,727	1,350,010	3,385,927	2,207,515
Less: Share issue costs		(107,600)		(92,319)
Less: Value of warrants		(17,065)		(96,585)
Options exercised	621,171	222,101	175,000	66,500
Warrants exercised	618,692	250,464	76,554	33,094
Property acquisition	200,000	176,000	640,000	399,000
Renunciation of tax deductions		(487,624)		(470,741)
Balance, end of year	<b>27,364,746</b>	<b>8,254,513</b>	24,144,156	\$ 6,868,227

## Houston Lake Mining Inc. Notes to Financial Statements

**March 31, 2008 and 2007**

### 7. Share Capital (continued)

(c) Warrants Outstanding:

Balance, beginning of year	2,401,289
Warrants issued	141,884
Warrants exercised	(1,638,465)
Warrants expired during the year	( - )
	904,708
Balance, end of year	904,708

As at March 31, 2008, there were 904,708 warrants outstanding for the purchase of common shares at an average price of \$0.90 per share expiring as follows:

Expiry Date	Number of Warrants	Value Assigned
December 12, 2008	459,861	\$ 15,635
February 28, 2009	444,847	20,741
	904,708	\$36,376
	904,708	\$36,376

The fair value of the warrants was estimated using the Black-Scholes pricing model. In 2008, the assumptions used for the valuation of the warrants were a dividend yield of 0%, expected volatility of 27.86%, a 3% risk-free rate of return and an expected life of 2.0 years. The value of the warrants issued during the year was \$17,065.

(d) Contributed Surplus

The following is a continuity of contributed surplus:

Balance March 31, 2005	\$ 443,424
Stock option compensation	122,342
	565,766
Balance, March 31, 2006	565,766
Stock option compensation	19,075
Value of warrants issued	96,585
	681,426
Balance, March 31, 2007	\$ 681,426
Stock option compensation	278,000
Value of warrants issued	17,065
	976,491
	\$ 976,491

## Houston Lake Mining Inc. Notes to Financial Statements

**March 31, 2008 and 2007**

### 7. Share Capital (continued)

(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.

(f) Options Outstanding:

The following is a summary of the options outstanding at March 31, 2008, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Shares</u>
October 29, 2008	\$ 0.30	150,000
November 16, 2009	\$ 0.34	300,000
March 10, 2010	\$ 0.25	100,000
August 22, 2010	\$ 0.23	150,000
January 9, 2011	\$ 0.27	200,000
March 3, 2011	\$ 0.32	200,000
April 26, 2011	\$ 0.47	50,000
May 11, 2011	\$ 0.61	25,000
May 10, 2012	\$ 1.00	700,000
November 1, 2012	\$ 0.64	200,000
February 12, 2013	\$ 0.40	<u>250,000</u>
		<u>2,325,000</u>

	<u>2008</u>		<u>2007</u>	
	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	1,829,232	\$ 0.33	1,929,232	\$ 0.32
Granted	1,150,000	0.82	75,000	0.52
Exercised	(621,171)	(0.36)	(175,000)	(0.38)
Cancelled	(33,061)	-	-	-
Outstanding, end of year	<u>2,325,000</u>	<u>0.56</u>	1,829,232	\$ 0.33

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# Houston Lake Mining Inc.

## Notes to Financial Statements

March 31, 2008 and 2007

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### 7. Share Capital (continued)

(f) Options Outstanding (continued):

During the year, 1,150,000 (2007-75,000) 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 \$0.14 (2007-\$0.25). Stock-based compensation of \$165,500 (2007-\$19,075) was recorded as an expense and credited to Contributed Surplus.

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

	2008	2007
Risk-free interest rate	3.00%	5.75%
Dividend yield	0.0%	0.0%
Volatility factor	27.86%	39.09 to 39.14%
Expected option life (in years)	5.0 years	5.0 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.

### 8. Cash Restricted for Flow-Through Exploration Expenditures

In October 2007, 1,071,427 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$750,000.

In November 2007, 364,300 Flow-Through common shares were issued for in a private placement financing for cash for total proceeds of \$255,010.

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, 2008, the Company's remaining commitment with respect to unspent resource expenditures under flow-through common share agreements is \$434,093 (2007 – \$747,250), which is held as restricted cash.

Subsequent to March 31, 2008, \$434,093 of flow-through funds was spent on qualifying exploration expenditures.

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# Houston Lake Mining Inc.

## Notes to Financial Statements

**March 31, 2008 and 2007**

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### **9. Subsequent Events**

On May 15, 2008, the Company raised \$750,000 through the sale of 1,250,000 Flow-Through Units priced at \$0.60 per unit. Each Flow-Through Unit consists of one flow-through common share and one half of one common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of \$0.70 for 24 months from closing.

On May 20, 2008, the Company has completed the first \$168,600 tranche raised through the sale of 281,000 flow-through units priced at \$0.60 per unit in a non-brokered private placement, subject to regulatory approval. Each unit consisted of one flow-through common share and one half of one common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of \$0.70 for 24 months from closing.

On June 16, 2008, the Company completed the second and final \$286,200 tranche of a \$454,800 offering. The funds were raised through the sale of 477,000 flow-through units priced at \$0.60 per unit in a non-brokered private placement. Each unit consisted of one flow-through common share and one half of one common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of \$0.70 for 24 months from closing.

### **10. Commitments**

During the year, the company entered into three contractual engagements for financial consulting and investor relations services. Two of these contracts are for a period of 1 year and the third is for 6 months. Total monthly payments are \$18,000 plus tax. The first two contracts expire on July 31, 2008 and October 31, 2008 and the third expires on August 15, 2008.

### **11. Comparative Figures**

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