

Financial Statements of  
**HOUSTON LAKE MINING INC.**

Six months ending September 30, 2014 and 2013  
(Unaudited and Prepared by Management)



**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

**Houston Lake Mining Inc.**  
**Statement of Financial Position**  
**Unaudited**

	Sept 30, 2014	March 31, 2014
<hr/>		
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 221,058	\$ 153,347
Cash restricted for flow-through expenditures	-	6,999
HST receivable and other receivables	33,451	48,523
Prepaid expenses	6,787	3,704
	261,296	212,573
<b>Property, plant and equipment</b> (Note 5)	6,652	7,600
<b>Investments – FVTPL</b> (Note 3)	126,932	185,403
<b>Exploration and evaluation assets</b> (Note 4)	2,357,465	2,007,994
	\$ 2,752,345	\$ 2,413,570
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<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 422,809	\$ 598,725
Due to related party (Note 6)	52,993	114,923
	475,802	713,648
<b>Deferred tax liability</b>	-	-
	475,802	713,648
<b>Shareholders' equity</b>		
Share capital (Note 7)	14,241,995	13,566,621
Contributed surplus (Note 7)	3,537,575	3,360,796
Deficit	(15,503,027)	(15,227,495)
	2,276,543	1,699,922
	\$ 2,752,345	\$ 2,413,570

**Houston Lake Mining Inc.**  
**Statement of Operations**  
**(Unaudited)**

	Six Months Ended Sept. 30, 2014	Six Months Ended Sept. 30, 2013	Three Months Ended Sept. 30, 2014	Three Months Ended Sept. 30, 2013
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Expenses</b>				
Consulting	55,000	55,000	55,000	55,000
Wages and benefits	23,530	24,238	11,626	12,203
Vehicle and travel	40,662	35,191	19,190	19,047
General administrative	60,226	22,524	37,642	1,777
Insurance	5,070	4,954	2,559	2,477
Office and equipment rental	4,500	4,500	2,250	2,250
Telephone	3,167	6,493	2,257	2,424
Professional fees	17,379	13,055	9,546	6,055
Depreciation	948	1,307	473	653
Shareholder and investor relations	3,937	-	3,808	-
Bank charges and interest	858	1,019	485	301
Currency exchange and rounding	1,784	205	1,341	-
	<b>217,061</b>	<b>168,486</b>	<b>146,177</b>	<b>102,187</b>
<b>Net loss before tax and items below</b>	<b>(217,061)</b>	<b>(168,486)</b>	<b>(146,177)</b>	<b>(102,187)</b>
<b>Unrealized loss on investments - FVTPL</b>	<b>(58,471)</b>	<b>(299,926)</b>	<b>(34,231)</b>	<b>(18,470)</b>
<b>Net loss before tax</b>	<b>(275,532)</b>	<b>(468,412)</b>	<b>(180,408)</b>	<b>(120,657)</b>
<b>Income tax expense</b> Deferred	-	-	-	-
<b>Net loss for the period</b>	<b>(275,532)</b>	<b>(468,412)</b>	<b>(180,408)</b>	<b>(120,657)</b>
<b>Deficit, beginning of period</b>	<b>(15,227,495)</b>	<b>(14,433,988)</b>	<b>(15,322,619)</b>	<b>(14,781,743)</b>
<b>Deficit, end of period</b>	<b>(15,503,027)</b>	<b>(14,902,400)</b>	<b>(15,503,027)</b>	<b>\$ (14,902,400)</b>
<b>Net loss per share (basic)</b>	<b>\$ (0.003)</b>	<b>\$ (0.006)</b>	<b>\$ (0.002)</b>	<b>\$ (0.002)</b>
<b>Weighted average common shares outstanding</b>	<b>87,200,813</b>	<b>74,487,394</b>	<b>90,807,595</b>	<b>75,770,607</b>

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

	Share Capital		Advances for to be Issued	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit
	Shares (#)	\$	\$	\$	\$	\$
<u>Period Ending Sept 30, 2013</u>	63,019,056	12,789,682	183,058	3,061,242	-	(14,433,988)
<b>Balance March 31, 2013</b>						
Net income and comprehensive loss for the period	-					(468,412)
Shares for debt	5,000,000	250,000				
Private placement proceeds	8,646,639	533,086	(183,058)	-	-	-
Less: share issue costs		(5,001)				
Less: warrant valuation		(26,005)		26,005	-	-
Less: value of broker options	-	(2,640)		2,640	-	-
<b>Balance at Sept 30, 2013</b>	<b>76,665,695</b>	<b>13,539,122</b>	<b>-</b>	<b>3,089,887</b>	<b>-</b>	<b>(14,902,400)</b>
<u>Period Ending Sept 30, 2014</u>	80,215,695	13,566,621	-	3,360,796		(15,227,495)
<b>Balance March 31, 2014</b>						
Net income and comprehensive loss for the period						(275,532)
Shares for debt	3,991,900	319,352				
Private placement proceeds	6,600,000	590,000			-	-
Less: share issue costs		(57,199)				
Less: warrant valuation		(144,376)		144,376	-	-
Less: value of broker options		(32,403)		32,403	-	-
<b>Balance at Sept 30, 2014</b>	<b>90,807,595</b>	<b>14,241,995</b>	<b>-</b>	<b>3,537,575</b>	<b>-</b>	<b>(15,503,027)</b>

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

	Six Months Ended Sept. 30, 2014	Six Months Ended Sept. 30, 2013	Three Months Ended Sept. 30, 2014	Three Months Ended Sept. 30, 2013
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	\$ (275,532)	\$ (468,412)	\$ (180,408)	\$ (120,657)
Items not involving cash				
Loss on disposal of exploration and evaluation properties	-	-	-	-
Unrealized loss - FVTPL	58,471	299,926	34,231	18,470
Amortization	948	1,307	473	653
	<b>(216,113)</b>	<b>(167,179)</b>	<b>(145,704)</b>	<b>(101,534)</b>
Changes in non-cash working capital balances				
HST receivable and other receivables	15,072	21,550	(7,448)	(575)
Prepaid expenses	(3,083)	(4,873)	8,977	2,478
Accounts payable and accrued liabilities	(175,916)	(378,649)	89,545	21,695
	<b>(380,040)</b>	<b>(529,151)</b>	<b>(54,630)</b>	<b>(77,936)</b>
<b>Investing activities</b>				
Investment in exploration and evaluation assets	(409,471)	(174,062)	(247,583)	(53,142)
Proceeds for sale of exploration and evaluation properties	60,000	-	-	-
Cash restricted for flow-through expenditures	6,999	120,470	202,184	(33,693)
Purchase of property, plant and equipment	-	-	-	-
	<b>(342,472)</b>	<b>(53,592)</b>	<b>(45,399)</b>	<b>(86,835)</b>
<b>Financing activities</b>				
Loan from related party	(61,930)	-	-	-
Issuance of common shares	445,624	324,023	-	74,023
Share issue costs	(57,199)	(5,001)	-	(5,001)
Issuance of warrants	144,376	26,005	-	26,005
Shares for debt	319,352	250,000	-	-
	<b>790,223</b>	<b>595,027</b>	<b>-</b>	<b>95,027</b>
<b>Increase (decrease) in cash during the period</b>	<b>67,711</b>	<b>12,284</b>	<b>(100,029)</b>	<b>(69,744)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>153,347</b>	<b>355,211</b>	<b>321,087</b>	<b>437,239</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 221,058</b>	<b>\$ 367,495</b>	<b>\$ 221,058</b>	<b>\$ 367,495</b>

**Houston Lake Mining Inc**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**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,

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 September 30, 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 reported expenses and statement of financial position classifications that would be necessary if the going concern assumption were inappropriate. These adjustments could be material. The Company will have to raise additional funds to advance its exploration and development efforts and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

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**Houston Lake Mining Inc**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**2. Critical Accounting Policies**

**Basis of presentation and statement of compliance**

These interim 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 six months ended September 30, 2014, and the comparative information for the six months ended September 30, 2013.

These financial statements comply with IFRS issued and outstanding as of November 3, 2014.

**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.

**Presentation and functional currency**

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

**Financial instruments**

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

Financial assets are initially measured at fair value and classified into one of the following 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.

**Houston Lake Mining Inc**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**2. Critical Accounting Policies (Continued)**

**Financial instruments (continued)**

All financial instruments that are measured at fair value are categorized into one of the three hierarchy levels 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.

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 are 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.



## **2. Critical Accounting Policies (Continued)**

### **Financial instruments (continued)**

#### 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 receivables 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.

#### Due to related party

Due to related party is initially recognized at fair value and classified as other financial liabilities and subsequently measured at amortized cost.

### **Property, Plant and Equipment**

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 any shares issued.

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.

**Houston Lake Mining Inc**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**2. Critical Accounting Policies (Continued)**

**Property, Plant and Equipment (Continued)**

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.

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

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

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

**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 lesser 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.

## **2. Critical Accounting Policies (Continued)**

### **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 a three day average trading price before and after the shares are issued.

Option payments paid by the Company are capitalized to 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 a resource property are capitalized until the property is brought into production, abandoned or sold. Expenditures relating to a resource property which is brought into production are amortized on a unit-of-production basis over economically recoverable reserves.

If a project is successful and production commences, the exploration expenditures and related deferred evaluation expenditures are 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.

### **General**

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

## **2. Critical Accounting Policies (continued)**

### **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.

### **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 deferred tax liability on the Statement of Financial Position, and reduces the deferred tax expense on the Statement of Operations, Comprehensive Loss and Deficit.

### **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 September 30, 2014 or March 31, 2014.

## **2. Critical Accounting Policies (Continued)**

### **Provisions (Continued)**

#### 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.

### **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.

### **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 next.

**Houston Lake Mining Inc.**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**Use of Estimates (Continued)**

*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 September 30, 2014 and 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.

*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.

## **2. Critical Accounting Policies (continued)**

### **Use of Estimates (continued)**

#### *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.

### **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.

## **2. Critical Accounting Policies (continued)**

### **Income Recognition**

Income from the sale of mineral products is recorded on a gross basis when title passes to an external party. The Company recognizes income when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product.

### **Comprehensive Income**

Comprehensive income is the change in equity 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.

### **Loss Per Share**

Basic loss per share is computed by dividing comprehensive loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss 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.

### **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.



## **2. Critical Accounting Policies (continued)**

### **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. Indicators of impairment include a significant decrease in market price, evidence of obsolescence and physical damage and significant decrease 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 to recoverable amount 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.

### **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.

**Houston Lake Mining Inc.**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**3. Investments – FVTPL**

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

	<b>Sept 30, 2014</b>		<b>March 31, 2014</b>	
	<b>Market Value</b>	<b>Cost</b>	<b>Market Value</b>	<b>Cost</b>
Long-term:				
Common shares in public Company	<b>\$ 126,932</b>	<b>\$ 716,000</b>	\$ 185,403	\$ 716,000

Market value is based on the quoted closing bid price of the securities at September 30, 2014, and March 31, 2014. 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.

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4. Exploration and Evaluation Assets

Period Ending September 30, 2014

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
<b>Acquisition Costs:</b>							
Cost at April 1, 2014	\$ -	\$ -	\$ -	\$ 33,895	\$ 305,250	\$ -	\$ 339,145
Additions during the period	-	-	-	-	-	-	-
Disposals during the period	-	-	-	-	-	-	-
Balance at September 30, 2014	-	-	-	33,895	305,250	-	339,145
<b>Deferred Exploration Costs:</b>							
Balance at April 1, 2014	\$ -	\$ -	\$ -	\$ 276,105	\$ 1,361,744	\$ -	\$ 1,637,849
Additions during the period	-	-	-	-	409,471	-	409,471
Disposals during the period	-	-	-	(60,000)	-	-	(60,000)
Balance at September 30, 2014	-	-	-	216,105	\$ 1,771,215	-	1,987,320
<b>Total acquisition and deferred exploration costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 250,000</b>	<b>\$ 2,076,465</b>	<b>\$ -</b>	<b>\$ 2,326,465</b>

Houston Lake Mining Inc.  
Notes to Financial Statements  
For Six Months Ended September 30, 2014 and 2013 (Unaudited)

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4. Exploration and Evaluation Assets (Continued)

Period Ending September 30, 2013

	Dogpaw Lake (a)	West Cedartree (b)	North Block (c)	Tib Lake (d)	Pakeagama Lake (e)	Dubenski (f)	Total
<b>Acquisition Costs:</b>							
Cost at April 1, 2013	\$ -	\$ -	\$ -	\$ 33,895	\$ 305,250	\$ -	\$ 339,145
Additions during the period	-	-	-	-	-	-	-
Disposals during the period	-	-	-	-	-	-	-
Balance at September 30, 2013	-	-	-	33,895	305,250	-	339,145
<b>Deferred Exploration Costs:</b>							
Balance at April 1, 2013	\$ -	\$ -	\$ -	\$ 276,105	\$ 717,638	\$ -	\$ 993,743
Additions during the period	-	-	-	-	174,062	-	174,062
Disposals during the period	-	-	-	-	-	-	-
Balance at September 30, 2013	-	-	-	276,105	891,700	-	1,167,805
<b>Total acquisition and deferred exploration costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 310,000</b>	<b>\$ 1,196,950</b>	<b>\$ -</b>	<b>\$ 1,506,950</b>

**4. Exploration and Evaluation Assets**

**(a) Dogpaw Lake Property – Kenora, Ontario**

The Dogpaw Lake Gold Property is located adjacent to the Company's former West Cedartree Property. In January 2013, the Company sold its interest in this property to an arm's length purchaser (see Note 4g).

**(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 4g).

*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 4g). 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 4g).

*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 4g).

**(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 4g).

**(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 Note 4g).

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**4. Exploration and Evaluation Properties (Continued)**

**(e) Pakeagama Lake – Red Lake, Ontario**

*Pakeagama Lake Property*

The Company has a 100% interest in the Pakeagama Lake Property. The 100% ownership interest is subject to a 2.5% NSR subject to a 1.0% buyout provision.

*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. 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 4g).

**(g) Optioning and Sale of Properties**

In May of 2012, the Company optioned the Tib Lake property to an arm's length party. The optionee 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:

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

**4. Exploration and Evaluation Properties (Continued)**

**(g) Optioning and Sale of Properties (continued)**

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 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.

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Notes to Financial Statements  
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5. Property, Plant and Equipment

Period Ending September 30, 2014

	Exploration Equipment	Furniture & Fixtures	Vehicles	Computer Equipment	Computer Software	Total
<b>Cost</b>						
Cost at April 1, 2014	\$ 28,301	\$ 26,091	\$ -	\$ 50,753	\$ 10,042	\$ 115,187
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Cost at Sept 30, 2014	28,301	26,091	-	50,753	10,042	115,187
<b>Accumulated depreciation</b>						
Balance at April 1, 2014	\$ 25,285	\$ 21,856	\$ -	\$ 50,404	\$ 10,042	\$ 107,587
Depreciation for period	452	423	-	73	-	948
Balance at Sept 30, 2014	25,737	22,279	-	50,477	10,042	108,535
<b>Net book value</b>	<b>\$ 2,564</b>	<b>\$ 3,812</b>	<b>\$ -</b>	<b>\$ 276</b>	<b>\$ -</b>	<b>\$ 6,652</b>



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5. Property, Plant and Equipment (Continued)

Period Ending September 30, 2013

	Exploration Equipment	Furniture & Fixtures	Vehicles	Computer Equipment	Computer Software	Total
<b>Cost</b>						
Cost at April 1, 2013	\$ 28,301	\$ 26,091	\$ -	\$ 50,753	\$ 10,042	\$ 115,187
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at Sept 30, 2013	28,301	26,091	-	50,753	10,042	115,187
<b>Accumulated depreciation</b>						
Balance at April 1, 2013	\$ 23,992	\$ 20,798	\$ -	\$ 50,141	\$ 10,042	\$ 104,973
Depreciation for period	646	529	-	132	-	1,307
Balance at Sept 30, 2013	24,638	21,327	-	50,273	10,042	106,280
<b>Net book value</b>	<b>\$ 3,663</b>	<b>\$ 4,764</b>	<b>\$ -</b>	<b>\$ 480</b>	<b>\$ -</b>	<b>\$ 8,907</b>

**Houston Lake Mining Inc.**  
**Notes to Financial Statements**  
**For Six Months Ended September 30, 2014 and 2013 (Unaudited)**

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**6. Related Party Transactions**

During the six months ended September 30, 2014 and 2013, the Company incurred the following expenditures with related parties:

	<b>Sept 30,2014</b> <b>(Unaudited)</b>	Sept 30,2013 (Unaudited)
Office and equipment rental <sup>1</sup>	\$ 4,500	\$ 4,500
Consulting <sup>2</sup>	55,000	55,000
Investment in exploration and evaluation assets <sup>3</sup>	53,500	5,400

<sup>1</sup> paid to company controlled by a corporate director

<sup>2</sup> paid to corporate officers

<sup>3</sup> paid to company controlled by corporate officer

During the period, the company issued 3,991,900 shares to settle \$319,352 of debt owing to three related parties.

Included in accounts payable is \$291,727 owing to two corporations controlled by a director of the company, \$4,810 owing to corporate officers and \$43,932 owing to a company controlled by a corporate officer for consulting fees.

A loan payable of \$52,993 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 has been accrued and remains unpaid at September 30, 2014.

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.

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**7. Share Capital**

**Authorized:**

- a) unlimited number of common voting shares without nominal or par value
- b) unlimited number of first preferred shares
- c) unlimited number of second preferred shares

The First and Second Preferred Shares may be issued in one or more series. The Directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

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

**Warrant Issues:**

Balance at March 31, 2014	17,132,139
Warrants issued during the period ending Sept 30, 2014	3,300,000
Warrants expiring during the period ending Sept 30, 2014	(4,000,000)
Balance at Sept 30, 2014	<u>16,432,139</u>

As at September 30, 2014, the following warrants were outstanding:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Shares</u>
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	450,000
May 22, 2016	0.13	300,000
May 30, 2016	0.13	<u>3,000,000</u>
		<u>16,432,139</u>

**Stock Option Plan:**

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

**Houston Lake Mining Inc.**  
**Notes to Financial Statements**  
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The following table reconciles the number of options outstanding since April 1, 2012:

	<b>Options</b>	<b>Weighted Average Exercise Price</b>
Balance at March 31, 2014	5,811,450	\$ 0.15
Issued during the period ending Sept 30, 2014	528,000	0.09
Options expiring during the period ending Sept 30, 2014	(200,000)	0.12
Balance at Sept. 30, 2014	6,139,450	0.13

The following is a summary of the options outstanding at September 30, 2014, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Shares</u>
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
May 22, 2016	0.08	48,000
May 30, 2016	0.09	480,000
June 7, 2016	0.14	1,400,000
February 1, 2018	0.10	2,050,000
September 26, 2018	0.10	400,000
		<b>6,139,450</b>

**Debt Settlement**

During the period, the company issued 3,991,900 shares to settle \$319,352 of debts owing to three related parties.

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**7. Share Capital (Continued)**

**Contributed Surplus**

Contributed surplus represents the amount reported as the fair value of stock options issued.

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