

Mountain Lake Resources Inc.
Form 51-102F1
Management's Discussion & Analysis

**For the year ended
November 30, 2010**

The following discussion and analysis, prepared as of March 30, 2011, should be read in conjunction with the audited financial statements for the year ended November 30, 2010 and the related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise noted.

This Management's Discussion and Analysis is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of the date of this report. Except for historical information or statements of fact relating to the Company, certain information contained herein constitutes forward looking statements. Forward looking statements are based on the opinions, plans and estimates of management at the date the statements are made and are subject to a variety of risks, uncertainties and other factors that could cause the actual results to differ materially from those described in such statements. The primary risk factors affecting the Company are discussed further under the heading *Risk Factors*. The Company's projections are estimates only based on management's assessment of facts at the time of the projections. Management believes these projections to be reasonable but actual results may differ. The reader is cautioned not to place undue reliance on forwarding looking statements.

OVERVIEW

Mountain Lake Resources Inc. (TSX-V: MOA) is a junior mining and exploration company whose corporate strategy is to build shareholder value through the exploration and development of economically viable mineral properties. Current projects in Newfoundland and Labrador include: a 50% interest in the Valentine Lake gold project, a 100% interest in the Glover Island gold property, an option to acquire a 100% interest in the Little River gold exploration property, and a 100% interest in the Bobby's Pond base metals project. The Company also holds a 6.4% stake in Etruscan Diamonds Limited, a diamond mining operation in South Africa.

RESOURCE PROPERTY INTERESTS

Valentine Lake Property

The Company earned a 100% interest in 2008 from Xstrata Canada Corporation in 2 claim blocks totalling approximately 12,550 hectares (now expanded to 19,925 hectares) and located approximately 55 kilometres south of the town of Buchans in Central Newfoundland by making a cash payment of \$1.0 million of which a 70% interest was earned by Richmond Mines Inc. (Richmont) by incurring \$2,500,000 in expenditures under a sub-option agreement with the Company.

On February 5, 2009, the Company entered into an agreement with Richmont to purchase Richmont's 70% interest in the Valentine Lake Gold property. The Company agreed to pay an option fee of 2,500,000 common shares (issued April 3, 2009) and had the right to exercise the option over a five-year period by making option payments of an additional \$3.0 million (in cash, or in 50% cash and 50% common shares, at the sole discretion of the Company) and by incurring \$1.0 million in exploration and development expenditures on the property.

On December 21, 2009, the Company entered into an option and joint venture agreement with Marathon PGM Corporation ("Marathon"), granting Marathon a sub-option to earn a 50% interest in the Valentine Lake Gold Property by assisting the Company in exercising the Richmont Option. Pursuant to the agreement, Marathon was required to make total option payments of \$3.0 million (completed January 24, 2011 upon payment of the \$3.0 million to Richmont) and incur \$3.0 million in exploration and development expenditures (completed in August 2010). Marathon completed their obligation to spend \$3.0 million in August 2010. In October 2010, the Company and Marathon amended the terms of the option and joint venture agreement such that the Company agreed to fund 50% of the exploration expenditures at Valentine Lake until the earlier of January 31, 2011 and the completion of the option period and the formation of the joint venture. The Company paid an operator fee to Marathon on its share of the joint venture expenditures.

On January 24, 2011, subsequent to the year end, Marathon advanced Richmont \$3.0 million, fulfilling the Company's option payment to purchase the additional 70% interest pursuant to the February 5, 2009 agreement and giving the Company a 100% interest in the property. This also fulfilled Marathon's obligation

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to the Company pursuant to the December 21, 2009 agreement, thereby reducing the Company's interest to 50%. Also on this date a joint venture agreement with Marathon was signed.

Xstrata Canada Corporation retains a 2% net smelter return royalty on base metals and a 1.5% net smelter return royalty on the first 250,000 oz. of gold, increasing at that point to 3% on the property as it existed at the time of the agreement. Also, Reid Newfoundland Company Ltd. retains a 7.5% net profits interest that accelerates the increase in Xstrata's net smelter return royalty on gold to 3% should a net profits interest royalty become payable prior to the first 250,000 oz. produced. Any amount payable to Reid Newfoundland Company Ltd. for the net profits interest royalty reduces the net smelter royalty on gold payable to Xstrata.

Marathon began work at the Valentine Lake property in January 2010, focused initially on the Leprechaun Gold Deposit, a small part of the property that hosted a NI 43-101 compliant 443,000 ounce inferred gold resource. The winter drilling program concentrated on drilling at the edges of Leprechaun Pond, as abnormally warm winter conditions made it impossible to drill through ice on the pond. In this initial campaign, Marathon completed a total of 33 holes covering 3,998 meters with the majority of the holes intersecting gold mineralization either on the margins or outside of the existing resource envelope. In addition, Marathon encountered many intersections where no gold had been indicated before and several significant intersections of high-grade gold, including 38.3 g/t gold over 9 meters, with very high grades encountered over much shorter intercepts. In June 2010, Marathon resumed work with an extensive summer program, including the drill work required to support the updating of the Leprechaun Gold Deposit mineral resource estimate as well as barge-supported drilling in Leprechaun Pond itself to complete the holes originally planned to be completed in the winter, and a detailed IP survey. This was followed by trenching and drilling along the 2 km long structure hosting the Leprechaun Gold Deposit and the Sprite prospect, as well as the Valentine East prospect located 13 km along strike to the northeast. Fieldwork for this program was completed in September 2010, with a total of 6,910 meters drilled over 62 holes. Drilling encountered multiple intercepts of near-surface gold mineralization with visible gold noted in several holes, and extended the boundaries of mineralization from depth to surface. These results increase the potential of the deposit to host an economic open-pit ore body.

In the fall of 2010, Micon International was engaged to complete an updated mineral resource estimate on the property. As outlined in the National Instrument 43-101 compliant technical report (dated December 16, 2010), the Valentine Lake property has a mineral resource comprising:

Total Resource above 0.5 g/t Cut-Off

Classification	Tonnes	Cut Au (g/t)	Contained Au Ozs
Measured	2,104,000	2.768	187,000
Indicated	1,180,000	2.363	90,000
Measured and Indicated	3,284,000	2.622	277,000
Inferred	4,409,000	2.007	285,000

74% of the measured and indicated ounces and 73% of tonnes are within 150 m of surface where the 2010 drill holes were concentrated.

In addition to the drilling program, preliminary metallurgical studies were conducted in 2010. The results of this preliminary work suggested that recoveries over 93% could be achieved using a combination of gravity separation and cyanide leaching, with gravity recoveries ranging from 45% to 58% depending on grind size.

The joint venture partners have approved a \$7.1 million exploration program for 2011 to be equally funded by the Company and Marathon, with Marathon as the Operator. The program will focus on diamond drilling in the upper sections of the Leprechaun Deposit to determine the potential for open pit mining, drilling at Valentine East, and drilling in the vicinity of the Sprite Zone which is situated 800m along strike from the

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Leprechaun deposit to the northeast. To date, a total of 6,747 meters have been completed. The results of the drilling campaigns are very encouraging with numerous wide intervals of gold mineralization ranging up to 25 metres (true thickness) of 6.7 gpt Au per tonne and high grades of gold containing up to 38.3 gpt Au over 9 m true thickness. Gold mineralization has also been identified in multiple zones parallel to the main mineralized lens in both hangingwall (above) and footwall (below) settings.

Gary Woods, President and CEO of the Company, is the Qualified Person, as defined under NI43-101, who reviewed and verified the technical information presented above.

During the year ended November 30, 2010, the Company incurred \$371,895 (2009 - \$256,141) in exploration expenditures on the Valentine Lake property.

Bobby's Pond Project

In 2005, the Company purchased the Bobby's Pond base metal massive sulphide property from Vale Inco for \$100,000 cash and the issuance of 250,000 shares. The property is subject to a 2% net smelter return royalty payable to the original prospector.

The Bobby's Pond project (Mining Lease 187/4881M) is located in the Buchans area of central Newfoundland, renowned for the historic Buchans Mines (production 1928-1984), and host to several other active volcanogenic massive sulphide (VMS) projects. The most advanced of the current projects is the Duck Pond deposit which was put into production in January 2007 by Aur Resources Inc. (now Teck Cominco Limited). The Bobby's Pond deposit is located approximately 45 kilometres west by road of the Duck Pond mine/mill development. To date, the Company has incurred exploration expenditures of \$1,864,593 on the Bobby's Pond project. Prior to the Company acquiring the property, Vale Inco had incurred over US\$3.0 million in exploration expenditures.

In addition to reconnaissance and detailed geochemical sampling, geological mapping and prospecting, line cutting and geophysical surveys, a total of 78 holes (23,088 meters) have been drilled on the Mining Lease, including 39 holes (12,365 meters) by the Company to the end of the 2008 drill program. The latest undercut drilling confirmed the extension of the mineralized zone from near surface down to 460 metres, which is open at depth.

Based on exploration work completed up to 2008, an independent resource update was prepared by Hrayr Agnerian of Scott Wilson Roscoe Postle Associates Inc. (see news release dated September 22, 2008). This study incorporated an additional 16 holes drilled since the previous resource calculation and estimated that the Bobby's Pond Deposit contains an indicated resource of 1,095,000 tonnes of 0.86% Cu, 4.61% Zn, 0.44% Pb, 16.6 gpt Ag, and 0.2 gpt Au in addition to an inferred resource of 1,177,000 tonnes of 0.95% Cu, 3.75% Zn, 0.27% Pb, 10.95 gpt Ag and 0.06 gpt Au. Contained Cu increased to 45.4 million lbs from 28.9 million lbs in the 2007 report; and contained Zn increased to 208.6 million lbs in the latest report from 186.8 million lbs in the 2007 report. Along with the inclusion of the results from the additional 16 holes, the change in tonnage and grade is also due in part to different parameters used for the new resource calculation. The price of copper used in the latest NI 43-101 report was \$2.50 compared to \$2.00 in the former report, which resulted in the use of a lower cut off of 1.1% copper equivalent instead of the previous 2% copper equivalent.

A preliminary metallurgical study was also commissioned in 2008 and the study was conducted by ALS Lakefield of Lakefield, Ont. The results of the study indicated that only relatively coarse grinding would be required (80% passing 90 microns) to achieve Cu and Zn recoveries for average grade ore of 80% for both, and produce concentrate grades of 23% for Cu and 58% for Zn. These results are preliminary in nature and it is expected that these recoveries can be improved with further testing.

Gary Woods, P. Geo., President and CEO of the Company, is the Qualified Person, as defined under NI43-101, who supervised this program and reviewed and verified the technical information presented above.

During the year ended November 30, 2010, the Company incurred \$24,993 (2009: \$12,899 offset by a government grant of \$18,768) in exploration expenditures on the Bobby's Pond property and \$19,169 on the mining lease payment (2009: \$19,169). The Company will evaluate various scenarios for the project in 2011 to determine how the project can best bring value to the company.

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Little River Property

Effective August 14, 2008, the Company entered into an option agreement to acquire a 100% interest in the Little River Gold Property which consists of 448 mining claims comprising 11,200 hectares over a strike length of approximately 33 kilometers (kms) in the Baie D'Espoir area of southern Newfoundland.

To maintain the Option in good standing and earn its 100% interest in the Property, the Company must make scheduled payments to the Optionors as follows:

Due Date	Cash Payments	Share Issuances
On execution	\$50,000 (paid)	50,000 (issued September 5, 2008)
By August 14, 2009	\$40,000 (paid)	50,000 (issued August 5, 2009)
By August 14, 2010	\$50,000 (paid)	50,000 (issued August 5, 2010)
By August 14, 2011	\$40,000	50,000
By August 14, 2012	\$60,000	50,000
Total	\$240,000	250,000

The Optionors will retain a 2.0% net smelter return royalty and have granted the Company the exclusive right and option to acquire 1.0% of the net smelter return royalty for \$1.5 million.

The exploration program in 2009 focused on evaluating the potential for gold deposits in the vicinity of newly discovered mineralization as well as in areas of historic geochemical anomalies from the 1980's. Soil sampling was conducted and this was followed up by a trenching program which revealed strong gold values up to 32.7 gpt plus a new discovery of antimony (Sb) mineralization assaying up to 5.5 % Sb.

In November and December 2009, the Company completed the initial phase of drilling on the property in an area with no historic drilling. The purpose of the program was to drill a series of shallow holes to test several areas identified in the 2009 trenching program with significant bedrock mineralization. A total of 710 metres were drilled in fourteen drill holes spaced over an 8 kilometre strike length.

Anomalous gold and weak antimony mineralization was encountered in several areas. The best mineralized zone was encountered in hole LR-09-02, which was drilled in the most southerly area of the trenching and returned a 3 metre interval (between 3.5 and 6.5 metres) grading 4.8 grams per tonne (gpt) Au.

Additional soil sampling was conducted in 2010 in areas where widely spaced sampling from the previous year had indicated anomalous gold values. This resulted in much better anomaly definition and provided improved continuity in preparation for a trenching program which began in September 2010. Prospecting was also undertaken and the focus was on areas outside of the area that was gridded for soil sampling. Although numerous samples were found with high concentrations of arsenopyrite (usually present with gold), only low levels of gold were associated with them. One positive result from the regionally focused prospecting, however, was the rediscovery of a vein of stibnite (antimony - Sb) with samples running up to 50% Sb and 24 gpt gold. The vein was first discovered in the 1970's but was never drilled. The only primary antimony mine (Beaver Brook Mine) in North America is located 80 km to the north.

A drilling program was completed in December, 2010 (see news release dated December 21, 2010). The best intercept occurred in drill hole LR-10-16, which contained a 0.92 m interval (true width) of 30.6% Sb at a vertical depth of 18 m. 21 kilometres to the south, hole LR-10-13 encountered a 3.6 m zone (from 42.9 to 46.5 m downhole) containing 1.13% Sb and 0.4 g/t Au including a 0.5 m interval of 6.3% Sb; a separate interval (from 48.5 to 49 m) contained 2.58 g/t Au and 1.81% Sb; and 200 m south of LR-10-13, LR-10-11 encountered a 0.5 m interval of 4.01% Sb and 0.98 g/t Au.

The price of antimony has risen considerably this past year and recently has been trading over \$15,000 per tonne from less than \$6,000 per tonne in 2009 due to the inability of China (which produces 91% of the world's antimony) to maintain historic production rates in its mature operations.

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During the year ended November 30, 2010, the Company incurred \$274,037 (2009: \$189,272) in exploration expenditures on the Little River property. The Company expects to incur exploration expenditures of approximately \$400,000 on the property in 2011.

Glover Island Property

On October 8, 2010, the Company acquired an undivided 100% interest in the Glover Island Property from New Island Resources ("New Island"). The Glover Island Property is a gold exploration property situated approximately 70 kilometres from the Company's Valentine Lake gold project and consists of two mineral licenses and one mining lease covering a total of 5,100 hectares. The purchase price of \$1,819,806 was comprised of \$500,000 cash, the issuance of one million common shares with at a fair value of \$900,000, the issuance of share purchase warrants to acquire 500,000 common shares of the Company at an exercise price of \$1.20 per share on or before October 8, 2012 with a fair value of \$249,000, forfeiture of repayment of a loan and interest receivable from New Island of \$164,331, and purchase costs of \$6,475.

New Island retains a net smelter returns royalty of 1% of commercial production, which reduces to 0.5% after the payment of the first \$1.0 million.

During the year ended November 30, 2010, the Company incurred \$62,735 in exploration expenditures on the Glover Island property. 2011 plans for Glover Island are to upgrade the historic drill resources to NI 43-101 compliance, with the program scheduled to begin in May, 2011. The grade of the historic resource was 2 g/t Au which is very interesting economically at the current price of gold.

Cornerstone License

On February 20, 2007 the Company entered into an option agreement to earn a 51% interest in a ground staked license comprising 62 claims contiguous to the Company's Bobby's Pond Mining Lease.

In February 2010, the Company terminated its option on the Cornerstone property and acquisition and exploration costs of \$341,037 were written off as at November 30, 2009. During the second quarter of 2010 the Company received \$52,813 in government grants on the Cornerstone property which were recorded as income.

Goodwin Claims

The Company holds a 100% interest in 36 mineral claims in New Brunswick, subject to a 2% net smelter return royalty. Management has no current plans to further explore the property and accordingly, any claim costs and exploration expenses incurred on the property are charged to operations in the period incurred.

Hong Kong Property

On January 6, 2005, the Company entered into an exploration agreement with Wallbridge Mining Company Limited ("Wallbridge") whereby the Company was granted an option to earn a 50% interest in a mineral property known as the Hong Kong Claims in Ontario by funding 100% of the initial \$500,000 in cumulative exploration expenditures by December 31, 2006. By November 30, 2005, a total of \$515,889 in exploration expenditures were incurred on the property, thereby completing the Company's expenditure requirements to earn a 50% interest in the project. A joint venture was formed between Wallbridge and the Company, subject to dilution of the respective initial ownership interests based upon non-participation in future programs, provided that if any party is diluted to less than a 10% interest, its interest will be automatically converted to a 1.5% net smelter returns royalty. Based on management's assessment of the property at November 30, 2005, both the Company and Wallbridge decided not to carry out further exploration work on the property at that time and the related property costs were written off. The property has been maintained since that time and in 2008, Wallbridge staked additional claims within the joint venture area and applied excess assessment credits from outside the joint venture area. The Company participated in its share of the staking costs for the newly acquired claims but declined to participate in an exploration program proposed by Wallbridge. As a result, the Company now holds a 41.9% interest in the joint venture. The Company will continue to evaluate its participation in any future exploration programs proposed by Wallbridge.

Etruscan Diamonds Limited, South Africa

The Company holds an interest in Etruscan Diamonds (Pty) Ltd. (Etruscan Diamonds), a South African company in the business of alluvial diamond exploration and mining which operated the Blue Gum Project in

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the Ventersdoorp area of South Africa, through its 6.4% interest (2,350,000 shares) in Etruscan Diamonds Limited (EDL). In December 2008, due to the low price of diamonds, the project was placed under care and maintenance until economic conditions improve. The Blue Gum Diamond Project is operated through Blue Gum Diamonds (Pty) Limited, which is owned 74% by Etruscan Diamonds and 26% by Mogopa Blue Gum (Pty) Limited (Mogopa). Mogopa is Etruscan Diamond's Black Economic Empowerment (BEE) partner for the project as required by South African mineral legislation.

A substantial diamond resource remains on the property for future production. On September 11, 2008, Etruscan Diamonds released the results of a new National Instrument 43-101 compliant independent resource update on the Blue Gum Diamond Project. The new resource update demonstrated a substantial increase in both the indicated resource and the in situ value of the resource. The independent resource update (prepared by Dr. Tania Marshall of Explorations Unlimited) as of June 30, 2008 estimates that the Blue Gum Diamond Project contains 25.5 million cubic meters of indicated diamond resource which represents a 24% increase in the indicated resource from the previous resource calculation in February 2008. Details of the updated resource are set out below:

	Indicated Resources (Million m ³)	Inferred Resources (Million m ³)	Grade (ct/100m ³)	Value (USD/ct)
Upper Gravel Package	16.109	8.613	1.77	\$606
Lower Gravel Package	11.801	6.744	2.85	\$606
Depleted by mining	(2.365)	(0.023)		
TOTAL	25.545	15.334		\$606

EDL has signed a term sheet with Rockwell Diamonds Inc. (TSX:RDI) whereby Rockwell proposes to purchase EDL's diamond interests. The price to be paid to EDL is an amount not exceeding ZAR 33.5 million (approximately \$4.4 million) payable in Rockwell shares valued at C\$0.068 each. Completion of the disposition is subject to a number of conditions including South African mining ministry consent and securities regulatory approvals including TSX approval.

RISK FACTORS

The reader is cautioned that the following description of risks and uncertainties is not all-inclusive as it pertains only to conditions currently known to management. There can be no guarantee or assurance that other factors will or will not adversely affect the Company.

Risks Inherent in the Exploration and Development Business

Exploration and development involve a high degree of risk and few properties are ultimately developed into producing mines. There is no assurance that the Company's future exploration and development activities will result in any discoveries of commercial bodies of ore. Whether an ore body will be commercially viable depends on a number of factors including the particular attributes of the deposit such as size, grade and proximity to infrastructure, as well as mineral prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in a mineral deposit being unprofitable. Availability of skilled people, equipment and infrastructure (including road, posts, power supply) can constrain the timely development of a mineral deposit. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground controls problems and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse governmental action. Insurance coverage against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry. In

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addition, insurance coverage may not continue to be available at economically feasible premiums, or at all. Any such event could have a material adverse effect on the Company.

Competition for Mining Properties

The mining industry in which the Company is engaged is in general, highly competitive. Competitors include well-capitalized mining companies, independent mining companies and other companies having financial and other resources far greater than those of the Company. The Company competes with other mining companies in connection with the acquisition of mineral properties. In general, properties with a higher grade of recoverable mineral that is more readily minable, afford the owners a competitive advantage in that the cost of production of the final mineral product is lower. Thus, a degree of competition exists between those engaged in the mining industry to acquire the most valuable properties. As a result, the Company may eventually be unable to acquire attractive mining properties.

Financing

Historically, the Company has raised funds through equity financing and the exercise of options and warrants to fund its operations. Financing through the issuance of common shares is sometimes affected by market certain conditions including the price of metals and as such the Company could experience difficulty raising sufficient capital to fund operations included exploration.

SELECTED FINANCIAL DATA

The following table sets out selected financial information for the periods indicated. The Company's financial statements have been prepared in accordance with generally accepted accounting principles in Canada and all amounts are in Canadian dollars.

	Years Ended November 30		
	2010	2009	2008
	\$	\$	\$
OPERATIONS			
Revenue	Nil	Nil	Nil
Net income (loss) and comprehensive income (loss)	(832,492)	(625,838)	1,043,707
Basic and diluted income (loss) per share	(0.02)	(0.02)	0.04
BALANCE SHEET			
Working capital	6,644,003	1,214,197	1,348,743
Total assets	15,195,818	6,529,233	6,099,800
Total deferred exploration expenses	7,740,611	5,096,376	4,215,647

The Company's total assets have increased over the three-year period primarily due to the acquisition and exploration of mineral properties. The Company's net loss in 2010 was higher than the net loss in 2009 primarily due to higher stock-based compensation, professional fees, and shareholder communications costs, offset by tax recoveries associated with the renunciation of flow-through expenses and the expiration of warrants. The Company's net income in 2008 was the result of a gain of \$1,666,723 on the extinguishment of debt with EDL shares and a tax recovery of \$155,000 associated with the renunciation of flow-through expenses.

RESULTS OF OPERATIONS

The review of results of operations should be read in conjunction with the audited financial statements of the Company for the year ended November 30, 2010.

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Overview

The Company reported a net loss for the year ended November 30, 2010 of \$832,492 compared to a net loss of \$625,838 for the year ended November 30, 2009. During the year, the Company entered into a definitive agreement to acquire New Island Resources ("New Island") by way of a corporate arrangement, which was terminated after New Island accepted an alternative arrangement offer. The transaction increased certain of the Company's expenses, as described below.

Cash used in investing activities increased to \$6,778,340 in the year ended November 30, 2010 compared to \$5,728 in the year ended November 30, 2009, primarily due to the purchase of short-term investments and the acquisition of the Glover Island property. In addition, the prior year spending was net of \$497,914 in proceeds on the sale of EDL shares.

Cash provided by financing activities was \$7,542,606 in the year ended November 30, 2010 from share issuances (net of issuance costs) compared with \$421,650 for the previous year.

Administration Expenditures

Administrative expenditures for the year ended November 30, 2010 were \$1,138,790 compared to \$732,199 for the same period in 2009. Specific changes are as follows:

General and administrative costs increased to \$61,638 for the year ended November 30, 2010 compared to \$46,526 for the previous year due to higher travel costs.

Consulting fees increased to \$22,550 for the year ended November 30, 2010 compared to \$2,000 for the previous year due to additional consulting fees incurred in connection with the New Island arrangement.

Professional fees increased to \$198,605 for the year ended November 30, 2010 compared to \$105,969 for the previous year due to legal fees associated with the New Island arrangement.

Shareholder information and communications costs increased to \$159,590 for the year ended November 30, 2010 compared to \$100,268 for 2009 due to the payment of a performance bonus to a consultant.

Operator fees increased to \$14,815 in the current year compared to \$Nil for the prior year due to payment of an operator fee to Marathon as operator of the Valentine Lake property.

Stock based compensation increased to \$392,643 for the year ended November 30, 2010 compared to \$194,234 for 2009, primarily due to a higher average value per option vested and a higher revaluation of non-employee options during and at the end of the period due to the increase in the Company's share price.

Other Recoveries (Expenses)

Gain on sale of shares was \$Nil for the year ended November 30, 2010 compared to \$423,147 for 2009 due to the sale of 2,000,000 EDL shares in 2009.

Write-down of resource property expenditures decreased to \$7,450 for the year ended November 30, 2010 compared to \$322,267 in the prior year, due to the Company's decision to terminate the Cornerstone option the prior year.

Recovery of resource expenditures increased to \$52,813 for the year ended November 30, 2010 compared to \$Nil in the previous year, due to the receipt of a government grant (relating to 2009 expenditures) on the Cornerstone property, which had previously been written down.

Provincial capital taxes increased to \$9,621 for the year ended November 30, 2010 compared to \$5,376 in the previous year due to the increase in the Company's taxable capital.

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SUMMARY OF QUARTERLY RESULTS

Quarter ended:	Nov. 30 2010 \$	Aug. 31 2010 \$	May 31 2010 \$	Feb. 28 2010 \$	Nov. 30 2009 \$	Aug. 31 2009 \$	May 31 2009 \$	Feb. 28 2009 \$
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Administration expenditures	(388,722)	(337,642)	(225,844)	(186,582)	(178,115)	(170,960)	(211,507)	(171,617)
Net loss	(288,417)	(341,606)	(172,505)	(29,964)	(99,024)	(169,897)	(191,423)	(165,494)
Basic and diluted income (loss) per share	(0.01)	(0.01)	(0.00)	(0.00)	(0.003)	(0.006)	(0.008)	(0.006)

Administration expenditures are generally consistent from quarter to quarter but were higher in the second and third quarters of 2010 due to expenses associated with the New Island arrangement, and in the fourth quarter of 2010 due primarily to stock based compensation expense associated with the revaluation of non-employee options at year end. Net loss is generally consistent with the trend in administrative expenditures, with the exception of the quarter ended February 28, 2010 in which the Company recorded a tax recovery of \$157,500 associated with the renunciation of flow-through expenditures and the quarter ended November 30, 2010 in which the Company recorded a tax recovery of \$102,300 associated with the expiry of warrants.

FOURTH QUARTER

In the fourth quarter of 2010, administrative expenditures returned to the levels of early 2010, with the exception of stock-based compensation which was significantly higher due to the revaluation of non-employee options at the reporting date, which increased as a result of the increase in the Company's stock price. The Company acquired the Glover Island property and contributed its 50% share of spending on the Valentine Lake property in the fourth quarter, resulting in significantly increased exploration spending relative to previous quarters. Also during the fourth quarter, the Company completed a flow-through private placement financing for gross proceeds of \$5,163,123.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its acquisition and exploration of mineral properties and its ongoing operating costs with proceeds from equity subscriptions and the exercise of stock options and warrants. While there can be no assurance that the Company can continue to raise proceeds from equity subscriptions in the short-term, the Company was successful in raising \$7.8 million in equity financing in fiscal 2010. The Company expects to require approximately \$800,000 for administration costs and to maintain its properties and option agreements in good standing in fiscal 2011, and will be required to fund its 50% share of the approved \$7.1 million Valentine Lake exploration program for 2011. The Company had cash and short-term investments of \$7,271,802 at November 30, 2010.

On October 15, 2010 the Company issued 4,917,260 flow-through common shares at \$1.05 per share for gross proceeds of \$5,163,123. The Company paid commissions of \$383,583 and incurred additional share issuance costs of \$59,652 for filing fees and legal fees in connection with the financing. The flow-through funds must be used for expenditures qualifying as CEE by December 31, 2011, under the look-back rule. The Company has indemnified flow-through share subscribers for any tax payable by the subscribers under the Income Tax Act (Canada) if the Company fails to incur the CEE by December 31, 2011. As at November 30, 2010, the Company had incurred \$380,544 in qualified CEE expenditures.

On August 5, 2010 the Company completed a non-brokered private placement for 1,000,000 Units at \$0.50 per Unit for gross proceeds of \$500,000. Each Unit consists of one common share and one-half of a share purchase warrant with each full warrant exercisable at a price of \$0.75 on or before August 5, 2012. The warrants are subject to accelerated expiry terms. Using the Black-Scholes model, a fair value of \$149,300 was assigned to the warrants and charged to share issue costs. The assumptions used to fair value the warrants and options were a risk free rate of 2.25%, expected volatility of 121%, expected life of 2 years and a dividend yield of 0%.

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On July 12, 2010 the company completed a non-brokered private placement for 4,309,500 common share units (the "Units") at \$0.50 per Unit for gross proceeds of \$2,154,750. The Units consist of one common share and one-half of a non-transferable share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.75 per share to July 12, 2012, subject to accelerated expiry terms. Finders' fees of \$128,783 were paid in connection with the private placement, of which \$35,000 was paid in common shares of the Company. Using the Black-Scholes model, a fair value of \$627,000 was assigned to the warrants and charged to share issue costs. The assumptions used to fair value the warrants and options were a risk free rate of 2.25%, expected volatility of 121%, expected life of 2 years and a dividend yield of 0%. Also charged to share issue costs was \$27,449 for filing fees and legal fees incurred by the Company in connection with the financing.

Working capital

At November 30, 2010, the Company has working capital of \$6,644,003 as compared to working capital of \$1,214,197 at November 30, 2009 and working capital of \$1,348,743 at November 30, 2008 as follows:

	November 30, 2010 \$	November 30, 2009 \$	November 30, 2008 \$
Cash	166,633	49,958	169,409
Short-term investments	7,105,169	1,228,016	1,405,151
Taxes receivable	38,433	18,429	63,829
Prepaid expenses	30,939	16,260	35,433
Accounts payable and accruals	(697,171)	(98,466)	(325,079)
WORKING CAPITAL	6,644,003	1,214,197	1,348,743

Short-term investments are guaranteed investment certificates invested with a major financial institution with remaining maturities of twelve months or less which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Cash flow

Cash used in operating activities for the year ended November 30, 2010 was \$647,591 compared to cash used in operating activities of \$546,829 in the previous year, primarily due to an increase in administration costs offset by a reduction in non-cash working capital.

Cash provided by financing activities for the year ended November 30, 2010 was \$7,542,606 from equity private placements (net of share issuance costs) and at November 30, 2009 was \$421,650.

Cash used in investing activities for the year ended November 30, 2010 was \$6,778,340 compared to \$5,728 in 2009. The increase is primarily due to the purchase of short-term investments of \$5,877,153. In addition, the Company contributed its 50% share of certain Valentine Lake exploration expenditures and purchased the Glover Island resource property. In the prior year, cash used in investing activities was partially offset by proceeds from the sale of shares of EDL.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Legal firms of which Directors are partners may from time to time provide legal services and charge for such services. A corporation owned by an Officer has a consulting agreement with the Company under which

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Management's Discussion & Analysis

**For the year ended
November 30, 2010**

professional services fees are billed. A director has a consulting agreement with the Company under which consulting fees are billed.

The Company has five-year employment agreements with three directors of the Company, expiring in 2016. These individuals provide strategic planning advice; identification, negotiations, and acquisitions of mineral properties; and liaise with staff and auditors for the preparation and delivery of continuous disclosure documents.

During the twelve months ended November 30, 2010, the Company paid or accrued the following amounts to related parties:

- For management fees \$228,000 (2009: \$228,000) to directors and officers of the Company, all of which was charged to loss for the period;
- For consulting fees \$22,550 (2009: \$Nil) to a director and to a corporation of which a director is a shareholder, all of which was charged to loss for the period; and
- For professional services \$160,628 (2009: \$78,076) to a law firm in which a partner is a director of the Company and to a corporation of which an officers is a shareholder, of which \$119,898 (2009: \$71,226) was charged to loss for the period and \$40,730 (2009: \$6,850) was charged to share issue costs.

Included in accounts payable and accrued liabilities are amounts owing to related parties totalling \$64,755 (2009: \$27,893). Included in prepaid expenses is an amount of \$3,000 (2009: \$3,000) representing a retainer on a services contract with an officer of the Company.

Transactions with related parties are measured at the exchange amount of consideration established by the related parties.

SHARE CAPITAL

As of the date of this report, the Company had authorized an unlimited number of common shares without par value and issued capital of 42,808,698 common shares.

Warrants outstanding:

<u>Expiry date</u>	<u>Exercise price per share</u>	<u>Number of Shares</u>
November 13, 2011	\$0.45	750,000
November 13, 2011	\$0.30	120,000
July 12, 2012	\$0.75	2,154,750
August 5, 2012	\$0.75	500,000
October 8, 2012	\$1.20	500,000
		<u>4,024,750</u>

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November 30, 2010**

Stock options outstanding:

Expiry date	Exercise price Per share	Number of Shares
January 11, 2013	\$0.40	650,000
September 5, 2013	\$0.40	1,200,000
June 22, 2014	\$0.25	200,000
February 5, 2015	\$0.26	75,000
February 17, 2015	\$0.28	50,000
February 23, 2015	\$0.31	720,000
August 4, 2015	\$0.53	100,000
October 22, 2015	\$0.90	275,000
February 27, 2014	\$0.63	100,000
		<u>3,370,000</u>

FINANCIAL INSTRUMENTS

The Company's financial instruments consist principally of cash, short-term investments, investment in Etruscan Diamonds Limited ("EDL") and accounts payable and accrued liabilities. The recorded values of all financial instruments, except the investment in EDL which is carried at cost, approximate their current fair values because of their nature and respective maturity dates or durations. The Company's investment in Etruscan Diamonds Limited, a private company, is carried at cost as there is no quoted market price in an active market for the investment.

The Company's credit risk is primarily attributable to cash and short-term investments. The Company holds its cash with Canadian chartered banks and the risk of default is considered to be remote. Short-term investments consist of cashable guaranteed investment certificates invested with a major financial institution, from which management believes the risk of loss to be remote.

Liquidity risk is the risk that the Company will be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. The Company has accounts payable and accrued liabilities due within one year.

CHANGES IN ACCOUNTING POLICY and RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

There were no new accounting pronouncements adopted in the year.

Recently issued accounting pronouncements

Business combinations:

In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations" effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

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**For the year ended
November 30, 2010**

Convergence with International Financial Reporting Standards ("IFRS"):

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will occur for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 for public entities. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure which the Company is beginning to assess. The Company will commence reporting under the new standards for the fiscal year ending November 30, 2012 and the first interim period will be the quarter ending February 28, 2012. The Company's date of transition to IFRS is December 1, 2010, which is the beginning of the comparative year in the first set of IFRS financial statements. The conversion project will include four phases: scoping, detailed assessment, implementation and post-implementation.

The scoping phase, completed in early 2011, included an initial diagnostic of the key areas in which adjustments may be required, recent developments, the transition exceptions and exemptions available under IFRS 1 "First Time Adoption of International Financial Reporting Standards", and the accounting policy choices available to the Company upon adoption. While a number of differences were identified, the areas of highest potential impact to the Company are share-based payment, mineral properties and related deferred costs, and presentation and disclosure, as well as the initial selection of applicable transitional exemptions and exemptions under the provisions of IFRS 1 *First Time Adoption of IFRS*.

The detailed assessment phase, to be completed in Q2 2011, will involve technical analysis that will result in understanding potential impacts, quantification of alternatives where there are accounting policy choices, detailed analysis and decisions taken regarding IFRS 1 exceptions and exemptions available to the Company and drafting of accounting policies in accordance with IFRS. This phase will also result in identifying resource and training requirements and any required changes in processes for preparing financial statements.

The implementation phase will involve identifying and carrying out the implementation requirements to effect management's accounting choices, develop sample financial statements, implement business and internal control requirements, calculate the opening balance sheet as at December 1, 2010 and other transitional reconciliations and disclosure requirements.

Post-implementation will involve continuous monitoring of changes in IFRS and continuing to develop and maintain IFRS competencies through ongoing training.

OTHER INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Financial Statements
(Expressed in Canadian Dollars)

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)

for the twelve months ended November 30, 2010 and 2009



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Canada

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Mountain Lake Resources Inc. as at November 30, 2010 and 2009 and the statements of operations and comprehensive loss, shareholders' equity 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 audits.

We conducted our audits 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 November 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Halifax, Canada

March 30 2011

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Balance Sheets
As at November 30

ASSETS

	2010	2009
	\$	\$
CURRENT		
Cash	166,633	49,958
Short-term investments (Note 5)	7,105,169	1,228,016
Taxes receivable	38,433	18,429
Prepaid expense	30,939	16,260
	<u>7,341,174</u>	<u>1,312,663</u>
RESOURCE PROPERTIES INTERESTS (Note 6)	7,740,611	5,096,376
INVESTMENT IN ETRUSCAN DIAMONDS LIMITED (Note 5)	87,851	87,851
CAPITAL ASSETS (Note 7)	26,182	32,343
	<u>15,195,818</u>	<u>6,529,233</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	697,171	98,466

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 8)	19,057,773	11,440,598
CONTRIBUTED SURPLUS	2,803,131	1,519,934
DEFICIT	(7,362,257)	(6,529,765)
	<u>14,498,647</u>	<u>6,430,767</u>
	<u>15,195,818</u>	<u>6,529,233</u>

(Going concern - see Note 1)
(Subsequent events - see Note 6(a))

Approved on behalf of the Board:

"Gary Woods"
 Director

"Allen Sheito"
 Director

See accompanying notes to financial statements.

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Statements of Operations and Comprehensive Loss
Years ended November 30, 2010 and 2009

	2010	2009
	\$	\$
ADMINISTRATION EXPENSES		
Amortization of equipment	11,282	\$ 12,811
General and administrative	61,638	46,526
Consulting fees (Note 11)	22,550	2,000
Management fees (Note 11)	242,007	240,184
Professional fees (Note 11)	198,605	105,969
Shareholder information and communications	159,590	100,268
Share transfer, listing and filing fees	32,053	30,207
Operator fee	14,815	-
Miscellaneous resource property investigation	3,607	-
Stock based compensation	392,643	194,234
	<u>1,138,790</u>	<u>732,199</u>
OTHER RECOVERIES (EXPENSES)		
Interest and sundry income	10,756	10,857
Gain on sale of shares	-	423,147
Write-down of resource property expenditures (Note 6)	(7,450)	(322,267)
Recovery of resource property expenditures	52,813	-
Provincial capital taxes	(9,621)	(5,376)
	<u>46,498</u>	<u>106,361</u>
LOSS BEFORE TAXES	<u>(1,092,292)</u>	<u>(625,838)</u>
Tax recovery (Note 8 and Note 10)	259,800	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	<u>(832,492)</u>	<u>(625,838)</u>
LOSS PER SHARE – basic and diluted (Note 9)	<u>(0.02)</u>	<u>(0.02)</u>

See accompanying notes to financial statements.

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Statements of Shareholders' Equity
Years ended November 30, 2010 and 2009

	COMMON SHARES WITHOUT PAR VALUE		CONTRIBUTED SURPLUS	DEFICIT	TOTAL SHAREHOLDERS' EQUITY
	SHARES #	AMOUNT \$			
Balance, November 30, 2008	26,521,938	10,475,706	1,202,942	(5,903,927)	5,774,721
Issue of securities for cash:					
Private placement at \$0.30 per Unit	1,500,000	313,800	136,200	-	450,000
Share issuance costs	-	(32,908)	(13,442)	-	(46,350)
Shares issued for finders fee	60,000	18,000	-	-	18,000
Shares issued for mineral properties	2,575,000	666,000	-	-	666,000
Stock-based compensation	-	-	194,234	-	194,234
Net loss for the year	-	-	-	(625,838)	(625,838)
Balance, November 30, 2009	30,656,938	11,440,598	1,519,934	(6,529,765)	6,430,767
Future income taxes on flow-through shares	-	(157,500)	-	-	(157,500)
Shares issued for mineral properties	1,050,000	927,000	-	-	927,000
Warrants issued for mineral properties	-	-	249,000	-	249,000
Issue of securities for cash:					
Private placements at \$0.50 per Unit	5,309,500	1,878,450	776,300	-	2,654,750
Private placement at \$1.05 per share	4,917,260	5,163,123	-	-	5,163,123
Share issuance costs	-	(554,160)	(45,307)	-	(599,467)
Shares issued upon exercise of options	100,000	49,362	(9,362)	-	40,000
Shares issued upon exercise of warrants	605,000	275,900	(26,700)	-	249,200
Tax effect of expired warrants	-	-	(102,300)	-	(102,300)
Shares issued for finders fee	70,000	35,000	-	-	35,000
Stock-based compensation	-	-	441,566	-	441,566
Net loss for the year	-	-	-	(832,492)	(832,492)
Balance, November 30, 2010	42,708,698	19,057,773	2,803,131	(7,362,257)	14,498,647

See accompanying notes to financial statements.

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Statements of Cash Flows
Years ended November 30, 2010 and 2009

	2010 \$	2009 \$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the year	(832,492)	(625,838)
Items not involving cash:		
Amortization of equipment	11,282	12,811
Write down of resource property expenditures	7,450	342,267
Stock-based compensation	392,643	194,234
Gain on sale of shares	-	(423,147)
Tax recovery	(259,800)	-
	<u>(680,917)</u>	<u>(499,673)</u>
Changes in non-cash working capital items:		
Taxes receivable	(20,004)	45,400
Prepaid expenses	(14,679)	19,173
Accounts payable and accrued liabilities	68,009	(111,729)
Cash used in operating activities	<u>(647,591)</u>	<u>(546,829)</u>
FINANCING ACTIVITIES		
Shares issued, net of issuance costs	7,542,606	421,650
Cash provided by financing activities	<u>7,542,606</u>	<u>421,650</u>
INVESTING ACTIVITIES		
Resource property expenditures deferred	(261,276)	(724,255)
Government grant received	86,016	92,375
Resource properties acquired	(720,806)	(40,000)
(Purchase) sale of short-term investments	(5,877,153)	177,135
Sale of shares of Etruscan Diamonds Limited	-	497,914
Refund of reclamation deposit	-	2,559
Purchase of capital assets	(5,121)	-
Cash used in investing activities	<u>(6,778,340)</u>	<u>(5,728)</u>
INCREASE (DECREASE) IN CASH	116,675	(119,451)
CASH, beginning of year	<u>49,958</u>	<u>169,409</u>
CASH, end of year	<u><u>166,633</u></u>	<u><u>49,958</u></u>
Supplemental cash flow information:		
Interest paid in cash	331	746
Shares issued for finder's fee and commission	35,000	18,000
Shares issued for mineral properties	927,000	666,000
Warrants issued for mineral properties	249,000	-
Stock-based compensation charge to mineral properties	48,923	-
Expenditures for resource properties in accounts payable	<u>530,696</u>	<u>114,884</u>

See accompanying notes to financial statements.

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Notes to Financial Statements
For the year ended November 30, 2010

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Mountain Lake Resources Inc. (the “Company”) was incorporated under the laws of British Columbia on March 25, 1986. The Company is an exploration stage company engaged in the exploration for base and precious metals. It holds interests in a number of properties in Newfoundland and Labrador, New Brunswick and Ontario.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) on a “going concern” basis, which presumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. There is substantial doubt as to the Company’s ability to continue as a going concern.

The Company has incurred significant losses since inception. The recoverability of amounts shown for resource properties interests and the Company’s continued viability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and upon future profitable production or proceeds from the disposition of its interests. As at November 30, 2010, the Company has cash and short-term investments of \$7,271,802 (November 30, 2009 - \$1,277,974) to settle current liabilities of \$697,171 (November 30, 2009 - \$98,466). There are no assurances that the Company will be successful in achieving these goals. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following significant accounting policies:

a) Recently Issued Accounting Pronouncements:

IFRS

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will occur on January 1, 2011 for public entities. The implementation of IFRS will apply to the Company’s interim and annual financial statements for the fiscal year beginning December 1, 2011, including the restatement of comparative amounts for 2010.

Business Combinations

In January 2009, the CICA issued the new handbook Section 1582, “Business Combinations” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the consolidated financial statements, it will be limited to any future acquisitions beginning in fiscal 2011.

b) Cash

Cash includes cash on hand and demand deposits.

c) Investment

Investment in shares over which the Company does not have control or exercise significant influence have been designated as available-for-sale and are recorded at cost on the balance sheet as there is no quoted market price of the investment in an active market.

d) Resource Properties Interests

The Company is in the exploration stage and defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, the amounts shown as resource properties represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Notes to Financial Statements
For the year ended November 30, 2010

If a property is put into commercial production, the deferred expenditures relating to that property will be depleted based upon the proven reserves available. If a property is sold or abandoned, the expenditures relating to the property will be charged to operations.

The carrying values of resource interests are reviewed by management on a property-by-property basis at each financial statement date to determine if they have become impaired. If impairment is determined to have occurred, the resource property will be written down to its fair value. The ultimate recoverability of the amounts capitalized for resource properties is dependent upon the delineation of economically recoverable ore reserves, the ability to obtain the necessary financing to complete their development and the ability to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects are based on current conditions. However, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

e) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it occurs and when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revision to either the timing or the amount of the original estimate of undiscounted cash flow.

The Company has determined that it has no legal obligation for reclamation and remediation costs.

f) Capital Assets and Amortization

Capital assets are recorded at cost and amortized over their economic life using the declining balance method at the following rates:

Computer software	100%
Computer hardware	30%
Office furniture and equipment	20%
Mining equipment	20%
Vehicles	30%

g) Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Provided that they are not anti-dilutive, diluted earnings per share amounts is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate.

h) Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. The more significant areas are as follows:

The amounts recorded for stock-based compensation are based on estimates. The Black Scholes model is based on estimates of assumptions for expected volatility, risk-free interest rates and expected life of the options.

The recoverability of amounts shown for mineral properties is dependent on the discovery of economical reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition.

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values. Future income tax assets also result from unused loss carryforwards and other deductions. The valuation of future income tax assets is adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

i) Stock Based Compensation

MOUNTAIN LAKE RESOURCES INC.
(an exploration stage company)
Notes to Financial Statements
For the year ended November 30, 2010

The Company uses the fair value method of accounting for employee share-based compensation and other share-based payments made in exchange for goods and services. Under this method, the Company recognizes a compensation expense for all awards made to employees, based on the fair value of the options or units on the date of grant, which is determined by using a valuation model. The fair value of employee options is estimated on the date of grant using an option pricing model and is expensed over the vesting period of the options. The fair value of options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to income upon re-measurement. Upon the exercise or settlement of stock options, consideration received, together with amounts previously recorded in contributed surplus, are recorded as an increase in share capital.

j) Flow-Through Shares

The Company has financed certain of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The Company recognizes the foregone tax benefit at the time of the renouncement, provided there is reasonable assurance that the expenditures will be incurred.

k) Income Taxes

Income taxes are calculated using the asset and liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future tax assets are recognized to the extent that they are considered more likely than not to be realized. Future income tax liabilities or assets are calculated using the tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

NOTE 3 - CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities. The Company's definition of capital is shareholders' equity and working capital.

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing, primarily equity financing, to fund its activities. There can be no assurance that the Company will be able to continue to raise capital in this manner. To carry out the planned exploration and fund administrative costs, the Company will utilize its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it believes there is sufficient geologic and economic potential and if it has adequate financial resources to do so.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid financial instruments, such as cashable guaranteed investment certificates, held with a major Canadian financial institution.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

NOTE 4 - FINANCIAL INSTRUMENTS

The Company's financial instruments consist principally of cash, short-term investments, investment in Etruscan Diamonds Limited ("EDL") and accounts payable and accrued liabilities. Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. Cash and short-term investments are designated as held-for-trading and measured at fair value. The Company's investment in Etruscan Diamonds Limited, a private company, is carried at cost as there is no quoted market price in an active market for the investment. Accounts payable and accrued liabilities are designated as other financial liabilities and measured at amortized cost. The recorded values of all financial instruments, except the investment in EDL which is carried at cost, approximate their current fair values because of their nature and respective maturity dates or durations.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

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Credit risk

The Company has no significant credit risk arising from operations. The Company does not engage in any sales activities, so is not exposed to major credit risks attributable to customers. The Company's credit risk is primarily attributable to cash and short-term investments. The Company holds its cash with Canadian chartered banks and the risk of default is considered to be remote. Short-term investments consist of cashable guaranteed investment certificates invested with a major financial institution, from which management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities are due within one year.

Interest rate risk

Interest rate risk is the risk that future cash flows of the Company's assets and liabilities can change due to a change in interest rates. The company is not exposed to interest rate risk as all financial instruments that bear interest do so at a fixed rate of interest.

NOTE 5 - INVESTMENTS

	2010	2009
	\$	\$
Short-term investments -		
Cashable GIC's with maturity dates of less than twelve months	7,105,169	1,228,016
Investment in Etruscan Diamonds Limited -		
2,350,000 common shares representing a 6.4% equity interest	87,851	87,851

NOTE 6 - RESOURCE PROPERTIES INTERESTS

Expenditures on Resource Properties for the twelve months ended November 30, 2010:

	Valentine Lake \$	Bobby's Pond \$	Little River \$	Glover Island \$	Other \$	Total \$
Assays	77,812	-	48,848	6,477	-	133,137
Drilling and exploration	203,752	12,046	312,031	56,258	-	584,087
Geophysical and geochemistry	8,000	-	-	-	-	8,000
Geological consulting	47,428	12,947	-	-	-	60,375
Claims maintenance	-	-	(826)	-	2,050	1,224
Metallurgy	2,549	-	-	-	-	2,549
Trenching	13,241	-	-	-	-	13,241
Resource estimate	19,113	-	-	-	-	19,113
Mining lease	-	19,169	-	-	-	19,169
Government grant	-	-	(86,016)	-	-	(86,016)
Write-downs	-	-	-	-	(7,450)	(7,450)
	371,895	44,162	274,037	62,735	(5,400)	747,429
Deferred expenditures, opening	896,868	1,848,646	355,462	-	5,400	3,106,376
Deferred expenditures, closing	1,268,763	1,892,808	629,499	62,735	-	3,853,805
Mineral property costs	1,625,000	247,500	194,500	1,819,806	-	3,886,806
Balance, November 30, 2010	2,893,763	2,140,308	823,999	1,882,541	-	7,740,611

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Expenditures on Resource Properties for the year ended November 30, 2009:

	Valentine Lake \$	Bobby's Pond \$	Cornerstone \$	Little River \$	Other \$	Total \$
Assays	13,308	-	380	25,311	-	38,999
Drilling and exploration	227,875	6,809	112,678	156,204	-	503,566
Geophysical and geochemistry	2,408	6,090	16,052	5,681	-	30,231
Claims maintenance	12,550	-	1,550	2,076	1,230	17,406
Mining lease	-	19,169	-	-	-	19,169
Government grant	-	(18,768)	(73,607)	-	-	(92,375)
Write-downs	-	-	(297,287)	-	(1,230)	(298,517)
	256,141	13,300	(240,234)	189,272	-	218,479
Deferred expenditures, opening	640,727	1,835,346	240,234	166,190	5,400	2,887,897
Deferred expenditures, closing	896,868	1,848,646	-	355,462	5,400	3,106,376
Mineral property costs	1,625,000	247,500	43,750	117,500	-	2,033,750
Write-downs	-	-	(43,750)	-	-	(43,750)
Balance, November 30, 2009	2,521,868	2,096,146	-	472,962	5,400	5,096,376

(a) Valentine Lake Property, Newfoundland and Labrador, Canada

In March 2008, the Company exercised its option to acquire a 100% interest in the Valentine Lake property, consisting of 4 mining licenses in Newfoundland and Labrador, and Richmond Mines Inc. ("Richmont") exercised its sub-option with the Company to acquire a 70% interest in the property by incurring \$2,500,000 in expenditures. At that time, the Company and Richmont entered into a joint venture agreement for the further exploration and development of the property.

On February 5, 2009, the Company entered into an option agreement with Richmont to purchase Richmont's 70% interest in the Valentine Lake Gold property. The Company agreed to pay an option fee of 2,500,000 common shares of the Company (issued April 3, 2009 at a fair value of \$650,000) and had the right to exercise the option over a five-year period by making option payments of an additional \$3.0 million (in cash, or in 50% cash and 50% common shares, at the option of the Company) and by incurring \$1.0 million in exploration and development expenditures on the property.

On December 21, 2009, the Company entered into an option and joint venture agreement with Marathon PGM Corporation (subsequently assigned to Marathon Gold Corporation, "Marathon"), granting Marathon a sub-option to earn a 50% interest in the Valentine Lake Gold Property by assisting the Company in exercising the Richmont Option. Pursuant to the agreement, Marathon must make total option payments of \$3.0 million and incur \$3.0 million in exploration and development expenditures. Marathon completed their obligation to spend \$3.0 million in exploration and development in August 2010. In October 2010, the Company and Marathon amended the terms of the option and joint venture agreement such that the Company agreed to fund 50% of the exploration expenditures at Valentine Lake until the earlier of January 31, 2011 and the completion of the option period and the formation of the joint venture. The Company paid an operator fee to Marathon on its share of the joint venture expenditures.

On January 24, 2011, subsequent to the year end, Marathon advanced Richmont \$3.0 million, fulfilling the Company's option payment to purchase the additional 70% interest pursuant to the February 5, 2009 agreement and giving the Company a 100% interest in the property. This also fulfilled Marathon's obligation to the Company pursuant to the December 21, 2009 agreement, thereby reducing the Company's interest to 50%. Also on this date a joint venture agreement with Marathon was signed.

Xstrata Canada Corporation retains a 2% net smelter return royalty on base metals and a 1.5% net smelter return royalty on the first 250,000 oz. of gold produced, increasing at that point to 3% on the property claims that existed at the time of the agreement. Also, the Reid Newfoundland Company Ltd. retains a 7.5% net profits interest that accelerates the increase in Xstrata's net smelter return royalty on gold to 3% should a net profits interest royalty become payable prior to the first 250,000 oz. produced. Any amount payable to the Reid Newfoundland Company Ltd. for the net profits interest royalty reduces the net smelter royalty on gold payable to Xstrata.

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(b) Bobby's Pond, Newfoundland and Labrador, Canada

The Company owns a 100% interest in a mining lease known as the Bobby's Pond property located in Central Newfoundland and Labrador. The property is subject to a 2% net smelter royalty.

(c) Little River, Newfoundland and Labrador, Canada

In August 2008, the Company entered into an option agreement to acquire a 100% interest in 448 mineral claims in Newfoundland and Labrador. The option obligations of the Company are as follows:

Due Date	Cash Payments	Share Issuances
On execution	\$50,000 (paid)	50,000 (issued)
By August 14, 2009	\$40,000 (paid)	50,000 (issued)
By August 14, 2010	\$50,000 (paid)	50,000 (issued)
By August 14, 2011	\$40,000	50,000
By August 14, 2012	\$60,000	50,000
Total	\$240,000	250,000

The Company must incur sufficient exploration expenditures to maintain the property in good standing. The Optionors will retain a 2% net smelter return royalty and the Company has the exclusive right and option to acquire 1% of the net smelter return royalty for \$1.5 million.

(d) Glover Island

On October 8, 2010, the Company acquired an undivided 100% interest in the Glover Island Property, a gold exploration property consisting of mineral licenses and a mining lease, from New Island Resources ("New Island"). The purchase price of \$1,819,806 was comprised of \$500,000 cash, the issuance of 1,000,000 common shares with a fair value of \$900,000, the issuance of share purchase warrants to acquire 500,000 common shares of the Company at an exercise price of \$1.20 per share on or before October 8, 2012 with a fair value of \$249,000, forfeiture of repayment of a loan and interest receivable from New Island of \$164,331, and purchase costs of \$6,475.

New Island retains a net smelter returns royalty of 1% of commercial production, which reduces to 0.5% after the payment of the first \$1.0 million.

(e) Other Properties

Goodwin Claims, New Brunswick, Canada

The Company holds a 100% interest in mineral claims, subject to a 2% net smelter return royalty. Management has no current plans to further explore the property and accordingly, any claim costs and exploration expenses incurred on the property are charged to operations in the period incurred.

Hong Kong Claims, Ontario, Canada

The Company has a 50% interest in a mineral property known as Hong Kong Claims in Ontario. At this time the Company and the other owner have decided not to carry out further exploration. The initial costs of the property were written off in a prior year and ongoing maintenance costs are expensed as incurred.

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NOTE 7 – CAPITAL ASSETS

November 30, 2010	Cost	Accumulated amortization	Net book value
Office equipment and software	\$ 19,845	\$ 13,268	\$ 6,577
Mining equipment	2,870	1,787	1,083
Vehicle	50,466	31,944	18,522
	\$ 73,181	\$ 46,999	\$ 26,182

November 30, 2009	Cost	Accumulated amortization	Net book value
Office equipment	\$ 14,724	\$ 10,193	\$ 4,531
Mining equipment	2,870	1,515	1,355
Vehicle	50,466	24,009	26,457
	\$ 68,060	\$ 35,717	\$ 32,343

NOTE 8 – SHARE CAPITAL

(a) Authorized: Unlimited number of common shares without par value.

(b) Common Shares

On November 13, 2009, the Company completed a non-brokered private placement for 1,500,000 Units at a price of \$0.30 per Unit for gross proceeds of \$450,000. Each Unit consists of one flow through common share and one-half of one common share purchase warrant with each full warrant exercisable at a price of \$0.45 on or before November 13, 2011, subject to accelerated expiry terms. The finder received a fee of 60,000 common shares at a fair value of \$18,000 and 120,000 finder options exercisable at a price of \$0.30 per Unit on or before November 13, 2011. Using the Black-Scholes model, fair values of \$117,400 and \$18,800 were assigned to the warrants and finder options respectively and recorded to contributed surplus. The assumptions used to fair value the warrants and options were a risk free rate of 3.5%, expected volatility of 117%, expected life of 2 years and a dividend yield of 0%. Also charged to share issue costs was \$28,350 for due diligence, filing fees and legal fees incurred by the Company in connection with the financing.

On August 5, 2009, the Company issued 50,000 common shares at a fair value of \$7,750 pursuant to the terms of the Little River property option agreement. On March 5, 2009, the Company issued 25,000 common shares at a fair value of \$8,250 pursuant to the terms of the Cornerstone property option agreement. On April 3, 2009, the Company issued 2,500,000 common shares at a fair value of \$650,000 pursuant to the terms of the Valentine Lake property option agreement.

In February 2010, the Company renounced \$450,000 in expenditures related to the issuance of flow-through shares and reduced share capital by \$157,500 for the tax effect of the tax benefits renounced to subscribers.

On July 12, 2010 the Company issued 4,309,500 Units at \$0.50 per Unit for gross proceeds of \$2,154,750. Each Unit consists of one common share and one-half of a share purchase warrant with each full warrant exercisable at a price of \$0.75 on or before July 12, 2012, subject to accelerated expiry terms. Finders' fees of \$128,783 were paid in connection with the private placement, of which \$35,000 was paid in common shares of the Company for a total of 70,000 common shares. Using the Black-Scholes model, a fair value of \$627,000 was assigned to the warrants and recorded to contributed surplus. The assumptions used to fair value the warrants and options were a risk free rate of 2.25%, expected volatility of 121%, expected life of 2 years and a dividend yield of 0%. Also charged to share issue costs was \$27,449 for filing fees and legal fees incurred by the Company in connection with the financing. Of the total share issuance costs, \$45,307 was allocated to the warrants and recorded to contributed surplus.

On August 5, 2010 the Company issued 1,000,000 Units at \$0.50 per Unit for gross proceeds of \$500,000. Each Unit consists of one common share and one-half of a share purchase warrant with each full warrant exercisable at a price of \$0.75 on or before August 5, 2012, subject to accelerated expiry terms. Using the Black-Scholes model, a fair value of \$149,300 was assigned to the warrants and recorded to contributed surplus. The assumptions used to fair value the warrants and options were a risk free rate of 2.25%, expected volatility of 121%, expected life of 2 years and a dividend yield of 0%.

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On August 5, 2010, the Company issued 50,000 common shares at a fair value of \$27,000 pursuant to the terms of the Little River property option agreement.

On October 8, 2010, the Company issued 1,000,000 common shares and 500,000 common share purchase warrants pursuant to an agreement to acquire an undivided 100% interest in the Glover Island Property. The warrants are exercisable at a price of \$1.20 per share on or before October 8, 2012. Using the Black-Scholes model, a fair value of \$249,000 was assigned to the warrants. The assumptions used to fair value the warrants and options were a risk free rate of 2.25%, expected volatility of 120%, expected life of 2 years and a dividend yield of 0%.

On October 15, 2010 the Company issued 4,917,260 flow-through common shares at \$1.05 per share for gross proceeds of \$5,163,123. The Company paid commissions of \$383,583 and incurred additional share issuance costs of \$59,652 for filing fees and legal fees in connection with the financing.

In 2010, the Company issued 705,000 common shares for cash of \$289,200 in connection with the exercise of options and warrants.

(c) Stock Options

The Company has stock option plan (the "Plan") for employees, directors, officers, and service providers. The maximum number of options that can be granted under the Plan is 4,500,000. Options granted under the Plan generally have a five-year term and are granted at a price no lower than the market price of the common shares at the time of the grant. Options are generally vested on the basis of 25% of the original number on the grant date and 25% of the original number every six months thereafter. The Company recognizes stock based compensation over the period the options vest.

For the year ended November 30, 2010, stock-based compensation of \$392,643 (2009 - \$194,234) was charged to loss and \$48,923 (2009 - \$Nil) was charged to mineral properties.

The fair value of the share purchase options granted during the years ended November 30, 2010 and 2009 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2010	2009
Dividend yield	0%	0%
Expected volatility	92.63%	92.62%
Risk-free interest rate	2.25%	3.5%
Expected life	5.00 years	5.00 years
Weighted average fair value per option granted	\$0.32	\$0.18

The change in stock options during the years ended November 30, 2010 and 2009 is as follows:

	2010		2009	
	Number of Options	Weighted Average Exercise Price Per Share	Number of Options	Weighted Average Exercise Price Per Share
Balance outstanding, beginning of period	3,085,000	\$ 0.49	3,310,000	\$ 0.49
Activity in the period				
Granted	1,295,000	0.45	200,000	0.25
Exercised	(100,000)	(0.40)	-	-
Cancelled	(720,000)	(0.70)	-	-
Expired	(100,000)	(0.52)	(425,000)	(0.52)
Balance outstanding, end of period	3,460,000	\$ 0.42	3,085,000	\$ 0.47
Balance exercisable, end of period	2,668,750	\$ 0.40	2,691,250	\$ 0.49

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The following table summarizes information about options outstanding at November 30, 2010:

Option price	Weighted average exercise price	Options outstanding at November 30, 2010	Options exercisable at November 30, 2010	Weighted average remaining contractual life
\$0.25 - 0.30	\$0.26	400,000	250,000	3.88
0.31	0.31	720,000	360,000	4.23
0.40	0.40	1,850,000	1,850,000	2.54
0.53	0.53	100,000	25,000	4.48
0.65	0.65	115,000	115,000	0.24
0.90	0.90	255,000	68,750	4.89
	\$0.42	3,460,000	2,668,750	3.22

d) Finder's Compensation Options

Pursuant to the November 13, 2009 private placement, the Company issued 120,000 finder's compensation options exercisable at a price of \$0.30 per Unit on or before November 13, 2011. Each Unit consists of one common share and one-half of one common share purchase warrant with each full warrant exercisable at a price of \$0.45 on or before November 13, 2011.

(e) Warrants

The change in warrants during the years ended November 30, 2010 and 2009 is as follows:

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Warrants outstanding, beginning of year	2,564,100	\$ 0.58	3,072,545	\$ 0.95
Granted in the year	3,154,750	0.82	750,000	0.45
Expired in the year	(1,209,100)	(0.75)	(1,258,445)	(1.39)
Exercised in the year	(605,000)	(0.41)	-	-
Warrants outstanding, end of year	3,904,750	\$ 0.75	2,564,100	\$ 0.58

Details of the outstanding share purchase warrants at November 30, 2010 are as follows:

Expiry Date	Exercise price per share	Number of Shares
November 13, 2011	\$0.45	750,000
July 12, 2012	\$0.75	2,154,750
August 5, 2012	\$0.75	500,000
October 8, 2012	\$1.20	500,000
		<u>3,904,750</u>

The warrants at an exercise price of \$0.45 per share are subject to accelerated expiry terms such that if at any time after the hold period the Company's shares close at a price exceeding \$0.90 per share for at least twenty (20) consecutive trading days during the exercise period, the Company may accelerate the expiry time to 30 days from the calendar date notice is provided to the warrant holders.

The warrants at an exercise price of \$0.75 per share are subject to accelerated expiry terms such that if at any time after the hold period the Company's shares close at a price exceeding \$1.25 per share for at least ten (10) consecutive trading days during the exercise period, the Company may accelerate the expiry time to 30 days from the calendar date notice is provided to the warrant holders.

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(e) Shareholder Rights Plan

The Company has implemented a Shareholders' Rights Plan which entitles shareholders to acquire additional shares upon the occurrence of a takeover bid (such as an offer to purchase 20% or more of the issued shares) which does not meet certain conditions. These specified conditions are determined by management to attempt to ensure all shareholders are treated evenly in the event of a takeover bid. If an un-permitted bid is made, then each right held (other than those held by the acquiring person or its transferees) will permit the holder thereof to purchase at the exercise price of the rights that number of common shares having an aggregate market price equal to twice the exercise price of the rights.

NOTE 9 – EARNINGS PER SHARE

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the twelve months ended November 30, 2010 of 33,385,631 (2009 – 28,272,979). Diluted earnings per share is based on the assumption that dilutive options under the stock option plan have been exercised on the later of the beginning of the period and the date granted. Basic and diluted loss per share are equal for the periods presented as all outstanding stock options and warrants were anti-dilutive.

NOTE 10 – INCOME TAXES

- (a) The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at November 30, 2010 and 2009 are presented below:

	2010	2009
Future income tax assets		
Non-capital loss carry forwards	\$ 728,477	\$ 531,002
Undeducted resource properties acquisition and exploration expenditures	383,172	536,734
Capital loss carry-forward	-	22,081
Other	173,137	43,383
	<u>1,284,786</u>	<u>1,133,200</u>
Less valuation allowance	(1,284,786)	(1,133,200)
Net future tax asset	<u>\$ -</u>	<u>\$ -</u>

- (b) Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 34% (2009 – 35.5%) to loss before taxes as follows:

	2010	2009
Loss before taxes	\$ (1,092,292)	\$ (625,838)
Computed expected tax recovery	(371,379)	(219,043)
Increase in valuation allowance	151,586	186,849
Non-taxable portion of gains	-	(74,051)
Expenses not deductible for tax purposes	131,865	107,204
Effect of changes in tax rates	20,068	24,111
Expenses charged to retained earnings	(191,920)	(9,923)
Other adjustments	(20)	(15,147)
Net income tax recovery	<u>\$ (259,800)</u>	<u>\$ -</u>

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The Company has accumulated non-capital losses for income tax purposes of \$2,350,000 (2009: \$1,713,000) to apply against future taxable income. These losses expire in the following years:

2013	\$ 91,500
2014	208,000
2015	101,000
2026	249,500
2027	499,000
2029	564,000
2030	637,000
	<hr/>
	\$2,350,000

In addition, the Company has accumulated Canadian and Foreign Exploration and Development expenses for income tax purposes of \$8,927,725 (2009: \$6,828,000). The expenditures pools can be carried forward indefinitely to be applied against income of future years.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Company has employment agreements with three directors that expire in 2016. These individuals provide strategic planning advice; identification, negotiations and acquisitions of mineral properties; and liaising with staff and auditors for the preparation and delivery of continuous disclosure documents.

During the twelve months ended November 30, 2010, the Company paid or accrued the following amounts to related parties:

- For management fees \$228,000 (2009: \$228,000) to directors and officers of the Company, all of which was charged to loss for the period;
- For consulting fees \$22,550 (2009: \$Nil) to a director and to a corporation of which a director is a shareholder, all of which was charged to loss for the period; and
- For professional services \$160,628 (2009: \$78,076) to a law firm in which a partner is a director of the Company and to a corporation of which an officers is a shareholder, of which \$119,898 (2009: \$71,226) was charged to loss for the period and \$40,730 (2009: \$6,850) was charged to share issue costs.

Included in accounts payable and accrued liabilities are amounts owing to related parties totalling \$64,755 (2009: \$27,893). Included in prepaid expenses is an amount of \$3,000 (2009: \$3,000) representing a retainer on a services contract with an officer of the Company.

Transactions with related parties are measured at the exchange amount of consideration established by the related parties.

NOTE 12 – COMMITMENTS

In October 2010 the Company raised \$5,163,123 in flow-through funds that must be used for expenditures qualifying as Canadian Exploration Expenditures (CEE) as defined in the Income Tax Act (Canada) by December 31, 2011, under the look-back rule. The Company has indemnified flow-through share subscribers for any tax payable by the subscribers under the Income Tax Act (Canada) if the Company fails to incur the CEE by December 31, 2011. As at November 30, 2010, the Company had incurred \$380,544 in qualified CEE expenditures.

NOTE 13 – COMPARATIVE FIGURES

Certain of the prior years comparative figures have been reclassified to conform to the presentation adopted for the current year.