

Financial Statements of
HOUSTON LAKE MINING INC.

September 30, 2009 and 2008
(Unaudited and Prepared by Management)



NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Houston Lake Mining Inc. Balance Sheet

(Unaudited) (Audited)
Sept. 30, 2009 March 31, 2009

Assets

Current

Cash and cash equivalents	\$	152,105	\$	34,343
Cash restricted for flow-through expenditures		2,084		413,073
Goods and Services Tax receivable		13,146		32,678
Prepaid expenses		73,046		35,281
		240,381		515,375

Investment in mining properties (Note 3)		8,064,604		7,634,078
Property, plant and equipment (Note 4)		36,161		42,617
	\$	8,341,146	\$	8,192,070

Liabilities and Shareholders' Equity

Current

Accounts payable and accrued liabilities (Note 5)	\$	205,262	\$	237,033
Loan payable		10,000		-
		215,262		237,033

Shareholders' equity

Share capital (Note 6)		10,280,462		10,009,463
Advances for shares to be issued		249,802		56,000
Contributed surplus (Note 6)		1,541,594		1,541,594
Deficit		(3,945,974)		(3,652,020)
		8,125,884		7,955,037
	\$	8,341,146	\$	8,192,070

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

	Six Months Ended Sept. 30, 2009	Six Months Ended Sept. 30, 2008	Three Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2008
Revenue	\$ -	\$ -	\$ -	\$ -
Expenses				
General administrative	287,680	281,181	162,955	102,326
Amortization	6,456	9,368	3,229	4,476
	<u>294,136</u>	<u>290,549</u>	<u>166,184</u>	<u>106,802</u>
Less: Interest income	<u>(182)</u>	<u>(368)</u>	<u>(13)</u>	<u>(368)</u>
	293,954	290,181	166,171	106,434
Net income (loss) for the period	(293,954)	(290,181)	(166,171)	(106,434)
Deficit, beginning of period	(3,652,020)	(3,528,252)	(3,779,803)	(3,711,999)
Deficit, end of period	\$ (3,945,974)	\$ (3,818,433)	\$ (3,945,974)	\$ (3,818,433)
Net income (loss) per share (basic)	\$ (0.009)	\$ (0.010)	\$ (0.005)	\$ (0.004)
Common shares outstanding	34,475,561	29,079,818	34,657,638	29,079,818

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

For the six months ended September 30	2009		2008	
	Six Months Ended Sept. 30, 2009	Six Months Ended Sept. 30, 2008	Three Months Ended Sept. 30, 2009	Three Months Ended Sept. 30, 2008
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	\$ (293,954)	\$ (290,181)	\$ (166,171)	\$ (106,434)
Items not involving cash				
Amortization	6,456	9,368	3,229	4,476
	(287,498)	(280,813)	(162,942)	(101,958)
Changes in non-cash working capital balances				
Accounts receivable	19,532	15,841	608	(6,012)
Prepaid expenses	(37,765)	(12,047)	(16,085)	91,961
Accounts payable and accrued liabilities	(31,771)	(227,834)	14,062	(22,338)
	(337,502)	(504,853)	(164,357)	(38,347)
Investing activities				
Investment in mining properties	(430,526)	(1,245,859)	(146,426)	(691,402)
Cash restricted for flow-through expenditures	410,989	(472,909)	175,164	(137,274)
Purchase of property, plant and equipment	-	(928)	-	-
	(19,537)	(1,719,696)	28,738	(828,676)
Financing activities				
Increase in loans receivable	10,000	-	10,000	-
Advances for shares received	249,802	-	249,802	-
Issuance of common shares	214,999	2,086,722	-	941,922
	474,801	2,086,722	259,802	941,922
Increase (decrease) in cash during the period	117,762	(137,827)	124,183	74,899
Cash and cash equivalents, beginning of period	34,343	268,114	27,922	55,388
Cash and cash equivalents, end of period	\$ 152,105	\$ 130,287	\$ 152,105	\$ 130,287

Houston Lake Mining Inc
Notes to Financial Statements
For Six Months Ended September 30, 2009 and 2008 (Unaudited)

1. Basis of Presentation

The interim financial statements (the "financial statements") of Houston Lake Mining Inc. (the "Company") have been prepared by management in accordance with the accounting principles and methods of application disclosed in the financial statements for the year ended March 31, 2009.

The financial statements do not include all disclosures required by Canadian Generally Accepted Accounting Principles for annual financial statements and accordingly the financial statements should be read in conjunction with the Company's annual report for the year ended March 31, 2009 filed with the Canadian securities regulatory agencies on July 29, 2009.

2. Significant Accounting Policies

(a) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated amortization. Cost is net of related investment tax credits and government grants. Amortization based on the estimated useful life of the asset is calculated as follows:

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

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

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, bank balances and investments in money market instruments with maturities of three months or less.

(c) Investment in Mining Properties

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

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

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

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2009 and 2008 (Unaudited)

2. Significant Accounting Policies (continued)

(d) General

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

(e) Income Taxes

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

(f) Flow-Through Shares

The Company has financed a portion of its exploration activities with flow-through shares. Shares were issued for cash in exchange for the company giving up the tax benefits arising from the exploration expenditures. The expenditures funded by flow-through arrangements are renounced to investors in accordance with tax legislation. The Company records such share issuances by crediting share capital for the value of cash consideration received. Share capital is reduced and future income taxes are increased by the foregone tax benefits related to the renounced tax deductions on the date the tax deductions are renounced. During the year ended March 31, 2009, the Company renounced \$1,960,000 in expenditures.

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

(g) Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant area requiring estimates relates to the Company's investment in mining properties.

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

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2009 and 2008 (Unaudited)

2. Significant Accounting Policies (continued)

(h) Stock Based Compensation

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

(i) Financial Instruments

The carrying amounts for cash, accounts receivable and accounts payable on the balance sheet approximate fair value because of the limited term of these instruments.

Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

(j) Revenue Recognition

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

(k) Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. The assumed conversion of outstanding common share options and warrants has an anti-dilutive impact in 2008.

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2009 and 2008 (Unaudited)

3. Investment in Mining Properties

	Sept. 30, 2009	March 31, 2009
Acquisition Costs:		
Dogpaw Lake Property – Kenora, Ontario (a)	\$ 237,720	\$ 237,720
West Cedartree Property - Kenora, Ontario (b)	192,156	192,156
North Block Property – Kenora, Ontario (c)	4,000	4,000
Tib Lake Property - Thunder Bay, Ontario (d)	71,395	71,395
Pakeagama Lake Property - Red Lake, Ontario (e)	428,209	427,208
Dubenski Property – Kenora, Ontario (f)	376,000	276,000
	<u>1,309,480</u>	<u>1,208,479</u>
Deferred Exploration Costs:		
Dogpaw Lake Property – Kenora, Ontario (a)	\$ 2,093,748	\$ 2,010,007
West Cedartree Property - Kenora, Ontario (b)	1,613,784	1,551,513
North Block Property - Kenora, Ontario (c)	5,182	5,182
Tib Lake Property - Thunder Bay, Ontario (d)	513,134	513,134
Pakeagama Lake Property - Red Lake, Ontario (e)	311,527	308,827
Dubenski Property – Kenora, Ontario (f)	2,217,749	2,036,936
	<u>6,755,124</u>	<u>6,425,599</u>
	<u>\$ 8,064,604</u>	<u>\$ 7,634,078</u>

(a) Dogpaw Lake Property - Kenora

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

(b) West Cedartree Property - Kenora

The West Cedartree Gold Property is located in the Cedartree Lake area within the Kenora Mining District of Ontario, Canada. The property consists of four (4) parts: the Jesse (North) Property, the West Cedartree Property, the McLennan Property and the Dogpaw West and Gold Sun Properties. All four are contiguous and considered as one property for exploration purposes.

Jesse (North) Property

The Company earned a 100% interest in the 11 claim unit, 176 hectare (435 acre) Jesse (North) Property. The vendor is a related party and holds a 2.5% net smelter royalty.

West Cedartree Property

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

McLennan Property

The Company has a 100% interest in 7 patented mining claims comprising the McLennan Property and covering 139.6 hectares (344.8 acres). One of the vendors retains a 0.75%

Houston Lake Mining Inc.
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3. Investment in Mining Properties (continued)

(b) West Cedartree Property - Kenora

Dogpaw West and Gold Sun Properties

During the year, the Company earned a 100% interest on the 5 claim unit Dogpaw West and 23 claim unit Gold Sun properties which adjoin the West Cedartree Property. The ownership interest is subject to a 2.5% net smelter royalty ("NSR"). The Company can purchase up to 1.5% of the NSR for \$500,000 per 0.5%.

(c) North Block - Kenora

The Company has a 100% interest in the 80 acre North Block Gold Property in the Cedartree Lake area within the Kenora Mining District of Ontario, Canada. The vendor retains a 2% net smelter royalty ("NSR").

(d) Tib Lake - Thunder Bay

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

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

(e) Pakeagama Lake - Red Lake

The Company has a 100% interest in the Pakeagama Lake Property. The property consists of 1 unpatented mining claim covering 256 hectares (632 acres). The 100% ownership interest is subject to a 2.5% NSR subject to a 1.0% buyout provision. During fiscal year 2007, the Company issued 140,000 common shares to an arms length individual for a total consideration of \$91,000 and must make annual payments of \$1,000 until 2011 in order to retire the advance royalty on the property.

(f) Dubenski Property - Kenora

The Company has a 100% option interest in the 363.6 hectare (898.5 acre) Dubenski Gold Property. The property consists of 22 leased claims and is located adjacent the West Cedartree properties in the Kenora Mining District of Ontario. The vendor retains 2.5% NSR subject to a 500,000 buyback for every 0.5%.

The Company can exercise its option by making cash payments of \$3.5 million and issuing 500,000 common shares by April 30, 2017. The option cannot be exercised until the Company has made cash payments of \$1,000,000 and issued 200,000 common shares to the vendor within the prescribed period. As at September 30, 2009, Houston Lake Mining Inc. has paid \$300,000 and issued 200,000 common shares at a deemed price of \$0.88 per share on May 11, 2007 to the vendor.

Houston Lake Mining Inc.
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For Six Months Ended September 30, 2009 and 2008 (Unaudited)

4. Property, Plant and Equipment

	September 30, 2009		March 31, 2009	
	(unaudited)		(audited)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 21,406	\$ 15,507	\$ 21,406	\$ 14,851
Exploration equipment	26,214	14,791	26,214	12,775
Computer equipment	49,678	46,901	49,678	45,955
Computer software	10,042	9,834	10,042	9,794
Organization costs	1,000	1,000	1,000	1,000
Vehicles	50,081	34,227	50,081	31,429
	\$ 158,421	\$ 122,260	\$ 158,421	\$ 115,804
Net book value		\$ 36,161		\$ 42,617

5. Related Party Transactions

During the six months ended September 30, 2009, the Company incurred the following expenditures with a director and companies controlled by directors of the company:

	September 30, 2009	September 30, 2008
	(Unaudited)	(Unaudited)
Investment in mining properties	\$ 37,200	\$ 42,233
Consulting	18,000	8,633
Office and equipment rental	4,500	4,500
	\$ 59,700	\$ 55,366

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

6. Share Capital

Authorized:

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

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

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2009 and 2008 (Unaudited)

6. Share Capital Continued

Issued:

The changes in share capital for the period are as follows:

<u>Common Shares</u>	<u>September 30, 2009</u> <u>(Unaudited)</u>	
Balance, beginning of period	33,716,213	\$ 10,009,463
Issued during period pursuant to:		
Private placement	831,425	250,999
Less: Share issue costs		(10,000)
Options exercised	110,000	30,000
	<u>34,657,638</u>	<u>\$ 10,280,462</u>

Warrant Issues:

As at September 30, 2009, the following warrants were outstanding:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Warrants</u>
May 15, 2010	0.70	725,000
May 20, 2010	0.70	162,980
June 16, 2010	0.70	276,660
July 18, 2010	0.70	773,333
August 20, 2010	0.70	392,726
December 30, 2010	0.35	1,458,719
March 24, 2011	0.50	431,425
June 16, 2011	0.35	<u>200,000</u>
		4,420,843

Stock Option Plan:

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

Houston Lake Mining Inc.
Notes to Financial Statements
For Six Months Ended September 30, 2009 and 2008 (Unaudited)

6. Share Capital (Continued)

The following is a summary of the options outstanding at September 30, 2009, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Shares</u>
November 16, 2009	\$ 0.34	300,000
March 10, 2010	\$ 0.25	100,000
August 22, 2010	\$ 0.225	150,000
January 9, 2011	\$ 0.27	100,000
March 3, 2011	\$ 0.32	200,000
April 26, 2011	\$ 0.47	50,000
May 11, 2011	\$ 0.61	25,000
May 10, 2012	\$ 1.00	700,000
November 1, 2012	\$ 0.64	200,000
February 12, 2013	\$ 0.40	187,500
October 1, 2013	\$ 0.40	250,000
December 18, 2013	\$ 0.30	540,000
July 20, 2014	\$ 0.22	<u>250,000</u>
		3,052,500

Contributed Surplus

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

7. Subsequent Events

On September 30, 2009 the Corporation issued 1,300,000 units for gross proceeds of \$325,000 in a non-brokered private placement. Each unit consisted of one common share and one half common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of \$0.40 for 12 months and \$0.50 for 24 months.