

Financial Statements of
HOUSTON LAKE MINING INC.

December 31, 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, the financial statements must be accompanied by a notice indicating that the statements have not been reviewed by an auditor.

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

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

Houston Lake Mining Inc. Balance Sheet

	(Unaudited)	(Audited)
	Dec. 31, 2009	Mar. 31, 2009
Assets		
Current		
Cash and cash equivalents	\$ 22,481	\$ 34,343
Cash restricted for flow-through expenditures	710,594	413,073
Share subscription receivable	635,000	-
Goods and Services Tax receivable	15,638	32,678
Prepaid expenses	33,162	35,281
	1,416,875	515,375
Investment in mining properties (Note 3)	8,294,023	7,634,078
Property, plant and equipment (Note 4)	32,933	42,617
	\$ 9,743,831	\$ 8,192,070
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 198,959	\$ 237,033
	198,959	237,033
Shareholders' equity		
Share capital (Note 6)	12,101,537	10,009,463
Advances for shares to be issued	-	56,000
Contributed surplus (Note 6)	1,541,594	1,541,594
Deficit	(4,098,259)	(3,652,020)
	9,544,872	7,955,037
	\$ 9,743,831	\$ 8,192,070

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

	Nine Months Ended Dec. 31, 2009	Nine Months Ended Dec. 31, 2008	Three Months Ended Dec. 31, 2009	Three Months Ended Dec. 31, 2008
Revenue	\$ 5,491	\$ -	\$ 5,491	\$ -
Expenses				
General administrative	442,237	422,305	154,557	141,124
Amortization	9,684	14,675	3,228	5,307
	451,921	436,980	157,785	146,431
Less: Interest income	(191)	(542)	(9)	(174)
	451,730	436,438	157,776	146,257
Net income (loss) for the period	(446,239)	(436,438)	(152,285)	(146,257)
Deficit, beginning of period	(3,652,020)	(3,528,252)	(3,945,974)	(3,818,433)
Deficit, end of period	\$ (4,098,259)	\$ (3,964,690)	\$ (4,098,259)	\$ (3,964,690)
Net income (loss) per share (basic)	\$ (0.013)	\$ (0.015)	\$ (0.004)	\$ (0.005)
Average common shares outstanding - basic	35,608,183	29,809,658	37,861,116	31,261,403

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

	2008	2007	
	Nine Months Ended Dec. 31, 2009	Nine Months Ended Dec. 31, 2008	Three Months Ended Dec. 31, 2009
			Three Months Ended Dec. 31, 2008
Cash provided by (used in)			
Operating activities			
Net income (loss) for the period	\$ (446,239)	\$ (436,438)	\$ (152,285)
Items not involving cash			
Amortization	9,684	14,675	3,228
	(436,555)	(421,763)	(149,057)
Changes in non-cash working capital balances			
Accounts receivable	17,040	17,231	(2,492)
Prepaid expenses	2,119	4,898	39,884
Accounts payable and accrued liabilities	(38,074)	(227,582)	(6,303)
	(455,470)	(627,216)	(117,968)
Investing activities			
Investment in mining properties	(659,945)	(1,820,547)	(229,419)
Cash restricted for flow-through expenditures	(297,521)	124,672	(708,510)
Purchase of property, plant and equipment	-	(928)	-
	(957,466)	(1,696,803)	(937,929)
Financing activities			
Issuance of common shares	2,036,074	2,106,722	1,571,273
Repayment of loan	-	-	(10,000)
Share proceeds receivable	(635,000)	-	(635,000)
	1,401,074	2,106,722	926,273
Increase (decrease) in cash during the period	(11,862)	(217,297)	(129,624)
Cash and cash equivalents, beginning of period	34,343	268,114	152,105
Cash and cash equivalents, end of period	\$ 22,481	\$ 50,817	\$ 22,481
			\$ 50,817

Houston Lake Mining Inc
Notes to Financial Statements
For nine months Ended December 31, 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	- 55/45/30%	diminishing balance basis
Computer software	- 33 %	diminishing balance basis
Furniture and fixtures	- 20 %	diminishing balance basis
Vehicles	- 30 %	diminishing balance basis

Property, plant and equipment acquired during the year is 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.

Notes to Financial Statements
For nine months Ended December 31, 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.

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

(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. .

Houston Lake Mining Inc.
Notes to Financial Statements
For nine months Ended December 31, 2009 and 2008 (Unaudited)

3. Investment in Mining Properties

	<u>Dec. 31, 2009</u>	<u>March 31, 2009</u>
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)	\$ 2,118,805	\$ 2,010,007
West Cedartree Property - Kenora, Ontario (b)	1,650,798	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)	2,385,097	2,036,936
	<u>6,984,543</u>	<u>6,425,599</u>
	<u>\$ 8,294,023</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 and 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).

Houston Lake Mining Inc.
Notes to Financial Statements
For nine months ended December 31, 2009 and 2008 (Unaudited)

3. Investment in Mining Properties (continued)

(b) West Cedartree Property – Kenora, Continued

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%

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 2,496 hectare (6,167 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. Magma formally withdrew from the option on January 26, 2007.

(e) Pakeagama Lake – Red Lake

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

Houston Lake Mining Inc.
Notes to Financial Statements
For nine months ended December 31, 2009 and 2008 (Unaudited)

(e) Pakeagama Lake - Red Lake, Continued

Pakeagama Lake Property

The Company has a 100% interest in the Pakeagama Lake Property. The 7 unpatented mining claims cover 1,792 hectares (4,426 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.

Pakeagama Lake West Property

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

Pakeagama Lake Northwest Property

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

(f) Dubenski Property - Kenora

The Company has a 100% option interest in the 363.6 hectare (898.5 acre) Dubenski Gold Property. The 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%.

4. Property, Plant and Equipment

	December 31, 2009 (unaudited)		March 31, 2009 (audited)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 21,406	\$ 15,834	\$ 21,406	\$ 14,851
Exploration equipment	26,214	15,799	26,214	12,775
Computer equipment	49,678	47,373	49,678	45,955
Computer software	10,042	9,856	10,042	9,794
Vehicles	50,081	35,626	50,081	31,429
	\$ 157,421	\$ 124,488	\$ 157,421	\$ 114,804
Net book value		\$ 32,933		\$ 42,617

Houston Lake Mining Inc.
Notes to Financial Statements
For nine months ended December 31, 2009 and 2008 (Unaudited)

5. Related Party Transactions

During the nine months ended December 31, 2009, the Company incurred the following expenditures with a director and companies controlled by directors of the company:

	December 31, 2009		December 31, 2008
	(Unaudited)		(Unaudited)
Investment in mining properties	\$ 53,700	\$	65,333
Consulting	29,100		13,133
Office and equipment rental	6,750		6,750
	\$ 85,550	\$	85,416

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

Houston Lake Mining Inc.
Notes to Financial Statements
For nine months ended December 31, 2009 and 2008 (Unaudited)

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.

Issued:

The change in share capital for the three month period ending December 31, 2009 is as follows:

<u>Common Shares</u>	<u>December 31, 2009</u> <u>(Unaudited)</u>	
Balance, beginning of period	34,657,638	\$ 10,280,462
Issued during period pursuant to:		
Private placement	7,840,000	1,960,000
Less: Share issue costs		(138,925)
	<u>42,497,638</u>	<u>\$ 12,101,537</u>

Warrant Issues:

As at December 31, 2009, the following warrants were outstanding:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Shares</u>
May 15, 2010	0.70	625,000
May 20, 2010	0.70	140,500
June 16, 2010	0.70	238,500
July 18, 2010	0.70	666,666
August 20, 2010	0.70	363,636
December 30, 2010	0.35	1,358,692
March 24, 2011	0.50	431,425
June 16, 2011	0.35	200,000
September 29, 2011	0.40	650,000
November 24, 2011	0.30	2,000,000
December 22, 2011	0.30	1,000,000
December 31, 2011	0.30	<u>270,000</u>
		<u>7,844,392</u>

Houston Lake Mining Inc.
Notes to Financial Statements
For nine months ended December 31, 2009 and 2008 (Unaudited)

6. Share Capital (Continued)

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.

The following is a summary of the options outstanding at December 31, 2009, which have been granted by the Board of Directors:

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Shares</u>
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	<u>540,000</u>
		<u>2,502,500</u>

Contributed Surplus

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