

Financial Statements of
HOUSTON LAKE MINING INC.
Years ended March 31, 2009 and 2008

Houston Lake Mining Inc.

Financial Statements

For the years ended March 31, 2009 and 2008

	Contents
Auditors' Report	2
Financial Statements	
Balance Sheets	3
Statements of Deficit	4
Statements of Operations and Comprehensive Loss	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 25

Auditors' Report

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

We have audited the balance sheets of Houston Lake Mining Inc. (the "Company") as at March 31, 2009 and 2008 and the statements of operations and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Sievert & Sawrantschuk LLP.

Toronto, Canada
July 24, 2009

Sievert & Sawrantschuk LLP
Chartered Accountants, Licensed Public Accountants

**Houston Lake Mining Inc.
Balance Sheets**

March 31	2009	2008
	\$	\$
Assets		
Current		
Cash and cash equivalents	34,343	268,114
Goods and Services tax receivable	32,678	47,753
Prepaid and sundry	35,281	48,498
Cash restricted for flow-through expenditures (Note 8)	413,073	434,093
	515,375	798,458
Investment in mining properties (Note 3)	7,634,078	5,219,053
Property, plant and equipment (Note 4)	42,617	62,183
	8,192,070	6,079,694
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	237,033	376,942
Shareholders' Equity		
Share capital (Note 7)	10,009,463	8,254,513
Advances for shares to be issued (Note 7)	56,000	-
Contributed surplus (Note 7)	1,541,594	976,491
Deficit	(3,652,020)	(3,528,252)
	7,955,037	5,702,752
	8,192,070	6,079,694

Approved on behalf of the Board:

"Robert J. McLean", Director

"E. Grayme Anthony", Director

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

Houston Lake Mining Inc.
Statements of Deficit

For the years ended March 31	2009	2008
	\$	\$
Deficit, beginning of year	(3,528,252)	(3,247,928)
Net loss for the year	(123,768)	(280,324)
Deficit, end of year	(3,652,020)	(3,528,252)

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

Houston Lake Mining Inc. Statements of Operations and Comprehensive Loss

For the years ended March 31	2009	2008
Expenses		
Shareholder and investor relations	238,653	212,820
General and administrative	127,345	96,016
Consulting (Note 6)	79,133	99,050
Stock option compensation, directors (Notes 6 and 7)	73,040	210,000
Wages and benefits	40,199	35,566
Vehicle and travel	34,911	19,925
Insurance	31,083	25,165
Professional fees	24,326	24,383
Amortization	19,566	23,654
Telephone	12,770	7,579
Foreign exchange	10,550	-
Office and equipment rental (Note 6)	9,000	9,000
Bank charges and interest	1,607	5,704
	702,183	768,862
Other income	(10,015)	(914)
	(692,168)	767,948
Net loss before taxes	(692,168)	(767,948)
Income taxes		
Current	-	-
Future income tax benefit (Note 5)	568,400	487,624
Net loss and comprehensive loss for the year	(123,768)	(280,324)
Basic and diluted loss per share (Note 2(I))	(0.00)	(0.01)
Weighted average number of shares	30,724,646	25,893,013

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

Houston Lake Mining Inc. Statements of Cash Flows

For the years ended March 31 **2009** **2008**

Cash provided by (used in)

Operating activities

Net loss for the year	(123,768)	(280,324)
Items not involving cash		
Amortization of property, plant and equipment	19,566	23,654
Future income tax benefit	(568,400)	(487,624)
Consulting and director fees paid by options (Note 6)	109,765	278,000
	(562,837)	(466,294)
Changes in non-cash working capital balances		
Goods and Services tax receivable	15,075	(1,044)
Prepaid and sundry	13,217	(48,298)
Accounts payable and accrued liabilities	(139,909)	57,931
	(674,454)	(457,705)

Investing activities

Purchase of property, plant and equipment	-	(20,946)
Net addition to investment in mining properties	(2,415,025)	(1,893,219)
	(2,415,025)	(1,914,165)

Financing activities

Issuance of common shares	2,323,350	1,640,512
Issuance of warrants	455,338	250,464
Advances for shares to be issued (Note 7)	56,000	-
Cash restricted for flow-through expenditures	21,020	313,157
	2,855,708	2,204,133

Decrease in cash during the year	(233,771)	(167,737)
Cash and cash equivalents, beginning of year	268,114	435,851

Cash and cash equivalents, end of year	34,343	268,114
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Supplementary Cash Flow Information

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

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

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

1. Nature of Operations and Going Concern

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

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

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

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

2. Significant Accounting Policies

(a) 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.

(b) Financial Instruments

Effective January 1, 2007, the Company has adopted the accounting recommendations of the CICA handbook section 3855, "Financial Instruments – Recognition and Measurement", section 3862, "Financial Instrument Disclosure", and section 3863, "Financial Instrument Presentation". Section 3855 describes when a financial asset, financial liability, or non-financial derivative is to be recognized on the Balance Sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. The result of the preceding is that financial assets, financial liabilities, or non-financial derivatives will be reflected on the Financial Statements at fair value. In subsequent periods all financial instruments will be re-measured based on one of the following five classifications adopted for the financial instruments; held to maturity, loans and receivables, held for trading, available for sale, or other liabilities. The Company will then make the appropriate adjustments.

The carrying amounts for cash and cash equivalents, Goods and Services taxes receivable and accounts payable and accrued liabilities on the balance sheet approximate their fair value due to their short-term maturity or capacity for prompt liquidation.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

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.

Financial Assets

Held For Trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income or expense during the period.

Held to Maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held to maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and Receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available For Sale

Available for sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available for sale are subsequently re-measured if they have quoted market value in an active market. Otherwise, these investments are carried at cost and are written down when impairment is considered that is other than temporary.

Financial Liabilities

Held For Trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other Financial Liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The company has made the following classifications

- Cash and cash equivalents is classified as a financial asset “held for trading” and is measured at fair value. Gains and losses resulting from period revaluation are recorded in net loss
- Goods and Services tax receivable is classified as “loans and receivables” and is recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities are classified as “other financial liabilities” and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for all financial instruments.

Comprehensive Income

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gain or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining operations. The Company has evaluated the impact of section 1530 on its financial statements and determined that it has no impact.

Hedges

Section 3865 provides alternative treatments to Section 3855 for entities, which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 “Hedging Relationships”, and the hedging guidance in Section 1650 “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

The Company currently does not have any components of hedges in place and therefore this policy has had no impact on the financial statements.

(c) Property, Plant and Equipment

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

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

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

(d) Investment in Mining Properties

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

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

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

(e) General

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

(f) Income Taxes

The Company follows the asset/liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(f) Income Taxes (continued)

tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

(g) Flow-Through Shares

The Company has financed a portion of its exploration activities with flow-through shares. Shares were issued for cash in exchange for the company giving up the tax benefits arising from the exploration expenditures. The expenditures funded by flow-through arrangements are renounced to investors in accordance with tax legislation. The Company records such share issuances by crediting share capital for the value of cash consideration received. Share capital is reduced and future income taxes are increased by the foregone tax benefits related to the renounced tax deductions on the date the tax deductions are renounced. During the current year, the Company renounced \$1,960,000 (2008 - \$1,350,010) in expenditures.

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

(h) Asset Retirement Obligation

An asset retirement obligation associated with the retirement of tangible long-lived assets that the Company is obliged to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the amount of the recorded liability. To date, the Company has not recorded any asset retirement obligations because the mining and processing activities that give rise to this obligation have not yet occurred and the environmental disturbance which has occurred is not significant.

(i) Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the 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

March 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(j) Stock Based Compensation

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

(k) Revenue Recognition

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

(l) 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 2009 and 2008.

(m) Changes in Accounting Policies

Section 1506

The Company adopted Section 1506 – Accounting changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

This standard has impacted the Company's disclosures but will not affect the Company's results or financial position.

Section 1535

The new Section 1535 – Capital Disclosures requires that the entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008, for the Company.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

2. Significant Accounting Policies (continued)

(m) Changes in Accounting Policies (continued)

This standard has impacted the Company's disclosures but will not affect the Company's results or financial position.

Section 3031

The new Section 3031 – Inventories relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and was effective for the Company as of this date.

The adoption of this standard has not had an impact on the Company's financial statements as it has no inventories.

(n) Future Accounting Changes

Section 3064

The new Section 3064 – Goodwill and Intangible Assets ensures that intangible assets meet the definition of an asset, and eliminates the "matching" principle, whereby certain costs were being deferred and expensed to match with revenue earned. The new standard applies for interim and annual financial statements for years beginning on or after October 2008. The standard is not expected to have a significant impact on the Company's financial statements.

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 on January 1, 2011 for public entities. The new standard applies to interim and annual financial statements. The impact of this transition on the Company's financial statements has not yet been determined; however, management continues to monitor these developments.

Houston Lake Mining Inc. Notes to Financial Statements

March 31, 2009 and 2008

3. Investment in Mining Properties	2009	2008
Acquisition costs		
Dogpaw Lake Property – Kenora, Ontario (a)	\$ 237,720	\$ 237,720
West Cedartree Property – Kenora, Ontario (b)	192,156	192,156
North Block – Kenora, Ontario (c)	4,000	4,000
Tib Lake – Thunder Bay, Ontario (d)	71,395	71,395
Pakeagama Lake - Red Lake, Ontario (e)	427,208	427,208
Dubenski Property – Kenora, Ontario (f)	276,000	276,000
	1,208,479	1,208,479
Deferred exploration costs		
Dogpaw Lake Property – Kenora, Ontario (a)	\$ 2,010,007	\$ 1,005,502
West Cedartree Property – Kenora, Ontario(b)	1,551,513	1,369,728
North Block – Kenora, Ontario (c)	5,182	5,182
Tib Lake – Thunder Bay, Ontario(d)	513,134	486,972
Pakeagama Lake – Red Lake, Ontario (e)	308,827	255,428
Dubenski Property – Kenora, Ontario (f)	2,036,936	887,762
	6,425,599	4,010,574
	\$ 7,634,078	\$ 5,219,053

(a) Dogpaw Lake Property – Kenora, Ontario

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, Ontario

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

Jesse (North) Property

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

West Cedartree Property

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

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

3. Investment in Mining Properties (continued)

(b) West Cedartree Property – Kenora, Ontario (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 80 hectare (198 acre), 4 unpatented mining claims comprised of 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, Ontario

The Company has a 100% interest in 1 unpatented claim, 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, Ontario

The Company holds a 100% interest in the 20 unpatented, 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(d), 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 \$513,034. Magma formally withdrew from the option on January 26, 2007.

(e) Pakeagama Lake - Red Lake, Ontario

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

Pakeagama Lake Property

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

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

3. Investment in Mining Properties (continued)

(e) Pakeagama Lake - Red Lake, Ontario (continued)

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, Ontario

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 March 31, 2009, Houston Lake Mining Inc. has paid \$200,000 and issued 200,000 common shares at a deemed price of \$0.88 per share on May 11, 2007 to the vendor.

4. Property, Plant and Equipment

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 21,406	\$ 14,851	\$ 21,406	\$ 13,212
Exploration equipment	26,214	12,775	26,214	7,015
Computer equipment	49,678	45,955	49,678	41,904
Computer software	10,042	9,794	10,042	9,672
Organization Costs	1,000	1,000	1,000	1,000
Vehicles	50,081	31,429	50,081	23,435
	\$ 158,421	\$ 115,804	\$ 158,421	\$ 96,238
Net book value		\$ 42,617		\$ 62,183

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

5. Income Taxes

The Company has \$2,123,231 (2008 - \$1,678,640) of non-capital losses available to offset future income for tax purposes. The non-capital losses will expire as follows:

2009	\$	117,015
2010		94,727
2011		137,891
2015		135,254
2016		108,637
2017		289,132
2018		577,844
2019		662,731
		662,731
	\$	2,123,231

The Company has a future tax liability, which arose from a difference between the carrying amount of the mining properties and their tax bases. The reason for the difference on the mining properties is due to the issuance of flow-through shares to investors, which results in the expenditures being renounced to the investors. As a result, the tax basis is much lower than the properties' carrying amount for accounting purposes. Since the mining properties are classified as long-term on the balance sheet, the associated future income tax liability is also classified as long-term. The future tax liability and asset are as follows:

	2009	2008
Future tax liability		
Investment in mining properties	\$ 568,400	\$ 487,624
Future tax asset		
Canadian exploration and development expenses	568,400	487,624
Net future tax liability	\$ -	\$ -

The Company has two future tax assets as follows:

	2009	2008
Future tax assets		
Property, plant and equipment	\$ 35,688	\$ 37,382
Non-capital loss carry forwards	615,737	606,325
Total future tax assets	651,425	643,707
Valuation allowance	(651,425)	(643,707)
Net future income tax assets	\$ -	\$ -

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

5. Income Taxes (continued)

Also, approximately \$2,569,631 (2008 - \$2,106,243) of Canadian exploration and development expenses (net of renounced expenditures) are available for application towards future taxable income.

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rate of 29% (2008 - 36.12%), is reconciled as follows:

	2009	2008
Loss before income taxes	\$ (692,168)	\$ (767,948)
Income tax recovery at the rates of 29%	(200,729)	(277,383)
Share compensation	31,832	75,852
Share issue costs	(29,231)	(15,989)
Other	5,936	8,802
Valuation allowance	192,192	208,718
	\$ -	\$ -

6. Related Party Transactions

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

	2009	2008
Investment in mining properties	\$ 86,933	\$ 62,450
Consulting	19,133	36,049
Office and equipment rental	9,000	9,000
	\$ 115,066	\$ 107,499

Included in stock option compensation is \$73,040 (2008 - \$210,000) granted to directors of the Company (see Note 7(f)).

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

Included in accounts payable and accrued liabilities is \$140,434 (2008 - \$134,134) due to a related company controlled by an officer and director for management and consulting services provided to the Company under ongoing contracts (Note 7(h)).

Houston Lake Mining Inc. Notes to Financial Statements

March 31, 2009 and 2008

7. Share Capital

(a) Authorized

Unlimited number of common voting shares without nominal or par value

Unlimited number first preferred shares

Unlimited number of second preferred shares

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

(b) Issued – Common Shares

	2009		2008	
	Shares	Amount	Shares	Amount
Balance, beginning of year	27,364,746	\$ 8,254,513	24,144,156	\$ 6,868,227
Issued during the year				
pursuant to:				
Private placement ⁽¹⁾	6,222,301	2,960,000	1,780,727	1,350,010
Less: Share issue costs	-	(226,312)	-	(107,600)
Less: Value of warrants	-	(455,338)	-	(17,065)
Options exercised ⁽²⁾	129,166	45,000	621,171	222,101
Warrants exercised	-	-	618,692	250,464
Acquisition of mining properties	-	-	200,000	176,000
Income tax benefits renounced				
on flow through shares ⁽³⁾	-	(568,400)	-	(487,624)
Balance, end of year	33,716,213	\$10,009,463	27,364,746	\$ 8,254,513

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

7. Share Capital (continued)

(b) Issued – Common Shares (continued)

⁽¹⁾ In May 2008, 1,531,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$918,600. Each unit consisted of one common share and one half of one common share purchase warrant.

In June 2008, 477,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$286,200. Each unit consisted of one common share and one half of one common share purchase warrant.

In August 2008, 1,333,333 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$800,000. Each unit consisted of one common share and one half of one common share purchase warrant.

In September 2008, 2,517,332 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$755,200. Each unit consisted of one common share and one half of one common share purchase warrant.

In September 2008, the Company completed a non-brokered private placement of 363,636 units priced at \$0.55 per unit for gross proceeds of \$200,000. Each unit consisted of one common share and one common share purchase warrant.

⁽²⁾ During the year, 129,166 stock options were exercised for total proceeds of \$45,000.

⁽³⁾ In December 2008, the Company renounced \$1,960,000 (2008 - \$1,350,010) of expenditures on flow-through common shares issued in 2008, resulting in a \$568,400 (2008 - \$487,623) reduction in share capital and corresponding decrease to future income assets.

Houston Lake Mining Inc. Notes to Financial Statements

March 31, 2009 and 2008

7. Share Capital (continued)

(c) Warrants Outstanding

	Number of Warrants
Balance, beginning of year	904,708
Warrants issued	3,789,418
Warrants exercised	NIL
Warrants expired during the year	<u>(904,708)</u>
Balance, end of year	<u>3,789,418</u>

As at March 31, 2009, there were 3,789,418 warrants outstanding for the purchase of common shares at an average price of \$0.57 per share expiring as follows:

<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	<u>1,458,719</u>
		<u>3,789,418</u>

The fair value of the warrants was estimated using the Black-Scholes pricing model. In 2009, the assumptions used for the valuation of the warrants were a dividend yield of 0%, expected volatility of 46% - 53%, a 1.08% - 3.36% risk-free rate of return and an expected life of 2 years. The value of the warrants issued during the year was \$455,338.

(d) Contributed Surplus

The following is a continuity of contributed surplus:

Balance, March 31, 2006	565,766
Stock option compensation	19,075
Value of warrants issued	<u>96,585</u>
Balance, March 31, 2007	\$ 681,426
Stock option compensation	278,000
Value of warrants issued	<u>17,065</u>
Balance, March 31, 2008	\$ 976,491
Stock option compensation	109,765
Value of warrants issued	455,338
Balance, March 31, 2009	<u>\$ 1,541,594</u>

Houston Lake Mining Inc. Notes to Financial Statements

March 31, 2009 and 2008

7. Share Capital (continued)

(e) Stock Based Compensation

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

(f) Options Outstanding

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

<u>Expiry Date</u>	<u>Option Price</u>	<u>Number of Options</u>
November 16, 2009	\$ 0.34	300,000
March 10, 2010	\$ 0.25	100,000
August 22, 2010	\$ 0.23	150,000
January 9, 2011	\$ 0.27	200,000
March 3, 2011	\$ 0.32	200,000
April 26, 2011	\$ 0.47	50,000
May 11, 2011	\$ 0.61	25,000
May 10, 2012	\$ 1.00	700,000
November 1, 2012	\$ 0.64	200,000
February 12, 2013	\$ 0.40	187,500
October 1, 2013	\$ 0.40	250,000
December 18, 2013	\$ 0.30	<u>550,000</u>
		<u>2,912,500</u>

	<u>2009</u>		<u>2008</u>	
	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	2,325,000	\$ 0.56	1,829,232	\$ 0.33
Granted	800,000	0.33	1,150,000	0.82
Exercised	(129,166)	0.35	(621,171)	(0.36)
Cancelled	(83,334)	0.30	(33,061)	-
Outstanding, end of year	<u>2,912,500</u>	<u>\$ 0.51</u>	<u>2,325,000</u>	<u>\$ 0.56</u>

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

7. Share Capital (continued)

(f) Options Outstanding (continued)

During the year, 800,000 (2008 - 1,150,000) in stock options were issued to directors and consultants of the Company. Using the Black-Scholes option pricing model with the assumptions below the average fair value of each option granted is approximately \$0.14 (2008 - \$0.14). Stock-based compensation of \$109,765 (2008 - \$165,500) was recorded as an expense (\$73,040 to Stock option compensation, directors; \$36,725 to Shareholder and investor relations) and credited to Contributed Surplus.

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

	December 2008	October 2008	2008
Risk-free interest rate	1.79%	3.11%	3.00%
Dividend yield	0.0%	0.0%	0.0%
Volatility factor	46%	41%	27.86%
Expected option life	5.0 years	5.0 years	5.0 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

(g) Advances for Shares to be Issued

On March 24, 2009, the Company raised \$150,999 through the sale of 431,425 Units priced at \$0.35 per Unit (Note 10). At year end, \$56,000 was received for which common shares were not issued.

(h) Debt Settlement

On February 18, 2009, a Shares for Debt settlement of \$134,134 with a non-arms length company was approved by a majority of the Shareholders. The non-arms length company is controlled by a director and officer for management and consulting services. To date, no movement has been made in regards to this arrangement.

8. Cash Restricted for Flow-Through Exploration Expenditures

In May 2008, 1,531,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$918,600.

In June 2008, 477,000 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$286,200.

In August 2008, 1,333,333 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$800,000.

In September 2008, 2,517,332 Flow-Through common shares were issued for cash in a private placement financing for proceeds of \$755,200.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

8. Cash Restricted for Flow-Through Exploration Expenditures (continued)

Flow-Through common shares require the Company to spend an amount equivalent to the proceeds of the issued Flow-Through common shares on Canadian (Flow-Through) qualifying exploration expenditures. The Company has indemnified the holders of such shares for any tax and other costs payable by them as a result of the Company not making the required exploration expenditures. As at March 31, 2009, the Company's remaining commitment with respect to unspent resource expenditures under flow-through common share agreements is \$413,073 (2008– \$434,093), which is held as restricted cash.

9. Financial Risk Factors

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objective of the Company's risk management processes is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below:

Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and GST receivable. Cash consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. GST receivable is subject to CRA's assessment prior to receipt. Management believes credit risk with respect to cash and GST receivable is low.

Liquidity Risk

The Company ensures that there is sufficient cash and other short-term assets readily convertible into cash in order to meet its liabilities when they come due. The Company's cash is held in business accounts with a Canadian Schedule 1 bank. Management believes that liquidity risk is low.

Interest Rate Risk

The Company does not have any loans or notes payable. The Company's cash is held in business accounts with nominal interest rates. Management considers interest rate risk to be low.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company retains a US Bank Account with a nominal balance. Management considers currency risk to be low.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes that the movements in interest rates that are reasonably possible over the next twelve month period will not have a significant impact on the Company.

Houston Lake Mining Inc.

Notes to Financial Statements

March 31, 2009 and 2008

10. Subsequent Events

On March 24, 2009, the Company raised \$150,999 through the sale of 431,425 Units priced at \$0.35 per Unit. Each Unit consists of one common share and one share purchase warrant. Each full share purchase warrant is exercisable into one common share at an exercise price of \$0.50 for 24 months from closing. Toronto Stock Exchange – Venture Exchange approval for this transaction was given after the year end.

On April 21, 2009, 100,000 options were exercised at \$0.27 and 10,000 options were exercised at \$0.30 in exchange for 100,000 common shares for gross proceeds of \$30,000.

On June 16, 2009, the Company raised \$100,000 through the sale of 400,000 Units priced at \$0.25 per Unit. Each Unit consists of one common share and one half share purchase warrant. Each full share purchase warrant is exercisable into one common share at an exercise price of \$0.35 for 24 months from closing.

On July 17, 2009, the Company granted 250,000 options priced at \$0.22 and expiring on July 17, 2014 to officers, directors, employees and consultants of the Company.

11. Comparative Figures

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