



MOSS LAKE  
GOLD MINES LTD

MOSS LAKE GOLD MINES LTD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2003

## **MESSAGE TO SHAREHOLDERS**

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Although the first quarter of 2003 was inactive in terms of exploration, we saw several constructive signs which give us optimism. The gold market strengthened and there is a general consensus in the business that this trend will continue. Exploration activity in the Shebandowan area is heating up with two winter drilling programs in the immediate vicinity of Moss Lake and summer fieldwork planned on other adjoining properties. Finally, we are seeing expressions of interest again from senior companies regarding the Moss Lake deposit and our properties' exploration potential.

The Moss Lake deposit hosts resources of 60 million tonnes grading 1.1 gAu/tonne or about two million ounces of gold above a depth of 250 metres. Although much higher sustained gold prices are required to develop a profitable mine, considerable exploration potential remains. The fact is that after a prolonged downturn in global exploration activity, fewer substantial resources exist and reserves are depleting. We continue to believe that as the gold price strengthens so will the market's view of our assets.

We are planning a modest drilling program to be undertaken in the fall to test exploration targets south of the Moss Lake deposit on the Fountain Lake claims. We will continue to seek a senior partner with the resources to fully evaluate the potential of our large prospective land position.

George N. Mannard  
President

May 26, 2003

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **GENERAL**

Moss Lake Gold Mines Ltd. was formed in 1994 to consolidate ownership of the Moss Lake property. In 1999 it acquired the large adjoining Fountain Lake property. Its substantial resources require sustained higher gold prices to become viable to mine. The Company began trading on the Toronto Stock Exchange in 1995. In 2000, the Company migrated to the TSX Venture Exchange.

### **RISKS AND UNCERTAINTIES**

The inherent risks which most profoundly affect the Company's activities are the price of gold and the ability of the Company to obtain financing necessary to establish economic ore reserves. With the prolonged depressed state of the gold market in recent years, financing has been unobtainable. The Company has continued to rely on the financial support of parent company, River Gold Mines Ltd. Although this cannot be counted upon in the future, River Gold has been supportive of Moss Lake's efforts and has provided a backup source of capital. The Company completed a private placement with River Gold in 2002 in the amount of \$0.45 million.

### **RESOURCE ESTIMATES**

Resource estimates were performed in 1992 by the senior evaluation engineer of Noranda Exploration Company Ltd. The higher grade core estimate was completed by River Gold Mines Ltd. mine geologists in 1996. This estimate employed historic underground drifting data and closely-spaced surface drilling information. Although completed prior to the institution of National Instrument 43-101 (Standards of Disclosure for Mineral Projects), management believes its methodology and terminology are consistent with the new guidelines.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company is an exploration and development company and has no revenue. At March 31, 2003, the Company had cash resources of \$8,233 compared to \$311 as at year-end 2002. A working capital deficiency of \$133,435 existed compared to \$109,952 at year-end 2002. The payables and accruals of \$143,640 include \$115,445 of advances from majority shareholder River Gold Mines Ltd., which has been funding the Company's activities. In 2002, River Gold acquired 3.0 million treasury shares at \$0.15 per share, which allowed the Company to settle indebtedness and fund exploration.

### **BALANCE SHEET**

At March 31, 2003, assets totalled \$873,169 compared to \$871,418 at year-end 2002. During the first quarter 2003, the Company spent \$4,688 on royalties and \$4,414 on exploration expenditures on the Moss Lake property to increase its carrying value to \$7,111,938. The Company also spent \$516 on exploration expenditures on the Fountain Lake property to increase its carrying value to \$715,778. River Gold continued to finance the Company, advancing \$10,100 during the first quarter 2003. The Company reported a loss for the quarter of \$13,865 compared to \$10,446 in 2002. The ongoing corporate and general expenses required to run a public company continue to escalate.

### **OUTLOOK**

In fall 2003, we plan to test exploration targets south of the Moss Lake deposit on the Fountain Lake claims. We are encouraged by the renewed exploration activity in the area and the strengthening gold market. The Company believes a new discovery is the catalyst required to ignite investor enthusiasm and refinance its long-term efforts. We continue to examine potential mechanisms to increase shareholder value via acquisitions or new business combinations.

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**Moss Lake Gold Mines Ltd.**

**Balance Sheets**

(Unaudited)

	<b>Mar 31</b>	Dec 31
	<b>2003</b>	2002
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<b>Assets</b>		
Current		
Cash	\$ 8,233	\$ 311
Receivables	<u>1,972</u>	<u>17,761</u>
	<b>10,205</b>	<b>18,072</b>
Exploration properties (Note 3)	<u>862,964</u>	<u>853,346</u>
	<b>\$ 873,169</b>	<b>\$ 871,418</b>
<hr/>		
<b>Liabilities</b>		
Current		
Payables and accruals	\$ <u>143,640</u>	\$ <u>128,024</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 4)	<b>8,240,386</b>	8,240,386
Deficit	<u>(7,510,857)</u>	<u>(7,496,992)</u>
	<b>729,529</b>	<b>743,394</b>
	<b>\$ 873,169</b>	<b>\$ 871,418</b>
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See accompanying notes to the unaudited interim financial statements.

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**Moss Lake Gold Mines Ltd.**  
**Interim Statements of Operations and Deficit**

(Unaudited)

Three Months Ended March 31

**2003**

2002

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Interest income	\$ <u>35</u>	\$ <u>180</u>
Costs and expenses		
Corporate and general	<u>13,900</u>	<u>10,626</u>
	<u>13,900</u>	<u>10,626</u>
Net loss (Note 5)	(13,865)	(10,446)
Deficit, beginning of period	<u>(7,496,992)</u>	<u>(7,438,853)</u>
Deficit, end of period	\$ <u>(7,510,857)</u>	\$ <u>(7,449,299)</u>
Loss per common share (Note 6)		
Basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>

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See accompanying notes to the unaudited interim financial statements.

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**Moss Lake Gold Mines Ltd.**  
**Interim Statements of Cash Flows**

(Unaudited)

Three Months Ended March 31

**2003**

**2002**

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Increase (decrease) in cash

**Operating activities**

Net loss	\$ (13,865)	\$ (10,446)
Change in receivables and payables	<u>31,405</u>	<u>14,342</u>
	<b>17,540</b>	<b>3,896</b>

**Investing activity**

Exploration properties	<u>(9,618)</u>	<u>(22,397)</u>
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Increase (decrease) in cash

**7,922** (18,501)

Cash, beginning of period

311 87,812

Cash, end of period

\$ 8,233 \$ 69,311

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See accompanying notes to the unaudited interim financial statements.

**Moss Lake Gold Mines Ltd.**  
**Notes to the Interim Financial Statements**  
(Unaudited)  
March 31, 2003 and 2002

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**1. Operations and going concern assumption**

Moss Lake Gold Mines Ltd. (the "Company") is a publicly traded company and is incorporated under the Business Corporations Act (Ontario). The Company's common shares are listed on the TSX Venture Exchange.

The Company is a subsidiary of River Gold Mines Ltd. ("River Gold"), a publicly held company, which is listed on the Toronto Stock Exchange. On March 31, 2003 and December 31, 2002, River Gold held approximately 58% of the then outstanding common shares of the Company.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has incurred significant losses and at March 31, 2003, the Company had a deficit of \$7.5 million. The recoverability of the carrying value of exploration properties is dependent upon the continued support of River Gold, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to develop ore reserves, future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require additional write-downs of the carrying values.

These financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

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**2. Significant accounting policies**

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

**Exploration properties**

All direct costs associated with exploration properties are capitalized as incurred. If a property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

Once commercial production commences, such capitalized costs are amortized on the unit of production method based on estimated recoverable reserves of ore.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

## **Moss Lake Gold Mines Ltd.**

### **Notes to the Interim Financial Statements**

(Unaudited)

March 31, 2003 and 2002

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#### **2. Significant accounting policies (continued)**

##### **Stock-based compensation plans**

Effective January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. This Section defines recognition, measurement and disclosure standards for stock-based compensation to non-employees and employees. Under these new standards, all stock-based payments made to non-employees must be systematically accounted for in the enterprise's financial statements. These standards define a fair value-based method of accounting and encourage entities to adopt this method of accounting for its stock-based employee compensation plans. Under this method, compensation cost should be measured at the grant date based on the fair value of the award and should be recognized over the related service period. An entity that does not adopt the fair value method of accounting for its awards granted to employees is required to include in its financial statements pro forma disclosures of net earnings and earnings per share as if the fair value method of accounting had been applied. The Company has chosen the latter alternative and the required pro forma information is presented in Note 4.

##### **Income taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

##### **Earnings (loss) per common share**

Basic earnings (loss) per share is computed by dividing the earnings (loss) for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of convertible instruments, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for convertible instruments.

## Moss Lake Gold Mines Ltd.

### Notes to the Interim Financial Statements

(Unaudited)

March 31, 2003 and 2002

#### 3. Exploration properties

##### Moss Lake Property

The Company has a 100% interest in this property which is situated in Moss Township, 100 kilometres west of Thunder Bay, Ontario.

The property consists of 33 contiguous unpatented mining claims and 2 mining leases (comprising 540 hectares) which were acquired in 1995. The Company is obligated to pay underlying advance royalties of \$5,469 per quarter to certain original vendors until commercial production is achieved. Upon commencement of commercial production, the property is subject to an 8.75% net profits royalty, as defined, to these underlying vendors in lieu of the underlying advance royalty.

In addition, the property includes 15 contiguous unpatented claim units acquired in 1998. These units are subject to a 1% net smelter return royalty.

##### Fountain Lake Property

The property consists of 149 mining claims contiguous to the Moss Lake Property to the east, west and south, and is subject to a 2.5% net smelter return royalty payable to certain original vendors of the property.

<b>Carrying values</b>	<b>Mar 31 2003</b>	<b>Dec 31 2002</b>
Moss Lake Property		
Cost of property	\$ 6,010,000	\$ 6,010,000
Settlement of advance royalties	105,000	105,000
Underlying advance royalties	198,251	193,563
Exploration expenditures	<u>798,687</u>	<u>794,273</u>
	<u>7,111,938</u>	<u>7,102,836</u>
Fountain Lake Property		
Cost of property	466,081	466,081
Exploration expenditures	<u>249,697</u>	<u>249,181</u>
	<u>715,778</u>	<u>715,262</u>
Other	<u>5,000</u>	<u>5,000</u>
	<u>7,832,716</u>	<u>7,823,098</u>
Write-down of carrying values	<u>(6,969,752)</u>	<u>(6,969,752)</u>
	<u>\$ 862,964</u>	<u>\$ 853,346</u>

## Moss Lake Gold Mines Ltd.

### Notes to the Interim Financial Statements

(Unaudited)

March 31, 2003 and 2002

#### 4. Capital stock

##### Authorized:

The authorized capital of the Company consists of an unlimited number of preference shares and common shares without par value. The preference shares may, from time to time, be issued in one or more series the rights, privileges, restrictions and conditions of which may be determined by the Board of Directors. No preference shares have been issued.

<b>Common shares issued:</b>	<u>Shares</u>	<u>Amount</u>
Balance, December 31, 2001	31,166,667	\$ 7,790,386
Issued to River Gold under private placement	466,667	70,000
Issued on conversion of indebtedness to River Gold	<u>2,533,333</u>	<u>380,000</u>
Balance, December 31, 2002 and March 31, 2003	<u>34,166,667</u>	<u>\$ 8,240,386</u>

##### Stock option plan

The Company has a stock option plan under which the Board of Directors may grant options to purchase common shares of the Company to key employees, officers or directors of the Company. The aggregate number of common shares which may be reserved for issuance under the plan is limited to 600,000.

The following table reflects the continuity for the three months ended March 31, 2003 and 2002 of options granted under the plan.

	<u>Shares</u>		<u>Weighted Average Exercise Price</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Outstanding, beginning of period	<b>400,000</b>	-	\$ 0.20	\$ -
Granted	<u>-</u>	<u>-</u>	\$ -	\$ -
Outstanding, end of period	<u><b>400,000</b></u>	<u>-</u>	\$ 0.20	\$ -

The stock options granted in fiscal 2002 expire in June 2007.

## Moss Lake Gold Mines Ltd.

### Notes to the Interim Financial Statements

(Unaudited)

March 31, 2003 and 2002

#### 4. Capital stock (continued)

The Company applies the intrinsic value based method of accounting for stock-based compensation awards to employees and accordingly no compensation cost is recognized. Had stock-based compensation for 400,000 options granted to employees under the Plan since January 1, 2002 been determined on the basis of fair value at the date of grant in accordance with the fair value method of accounting for stock-based compensation, the Company's pro forma net loss and loss per share for the three months ended March 31, 2003 would have been as follows.

	<u>Loss</u>	<u>Loss Per Share</u>
As reported	\$ (13,865)	\$ (0.00)
Pro forma	\$ (18,058)	\$ (0.00)

For purposes of the above calculations, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: dividend yield of 0%, expected volatility of 100%, risk-free interest rate of 2.5% and expected life of 3 years.

#### 5. Income taxes

The following table reconciles the expected income tax expense (recovery) at the statutory income tax rate to the amounts recognized in the statements of operations.

	<b>Mar 31 2003</b>	Mar 31 <u>2002</u>
Net loss reflected in the statements of operations	<b>\$ 13,865</b>	\$ 10,446
Expected income tax recovery	\$ -	\$ -
Non-deductible expense (recovery)	-	-
Non-capital losses not recognized	-	-
	<b>\$ -</b>	\$ -

The following table reflects future income tax assets at March 31, 2003 and December 31, 2002.

	<b>Mar 31 2003</b>	Dec 31 <u>2002</u>
Future income tax assets		
Unclaimed non-capital losses	\$ -	\$ 200,000
Excess of unclaimed resource pools over carrying value of exploration properties	-	1,100,000
	-	1,300,000
Less valuation allowance	-	1,300,000
	<b>\$ -</b>	\$ -

At December 31, 2002, the Company had unclaimed exploration and development expenditures of approximately \$4,400,000 and non-capital losses of approximately \$678,000 which are available to reduce future taxable income. Of the non-capital losses, \$135,000 expire in 2003, \$117,000 expire in 2004 and \$117,000 expire in 2005.

## **Moss Lake Gold Mines Ltd.**

### **Notes to the Interim Financial Statements**

(Unaudited)

March 31, 2003 and 2002

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#### **6. Loss per common share**

Loss per common share is based on a weighted average number of shares outstanding of 34,166,667 and 31,166,667 for 2003 and 2002, respectively.

Diluted earnings per share reflects the dilutive effect of the potential exercise of the common share options outstanding as at year end. The effect of common share purchase options on the net loss in 2003 is not reflected as to do so would be anti-dilutive.

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#### **7. Related party information**

Under the terms of management agreements, River Gold, as manager, provides technical and administrative support and carries out annual exploration programs on the Moss Lake and the Fountain Lake Properties for an indefinite term. River Gold is entitled to administrative fees, expressed as a percentage of allowable costs (as defined and including capital expenditures) of 7.5% during the exploration phase, 5% during the development and pre-production phase and 2.5% after commencement of commercial production. Administrative fees charged amounted to \$454 and \$1,181 for 2003 and 2002, respectively, all of which were capitalized.

Payables and accruals at March 31, 2003 and 2002 included \$115,445 and \$377,083, respectively, due to River Gold.

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#### **8. Financial instruments**

The Company's financial instruments consist of cash, receivables and payables. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these financial instruments approximate the carrying values.