



**MOSS LAKE
GOLD MINES LTD**

MOSS LAKE GOLD MINES LTD.
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second Quarter Report June 30, 2007

The following discussion and analysis of the operations, results, and financial position of Moss Lake Gold Mines Ltd. (the "Company") for the second quarter ended June 30, 2007 should be read in conjunction with the December 31, 2006 audited financial statements and their related notes. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The effective date of this report is August 14, 2007.

All amounts are expressed in Canadian dollars unless otherwise indicated.

FORWARD LOOKING STATEMENTS

All statements, other than statements of historical fact, constitute "forward-looking statements" and are based on expectations, estimates and projections as at the date of this MD&A. The company does not intend, and does not assume any obligation to update these forward-looking statements, whether as a result of new information, future events or results or otherwise. The words "believe", "expect", "plan", "intend", "continue", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause results or events to differ materially from current expectations expressed or implied are inherent to the gold mining industry and include, but are not limited to, those discussed in the section entitled "Risks and Uncertainties".

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made to facilitate full and timely disclosure to the public.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of June 30, 2007, by and under the supervision of management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time periods specified in those rules.

GENERAL BUSINESS OVERVIEW

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. The Company began trading on the Toronto Stock Exchange in 1995. In 2000, the Company migrated to the TSX Venture Exchange.

BALANCE SHEET AND OPERATIONS

At June 30, 2007, assets totalled \$1,457,228 compared to \$1,476,282 at year-end 2006. During the first half, 2007, the Company spent \$10,938 on royalties and \$3,030 on expenditures for the Moss Lake property and spent \$nil on exploration expenditures on the Fountain Lake property. The Company reported a loss before recovery of future income taxes for the second quarter of

\$88,780 compared to a loss of \$126,623 in 2006. The ongoing corporate and general expenses required to run a public company continue to be monitored closely.

During the first half of 2007, corporate and general expenses were \$43,916 compared to \$50,394 in the first half of 2006.

LIQUIDITY AND CAPITAL RESOURCES

The Company is an exploration and development company and has no revenue. At June 30, 2007, the Company had cash resources of \$46,908 compared to \$78,072 at year-end 2006. The Company had working capital of \$13,952 at June 30, 2007, compared to \$43,137 at year-end 2006.

On April 24, 2006, the Company announced a convertible, unsecured promissory note had been arranged with majority shareholder Wesdome Gold Mines Ltd. ("Wesdome"). The note has a two year term at 8% per annum and is convertible into common shares at \$0.25 per share. The funds were used to satisfy existing indebtedness of \$107,000 and provide funds for general working capital and an independent 43-101 Technical Report and mineral resource estimate on the Moss Lake gold deposit.

On September 30, 2006, 250,000 warrants from a 2004 flow-through share financing were exercised at a price of \$0.20 per share for proceeds of \$50,000.

On June 28, 2007, 200,000 stock options were exercised at a price of \$0.20 per share for proceeds of \$40,000.

SUMMARY OF QUARTERLY RESULTS

| | 2007 | | 2006 | |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
| Interest income | \$ 180 | \$ 421 | \$ 717 | \$ 860 |
| Net loss (in thousands) | 89 | 49 | 19 | 33 |
| Loss per share – basic and diluted | 0.00 | 0.00 | 0.00 | 0.00 |

| | 2006 | | 2005 | |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2 nd Quarter | 1 st Quarter | 4 th Quarter | 3 rd Quarter |
| Interest income | \$ 461 | \$ 20 | \$ 13 | \$ 12 |
| Net loss (in thousands) | 127 | 25 | 7 | 18 |
| Loss per share – basic and diluted | 0.00 | 0.00 | 0.00 | 0.00 |

ANALYSIS OF EXPLORATION PROPERTIES

| | Cost | Write down | Total |
|-------------------------------|---------------------|-----------------------|---------------------|
| Balance, Dec 31, 2006 | \$ 8,355,843 | \$ (6,969,752) | \$ 1,386,091 |
| Advance royalties | 10,938 | - | 10,938 |
| Camp operations | 209 | - | 209 |
| Claim staking | 1,400 | - | 1,400 |
| Retention | 1,210 | - | 1,210 |
| Administration fees | 212 | - | 212 |
| Balance, June 30, 2007 | \$ 8,369,812 | \$ (6,969,752) | \$ 1,400,060 |

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

| Six months ended June 30 | 2007 | 2006 |
|---------------------------|------------------|------------------|
| Insurance | \$ 3,173 | \$ 3,078 |
| Audit fees | 11,000 | 12,000 |
| Legal fees | - | 3,470 |
| Professional fees | 9,830 | 9,940 |
| Stock exchange fees | 5,100 | 5,200 |
| Stock transfer fees | 4,131 | 2,215 |
| Filing fees | 3,174 | 4,695 |
| Shareholders' information | 1,551 | 3,522 |
| Investor communications | 610 | 3,111 |
| Promotion | 5,196 | 2,962 |
| Miscellaneous | 151 | 201 |
| | \$ 43,916 | \$ 50,394 |

RESOURCE ESTIMATES

In November, 2006, the Company received a 43-101 Technical Report, including mineral resource estimates on the Moss Lake property, from independent consultants Watts, Griffis and McOuat Ltd. To 840 feet depth the deposit is estimated to contain Inferred Resources of 56,114,000 tons grading 0.027 ounces Au per ton, or about 1.51 million ounces. When a 0.015 ounce per ton cut-off grade is applied within the mineralized envelope, an Inferred Resource of 38,968,000 tons at 0.035 ounces per ton, or about 1.36 million contained ounces, results. The lead Qualified Person for the report was John R. Sullivan, P.Geol.

CRITICAL ACCOUNTING ESTIMATES

Exploration properties

The Company has not yet determined whether its exploration properties contain reserves that are economically recoverable. The recoverability of the carrying values of exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and future profitable production there from or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. Management conducts periodic reviews of its mineral properties to determine if write-downs are required. Management estimated that no write-downs were required in 2007.

ENVIRONMENT

Moss Lake is committed to a program of environmental protection at its exploration sites. The Company was in compliance with government regulations in 2007.

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. The Company has continued to rely on the financial support of parent company, Wesdome Gold Mines Ltd. Although this cannot be counted upon in the future, Wesdome has been supportive of Moss Lake's efforts and has provided a backup source of capital.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial Reporting

Management is responsible for certifying the design of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings."

Our ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP. ICFR should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable Canadian GAAP
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial instruments.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, carried out an assessment of the design of the Company's internal controls over financial reporting and concluded that the following disclosable weaknesses existed as at June 30, 2007.

Segregation of Duties

Segregation of duties is a basic, key internal control and one of the most difficult to achieve. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.

Due to limited resources adequate segregation of duties within the accounting group was not achieved. This creates a risk that inaccurate journal entries could be made and not corrected on a timely basis. The result is that the Company is highly reliant on the performance of mitigating procedures during its financial close processes and in order to ensure the financial statements are fairly presented in all material respects.

Management will review the current assignment of responsibilities and where possible improve on segregation. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to ICFR whereby more effective mitigating controls will be adopted.

GAAP Accounting Expertise

Application of certain of the Company's accounting policies is complex and requires advanced knowledge of GAAP which the Company may not have within the limited resources in its accounting group. When and as required, management consults with outside advisors to mitigate this risk in order to ensure the financial statements are fairly presented in all material respects.

Disclosure Controls

The CEO and CFO are responsible for establishing and maintaining the disclosure controls and procedures and have so certified, as required by Multilateral Instrument 52-109. These officers have evaluated the effectiveness of the Company's disclosure controls and procedures and have concluded that the disclosure controls and procedures at the Company provide management a reasonable level of assurance information required to be disclosed by the Company on a continuous basis and in annual and interim filings or other reports is recorded, processed, summarized and reported or disclosed on a timely basis as required.

It should be noted that while the CEO and CFO believe that the Company's disclosure controls and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect disclosure controls and internal control procedures over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

OUTLOOK

The value of the Moss Lake deposit needs to be re-examined in terms of current operating and capital cost structures and particularly in terms of the current gold price, which is above Cdn\$700 per ounce, or about Cdn\$22.50 per gram.

In order to accomplish this, the Company will act on recommendations of Watts, Griffis and McOuat Ltd. and commence a preliminary economic assessment study. Positive results will be followed by a drilling programme to upgrade the current resource classification.

Management feels that Moss Lake's assets are undervalued compared to our peers and feels positive results from the preliminary economic assessment will provide the catalyst for a significant revaluation of its shares in the marketplace.

OUTSTANDING SHARE DATA

As of August 14, 2007, the Company's share information is as follows:

| | |
|-------------------------------|-------------------|
| Common shares issued | <u>39,816,667</u> |
| Common share purchase options | <u>1,500,000</u> |

OTHER INFORMATION

Additional information relating to the Company can be found on our website at www.mosslakegold.com and on SEDAR at www.sedar.com

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Balance Sheets

(Unaudited)

| | June 30 2007 | Dec 31 2006 (Audited) |
|---|-------------------------|-----------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 46,908 | \$ 78,072 |
| Receivables | <u>10,260</u> | <u>12,119</u> |
| | 57,168 | 90,191 |
| Exploration properties (Note 3) | <u>1,400,060</u> | <u>1,386,091</u> |
| | <u>\$ 1,457,228</u> | <u>\$ 1,476,282</u> |
| Liabilities | | |
| Current | | |
| Payables and accruals | \$ 43,216 | \$ 47,054 |
| Convertible promissory note (Note 4) | <u>290,705</u> | <u>285,635</u> |
| | 333,921 | 332,689 |
| Shareholders' Equity | | |
| Capital stock (Note 5) | 8,929,123 | 8,889,123 |
| Contributed surplus (Note 5) | 181,900 | 104,300 |
| Equity component of convertible promissory note | 20,280 | 20,280 |
| Deficit | <u>(8,007,996)</u> | <u>(7,870,110)</u> |
| | <u>1,123,307</u> | <u>1,143,593</u> |
| | <u>\$ 1,457,228</u> | <u>\$ 1,476,282</u> |

Operations and going concern assumption (Note 1)

The external auditors have not reviewed these interim financial statements.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Interim Statements of Operations and Deficit

(Unaudited)

| | Six Months Ended June 30 | | Three Months Ended June 30 | |
|------------------------------------|--------------------------|-----------------------|----------------------------|-----------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest Income | \$ <u>601</u> | \$ <u>481</u> | \$ <u>180</u> | \$ <u>461</u> |
| Costs and expenses | | | | |
| Interest | 16,971 | 1,973 | 8,518 | 1,973 |
| Corporate and general | 43,916 | 50,394 | 17,942 | 25,111 |
| Stock compensation expense | <u>77,600</u> | <u>100,000</u> | <u>62,500</u> | <u>100,000</u> |
| | <u>138,487</u> | <u>152,367</u> | <u>88,960</u> | <u>127,084</u> |
| Net loss | (137,886) | (151,886) | (88,780) | (126,623) |
| Deficit, beginning of period | <u>(7,870,110)</u> | <u>(7,666,591)</u> | <u>(7,919,216)</u> | <u>(7,691,854)</u> |
| Deficit, end of period | \$ <u>(8,007,996)</u> | \$ <u>(7,818,477)</u> | \$ <u>(8,007,996)</u> | \$ <u>(7,818,477)</u> |
| Net loss per common share (Note 6) | | | | |
| Basic and fully diluted | \$ <u>(0.00)</u> | \$ <u>(0.00)</u> | \$ <u>(0.00)</u> | \$ <u>(0.00)</u> |

Interim Statements of Cash Flows

(Unaudited)

| | Six Months Ended June 30 | | Three Months Ended June 30 | |
|------------------------------------|--------------------------|-------------------|----------------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Increase (decrease) in cash | | | | |
| Operating activities | | | | |
| Net loss | \$ (137,886) | \$ (151,886) | \$ (88,780) | \$ (126,623) |
| Stock compensation expense | <u>77,600</u> | <u>100,000</u> | <u>62,500</u> | <u>100,000</u> |
| | <u>(60,286)</u> | <u>(51,886)</u> | <u>(26,280)</u> | <u>(26,623)</u> |
| Change in receivables and payables | <u>(1,980)</u> | <u>(76,400)</u> | <u>(5,600)</u> | <u>(109,228)</u> |
| | <u>(62,266)</u> | <u>(128,286)</u> | <u>(31,880)</u> | <u>(135,851)</u> |
| Financing activity | | | | |
| Loan from Wesdome Gold Mines Ltd. | 5,070 | 300,000 | 2,535 | 300,000 |
| Options exercised | <u>40,000</u> | <u>-</u> | <u>40,000</u> | <u>-</u> |
| | <u>45,070</u> | <u>300,000</u> | <u>42,535</u> | <u>300,000</u> |
| Investing activity | | | | |
| Exploration properties | <u>(13,968)</u> | <u>(11,821)</u> | <u>5,468</u> | <u>(6,122)</u> |
| Net increase (decrease) in cash | (31,164) | 159,895 | 5,187 | 158,028 |
| Cash, beginning of period | <u>78,072</u> | <u>117</u> | <u>41,721</u> | <u>1,984</u> |
| Cash, end of period | \$ <u>46,908</u> | \$ <u>160,012</u> | \$ <u>46,908</u> | \$ <u>160,012</u> |

The external auditors have not reviewed these interim financial statements.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

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 carries on business in one segment, being the acquisition, exploration and development of properties for the mining of precious and base metals in Canada (see Note 3 for developments to date). The Company has not earned any revenue to date from its operations and is therefore, considered to be in the development stage. The amounts shown as property acquisition costs do not necessarily represent present or future values.

The Company was a subsidiary of River Gold Mines Ltd. ("River Gold"), a publicly held company, which is listed on the Toronto Stock Exchange.

On February 1, 2006, Wesdome Gold Mines Ltd. ("Wesdome") completed the merger of Wesdome Gold Mines Inc. ("Old Wesdome") and River Gold to form New Wesdome. New Wesdome's common shares commenced trading over the facilities of the Toronto Stock Exchange on February 6, 2006.

The Merger involved the amalgamation of Old Wesdome with a wholly-owned subsidiary of River Gold (the "Amalgamation"). Immediately prior to the Amalgamation, River Gold filed articles of amendment (i) changing its name to "Wesdome Gold Mines Ltd." and (ii) consolidating the outstanding River Gold common shares on the basis that 1.538461538 of a common share of River Gold (each a "Pre-Consolidation River Share") became one post-consolidation River Gold common share (each a "New Wesdome Share"); i.e. each Pre-Consolidation River Gold Share became 0.65 of a New Wesdome Share. Upon the Amalgamation, each common share in the capital of Old Wesdome was exchanged for a New Wesdome Share and the shareholders of Old Wesdome became shareholders of the combined entity.

As a result of these transactions, the ownership of the Company, previously held by River Gold, is now held by Wesdome Gold Mines Ltd. ("Wesdome").

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 June 30, 2007, the Company had a deficit of \$8.0 million. The recoverability of the carrying value of exploration properties is dependent upon the continued support of Wesdome, 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.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

2. Significant accounting policies

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

Estimates, risks and uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the year. Significant estimates and assumptions include those related to the recoverability of mineral exploration properties and stock compensation expense. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

The Black Scholes option valuation model used by the Company to determine the fair value of options was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted during the year.

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.

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.

Impairment of long-lived assets

The Company monitors events and changes in circumstances which may require an assessment of the recoverability of its long-lived assets. If required, the Company would assess recoverability using estimated undiscounted future operating cash flows. If the carrying amount of an asset is not recoverable, an impairment loss is recognized in operations, measured by comparing the carrying amount of the asset to its fair value.

Asset retirement and reclamation obligation

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At June 30, 2007, the Company has not incurred or committed to any reclamation obligation on its exploration properties.

Stock-based compensation plan

The Company has adopted the recognition of compensation expense for grants of stock options to officers, directors and employees based on the estimated fair value at the grant date prospectively for new stock-based compensation awards granted after January 1, 2003.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

2. Significant accounting policies (continued)

Flow-through shares

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

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 substantively 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.

Loss per common share

Basic loss per share is computed by dividing the 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 options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

3. Exploration properties

| | June 30 <u>2007</u> | Dec 31 <u>2006</u> |
|---------------------------------|--------------------------------------|---------------------------|
| Cost of properties | \$ 6,481,081 | \$ 6,481,081 |
| Exploration expenditures | 1,491,730 | 1,488,699 |
| Settlement of advance royalties | 105,000 | 105,000 |
| Underlying advance royalties | <u>292,001</u> | <u>281,063</u> |
| | 8,369,812 | 8,355,843 |
| Write-down of carrying values | <u>(6,969,752)</u> | <u>(6,969,752)</u> |
| | \$ 1,400,060 | \$ 1,386,091 |

The Company has interests in the following contiguous properties in the Moss Township, west of Thunder Bay, Ontario:

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

3. Exploration properties (continued)

Moss Lake property

The Company has a 100% interest in this property consisting of 10 mining claims of 11 claim units and 2 mining leases of 15 units 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 3 mining claims of 15 contiguous claim units acquired in 1998. These units are subject to a 1% net smelter return royalty.

Fountain Lake property

The Company has a 100% interest in this property consisting 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. This royalty is subject to a buyback clause whereby the royalty may be reduced to 1.5% net smelter return for consideration of \$1.0 million.

4. Convertible promissory note

On June 2, 2006, the Company obtained a \$300,000 loan from Wesdome. As consideration the Company issued to Wesdome a convertible unsecured promissory note (the "note") having a 2 year term and bearing interest at 8% per annum. The principal amount of the note is convertible into common shares in the capital of the Company at \$0.25 per share. If Wesdome converts the principal amount of the note into Moss Lake shares, Wesdome will acquire an additional 1.2 million Moss Lake shares increasing its ownership by 3% to 64% of the issued and outstanding shares of Moss Lake.

The liability component of the note, in the amount of \$279,720, is calculated as the present value of the principal and interest, discounted at a rate of approximately the interest rate that would have been applicable to non-convertible debt at the time the loan was issued. This portion of the note is accreted over its term to the full face value by charges to interest expense. The equity element of the note, in the amount of \$20,280, is comprised of the value of the exchange option, being the difference between the face value of the note and the liability component.

5. 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.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

5. Capital stock (continued)

| Common shares issued: | <u>Shares</u> | <u>Amount</u> |
|----------------------------|-------------------|---------------------|
| Balance, December 31, 2006 | 39,616,667 | \$ 8,889,123 |
| Exercise of stock options | <u>200,000</u> | <u>40,000</u> |
| Balance, June 30, 2007 | <u>39,816,667</u> | <u>\$ 8,929,123</u> |

Stock option plan and contributed surplus

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 10% of the Company's issued and outstanding common shares from time to time. As at June 30, 2007, 2,461,667 common shares are available for grant under the plan.

The following table reflects the continuity for the three months ended June 30, 2007 and 2006 of options granted under the plan.

| | <u>Shares</u> | | <u>Weighted Average Exercise Price</u> | |
|-------------------------------|------------------|------------------|--|-------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Outstanding, beginning period | 1,300,000 | 400,000 | \$ 0.24 | \$ 0.20 |
| Granted | 500,000 | 800,000 | \$ 0.25 | \$ 0.25 |
| Exercised | (200,000) | - | \$ 0.20 | \$ - |
| Expired | <u>(100,000)</u> | <u>-</u> | \$ 0.20 | \$ - |
| Outstanding, end of period | <u>1,500,000</u> | <u>1,200,000</u> | \$ 0.25 | \$ - |

The following information applies to options outstanding and exercisable at June 30, 2007.

| <u>Exercise Price</u> | <u>Number Outstanding</u> | <u>Weighted Average Remaining Contractual Life</u> | <u>Weighted Average Exercise Price</u> |
|-----------------------|---------------------------|--|--|
| \$0.20 | 100,000 | 2.25 years | \$ 0.20 |
| \$0.25 | 800,000 | 4.00 years | \$ 0.25 |
| \$0.30 | 100,000 | 4.50 years | \$ 0.30 |
| \$0.25 | <u>500,000</u> | 5.00 years | \$ 0.25 |
| | <u>1,500,000</u> | | |

The fair value of the options granted in fiscal 2007 and 2006 was estimated on the date of grant using the Black-Scholes option pricing model. For fiscal years 2007 and 2006, the weighted average fair value per share price of \$0.128 (2006: \$0.125) was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 4.5% and expected life of 2.5 years.

The contributed surplus balance relating to stock options was \$181,900 and \$104,300 at June 30, 2007 and December 31, 2006, respectively.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

6. Loss per common share

Loss per common share is based on a weighted average number of shares outstanding of 39,621,063 for the three months ended June 30, 2007 (2006: 39,366,667) and 39,618,877 for the six months ended June 30, 2007 (2006: 39,366,667). The effect of common share purchase options and warrants on the net loss in 2007 and 2006 is not reflected as to do so would be anti-dilutive.

7. Related party information

Under the terms of management agreements, Wesdome, 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. Wesdome 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 \$211 and \$15 for 2007 and 2006, respectively, all of which were capitalized to exploration properties.

Payables and accruals at June 30, 2007 and December 31, 2006 included \$20,282 and \$290 respectively, due to Wesdome.

Payables and accruals at June 30, 2007 included \$8,475 (2006: \$3,617) due to Western Québec Mines Inc. ("WQM") for reimbursement of expenses. These transactions were in the normal course of operations and were measured at the exchange amounts as established and agreed to by the related parties. The Company is related to WQM through common management.

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 approximates the carrying values given their short-term nature.

The carrying value of the convertible promissory note approximates fair value as the note was recorded at the approximate market rate on such debt.

9. Environmental risks

Moss Lake is committed to a program of environmental protection at its exploration sites. Management believes that it was in material compliance with government regulations in 2007.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Interim Financial Statements

(Unaudited)

Six months ended June 30, 2007

10. Indemnities

The Company has agreed to indemnify its directors and officers, and certain of its employees in accordance with the Company's by-laws. The Company maintains insurance policies that may provide coverage against certain claims.