



***MOSS LAKE
GOLD MINES LTD***

2006 Annual Report

Corporate Profile

Moss Lake is a gold exploration company with a significant gold asset in the Shebandowan area of Ontario, west of Thunder Bay. It is management's intention in 2007 to meet and achieve the following objectives:

- ▶ raise the profile of the core asset significantly
- ▶ commence with a preliminary economic assessment study of the Moss Lake Gold Deposit
- ▶ complete a drilling program with the goal of upgrading the current resource classification

The Moss Lake Gold Deposit contains an Inferred Mineral Resources estimate of 50.92 million tonnes grading 0.926 gAu/tonne (1.515M oz of contained Au), in the Main and QES to 256 m (840 ft) vertical and the deposit remains open to the south-west and at depth as per a NI 43-101 compliant report filed on SEDAR in November, 2006. The Qualified Person for the NI 43-101 compliant Mineral Resource estimate of the Moss Lake Gold Deposit project is John R. Sullivan, P. Geo., Senior Geologist for Watts, Griffis and McOuat. Employing a 0.5 gAu/tonne cut-off grade within the resource model generates an inferred resource subset of 35.4 million tonnes grading 1.2 gAu/tonne at shallow depths. This will be the focus of the economic assessment.

Management continues to be impressed with the size of the resource and obvious exploration potential of the Moss Lake Gold Deposit. The significance of this asset has grown and will grow with the gold price. Management believes the preliminary economic assessment of the Moss Lake Gold Deposit will provide a catalyst for a significant upward revaluation of the Company.

Moss Lake Gold Mines Ltd trades on the TSX-V under the symbol "MOK". Moss Lake has 39.6 million shares issued and outstanding.

Annual Meeting

The Annual Meeting of shareholders will be held at the Head Office, 8 King Street East, Suite 1305, Toronto, Ontario on Friday, June 29, 2007 at 10:00 a.m.

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Message to Shareholders

After years of consolidating land, conducting systematic early stage exploration work and generally just keeping our noses above water in a lousy gold market, our assets are finally starting to show more shine. In 2006, the gold price finally outran the Canadian dollar. As of today, the spot gold market is sitting north of CDN\$775 per ounce, or approaching CDN\$25 per gram, or about CDN\$250 per ounce more than it averaged in 2005.

The Moss Lake gold deposit is starting to get interesting – Rip Van Winkle is waking up. The Company has initiated efforts to re-evaluate its potential through independent studies involving open pit optimization work, operating and capital cost estimates and economic models. Diamond drilling will follow to reclassify resources, provide material for further metallurgical testing and, importantly, trace the southwest extension where the deposit remains open.

Management believes that these undertakings, with a modicum of promotion and public awareness, will catalyze a significant revaluation of our assets.

On behalf of the Board of Directors,



George N. Mannard
President

April 19, 2007

Management's Discussion and Analysis

FOR THE YEAR ENDED DECEMBER 31, 2006

The following discussion and analysis of the operations, results, and financial position of Moss Lake Gold Mines Ltd. (the "Company") for the year ended December 31, 2006 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 April 17, 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 December 31, 2006, 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.

SELECTED ANNUAL INFORMATION

	2006	2005	2004
Interest income	\$ 2,058	\$ 79	\$ 1,270
Net loss (in thousands)	204	77	48
Loss per common share	0.01	0.00	0.00
Total assets (in thousands)	1,476	1,296	1,294
Long term financial liabilities (in thousands)	286	-	-

BALANCE SHEET AND OPERATIONS

At December 31, 2006, assets totalled \$1,476,282 compared to \$1,295,892 at year-end 2005. During 2006 the Company spent \$21,875 on royalties and \$75,672 on exploration expenditures on the Moss Lake property and spent \$nil on exploration expenditures on the Fountain Lake property. The Company reported a loss of \$203,518 compared to a loss of \$76,673 in 2005. The ongoing corporate and general expenses required to run a public company continue to be monitored closely.

The Company reported a loss for the fourth quarter of \$18,424 compared to \$7,828 in 2005. During the fourth quarter of 2006, corporate and general expenses increased by \$7,177 compared to a \$13,091 increase in the fourth quarter of 2005 which includes costs incurred for conventions, shareholders' information, audit, legal, stock transfer and filing fees.

LIQUIDITY AND CAPITAL RESOURCES

The Company is an exploration and development company and has no revenue. At December 31, 2006, the Company had cash resources of \$78,072 compared to \$117 at year-end 2005. The Company had a working capital of \$43,137 at December 31, 2006, compared to a working capital deficiency of \$111,713 at year-end 2005.

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.

SUMMARY OF QUARTERLY RESULTS

	2006			
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
Interest income	\$ 717	\$ 860	\$ 461	\$ 20
Net loss (in thousands)	19	33	127	25
Loss per share - basic and diluted	0.00	0.00	0.00	0.00
	2005			
	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
Interest income	\$ 13	\$ 12	\$ 15	\$ 39
Net loss (in thousands)	7	18	33	19
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, 2005	\$ 8,258,296	\$ (6,969,752)	\$ 1,288,544
Salaries / contract	70,310	-	70,310
Advance royalties	21,875	-	21,875
Camp operations	1,870	-	1,870
Camp rental	(2,600)	-	(2,600)
Retention	663	-	663
Administration fees	5,429	-	5,429
Balance, Dec 31, 2006	\$ 8,355,843	\$ (6,969,752)	\$ 1,386,091

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

For year ended December 31	2006	2005
Insurance	\$ 6,048	\$ 6,200
Professional fees	45,072	39,039
Stock exchange fees	8,537	3,100
Stock transfer fees	8,148	8,025
Filing fees	5,285	4,801
Shareholders' information	5,801	11,837
Conventions	6,428	4,026
Miscellaneous	271	2,724
	\$ 85,590	\$ 79,752

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, Griffiths 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.Geo.

Management's Discussion and Analysis

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 2006.

ENVIRONMENT

Moss Lake is committed to a program of environmental protection at its exploration sites. The Company was in compliance with government regulations in 2006.

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, River Gold Mines Ltd. ("River Gold"). 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.

On February 1, 2006, Wesdome Gold Mines Ltd. ("New 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 Wesdome was exchanged for a New Wesdome Share and the shareholders of Old Wesdome became shareholders of the combined entity.

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 December 31, 2006.

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 hovering around Cdn\$770 per ounce, or about Cdn\$25 per gram.

In order to accomplish this, the Company will act on recommendations of Watts, Grifffis and McQuat 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 April 17, 2007, the Company's share information is as follows:

Common shares issued	39,616,667
Common share purchase options	1,200,000

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

Management's Responsibility for Financial Statements

The accompanying financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the management of the Company. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimate and judgement based on currently available information.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that the accounting systems provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities in respect of financial reporting and internal control. The Audit Committee of the Board of Directors meets periodically with management and the Company's independent auditors to discuss auditing matters and financial reporting issues. In addition, the Audit Committee reviews the annual financial statements before they are presented to the Board of Directors for approval.

The Company's independent auditors, Grant Thornton LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

Toronto, Canada
March 16, 2007



Donald D. Orr
Secretary-Treasurer

Auditors' Report

To the Shareholders of Moss Lake Gold Mines Ltd.

We have audited the balance sheets of Moss Lake Gold Mines Ltd. (a Development Stage Company) as at December 31, 2006 and 2005 and the statements of operations and 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 audits.

We conducted our audits 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 December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 16, 2007



Grant Thornton LLP
Chartered Accountants

Balance Sheets

<i>December 31</i>	2006	2005
Assets		
Current		
Cash	\$ 78,072	\$ 117
Receivables	12,119	7,231
	90,191	7,348
Exploration properties (Note 3)	1,386,091	1,288,544
	\$ 1,476,282	\$ 1,295,892
Liabilities		
Current		
Payables and accruals	\$ 47,054	\$ 119,061
Convertible promissory note (Note 4)	285,635	-
	332,689	119,061
Shareholders' Equity		
Capital stock (Note 5)	8,889,123	8,839,123
Contributed surplus (Note 5)	104,300	4,300
Equity component of convertible promissory note	20,280	-
Deficit	(7,870,110)	(7,666,592)
	1,143,593	1,176,831
	\$ 1,476,282	\$ 1,295,892

Operations and going concern assumption (Note 1)

On behalf of the Board



George N. Mannard
Director



David Birkett
Director

See accompanying notes to the financial statements.

Statements of Operations and Deficit

<i>Years Ended December 31</i>	2006	2005
Interest income	\$ 2,058	\$ 79
Costs and expenses		
Interest	19,986	-
Corporate and general	85,590	79,752
Stock compensation expense	100,000	-
Large corporation tax (recovery)	-	(3,000)
	205,576	76,752
Loss before recovery of future income taxes	(203,518)	(76,673)
Recovery of future income taxes (Note 6)	-	-
Net loss	(203,518)	(76,673)
Deficit, beginning of year	(7,666,592)	(7,589,919)
Deficit, end of year	\$ (7,870,110)	\$ (7,666,592)
Net loss per common share (Note 7)		
Basic and fully diluted	\$ (0.01)	\$ (0.00)

Statements of Cash Flows

<i>Years Ended December 31</i>	2006	2005
Increase (decrease) in cash		
Operating activities		
Net loss	\$ (203,518)	\$ (76,673)
Stock compensation expense	100,000	-
Accretion expense on convertible promissory note	5,915	-
Change in receivables and payables	(76,895)	89,455
	(174,498)	12,782
Financing activities		
Common shares issued	50,000	-
Loan from Wesdome Gold Mines Ltd.	300,000	-
	350,000	-
Investing activity		
Exploration properties	(97,547)	(36,053)
Net increase (decrease) in cash	77,955	(23,271)
Cash, beginning of year	117	23,388
Cash, end of year	\$ 78,072	\$ 117

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 2006 and 2005

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. At December 31, 2005, River Gold held approximately 61% of the then outstanding common shares of the Company.

On February 1, 2006, Wesdome Gold Mines Ltd. ("New 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 1,538,461,538 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 December 31, 2006, the Company had a deficit of \$7.87 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.

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 December 31, 2006, 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.

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

	2006	2005
Cost of properties	\$ 6,481,081	\$ 6,481,081
Exploration expenditures	1,488,699	1,413,027
Settlement of advance royalties	105,000	105,000
Underlying advance royalties	281,063	259,188
	8,355,843	8,258,296
Write-down of carrying values	(6,969,752)	(6,969,752)
	\$ 1,386,091	\$ 1,288,544

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

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

Notes to the Financial Statements

December 31, 2006 and 2005

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.

Common shares issued:	Shares	Amount
Balance, December 31, 2005 and 2004	39,366,667	\$ 8,839,123
Exercise of warrants	250,000	50,000
Balance, December 31, 2006	39,616,667	\$ 8,889,123

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 December 31, 2006, 2,761,667 common shares are available for grant under the plan.

The following table reflects the continuity for the years ended December 31, 2006 and 2005 of options granted under the plan.

	Shares		Weighted Average Exercise Price	
	2006	2005	2006	2005
Outstanding, beginning of year	400,000	500,000	\$ 0.20	\$ 0.20
Granted	800,000	-	\$ 0.125	\$ -
Expired	-	(100,000)	\$ -	\$ 0.20
Outstanding, end of year	1,200,000	400,000	\$ 0.15	\$ 0.20

The following information applies to options outstanding and exercisable at December 31, 2006.

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$0.20	300,000	0.50 years	\$ 0.20
\$0.20	100,000	2.75 years	\$ 0.50
\$0.25	800,000	4.50 years	\$0.125
	1,200,000		

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

The fair value compensation for fiscal 2006 was \$100,000 (2005: nil). The contributed surplus balance relating to stock options was \$104,300 as at December 31, 2006 and \$4,300 as at December 31, 2005.

Warrants

The following table reflects the continuity of warrants for the year ended December 31, 2006 and 2005.

Expiry Date	Exercise Price	Opening Balance	Issued	Exercised	Expired	Closing Balance
October 4, 2006	\$0.20	435,000	-	250,000	185,000	-

6. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the statutory income tax rate of 36.1% (2005 - 36.1%) to the amounts recognized in the statements of operations.

	2006	2005
Loss before recovery of future income taxes	\$ 203,518	\$ 76,673
Expected income tax recovery	\$ 73,000	\$ 28,000
Stock compensation expense	(38,000)	1,000
Valuation allowance	(35,000)	(29,000)
Recovery of future income taxes	\$ -	\$ -

The following table reflects future income tax assets at December 31, 2006 and 2005.

	2006	2005
Future income tax assets		
Unclaimed non-capital losses	\$ 137,000	\$ 180,000
Tax values in excess of capitalized asset carrying amounts	1,250,000	1,250,000
	1,387,000	1,430,000
Less valuation allowance	(1,387,000)	(1,430,000)
	\$ -	\$ -

At December 31, 2005 the Company had unclaimed exploration and development expenditures of approximately \$4,800,000 and non-capital losses of approximately \$374,000 which are available to reduce future taxable income. The non-capital losses will expire as follows: 2007 - \$35,000; 2008 - \$56,000; 2009 - \$45,000; 2013 - \$57,000; 2014 - \$81,000, 2025 - \$2,000 and 2026 - \$98,000.

7. LOSS PER COMMON SHARE

Loss per common share is based on a weighted average number of shares outstanding of 39,429,681 for 2006 and 39,366,667 for 2005. The effect of common share purchase options and warrants on the net loss in 2006 and 2005 is not reflected as to do so would be anti-dilutive.

8. 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 \$5,429 and \$730 for 2006 and 2005, respectively, all of which were capitalized to exploration properties.

Payables and accruals at December 31, 2006 and December 31, 2005 included \$290 and \$86,902 due to Wesdome, respectively.

Payables and accruals at December 31, 2006 included \$360 (2005: \$8,346) 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.

9. 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.

10. 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 2006.

11. 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.

Corporate information

Officers and Directors

David Birkett

*Director
Calgary, Alberta*

John Hilland

*Director
Calgary, Alberta*

George N. Mannard

*Director, President
Toronto, Ontario*

Donald D. Orr

*Secretary-Treasurer
Toronto, Ontario*

Donovan Pollitt

*Vice-President
Corporate Development
Toronto, Ontario*

General Information

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Listings

TSX Venture Exchange (MOK)

Transfer Agent and Registrar

Computershare Investor Services Inc.
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Website: www.computershare.com

Auditors

Grant Thornton LLP
Toronto, Ontario

Legal Counsel

Heenan Blaikie
Toronto, Ontario



**MOSS LAKE
GOLD MINES LTD**