



# Corporate Profile

## Head Office

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## Listing

TSX-Venture Exchange Symbol: MOK

## Transfer Agent and Registrar

Computershare Trust Company of Canada  
Toronto, Ontario  
Tel: 416.263.9449  
www.computershare.com

## Auditors

Grant Thornton LLP  
Toronto, Ontario

## Legal Counsel

Heenan Blaikie LLP  
Toronto, Ontario

## Officers and Directors

David Birkett  
Director

John Hilland, P. Geo  
Director

George Mannard, P. Geo  
Director, President

Donald D. Orr  
Secretary-Treasurer

Donovan Pollitt, P.Eng  
Vice President Corporate Development

Moss Lake Gold Mines Ltd. was created in 1995 to consolidate ownership of the large tonnage, low grade Moss Lake gold deposit located in the Shebandowan area, 100 kilometres west of Thunder Bay, Ontario. The deposit had been evaluated as a potential underground operation in the 1980s and subsequently as a potential large tonnage open pit operation in the early 1990s. It was viewed as a strategic asset that would increase in value as the gold price increased.

The process of re-evaluating the deposit's economic potential was initiated in 2006 as the gold price strengthened. A NI 43-101 compliant report completed by independent consultants Watts, Griffis and McQuat Limited estimated and inferred resource of 56.1 million tonnes grading 0.027 ounces of gold per ton or 1.51 million contained ounces above a depth of 840 feet. This included 39.0 million tons at 0.035 ounces per ton or 1.36 million ounces when a 0.015 ounces per ton cut-off grade is applied.

Work currently underway involves a preliminary economic assessment involving open pit optimization and design, capital and operating cost estimates and economic modelling. Our consultants have recommended further studies be undertaken to refine parameters and increase confidence in cost estimates.

Management believes this work will define the economic and technical parameters required to attract project financing for development. Furthermore, we believe the Company's assets are significantly undervalued in the marketplace relative to those of our peers. We believe this gap will narrow as ongoing work meets our objectives and the significance of this advanced, large resource is recognized in the context of the bull market in gold.

Moss Lake Gold Mines Ltd. trades on the TSX-V under the symbol "MOK" and has 45.1 million shares issued. The Company is a 56% owned subsidiary of established Canadian gold producer Wesdome Gold Mines Ltd.

## Annual Meeting

The Annual Meeting of shareholders will be held at the Head Office, 8 King Street East, Suite 1305, Toronto, Ontario on Tuesday, June 23, 2009 at 10:00 a.m.

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# Message to Shareholders

In 2008, the Company completed a significant drill program which confirmed above-average grades in relatively untested portions of the deposit and recognized a broad, lower grade halo. Watts, Griffis and McOuat recommends remodelling of the mineralized zones to incorporate this favourable new data. Additionally, they recommend that further metallurgical testing, design of a conceptual site plan and hydrology studies be undertaken. Significant savings may be realized from this information being incorporated into the preliminary economic assessment of the project.

The Company is in a defensive position as it seeks financing to undertake this work on reasonable terms in an environment where risk capital markets have collapsed.

On a positive note, the Canadian dollar gold price rose \$150 per ounce this year and now sits comfortably above \$Cdn1,000 per ounce. All this worry and uncertainty supports the value of gold.

On behalf of the Board of Directors,



George N. Mannard  
President

April 27, 2009

# Management's Discussion and Analysis

## FOR THE YEAR ENDED DECEMBER 31, 2008

This Management's Discussion and Analysis dated April 27, 2009 should be read in conjunction with Moss Lake Gold Mines Ltd.'s ("Moss Lake") audited consolidated financial statements for the year ended December 31, 2008, and related notes thereto which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This Management's Discussion and Analysis contains "forward-looking statements" that are subject to risk factors set out in the cautionary statement below. All figures are in Canadian dollars unless otherwise stated. Additional information on Moss Lake Gold Mines Ltd. can be found at [www.mosslakegold.com](http://www.mosslakegold.com) or [www.sedar.com](http://www.sedar.com). Moss Lake securities trade on the TSX - Venture Exchange under the symbol "MOK".

## CAUTIONARY STATEMENT ON 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 words "believe", "expect", "anticipate", "plan", "intend", "continue", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. The Company cautions the reader that such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Moss Lake to be materially different from the Company's estimated future results, performance or achievements expressed or implied by the forward-looking statements and the forward-looking statements are not guarantees of future performance. 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". 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 except as required by applicable laws.

## 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. The principle asset of the Company is the Moss Lake gold deposit. This large, low grade resource's value is sensitive to the gold price.

## SELECTED ANNUAL INFORMATION

	2008	2007	2006
Interest income	\$ 10,851	\$ 4,887	\$ 2,058
Net income (loss) (in thousands)	128	(213)	(204)
Income (loss) per common share	0.00	(0.01)	(0.01)
Total assets (in thousands)	2,768	2,625	1,476
Long term financial liabilities (in thousands)	247	-	286

## BALANCE SHEET AND OPERATIONS

At December 31, 2008, assets totalled \$2,768,312 compared to \$2,624,977 at year-end 2007. During 2008, the Company spent \$21,875 on royalties and \$1,139,396 on exploration expenditures for the Moss Lake property and spent \$nil on exploration expenditures on the Fountain Lake property. The Company reported net income for the year of \$128,193 (2007: net loss of \$213,727). The ongoing corporate and general expenses required to run a public company continue to be monitored closely.

The Company reported income for the fourth quarter of \$230,851 compared to a net loss of \$47,659 in 2007. During the fourth quarter of 2008, corporate and general expenses include advertising, promotion, shareholders' information, audit, legal, stock transfer and filing fees and the Company recorded a recovery of future income taxes of \$254,000.

## LIQUIDITY AND CAPITAL RESOURCES

The Company is an exploration and development company and has no revenue. At December 31, 2008, the Company had cash resources of \$69,400 compared to \$1,092,158 at year-end 2007. The Company had a working capital deficit of \$45,152 at December 31, 2008, compared to working capital of \$658,442 at year-end 2007.

On April 24, 2006, the Company announced a \$300,000 convertible, unsecured promissory note had been arranged with majority shareholder Wesdome Gold Mines Ltd. ("Wesdome"). The note had a two year term at 8% per annum and was convertible into common shares at \$0.25 per share. This note was due on June 2, 2008. On maturity the note was converted to a demand note which, on September 23, 2008, was repaid by the Company issuing 1,228,141 common shares to Wesdome.

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

On November 15, 2007, the Company closed a private placement of 2.5 million flow-through shares and 1.6 million common shares for gross proceeds of \$1.2 million. These funds were used to finance planned drilling, technical and economic studies of the Moss Lake gold deposit as well as general working capital requirements.

On November 19, 2008, 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 two year term and bearing interest at 10% per annum. The principal amount of the note is convertible into common shares at \$0.25 per share.

Management intends to undertake an equity financing to discharge its current and future obligations.

## TRANSACTIONS WITH RELATED PARTIES

Under the terms of management agreements, Wesdome, as manager, provides technical and administrative support and carries out 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 \$79,465 and \$7,531 for 2008 and 2007, respectively, all of which were capitalized to exploration properties.

Payables and accruals at December 31, 2008 and 2007 included \$92,158 and \$11,049, respectively, due to Wesdome.

## SUMMARY OF QUARTERLY RESULTS

	2008			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	\$ 376	\$ 619	\$ 5,273	\$ 4,583
Net income (loss) (in thousands)	231	(15)	(42)	(46)
Net income (loss) per share	0.00	(0.00)	(0.00)	(0.00)
	2007			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	\$ 4,152	\$ 134	\$ 180	\$ 421
Net income (loss) (in thousands)	(48)	(28)	(89)	(49)
Net income (loss) per share	(0.00)	(0.00)	(0.00)	(0.00)

## ANALYSIS OF EXPLORATION PROPERTIES

	Cost	Write down	Total
Balance, December 31, 2007	\$ 8,486,311	\$ (6,969,752)	\$ 1,516,559
Advance royalties	21,875	-	21,875
Technical report	61,225	-	61,225
Drilling	947,374	-	947,374
Camp operations	7,454	-	7,454
Assays	43,479	-	43,479
Retention	399	-	399
Administration fees	79,465	-	79,465
Balance, December 31, 2008	\$ 9,647,582	\$ (6,969,752)	\$ 2,677,830

## ANALYSIS OF CORPORATE AND GENERAL EXPENSES

For years ended December 31	2008	2007
Insurance	\$ 8,083	\$ 7,364
Salaries	-	7,655
Audit fees	10,525	18,983
Legal fees	2,843	2,916
Professional fees	10,300	3,037
Stock exchange fees	7,952	5,100
Stock transfer fees	9,517	12,074
Filing fees	7,245	3,814
Shareholders' information	15,558	5,379
Conventions	23,727	1,362
Investor communications	767	1,329
Advertising and promotion	9,984	16,771
Travel	-	1,005
Miscellaneous	3,200	285
	\$109,701	\$87,074

# Management's Discussion and Analysis

## 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 Limited. 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.

## 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 2008.

Significant estimates and assumptions are also used in the determination of future income tax assets and liabilities and stock compensation. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

## FINANCIAL INSTRUMENTS

On November 19, 2008, 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 two year term and bearing interest at 10% 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 1% to 57% of the issued and outstanding shares of Moss Lake.

The liability component of the note, in the amount of \$254,167, is calculated as the present value of the principal and interest, discounted at 20%, a rate of approximately the interest rate that would have been applicable to non-convertible debt at the time the note 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 \$45,833, is comprised of the value of the exchange option, being the difference between the face value of the note and the liability component.

Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued. This resulted in \$1,871 of the transaction costs being allocated to the equity component and \$10,379 being allocated to the debt component.

The net value assigned to the liability component on issuance was \$243,788. At December 31, 2008, the face value of the note is \$300,000 however the note is valued at \$246,623 using an effective interest rate of 21.16% and includes accretion of the discount during the year totalling \$2,835, which is included in interest expense on long term debt.

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 two year term and bearing interest at 8% per annum. This note was repaid through the issuance of shares (Note 6).

Interest expense on long term debt includes \$4,225 (2007: \$10,140) which is attributable to accretion of the discount on this matured note.

The Company's other 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.

## FINANCIAL INSTRUMENTS - DISCLOSURES AND PRESENTATION

On January 1, 2008, the Company adopted the recommendations of new CICA

Handbook sections 3862 "Financial Instruments - Disclosures" and 3863 "Financial Instruments - Presentation". These new sections replace section 3861, "Financial Instruments - Disclosures and Presentation". Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861.

## Financial Instruments - Fair Values

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	2008	2007
<b>Financial assets</b>		
Held for trading:		
Cash	\$ 69,400	\$ 1,092,158
Loans and receivables:		
Receivables	21,082	16,260
<b>Financial liabilities</b>		
Other financial liabilities		
Payables and accruals	\$ 135,634	\$ 154,201
Convertible promissory note	246,643	295,775

## Determination of Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The Company uses the following methods and assumptions to estimate fair value of each class of financial instruments for which carrying amounts are included in the Consolidated Balance Sheet as follows:

Cash and cash equivalents - The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Receivables - The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Payables and accruals - The carrying amounts approximate fair values due to the short maturity of these financial instruments.

Convertible promissory note - The carrying amount is calculated at the present value of the principal and interest discounted at a rate approximately the interest rate that would have been applicable to non-convertible debt at the time the loan was issued. Management considers this interest rate to reflect current rate. Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued. The equity element and apportioned transaction costs are being amortized using the effective interest method. Financing costs are capitalized within the related debt and the equity component.

## Financial Risk Management

The Company is exposed to a number of different risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include: (1) market risks relating to interest rate risk; (2) liquidity risk; and, (3) credit risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; to set appropriate risk limits and controls; and to monitor risks and adherence to market conditions and the Company's activities.

### 1) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. As a development stage company the market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows are limited to interest rate risk. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations due to the short term to maturity of the instruments held.

# Management's Discussion and Analysis

## 2) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from anticipated investing and financing activities. The Company believes it has access to sufficient capital through equity and debt capital markets. Senior management is also actively involved in the review and approval of planned expenditures.

The following table shows the timing of cash outflows relating to trade payables and accruals and convertible promissory note:

(in thousands)	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 135,634			
Convertible promissory note	30,000	\$ 327,370		

## 3) Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company's accounts receivable consist primarily of deposits and government refunds. The Company estimates its maximum exposure to be the carrying value of cash and receivables. The Company manages credit risk by maintaining bank accounts with Schedule 1 Canadian banks and investing only in Guaranteed Investment Certificates. The Company's cash is not subject to any external restrictions.

## ENVIRONMENTAL RISKS

Moss Lake is committed to a program of environmental protection at its exploration sites. The Company was in compliance with government regulations in 2008.

## 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.

## CHANGES IN ACCOUNTING POLICIES

The CICA issued the following accounting standards effective for fiscal years beginning on or after January 1, 2008. The adoption of these new accounting standards did not impact the classification and valuation reported in the Company's financial statements, however, it did result in expanded disclosure.

### Financial Instruments

Section 3862, "Disclosures" and Section 3863 "Presentation" replace Section 3861 "Disclosure and Presentation", revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements (Note 12 to the financial statements).

### Capital Disclosures

Section 1535, "Capital Disclosures" requires the Company to provide disclosures about the Company's capital and how it is managed (see Note 15 to the financial statements).

Section 1400, "General Standards of Financial Statement Presentation" was amended so as to include the criteria for determining and presenting the Company's ability to continue as a going concern (going concern assumption). These requirements are satisfied by Note 1 to the financial statements.

## FUTURE ACCOUNTING CHANGES

### Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board confirmed that publicly accountable entities will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with restatement of comparative information presented. The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal controls over financial reporting and disclosure controls and procedures.

The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The scoping and planning phase ("phase 1") involves establishing a project management team, mobilizing organizational support for the conversion plan, obtaining stakeholder support for the project, identifying major areas affected and developing a project charter, implementation plan and communication strategy.

The detailed assessment phase ("phase 2") will result in the accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase ("phase 3") includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at January 1, 2010, fiscal 2010 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation ("phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The Company will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impact on the organization and its reporting.

## OUTLOOK

In January, 2008, Moss Lake retained Watts, Griffis and McOuat to conduct an independent Preliminary Economic Analysis on the Moss Lake gold deposit. Drilling in 2008 was very successful. It confirmed above-average grades in relatively untested portions of the deposit and recognized a broad lower grade halo. Watts, Griffis and McOuat recommends remodelling of the mineralized zones to incorporate this favourable new data. Additionally, they recommend that further metallurgical testing, development of a conceptual site plan and hydrology studies be undertaken. Significant savings may be realized from this information being incorporated into the preliminary economic assessment of the project.

The Company is examining means to finance this work under terms favourable to shareholders.

Analysis of the market valuations of similar assets tells us the Moss Lake deposit is significantly undervalued. With this in mind, the Company has launched a promotional effort to get the story out and attract the attention of capital markets.

## OUTSTANDING SHARE DATA

As of April 27, 2009, the Company's share information is as follows:

Common shares issued	45,115,379
Common share purchase options	1,950,000
Common share purchase warrants	2,100,000

# 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.



Donald D. Orr  
*Secretary-Treasurer*  
Toronto, Canada  
April 27, 2009



# 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, 2008 and 2007 and the statements of operations, comprehensive income and deficit, shareholders equity 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Chartered Accountants  
Licensed Public Accountants  
Toronto, Canada  
April 27, 2009

# Balance Sheets

December 31	2008	2007
<b>Assets</b>		
Current		
Cash	\$ 69,400	\$ 1,092,158
Receivables	21,082	16,260
	90,482	1,108,418
Exploration properties (Note 4)	2,677,830	1,516,559
	\$ 2,768,312	\$ 2,624,977
<b>Liabilities</b>		
Current		
Payables and accruals	\$ 135,634	\$ 154,201
Convertible promissory note (Note 5)	-	295,775
	135,634	449,976
Convertible promissory note (Note 5)	246,623	-
	382,257	449,976
<b>Shareholders' Equity</b>		
Capital stock (Note 6)	10,063,894	10,004,715
Common share purchase warrants (Note 7)	20,000	20,000
Contributed surplus (Note 8)	213,843	213,843
Equity component of convertible promissory note (Note 5)	43,962	20,280
Deficit	(7,955,644)	(8,083,837)
	2,386,055	2,175,001
	\$ 2,768,312	\$ 2,624,977

Nature and continuation of operations (Note 1)  
Environmental risks (Note 13)

On behalf of the Board:



George N. Mannard  
Director



David Birkett  
Director

# Statements of Operations, Comprehensive Income and Deficit

Years Ended December 31	2008		2007	
Interest income	\$	10,851	\$	4,887
Costs and expenses				
Interest on long term debt (Note 5)		26,957		34,140
Corporate and general		109,701		87,074
Stock based compensation expense		-		97,400
		<b>136,658</b>		<b>218,614</b>
Net loss before income taxes		(125,807)		(213,727)
Recovery of future income taxes (Note 9)		254,000		-
Net income (loss) and comprehensive income (loss)		<b>128,193</b>		<b>(213,727)</b>
Deficit, beginning of year		(8,083,837)		(7,870,110)
Deficit, end of year	\$	<b>(7,955,644)</b>	\$	<b>(8,083,837)</b>
Net income (loss) per common share (Note 10)				
Basic and fully diluted	\$	<b>0.00</b>	\$	<b>(0.01)</b>

# Statements of Shareholders' Equity

	Capital Stock	Common Share Purchase Warrants	Contributed Surplus	Equity Component of Promissory Note	Deficit	Total Shareholders' Equity
Balance, Dec 31, 2006	\$ 8,889,123	\$ -	\$ 104,300	\$ 20,280	\$ (7,870,110)	\$ 1,143,593
Net loss for year ended Dec 31, 2007	-	-	-	-	(213,727)	(213,727)
Issuance of common shares, net of costs	378,440	-	-	-	-	378,440
Issuance of flow-through shares	729,295	-	-	-	-	729,295
Value attributed to warrants on share issue	(20,000)	20,000	-	-	-	-
Value attributed to broker warrants	(12,143)	-	12,143	-	-	-
Exercise of stock options	40,000	-	-	-	-	40,000
Stock based compensation	-	-	97,400	-	-	97,400
Balance, Dec 31, 2007	\$ 10,004,715	\$ 20,000	\$ 213,843	\$ 20,280	\$ (8,083,837)	\$ 2,175,001
Net income for year ended Dec 31, 2008	-	-	-	-	128,193	128,193
Issuance of common shares, net of costs	292,899	-	-	-	-	292,899
Transfer of equity component on conversion of convertible promissory note	20,280	-	-	(20,280)	-	-
Value of equity component of convertible promissory note	-	-	-	43,962	-	43,962
Tax effect of flow-through share renunciation	(254,000)	-	-	-	-	(254,000)
Balance, Dec 31, 2008	\$ 10,063,894	\$ 20,000	\$ 213,843	\$ 43,962	\$ (7,955,644)	\$ 2,386,055

See accompanying notes to the financial statements.

# Statements of Cash Flows

Years Ended December 31	2008	2007
Increase (decrease) in cash		
<b>Operating activities</b>		
Net income (loss)	\$ 128,193	\$ (213,727)
Stock based compensation expense	-	97,400
Accretion of discount on convertible promissory note	7,060	10,140
Non-cash interest on convertible promissory note	7,035	-
Recovery of future income taxes	(254,000)	-
Change in receivables and payables	(12,698)	(15,553)
	<b>(124,410)</b>	<b>(121,740)</b>
<b>Financing activities</b>		
Convertible note from Wesdome	300,000	-
Convertible note issuance costs	(12,250)	-
Shares issued for cash	-	1,215,291
Share issuance costs	(14,136)	(107,556)
Options exercised	-	40,000
Change in payables	(19,734)	42,608
	<b>253,880</b>	<b>1,190,343</b>
<b>Investing activities</b>		
Additions to exploration properties	(1,161,271)	(130,468)
Change in payables	9,043	75,951
	<b>(1,152,228)</b>	<b>(54,517)</b>
Net (decrease) increase in cash	<b>(1,022,758)</b>	<b>1,014,086</b>
Cash, beginning of year	<b>1,092,158</b>	<b>78,072</b>
Cash, end of year	<b>\$ 69,400</b>	<b>\$ 1,092,158</b>

## Non-cash transactions

In fiscal 2008 the Company issued 1,200,000 common shares pursuant to the conversion of an 8% convertible promissory note (Note 5) and a further 28,141 common shares in payment of \$7,035 of accrued interest on the convertible promissory note.

# Notes to the Financial Statements

## 1. NATURE AND CONTINUATION OF OPERATIONS

### The Company

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 4 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 is a subsidiary of Wesdome Gold Mines Ltd. ("Wesdome"), a publicly held company, which is listed on the Toronto Stock Exchange.

### Continuation of Operations

The Company has incurred significant losses and, at December 31, 2008, the Company had a deficit of \$7.96 million and a working capital deficiency of \$45,152. 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. Management is required to secure financing to discharge its current and future obligations. While the Company has been successful in the past, there can be no assurance it will be able to raise sufficient funds in the near term. Changes in future conditions could require additional write-downs of the carrying values.

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.

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 ("GAAP"), 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 properties and deferred exploration expenditures, determination of future income tax assets and liabilities, the equity component of the convertible promissory note and the value of stock based compensation. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. The carrying value of the Company's principal assets could be subject to material adjustment in the event that the Company is not successful in generating operating cash flow and financing for its development and exploration activities.

### Cash

Cash includes cash on hand and balances with banks.

### 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, 2008, the Company has not incurred or committed to any reclamation obligation on its exploration properties.

### Convertible Promissory Note

The convertible promissory note payable was segregated into its debt and equity components at the date of issue. The financial liability component, representing the value allocated to the liability at inception, was included in convertible promissory note payable. The remaining component, representing the value ascribed to the holders' option to convert the principal balance into common shares, was classified in shareholders' equity as "Equity component of convertible promissory note". These components were measured at their respective fair values on the date the convertible promissory note was issued. The carrying value of the liability component is being accreted to the principal amount as additional interest expense over the term of the note.

### Stock-Based Compensation Plan

The Company recognizes compensation expense for grants of stock options to qualifying directors, officers and employees providing on-going services to the Company, based on the estimated fair value at the grant date.

### 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 liability relating to the foregone tax benefit is recognized at the time of the renunciation 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.

### Income (Loss) per Common Share

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

### Comprehensive Income

Section 1530, "Comprehensive Income", introduces a new financial statement "Statement of Comprehensive Income" and provides guidance for the reporting and display of other comprehensive income and accumulated other comprehensive income. Comprehensive income represents the change in equity of an enterprise during a period from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations, gains and losses from changes in fair value of available for sale financial assets and changes in the fair value of the effective portion of cash flow hedging instruments. A separate statement of comprehensive income has not been included as the Company did not have any other comprehensive income or loss for the periods.

### Changes in Accounting Policies

(i) The CICA issued the following accounting standards effective for the Company on January 1, 2007. The adoption of these new accounting standards did not impact the classification and valuation reported in the Company's consolidated financial statements, however, it did result in expanded disclosure.

# Notes to the Financial Statements

## Financial Instruments – Recognition and Measurement

Section 3855, “Financial Instruments – Recognition and Measurement” and Section 3861, “Financial Instruments – Disclosure and Presentation” prescribe the criteria for recognition of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. This section also addresses how financial instruments are measured subsequent to initial recognition and how the gains and losses are recognized.

The Company is required to designate its financial instruments into one of the following five categories: held for trading, available for sale, held to maturity, loans and receivables, and other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost using the effective interest method.

All derivative financial instruments, including derivative features embedded in financial instruments or other contracts but which are not considered closely related to the host financial instrument or contract, are generally classified as held for trading and, therefore, must be measured at fair value with changes in fair value recorded in net earnings. However, if a derivative financial instrument is designated as a hedging item in a qualifying cash flow hedging relationship, the effective portion of changes in fair value is recorded in other comprehensive income. Any change in fair value relating to the ineffective portion is recorded immediately in net earnings.

Under Section 3855, embedded derivatives are required to be separated from the host contract and accounted for as a derivative financial instrument if the embedded derivative and host contract are not closely related, and the combined contract is not held for trading or designated at fair value.

The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly on issuance of the related debt, financing costs are reclassified to debt to reflect the adopted policy of capitalizing debt transaction costs within the related debt. The costs capitalized within debt are amortized using the effective interest method. The adoption of the effective interest method of amortization had no impact on the opening balance sheet at January 1, 2007.

At December 31, 2008, cash is classified as held for trading. Receivables have been classified as loans and receivables. Payables and accruals and convertible promissory note have been classified as other financial liabilities.

Section 3251, “Equity” establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530 (see “Statements of Shareholders’ Equity”).

- (ii) The CICA issued the following accounting standards effective for the Company on January 1, 2008. The adoption of these new accounting standards did not impact the classification and valuation reported in the Company’s financial statements, however, it did result in expanded disclosure.

### Financial Instruments

Section 3862, “Disclosures” and Section 3863 “Presentation” replace Section 3861 “Disclosure and Presentation”, revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements (Note 12).

### General Standards of Financial Statement Presentation

Section 1400, “General Standards of Financial Statement Presentation” was amended so as to include the criteria for determining and presenting the Company’s ability to continue as a going concern (going concern assumption). These requirements are satisfied by Note 1.

### Capital Disclosures

Section 1535, “Capital Disclosures” requires the Company to provide disclosures about the Company’s capital and how it is managed (Note 15).

## 3. FUTURE ACCOUNTING CHANGES

### Conversion to International Financial Reporting Standards

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the conversion on the consolidated financial statements and disclosures and will develop a conversion implementation plan.

## 4. EXPLORATION PROPERTIES

	2008	2007
Cost of properties	\$ 6,481,081	\$ 6,481,081
Exploration expenditures	2,736,688	1,597,292
Settlement of advance royalties	105,000	105,000
Underlying advance royalties	324,813	302,938
	9,647,582	8,486,311
Write-down of carrying values	(6,969,752)	(6,969,752)
	\$ 2,677,830	\$ 1,516,559

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.

## 5. CONVERTIBLE PROMISSORY NOTE

On November 19, 2008, the Company obtained a \$300,000 loan from Wesdome. As consideration the Company issued to Wesdome a convertible unsecured promissory note (the “note”) due November 19, 2010 and bearing interest at 10% per annum. The principal amount of the note is convertible, at any time up to maturity, 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 1% to 57% of the issued and outstanding shares of Moss Lake.

The liability component of the note, in the amount of \$254,167, is calculated as the present value of the principal and interest, discounted at 20%, a rate of approximately the interest rate that would have been applicable to non-convertible debt at the time the note 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 \$45,833, is comprised of the value of the exchange option, being the difference between the face value of the note and the liability component.

Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued. This resulted in \$1,871 of the transaction costs being allocated to the equity component and \$10,379 being allocated to the debt component.

The net value assigned to the liability component on issuance was \$243,788. At December 31, 2008, the face value of the note is \$300,000 however the note is valued at \$246,623 using an effective interest rate of 21.16% and includes accretion of the discount during the year totalling \$2,835, which is included in interest expense on long term debt.

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 two year term and bearing interest at 8% per annum. During 2008, this note was repaid through the issuance of shares (Note 6).

Interest expense on long term debt includes \$4,225 (2007: \$10,140) which is attributable to accretion of the discount on this matured note.

## 6. 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.

# Notes to the Financial Statements

Common shares issued:	Shares	Amount
Balance, December 31, 2006	39,616,667	\$ 8,889,123
Common shares, net of costs of \$21,555	1,599,978	378,440
Flow-through shares, net of costs of \$86,001	2,470,593	729,295
Value attributed to warrants on share issue	-	(20,000)
Value attributed to broker warrants	-	(12,143)
Exercise of stock options	200,000	40,000
Balance, December 31, 2007	43,887,238	10,004,715
Tax benefits on renounced flow-through expenditures	-	(254,000)
Transfer of equity component of convertible promissory note	-	20,280
Common shares, net of costs of \$14,136 (Note 5)	1,228,141	292,899
Balance, December 31, 2008	45,115,379	\$ 10,063,894

In fiscal 2007 the Company completed a private placement of 1,599,978 common shares at a price of \$0.25 per share for gross proceeds of \$399,995.

In fiscal 2007 the Company completed a private placement of 2,470,593 flow-through common shares at a price of \$0.33 per share for gross proceeds of \$815,296.

In fiscal 2008 the Company issued 1,200,000 common shares pursuant to the conversion of an 8% promissory note with a liability component of \$300,000 and an equity component of \$20,280 and a further 28,141 common shares in payment of \$7,035 of demand loan liabilities.

## Common Share Purchase Plan

The Company has a common share purchase plan (the "Plan") under which the Board of Directors may grant options to purchase common shares of the Company to qualifying employees, officers or directors providing on-going services to 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, 2008, 2,438,724 common shares are available for grant under the Plan.

The following table reflects the continuity for the years ended December 31, 2008 and 2007 of options granted under the plan.

	Shares		Weighted Average Exercise Price	
	2008	2007	2008	2007
Outstanding, beginning of year	1,950,000	1,200,000	\$ 0.287	\$ 0.150
Granted	-	1,050,000	\$ -	\$ 0.319
Exercised	-	(200,000)	\$ -	\$ 0.200
Expired	-	(100,000)	\$ -	\$ 0.200
Outstanding, end of year	1,950,000	1,950,000	\$ 0.287	\$ 0.287

The following information applies to options outstanding and exercisable at December 31, 2008.

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$0.25	800,000	2.50 years	800,000
\$0.30	100,000	3.00 years	100,000
\$0.25	500,000	3.50 years	500,000
\$0.40	450,000	4.00 years	450,000
	1,950,000		1,950,000

The fair value of the options granted in fiscal 2007 was estimated on the date of grant using the Black-Scholes option pricing model. There were no options granted during fiscal 2008. For fiscal 2007, the weighted average grant date fair value per option of \$0.128 was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 40%, risk-free interest rate of 4.5% and expected life of 2.5 years.

The estimated fair value of the options is expensed over the vesting period. The fair value of compensation and contributed surplus relating to stock options was \$Nil for 2008 and \$97,400 for 2007.

## 7. WARRANTS

The following table reflects the continuity of warrants for the year ended December 31, 2008 and 2007.

Expiry Date	Exercise Price	Number of common shares				
		Opening Balance	Issued	Exercised	Closing Expired Balance	
November 15, 2009 <sup>(a)</sup>	\$0.25	-	189,740	-	-	189,740
November 15, 2009	\$0.40	-	799,988	-	-	799,988
		-	989,728	-	-	989,728

<sup>(a)</sup> Value of broker warrants included in contributed surplus

Closing balance, December 31, 2006	\$ -
Value of warrants issued during the year ended December 31, 2007	12,143
Closing balance, December 31, 2007 and 2008	\$ 12,143

	Number of warrants	Total
Value attributed to warrants on private placement	189,740	\$ 12,143

The fair value of the 189,740 common share purchase broker warrants issued in 2007 has been estimated at \$12,143 using the Black Scholes model for pricing options. The weighted average fair value per warrant of \$0.06 with an exercise price of \$0.25 per share was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 40%, risk-free interest rate of 4.5% and expected life of 2 years. These warrants entitle the holder to purchase one common share of the Company at a price of \$0.25 per share until November 15, 2009.

	Number of warrants	Total
Value attributed to warrants on private placement	799,988	\$ 20,000

The fair value of the 799,988 common share purchase warrants issued in 2007 have been estimated at \$20,000 using the Black-Scholes model for pricing options. The weighted average fair value per warrant of \$0.02 with an exercise price of \$0.40 per share was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 40%, risk-free interest rate of 4.5% and expected life of 2 years. These warrants entitle the holder to purchase one common share of the Company at a price of \$0.40 per share until November 15, 2009.

## 8. CONTRIBUTED SURPLUS

	Stock based compensation	Valuation of expired warrants	Fair value of broker warrants	Total
Balance, December 31, 2006	\$ 104,300	\$ -	\$ -	\$ 104,300
Stock based compensation	97,400	-	-	97,400
Value attributed to broker warrants	-	-	12,143	12,143
Balance, December 31, 2007 and 2008	\$ 201,700	\$ -	\$ 12,143	\$ 213,843

## 9. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the combined Federal and Ontario statutory income tax rate of 33.50% (2007 - 36.12%) to the amounts recognized in the statements of operations.

	2008	2007
Loss before recovery of future income taxes	\$ (125,807)	\$ (213,727)
Expected income tax recovery	\$ (42,000)	\$ (77,000)
Stock-based compensation expense	-	35,000
Non-deductible expenses and other items	7,000	-
Impact of changes in substantively enacted tax rates	(7,000)	214,000
Change in valuation allowance	(212,000)	(172,000)
Recovery of future income taxes	\$ (254,000)	\$ -

The following table reflects future income tax assets at December 31, 2008 and 2007.

	2008	2007
Future income tax assets		
Unclaimed non-capital losses	\$ 193,000	\$ 160,000
Unclaimed financing costs	26,000	27,000
Excess of unclaimed resource pools and undepreciated capital cost over carrying value of exploration properties	827,000	1,071,000
	1,046,000	1,258,000
Less valuation allowance	(1,046,000)	(1,258,000)
	\$ -	\$ -

At December 31, 2008 the Company had unclaimed exploration and development expenditures of approximately \$5,300,000 and federal and provincial non-capital losses of approximately \$617,000 which are available to reduce future taxable income. The non-capital losses will expire as follows: 2009 - \$56,000; 2010 - \$45,000; 2013 - \$57,000; 2014 - \$81,000; 2025 - \$5,000; 2026 - \$98,000; 2027 - \$129,000 and 2028 - \$146,000.

## Flow-Through Shares

During 2007, under the terms of flow-through agreement, the Company issued 2,470,593 flow-through shares and was required to spend \$815,296 on qualifying exploration expenditures prior to November 15, 2008. The Company met the required conditions by November 15, 2008.

In 2008, the Company recorded \$254,000 future income tax liability related to the flow-through shares and reduced share capital accordingly.

# Notes to the Financial Statements

## 10. INCOME (LOSS) PER COMMON SHARE

Income (loss) per common share is based on a weighted average number of shares outstanding of 44,226,149 for 2008 and 40,340,823 for 2007. The effect of common share purchase options, warrants, and convertible notes on the net income (loss) in 2008 and 2007 is not reflected as to do so would be anti-dilutive.

## 11. RELATED PARTY INFORMATION

Other than amounts owing, interest paid and shares issued to Wesdome on the convertible promissory notes (Notes 5 and 6) the Company had the following transactions and balances with related parties.

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 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 at December 31, 2008 and 2007 amounted to \$79,465 and \$7,531 respectively, all of which were capitalized to exploration properties. These transactions were in the normal course of operations and were measured at the exchange amounts.

Payables and accruals at December 31, 2008 and 2007 included \$92,158 and \$11,770 respectively, due to Wesdome.

## 12. FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

On January 1, 2008, the Company adopted the recommendations of new CICA Handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". These new sections replace section 3861, "Financial Instruments – Disclosures and Presentation". Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861.

### Financial Instruments – Fair Values

Following is a table which sets out the fair values of recognized financial instruments using the valuation methods and assumptions described below:

	2008	2007
<b>Financial assets</b>		
Held for trading:		
Cash	\$ 69,400	\$ 1,092,158
Loans and receivables:		
Receivables	21,082	16,260
<b>Financial liabilities</b>		
Other financial liabilities		
Payables and accruals	\$ 135,634	\$ 154,201
Convertible promissory note	246,623	295,775

### Determination of Fair Value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The Company uses the following methods and assumptions to estimate fair value of each class of financial instruments for which carrying amounts are included in the Balance Sheet as follows:

**Cash** – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

**Receivables** – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

**Payables and accruals** – The carrying amounts approximate fair values due to the short maturity of these financial instruments.

**Convertible promissory note** – The carrying amount is calculated at the present value of the principal and interest discounted at a rate approximately the interest rate that would have been applicable to non-convertible debt at the time the loan was issued. Management considers this interest rate to reflect current rate. Transaction costs are apportioned between the debt and equity components based on their respective carrying amounts when the instrument was issued. The equity element and apportioned transaction costs are being amortized using the effective interest method.

## Financial Risk Management

The Company is exposed to a number of different risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include: (1) market risks relating to interest rate risk; (2) liquidity risk; and, (3) credit risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; to set appropriate risk limits and controls; and to monitor risks and adherence to market conditions and the Company's activities.

### 1) Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. As a development stage company the market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows are limited to interest rate risk. Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. Fluctuations in market rates of interest do not have a significant impact on the Company's results of operations due to the short term to maturity of the instruments held.

### 2) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from anticipated investing and financing activities. The Company believes it has access to sufficient capital through equity and debt capital markets. Senior management is also actively involved in the review and approval of planned expenditures.

The following table shows the timing of cash outflows relating to trade payables and accruals and convertible promissory note:

(in thousands)	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 135,634			
Convertible promissory note	30,000	\$ 327,370		

### 3) Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Company's accounts receivable consist primarily of deposits and government refunds. The Company estimates its maximum exposure to be the carrying value of cash and receivables. The Company manages credit risk by maintaining bank accounts with Schedule 1 Canadian banks and investing only in Guaranteed Investment Certificates. The Company's cash is not subject to any external restrictions.

## 13. 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 2008.

## 14. 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.

## 15. CAPITAL RISK MANAGEMENT

The Company's objectives of capital management are intended to safeguard its ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital of the Company consists of the items included in shareholders' equity and debt obligations net of cash. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets. In order to maintain or adjust its capital structure, the Company may issue new shares, issue new debt or issue new debt to replace existing debt with different characteristics.

Management intends to undertake an equity financing to discharge its current and future obligations.

The Company is not subject to any externally imposed capital requirements such as loan covenants or capital ratios.

There were no changes to the Company's approach to capital management during the current period.

Moss Lake is a large gold asset  
and the \$CAD gold price has  
been rising fast

May 2004  
Cdn \$525/oz

Mar 2009  
Cdn \$1,200/oz