



# 2010

A N N U A L R E P O R T



**MOSS LAKE  
GOLD MINES LTD**

# Corporate Profile

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 principal asset of the Company is the Moss Lake gold deposit. This large, low grade resource's value is sensitive to the gold price. The Company is a 57.6% owned subsidiary of Wesdome Gold Mines Ltd. ("Wesdome"), an established Canadian gold producer listed on the TSX Exchange under the symbol "WDO".

The Company is an exploration and development company. Its principle asset is the Moss Lake property and surrounding Fountain Lake claims. It may be viewed as a single asset company. The Moss Lake property hosts a large tonnage - low grade gold deposit while the surrounding claims host numerous gold occurrences and offer exploration potential.

In recent years the gold price has risen substantially and trends in the gold mining industry have shifted from traditional underground mining towards the exploitation of large tonnage - low grade deposits by surface mining techniques. From March, 2005 to March, 2011 the gold price has risen from \$400US per ounce to \$1,400US per ounce.

When the gold price was low, 1996 - 2005, the Company consolidated its regional land position and conducted exploration work to provide a systematic appraisal of potential surrounding the Moss Lake gold deposit. In 2006, the Company initiated a re-evaluation of the Moss Lake deposit which involved a 43-101 technical report and resource estimate.

A drilling program based on recommendations of this study was conducted in 2008. Resource modelling to incorporate this work was initiated in 2009, leading to an updated 43-101 technical report and resource estimate completed in 2010. On April 25, 2011, the Company announced it was obtaining a \$2,000,000 loan from Wesdome. The loan will fund studies necessary to refine the level of confidence in operating and capital cost estimates required to produce a Preliminary Assessment and advance the project to the Pre-Feasibility stage.

Both management and its independent consultants believe the project has significant merit. The fundamental aspects of the proposed program are a Preliminary Assessment followed by definition drilling and certain pre-development activities, specifically, further metallurgical and grinding testwork, pit design and optimization, initiation of environmental baseline studies, community and First Nations relations, hydrology studies and development of a conceptual site plan, including the potential diversion of a creek. This work would provide key information for improving confidence in operating and capital cost estimates while advancing the project towards the Pre-Feasibility stage.

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# Message to Shareholders

In 2010, the Company released an upgraded resource estimate for the Moss Lake deposit. Our consultants, Watts, Griffis and McOuat Limited, recommend more metallurgical testwork, design of a conceptual site plan and hydrological studies be undertaken to provide the information required to refine operating and capital cost estimates for a potential surface mining and milling operation.

The Moss Lake deposit displays geometries favourable for the application of large scale, bulk surface mining techniques. The Company plans to complete a Preliminary Economic Assessment concurrent with studies designed to advance the project to the Pre-Feasibility stage.

To fund this work, the Company initiated a Rights Offering, but could not obtain regulatory approval on terms recommended by the directors. Subsequent to year-end, the Company arranged a \$2.0 million convertible loan with Wesdome Gold Mines Ltd., which will satisfy its funding requirements and limit dilution to existing shareholders.

We hope to provide shareholders with a clear estimate of costs and the economic conditions required to justify mine development on their property. We have a significant asset in a bull market and are obligated to optimize its value for you, the shareholders.

On behalf of the Board of Directors,



George N. Mannard  
President

April 27, 2011

# Management's Discussion and Analysis

## FOR THE YEAR ENDED DECEMBER 31, 2010

This Management's Discussion and Analysis dated April 27, 2011, should be read in conjunction with Moss Lake Gold Mines Ltd.'s ("Moss Lake" or "the Company") audited financial statements for the year ended December 31, 2010, and their related notes 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. The presentational and functional currency is 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 trades 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 principal asset of the Company is the Moss Lake gold deposit. This large, low grade resource's value is sensitive to the gold price. The Company is a 57.6% owned subsidiary of Wesdome Gold Mines Ltd. ("Wesdome"), an established Canadian gold producer listed on the TSX Exchange under the symbol "WDO".

## OVERALL PERFORMANCE

The Company is an exploration and development company and has no revenue. Its principle asset is the Moss Lake property and surrounding Fountain Lake claims. It may be viewed as a single asset company. The Moss Lake property hosts a large tonnage - low grade gold deposit while the surrounding claims host numerous gold occurrences and offer exploration potential.

In recent years the gold price has risen substantially and trends in the gold mining industry have shifted from traditional underground mining towards the exploitation of large tonnage - low grade deposits by surface mining techniques. From March, 2005 to March, 2011 the gold price has risen from \$400US per ounce to \$1,400US per ounce.

When the gold price was low, 1996 - 2005, the Company consolidated its regional land position and conducted exploration work to provide a systematic appraisal of potential surrounding the Moss Lake gold deposit. In 2006, the Company initiated a re-evaluation of the Moss Lake deposit which involved a 43-101 technical report and resource estimate.

A drilling program based on recommendations of this study was conducted in 2008. Resource modelling to incorporate this work was initiated in 2009, leading to an updated 43-101 technical report and resource estimate completed in 2010. On April 25, 2011, the Company announced it was obtaining a \$2,000,000 loan from Wesdome. The loan will fund studies necessary to refine the level of confidence in operating and capital cost estimates required to produce a Preliminary Assessment and advance the project to the Pre-Feasibility stage.

The Company has a working capital deficit of \$330,047 at December 31, 2010, compared to a working capital deficit of \$435,629 at December 31, 2009. The Company has been funded by cash advances from the parent company, Wesdome, who believes in the merit of the Moss Lake project. In addition, in 2006 and 2008 the Company issued 2-year convertible promissory notes to Wesdome in the amount of \$300,000. Upon maturity, Wesdome converted the notes into common shares. The working capital deficit as at December 31, 2010 is composed primarily of payables and accruals due to Wesdome in the amount of \$306,544. For a breakdown of the components of this balance refer to Transactions with Related Parties.

## SELECTED ANNUAL INFORMATION

	2010	2009	2008
Interest income	\$ -	\$ 32	\$ 10,851
Net (loss) income (in thousands)	(272)	(130)	128
(Loss) income per common share	(0.01)	(0.00)	0.00
Total assets (in thousands)	2,827	2,728	2,768
Long term financial liabilities (in thousands)	-	-	247

The Company is a development stage company and has no revenue. The period to period variations in the selected annual information above reflect a declining cash balance with regards to interest income as the cash was invested in capital to advance evaluation of the project, upgrade mineral resource estimates and, hence, grow the value of total assets. The net loss mainly reflects interest expense, ongoing corporate and general costs required to manage a listed company, and, in 2010, a non-cash stock based compensation of \$150,000. Management believes it has significantly advanced the project over this time period with minimal capital outlay.

## DISCUSSION OF OPERATIONS

### Analysis of Exploration Properties

	Cost	Write down	Total
Balance, December 31, 2008	\$ 9,647,582	\$(6,969,752)	\$ 2,677,830
Advance royalties	21,875	-	21,875
Camp operations	2,114	-	2,114
Retention	761	-	761
Core drilling	5,550	-	5,550
Administration fees	715	-	715
Balance, December 31, 2009	9,678,597	(6,969,752)	2,708,845
Advance royalties	21,875	-	21,875
Camp operations	4,363	-	4,363
Retention	705	-	705
Technical report	30,359	-	30,359
Administration fees	2,607	-	2,607
Balance, December 31, 2010	\$9,738,506	\$(6,969,752)	\$ 2,768,754

### Analysis of Corporate and General Expenses

For years ended December 31	2010	2009	2008
Insurance	\$ 5,757	\$ 6,637	\$ 8,083
Audit fees	17,603	20,138	10,525
Professional fees	10,891	6,023	13,143
Stock exchange fees	5,500	5,400	7,952
Stock transfer fees	10,535	9,500	9,517
Filing fees	6,075	2,030	7,245
Shareholders' information	232	15,857	15,558
Conventions	7,216	8,268	23,727
Investor communications	-	200	767
Advertising and promotion	-	-	9,984
Miscellaneous	3,562	1,788	3,200
	\$ 67,371	\$ 75,841	\$ 109,701

# Management's Discussion and Analysis

Three months ended	Mar 31 2010	Jun 30 2010	Sept 30 2010	Dec 31 2010
Insurance	\$ 1,439	\$ 1,440	\$ 1,439	\$ 1,439
Audit fees	3,750	4,028	5,325	4,500
Professional fees	1,890	2,350	2,817	3,834
Stock exchange fees	5,500	-	-	-
Stock transfer fees	2,146	2,238	4,018	2,133
Filing fees	210	3,510	1,695	660
Shareholders' information	2,850	(2,090)	1,394	(1,922)
Conventions	1,220	-	5,996	-
Miscellaneous	240	33	2,199	1,090
	<b>\$ 19,245</b>	<b>\$ 11,509</b>	<b>\$ 24,883</b>	<b>\$ 11,734</b>

Work in 2010 concentrated on remodelling and analysis of the 2008 drilling information, a process initiated in 2009. The drilling information helped validate historic data, refine the geometry and confidence in the resource model and generate an updated and upgraded resource estimate to 43-101 standards. This study, dated July 14, 2010, by independent consultants Watts, Griffis and McQuat Limited ("WGM"), recommends a clear path to advance the project to Preliminary Assessment stage with a recommended budget of \$1.26 million.

The Company maintains a camp on the property and pays an annual advanced royalty of \$21,875 per annum in lieu of an 8.75% net profit royalty prior to commercial production. The Company's claims and mining leases are in good standing with sufficient reserve credits to maintain the properties for over 10 years. Overall, fixed costs to maintain operations, pay taxes, royalties and upkeep are about \$30,000 per year. The claims require \$85,000 in assessment credits per year. Over \$850,000 in banked assessment credits are currently available.

Corporate and general costs are tightly monitored and include legal, audit, insurance, transfer agent, listing and filing fees. These minimum requirements to maintain a listed company amount to approximately \$60,000 per year. The amount of money spent on promotion is variable year to year with a peak of about \$50,000 in 2008. Management believes the cost of regulatory compliance, in general, and the costs of converting to IFRS accounting standards will increase in years to come.

The second Corporate and General Expenses table details the quarterly amounts over the last four quarters. In general, expenses are concentrated in the first quarter and third quarter of the year. This pattern follows previous years. In the first quarter, stock exchange fees are due, work concentrates on providing annual reports and required annual filings and the Company attends and promotes its prospects at the annual Prospectors and Developers Convention in Toronto, in March.

In the third quarter, the Company traditionally attends the Cambridge House Investment Conference in September, in Toronto. The Company believes this is an inexpensive means of promoting the Company's prospects and meeting annually with shareholders.

The balance of costs are spread evenly quarter to quarter. Miscellaneous expenses include consulting fees, bank charges and meals and entertainment. Professional fees include accounting fees and legal fees.

The marked reduction in shareholders' information costs between 2009 and 2010, as well as the quarterly fluctuations in these costs in 2010 result from management moving away from a glossy annual report to a more cost efficient format.

## Resource Estimates and Project Advancement

On July 14, 2010, a revised mineral resource estimate was released. This work was completed by independent consultants Watts, Griffis and McQuat Limited and incorporated results of the 2008 drilling program. Tonnage and contained ounces of gold increased by 8% over previous estimates and 65% of the resources were upgraded to the indicated resource category.

### MOSS LAKE MINERAL RESOURCES

Prepared by WGM (using a 0.001 opt Au cut-off and 0.300 opt Au top cut)

Category	Zone	Tons (million)	opt Au	Contained ('000 oz)
Indicated	Main Zone	12.5	0.023	291
	QES Zone	27.8	0.029	816
	<b>Total Indicated</b>	<b>40.3</b>	<b>0.027</b>	<b>1,107</b>
	Inferred	Main Zone	16.5	0.025
QES Zone		4.2	0.025	107
<b>Total Inferred</b>		<b>20.7</b>	<b>0.025</b>	<b>525</b>

### Notes:

- (1) This Mineral Resource estimate was prepared by Mr. Kurt Breede, P.Eng., who is an independent Qualified Person, and is effective July 14th, 2010.
- (2) Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, sociopolitical, marketing, or other relevant issues.
- (3) The quantity and grade of reported Inferred resources in this estimation are uncertain in nature and there has been insufficient exploration to define these Inferred resources as an Indicated or Measured Mineral Resource and it is uncertain if further exploration will result in upgrading them to an Indicated or Measured Mineral Resource category.
- (4) The Mineral Resources were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council December 11, 2005.
- (5) This estimate was prepared using an inverse distance interpolated block model and reported within an interpreted wireframe of the mineralized envelope at a 0.015opt Au (or 0.5 g/tonne Au) limit and excludes all blocks with a grade below 0.001 opt Au. The cut-off grade of 0.015 opt Au was selected as the basis on which the two Zones were modelled in the geological interpretation, and considered the parameters that would likely determine the economic viability of an open pit mining operation at Moss Lake. These included likely mine dilution, metallurgical recoveries, operating costs and a gold price of US\$900/oz (at an exchange rate of US\$:C\$1.10).
- (6) The resource estimate extends to a depth of 870 feet which is deemed a practical cut-off to maintain reasonable stripping ratios in a surface mining operation.

Management of Moss Lake believes the pragmatic application of blasthole grade control techniques on a bench by bench basis offers potential to realize better grades in an eventual mining operation. The following table demonstrates the cut-off grade sensitivity of Moss Lake Mineral Resource estimates.

### MOSS LAKE MINERAL RESOURCES CUTOFF GRADE SENSITIVITY

Cut-off Grade (opt)	Main Zone (million Tons)	Au (opt)	QES Zone (million Tons)	Au (opt)	Total (million Tons)	Au (opt)	Contained Au ( '000 oz)
<b>Indicated</b>							
<b>0.001</b>	<b>12.5</b>	<b>0.023</b>	<b>27.8</b>	<b>0.029</b>	<b>40.3</b>	<b>0.027</b>	<b>1,107</b>
0.010	9.3	0.029	25.1	0.032	34.3	0.031	1,069
0.015	7.2	0.034	21.7	0.035	28.8	0.035	998
0.020	5.0	0.041	17.0	0.040	22.0	0.040	881
<b>Inferred</b>							
<b>0.001</b>	<b>16.5</b>	<b>0.025</b>	<b>4.2</b>	<b>0.025</b>	<b>20.7</b>	<b>0.025</b>	<b>525</b>
0.010	13.2	0.030	3.8	0.027	17.0	0.029	500
0.015	10.1	0.035	3.1	0.030	13.3	0.034	454
0.020	8.0	0.041	2.0	0.035	10.0	0.040	397

The mineralized material extends for 8,500 feet of strikelength and remains open at depth. The resource estimate is restricted to a depth of 870 feet from surface.

A 1,000 foot long gap exists between the Main and QES zones defined by limited previous drilling. This area offers potential to increase resources with further rigorous drilling.

The updated resource estimate includes 15 drill holes completed in 2008 in order to validate historical data and refine the resource models. This work updates a previous report completed in 2006 ([www.sedar.com](http://www.sedar.com) - Technical Report, November 27, 2006, Moss Lake Gold Mines Ltd.).

The independent "Qualified Persons" for the 43-101 compliant Mineral Resource Estimate are Richard W. Risto, P. Geo and Kurt Breede, P. Eng. of Watts, Griffis and McQuat Limited.

Both management and its independent consultants believe the project has significant merit. The fundamental aspects of the proposed program are a Preliminary Assessment followed by definition drilling and certain pre-development activities, specifically, further metallurgical and grinding testwork, pit design and optimization, initiation of environmental baseline studies, community and First Nations relations, hydrology studies and development of a conceptual siteplan, including the potential diversion of a creek. This work would provide key information for improving confidence in operating and capital cost estimates while advancing the project towards the Pre-Feasibility stage. The recommended program is budgeted at \$1.26 million.

The Company is in the process of obtaining a loan from Wesdome to fund this work, settle outstanding obligations and provide working capital to fund corporate and general expense requirements.

## SUMMARY OF QUARTERLY RESULTS

	Q4	Q3	Q2	2010 Q1
Working capital (deficit)	\$(330,047)	\$(588,233)	\$(520,221)	\$(476,004)
Interest income	-	-	-	-
Net loss (in thousands)	(22)	(190)	(26)	(34)
Net loss per share	(0.00)	(0.01)	(0.00)	(0.00)

# Management's Discussion and Analysis

	2009			
	Q4	Q3	Q2	Q1
Working capital (deficit)	\$ (435,629)	\$ (147,120)	\$ (110,779)	\$(77,555)
Interest income	-	4	-	28
Net loss (in thousands)	(31)	(31)	(36)	(32)
Net loss per share	(0.00)	(0.00)	(0.00)	(0.00)

The net loss reflects ongoing corporate and general costs and interest expenses on a convertible note to parent company Wesdome. In the third quarter, 2010, a non-cash stock compensation expense of \$150,000 was booked to expense stock options granted to directors and officers of the Company.

Likewise, the working capital deficit grew progressively over this period reflecting ongoing corporate and general and operating costs. Details on the Company's plans to address these working capital issues and move the project forward are discussed in the Liquidity and Capital Resources

## LIQUIDITY AND CAPITAL RESOURCES

The Company is a venture issuer involved in mineral exploration and development. It therefore, does not generate sales nor significant revenue. The Company's objective is to advance its assets to a point where their economic relevance may be demonstrated and build a mine capable of providing a return on capital for its shareholders. Mineral exploration is by nature a high risk - high reward business.

At December 31, 2010, the Company had cash resources of \$388 compared to \$9,753 at year-end 2009. The Company has a working capital deficit of \$330,047 at December 31, 2010 compared to a deficit of \$435,629 at December 31, 2009. The Company has been around since 1996 and has been funded historically by equity issues or advances and loans from its parent company Wesdome. The Company's sole asset is mining claims and leases which host the Moss Lake gold deposit. The gold market is very strong and the future of the Company depends on work designed to assess the potential economic viability of this asset. Wesdome understands the significance of this asset over the long term and has historically supported the Company's efforts by providing loans and advances to cover working capital requirements when needed. The current working capital deficit is composed primarily of payables and accruals due to Wesdome in the amount of \$306,544 at December 31, 2010.

On November 19, 2008, the Company obtained a \$300,000 loan from majority shareholder Wesdome. As consideration, the Company issued to Wesdome a convertible, unsecured promissory note having a two year term and bearing interest at 10% per annum. The principal amount of the note was convertible into common shares at \$0.25 per share.

On April 25, 2011, the Company announced its intention to obtain a \$2,000,000 loan from Wesdome. In consideration for the loan, the Company proposes to issue to Wesdome a convertible unsecured promissory note having a two year term and bearing interest at a rate of 8% per annum. The principal amount of the note is convertible into common shares at \$0.50 per share.

The Company believes this loan will be sufficient to discharge advances from Wesdome, complete the recommended \$1.26 million work program and provide working capital for about two years.

The Company's current working capital requirements are discussed in detail in the Discussion of Operations section. Fixed costs to maintain operations, pay taxes and royalties and upkeep are about \$30,000 per annum. Corporate and general costs to maintain the requirements of a listed company have been about \$60,000 per year. The conversion to IFRS accounting standards and growing regulatory compliance burdens are expected to increase this cost. Therefore, working capital requirements are estimated at \$150,000 per year.

## 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 \$2,607 and \$715 for 2010 and 2009, respectively, all of which were capitalized to exploration properties.

Payables and accruals at December 31, 2010 and 2009 included \$306,544 and \$156,725, respectively, due to Wesdome.

The balance owing to Wesdome as at December 31, 2010 included the following items:

- 1) Management fees equal to \$83,176;
- 2) Interest on the 2008 convertible note of \$65,931;
- 3) Operating advances totalling \$139,495; and
- 4) Directors' and officers' insurance of \$17,942.

The purpose of the advances was to enable the Company to meet ongoing working capital requirements until such time as the Company can finance its proposed program. The transactions with Wesdome are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Other than as described above, there are no contractual or other commitments between the related parties.

## FOURTH QUARTER

During the fourth quarter, the Company advanced initiatives to fund the recommended work program and ongoing working capital requirements. The Company initiated a Rights Offering but could not obtain regulatory approval on terms recommended by the directors. Subsequent to the year-end, the Company arranged a promissory note with Wesdome to satisfy its funding requirements and limit dilution.

## CRITICAL ACCOUNTING ESTIMATES

While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

## 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 2010 or 2009.

## Future Income Tax

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 estimated to reverse or losses are estimated 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.

The Company evaluates the likelihood of using all or a portion of the deductible temporary differences and loss carryforwards based on expected future earnings, the utilization of the deductible temporary differences and the expiry of its loss carryforwards.

Based on this information, the Company determines the appropriate amount of income tax valuation allowance that is required to reduce the value of its total deductible temporary differences and loss carryforwards to an amount which it estimates it can more likely than not utilize. At the end of the current year, the Company determined that it was not more likely than not that it will utilize any portion of its deductible temporary differences or loss carryforwards and therefore, a valuation allowance has been recognized.

## 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. During 2010, this note was repaid through the issuance of shares.

Interest expense on long term debt includes \$25,952 (2009: \$24,438) which is attributable to accretion of the discount on this matured note.

The Company's other financial instruments consist of cash, receivables and

# Management's Discussion and Analysis

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

Financial instruments disclosures requires the Company to provide information about: a) the significance of financial instruments for the Company's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

### Financial Instruments

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

	2010	2009
<b>Financial assets</b>		
<b>Held for trading:</b>		
Cash	\$ 338	\$ 9,753
<b>Loans and receivables:</b>		
Receivables	58,228	9,486
<b>Financial liabilities</b>		
<b>Other financial liabilities:</b>		
Payables and accruals	\$ 388,663	\$ 180,820
Convertible promissory note	-	274,048

### 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.

Other financial liabilities - Payables, accruals and the convertible promissory note are carried at amortized cost. The carrying amount of payables and accruals approximates fair values due to the short maturity of these financial instruments. The fair value of the convertible promissory note was considered to approximate its carrying amount due to discounting at a market rate.

The fair value hierarchy for financial instruments measured at fair value is Level 1 for cash. The Company does not have Level 2 or Level 3 inputs.

### 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 investments 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.

At each of December 31, 2010 and 2009, all liabilities were due within the year.

#### 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.

## ENVIRONMENT

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 2010 and 2009.

## 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.

## FUTURE ACCOUNTING CHANGES

### International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that ("IFRS") will replace Canadian Generally Accepted Accounting Principles ("GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Accordingly, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011 including comparative IFRS financial results and an opening balance sheet as at January 1, 2010 (the "transition date"). The first annual IFRS financial statements will be prepared for the year ended December 31, 2011 with restated comparatives for the year ended December 31, 2010.

The Company is proceeding with the transition from current Canadian GAAP to IFRS. The transition process consists of three primary phases: scoping and diagnostic phase; impact analysis, evaluation and design phase; and implementation and review phase.

- > Scoping and diagnostic phase - A preliminary diagnostic review was completed at a high level which determined the financial reporting differences under IFRS and the key areas that may be impacted. The areas with the highest potential impact were identified to include impairment of assets, financial instruments and initial adoption of IFRS under the provisions of IFRS 1, *First time adoption of International Financial Reporting Standards*.
- > Analysis, quantification and evaluation phase - In this phase, each area identified from the scoping and diagnostic phase is being addressed in order of descending priority. This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statement content. The Company anticipates that there will be changes in accounting policies and that these changes may materially impact the financial statements. The full impact on future financial reporting has not been determined or estimated at this time.
- > Implementation and review phase - This phase includes execution of any changes to information systems and business processes and completing formal authorization processes to approve recommended accounting policy changes. It will also include the collection of financial information necessary to compile IFRS-compliant financial statements and audit committee approval of IFRS financial statements.

Having completed the scoping and diagnostic phase, finalization and approval of accounting policies and IFRS 1 exemptions are underway. Preparation of the

# Management's Discussion and Analysis

opening IFRS balance sheet is in progress. The Company has identified the areas that will be affected by the transition to IFRS.

## First Time Adoption (IFRS 1)

IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- > Optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening balance sheet; and
- > Mandatory exceptions to retrospective application of certain IFRS standards.

Additionally, to ensure financial statements contain high-quality information that is transparent to users, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items due to the transition to IFRS.

The Company has elected to apply the following exemption in its preparation of an opening IFRS statement of financial position as at the transition date:

- > To apply IFRS 2 Share-Based Payments only to equity instruments that were issued after November 7, 2002 and had not vested by the transition date.

In accordance with the requirements of IFRS 1, the Company will record transition adjustments where applicable against retained earnings as at January 1, 2010.

Prior to reporting interim financial statements in accordance with IFRS for the year ending December 31, 2011, the Company may decide to apply other optional exemptions contained in IFRS 1.

## Impairment (IAS36)

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value. This approach is different than GAAP (i.e. one step model under IFRS compared to two step model under GAAP). IFRS also requires reversal of impairment losses (excluding goodwill) where previous adverse circumstances have changed; this is prohibited under Canadian GAAP impairment testing which should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a Cash Generating Unit ("CGU"). The Company has determined that there will not be a material impact to its statements of accounting for impairment under IFRS.

## Share-based Payments (IFRS 2)

Under IFRS, the forfeiture rate, with respect to share options, needs to be estimated by the Company at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur. For graded-vesting features, IFRS requires each instalment to be treated as a separate share option grant, because each instalment has a different vesting period and hence the fair value of each instalment will differ. The Company has considered the potential effect of share based payments under IFRS and has concluded that there will be no material impact on its financial statements on adoption of IFRS.

## Mineral Property Interest, Exploration and Evaluation Costs (IFRS 6)

IFRS 6 applies to expenditures incurred on properties in the exploration and evaluation ("E&E") phase, which begins when an entity obtains the legal rights to explore a specific area and ends when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. IFRS 6 requires entities to select and consistently apply an accounting policy specifying which E&E expenditures are capitalized and which are expensed. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment. Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired. Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized. The Company is currently in the process of determining the impact on its statements of a change to its accounting policies.

## Income Taxes (IAS 12)

Both Canadian GAAP and IFRS follow the liability method of accounting for income taxes, where tax liabilities and assets are recognized on temporary differences. However, there are certain exceptions to the treatment of temporary differences

under IFRS that may result in an adjustment to Moss Lake future tax liabilities and assets under IFRS. In addition, the Company's future tax liabilities and assets may be impacted by the tax effects of any other changes noted in the above areas. The Company is in the process of analyzing the impact of IAS 12 on the financial statements.

## Promissory Note (IAS 32)

Under Canadian GAAP the convertible notes were considered to have an embedded share purchase option which was valued separately from the debt component and the value attributed to shareholders' equity. Following assessment of the terms of the convertible notes under IFRS it was concluded that the Company's existing approach complies with recognition and measurement of the instrument. There will be no material change on transition.

## Subsequent Disclosures

Further disclosures of the IFRS transition process are expected as follows:

- > The Company's first financial statements prepared in accordance with IFRS will be the interim financial statements for the three months ending March 31, 2011, which will include notes disclosing transitional information and disclosure of new accounting policies under IFRS. These statements will also include 2010 financial statements for the comparative period, adjusted to comply with IFRS and the Company's transition date IFRS statement of financial position.

## Information Systems

IT implications were assessed with respect to additional information required under IFRS. No significant changes are expected to operate the accounting system under IFRS.

## Internal Controls

Management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support their certification of the financial statements and MD&A, more specifically assessing that the SEDAR filings are presenting fairly the results of the Company. Management will make sure that once the convergence process is completed, it can still certify its filings. The Company does not expect to make a change that materially affects, or is reasonably likely to materially affect, the Company's ICFR in fiscal 2010 and 2011 due to the transition to IFRS.

## Impact on the Business

The business processes of the Company are not expected to be effected significantly to operate under IFRS. The Company does not have foreign currency transactions, defined benefit pension plan, hedging activities, debt or capital covenants. The Company does not expect that IFRS will have an impact on the requirements or business processes when it engages in equity financing. The Company does not have compensation arrangements that will be affected by the IFRS implementation. The Company's Stock Option Plan is not affected by ratios or financial targets.

The International Accounting Standard Board currently has projects underway that are expected to result in new pronouncements and as a result, IFRS as at the transition date is expected to differ from its current form. The final impact of IFRS on the financial statements will only be determined once all applicable standards at the conversion date are known.

## Training and Communication

Key finance staff have attended and continue to attend various IFRS update and training courses. IFRS standard requirements have been communicated to other finance staff.

## OUTLOOK

Results of the recently revised mineral resource estimate support our view of the potential of Moss Lake to be developed as a large tonnage-low grade surface mining operation. The Company has obtained a loan from Wesdome in order to advance the project to Preliminary Assessment stage and towards Pre-Feasibility stage.

The loan will provide the Company with sufficient working capital for about two years.

## SUMMARY OF SHARES ISSUED

As of April 27, 2011, the Company's share information is as follows:

Common shares issued	46,434,679
Common share purchase options	3,050,000
Common share purchase warrants	Nil

# 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, 2011

# Independent Auditor's Report

To the Shareholders of  
**Moss Lake Gold Mines Ltd.**

We have audited the accompanying financial statements of **Moss Lake Gold Mines Ltd.**, which comprise the balance sheets as at December 31, 2010 and 2009, the statements of operations, comprehensive income and deficit, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Moss Lake Gold Mines Ltd. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

## **Emphasis of Matters**

Without qualifying our opinion, we draw attention to Note 1 to the financial statement which indicates a deficit of \$8.3 million and a working capital deficiency that is funded by its parent. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

The logo for Grant Thornton LLP is written in a stylized, cursive script. The words "Grant Thornton" are in a larger font, and "LLP" is smaller and positioned to the right.

Chartered Accountants  
Licensed Public Accountants  
Toronto, Canada  
April 27, 2011

# Balance Sheets

December 31	2010	2009
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 388	\$ 9,753
Receivables	58,228	9,486
	58,616	19,239
Exploration properties (Note 3)	2,768,754	2,708,845
	\$ 2,827,370	\$ 2,728,084
<b>Liabilities</b>		
<b>Current</b>		
Payables and accruals	\$ 388,663	\$ 180,820
Convertible promissory note (Note 4)	-	274,048
	388,663	454,868
<b>Shareholders' Equity</b>		
Capital stock (Note 5)	10,416,622	10,085,654
Contributed surplus	379,408	229,408
Equity component of convertible promissory note (Note 4)	-	43,962
Deficit	(8,357,323)	(8,085,808)
	2,438,707	2,273,216
	\$ 2,827,370	\$ 2,728,084

Nature and continuation of operations (Note 1)

Environmental risks (Note 11)

Subsequent event (Note 14)

On behalf of the Board:



George N. Mannard  
Director



David Birkett  
Director

# Statements of Operations, Comprehensive Loss and Deficit

Years Ended December 31	2010	2009
Interest income	\$ -	\$ 32
<b>Costs and expenses</b>		
Interest on long term debt (Note 4)	54,144	54,355
Corporate and general	67,371	75,841
Stock based compensation	150,000	-
	<b>271,515</b>	<b>130,196</b>
Net loss before income taxes	(271,515)	(130,164)
Income taxes (Note 7)	-	-
Net loss and comprehensive loss	(271,515)	(130,164)
Deficit, beginning of year	(8,085,808)	(7,955,644)
Deficit, end of year	\$ (8,357,323)	\$ (8,085,808)
<b>Net loss per common share (Note 8)</b>		
Basic and fully diluted	\$ 0.01	\$ 0.00

See accompanying notes to the financial statements.

# Statements of Shareholders' Equity

	Capital Stock	Common Share Purchase Warrants	Contributed Surplus	Equity Component of Promissory Note	Deficit	Total Shareholders' Equity
Balance, December 31, 2008	\$10,063,894	\$ 20,000	\$ 213,843	\$ 43,962	\$ (7,955,644)	\$ 2,386,055
Net loss for year ended Dec 31, 2009	-	-	-	-	(130,164)	(130,164)
Exercise of warrants	17,325	-	-	-	-	17,325
Value attributed to warrants exercised	4,435	-	(4,435)	-	-	-
Common share purchase warrants expired	-	(20,000)	20,000	-	-	-
Balance, December 31, 2009	10,085,654	-	229,408	43,962	(8,085,808)	2,273,216
Stock based compensation	-	-	150,000	-	-	150,000
Transfer of equity component of convertible promissory note issued on conversion of note	43,962	-	-	(43,962)	-	-
Common shares, net of costs of \$2,084 (Note 4)	297,916	-	-	-	-	297,916
Shares issuance costs flow-through shares issued	(10,910)	-	-	-	-	(10,910)
Net loss for year ended December 31, 2010	-	-	-	-	(271,515)	(271,515)
Balance, December 31, 2010	\$10,416,622	\$ -	\$ 379,408	\$ -	\$ (8,357,323)	\$ 2,438,707

See accompanying notes to the financial statements.

# Statements of Cash Flows

Years Ended December 31	2010	2009
Increase (decrease) in cash		
<b>Operating activities</b>		
Net loss	\$ (271,515)	\$ (130,164)
Stock based compensation	150,000	-
Accretion of discount on convertible promissory note	25,952	27,425
Change in receivables and payables	7,199	56,782
	<b>(88,364)</b>	<b>(45,957)</b>
<b>Financing activities</b>		
Exercise of warrants	-	17,325
Share issuance costs	(12,994)	-
Change in payables	151,902	-
	<b>138,908</b>	<b>17,325</b>
<b>Investing activities</b>		
Additions to exploration properties	(59,909)	(31,015)
Net decrease in cash	(9,365)	(59,647)
Cash, beginning of year	9,753	69,400
Cash, end of year	\$ 388	\$ 9,753

See accompanying notes to the financial statements.

# 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 (TSXV: MOK). 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 is a subsidiary of Wesdome Gold Mines Ltd. ("Wesdome"), a publicly held company, which is listed on the TSX Exchange (TSX: WDO).

### Continuation of Operations

The Company has incurred significant losses and, at December 31, 2010, the Company had a deficit of \$8.3 million and a working capital deficiency of \$330,047, \$306,544 of which represents amounts owing to Wesdome. 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 there from 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.

On April 25, 2011, the Company announced its intention to obtain a \$2,000,000 loan from Wesdome (Note 14). In consideration for the loan, the Company proposes to issue to Wesdome a convertible unsecured promissory note having a two year term and bearing interest at a rate of 8% per annum. The principal amount of the note is to be convertible into common shares at a price of \$0.50 per share.

These financial statements have been prepared by the Company in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on the basis 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 are expressed in Canadian dollars ("C\$") which is the functional and reporting currency 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 pre-production 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, 2010, 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". The carrying value of the liability component is accreted to the principal amount as additional interest expense over the term of the note.

### Financial Instruments - Recognition and Measurement

The Company designates 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.

As at December 31, 2010 cash is classified as held-for-trading. Receivables are classified as loans and receivables. Payables and accruals and convertible promissory notes are classified as financial liabilities.

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.

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.

On the 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.

### Financial Instruments - Disclosures

CICA Handbook Section 3862, "Financial Instruments - disclosures" was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

See Note 10 for relevant disclosures.

# Notes to the Financial Statements

## 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 tax benefits foregone by 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. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount.

## Loss per Common Share

Basic loss per share is computed by dividing the 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 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

Comprehensive income is the change in the Company's net assets arising from transactions, events and circumstances not related to the Company's shareholders and include items that would not normally be included in net earnings or losses such as unrealized gains or losses on available-for-sale investments. 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.

## Adoption of International Financial Reporting Standards

The Canadian Institute of Chartered Accountants (CICA) announced that publicly accountable enterprises will be required to adopt IFRS effective January 1, 2011. At the effective date, the balance sheet as at January 1, 2010 will require conversion to IFRS to establish opening balances which will form the basis for comparative information to be reported in 2011. Accordingly, this is the last set of financial statements for the Company using existing Canadian GAAP.

## 3. EXPLORATION PROPERTIES

	2010	2009
Cost of properties	\$ 6,481,081	\$ 6,481,081
Exploration expenditures	2,783,862	2,745,828
Settlement of advance royalties	105,000	105,000
Underlying advance royalties	368,563	346,688
	9,738,506	9,678,597
Write-down of carrying values	(6,969,752)	(6,969,752)
	\$ 2,768,754	\$ 2,708,845

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 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. During 2010, this note was repaid through the issuance of shares (Note 5).

Interest expense on long term debt includes \$25,952 (2009: \$24,438) which is attributable to accretion of the discount on this matured note.

## 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, 2008	45,115,379	\$ 10,063,894
Exercise of warrants	69,300	17,325
Value attributed to warrants exercised	-	4,435
Balance, December 31, 2009	45,184,679	10,085,654
Transfer of equity component of convertible promissory note	-	43,962
Common share issued on conversion of note, net of costs of \$2,084 (Note 4)	1,200,000	297,916
Value attributed to warrants exercised	-	(10,910)
Balance, December 31, 2010	46,384,679	\$ 10,416,622

Prior to November 15, 2009, 69,300 common share purchase broker warrants were exercised. These warrants entitled the holder to purchase one common share of the Company at a price of \$0.25 per share.

In fiscal 2010 the Company issued 1,200,000 common shares pursuant to the conversion of a 10% promissory note with a liability component of \$300,000 and an equity component of \$43,962.

### 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, 2010, 1,538,467 options to purchase common shares are available for grant under the Plan. The following table reflects the continuity for the years ended December 31, 2010 and 2009 of options granted under the plan.

# Notes to the Financial Statements

	Shares		Weighted Average Exercise Price	
	2010	2009	2010	2009
Outstanding, beginning of year	1,850,000	1,950,000	\$ 0.289	\$ 0.287
Granted	1,250,000	-	\$ 0.200	\$ -
Expired	-	(100,000)	\$ -	\$ 0.200
Outstanding, end of year	3,100,000	1,850,000	\$ 0.253	\$ 0.289

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value per share price of \$0.12 was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 72%, risk-free interest rate of 2.0% and expected life of 5 years.

The fair value of compensation and contributed surplus relating to stock options was \$150,000 (2009: \$Nil).

The following information applies to options outstanding and exercisable at December 31, 2010.

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$0.20	1,250,000	4.75 years	1,250,000
\$0.25	800,000	0.50 years	800,000
\$0.30	100,000	1.00 years	100,000
\$0.25	500,000	1.50 years	500,000
\$0.40	450,000	2.00 years	450,000
	3,100,000		3,100,000

## 6. CONTRIBUTED SURPLUS

	Stock based compensation	Valuation of expired warrants	Fair value of broker warrants	Total
Balance, December 31, 2008	\$201,700	-	\$12,143	\$213,843
Value attributed to warrants exercised	-	-	(4,435)	(4,435)
Common share purchase warrants expired	-	20,000	-	20,000
Balance, December 31, 2009	201,700	20,000	7,708	229,408
Stock based compensation	150,000	-	-	150,000
Balance, December 31, 2010	\$351,700	\$20,000	\$ 7,708	\$379,408

## 7. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the combined Federal and Ontario statutory income tax rate of 31.0% (2009: 33.0%) to the amounts recognized in the statements of operations.

	2010	2009
Loss before recovery of future income taxes	\$ (271,515)	\$ (130,164)
Expected income tax recovery	\$ (84,000)	\$ (43,000)
Non-deductible expenses and other items	51,000	31,000
Effect of changes in substantively enacted tax rates	16,000	206,000
Change in valuation allowance	17,000	(194,000)
Income taxes	\$ -	\$ -

The following table reflects future income tax assets at December 31, 2010 and 2009.

	2010	2009
Future income tax assets		
Unclaimed non-capital losses	\$ 196,000	\$ 174,000
Unclaimed financing costs	9,000	14,000
Excess of unclaimed resource pools and undepreciated capital cost over carrying value of exploration properties	664,000	664,000
	869,000	852,000
Less valuation allowance	(869,000)	(852,000)
	\$ -	\$ -

At December 31, 2009 the Company had unclaimed exploration and development expenditures of approximately \$5,400,000 and federal and provincial non-capital losses of approximately \$786,000 which are available to reduce future taxable income. The non-capital losses will expire as follows: 2013 - \$57,000; 2014 - \$81,000; 2025 - \$5,000; 2026 - \$98,000; 2027 - \$129,000; 2028 - \$147,000; 2029 - \$134,000 and 2030 - \$135,000.

## 8. LOSS PER COMMON SHARE

Loss per common share is based on a weighted average number of shares outstanding of 45,257,008 for 2010 and 45,125,250 for 2009. The effect of common share purchase options, warrants and convertible notes on the net loss in 2010 and 2009 is not reflected as to do so would be anti-dilutive.

## 9. RELATED PARTY INFORMATION

Other than amounts owing, interest paid and shares issued to Wesdome on the convertible promissory notes (Notes 4 and 5) 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 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 at December 31, 2010 and 2009 amounted to \$2,607 and \$715, 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, 2010 and 2009 included \$306,543 and \$156,725 respectively, due to Wesdome.

## 10. FINANCIAL INSTRUMENTS - DISCLOSURES AND PRESENTATION

Financial instruments disclosures requires the Company to provide information about: a) the significance of financial instruments for the Company's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages those risks.

### Financial Instruments

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

	2010	2009
<b>Financial assets</b>		
Held for trading:		
Cash	\$ 388	\$ 9,753
Loans and receivables:		
Receivables	58,228	9,486
<b>Financial liabilities</b>		
Other financial liabilities:		
Payables and accruals	388,663	180,820
Convertible promissory note	-	274,048

# Notes to the Financial Statements

## 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.

Other financial liabilities - Payables, accruals and the convertible promissory note are carried at amortized cost. The carrying amount of payables and accruals approximates fair value due to the short maturity of these financial instruments. The fair value of the convertible promissory note was considered to approximate its carrying amount due to discounting at a market rate.

The fair value hierarchy for financial instruments measured at fair value is Level 1 for cash. The Company does not have Level 2 or Level 3 inputs.

## 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.

At each of December 31, 2010 and 2009, all liabilities were due within the year.

### 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 I Canadian banks and investing only in Guaranteed Investment Certificates. The Company's cash is not subject to any external restrictions.

## 11. 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 2010.

## 12. 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.

## 13. 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.

## 14. SUBSEQUENT EVENT

On April 25, 2011, the Company announced its intention to obtain a \$2,000,000 loan from Wesdome. In consideration for the loan, the Company proposes to issue to Wesdome a convertible unsecured promissory note having a two year term and bearing interest at a rate of 8% per annum. The principal amount of the note is to be convertible into common shares at a price of \$0.50 per share.

# Corporate Information

## Head Office

8 King Street East, Suite 1305  
Toronto, Ontario M5C 1B5  
Tel: 416.360.3743  
Fax: 416.360.7620  
Email: info@MossLakeGold.com

## Listing

TSX-Venture Exchange Symbol: MOK

## Transfer Agent and Registrar

Computershare Investor Services Inc.  
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

Richmond Graham  
Director

John Hilland, P. Geo  
Director

George Mannard, P. Geo  
Director, President

Donald D. Orr  
Secretary-Treasurer

Donovan Pollitt, P.Eng, CFA  
Director

## 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 21<sup>st</sup>, 2011 at 10:00 a.m.

