



## **Management's Responsibility for Financial Statements**

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

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

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

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

Toronto, Canada  
April 11, 2008

"Donald D. Orr"  
Secretary-Treasurer

## Auditors' Report

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

We have audited the balance sheets of **Moss Lake Gold Mines Ltd.** (a Development Stage Company) as at December 31, 2007 and 2006 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
April 11, 2008

"Grant Thornton LLP"  
Chartered Accountants  
Licensed Public Accountants

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**Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

**Balance Sheets**December 31 2007 2006

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**Assets**

## Current

Cash and cash equivalents	\$ 1,092,158	\$ 78,072
Receivables	16,260	12,119
	<u>1,108,418</u>	<u>90,191</u>
Exploration properties (Note 4)	1,516,559	1,386,091
	<u>\$ 2,624,977</u>	<u>\$ 1,476,282</u>

**Liabilities**

## Current

Payables and accruals	\$ 154,201	\$ 47,054
Convertible promissory note (Note 5)	295,775	-
	<u>449,976</u>	<u>47,054</u>
Convertible promissory note (Note 5)	-	285,635
	<u>449,976</u>	<u>332,689</u>

**Shareholders' Equity**

Capital stock (Note 6)	10,004,715	8,889,123
Common share purchase warrants (Note 6)	20,000	-
Contributed surplus (Note 6)	213,843	104,300
Equity component of convertible promissory note (Note 5)	20,280	20,280
Deficit	<u>(8,083,837)</u>	<u>(7,870,110)</u>
	<u>2,175,001</u>	<u>1,143,593</u>
	<u>\$ 2,624,977</u>	<u>\$ 1,476,282</u>

Nature and continuation of operations (Note 1)

Environmental risks (Note 11)

*On behalf of the Board***George N. Mannard**  
*Director***David Birkett**  
*Director*

See accompanying notes to the financial statements.

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**Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

**Statements of Operations, Comprehensive Loss and Deficit**

Years Ended December 31 2007 2006

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Interest income	\$ 4,887	\$ 2,058
Costs and expenses		
Interest on long term debt (Note 5)	34,140	19,986
Corporate and general	87,074	85,590
Stock compensation expense	97,400	100,000
	<u>218,614</u>	<u>205,576</u>
Net loss and comprehensive loss	(213,727)	(203,518)
Deficit, beginning of year	(7,870,110)	(7,666,592)
Deficit, end of year	<u>\$ (8,083,837)</u>	<u>\$ (7,870,110)</u>
Net loss per common share (Note 8)		
Basic and fully diluted	\$ (0.01)	\$ (0.01)

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See accompanying notes to the financial statements.

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**Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

**Statements of Cash Flows**

Years Ended December 31

**2007**

2006

Increase (decrease) in cash and cash equivalents

	<b>2007</b>	2006
<b>Operating activities</b>		
Net loss	\$ (213,727)	\$ (203,518)
Stock compensation expense	97,400	100,000
Accretion of discount on convertible promissory note	10,140	5,915
Change in receivables and payables	(15,553)	(76,895)
	<b>(121,740)</b>	<b>(174,498)</b>
<b>Financing activities</b>		
Loan from Wesdome Gold Mines Ltd.	-	300,000
Common shares issued, net of costs (Note 6)	1,107,735	50,000
Exercise of options	40,000	-
Change in payables	42,608	-
	<b>1,190,343</b>	<b>350,000</b>
<b>Investing activities</b>		
Additions to exploration properties	(130,468)	(97,547)
Change in payables	75,951	-
	<b>(54,517)</b>	<b>(97,547)</b>
Increase in cash and cash equivalents	<b>1,014,086</b>	77,955
Cash and cash equivalents, beginning of year	<b>78,072</b>	117
Cash and cash equivalents, end of year	<b>\$1,092,158</b>	\$ 78,072

See accompanying notes to the financial statements.

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

(A Development Stage Company)

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

December 31, 2007 and 2006

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

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

As a result of these transactions, the ownership of the Company, previously held by River Gold, is now held by Wesdome.

##### ***Continuation of operations***

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

The Company has incurred significant losses and, at December 31, 2007, the Company had a deficit of \$8.0 million. The recoverability of the carrying value of exploration properties is dependent upon the continued support of Wesdome, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to develop ore reserves, future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require additional write-downs of the carrying values.

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

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

(A Development Stage Company)

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

December 31, 2007 and 2006

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#### **2. SIGNIFICANT ACCOUNTING POLICIES**

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

##### **Estimates, risks and uncertainties**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the year. Significant estimates and assumptions include those related to the recoverability of mineral exploration properties and deferred exploration expenditures, determination of future income tax assets and liabilities, and stock compensation expense. 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.

##### **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, 2007, the Company has not incurred or committed to any reclamation obligation on its exploration properties.

##### **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.

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

(A Development Stage Company)

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

December 31, 2007 and 2006

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Flow-through shares**

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The 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.

##### **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 earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

##### **Changes in accounting policies**

Effective January 1, 2007, the Company adopted the following new accounting standards in accordance with the transitional provisions of the Canadian Institute of Chartered Accountants ("CICA").

##### **(i) 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 and presentation of financial instruments on the balance sheet and the measurement of financial instruments according to prescribed classifications. These sections also address 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.

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

(A Development Stage Company)

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

December 31, 2007 and 2006

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 costs capitalized within debt will be amortized using the effective interest method. The adoption of the effective interest method of amortization had no impact on the opening balance sheet.

At December 31, 2007, cash and cash equivalents are 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.

#### **(ii) 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 loss has not been included as the Company did not have any other comprehensive income or loss for the year.

#### **(iii) Hedges**

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income remains until the forecasted transaction is eventually recognized in net income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to net income.

#### **(iv) Accounting Changes**

The adoption of Section 1506 has resulted in disclosure of future accounting changes that have not yet been adopted (Note 3).

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## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2007 and 2006

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#### 3. FUTURE ACCOUNTING CHANGES

The CICA released the following new standards that will apply to the Company for the year starting January 1, 2008. These new standards are outlined below:

Section 1400, "*General Standards of Financial Statement Presentation*" – This section 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).

Section 1535, "*Capital Disclosures*" – This section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to determine if the entity has complied with capital requirements and if not, the consequences of such non-compliance.

Section 3251, "*Equity*" – This section 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.

Section 3862, "*Financial Instruments – Disclosures*" – This section describes the required disclosure to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, "*Financial Instruments – Presentation*" – This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "*Financial Instruments – Disclosure and Presentation*".

The implementation of these standards will increase disclosure that currently exists.

#### 4. EXPLORATION PROPERTIES

	2007	2006
Cost of properties	\$ 6,481,081	\$ 6,481,081
Exploration expenditures	1,597,292	1,488,699
Settlement of advance royalties	105,000	105,000
Underlying advance royalties	302,938	281,063
	8,486,311	8,355,843
Write-down of carrying values	(6,969,752)	(6,969,752)
	\$ 1,516,559	\$ 1,386,091

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

(A Development Stage Company)

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

December 31, 2007 and 2006

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#### **4. EXPLORATION PROPERTIES (continued)**

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 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. 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 56% of the issued and outstanding shares of Moss Lake.

The liability component of the note, in the amount of \$279,720, is calculated as the present value of the principal and interest, discounted at 12%, 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 \$20,280, is comprised of the value of the exchange option, being the difference between the face value of the note and the liability component.

The net value assigned to the liability component on issuance was \$279,720. At December 31, 2007, the face value of the note is \$300,000 however the note is valued at \$295,775 using an effective interest rate of 11.67% and includes accretion of the discount during the year totalling \$10,140 (2006 - \$5,915), which is included in interest expense on long term debt, in addition to cash interest on the note totalling \$24,000 (2006 - \$14,071).

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## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2007 and 2006

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#### 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.

<b>Common shares issued:</b>	Shares	Amount
Balance, December 31, 2005	39,366,667	\$ 8,839,123
<u>Exercise of warrants</u>	<u>250,000</u>	<u>50,000</u>
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)
<u>Exercise of stock options</u>	<u>200,000</u>	<u>40,000</u>
<u>Balance, December 31, 2007</u>	<u>43,887,238</u>	<u>\$ 10,004,715</u>

On November 15, 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.

On November 15, 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.

##### 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, 2007, 2,438,724 common shares are available for grant under the Plan.

The following table reflects the continuity for the years ended December 31, 2007 and 2006 of options granted under the plan.

	Shares		Weighted Average Exercise Price	
	2007	2006	2007	2006
Outstanding, beginning of year	1,200,000	400,000	\$ 0.150	\$ 0.200
Granted	1,050,000	800,000	\$ 0.319	\$ 0.125
Exercised	(200,000)	-	\$ 0.200	\$ -
<u>Expired</u>	<u>(100,000)</u>	<u>-</u>	<u>\$ 0.200</u>	<u>\$ -</u>
Outstanding, end of year	1,950,000	1,200,000	\$ 0.287	\$ 0.150

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## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2007 and 2006

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#### 6. CAPITAL STOCK (continued)

The following information applies to options outstanding and exercisable at December 31, 2007.

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$0.20	100,000	1.75 years	100,000
\$0.25	800,000	3.50 years	800,000
\$0.30	100,000	4.00 years	100,000
\$0.25	500,000	4.50 years	500,000
\$0.40	450,000	5.00 years	450,000
	<u>1,950,000</u>		

The fair value of the options granted in fiscal 2007 and 2006 was estimated on the date of grant using the Black-Scholes option pricing model. For fiscal years 2007 and 2006, the weighted average grant date fair value per option of \$0.128 (2006: \$0.125) was calculated using the following weighted average assumptions: dividend yield of 0%, expected volatility of 40% (2006:80%), 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 compensation and contributed surplus relating to stock options was \$97,400 for 2007 and \$100,000 for 2006.

#### Contributed surplus

	Stock based compensation	Valuation of expired warrants	Fair value of broker warrants	Total
Balance, December 31, 2005	\$ 4,300	\$ -	\$ -	\$ 4,300
Stock based compensation	100,000	-	-	100,000
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	\$ 201,700	\$ -	\$ 12,143	\$ 213,843

#### Warrants

The following table reflects the continuity of warrants for the year ended December 31, 2007 and 2006.

Expiry Date	Exercise Price	Number of common shares				Closing Balance	\$
		Opening Balance	Issued	Exercised	Expired		
November 15, 2009 <sup>(a)</sup>	\$0.25	-	189,740	-	-	189,740	
November 15, 2009	\$0.40	-	799,988	-	-	799,988	20,000
		-	989,728	-	-	989,728	20,000

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## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2007 and 2006

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#### 6. CAPITAL STOCK (continued)

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

Closing balance, December 31, 2006	\$	-
Value of warrants issued during the year		32,143
Closing balance, December 31, 2007	\$	32,143

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

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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 following 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.

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

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The fair value of the 189,740 common share purchase broker warrants issued in 2007 have been estimated at \$12,143 using the Black Scholes model for pricing options. The following 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.

#### 7. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the combined Federal and Ontario statutory income tax rate of 36.12% (2006 – 36.12%) to the amounts recognized in the statements of operations.

	2007	2006
Loss before recovery of future income taxes	\$ (213,727)	\$ (203,518)
Expected income tax recovery	\$ (77,000)	\$ (73,000)
Stock compensation expense	35,000	38,000
Impact of changes in substantively enacted tax rates	214,000	-
Change in valuation allowance	(172,000)	(35,000)
Recovery of future income taxes	\$ -	\$ -

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## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2007 and 2006

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#### 7. INCOME TAXES (continued)

The following table reflects future income tax assets at December 31, 2007 and 2006.

	2007	2006
Future income tax assets		
Unclaimed non-capital losses	\$ 160,000	\$ 137,000
Unclaimed financing costs	27,000	-
Excess of unclaimed resource pools and undepreciated capital cost over carrying value of exploration properties	1,071,000	1,250,000
	<u>1,258,000</u>	<u>1,387,000</u>
Less valuation allowance	<u>(1,258,000)</u>	<u>(1,387,000)</u>
	\$ -	\$ -

At December 31, 2007 the Company had unclaimed exploration and development expenditures of approximately \$4,900,000 and federal and provincial non-capital losses of approximately \$507,000 which are available to reduce future taxable income. The non-capital losses will expire as follows: 2008 - \$35,000; 2009 - \$56,000; 2010 - \$45,000; 2013 - \$57,000; 2014 - \$81,000, 2025 - \$5,000; 2026 - \$98,000 and 2027 - \$130,000.

#### Flow-through shares

During 2007, under the terms of flow-through agreements, the Company issued 2,470,593 flow-through shares and is required to spend \$815,296 on qualifying exploration expenditures prior to November 15, 2008. The renunciations were not filed until 2008 and therefore no related future income tax liability has been recorded at year-end.

#### 8. LOSS PER COMMON SHARE

Loss per common share is based on a weighted average number of shares outstanding of 40,340,823 for 2007 and 39,429,681 for 2006. The effect of common share purchase options and warrants on the net loss in 2007 and 2006 is not reflected as to do so would be anti-dilutive.

#### 9. RELATED PARTY INFORMATION

Other than amounts owing and interest paid to Wesdome on the convertible promissory note (Note 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 amounted to \$7,531 and \$5,429 for 2007 and 2006, 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, 2007 and December 31, 2006 included \$11,770 and \$290 respectively, due to Wesdome.

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**Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

**Notes to the Financial Statements**

December 31, 2007 and 2006

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**10. FINANCIAL INSTRUMENTS**

The carrying values of cash and cash equivalents, receivables and payables and accruals approximate their fair value due to their short term to maturity. The carrying value of the convertible promissory note approximates fair value as the note was recorded at the approximate market rate on such debt. 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.

**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 2007.

**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.