

The logo for Moss Lake Gold Mines Ltd features a thick, yellow, wavy line that starts on the left and curves downwards to the right. Below this line, the company name is written in a bold, black, serif font.

**MOSS LAKE  
GOLD MINES LTD**

## **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 27, 2009

"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, 2008 and 2007 and the statements of operations, comprehensive income and deficit, shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
April 27, 2009

“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 2008 2007

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#### Assets

##### Current

Cash \$ 69,400 \$ 1,092,158

Receivables 21,082 16,260

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90,482 1,108,418

Exploration properties (Note 4) 2,677,830 1,516,559

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\$ 2,768,312 \$ 2,624,977

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#### Liabilities

##### Current

Payables and accruals \$ 135,634 \$ 154,201

Convertible promissory note (Note 5) - 295,775

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135,634 449,976

Convertible promissory note (Note 5) 246,623 -

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382,257 449,976

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#### Shareholders' Equity

Capital stock (Note 6) 10,063,894 10,004,715

Common share purchase warrants (Note 7) 20,000 20,000

Contributed surplus (Note 8) 213,843 213,843

Equity component of convertible promissory note (Note 5) 43,962 20,280

Deficit (7,955,644) (8,083,837)

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2,386,055 2,175,001

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\$ 2,768,312 \$ 2,624,977

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Nature and continuation of operations (Note 1)

Environmental risks (Note 13)

*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 Income and Deficit**

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

See accompanying notes to the financial statements.

## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Statements of Shareholders' Equity

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

See accompanying notes to the financial statements.

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## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Statements of Cash Flows

Years Ended December 31

2008

2007

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Increase (decrease) in cash

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

#### Non-cash transactions

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

See accompanying notes to the financial statements.

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2008 and 2007

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

#### **Continuation of Operations**

The Company has incurred significant losses and, at December 31, 2008, the Company had a deficit of \$7.96 million and a working capital deficiency of \$45,152. The recoverability of the carrying value of exploration properties is dependent upon the continued support of Wesdome, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to develop ore reserves, future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Management is required to secure financing to discharge its current and future obligations. While the Company has been successful in the past, there can be no assurance it will be able to raise sufficient funds in the near term. Changes in future conditions could require additional write-downs of the carrying values.

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

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

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

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

#### **Estimates, Risks and Uncertainties**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the year. Significant estimates and assumptions include those related to the recoverability of mineral properties and deferred exploration expenditures, determination of future income tax assets and liabilities, the equity component of the convertible promissory note and the value of stock based compensation. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly. The carrying value of the Company's principal assets could be subject to material adjustment in the event that the Company is not successful in generating operating cash flow and financing for its development and exploration activities.

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2008 and 2007

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

#### **Cash**

Cash includes cash on hand and balances with banks.

#### **Exploration Properties**

All direct costs associated with exploration properties are capitalized as incurred. If a property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties.

#### **Impairment of Long-Lived Assets**

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

#### **Asset Retirement and Reclamation Obligation**

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. At December 31, 2008, the Company has not incurred or committed to any reclamation obligation on its exploration properties.

#### **Convertible Promissory Note**

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

#### **Stock-Based Compensation Plan**

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

#### **Flow-Through Shares**

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

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income Taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

#### Income (Loss) per Common Share

Basic income (loss) per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted income (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of options, warrants and convertible notes, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

#### Comprehensive Income

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

#### Changes in Accounting Policies

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

#### *Financial Instruments – Recognition and Measurement*

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

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

#### *Financial Instruments*

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

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2008 and 2007

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *General Standards of Financial Statement Presentation*

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

#### *Capital Disclosures*

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

### 3. FUTURE ACCOUNTING CHANGES

#### **Conversion to International Financial Reporting Standards**

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

### 4. EXPLORATION PROPERTIES

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

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

#### **Moss Lake Property**

The Company has a 100% interest in this property consisting of 10 mining claims of 11 claim units and 2 mining leases of 15 units which were acquired in 1995. The Company is obligated to pay underlying advance royalties of \$5,469 per quarter to certain original vendors until commercial production is achieved. Upon commencement of commercial production, the property is subject to an 8.75% net profits royalty, as defined, to these underlying vendors in lieu of the underlying advance royalty.

In addition, the property includes 3 mining claims of 15 contiguous claim units acquired in 1998. These units are subject to a 1% net smelter return royalty.

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2008 and 2007

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

#### **Fountain Lake Property**

The Company has a 100% interest in this property consisting of 149 mining claims contiguous to the Moss Lake property to the east, west and south, and is subject to a 2.5% net smelter return royalty payable to certain original vendors of the property. This royalty is subject to a buyback clause whereby the royalty may be reduced to 1.5% net smelter return for consideration of \$1.0 million.

### **5. CONVERTIBLE PROMISSORY NOTE**

On November 19, 2008, the Company obtained a \$300,000 loan from Wesdome. As consideration the Company issued to Wesdome a convertible unsecured promissory note (the "note") due November 19, 2010 and bearing interest at 10% per annum. The principal amount of the note is convertible, at any time up to maturity, into common shares in the capital of the Company at \$0.25 per share. If Wesdome converts the principal amount of the note into Moss Lake shares, Wesdome will acquire an additional 1.2 million Moss Lake shares increasing its ownership by 1% to 57% of the issued and outstanding shares of Moss Lake.

The liability component of the note, in the amount of \$254,167, is calculated as the present value of the principal and interest, discounted at 20%, a rate of approximately the interest rate that would have been applicable to non-convertible debt at the time the note was issued. This portion of the note is accreted over its term to the full face value by charges to interest expense. The equity element of the note, in the amount of \$45,833, is comprised of the value of the exchange option, being the difference between the face value of the note and the liability component.

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

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

On June 2, 2006, the Company obtained a \$300,000 loan from Wesdome. As consideration the Company issued to Wesdome a convertible unsecured promissory note (the "note") having a two year term and bearing interest at 8% per annum. During 2008, this note was repaid through the issuance of shares (Note 6).

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

### **6. CAPITAL STOCK**

#### **Authorized:**

The authorized capital of the Company consists of an unlimited number of preference shares and common shares without par value. The preference shares may, from time to time, be issued in one or more series the rights, privileges, restrictions and conditions of which may be determined by the Board of Directors. No preference shares have been issued.

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2008 and 2007

### 6. CAPITAL STOCK (continued)

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

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

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

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

#### Common Share Purchase Plan

The Company has a common share purchase plan (the "Plan") under which the Board of Directors may grant options to purchase common shares of the Company to qualifying employees, officers or directors providing on-going services to the Company. The aggregate number of common shares which may be reserved for issuance under the Plan is limited to 10% of the Company's issued and outstanding common shares from time to time. As at December 31, 2008, 2,438,724 common shares are available for grant under the Plan.

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

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

## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2008 and 2007

#### 6. CAPITAL STOCK (continued)

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

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$0.20	100,000	0.75 years	100,000
\$0.25	800,000	2.50 years	800,000
\$0.30	100,000	3.00 years	100,000
\$0.25	500,000	3.50 years	500,000
\$0.40	450,000	4.00 years	450,000
	1,950,000		1,950,000

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

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

#### 7. WARRANTS

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

Expiry Date	Exercise Price	Number of common shares				Closing Balance	Amount
		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

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

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

## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2008 and 2007

#### 7. WARRANTS (continued)

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

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

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

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

#### 8. CONTRIBUTED SURPLUS

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

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#### 9. INCOME TAXES

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

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

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

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

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

#### Flow-Through Shares

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

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

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### 10. INCOME (LOSS) PER COMMON SHARE

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

### 11. RELATED PARTY INFORMATION

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

Under the terms of management agreements, Wesdome, as manager, provides technical and administrative support and carries out annual exploration programs on the Moss Lake and Fountain Lake Properties for an indefinite term. Wesdome is entitled to administrative fees, expressed as a percentage of allowable costs (as defined and including capital expenditures) of 7.5% during the exploration phase, 5% during the development and pre-production phase and 2.5% after commencement of commercial production. Administrative fees charged at December 31, 2008 and 2007 amounted to \$79,465 and \$7,531 respectively, all of which were capitalized to exploration properties. These transactions were in the normal course of operations and were measured at the exchange amounts.

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

### 12. FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

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

#### Financial Instruments – Fair Values

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

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

# **Moss Lake Gold Mines Ltd.**

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## **Notes to the Financial Statements**

December 31, 2008 and 2007

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### **12. FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION (continued)**

#### **Determination of Fair Value**

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

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

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

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

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

#### **Financial Risk Management**

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

##### **1) Market Risk**

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

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

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## Notes to the Financial Statements

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### 12. FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION (continued)

#### 2) *Liquidity Risk*

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

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

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

#### 3) *Credit Risk*

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

### 13. ENVIRONMENTAL RISKS

Moss Lake is committed to a program of environmental protection at its exploration sites. Management believes that it was in material compliance with government regulations in 2008.

### 14. INDEMNITIES

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

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

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#### **15. CAPITAL RISK MANAGEMENT**

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

The capital of the Company consists of the items included in shareholders' equity and debt obligations net of cash. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

In order to maintain or adjust its capital structure, the Company may issue new shares, issue new debt or issue new debt to replace existing debt with different characteristics.

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

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

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