

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 29, 2010

"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, 2009 and 2008 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, 2009 and 2008 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 29, 2010

The signature of Grant Thornton LLP is written in a cursive, handwritten style.

Chartered Accountants
Licensed Public Accountants

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Balance Sheets

December 31 2009 2008

Assets

Current

Cash	\$ 9,753	\$ 69,400
Receivables	9,486	21,082
	<u>19,239</u>	<u>90,482</u>

Exploration properties (Note 3) 2,708,845 2,677,830

\$ 2,728,084 \$ 2,768,312

Liabilities

Current

Payables and accruals	\$ 180,820	\$ 135,634
Convertible promissory note (Note 4)	274,048	-
	<u>454,868</u>	<u>135,634</u>

Convertible promissory note (Note 4) - 246,623

454,868 382,257

Shareholders' Equity

Capital stock (Note 5)	10,085,654	10,063,894
Common share purchase warrants (Note 6)	-	20,000
Contributed surplus (Note 7)	229,408	213,843
Equity component of convertible promissory note (Note 4)	43,962	43,962
Deficit	<u>(8,085,808)</u>	<u>(7,955,644)</u>
	<u>2,273,216</u>	<u>2,386,055</u>

\$ 2,728,084 \$ 2,768,312

Nature and continuation of operations (Note 1)

Environmental risks (Note 12)

On behalf of the Board:

George N. Mannard
Director

David Birkett
Director

See accompanying notes to the financial statements.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Statements of Operations, Comprehensive Income and Deficit

Years Ended December 31	2009	2008
Interest income	\$ 32	\$ 10,851
Costs and expenses		
Interest on long term debt (Note 4)	54,355	26,957
Corporate and general	75,841	109,701
	130,196	136,658
Net loss before income taxes	(130,164)	(125,807)
Recovery of future income taxes (Note 8)	-	254,000
Net (loss) income and comprehensive (loss) income	(130,164)	128,193
Deficit, beginning of year	(7,955,644)	(8,083,837)
Deficit, end of year	\$ (8,085,808)	\$ (7,955,644)
Net (loss) income per common share (Note 9)		
Basic and fully diluted	\$ (0.00)	\$ 0.00

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, December 31, 2007	\$10,004,715	\$ 20,000	\$ 213,843	\$ 20,280	\$(8,083,837)	\$2,175,001
Net income for year ended December 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, December 31, 2008	\$10,063,894	\$ 20,000	\$ 213,843	\$ 43,962	\$(7,955,644)	\$2,386,055
Net loss for year ended December 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

See accompanying notes to the financial statements.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Statements of Cash Flows

Years Ended December 31

2009**2008**

Increase (decrease) in cash

	2009	2008
Operating activities		
Net (loss) income	\$ (130,164)	\$ 128,193
Accretion of discount on convertible promissory note	27,425	7,060
Non-cash interest on convertible promissory note	-	7,035
Recovery of future income taxes	-	(254,000)
Change in receivables and payables	56,782	(12,698)
	(45,957)	(124,410)
Financing activities		
Convertible note from Wesdome, net of costs	-	287,750
Exercise of warrants	17,325	-
Share issuance costs	-	(14,136)
Change in payables	-	(19,734)
	17,325	253,880
Investing activities		
Additions to exploration properties	(31,015)	(1,161,271)
Change in payables	-	9,043
	(31,015)	(1,152,228)
Net decrease in cash	(59,647)	(1,022,758)
Cash, beginning of year	69,400	1,092,158
Cash, end of year	\$ 9,753	\$ 69,400

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, 2009 and 2008

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, 2009, the Company had a deficit of \$8.1 million and a working capital deficiency of \$435,629, \$430,773 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 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:

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2009, 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 being accreted to the principal amount as additional interest expense over the term of the note.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2009 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.

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.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

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. 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) Income per Common Share

Basic (loss) income per share is computed by dividing the (loss) income 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) income 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.

Conversion to International Financial Reporting Standards

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

Changes in Accounting Policies

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "*Goodwill and Intangible Assets*". The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have an impact on the Company's financial statements.

In March 2009, the CICA issued EIC Abstract 174, "*Mining, Exploration Costs*" ("EIC-174") which supersedes EIC Abstract 126, "*Accounting by Mining Enterprises for Exploration Costs*" ("EIC-126"), to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. EIC-174 is applicable for the Company's interim and annual financial statements for periods ending on or after March 27, 2009 with retroactive application. The adoption of this policy did not have an impact on the Company's financial statements.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In July, 2009, the CICA approved amendments to section 3862, "*Financial Instruments – Disclosures*". The amendments require additional fair value disclosure for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making fair value assessments, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company adopted the requirements of amendments to Section 3862 in its December 31, 2009 financial statements (Note 11).

Future Accounting Changes

In January 2009, the CICA issued Handbook Section 1582, "*Business Combinations*" which requires all assets and liabilities of an acquired business be recorded at fair value at acquisition. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs are expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011.

In January 2009, the CICA issued Handbook Section 1601, "*Consolidations*" and Section 1602, "*Non-controlling Interests*". Section 1601 establishes standards for the preparation of financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in financial statements subsequent to a business combination. These standards apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

3. EXPLORATION PROPERTIES

	2009	2008
Cost of properties	\$ 6,481,081	\$ 6,481,081
Exploration expenditures	2,745,828	2,736,688
Settlement of advance royalties	105,000	105,000
Underlying advance royalties	346,688	324,813
	9,678,597	9,647,582
Write-down of carrying values	(6,969,752)	(6,969,752)
	\$ 2,708,845	\$ 2,677,830

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

3. 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.

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") 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, calculated at issuance, in the amount of \$254,167, was 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.

The net value assigned to the liability and equity components on issuance was \$243,788 and \$43,962 respectively. Transaction costs were then apportioned to the debt and equity components based on their respective carrying amounts when the instrument was issued. This resulted in an allocation of these costs to the liability and equity components of \$10,379 and \$1,871 respectively.

At December 31, 2009, the face value of the note is \$300,000 however the note is carried at \$274,048 using an effective interest rate of 21.88% and includes accretion of the discount during the period totalling \$24,438 (2008: \$2,835), which is included in interest expense on long term debt.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

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, 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 4)	1,228,141	292,899
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

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.

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.

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, 2009, 2,668,468 options to purchase common shares are available for grant under the Plan.

The following table reflects the continuity for the years ended December 31, 2009 and 2008 of options granted under the plan.

	Shares		Weighted Average Exercise Price	
	2009	2008	2009	2008
Outstanding, beginning year	1,950,000	1,950,000	\$ 0.287	\$ 0.287
Granted	-	-	\$ -	\$ -
Expired	(100,000)	-	\$ 0.200	\$ -
Outstanding, end of year	1,850,000	1,950,000	\$ 0.289	\$ 0.287

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

5. CAPITAL STOCK (continued)

The following information applies to options outstanding and exercisable at December 31, 2009.

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Number Exercisable</u>
\$0.25	800,000	1.50 years	800,000
\$0.30	100,000	2.00 years	100,000
\$0.25	500,000	2.50 years	500,000
\$0.40	<u>450,000</u>	3.00 years	<u>450,000</u>
	<u>1,850,000</u>		<u>1,850,000</u>

There have been no options granted since 2007. 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 December 31, 2009 and 2008.

6. WARRANTS

The following table reflects the continuity of warrants for the years ended December 31, 2009 and 2008.

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Opening Balance</u>	<u>Number of common shares</u>			<u>Closing Balance</u>	<u>\$</u>
			<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>		
November 15, 2009	\$0.25	189,740	-	69,300	120,440	-	-
November 15, 2009	\$0.40	<u>799,988</u>	-	-	<u>799,988</u>	-	-
		989,728	-	69,300	920,428	-	-

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

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

Moss Lake Gold Mines Ltd.
(A Development Stage Company)
Notes to the Financial Statements
December 31, 2009 and 2008

6. WARRANTS (continued)

	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 entitled the holder to purchase one common share of the Company at a price of \$0.40 per share until November 15, 2009. These warrants expired unexercised.

7. CONTRIBUTED SURPLUS

	Stock based compensation	Valuation of expired warrants	Fair value of broker warrants	Total
Balance, December 31, 2007	\$ 201,700	\$ -	\$ 12,143	\$ 213,843
Stock based compensation	-	-	-	-
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

8. INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the combined Federal and Ontario statutory income tax rate of 33.0% (2008 – 33.5%) to the amounts recognized in the statements of operations.

	2009	2008
Loss before recovery of future income taxes	\$ (130,164)	\$ (125,807)
Expected income tax recovery	\$ (43,000)	\$ (42,000)
Non-deductible expenses and other items	31,000	7,000
Effect of changes in substantively enacted tax rates	206,000	(7,000)
Change in valuation allowance	(194,000)	(212,000)
Recovery of future income taxes	\$ -	\$ (254,000)

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

8. INCOME TAXES (continued)

The following table reflects future income tax assets at December 31, 2009 and 2008.

	2009	2008
Future income tax assets		
Unclaimed non-capital losses	\$ 174,000	\$ 193,000
Unclaimed financing costs	14,000	26,000
Excess of unclaimed resource pools and undepreciated capital cost over carrying value of exploration properties	664,000	827,000
	<u>852,000</u>	<u>1,046,000</u>
Less valuation allowance	<u>(852,000)</u>	<u>(1,046,000)</u>
	\$ -	\$ -

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 \$692,000 which are available to reduce future taxable income. The non-capital losses will expire as follows: 2010 - \$45,000; 2013 - \$57,000; 2014 - \$81,000; 2025 - \$5,000; 2026 - \$98,000; 2027 - \$129,000; 2028 - \$146,000 and 2029 - \$132,000.

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.

9. LOSS PER COMMON SHARE

Loss per common share is based on a weighted average number of shares outstanding of 45,125,250 for 2009 and 44,226,149 for 2008. The effect of common share purchase options, warrants and convertible notes on the net loss in 2009 and 2008 is not reflected as to do so would be anti-dilutive.

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

10. 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, 2009 and 2008 amounted to \$715 and \$76,474, 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, 2009 and 2008 included \$156,725 and \$92,158 respectively, due to Wesdome.

11. 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:

	2009	2008
<u>Financial assets</u>		
Held for trading:		
Cash	\$ 9,753	\$ 69,400
Loans and receivables:		
Receivables	9,486	21,082
<u>Financial liabilities</u>		
Other financial liabilities		
Payables and accruals	\$ 180,820	\$ 135,634

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:

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

11. FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION (continued)

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 cannot be measured reliably.

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 (Note 2).

Financial Risk Management

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

1) *Market Risk*

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

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

2) *Liquidity Risk*

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

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

	<1 Year	1-2 Years	3-5 Years	Over 5 Years
Payables and accruals	\$ 180,820			
Convertible promissory note	\$ 330,000			

Moss Lake Gold Mines Ltd.

(A Development Stage Company)

Notes to the Financial Statements

December 31, 2009 and 2008

11. FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION (continued)

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.

12. 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 2009.

13. 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.

14. 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.