

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, 2011

/s/ Donald D. Orr  
Secretary-Treasurer

# Independent auditor's report

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

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

### Management's responsibility for the financial statements

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

### Auditor's responsibility

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

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

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

### Opinion

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

### Emphasis of Matters

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

Toronto, Ontario  
April 27, 2011

/s/ Grant Thornton LLP  
Chartered Accountants  
Licensed Public Accountants

---

## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Balance Sheets

December 31 2010 2009

---

#### Assets

##### Current

Cash	\$ 388	\$ 9,753
Receivables	58,228	9,486
	<u>58,616</u>	<u>19,239</u>

Exploration properties (Note 3) 2,768,754 2,708,845

\$ 2,827,370 \$ 2,728,084

---

#### Liabilities

##### Current

Payables and accruals	\$ 388,663	\$ 180,820
Convertible promissory note (Note 4)	-	274,048
	<u>388,663</u>	<u>454,868</u>

#### Shareholders' Equity

Capital stock (Note 5)	10,416,622	10,085,654
Contributed surplus	379,408	229,408
Equity component of convertible promissory note (Note 4)	-	43,962
Deficit	<u>(8,357,323)</u>	<u>(8,085,808)</u>
	<u>2,438,707</u>	<u>2,273,216</u>

\$ 2,827,370 \$ 2,728,084

---

Nature and continuation of operations (Note 1)

Environmental risks (Note 11)

Subsequent event (Note 14)

*On behalf of the Board:*

**George N. Mannard**  
*Director*

**David Birkett**  
*Director*

*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

2010

2009

---

Interest income	\$	-	\$	32
Costs and expenses				
Interest on long term debt (Note 4)		54,144		54,355
Corporate and general		67,371		75,841
Stock based compensation		150,000		-
		<b>271,515</b>		130,196
Net loss before income taxes		<b>(271,515)</b>		(130,164)
Income taxes (Note 7)		-		-
Net loss and comprehensive loss		<b>(271,515)</b>		(130,164)
Deficit, beginning of year		<b>(8,085,808)</b>		(7,955,644)
Deficit, end of year	\$	<b>(8,357,323)</b>	\$	(8,085,808)
Net loss per common share (Note 8)				
Basic and fully diluted	\$	<b>0.01</b>	\$	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, 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
Stock based compensaton	-	-	<b>150,000</b>	-	-	<b>150,000</b>
Transfer of equity component of convertible promissory note issued on conversion of note	<b>43,962</b>	-	-	<b>(43,962)</b>	-	-
Common shares, net of costs of \$2,084 (Note 4)	<b>297,916</b>	-	-	-	-	<b>297,916</b>
Share issuance costs flow-through shares issued	<b>(10,910)</b>	-	-	-	-	<b>(10,910)</b>
Net loss for year ended December 31, 2010	-	-	-	-	<b>(271,515)</b>	<b>(271,515)</b>
Balance, December 31, 2010	<b>\$10,416,622</b>	<b>\$ -</b>	<b>\$ 379,408</b>	<b>\$ -</b>	<b>\$ (8,357,323)</b>	<b>\$2,438,707</b>

See accompanying notes to the financial statements.

---

**Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

**Statements of Cash Flows**

Years Ended December 31

**2010****2009**

---

Increase (decrease) in cash

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

---

*See accompanying notes to the financial statements.*

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2010 and 2009

---

### **1. NATURE AND CONTINUATION OF OPERATIONS**

#### **The Company**

Moss Lake Gold Mines Ltd. (the "Company") is a publicly traded company, and is incorporated under the Business Corporations Act (Ontario). The Company's common shares are listed on the TSX Venture Exchange (TSXV: MOK). The Company carries on business in one segment, being the acquisition, exploration and development of properties for the mining of precious and base metals in Canada (see Note 3 for developments to date). The Company has not earned any revenue to date from its operations and is therefore, considered to be in the development stage. The amounts shown as property acquisition costs do not necessarily represent present or future values. The Company is a subsidiary of Wesdome Gold Mines Ltd. ("Wesdome"), a publicly held company, which is listed on the TSX Exchange (TSX: WDO).

#### **Continuation of Operations**

The Company has incurred significant losses and, at December 31, 2010, the Company had a deficit of \$8.3 million and a working capital deficiency of \$330,047, \$306,544 of which represents amounts owing to Wesdome. The recoverability of the carrying value of exploration properties is dependent upon the continued support of Wesdome, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to develop ore reserves, future profitable production there from or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Management is required to secure financing to discharge its current and future obligations. While the Company has been successful in the past, there can be no assurance it will be able to raise sufficient funds in the near term. Changes in future conditions could require additional write-downs of the carrying values.

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

These financial statements have been prepared by the Company in accordance with Canadian Generally Accepted Principles ("GAAP") on the basis applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

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

---

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

These financial statements are expressed in Canadian dollars ("C\$") which is the functional and reporting currency and reflect the following significant accounting policies:

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2010 and 2009

---

### **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, 2010, the Company has not incurred or committed to any reclamation obligation on its exploration properties.

#### **Convertible Promissory Note**

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

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2010 and 2009

---

### **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, 2010 cash is classified as held-for-trading. Receivables are classified as loans and receivables. Payables and accruals and convertible promissory notes are classified as financial liabilities.

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

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

On the issuance of the related debt, financing costs are reclassified to debt to reflect the adopted policy of capitalizing debt transaction costs within the related debt. The costs capitalized within debt are amortized using the effective interest method.

#### **Financial Instruments – Disclosures**

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

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

See Note 10 for relevant disclosures.

#### **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.

# **Moss Lake Gold Mines Ltd.**

(A Development Stage Company)

## **Notes to the Financial Statements**

December 31, 2010 and 2009

---

### **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 tax benefits foregone by the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The liability relating to the foregone tax benefit is recognized at the time of the renunciation provided there is a reasonable assurance that the expenditures will be incurred.

#### **Income Taxes**

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

#### **Loss per Common Share**

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

#### **Comprehensive Income**

Comprehensive income is the change in the Company's net assets arising from transactions, events and circumstances not related to the Company's shareholders and include items that would not normally be included in net earnings or losses such as unrealized gains or losses on available-for-sale investments. A separate statement of comprehensive income has not been included as the Company did not have any other comprehensive income or loss for the periods.

#### **Adoption of International Financial Reporting Standards**

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

## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2010 and 2009

#### 3. EXPLORATION PROPERTIES

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

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

##### Moss Lake Property

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

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

##### Fountain Lake Property

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

#### 4. CONVERTIBLE PROMISSORY NOTE

On November 19, 2008 the Company obtained a \$300,000 loan from Wesdome. As consideration the Company issued to Wesdome a convertible unsecured promissory note (the "note") having a two year term and bearing interest at 10% per annum. During 2010, this note was repaid through the issuance of shares (Note 5).

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

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2010 and 2009

### 5. CAPITAL STOCK

#### Authorized:

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

#### Common Shares Issued:

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

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

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

#### Common Share Purchase Plan:

The Company has a common share purchase plan (the "Plan") under which the Board of Directors may grant options to purchase common shares of the Company to qualifying employees, officers or directors providing on-going services to the Company. The aggregate number of common shares which may be reserved for issuance under the Plan is limited to 10% of the Company's issued and outstanding common shares from time to time. As at December 31, 2010, 1,538,467 options to purchase common shares are available for grant under the Plan.

The following table reflects the continuity for the years ended December 31, 2010 and 2009 of options granted under the plan.

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

## Moss Lake Gold Mines Ltd.

(A Development Stage Company)

### Notes to the Financial Statements

December 31, 2010 and 2009

#### 5. CAPITAL STOCK (continued)

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

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

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

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

#### 6. CONTRIBUTED SURPLUS

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

#### 7. INCOME TAXES

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

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

**Moss Lake Gold Mines Ltd.**  
(A Development Stage Company)  
**Notes to the Financial Statements**  
December 31, 2010 and 2009

**7. INCOME TAXES (continued)**

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

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

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

**8. LOSS PER COMMON SHARE**

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

**9. RELATED PARTY INFORMATION**

Other than amounts owing, interest paid and shares issued to Wesdome on the convertible promissory notes (Notes 4 and 5) the Company had the following transactions and balances with related parties.

Under the terms of management agreements, Wesdome, as manager, provides technical and administrative support and carries out annual exploration programs on the Moss Lake and the Fountain Lake Properties for an indefinite term. Wesdome is entitled to administrative fees, expressed as a percentage of allowable costs (as defined and including capital expenditures) of 7.5% during the exploration phase, 5% during the development and pre-production phase and 2.5% after commencement of commercial production. Administrative fees charged at December 31, 2010 and 2009 amounted to \$2,607 and \$715, respectively, all of which were capitalized to exploration properties. These transactions were in the normal course of operations and were measured at the exchange amounts.

Payables and accruals at December 31, 2010 and 2009 included \$306,543 and \$156,725 respectively, due to Wesdome.

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2010 and 2009

---

### 10. FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

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

#### Financial Instruments

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

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

#### Determination of Fair Value

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

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

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

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

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

#### Financial Risk Management

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

# Moss Lake Gold Mines Ltd.

(A Development Stage Company)

## Notes to the Financial Statements

December 31, 2010 and 2009

---

### 10. FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION (continued)

#### 1) *Market Risk*

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

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

#### 2) *Liquidity Risk*

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

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

#### 3) *Credit Risk*

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

---

### 11. ENVIRONMENTAL RISKS

Moss Lake is committed to a program of environmental protection at its exploration sites. Management believes that it was in material compliance with government regulations in 2010.

---

### 12. INDEMNITIES

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

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

(A Development Stage Company)

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

December 31, 2010 and 2009

---

#### **13. CAPITAL RISK MANAGEMENT**

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

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

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

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

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

#### **14. SUBSEQUENT EVENT**

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