FINANCIAL STATEMENTS

DECEMBER 31, 2008

AUDITORS' REPORT

To the Shareholders of
GOLDSOURCE MINES INC.

We have audited the balance sheets of **Goldsource Mines Inc.** (the "Company") as at December 31, 2008 and 2007 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 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.

Ernst & Young LLP

Vancouver, Canada
April 17, 2009

Chartered Accountants

GOLDSOURCE MINES INC.
BALANCE SHEETS
AS AT DECEMBER 31

	2008	2007
ASSETS		
Current		
Cash	$ 2,757,014	$ 9,625
Short term investments (note 5)	11,723,757	3,799,238
Amounts receivable and prepaid expenses	235,327	16,128
	14,716,098	3,824,991
Mineral properties (note 6)	5,423,156	4,083,789
Advance on drilling contract (note 7)	403,375	-
	$ 20,542,629	$ 7,908,780
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 732,854	$ 29,307
Future income taxes (note 10)	-	643,316
Shareholders' equity		
Share capital (note 9)	24,851,469	8,918,024
Contributed surplus (note 9)	6,398,051	4,779,299
Deficit	(11,439,745)	(6,461,166)
Total shareholders' equity	29,809,775	7,236,157
	$ 20,542,629	$ 7,908,780

See accompanying notes

On behalf of the Board:

"J. Scott Drever"
Director

"Graham C. Thody"
Director

GOLDSOURCE MINES INC.
STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED DECEMBER 31

	2008	2007
EXPENSES		
Administrative services	$ 44,800	$ 39,900
Investor relations	15,304	-
Management fees (note 8)	290,000	90,000
Office and general	48,038	39,565
Professional fees (note 8)	179,609	74,022
Rent and telephone	26,905	24,767
Shareholder communications	34,620	4,107
Stock based compensation (note 9 (d))	588,909	9,375
Trade shows and conferences	9,727	10,571
Transfer agent and regulatory fees	15,838	11,554
Travel and related costs	30,952	3,003
Loss before under noted items	1,284,702	306,864
Interest income	(264,237)	(160,204)
Write-off of mineral property expenditures (note 6 (c))	4,601,430	-
Loss before future tax recovery	(5,621,895)	(146,660)
Future tax recovery (note 10)	(643,316)	(46,394)
Net and comprehensive loss for the year	(4,978,579)	(100,266)
Deficit, beginning of year	(6,461,166)	(6,360,900)
Deficit, end of year	$ (11,439,745)	$ (6,461,166)
Loss per share, basic and diluted	$ 0.27	$ 0.01
Weighted average number of shares outstanding	18,543,432	17,140,852

See accompanying notes

GOLDSOURCE MINES INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2008	2007
OPERATING ACTIVITIES		
Net loss for the year	$ (4,978,579)	$ (100,266)
Stock based compensation	588,909	9,375
Write-off of mineral property expenditures	4,601,430	-
Future tax recovery	(643,316)	(46,394)
Changes in operating assets and liabilities		
Amounts receivable and prepaid expenses	(219,199)	4,128
Accounts payable and accrued liabilities	228,453	5,457
Cash used in operating activities	(422,302)	(127,700)
FINANCING ACTIVITIES		
Issuance of share capital for cash	18,016,350	330,750
Share issue costs, excluding non-cash items	(1,142,813)	-
Cash provided by financing activities	16,873,537	330,750
INVESTING ACTIVITIES		
Purchase of short term investments (note 5)	(7,924,519)	(3,799,238)
Mineral property expenditures, excluding non-cash items	(5,375,952)	(277,274)
Advance on drilling contract, net	(403,375)	-
Cash provided by (used in) investing activities	(13,703,846)	(4,076,512)
Increase (decrease) in cash	2,747,389	(4,204,212)
Cash, beginning of year	9,625	4,213,837
Cash, end of year	$ 2,757,014	$ 9,625
SUPPLEMENTAL CASH FLOW INFORMATION	$	$
Mineral property expenditures		
incurred through the issuance of common shares	12,750	16,500
related to stock based compensation	77,000	-
Interest received	229,718	10,966

See accompanying notes

1. NATURE OF OPERATIONS

Goldsource Mines Inc. (the "Company") is subject to the jurisdiction of the Province of British Columbia pursuant to the British Columbia Business Corporations Act.

The Company is in the process of exploring its coal properties and has not yet identified a commercial resource. The recoverability of the carrying values of coal properties is dependent upon the discovery of an economically recoverable resource and the Company obtaining the necessary financing to complete exploration, development and construction of processing facilities, obtaining government approvals and attaining future profitable production of the mineral resources.

These audited financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern and do not reflect adjustments related to the carrying values and balance sheet classification of assets and liabilities that would be necessary, were the going concern assumption inappropriate.

2. SIGNIFICANT ACCOUNTING POLICIES

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment in value. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before they reach the production stage will have all proceeds from the sale credited against the cost of the property. Properties which have reached the production stage before being sold will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral properties is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Accrued site closure costs

The Company expects to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This includes future removal and site restoration costs as required due to environmental law or contracts. A corresponding increase in the carrying amount of the related asset is generally recorded and depreciated over the life of the asset. Over time, the liability is increased to reflect an interest element (accretion expense) considered in its initial measurement at fair value. The amount of the liability will be subject to re-measurement at each reporting period. At this time, the Company has not recorded a asset retirement obligation.

Cash and Short term investments

Short term investments comprise highly liquid Canadian dollar denominated guaranteed investment certificates with terms to maturity of greater than ninety days but no more than one year.

Short term investments are carried at the lower of cost or recoverable amount.

Loss per share

Basic loss per share is calculated by dividing net loss available to the shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. There is no diluted loss per share shown as all security issuances would be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Income taxes are accounted for under the liability method. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period the substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through shares

The Company has issued flow-through shares to finance some of its exploration activities. Such shares were issued for cash in exchange for the Company giving up the tax benefits arising from the exploration expenditures. The amount of these tax benefits are renounced to investors in accordance with Canadian tax legislation. The Company records issuances of flow-through shares by crediting share capital for the full value of cash consideration received. The cost of the future tax benefits arising at the time that the Company renounces the eligible expenditures to the investors, is accounted for as a share issue cost.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock based compensation plan

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, stock-based payments are recorded as an expense or capitalized to mineral costs over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

Financial instruments

During the 2007, the Company adopted a new standard, the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Under the new standard, all financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and financial liabilities other than those held-for-trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

Also adopted by the Company in 2007 was CICA Handbook Section 1530, "Comprehensive Income". As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income, is added to shareholders' equity on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in fair value of the effective portion of cash flow hedging amounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The adoption of the provisions of these new standards in 2007 had no effect in the Company's financial statements.

(i) Fair value

The carrying values of cash, amounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of the instruments. The carrying value of cash equivalents approximates its fair value primarily due to the floating rate interest of the instrument.

(ii) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

(iii) Credit risk

The Company is not exposed to significant credit risk on its financial assets due to cash being placed with Canadian chartered banks and amounts receivable due from government agencies.

New Accounting Pronouncements

Effective January 1, 2008 the Company adopted the following new Canadian accounting pronouncements:

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. The Company adopted this amended standard and it did not have any impact on the Company's financial statements.

(ii) Capital disclosures- Section 1535

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences. See note 3.

(iii) Financial Instruments – Sections 3862 & 3863 – Disclosures and Presentation

These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. See note 4.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties. The Company considers as its capital its shareholders' equity.

The Company manages and adjusts its capital structure when changes to the risk characteristics of the underlying assets or changes in economic conditions occur. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of certain of its assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets which are revised periodically based on the results of its exploration programs, availability of financing and industry conditions. Annual and materially updated budgets are approved by the Board of Directors'.

There are no external restrictions on management of capital.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest any excess cash in liquid short-term interest-bearing instruments. When utilized, these instruments are selected with regard to the expected timing of expenditures from continuing operations. The Company currently has sufficient capital resources to meet its planned operations and administrative overhead expenses through its current operating period. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

4. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, and interest rate risk. Where material these risks are reviewed and monitored by the Board of Directors.

a. Capital Risk Management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

4. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)

a. Capital Risk Management continued

The Company considers the items included in the shareholder's equity as capital. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. As of December 31, 2008 the Company did not have any debt and is not subject to externally imposed capital requirements.

b. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper.

c. Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet it contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions.

The majority of the Company's cash and cash equivalents and short term investment are held with major Canadian based financial institutions.

d. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents. The Company's practice has been to invest cash at floating rates of interest, in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash and cash equivalents as they are generally held with large financial institutions.

5. SHORT-TERM INVESTMENTS

Short-term investments comprise highly liquid Canadian dollar denominated guaranteed investment certificates with term to maturity of greater than 90 days but not more than one year. Short-term investments are carried at the lower of cost or recoverable amount. The counter-parties include Canadian based financial institutions. At December 31, 2008 the investments were yielding an interest rate of 3.1% with a maturity of June 26, 2009.

The fair market value of the Company's short-term investments approximate their carrying value at the balance sheet dates.

6. MINERAL PROPERTIES

(a) Border and Ballantyne Properties, Saskatchewan

By agreement ("MPI Agreement") dated April 12, 2006 with Minera Pacific Inc., ("Minera") the Company acquired the exclusive rights to use certain information generated from Minera's proprietary UMSERT Methodology which will assist the Company in identifying areas in Saskatchewan and Manitoba that may be prospective for minerals.

In order to maintain the exclusive rights to use the Information, the Company has agreed to pay staged cash payments over a period of two years to Minera totalling $160,000 ($160,000 paid) and issue a total of 325,000 common shares of the Company (175,000 shares issued) over a period of four years and, by the end of the fifth year, pay an additional $500,000 or issue 250,000 common shares, whichever is the lesser, as determined by the Company in its sole discretion. The next payment is due on or before April 12, 2009 and will be for $100,000 as an advance against the Feasibility Payment and the issuance of 75,000 common shares.

The Company has also agreed to pay to Minera $1,000,000 (Feasibility Payment) in the event that the Company completes an independent feasibility study on any property acquired by the Company as a result of the UMSERT Methodology. The Company has agreed to make non-refundable payments to Minera of $100,000 in each of the third, fourth and fifth years from the effective date of the Agreement as advances against the Feasibility Payment. Minera is further entitled to receive a 2% gross overriding royalty ("GOR") on commercial production from any such property, and the Company is entitled at any time to purchase one-half of the GOR for $2,000,000.

The Agreement may be terminated by the Company at any time upon written notice to Minera, in which case Minera may elect to receive an assignment of any properties acquired by the Company as a result of the UMSERT Methodology.

By amendments dated May 1 and May 15, 2008, the MPI Agreement was extended whereby MPI will use its ability, knowledge and technical methodology to assist the Company in locating properties in other areas in Saskatchewan and Manitoba which may be prospective for minerals. In consideration for this, the Company agreed to pay MPI $100,000 for each property area acquired by the Company, payable as to $25,000 within 30 days of the date of acquisition of the first property and a further $75,000 on the first anniversary of the initial payment on condition that the Company continues to hold at that time a property within such area.

(b) Manitoba Properties

The Company has applied for Quarry Coal Permits comprised of several properties located in the Province of Manitoba. $1,407,427 has been deposited with the Province of Manitoba in connection with the applications.

When granted, the permits will be subject to the terms of the Minera Pacific Inc. agreements. The Manitoba quarry permit application deposits are refundable upon completion of a qualifying work program.

6. MINERAL PROPERTIES (continued)

(c) Mineral properties written-off

During the year the Company conducted exploration programs on the Big River and Crossroads Properties located in Saskatchewan. Based on exploration results the mineral claims comprising the properties were allowed to lapse and accordingly all related mineral property expenditures were written off.

(d) Mineral Property Expenditures

	Saskatchewan				Manitoba	
2008	**Border Property**	**Ballantyne Property**	**Big River Property**	**Crossroads Property**	**Manitoba Properties**	**Total 2008**
Balance, December 31, 2007	$ 708,207	$ -	$ 3,282,255	$ 93,327	$ -	$ 4,083,789
Additions						
Coal and quarry permit applications	147,633	215,913	-	-	1,407,427	1,770,973
Acquisition costs	43,875	-	-	43,875	-	87,750
Assays and laboratory	23,411	-	14,346	-	-	37,757
Drilling and logistics	2,308,274	-	708,472	429,863	-	3,446,609
Exploration	12,305	-	4,415	330	4,250	21,300
Personnel	12,512	-	-	-	-	12,512
Road improvements	50,661	-	-	-	-	50,661
Stock-based compensation	77,000	-	-	-	-	77,000
Technical services and consulting	411,688	-	21,929	2,618	-	436,235
	3,087,359	215,913	749,162	476,686	1,411,677	5,940,797
Subtotal	3,795,566	215,913	4,031,417	570,013	1,411,677	10,024,586
Mineral property expenditures written-off	-	-	(4,031,417)	(570,013)	-	(4,601,430)
Balance December 31, 2008	$ 3,795,566	$ 215,913	$ -	$ -	$ 1,411,677	$ 5,423,156

	Saskatchewan			
2007	**Border Property**	**Big River Property**	**Crossroads Property**	**Total 2007**
Balance, beginning of the year	$ 657,176	$ 3,097,504	$ 35,335	$ 3,790,015
Additions				
Acquisition and staking costs	33,250	-	33,250	66,500
Deficiency deposit	-	150,528	-	150,528
Exploration costs:				
Exploration and other	-	16,097	5,640	21,737
Technical consulting	17,781	18,126	19,102	55,009
	51,031	184,751	57,992	293,774
Balance, end of the year	$ 708,207	$ 3,282,255	$ 93,327	$ 4,083,789

7. ADVANCE ON DRILLING CONTRACT

The Company advanced $500,000 as a deposit on a drilling contract during the year ended December 31, 2008. The advance is being applied on a usage basis to drilling contracts and consequently has been recorded as a long term asset. Amounts not consumed by May 27, 2009 may be recoverable by the Company. The advance is secured by a registered charge on certain equipment.

	December 31, 2008	December 31, 2007
Advance on drilling contract	$ 500,000	$ -
Less amounts recovered	(96,625)	-
Carrying value	403,375	-

8. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

(a) Paid management fees of $290,000 (2007 - $90,000) to a company owned by an officer and director of the Company of which $200,000 (2007 - $Nil) is included in accounts payable.

(b) Incurred $165,965 (2007 - $7,281) for legal fees paid to a law firm in which an officer of the Company is a partner, which were included in professional fees and share issue costs. At December 31, 2008 $4,303 (2007 - $Nil) was included in accounts payable.

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

(a) Authorized

Unlimited number of common shares without nominal or par value
Unlimited Class A preference shares without nominal or par value (none outstanding)
Unlimited Class B preference shares without nominal or par value (none outstanding)

Issued and fully paid - common shares

Issued and fully paid - common shares	Share Capital		Contributed Surplus
	Number	Amount	Amount
December 31, 2006	17,648,181	$ 8,901,524	$ 4,769,924
Issued pursuant to acquisition of Mineral Properties	50,000	16,500	-
Stock-based compensation	-	-	9,375
December 31, 2007	17,698,181	8,918,024	4,779,299
Issued pursuant to acquisition of Mineral Properties	75,000	12,750	-
Issued pursuant to exercise of stock options	31,500	23,990	(8,640)
Issued pursuant to private placement	1,532,000	18,001,000	-
Share issuance costs	-	(2,104,295)	961,483
Stock-based compensation	-	-	665,909
December 31, 2008	19,336,681	$ 24,851,469	$ 6,398,051

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On June 27, 2008 the Company issued 1,532,000 common shares pursuant to a private placement, at a price of $11.75 per share for gross proceeds of $18,001,000. The Agent received a cash commission of $980,060 plus a reimbursement of $58,009 for legal and other expenses relating to the private placement. In addition the Agent was granted a non-transferable compensation warrant entitling the Agent to purchase up to 91,920 common shares of the Company at an exercise price of $13.80 per share until June 27, 2009. The fair value of the Agent's compensation warrants, calculated using the Black Scholes method, of $961,483 was allocated to share issuance costs and contributed surplus.

By Ordinary Resolution of the shareholders on June 26, 2008 the shareholders ratified a shareholder rights plan adopted by the Board of Directors May 8, 2008. The Rights Plan has the following main objectives:

- To provide the Board of Directors time to consider value-enhancing alternatives to a take-over bid and to allow competing bids to emerge;
- To ensure that shareholders of the Company are provided equal treatment under a take-over bid; and
- To give adequate time for shareholders to properly assess a take-over bid without undue pressure.

(b) Stock options

The Company has a stock option plan under which it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option is set at the market price of the Company's stock on the date of the grant. The options may be granted for a maximum term of 5 years. Certain options granted exceed the 10% limit imposed by the Company's rolling stock plan and will not be exercisable until such time as the common shares related to such options together with the common shares reserved under the plan do not in aggregate constitute more than 10% of the common shares of the Company at the time of purchase or exercise.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2006	1,275,000	$ 0.71
Expired	(75,000)	$ 0.60
As at December 31, 2007	1,200,000	$ 0.71
Issued	805,000	$ 1.43
Exercised	(31,500)	$ 0.49
As at December 31, 2008	1,973,500	$ 1.01
Exercisable at December 31, 2008	1,713,500	$ 0.85

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

At December 31, 2008, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
300,000	$0.35	July 08, 2009
100,000	$0.30	December 08, 2009
793,500	$0.90	December 23, 2010
530,000	$0.38	April 23, 2013
100,000	$6.45	June 02, 2013
100,000	$2.20	October 9, 2013
50,000	$1.50	December 15, 2013
1,973,500		

(c) Warrants

Warrant transactions for the year ended December 31, 2008 are summarized as follows.

	Number of Warrants	Weighed Average Exercise Price
As at December 31, 2006	4,242,370	$0.75
Expired	(4,242,370)	$0.75
As at December 31, 2007	-	-
Issued	91,920	$13.80
As at December 31, 2008	91,920	$13.80

Warrants outstanding are as follows:

Fair Value ($)	Number of Warrants	Exercise Price	Weighed Average Exercise Price
$ 961,483	91,920	$ 13.80	June 27, 2009

(d) Stock Based Compensation

The total stock based compensation recognized during the year ended December 31, 2008 under the fair value method was $919,250 (2007 - $9,375). The Company expensed $588,909 (2007 - $9,375) and capitalized $77,000 (2007 - $NIL) as mineral property expenditures, leaving an unamortized balance of $253,341 (2007 - $NIL).

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and agent's compensation warrants.

	Stock Options	Warrants
Dividend rate	Nil	Nil
Risk-free interest rate	2.93%	3.20%
Expected life (years)	3.4	1.0
Expected volatility	142%	232%

10. INCOME TAXES

a) A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2008	2007
Loss before income tax recovery	$ (5,621,895)	$ (146,660)
Combined federal and provincial statutory tax rate	31.00%	34.12%
Income tax recovery at statutory rates	$ (1,742,787)	$ (50,040)
Permanent differences	182,562	5,271
Unrecognized benefit of resource deductions	152,523	91,782
Tax adjustment from rate change	398,193	413,457
Unrecognized benefits of losses	160,995	(431,403)
Other changes in valuation allowance	205,200	(75,461)
Total income tax recovery	$ (643,316)	$ (46,394)

b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2008 and 2007 are presented below:

	2008	2007
Future tax assets:		
Non-capital loss carry-forwards	$ 580,023	$ 580,840
Net capital loss carry-forwards	2,827,856	2,936,620
Other	292,800	34,654
Mineral properties	577,611	-
Capital assets	2,595	
Valuation allowance	(4,280,885)	(3,552,115)
Net future tax assets	-	-
Future tax liabilities:		
Mineral properties	-	(643,316)
Net future tax liabilities	$ -	$ (643,316)

10. INCOME TAXES (continued)

c) Future income tax liabilities transactions for the year ended December 31, 2008:

	2008	Year ended 2007
Balance, beginning of the year	$ 643,316	$ 689,710
Opening balance		
Deficiency deposit	-	46,664
Reduction in future corporate tax rates	-	(93,058)
Stock based compensation	-	-
Recovery of future income taxes as a result of the write-off of mineral property expenditures	(643,316)	-
Balance, end of the year	$ -	$ 643,316

As a consequence of the write-off of certain mineral properties during 2008 the Company recorded a $643,316 future income tax recovery.

As at December 31, 2008, the Company has non-capital losses of approximately $2,230,000 for income tax purposes. The non-capital losses may be utilized to reduce future years' taxable income and expire according to the schedule below if unutilized. In addition the Company has approximately $21,753,000 of capital losses available for carry-forward. The Company also has exploration and development expenditures of approximately $6,010,000 which may be available to reduce taxable income of future years. The non-capital loss carry-forwards expire according to the following schedule:

Year	Non Capital Loss
2009	$ 183,000
2010	404,000
2014	164,000
2015	242,000
2026	312,000
2027	201,000
2028	724,000
	$ 2,230,000

Future tax assets, which may arise as a result of these losses and resource expenditures, have been offset by a valuation allowance as the Company determined that, as at December 31, 2008, their realization is uncertain.

11. SUBSEQUENT EVENTS

a) On March 12, 2009 options to purchase 25,000 common shares were exercised for proceeds of $9,500.

b) On April 12, 2009 the Company paid $100,000 and issued 75,000 common shares pursuant to the Minera Pacific Inc. Agreement.