GOLDSOURCE MINES INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2010
YEAR ENDED

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Goldsource Mines Inc.

We have audited the accompanying financial statements of **Goldsource Mines Inc.** [the "Company"], which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations, comprehensive loss and deficit 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.

Auditors' responsibility

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 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 auditors' 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 auditors consider 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 **Goldsource Mines Inc.** 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 matter

Without qualifying our opinion, we draw attention to note 1 in the financial statements which indicates that the Company had a deficit of $16,459,704 as at December 31, 2010. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Vancouver, Canada,
April 13, 2011.

Chartered Accountants

GOLDSOURCE MINES INC.
BALANCE SHEETS
AS AT DECEMBER 31
(IN CAD $)

	2010	2009
ASSETS		
Current		
Cash	$ 132,634	$ 355,751
Short term investments (note 5)	752,992	4,257,976
Amounts receivable and prepaid expenses	48,845	351,352
Held-for-trading securities (note 6)	473,000	60,000
	1,407,471	5,025,079
Investment subject to significant influence (note 7)	750,000	-
Equipment (note 8)	42,385	58,145
Mineral properties (note 9)	16,058,621	15,006,883
	$ 18,258,477	$ 20,090,107
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (note 10)	$ 174,277	$ 609,944
Shareholders' equity		
Capital stock (note 11)	25,403,589	25,195,229
Contributed surplus (note 11)	9,140,315	7,876,274
Deficit	(16,459,704)	(13,591,340)
	18,084,200	19,480,163
	$ 18,258,477	$ 20,090,107

Nature of operations and going concern uncertainty (note 1)
Subsequent event (note 15)

On behalf of the Board:

"J. Scott Drever"
Director

"Graham C. Thody"
Director

GOLDSOURCE MINES INC.
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS and DEFICIT
YEARS ENDED DECEMBER 31

	2010	2009
EXPENSES		
Administrative and management remuneration (note 10)	$ 283,908	$ 205,045
Insurance	60,513	67,494
Investor relations	30,786	121,834
Office and general	61,445	86,630
Professional fees (note 10)	153,922	200,377
Rent and telephone	33,190	38,190
Shareholder communications	13,231	53,752
Trade shows and conferences	23,710	52,025
Transfer agent and regulatory fees	21,990	22,180
Travel and related costs	5,086	53,943
LOSS BEFORE OTHER ITEMS	687,781	901,470
OTHER ITEMS		
Interest income	(12,879)	(154,848)
Foreign exchange loss	627	975
Stock based compensation (note 12)	1,176,779	1,413,998
Service income (note 7)	(1,510,000)	-
Unrealized loss (gain) on held-for-trading securities (note 6)	297,000	(10,000)
Write-off of mineral property expenditures (note 9)	2,229,056	-
NET AND COMPREHENSIVE LOSS FOR THE YEAR	(2,868,364)	(2,151,595)
DEFICIT, beginning of year	(13,591,340)	(11,439,745)
DEFICIT, end of year	$ (16,459,704)	$ (13,591,340)
Basic and diluted loss per share	$ (0.14)	$ (0.11)
Weighted average number of common shares outstanding	19,949,010	19,618,136

See accompanying notes

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

		2010		2009
OPERATING ACTIVITIES				
Net loss for the year	$	(2,868,364)	$	(2,151,595)
Stock based compensation		1,176,779		1,413,998
Write-off of mineral properties		2,229,056		-
Unrealized loss (gain) on held-for-trading securities		297,000		(10,000)
Service income		(1,510,000)		-
		(675,529)		(747,597)
Changes in operating assets and liabilities				
Amounts receivable and prepaid expenses		307,492		(124,001)
Accounts payable and accrued liabilities		13,999		(161,982)
Cash used in operating activities		(354,038)		(1,033,580)
FINANCING ACTIVITIES				
Stock options exercised		8,990		157,610
Cash provided by financing activites		8,990		157,610
INVESTING ACTIVITIES				
Short term investments		3,500,000		7,473,757
Mineral properties		(4,705,119)		(9,361,380)
Refund of quarry permits		1,330,818		436,400
Purchase of equipment		(3,768)		(74,070)
Cash provided by (used in) investing activities		121,931		(1,525,293)
Decrease in cash		(223,117)		(2,401,263)
Cash, beginning of year		355,751		2,757,014
Cash, end of year	$	132,634	$	355,751

Supplemental disclosure with respect to cash flows				
Included in mineral properties				
Stock based compensation	$	92,382	$	149,125
Recovery of advance on drilling contract		-		403,375
Accounts payable and accrued liabilities		64,500		514,166
Issuance of common shares pursuant to property agreement		194,250		101,250
Amortization of equipment		19,528		15,925

See accompanying notes

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

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

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting year.

Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The Company is in the process of exploring its Border coal property, has not yet identified a commercial resource and has accumulated losses as at December 31, 2010 of $16,459,704.

The recoverability of the carrying value of the Border property 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.

The Company completed a Preliminary Economic Assessment (PEA) on the Border property in March 2011 (note 15) which reported the project has the potential to be technically and economically feasible based on a coal to liquids conversion process. A major capital project such as this requires a combination of favourable investment climate, timing, commodity pricing and technology changes to demonstrate rates of return commensurate with the capital at risk. Management believes this combination of circumstances is achievable but there is no certainty these results can be realized. Management recognizes the project requires a special expertise and financial capacity to bring it to fruition and will actively seek out a participant with these capabilities. Management intends to pursue the recommendations of the PEA report and has begun to arrange financing to fund these programs.

These financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the statement of operations and balance sheet classifications that would be necessary were the going concern assumption not appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES

Investments subject to significant influence

The Company follows the equity method of accounting for its investments over which it exercises significant influence but does not control. Under this method, the Company includes in its net earnings or loss its share of the net earnings or losses of the associated investees and capital contributions to, or distributions from, investees which increase or decrease the Company's investment. The Company accounts for its investment in the Westcore Energy Ltd. ("Westcore") joint venture agreement (note 7) using the equity method.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an asset retirement obligation.

Equipment and amortization

Equipment is recorded at cost and amortized over its estimated useful life using the straight line method at the following annual rates:

Equipment and furniture	5 years
Field equipment	5 years
Computer hardware	3 years
Computer software	2 years
Vehicles	5 years

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.

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 amounts 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. Significant accounts that require estimates as the basis for determining the stated amounts include the valuation of the investment subject to significant influence, mineral properties impairment, rates of amortization of equipment, accrued liabilities, stock based compensation and valuation allowance of future taxes.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capital stock.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company classified its cash, short term investments and securities as held-for-trading which is measured at fair value. Amounts receivable are classified as loans and receivables and accounts payable and accrued liabilities are classified as other liabilities, all of which are measured at amortized cost. Transaction costs related to held-for-trading financial assets and other financial liabilities are expensed as incurred.

FUTURE ACCOUNTING POLICES

The Company will be required to report its results in accordance with International Financial Reporting Standards ("IFRS") beginning in 2011.

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 year. 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.

The Company considers the items included in the shareholders' equity as capital. The Company manages the capital structure and makes adjustments 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 at December 31, 2010, 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 has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's cash is invested in business accounts with a quality financial institution and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. However, the Company will require significant additional funding in the future to continue to explore and develop its Border coal property. Accordingly, there is a risk that the Company may not be able to secure adequate funding on reasonable terms, or at all, at that future date.

c. Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash, short term investments and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and short term investments with a high-credit quality financial institution. Receivables are due primarily from government agencies.

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 as they are generally held with large financial institutions. As at December 31, 2010, with all other variables unchanged, a 1 percentage point change in interest rates would not have a significant impact on the Company's loss and comprehensive loss for the year.

e. Market Risk

The Company's exposure to market risk arises from their held-for-trading securities in Westcore. There is a risk the Company would recognize a loss as a result of a decrease in the fair value of the investment given the nature of Westcore, a mining exploration company.

Financial instruments carrying value and fair value

The Company's financial instruments consist of cash, short term investments, securities, amounts receivable and accounts payable and accrued liabilities.

The carrying value of amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short periods until settlement.

4. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)

As at December 31, 2010, the Company's classification of financial instruments within the fair value hierarchy is summarized as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 132,634	$ -	$ -	$ 132,634
Short term investments	$ 752,992	$ -	$ -	$ 752,992
Held-for-trading securities	$ 473,000	$ -	$ -	$ 473,000

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-party is a Canadian based financial institution. As of December 31, 2010 the investments were yielding an interest rate of 1.15% with a maturity of August 15, 2011.

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

6. HELD-FOR-TRADING SECURITIES

Fair value	2010	2009
Westcore Energy Ltd.	$ 473,000	$ 60,000

Under Canadian GAAP, held-for-trading securities are to be recorded at fair value (marked to market) at the balance sheet date and the resulting gains or losses are to be included in the results for the year. As at December 31, 2010, the Company's 1,100,000 Westcore common shares had an unrealized marked-to-market loss of $297,000.

7. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE

	2010	2009
Joint Venture with Westcore Energy Ltd.	$ 750,000	$ -

By agreement dated December 10, 2009 with Westcore the Company agreed to apply its proprietary geophysical matrix to Westcore's Fugro airborne geophysical data and to provide Westcore with specific drill sites on its Saskatchewan and Manitoba coal lands. As partial consideration, the Company was issued in fiscal 2009 an initial 100,000 Westcore common shares. The Company reclassed during the year the initial value attributed to these shares of $50,000 from a cost recovery against the Border Property to service income.

Westcore was successful in drilling at least one intercept consisting of not less than 10 metres of coal on each of two drill targets identified by the Company effective March 2010 and the following additional conditions applied:

(a) Westcore issued an additional 1 million common shares to the Company. The initial value attributed to these shares was $710,000 and recorded as service income in the statement of Operations, Comprehensive Loss and Deficit;

(b) The Company earned a 25% working interest in all of Westcore's existing coal lands in Saskatchewan and Manitoba. The initial value attributed to this interest was $750,000 and recorded as service income in the statement of Operations, Comprehensive Loss and Deficit;

(c) Westcore and the Company entered into a 75% / 25% joint venture agreement dated December 17, 2010 with terms and conditions standard to mining industry joint ventures. As part of the joint venture agreement Westcore is requested to expend an additional $3 million on the aforementioned lands before the Company will be required to contribute its 25% share of expenditures. The Company has contributed its 100% interest in its 10 sections of coal permits that are within the Hudson Bay North Block located adjacent to the Company's Border Property in Saskatchewan. A management committee comprises two representatives from Westcore and two from the Company, with voting determined by the participating interest held by each party. There is a 15% royalty for coal mined with the Government of Saskatchewan; and

(d) In the event that Westcore acquires interests from time to time in any additional prospective coal properties in Saskatchewan or Manitoba, the Company shall have the option to acquire a 25% joint venture participating interest therein.

8. EQUIPMENT

	Cost	Accumulated Amortization	2010 Net Book Value	Cost	Accumulated Amortization	2009 Net Book Value
Equipment and furniture	$ 10,924	$ 3,115	$ 7,809	$ 9,953	$ 995	$ 8,958
Field equipment	33,424	12,699	20,725	33,424	6,014	27,410
Computer hardware	5,098	2,243	2,855	2,300	767	1,533
Computer software	11,892	11,621	271	11,893	5,674	6,219
Vehicles	16,500	5,775	10,725	16,500	2,475	14,025
	$ 77,838	$ 35,453	$ 42,385	$ 74,070	$ 15,925	$ 58,145

During the year ended December 31, 2010, amortization of $19,528 (2009 - $15,925) was capitalized to mineral property expenditures.

9. MINERAL PROPERTIES

By agreement ("MPI Agreement") dated April 12, 2006 and amended May 1 and May 15, 2008 and May 31, 2010 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. Minera and the Company have two common officers and directors.

In order to maintain the exclusive rights to use the Information, the Company agreed to pay staged cash payments over a period of two years to Minera totalling $160,000 (paid) and issue a total of 325,000 common shares of the Company (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 Company is scheduled to make the next payment by issuing 250,000 common shares on April 21, 2011.

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 (Advanced Feasibility Payment) in each of the third ($100,000 paid), fourth and fifth years from the effective date of the MPI Agreement as advances against the Feasibility Payment. Pursuant to the terms of Amending Agreement, No. 3, dated for reference May 31, 2010, the Company now has the option to make subsequent Advanced Feasibility Payments as to $25,000 in cash and $75,000 in common shares. The payment of $100,000 due on or before April 12, 2010 was made in fiscal 2010 to coincide with this amendment. The Company is scheduled to make the next payment by issuing $75,000 worth of common shares on April 12, 2011.

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 MPI 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 Minera 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 Minera $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. During 2009 the Company paid $50,000 towards the acquisition of two properties. No further payments are due as notice was given to Minera of the Company's intention to release the properties interests upon the expiry date of the permits.

(a) Border Property

The Company received coal permits on 127,852 (2009 – 128,352) hectares located in Saskatchewan.

(b) Ballantyne Property

The Company received coal permits on 184,496 (2009 – 184,496) hectares located in Saskatchewan. As a result of poor exploration results, the Company will allow the permits to lapse on their expiry dates. The Company has elected to write-off the accumulated mineral property expenditures of $1,026,635 to operations effective December 31, 2010.

(c) Manitoba Properties

The Company received eight quarry coal permits on 44,670 (2009 – 44,670) hectares located in Manitoba. As a result of poor exploration results, the Company has allowed certain permits to expire and has elected to write-off the accumulated mineral property expenditures of $1,202,421 to operations effective December 31, 2010. The Company received $1,330,818 in quarry permit refunds during fiscal 2010.

9. MINERAL PROPERTIES (continued)

2010	Saskatchewan Border Property	Ballantyne Property	Manitoba Manitoba Properties	Total 2010
Balance, December 31, 2009	$ 12,393,493	$ 397,093	$ 2,216,297	$ 15,006,883
Additions:				
Acquisition and holding costs:				
Acquisition costs	219,250	-	-	219,250
Permit application and holding costs	23,299	-	(1,310,286)	(1,286,987)
	242,549	-	(1,310,286)	(1,067,737)
Exploration expenditures:				
Air charter	25,852	-	-	25,852
Assays and laboratory	42,647	-	-	42,647
Camp rental	217,290	-	-	217,290
Drilling	623,107	98,222	159,363	880,692
Fuel	157,673	19,093	13,389	190,155
Geophysical services	322,405	-	28,960	351,365
Operations and general	311,351	102,094	50,856	464,301
Personnel and related costs	165,246	6,167	16,527	187,940
Roads and pad construction	366,814	282,706	-	649,520
Site support	227,387	110,862	27,315	365,564
Stock based compensation	92,382	-	-	92,382
Technical consultants	812,011	10,398	-	822,409
Transport	8,414	-	-	8,414
Westcore Agreement recovery costs	50,000	-	-	50,000
	3,422,579	629,542	296,410	4,348,531
2010 additions	3,665,128	629,542	(1,013,876)	3,280,794
Write-off of mineral properties	-	1,026,635	1,202,421	2,229,056
Balance, December 31, 2010	$ 16,058,621	$ -	$ -	$ 16,058,621

2009	Saskatchewan Border Property	Ballantyne Property	Manitoba Manitoba Properties	Total 2009
Balance, December 31, 2008	$ 3,795,566	$ 215,913	$ 1,411,677	$ 5,423,156
Additions:				
Acquisition and holding costs:				
Acquisition costs	201,250	25,000	25,000	251,250
Permit application and holding costs	(4,881)	7,500	57,866	60,485
	196,369	32,500	82,866	311,735
Exploration expenditures:				
Air charter	574,357	-	-	574,357
Assays and laboratory	161,488	-	-	161,488
Camp rental	539,211	-	-	539,211
Drilling	2,641,633	-	222,495	2,864,128
Fuel	302,014	-	10,244	312,258
Geophysical services	553,997	131,000	368,544	1,053,541
Operations and general	772,945	-	45,596	818,541
Personnel and related costs	641,022	-	25,340	666,362
Roads and pad construction	553,024	-	-	553,024
Site support	1,155,167	-	13,675	1,168,842
Stock based compensation	149,125	-	-	149,125
Technical consultants	353,401	17,680	35,360	406,441
Transport	54,174	-	500	54,674
Westcore Agreement recovery costs	(50,000)	-	-	(50,000)
	8,401,558	148,680	721,754	9,271,992
2009 additions	8,597,927	181,180	804,620	9,583,727
Balance, December 31, 2009	$ 12,393,493	$ 397,093	$ 2,216,297	$ 15,006,883

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid $165,000 (2009 - $120,000) for management fees to two companies controlled by officers and directors of the Company.

b) Paid $60,000 (2009 - $Nil) for project management fees to an officer of the Company which are included in mineral property expenditures.

c) Paid or accrued $83,446 (2009 - $87,945) for legal fees which are included in professional fees to a law firm of which an officer of the Company is a partner.

d) The Company shares rent, salaries and administrative services with a company related by common directors and officers. The Company incurred $173,386 (2009 - $114,699) for their share of rent, salaries and administrative expenses.

e) Minera Pacific Inc. has two directors and officers in common with the Company. During the year ended December 31, 2010, the Company issued 121,875 (2009 – 75,000) and paid $25,000 (2009 - $150,000) in cash pursuant to the terms of the MPI Agreement (note 9).

Included in accounts payable and accrued liabilities at December 31, 2010 is $3,581 (2009 - $11,595) due to a law firm of which an officer of the Company is a partner and $8,996 (2009 - $16,827) due to an officer and director of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

11. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized

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

Issued and fully paid - common shares

	Number of Shares		Capital Stock		Contributed Surplus
As at December 31, 2008	19,336,658	$	24,851,469	$	6,398,051
Issuance pursuant to acquisition of mineral properties	75,000		101,250		-
Issuance pursuant to exercise of stock options	459,500		242,510		(84,900)
Stock based compensation	-		-		1,563,123
As at December 31, 2009	19,871,158	$	25,195,229	$	7,876,274
Issuance pursuant to acquisition of mineral properties	121,875		194,250		-
Issuance pursuant to exercise of stock options	17,500		14,110		(5,120)
Stock based compensation	-		-		1,269,161
As at December 31, 2010	20,010,533	$	25,403,589	$	9,140,315

12. STOCK OPTIONS AND WARRANTS

Stock options

The Company has a fixed number stock option plan under which it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire issued and outstanding common stock of the Company. A maximum of 3,850,000 common shares are reserved for issuance. The exercise price of each option equals the market price of the Company's stock as calculated on the date of the grant. The options can be granted for a maximum term of 10 years and certain options to employees and consultants vest over periods of time, determined by the Board of Directors.

12. STOCK OPTIONS AND WARRANTS (continued)

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, 2008	1,973,500	$1.01
Issued	1,500,000	$1.33
Exercised	(459,500)	$0.34
Cancelled	(37,500)	$0.38
As at December 31, 2009	2,976,500	$1.08
Issued	725,000	$0.84
Exercised	(17,500)	$0.51
Expired	(64,000)	$1.24
Forfeited	(12,500)	$1.37
As at December 31, 2010	3,607,500	$1.03
Exercisable at December 31, 2010	3,076,250	$1.07

Number of Options	Exercise Price	Expiry Date
420,000	$0.38	April 23, 2013
100,000	$1.33	June 2, 2013
100,000	$1.33	October 9, 2013
50,000	$1.50	December 15, 2013
1,425,000	$1.33	May 22, 2014
25,000	$1.58	November 19, 2014
12,500	$1.37	May 5, 2015
700,000	$0.82	September, 28, 2015
775,000	$0.90	December 23, 2015
3,607,500		

The weighted average remaining contractual life of options outstanding at December 31, 2010 is 3.83 years.

Stock Based Compensation

The Company granted 725,000 (2009 – 1,500,000) incentive stock options with a weighted average fair value per option granted of $0.84 (2009 - $1.17) for a total fair value of $600,725 (2009 - $1,769,300). The total stock based compensation recognized during the year ended December 31, 2010 under the fair value method was $749,911 (2009 - $1,563,123). The Company expensed $1,176,779 (2009 - $1,413,998) and capitalized $92,382 (2009 - $149,125) as mineral property expenditures.

During the year, the Company extended the expiration date to December 23, 2015 on 775,000 stock options due to expire on December 23, 2010. The modification resulted in an additional $519,250 of stock based compensation. The Company expensed $485,750 and capitalized $33,500 as mineral property expenditures.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options.

	2010	2009
Risk-free interest rate	1.97%	1.51%
Expected dividend yield	0%	0%
Expected life	4.7years	3.1 years
Expected stock price volatility	163%	177%

Warrants

No share purchase warrant transactions occurred during the year ended December 31, 2010. As of December 31, 2010, there are no share purchase warrants outstanding enabling holders to acquire common shares.

12. STOCK OPTIONS AND WARRANTS (continued)

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2008	91,920	$13.80
Expired	(91,920)	$13.80
As at December 31, 2009 and 2010	-	-

13. INCOME TAXES

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

		2010		2009
Loss before income tax recovery	$	(2,868,384)	$	(2,151,595)
Combined federal and provincial statutory tax rate		28.50%		30.00%
Income tax recovery at statutory rates	$	(817,484)	$	(645,479)
Permanent differences		377,705		424,199
Unrecognized benefit of resource deductions		-		20,020
Tax adjustment for rate change		54,008		200,759
Unrecognized benefits from losses		-		45,815
Changes in valuation allowance		362,675		(106,659)
Other		23,096		61,345
Total income tax recovery	$	-	$	-

b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2010 and 2009 are presented below:

		2010		2009
Future tax assets:				
Non-capital loss carry-forwards	$	620,506	$	759,483
Capital loss carry-forwards		2,719,093		2,719,093
Share issue costs and other		187,087		207,103
Mineral properties		998,857		482,071
Capital assets		11,358		6,476
		4,536,901		4,174,226
Valuation allowance		(4,536,901)		(4,174,226)
	$	-	$	-

As at December 31, 2010, the Company has non-capital loss carry-forwards of approximately $2,480,000 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 $20,054,000 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 Carryforwards
2015	$	203,000
2026		312,000
2027		201,000
2028		724,000
2029		1,040,000
	$	2,480,000

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, 2010, their realization is uncertain.

14. COMMITMENT

The Company has entered into an operating lease agreement for office space. This agreement requires the Company to make the following lease payments:

		Office Lease
Year ending December 31, 2011		49,491
Year ending December 31, 2012		28,870
	$	78,361

15. SUBSEQUENT EVENT

On March 15, 2011, the Company released a Preliminary Assessment NI 43-101 Technical Report for its Border Coal Project in Saskatchewan. The results are positive based on preliminary economics for a coal to liquids conversion process.