



**CONDENSED INTERIM FINANCIAL STATEMENTS OF**

**GOLDSOURCE MINES INC.**

**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010  
(UNAUDITED)**

***Notice of no Auditor review of Financial Statements.***

*The accompanying unaudited condensed interim financial statements of the company have been prepared by and are the responsibility of the company's management.*

*The company's independent auditor has not performed a review of these condensed interim financial statements in accordance with the standards established by International Financial Reporting Standards for a review of financial statements by an entity's auditor.*

**MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING**  
**CONDENSED INTERIM FINANCIAL REPORTING**

The accompanying condensed interim financial statements of Goldsource Mines Inc. (“the Company”) have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”). Management acknowledges responsibility for the preparation and presentation of the condensed interim financial statements, including responsibility for significant accounting estimates and the choice of accounting principles and methods that are appropriate to the Company’s circumstances. The Company’s significant accounting policies are summarized in note 3 to the condensed interim financial statements.

Management is responsible for establishing internal controls over financial reporting for the Company. Management has designed and implemented internal controls over financial reporting that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Audit Committee of the Board of Directors meets periodically with Management to review results of the condensed interim financial statements and related financial reporting matters prior to submitting the condensed interim financial statements to the Board of Directors for approval. The Audit Committee is appointed by the Board of Directors and all of its members are independent directors. The Audit Committee is responsible for engaging or re-appointing the external auditors. The Company’s independent auditor has not performed a review of these condensed interim financial statements.

The condensed interim financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

**GOLDSOURCE MINES INC.**

**Table of Contents**

	<b>Page</b>
Condensed Interim Statements of Financial Position	3
Condensed Interim Statements of Operations and Comprehensive Loss	4
Condensed Interim Statements of Cash Flows	5
Condensed Interim Statements of Changes in Shareholders' Equity	6
Notes to the Condensed Interim Financial Statements	7 – 25

**GOLDSOURCE MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**  
**(Expressed in Canadian Dollars)**

**AS AT**

	March 31, 2011	December 31, 2010 (Note 4)	January 1, 2010 (Note 4)
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 73,605	\$ 132,634	\$ 355,751
Short term investments	602,992	752,992	4,257,976
Amounts receivable	5,053	5,122	290,474
Taxes receivable	58,291	20,328	27,772
Prepaid expenses	17,784	23,395	33,106
Held-for-trading securities (note 7)	671,000	473,000	60,000
	<u>1,428,725</u>	<u>1,407,471</u>	<u>5,025,079</u>
<b>Non-current</b>			
Investment subject to significant influence (note 8)	750,000	750,000	-
Equipment (note 9)	38,645	42,385	58,145
Exploration and evaluation assets (note 10)	16,392,556	16,058,621	15,006,883
	<u>16,392,556</u>	<u>16,058,621</u>	<u>15,006,883</u>
<b>TOTAL ASSETS</b>	<u>\$ 18,609,926</u>	<u>\$ 18,258,477</u>	<u>\$ 20,090,107</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities (note 11)	\$ 511,643	\$ 174,277	\$ 609,944
<b>Shareholders' equity</b>			
Capital stock (note 13)	26,434,334	26,434,334	26,225,974
Reserves (note 13)	7,624,217	7,506,838	6,322,680
Deficit	(15,960,268)	(15,856,972)	(13,068,491)
	<u>18,098,283</u>	<u>18,084,200</u>	<u>19,480,163</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 18,609,926</u>	<u>\$ 18,258,477</u>	<u>\$ 20,090,107</u>

**Nature of operations** (note 1)

**Going concern uncertainty** (note 2)

**Subsequent events** (note 15)

**Approved on June 27, 2011 by the Directors:**

**On behalf of the Board:**

*"J. Scott Drever"*

**Director**

*"Graham C. Thody"*

**Director**

*The accompanying notes are an integral part of these condensed interim financial statements.*

**GOLDSOURCE MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**

<b>For the three months ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Insurance	\$ 12,611	\$ 15,675
Investor relations	6,059	5,368
Office and miscellaneous	11,815	16,856
Professional fees (note 11)	40,428	27,070
Regulatory and transfer agent fees	7,527	2,948
Remuneration (note 11)	73,172	87,620
Rent and communications	7,914	7,897
Shareholder communications	13,056	3,152
Trade shows and conferences	16,630	7,522
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(189,212)</u>	<u>(174,108)</u>
<b>OTHER ITEMS</b>		
Interest income	715	5,253
Share-based compensation (note 13)	(112,799)	(171,249)
Unrealized gain on held-for-trading securities (note 7)	198,000	2,000
	<u>85,916</u>	<u>(163,996)</u>
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>(103,296)</u>	<u>(338,104)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding</b>	<u>20,010,533</u>	<u>19,871,508</u>

*The accompanying notes are an integral part of these condensed interim financial statements.*

**GOLDSOURCE MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(Expressed in Canadian Dollars)

For the three months ended March 31	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (103,296)	\$ (338,104)
Items not affecting cash:		
Share-based compensation	112,799	171,249
Interest income	(715)	(5,253)
Unrealized gain on held-for-trading securities	(198,000)	(2,000)
	<u>(189,212)</u>	<u>(174,108)</u>
Changes in non-cash working capital items:		
Amounts receivable	69	285,473
Taxes receivable	(37,963)	(104,683)
Prepaid expenses	5,611	17,215
Accounts payable and accrued liabilities	127,791	13,850
Net cash (used in) provided by operating activities	<u>(93,704)</u>	<u>37,747</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Stock options exercised	-	4,050
Net cash provided by financing activities	<u>-</u>	<u>4,050</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	-	(1,121)
Short term investments	150,000	2,000,000
Interest received	715	6,232
Exploration and evaluation	(116,040)	(2,279,701)
Refund of quarry permits	-	1,248,413
Net cash provided by investing activities	<u>34,675</u>	<u>973,823</u>
<b>Change in cash, during period</b>	(59,029)	1,015,620
<b>CASH, beginning of period</b>	<u>132,634</u>	<u>355,751</u>
<b>CASH, end of period</b>	<u>\$ 73,605</u>	<u>\$ 1,371,371</u>

**Supplemental disclosure with respect to cash flows (note 12)**

*The accompanying notes are an integral part of these condensed interim financial statements*

**GOLDSOURCE MINES INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
(Expressed in Canadian Dollars)

	Capital Stock		Reserves Share-Based Payments	Deficit	Total
	Number	Amount			
<b>Balance at January 1, 2010</b>	19,871,158	\$ 26,225,974	\$ 6,322,680	\$ (13,068,491)	\$ 19,480,163
Stock options exercised	4,500	6,570	(2,520)	-	4,050
Share-based compensation	-	-	191,708	-	191,708
Loss for the period	-	-	-	(338,104)	(338,104)
<b>Balance at March 31, 2010</b>	19,875,658	26,232,544	6,511,868	(13,406,595)	19,337,817
<b>Balance at January 1, 2011</b>	20,010,533	26,434,334	7,506,838	(15,856,972)	18,084,200
Stock options expired	-	-	(14,750)	-	(14,750)
Share-based compensation	-	-	132,129	-	132,129
Loss for the period	-	-	-	(103,296)	(103,296)
<b>Balance at March 31, 2011</b>	20,010,533	\$ 26,434,334	\$ 7,624,217	\$ (15,960,268)	\$ 18,098,283

The accompanying notes are an integral part of these condensed interim financial statements

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**1. NATURE OF OPERATIONS**

Goldsource Mines Inc. (the "Company") is incorporated under the jurisdiction of the Province of British Columbia, Canada pursuant to the British Columbia Business Corporations Act. All dollar amounts are expressed in Canadian dollars unless otherwise indicated. The head office and principal address of the Company is 570 Granville St., Suite 501, Vancouver, BC, Canada, V6C 3P1. The address of the Company's registered and records office is 19<sup>th</sup> Floor, 885 West Georgia St., Vancouver, BC, Canada, V6C 3E8. The Company is listed on the TSX Venture Exchange.

The Company is a Canadian resource company engaged in the exploration and development of Canada's newest coal field in the province of Saskatchewan. Its mineral interests presently consist of coal exploration properties located in Saskatchewan referred to as the "Border Coal Project" and Manitoba, Canada.

**2. BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY**

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles ("Canadian GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. The Company has adopted IFRS with an adoption date of January 1, 2011, and a transition date of January 1, 2010.

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. The disclosures concerning the transition from Canadian GAAP to IFRS are included in note 4.

These condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss which are stated at their fair value. In addition these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates in previous annual periods.

**Going Concern of Operations**

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 Project, has not yet identified a commercial resource and has accumulated losses as at March 31, 2011 of \$15,960,268.

The recoverability of the carrying value of the Border Coal Project 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 Assessment (PA) on the Border Coal Project in March 2011 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 favorable 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 PA report and has arranged financing subsequent to March 31, 2011 (note 15) of approximately \$3.7 million 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 comprehensive loss and financial position classifications that would be necessary were the going concern assumption not appropriate.



### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Use of estimates**

The preparation of these condensed interim financial statements in accordance with IFRS requires management to make estimates, judgments 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 revenues and expenses during the period. Actual results could differ from these estimates.

These condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

The recoverability of amounts receivable and taxes receivable; the estimated useful lives of equipment and the related depreciation; the carrying value and recoverability of exploration and evaluation assets; accrued liabilities; fair value of agent warrants in capital stock and inputs used in accounting for share-based compensation.

#### **Cash and Short term investments**

Cash is comprised of cash on hand.

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. These investments are subject to an insignificant risk of change in value.

#### **Amounts receivable**

Amounts receivable are recorded at face value less any provisions for uncollectable amounts considered necessary.

#### **Taxes receivable**

Taxes receivable are comprised of harmonized sales tax in Canada that the Company has paid.

#### **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 8) using the equity method.

#### **Equipment**

Equipment is recorded at historical cost less accumulated depreciation and impairment charges. Equipment is depreciated using the straight line method over the estimated useful lives of the individual assets. The significant classes of equipment and their useful lives are as follows:

Equipment	5 years
Office equipment	5 years
Vehicles	3 years
Computers	2-3 years

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company's equipment is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

**Mineral properties - exploration and evaluation assets**

Pre-exploration costs are expensed in the period in which they are incurred.

Once the legal right to explore a mineral property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, geological studies, drilling costs, payments made to contractors and depreciation of plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

Exploration and evaluation expenditures for each mineral property are carried forward as an asset provided that one of the following conditions is met;

Such costs are expected to be recouped in full through successful development and exploration of the mineral property or alternatively, by sale; or

Exploration and evaluation activities in the mineral property have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves; however; active and significant operations in relation to the mineral property are continuing, or planned for the future.

The carrying values of capitalized amounts are reviewed annually, or when indicators of impairment are present. In the case of undeveloped properties, there may be only inferred resources to allow management to form a basis for the impairment review. The review is based on the Company's intentions for the development of such a property. If a mineral property does not prove viable, all unrecoverable costs associated with the property are charged to profit or loss at the time the determination is made.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mining assets". Exploration and evaluation expenditures accumulated are also tested for impairment before the mineral property costs are transferred to development properties.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Rehabilitation provision**

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities include restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur. At this time, the Company does not have any significant rehabilitation obligations.

**Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to accumulated losses (deficit).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Warrants issued in equity financing transactions**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are assigned \$Nil value and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

**Loss per share**

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. The Company follows the asset and liability method of accounting for income taxes whereby deferred income 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent that it is considered not likely that future income tax assets will be realized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

**Financial instruments**

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

*Financial assets at fair value through profit or loss ("FVTPL")*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

*Held-to-maturity ("HTM")*

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized costs using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

*Available-for-sale ("AFS")*

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

The Company classified its financial assets as follows:

- Cash, short term investments and held-for-trading securities are classified as FVTPL.
- Amounts receivable and taxes receivable are classified as loans and receivables.

*Financial liabilities*

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss; and
- Other financial liabilities.

*Fair value through profit or loss*

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*

This category includes amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company classified its financial liabilities as follows:

- Accounts payable and accrued liabilities are classified as other financial liabilities

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Flow-through shares**

The Company has issued flow-through shares to finance some of its exploration activities (note 10). Such shares were issued for cash in exchange for the Company giving up the tax benefits arising from the exploration and evaluation expenditures. The amounts of these tax benefits are renounced to investors in accordance with Canadian tax legislation. A premium liability is recognized for the share price premium paid by investors when acquiring the flow-through shares. The premium liability is reduced and deferred income taxes are recognized on the renounced tax deductions as eligible expenditures are incurred.

**Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, and related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation. The comparative figures presented in these financial statements are in accordance with IFRS and have not been audited.

**New standards not yet adopted**

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact on the Company upon implementation of the issued standard.

**4. FIRST TIME ADOPTION OF IFRS**

The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1 'First-time Adoption of International Financial Reporting Standards', the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

**Initial elections upon adoption**

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

**(a) IFRS exemption options**

**(i) Share-based payments**

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

**(b) Reconciliations**

The adoption of IFRS has not resulted in changes to the Company's reported financial position and results of operations. The Company's adoption of IFRS did not have an impact on the total operating, investing or financing cash flows. There was no impact on the Company's statement of financial position as of the date of transition to IFRS (January 1, 2010).

In order to allow the users of the financial statements to better understand the changes in accounting policies, the financial statements previously presented under Canadian GAAP have been reconciled to IFRS. For a description of the changes in accounting policy, see the discussion in Notes to the IFRS Reconciliations below.

Notes to the IFRS reconciliations:

**a) Reclassification of share-based reserve**

The Company reclassified from equity reserves lapse of brokers/agents warrants that were not exercised of \$1,030,745 for January 1, 2010, March 31, 2010 and December 31, 2010 to share capital and lapse of stock options that were not exercised of \$522,849 for January 1, 2010 and March 31, 2010 and \$602,732 for December 31, 2010 to deficit.

**Cash flows**

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the statements of financial position and statements of operations and comprehensive loss have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**4. FIRST TIME ADOPTION OF IFRS** (continued)

The January 1, 2010 (Transition date to IFRS) Canadian GAAP statements of financial position have been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 355,751	\$ -	\$ 355,751
Short term investments		4,257,976	-	4,257,976
Amounts receivable		290,474	-	290,474
Taxes receivable		27,772	-	27,772
Prepaid expenses		33,106	-	33,106
Held-for-trading securities		60,000	-	60,000
		<u>5,025,079</u>	<u>-</u>	<u>5,025,079</u>
<b>Non-current assets</b>				
Equipment		58,145	-	58,145
Exploration and evaluation assets		15,006,883	-	15,006,883
		<u>15,006,883</u>	<u>-</u>	<u>15,006,883</u>
<b>TOTAL ASSETS</b>		<u>\$ 20,090,107</u>	<u>\$ -</u>	<u>\$ 20,090,107</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 609,944	\$ -	\$ 609,944
		<u>609,944</u>	<u>-</u>	<u>609,944</u>
<b>Shareholders' equity</b>				
Capital stock	4a	25,195,229	1,030,745	26,225,974
Reserves	4a	7,876,274	(1,553,594)	6,322,680
Deficit	4a	(13,591,340)	522,849	(13,068,491)
		<u>19,480,163</u>	<u>-</u>	<u>19,480,163</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>\$ 20,090,107</u>	<u>\$ -</u>	<u>\$ 20,090,107</u>

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**4. FIRST TIME ADOPTION OF IFRS** (continued)

The March 31, 2010 Canadian GAAP statements of financial position have been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 1,371,371	\$ -	\$ 1,371,371
Short term investments		2,256,997	-	2,256,997
Amounts receivable		5,000	-	5,000
Taxes receivable		132,456	-	132,456
Prepaid expenses		15,891	-	15,891
Held-for-trading securities		62,000	-	62,000
		<u>3,843,715</u>	<u>-</u>	<u>3,843,715</u>
<b>Non-current assets</b>				
Equipment		54,511	-	54,511
Exploration and evaluation assets		16,869,049	-	16,869,049
		<u>16,923,560</u>	<u>-</u>	<u>16,923,560</u>
<b>TOTAL ASSETS</b>		<u>\$ 20,767,275</u>	<u>\$ -</u>	<u>\$ 20,767,275</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 1,429,458	\$ -	\$ 1,429,458
<b>Shareholders' equity</b>				
Capital stock	4a	25,201,799	1,030,745	26,232,544
Reserves	4a	8,065,462	(1,553,594)	6,511,868
Deficit	4a	(13,929,444)	522,849	(13,406,595)
		<u>19,337,817</u>	<u>-</u>	<u>19,337,817</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>\$ 20,767,275</u>	<u>\$ -</u>	<u>\$ 20,767,275</u>



**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**4. FIRST TIME ADOPTION OF IFRS** (continued)

The Canadian GAAP statement of operations and comprehensive loss for the period ended March 31, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Insurance		\$ 15,675	\$ -	\$ 15,675
Investor relations		5,368	-	5,368
Office and miscellaneous		16,856	-	16,856
Professional fees		27,070	-	27,070
Regulatory and transfer agent fees		2,948	-	2,948
Remuneration		87,620	-	87,620
Rent and communications		7,897	-	7,897
Shareholder communications		3,152	-	3,152
Trade shows and conferences		7,522	-	7,522
<b>LOSS BEFORE OTHER ITEMS</b>		<b>(174,108)</b>	<b>-</b>	<b>(174,108)</b>
<b>OTHER ITEMS</b>				
Interest income		5,253	-	5,253
Share-based compensation		(171,249)	-	(171,249)
Unrealized gain on held-for-trading securities		2,000	-	2,000
		<b>(163,996)</b>	<b>-</b>	<b>(163,996)</b>
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(338,104)</b>	<b>-</b>	<b>(338,104)</b>

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**4. FIRST TIME ADOPTION OF IFRS** (continued)

The December 31, 2010 Canadian GAAP statements of financial position have been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 132,634	\$ -	\$ 132,634
Short term investments		752,992	-	752,992
Amounts receivable		5,122	-	5,122
Taxes receivable		20,328	-	20,328
Prepaid expenses		23,395	-	23,395
Held-for-trading securities		473,000	-	473,000
		<u>1,407,471</u>	-	<u>1,407,471</u>
<b>Non-current assets</b>				
Investment subject to significant influence		750,000	-	750,000
Equipment		42,385	-	42,385
Exploration and evaluation assets		16,058,621	-	16,058,621
		<u>18,258,477</u>	<u>\$ -</u>	<u>\$ 18,258,477</u>
<b>TOTAL ASSETS</b>				
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 174,277	\$ -	\$ 174,277
<b>Shareholders' equity</b>				
Capital stock	4a	25,403,589	1,030,745	26,434,334
Reserves	4a	9,140,315	(1,633,477)	7,506,838
Deficit	4a	(16,459,704)	602,732	(15,856,972)
		<u>18,084,200</u>	-	<u>18,084,200</u>
		<u>\$ 18,258,477</u>	<u>\$ -</u>	<u>\$ 18,258,477</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>				

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**4. FIRST TIME ADOPTION OF IFRS** (continued)

The Canadian GAAP statement of operations and comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Insurance		\$ 60,513	\$ -	\$ 60,513
Investor relations		30,786	-	30,786
Office and miscellaneous		61,445	-	61,445
Professional fees		153,922	-	153,922
Regulatory and transfer agent fees		21,990	-	21,990
Remuneration		283,908	-	283,908
Rent and communications		33,190	-	33,190
Shareholder communications		13,231	-	13,231
Trade shows and conferences		23,710	-	23,710
Travel and related costs		5,086	-	5,086
<b>LOSS BEFORE OTHER ITEMS</b>		<b>(687,781)</b>	<b>-</b>	<b>(687,781)</b>
<b>OTHER ITEMS</b>				
Interest income		12,879	-	12,879
Foreign exchange loss		(627)	-	(627)
Share-based compensation		(1,176,779)	-	(1,176,779)
Service income		1,510,000	-	1,510,000
Unrealized loss on held-for-trading securities		(297,000)	-	(297,000)
Write-off mineral property expenditures		(2,229,056)	-	(2,229,056)
		<b>(2,180,583)</b>	<b>-</b>	<b>(2,180,583)</b>
<b>LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(2,868,364)</b>	<b>-</b>	<b>(2,868,364)</b>

**5. 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 Border Coal Project. 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.

**6. 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 March 31, 2011, 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 Project. 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.

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**6. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)**

d. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and short term investments. The Company's practice has been to invest cash at floating rates of interest, in short term investments, 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 short term investments as they are generally held with a large and stable financial institution. As at March 31, 2011, 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 period.

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.

As at March 31, 2011, the Company's classification of financial instruments within the fair value hierarchy is summarized as follows:

	Level 1	Level 2	Level 3	Total
Cash	\$ 73,605	\$ -	\$ -	\$ 73,605
Short term investments	\$ 602,992	\$ -	\$ -	\$ 602,992
Held-for-trading securities	\$ 671,000	\$ -	\$ -	\$ 671,000

**7. HELD-FOR-TRADING SECURITIES**

Fair value	March 31, 2011	December 31, 2010
Westcore Energy Ltd.	\$ 671,000	\$ 473,000

Under IFRS, held-for-trading securities are to be recorded at fair value at each reporting date and the resulting gains or losses are to be included in the results for the period. As at March 31, 2011, the Company's 1,100,000 Westcore common shares had an unrealized marked-to-market gain of \$198,000.

**8. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE**

	March 31, 2011	December 31, 2010
Joint Venture with Westcore Energy Ltd.	\$ 750,000	\$ 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.

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.

(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 fiscal 2010.

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**8. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE (continued)**

(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.

**9. EQUIPMENT**

	Equipment	Office Equipment	Vehicles	Computers	Total
<b>Cost</b>					
Balance at January, 1, 2010	\$ 33,424	\$ 9,953	\$ 16,500	\$ 14,193	\$ 74,070
Additions	-	971	-	2,797	3,768
Disposals	-	-	-	-	-
Balance at December 31, 2010	33,424	10,924	16,500	16,990	77,838
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at March 31, 2011	\$ 33,424	\$ 10,924	\$ 16,500	\$ 16,990	\$ 77,838
<b>Accumulated depreciation</b>					
Balance at January, 1, 2010	\$ 6,014	\$ 995	\$ 2,475	\$ 6,441	\$ 15,925
Depreciation for the year	6,685	2,120	3,300	7,423	19,528
Disposals	-	-	-	-	-
Balance at December 31, 2010	12,699	3,115	5,775	13,864	35,453
Depreciation for the period	1,671	546	825	698	3,740
Disposals	-	-	-	-	-
Balance at March 31, 2011	\$ 14,370	\$ 3,661	\$ 6,600	\$ 14,562	\$ 39,193
<b>Carrying amounts</b>					
At December 31, 2010	\$ 20,725	\$ 7,809	\$ 10,725	\$ 3,126	\$ 42,385
At March 31, 2011	\$ 19,054	\$ 7,263	\$ 9,900	\$ 2,428	\$ 38,645

During the period ending March 31, 2011, depreciation of \$3,740 (2010 - \$4,755) was capitalized to exploration and evaluation assets.

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**10. MINERAL PROPERTIES – EXPLORATION AND EVALUATION ASSETS**

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 (issued, note 15), whichever is the lesser, as determined by the Company in its sole discretion.

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 (\$25,000 paid, \$75,000 in common shares) and fifth years (\$25,000 paid, \$75,000 in common shares, note 15) from the effective date of the MPI 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 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.

**Border Property**

The Company received coal permits on 127,852 (2010 – 127,852) hectares located in Saskatchewan.

<b>March 31, 2011</b>	<b>Saskatchewan</b>		<b>Total</b>
	<b>Border</b>		<b>2011</b>
	<b>Property</b>		
Balance, December 31, 2010	\$	16,058,621	\$ 16,058,621
Exploration expenditures:			
Fuel		23,076	23,076
Operations and general		14,488	14,488
Road and pad construction		134,636	134,636
Site support		24,905	24,905
Share-based compensation		4,580	4,580
Technical services and consulting		132,250	132,250
2011 additions		333,935	333,935
Balance, March 31, 2011	\$	16,392,556	\$ 16,392,556

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**10. MINERAL PROPERTIES – EXPLORATION AND EVALUATION ASSETS (continued)**

2010	Saskatchewan		Manitoba Manitoba	Total 2010
	Border Property	Ballantyne Property		
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

**11. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

a) Legal Fees

Paid or accrued \$11,913 (2010 - \$21,188) for legal fees which were included in professional fees to a law firm of which an officer of the Company is a partner.

b) Key Management Compensation

Paid or accrued \$52,500 (2010-\$30,000) for management fees to companies controlled by the President and Chief Financial Officer.

Paid or accrued \$30,000 (2010-\$Nil) for project management fees to a company controlled by the Chief Operations Officer.

Recorded share-based compensation of \$116,891 (2010 - \$133,911) for the fair value of options granted to officers and directors.

c) Other Transactions

The Company shares rent, salaries and administrative services with a company related by common directors and officers. The Company incurred \$51,572 (2010 - \$34,315) for their share of rent, salaries and administrative expenses.

Paid or accrued \$111,685 (2010 - \$144,341) for technical services which were included in exploration and evaluation assets to an engineering consulting firm of which an officer of the Company was an officer and shareholder until August 2010.

Minera Pacific Inc. has two directors and officers in common with the Company (refer to note 15 for transactions after the period end).

Included in accounts payable and accrued liabilities at March 31, 2011 is \$13,114 (2010 - \$5,536) due to a law firm of which an officer of the Company is a partner, \$90,866 (2010 - \$111,170) due to an engineering consultants firm of which an officer of the Company is an officer and \$61,600 (2010 - \$NIL) due to officers 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.



**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the Company for the period ended March 31, 2011 were as follows:

- a) Included in exploration and evaluation assets is \$329,513 which relates to accounts payable and accrued liabilities.

Significant non-cash transactions for the Company for the period ended March 31, 2010 were as follows:

- a) The Company recorded a value of \$2,520 from equity reserve to capital stock due to the exercise of stock options.  
b) Included in exploration and evaluation assets is \$1,391,830 which relates to accounts payable and accrued liabilities.

**13. CAPITAL STOCK AND RESERVES**

**Authorized**

Unlimited number of common shares without nominal or par value

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

The following is a summary of changes in capital stock of the common shares and share based payment reserves from January 1, 2010 to March 31, 2011

	Capital Stock		Reserves
	Common Share	Amount	Share-Based Payments
<b>As at December 31, 2009</b>	19,871,158	\$ 26,225,974	\$ 6,322,680
Issuance pursuant to acquisition of exploration and evaluation assets	121,875	194,250	-
Stock options expired / forfeited	-	-	(79,883)
Issuance pursuant to exercise of stock options	17,500	14,110	(5,120)
Share-based compensation	-	-	1,269,161
<b>As at December 31, 2010</b>	20,010,533	\$ 26,434,334	\$ 7,506,838
Stock options expired	-	-	(14,750)
Share-based compensation	-	-	132,129
<b>As at March 31, 2011</b>	20,010,533	\$ 26,434,334	\$ 7,624,217

**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.

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, 2010	3,607,500	\$1.03
Expired	(12,500)	\$1.37
As at March 31, 2011	3,595,000	\$1.03
Exercisable at March 31, 2011	3,238,750	\$1.05

**GOLDSOURCE MINES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**(Expressed in Canadian Dollars)**  
**THREE MONTHS ENDED MARCH 31, 2011 and 2010**

**TSX.V:GXS**

**13. CAPITAL STOCK AND RESERVES (continued)**

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
700,000	\$0.82	September, 28, 2015
775,000	\$0.90	December 23, 2015
<b>3,595,000</b>		

The weighted average remaining contractual life of options outstanding at March 31, 2011 is 3.58 years.

**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	37,118
Year ending December 31, 2012	28,870
	<b>\$ 65,988</b>

**15. SUBSEQUENT EVENTS**

- On April 26, 2011 the Company issued 358,696 common shares and paid \$25,000 in cash pursuant to the terms of the MPI Agreement (note 10).
- On May 19, 2011 the Company completed two offerings to raise gross proceeds of approximately \$3.7 million:

The Company completed a short form offering of 3,636,000 units ("Units") at \$0.55 per Unit for gross proceeds of \$1,999,800.

The Company completed a private placement of 2,170,000 units ("PP Units") at \$0.55 per PP Unit and 858,500 flow-through common shares ("Flow-Through Shares") at \$0.60 per share, the Company raised gross proceeds of \$1,708,600.

Each Unit and PP Unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"), with each Warrant being exercisable to purchase one Common Share at a price of \$0.70 until May 19, 2013.

The offerings were conducted by Canaccord Genuity Corp. The Company paid a 6.5% agent's fee in cash on the gross proceeds of the offerings and issued a total of 433,192 agent's warrants (the "Agent's Warrants"). Each Agent's Warrant is exercisable to purchase one Common Share at a price of \$0.70 until May 19, 2013.

- On June 1, 2011 the Company sold 425,000 common shares of Westcore for gross proceeds of \$301,505.
- The Company has submitted applications to the Saskatchewan Ministry of Energy and Resources to convert a substantial number of exploration permits comprising the Border project into Coal Licenses. The licenses, when granted will be have an initial term of 15 years and may be maintained by paying annual rental fees of \$5.50 per hectare.