CONDENSED INTERIM FINANCIAL STATEMENTS OF

GOLDSOURCE MINES INC.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 condensed interim financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

GOLDSOURCE MINES INC.

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

AS AT

	September 30, 2011	December 31, 2010	January 1, 2010
		(Note 4)	(Note 4)
ASSETS			
Current			
Cash	$ 143,829	$ 132,634	$ 355,751
Short term investments	2,756,387	752,992	4,257,976
Amounts receivable	5,000	5,122	290,474
Taxes receivable	70,896	20,328	27,772
Prepaid expenses	18,475	23,395	33,106
Held-for-trading securities (note 7)	236,250	473,000	60,000
	3,230,837	1,407,471	5,025,079
Non-current			
Investment subject to significant influence (note 8)	750,000	750,000	-
Equipment (note 9)	31,711	42,385	58,145
Exploration and evaluation assets (note 10)	17,778,766	16,058,621	15,006,883
TOTAL ASSETS	$ 21,791,314	$ 18,258,477	$ 20,090,107
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities (note 11)	$ 841,091	$ 174,277	$ 609,944
Flow through share premium	60,095	-	-
Shareholders' equity			
Capital stock (note 13)	29,863,065	26,434,334	26,225,974
Reserves (note 13)	7,801,223	7,506,838	6,322,680
Deficit	(16,774,160)	(15,856,972)	(13,068,491)
	20,890,128	18,084,200	19,480,163
TOTAL LIABILITES AND SHAREHOLDERS' EQUITY	$ 21,791,314	$ 18,258,477	$ 20,090,107

Nature of operations (note 1)
Basis of presentation (note 2)
Subsequent event (note 16)

Approved by the Board and authorized for issue on November 28, 2011.

"J. Scott Drever"	*"Graham C. Thody"*
Director	**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)

	Three Months ended September 30, 2011	Three Months ended September 30, 2010	Nine Months ended September 30, 2011	Nine Months ended September 30, 2010
GENERAL AND ADMINISTRATIVE EXPENSES				
Insurance	$ 7,475	$ 14,800	$ 30,925	$ 45,713
Investor relations	-	5,171	17,787	25,031
Office and miscellaneous	9,756	10,644	32,651	49,419
Professional fees (note 11)	15,978	20,911	71,282	104,637
Regulatory and transfer agent fees	2,033	2,340	17,065	20,344
Remuneration (note 11)	72,920	85,132	219,217	227,569
Rent and communications	8,585	7,816	25,267	24,672
Shareholder communications	9,721	2,267	33,738	12,198
Trade shows and conferences	2,408	1,794	23,164	23,710
Travel and related costs	1,422	-	4,136	-
LOSS BEFORE OTHER ITEMS	(130,298)	(150,875)	(475,232)	(533,293)
OTHER ITEMS				
Gain on held-for-trading securities (note 7)	-	-	17,661	-
Interest income	2,018	2,859	9,276	10,823
Service income	-	-	-	1,510,000
Share-based compensation (note 13)	(58,633)	(218,436)	(231,027)	(525,741)
Transaction costs	(267,344)	-	(281,866)	-
Unrealized (loss) gain on held-for-trading securities (note 7)	(94,500)	(55,000)	44,000	(440,000)
	(418,459)	(270,577)	(441,956)	555,082
(LOSS) GAIN AND COMPREHENSIVE (LOSS) GAIN FOR THE PERIOD	(548,757)	(421,452)	(917,188)	21,789
Basic and diluted (loss) gain per common share	$ (0.02)	$ (0.02)	$ (0.04)	$ 0.00
Weighted average number of common shares outstanding	27,033,729	19,929,777	23,513,762	19,965,696

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 nine months ended September 30,		2011		2010
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss) Gain for the period	$	(917,188)		21,789
Items not affecting cash:				
Share-based compensation		231,027		525,741
Service income		-		(1,510,000)
Interest income		(7,259)		(10,823)
Gain on held-for-trading securities		(17,661)		-
Unrealized (gain) loss on held-for-trading securities		(44,000)		440,000
		(755,081)		(533,293)
Changes in non-cash working capital items:				
Amounts receivable		121		281,827
Taxes receivable		(50,571)		99
Prepaid expenses		4,920		(5,764)
Accounts payable and accrued liabilities		321,881		84,307
Net cash used in operating activities		**(478,730)**		**(172,824)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Issuance of capital stock		3,708,400		-
Share issuance costs		(402,561)		-
Stock options exercised		-		8,990
Net cash provided by financing activities		**3,305,839**		**8,990**
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of equipment		-		(3,767)
Purchase of short term investments		(3,000,000)		-
Redemption of short term investments		1,000,000		3,250,000
Interest received		3,865		17,514
Exploration and evaluation		(1,118,191)		(4,471,707)
Proceeds from held-for-trading securities		298,411		-
Refund of quarry permits		-		1,248,413
Net cash (used in) provided by investing activities		**(2,815,915)**		**40,453**
Change in cash, during period		11,195		(123,381)
CASH, beginning of period		132,634		355,751
CASH, end of period	$	143,829	$	232,370

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	Deficit	Total
	Number	Amount	Share-Based Payments		
Balance at January 1, 2010	19,871,158	$ 26,225,974	$ 6,322,680	$ (13,068,491)	$ 19,480,163
Issuance pursuant to property agreement	121,875	194,250	-	-	194,250
Stock options exercised	17,500	14,110	(5,120)	-	8,990
Share-based compensation	-	-	575,172	-	575,172
Gain for the period	-	-	-	21,789	21,789
Balance at September 30, 2010	20,010,533	26,434,334	6,892,732	(13,046,702)	20,280,364
Balance at January 1, 2011	20,010,533	26,434,334	7,506,838	(15,856,972)	18,084,200
Issuance pursuant to property agreement	358,696	237,500	-	-	237,500
Issuance of capital stock	6,664,500	3,708,400	-	-	3,708,400
Share issuance costs	-	(402,561)	-	-	(402,561)
Fair value of agent warrants	-	(54,513)	54,513	-	-
Flow through share premium	-	(60,095)	-	-	(60,095)
Stock options expired	-	-	(14,750)	-	(14,750)
Share-based compensation	-	-	254,622	-	254,622
Loss for the period	-	-	-	(917,188)	(917,188)
Balance at September 30, 2011	27,033,729	$ 29,863,065	$ 7,801,223	$ (16,774,160)	$ 20,890,128

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

1. NATURE OF OPERATIONS

Goldsource Mines Inc. (the "Company" or "Goldsource") 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 19th 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

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

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 September 30, 2011 of $16,774,160.

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 completed financing in May, 2011 of $3,708,400 (note 13) 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	5 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 of 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 environmental 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards not yet adopted

The International Accounting Standards Board ("IASB") issued the following pronouncements that are effective for years beginning January 1, 2012 or later and may affect the Company's future financial statements. Management is currently assessing the impact of these pronouncements and does not expect the application to have a pervasive impact on accounting procedures or other business activities.

IFRS 9 - Financial Instruments ("IFRS 9") IFRS 9 was issued in November 2009 and amended in October 2010. On August 4, 2011, the IASB issued an exposure draft to defer the mandatory effective date of from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. Early adoption would continue to be permitted. This is the first part of a new standard on classification and measurement of financial 10 assets that will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value.

IFRS 10 - Consolidated Financial Statements ("IFRS 10") was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12") was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. This standard combines and enhances the disclosure requirements for the Company's interests in other entities, such as joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires disclosure of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements.

IFRS 13 - Fair Value Measurement ("IFRS 13") was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

Amendments to IAS 1 - Presentation of Financial Statements ("IAS 1") was issued in June 2011 and is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. This amendment requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately.

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) with the exception of the reclassification of share-based reserve as noted below.

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, September 30, 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 September 30, 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.

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
ASSETS				
Current assets				
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
		5,025,079	-	5,025,079
Non-current assets				
Equipment		58,145	-	58,145
Exploration and evaluation assets		15,006,883	-	15,006,883
TOTAL ASSETS		$ 20,090,107	$ -	$ 20,090,107
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 609,944	$ -	$ 609,944
Shareholders' equity				
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)
		19,480,163	-	19,480,163
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 20,090,107	$ -	$ 20,090,107

4. FIRST TIME ADOPTION OF IFRS (continued)

The September 30, 2010 Canadian GAAP statements of financial position have been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Adjustment to Canadian GAAP (Note 8)	Effect of transition to IFRS	IFRS
ASSETS					
Current assets					
Cash and cash equivalents		$ 232,370	$ -	$ -	$ 232,370
Short term investments		1,001,285	-	-	1,001,285
Amounts receivable		8,648	-	-	8,648
Taxes receivable		27,673	-	-	27,673
Prepaid expenses		38,870	-	-	38,870
Held-for-trading securities		330,000	-	-	330,000
		1,638,846		-	1,638,846
Non-current assets					
Investment subject to significant influence		-	750,000		750,000
Equipment		47,338	-	-	47,338
Exploration and evaluation assets		18,038,765	50,000	-	18,088,765
TOTAL ASSETS		$ 19,724,949	$ 800,000	$ -	$ 20,524,949
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$ 244,585	$ -	$ -	$ 244,585
Shareholders' equity					
Capital stock	4a	25,403,589		1,030,745	26,434,334
Reserves	4a	8,446,326		(1,553,594)	6,892,732
Deficit	4a	(14,369,551)	800,000	522,849	(13,046,702)
		19,480,364	800,000	-	20,280,364
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 19,724,949	$ 800,000	$ -	$ 20,524,949

4. FIRST TIME ADOPTION OF IFRS (continued)

The Canadian GAAP statement of operations and comprehensive loss for the nine month period ended September 30, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Adjustment to Canadian GAAP (Note 8)	Effect of transition to IFRS	IFRS
GENERAL AND ADMINISTRATIVE EXPENSES					
Insurance		$ 45,713	$ -	$ -	$ 45,713
Investor relations		25,031	-	-	25,031
Office and miscellaneous		49,419	-	-	49,419
Professional fees		104,637	-	-	104,637
Regulatory and transfer agent fees		20,344	-	-	20,344
Remuneration		227,569	-	-	227,569
Rent and communications		24,672	-	-	24,672
Shareholder communications		12,198	-	-	12,198
Trade shows and conferences		23,710	-	-	23,710
LOSS BEFORE OTHER ITEMS		(533,293)	-	-	(533,293)
OTHER ITEMS					
Interest income		10,823	-	-	10,823
Service income		350,000	1,160,000	-	1,510,000
Share-based compensation		(525,741)	-	-	(525,741)
Unrealized loss on held-for-trading securities		(80,000)	(360,000)	-	(440,000)
		(244,918)	800,000	-	555,082
(LOSS) GAIN AND COMPREHENSIVE (LOSS) GAIN FOR THE PERIOD		(778,211)	800,000	-	21,789

4. FIRST TIME ADOPTION OF IFRS (continued)

The Canadian GAAP statement of operations and comprehensive loss for the three month period ended September 30, 2010 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Adjustment to Canadian GAAP (Note 8)	Effect of transition to IFRS	IFRS
GENERAL AND ADMINISTRATIVE EXPENSES					
Insurance		$ 14,800	$ -	$ -	$ 14,800
Investor relations		5,171	-	-	5,171
Office and miscellaneous		10,644	-	-	10,644
Professional fees		20,911	-	-	20,911
Regulatory and transfer agent fees		2,340	-	-	2,340
Remuneration		85,132	-	-	85,132
Rent and communications		7,816	-	-	7,816
Shareholder communications		2,267	-	-	2,267
Trade shows and conferences		1,794	-	-	1,794
LOSS BEFORE OTHER ITEMS		(150,875)	-	-	(150,875)
OTHER ITEMS					
Interest income		2,859	-	-	2,859
Service Income		350,000	(350,000)	-	-
Share-based compensation		(218,436)	-	-	(218,436)
Unrealized loss on held-for-trading securities		(55,000)	-	-	(55,000)
		79,423	(350,000)	-	(270,577)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(71,452)	(350,000)	-	(421,452)

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
ASSETS				
Current assets				
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
		1,407,471	-	1,407,471
Non-current assets				
Investment subject to significant influence		750,000	-	750,000
Equipment		42,385	-	42,385
Exploration and evaluation assets		16,058,621	-	16,058,621
TOTAL ASSETS		$ 18,258,477	$ -	$ 18,258,477
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 174,277	$ -	$ 174,277
Shareholders' equity				
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)
		18,084,200	-	18,084,200
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 18,258,477	$ -	$ 18,258,477

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
GENERAL AND ADMINISTRATIVE EXPENSES				
Insurance		$ 60,513	$ -	$ 60,513
Investor relations		30,786	-	30,786
Office and miscellaneous		62,072	-	62,072
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
LOSS BEFORE OTHER ITEMS		(688,408)	-	(688,408)
OTHER ITEMS				
Interest income		12,879	-	12,879
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)
		(2,179,956)	-	(2,179,956)
LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(2,868,364)	-	(2,868,364)

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 September 30, 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.

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 September 30, 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 September 30, 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	$ 143,829	$ -	$ -	$ 143,829
Short term investments	$ 2,756,387	$ -	$ -	$ 2,756,387
Held-for-trading securities	$ 236,250	$ -	$ -	$ 236,250

7. HELD-FOR-TRADING SECURITIES

Fair value	September 30, 2011	December 31, 2010
Westcore Energy Ltd.	$ 236,250	$ 473,000

In May 2011, the Company sold 425,000 common shares of Westcore for gross proceeds of $301,545 and paid commissions of $3,100. The Company realized a net gain of $17,661 on the sale of shares for the nine month period ended September 30, 2011.

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. For the three months ended September 30, 2011, the Company's 675,000 Westcore common shares had an unrealized marked-to-market loss of $94,500.

8. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE

	September 30, 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.

8. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE (continued)

(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.

(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 required 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.

Previously, management recorded the income earned as a result of this arrangement in the third and fourth quarter of 2010. As such, an adjustment was made as part of the Company's IFRS reconciliation to properly record the income in the first quarter of 2010.

9. EQUIPMENT

	Equipment	Office Equipment	Vehicles	Computers	Total
Cost					
Balance at January, 1, 2010	$ 33,424	$ 9,953	$ 16,500	$ 14,193	$ 74,070
Additions	-	971	-	2,797	3,768
Balance at December 31, 2010 and September 30, 2011	$ 33,424	$ 10,924	$ 16,500	$ 16,991	$ 77,839
Accumulated depreciation					
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
Balance at December 31, 2010	12,699	3,115	5,775	13,864	35,453
Depreciation for the period	5,014	1,638	2,475	1,547	10,674
Balance at September 30, 2011	$ 17,713	$ 4,753	$ 8,250	$ 15,411	$ 46,128
Carrying amounts					
At December 31, 2010	$ 20,725	$ 7,809	$ 10,725	$ 3,127	$ 42,385
At September 30, 2011	$ 15,711	$ 6,171	$ 8,250	$ 1,580	$ 31,711

During the nine month period ended September 30, 2011, depreciation of $10,674 (2010 - $14,574) was capitalized to exploration and evaluation assets.

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), 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 issued) and fifth years ($25,000 paid, $75,000 in common shares issued) 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 has submitted applications to the Saskatchewan Ministry of Energy and Resources to convert a substantial number of existing exploration permits comprising the Border project into Coal Licenses. The licenses, when granted will have an initial term of 15 years and may be maintained by paying annual rental fees of $5.50 per hectare.

September 30, 2011		Saskatchewan Border Property
Balance, December 31, 2010	$	16,058,621
Additions:		
Acquisition and holding costs:		
Acquisition costs		262,500
Permit application and holding costs		316,511
		579,011
Exploration expenditures:		
Air Charter		325,138
Assays and Laboratory		684
Drilling		198,004
Fuel		29,858
Operations and general		119,799
Road and pad construction		153,025
Site support		24,905
Share-based compensation		8,845
Technical services and consulting		280,876
		1,141,134
Balance, September 30, 2011	$	17,778,766

10. MINERAL PROPERTIES – EXPLORATION AND EVALUATION ASSETS (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
Share-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 $35,429 (2010 - $67,705) for legal fees which were included in professional fees, $88,379 (2010 - $Nil) for share issuance costs and $178,163 (2010 - $NIL) for transaction costs to a law firm of which an officer of the Company is a partner.

b) Key Management Compensation

Paid or accrued $157,500 (2010 - $112,500) for management fees to two companies (one controlled by the President and the other by the Chief Financial Officer).

Paid or accrued $90,000 (2010 - $30,000) for project management fees to a company controlled by the Chief Operations Officer.

Recorded share-based compensation of $225,743 (2010 - $423,421) 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 $108,027 (2010 - $115,975) for their share of rent, salaries and administrative expenses.

Paid or accrued $245,356 (2010 - $423,560) 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. During the period ended September 30, 2011 the Company issued 358,696 (2010 – 75,000) common shares and paid $25,000 (2010 - $50,000) in cash pursuant to the terms of the MPI Agreement (note 10).

11. RELATED PARTY TRANSACTIONS (continued)

Included in accounts payable and accrued liabilities at September 30, 2011 is $176,791 (2010 - $3,034) due to a law firm of which an officer of the Company is a partner, $71,442 (2010 - $29,615) due to an engineering consultants firm of which an officer of the Company was an officer until August 2010. 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 September 30, 2011 were as follows:

a) Included in exploration and evaluation assets is $464,873 which relates to accounts payable and accrued liabilities.

b) The Company recorded a value of $237,500 to capital stock and exploration and evaluation assets which relates to the issuance of 358,696 common shares pursuant to the MPI Agreement (note 10).

c) Included in capital stock is $60,095 which relates to share premium on the flow through financing and $54,513 which relates to the fair value of 433,192 agent's warrants.

Significant non-cash transactions for the Company for the period ended September 30, 2010 were as follows:

a) Included in exploration and evaluation assets is $142,020 which relates to accounts payable and accrued liabilities.

b) The Company recorded a value of $194,250 to capital stock and exploration and evaluation assets which relates to the issuance of 121,875 common shares pursuant to the MPI Agreement (note 10).

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 September 30, 2011

	Capital Stock		Reserves
	Common Share	Amount	Share-Based Payments
As at December 31, 2009	19,871,158	$ 26,225,974	$ 6,322,680
Issuance pursuant to MPI Agreement	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
As at December 31, 2010	20,010,533	$ 26,434,334	$ 7,506,838
Stock options expired	-	-	(14,750)
Issuance pursuant to MPI Agreement	358,696	237,500	-
Issuance pursuant to offerings	6,664,500	3,708,400	-
Share issuance costs and agent warrants	-	(457,074)	54,513
Flow through share premium	-	(60,095)	-
Share-based compensation	-	-	254,622
As at September 30, 2011	27,033,729	$ 29,863,065	$ 7,801,223

13. CAPITAL STOCK AND RESERVES (continued)

On May 19, 2011 the Company completed two offerings to raise gross proceeds of $3,708,400. The Company completed a short form prospectus 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.

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 September 30, 2011	3,595,000	$1.03
Exercisable at September 30, 2011	3,420,000	$1.04

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
3,595,000		

The weighted average remaining contractual life of options outstanding at September 30, 2011 is 3.08 years.

Warrants

Warrant transactions and the number of warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
As at December 31, 2010	-	-	-
Issued	3,336,192	$0.70	May 19, 2013
As at September 30, 2011	3,336,192	$0.70	May 19, 2013

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		12,373
Year ending December 31, 2012		28,870
	$	41,243

15. ZEEP ARRANGEMENT AGREEMENT

Goldsource and Zero Emission Energy Plants Ltd. ("ZEEP") entered into a definitive arrangement agreement dated August 24, 2011, whereby the two companies would merge.

ZEEP is a private Bermuda company at arm's length to Goldsource that was founded in 2008 to commercialize and deploy certain gasification technologies (the "PWR Technology") developed by Pratt & Whitney Rocketdyne, Inc. ("PWR"). ZEEP holds a world-wide license to use the PWR Technology and intends to commercialize the PWR Technology by building, owning and operating gasification facilities.

The Arrangement Agreement contemplates the following (collectively, the "**Transactions**"):

- under the terms of the Arrangement Agreement, Goldsource and ZEEP will effect a business combination whereby ZEEP will acquire all of the issued and outstanding common shares ("**Goldsource Shares**") of Goldsource in exchange for 1.2727 Class A common shares ("**ZEEP Shares**") of ZEEP for each Goldsource share held, and Goldsource will become a wholly-owned subsidiary of ZEEP (the "**Arrangement**");
- any warrants to acquire Goldsource Shares, if outstanding immediately prior to the effective time of the Arrangement, shall remain outstanding and exercisable for ZEEP Shares in accordance with the warrant adjustment provisions contained in the terms of such warrants;
- each stock option to acquire a Goldsource Share shall be exchanged for a ZEEP replacement stock option to purchase such number of ZEEP Shares equal to the number of Goldsource Shares that were the subject of such Goldsource stock option so exchanged multiplied by 1.2727. The exercise price, the term to expiry and vesting schedule of each ZEEP replacement stock option shall be the same as that of the Goldsource stock option;
- a new management team will be appointed led by Ronald E. Oligney as Chief Executive Officer and Bradley J. Thomson as Chief Financial Officer (the "**New Management**");
- a new board of directors will be comprised of three representatives of ZEEP, Ronald E. Oligney, Bruce A. Bernard and Barry A. Williamson, two representatives of Goldsource, J. Scott Drever and Steven B. Simpson, as well as two independent directors to be mutually agreed upon by ZEEP and Goldsource (the "**New Directors**");
- ZEEP shall have completed a financing for minimum aggregate proceeds of $10,000,000; and
- ZEEP will be continued into the Province of Alberta under the name "Zero Emission Energy Plants Ltd.".

Completion of the Arrangement is subject to the satisfaction of a number of conditions under the Arrangement Agreement, including receipt of the approval of the TSX Venture Exchange (the "Exchange") to the listing of the ZEEP shares, approval of the Arrangement and election of the New Directors by not less than 50% of the votes cast at the ZEEP shareholder meeting, approval of the Arrangement by not less than two-thirds of the votes cast at the Goldsource shareholder meeting, approval by the Supreme Court of British Columbia (the "Court"), receipt of all other required regulatory and third party approvals and consents; and such other conditions as may be required to complete and effect the Arrangement.

The Transactions were expected to close on or about October 20, 2011 assuming that Goldsource and ZEEP receive the requisite approvals and all of the conditions to closing are satisfied.

16. SUBSEQUENT EVENT

Goldsource agreed with ZEEP to extend the closing date of the business combination to December 31, 2011. Under the amended terms of the Arrangement Agreement ZEEP is required to have completed a financing for minimum aggregate proceeds of $11,000,000. ZEEP is in advanced discussions for the balance of the financing with financial institutions and investors.