



**GOLDSOURCE**  
**MINES INC.**

**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009**

## AUDITORS' REPORT

To the Shareholders of  
**Goldsource Mines Inc.**

We have audited the balance sheets of **Goldsource Mines Inc.** as at December 31, 2009 and 2008 and the statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst & Young LLP*

Vancouver, Canada,  
April 21, 2010.

Chartered Accountants

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

	2009	2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 355,751	\$ 2,757,014
Short term investments (note 5)	4,257,976	11,723,757
Amounts receivable and prepaid expenses	351,352	235,327
Held-for-trading securities (note 6)	<u>60,000</u>	<u>-</u>
	5,025,079	14,716,098
<b>Equipment</b> (note 7)	58,145	-
<b>Mineral properties</b> (note 8)	15,006,883	5,423,156
<b>Advance receivable</b> (note 9)	<u>-</u>	<u>403,375</u>
	<u>\$ 20,090,107</u>	<u>\$ 20,542,629</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 10)	\$ <u>609,944</u>	\$ <u>732,854</u>
Commitment (note 15)		
<b>Shareholders' equity</b>		
Capital stock (note 11 )	25,195,229	24,851,469
Contributed surplus (note 11 )	7,876,274	6,398,051
Deficit	<u>(13,591,340)</u>	<u>(11,439,745)</u>
	<u>19,480,163</u>	<u>19,809,775</u>
	<u>\$ 20,090,107</u>	<u>\$ 20,542,629</u>

**Nature of operations** (note 1)  
**Subsequent events** (note 16)

**On behalf of the Board:**

*"J. Scott Drever"*

Director

*"Graham C. Thody"*

Director

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

	<b>2009</b>	<b>2008</b>
<b>EXPENSES</b>		
Administrative services	\$ 75,741	\$ 44,800
Insurance	67,494	30,274
Investor relations	121,834	15,304
Management fees (note 10)	120,000	290,000
Office and general	86,630	17,764
Professional fees (note 10)	209,681	179,609
Rent and telephone	38,190	26,905
Shareholder communications	53,752	34,620
Stock based compensation (note 12)	1,413,998	588,909
Trade shows and conferences	52,025	9,727
Transfer agent and regulatory fees	22,180	15,838
Travel and related costs	53,943	30,952
<b>LOSS BEFORE OTHER ITEMS</b>	<u>2,315,468</u>	<u>1,284,702</u>
<b>OTHER ITEMS</b>		
Interest income	(154,848)	(264,237)
Foreign exchange loss	975	-
Unrealized gain on held-for-trading securities	(10,000)	-
Write-off of mineral property expenditures	-	4,601,430
<b>LOSS BEFORE FUTURE TAX RECOVERY</b>	<u>(2,151,595)</u>	<u>(5,621,895)</u>
Future tax recovery (note 13)	-	(643,316)
<b>NET AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>(2,151,595)</u>	<u>(4,978,579)</u>
<b>DEFICIT, beginning of year</b>	<u>(11,439,745)</u>	<u>(6,461,166)</u>
<b>DEFICIT, end of year</b>	<u>\$ (13,591,340)</u>	<u>\$ (11,439,745)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.11)</u>	<u>\$ (0.27)</u>
<b>Weighted average number of common shares outstanding</b>	<u>19,618,136</u>	<u>18,543,432</u>

See accompanying notes

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

	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (2,151,595)	\$ (4,978,579)
Stock based compensation	1,413,998	588,909
Interest accrued	(7,976)	-
Write-off of mineral properties	-	4,601,430
Unrealized gain on held-for-trading securities	(10,000)	-
Future tax recovery	-	(643,316)
Changes in operating assets and liabilities		
Amounts receivable and prepaid expenses	(116,025)	(219,199)
Accounts payable and accrued liabilities	(161,982)	228,453
<b>Cash used in operating activities</b>	<u>(1,033,580)</u>	<u>(422,302)</u>
<b>FINANCING ACTIVITIES</b>		
Capital stock issued	157,610	18,016,350
Capital stock issuance costs	-	(1,142,813)
<b>Cash provided by financing activities</b>	<u>157,610</u>	<u>16,873,537</u>
<b>INVESTING ACTIVITIES</b>		
Short term investments	7,473,757	(7,924,519)
Mineral properties	(9,361,380)	(5,375,952)
Refund of quarry permits	436,400	-
Advance on drilling contract	-	(403,375)
Purchase of equipment	(74,070)	-
<b>Cash used in investing activities</b>	<u>(1,525,293)</u>	<u>(13,703,846)</u>
<b>(Decrease) increase in cash</b>	(2,401,263)	2,747,389
<b>Cash , beginning of year</b>	<u>2,757,014</u>	<u>9,625</u>
<b>Cash, end of year</b>	\$ 355,751	\$ 2,757,014

Supplemental disclosure with respect to cash flows (note 14)

See accompanying notes

**1. NATURE OF OPERATIONS**

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

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

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business. Management has carried out an assessment of the going concern assumption and has concluded that the Company has sufficient cash, short term investments and held-for-trading securities (as well as no debt obligations outside of normal course accounts payable and accrued liabilities) to continue operating at current levels for the ensuing twelve months. Accordingly, these financial statements do not reflect the adjustments to the carrying value of assets and liabilities, or the impact on the statement of operations and balance sheet classifications that would be necessary were the going concern assumption not appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES****Mineral properties**

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

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

**Accrued site closure costs**

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

**Equipment and amortization**

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

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

**Cash and Short term investments**

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Loss per share**

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

**Income taxes**

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

**Flow-through shares**

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

**Use of estimates**

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

**Stock based compensation plan**

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

**Financial instruments, comprehensive income and hedges**

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

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

Transaction costs related to held-for-trading financial assets and other financial liabilities are expensed as incurred.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2009, the Company adopted the new CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the Company's financial statements.

**Credit Risk and the Fair Value of Financial Assets and Financial Liabilities - EIC-173**

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of this abstract did not have a material impact on the Company's financial statements.

**Mining Exploration Costs - EIC-174**

In March 2009, the Emerging Issues Committee of the CICA issued EIC-174, Mining Exploration Cost. This abstract provides guidance on the accounting and the impairment review of capitalized exploration costs. The adoption of this abstract did not have a material impact on the Company's financial statements.

**Amendment to Financial Instruments – Disclosures**

During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures, was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

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

See note 4 for the relevant disclosures.

**FUTURE ACCOUNTING POLICIES****International Financial Reporting Standards ("IFRS")**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company is currently evaluating the future impact of IFRS on its financial statements and will continue to invest in training and additional resources to ensure a timely conversion.

**3. MANAGEMENT OF CAPITAL**

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

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

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



**3. MANAGEMENT OF CAPITAL (continued)**

There are no external restrictions on management of capital.

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

**4. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT**

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

**a. Capital Risk Management**

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

The Company considers the items included in the shareholder's equity as capital. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. As at December 31, 2009 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 quality financial institutions 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 its coal properties. 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 high-credit quality financial institutions. Receivables are due primarily from government agencies.

**d. Interest Rate Risk**

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and cash equivalents. The Company's practice has been to invest cash at floating rates of interest, in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash as they are generally held with large financial institutions. As at December 31, 2009, with all other variables unchanged, a 1 percentage point change in interest rates would not have a significant impact on the Company's loss and comprehensive loss for the year.

**GOLDSOURCE MINES INC.**

NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2009 and 2008

TSX.V:GXS

**4. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)**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 December 31, 2009, the Company's classification of financial instruments within the fair value hierarchy are summarized as follows:

	Level 1	Level 2	Level 3	Total
Cash	\$ 355,751	\$ -	\$ -	\$ 355,751
Short term investments	\$ 4,257,976	\$ -	\$ -	\$ 4,257,976
Held-for-trading securities	\$ 60,000	\$ -	\$ -	\$ 60,000

**5. SHORT TERM INVESTMENTS**

Short term investments comprise highly liquid Canadian dollar denominated guaranteed investment certificates with term to maturity of greater than 90 days but not more than one year. Short term investments are carried at the lower of cost or recoverable amount. The counter-parties include Canadian based financial institutions. As of December 31, 2009 the investments were yielding an interest rate of 0.5% with a maturity of August 16, 2010.

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

**6. HELD-FOR-TRADING SECURITIES**

As at December 31, 2009:

	Fair value	Mark-to-market gains included in net loss
Held-For-Trading: Westcore Energy Ltd.	\$ 60,000	\$ 10,000

By agreement dated December 10, 2009 with Westcore Energy Ltd. ("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 consideration, Westcore initially issued 100,000 common shares to Goldsource. In the event that Westcore is 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 ("Success Criteria"), the following additional conditions will apply;

- (a) Westcore will issue an additional 1 million common shares to the Company;
- (b) The Company will receive a 25% working interest in all of Westcore coal lands in Saskatchewan and Manitoba;
- (c) Westcore will expend an additional \$3 million on the aforementioned lands before the Company will be required to contribute its 25% share of expenditures;
- (d) Westcore and the Company will enter into a 75% / 25% joint venture agreement with terms and conditions standard to mining industry joint ventures;
- (e) The Company will contribute its 100% interest in its 10 sections of coal permits that are within the Hudson Bay North Block which is located adjacent to the Company's Border Property in Saskatchewan; and
- (f) 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.

In the event the Success Criteria are met on only one target identified by the Company, the number of shares issuable to the Company will be reduced by 50% and the remaining conditions set forth above will not apply until the Success Criteria are met in full, at which time the balance of the aforementioned shares will be issued.

**GOLDSOURCE MINES INC.**

NOTES TO THE FINANCIAL STATEMENTS  
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**6. HELD-FOR-TRADING SECURITIES (continued)**

Under Canadian GAAP held-for-trading securities are to be recorded at fair value (marked to market) at the balance sheet date and the resulting gains or losses are to be included in the results for the year. The initial value attributed to these shares was \$50,000 and recorded as a cost recovery against the Company's Border Property (note 8). As at December 31, 2009, the Company has an unrealized mark-to-market gain of \$10,000.

**7. EQUIPMENT**

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Equipment and furniture	\$ 9,953	\$ 996	\$ 8,958	\$ -
Field equipment	33,424	6,014	27,410	-
Computer hardware	2,300	767	1,533	-
Computer software	11,893	5,674	6,219	-
Vehicles	16,500	2,475	14,025	-
	\$ 74,070	\$ 15,925	\$ 58,145	\$ -

During the year ended December 31, 2009 amortization of \$15,925 (2008 - \$Nil) was capitalized to mineral property expenditures.

**8. MINERAL PROPERTIES**

By agreement ("MPI Agreement") dated April 12, 2006 and amended May 1 and May 15, 2008 with Minera Pacific Inc., ("Minera") the Company acquired the exclusive rights to use certain information generated from Minera's proprietary UMSERT Methodology which will assist the Company in identifying areas in Saskatchewan and Manitoba that may be prospective for minerals.

In order to maintain the exclusive rights to use the Information, the Company agreed to pay staged cash payments over a period of two years to Minera totalling \$160,000 (\$160,000 paid) and issue a total of 325,000 common shares of the Company (250,000 shares issued) over a period of four years and, by the end of the fifth year, pay an additional \$500,000 or issue 250,000 common shares, whichever is the lesser, as determined by the Company in its sole discretion. The Company on April 12, 2010 made the next payment by issuing 75,000 common shares.

The Company has also agreed to pay to Minera \$1,000,000 (Feasibility Payment) in the event that the Company completes an independent feasibility study on any property acquired by the Company as a result of the UMSERT Methodology. The Company has agreed to make non-refundable payments to Minera of \$100,000 in each of the third (\$100,000 paid), fourth and fifth years from the effective date of the Agreement as advances against the Feasibility Payment. Minera is further entitled to receive a 2% gross overriding royalty ("GOR") on commercial production from any such property, and the Company is entitled at any time to purchase one-half of the GOR for \$2,000,000. The next payment of \$100,000 is due on or before April 12, 2010 but has been deferred pending negotiations to restructure the payment schedule.

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

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

**(a) Border Property**

The Company received coal permits on 128,352 (2008 – 128,352) hectares located in Saskatchewan.

**(b) Ballantyne Property**

The Company received coal permits on 184,496 (2008 – 184,496) hectares located in Saskatchewan.

**(c) Manitoba Properties**

The Company received 8 quarry coal permits on 44,670 (2008 – Nil) hectares located in Manitoba.

**GOLDSOURCE MINES INC.**
**NOTES TO THE FINANCIAL STATEMENTS**
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**TSX.V:GXS**
**8. MINERAL PROPERTIES (continued)**

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

2008	Saskatchewan				Manitoba		Total					
	Border	Ballantyne	Big River	Crossroads	Manitoba	Properties						
Balance, December 31, 2007	\$	708,207	\$	-	\$	3,282,255	\$	93,327	\$	-	\$	4,083,789
Additions:												
Acquisition and holding costs:												
Acquisition costs		43,875		-		-		43,875		-		87,750
Permit application and holding costs		147,633		215,913		-		-		1,407,427		1,770,973
		191,508		215,913		-		43,875		1,407,427		1,858,723
Exploration expenditures:												
Air charter		381,637		-		-		-		-		381,637
Assays and laboratory		23,411		-		14,346		-		-		37,757
Drilling		272,000		-		307,745		212,287		-		792,032
Geophysical services		110,398		-		16,107		-		-		126,505
Operations and general		12,305		-		4,415		330		4,250		21,300
Personnel and related costs		12,512		-		-		-		-		12,512
Roads and pad construction		1,216,716		-		192,310		217,576		-		1,626,602
Site support		388,685		-		192,310		-		-		580,995
Stock-based compensation		77,000		-		-		-		-		77,000
Technical consulting and services		401,187		-		21,929		2,618		-		425,734
		2,895,851		-		749,162		432,811		4,250		4,082,074
Subtotal 2008 additions		3,087,359		215,913		749,162		476,686		1,411,677		5,940,797
Write-off of mineral properties		-		-		(4,031,417)		(570,013)		-		(4,601,430)
Balance, December 31, 2008	\$	3,795,566	\$	215,913	\$	-	\$	-	\$	1,411,677	\$	5,423,156

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**9. ADVANCE RECEIVABLE**

The Company advanced \$500,000 as a deposit on a drilling contract during the year ended December 31, 2008. The advance was applied on a usage basis to drilling contracts and consequently has been recorded as a long term asset. The advance was recovered in full during the year ended December 31, 2009.

	2009	2008
Balance, beginning of year	\$ 403,375	\$ -
Advance on drilling contract	-	500,000
Amounts recovered	(403,375)	(96,625)
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ 403,375</b>

**10. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued \$120,000 (2008 - \$290,000) for management fees to a company owned by an officer and director of the Company.
- b) Paid or accrued \$87,945 (2008 - \$106,504) for legal fees which were included in professional fees and \$Nil (2008 - \$59,461) for share issue costs paid to a law firm of which an officer of the Company is a partner.

Included in accounts payable and accrued liabilities at December 31, 2009 is \$11,595 (2008 - \$4,303) due to a law firm of which an officer of the company is a partner and \$16,827 (2008 - \$Nil) due to a director of the Company.

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

**11. CAPITAL STOCK AND CONTRIBUTED SURPLUS****Authorized**

Unlimited number of common shares without nominal or par value

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

**Issued and fully paid - common shares**

	Number of Shares	Capital Stock	Contributed Surplus
<b>As at December 31, 2007</b>	17,698,158	\$ 8,918,024	\$ 4,779,299
Issuance pursuant to acquisition of mineral properties	75,000	12,750	-
Issuance pursuant to exercise of stock options	31,500	23,990	(8,640)
Issuance pursuant to private placement	1,532,000	18,001,000	-
Share issuance costs	-	(2,104,295)	961,483
Stock based compensation	-	-	665,909
<b>As at December 31, 2008</b>	19,336,658	\$ 24,851,469	\$ 6,398,051
Issuance pursuant to acquisition of mineral properties	75,000	101,250	-
Issuance pursuant to exercise of stock options	459,500	242,510	(84,900)
Stock based compensation	-	-	1,563,123
<b>As at December 31, 2009</b>	19,871,158	\$ 25,195,229	\$ 7,876,274

**December 31, 2008**

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

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**12. STOCK OPTIONS AND WARRANTS****Stock options**

The Company has a stock option plan under which it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire issued and outstanding common stock of the Company. 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. On May 22, 2009 the Company adopted a new stock option plan which in effect changed the stock option plan from a "rolling 10%" plan to a "fixed number" plan, where a maximum of 3,850,000 common shares are reserved for issuance.

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, 2007	1,200,000	\$0.71
Issued	805,000	\$1.43
Exercised	(31,500)	\$0.49
As at December 31, 2008	1,973,500	\$1.01
Issued	1,500,000	\$1.33
Exercised	(459,500)	\$0.34
Cancelled	(37,500)	\$0.38
As at December 31, 2009	2,976,500	\$1.08
Exercisable at December 31, 2009	2,195,250	\$0.99

Number of Options	Exercise Price	Expiry Date
793,500	\$0.90	December 23, 2010
433,000	\$0.38	April 23, 2013
100,000	\$1.33	June 02, 2013
100,000	\$1.33	October 9, 2013
50,000	\$1.50	December 15, 2013
1,475,000	\$1.33	May 22, 2014
25,000	\$1.58	November 19, 2014
2,976,500		

The weighted average remaining contractual life of options outstanding at December 31, 2009 is 3.3 years.

**Stock Based Compensation**

The Company granted 1,500,000 (2008 – 805,000) incentive stock options with a weighted average fair value per option granted of \$1.17 (2008 - \$1.40) for a total fair value of \$1,769,300 (2008 - \$919,250). The total stock based compensation recognized during the year ended December 31, 2009 under the fair value method was \$1,563,123 (2008 - \$665,909). The Company expensed \$1,413,998 (2008 - \$588,909) and capitalized \$149,125 (2008 - \$77,000) as mineral property expenditures.

During the year the Company repriced 200,000 stock options with a weighted average fair value of \$4.33 to \$1.33. The modification resulted in an additional \$21,000 of stock based compensation which the Company expensed during the year ended December 31, 2009.

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

	2009	2008
Risk-free interest rate	1.51%	2.93%
Expected dividend yield	0%	0%
Expected life	3.1 years	3.4 years
Expected stock price volatility	177%	142%

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**12. STOCK OPTIONS AND WARRANTS (continued)****Warrants**

No share purchase warrant transactions occurred during the year ended December 31, 2009. As of December 31, 2009 there are no share purchase warrants outstanding enabling holders to acquire common shares.

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2007	-	-
Issued	91,920	\$13.80
As at December 31, 2008	91,920	\$13.80
Expired	(91,920)	\$13.80
As at December 31, 2009	-	-

**13. INCOME TAXES**

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

	2009	2008
Loss before income tax recovery	\$ (2,151,595)	\$ (5,621,895)
Combined federal and provincial statutory tax rate	30.00%	31.00%
Income tax recovery at statutory rates	\$ (645,479)	\$ (1,742,787)
Permanent differences	424,199	182,562
Unrecognized benefit of resource deductions	20,020	152,523
Tax adjustment from rate change	200,759	398,193
Unrecognized benefits from losses	45,815	160,995
Changes in valuation allowance	(106,659)	205,200
Other	61,345	205,200
Total income tax recovery	\$ -	\$ (643,316)

b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2009 and 2008 are presented below:

	2009	2008
Future tax assets:		
Non-capital loss carry-forwards	\$ 759,483	\$ 580,023
Capital loss carry-forwards	2,719,093	2,827,856
Share issue costs and other	207,103	292,800
Mineral properties	482,071	577,611
Capital assets	6,476	2,595
	4,174,226	4,280,885
Valuation allowance	(4,174,226)	(4,280,885)
	\$ -	\$ -

c) Future income tax liabilities transactions for the year ended December 31, 2009:

	2009	2008
Balance, beginning of year	\$ -	\$ 643,316
Opening balance		
Recovery of future income taxes as a result of the write-off of mineral property expenditures	-	(643,316)
Balance, end of year	\$ -	\$ -

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**13. INCOME TAXES ( continued)**

As at December 31, 2009, the Company has non-capital losses of approximately \$3,038,000 for income tax purposes. The non-capital losses may be utilized to reduce future years' taxable income and expire according to the schedule below if unutilized. In addition the Company has approximately \$21,753,000 of capital losses available for carry-forward. The Company also has exploration and development expenditures of approximately \$15,377,000 which may be available to reduce taxable income of future years. The non-capital loss carry-forwards expire according to the following schedule:

Year	Non Capital Loss
2010	\$ 404,000
2014	164,000
2015	242,000
2026	312,000
2027	201,000
2028	724,000
2029	991,000
	<u>\$ 3,038,000</u>

Future tax assets, which may arise as a result of these losses and resource expenditures, have been offset by a valuation allowance as the Company determined that, as at December 31, 2009, their realization is uncertain.

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

Significant non-cash transactions for the Company for the year ended December 31, 2009 were as follows:

- The Company recorded a value of \$1,563,123 for stock options vested in the year in contributed surplus.
- The Company recorded a value of \$84,900 from contributed surplus to capital stock due to the exercise of stock options.
- Included in mineral properties is \$101,250 incurred by the issuance of common shares pursuant to a property agreement.
- Included in mineral properties is \$50,000 from the initial value assigned to the 100,000 Westcore shares received (note 6).
- Included in mineral properties is \$514,166 which relates to accounts payable and accrued liabilities for the year.
- Included in mineral properties is \$403,375 which relates to the recovery of an advance on drilling contract (note 9).

Significant non-cash transactions for the Company for the year ended December 31, 2008 were as follows:

- The Company recorded a value of \$665,909 for stock options vested in the year in contributed surplus.
- The Company recorded a value of \$961,483 for agent warrants pursuant to the private placement in capital stock and contributed surplus.
- The Company recorded a value of \$8,640 from contributed surplus to capital stock due to the exercise of stock options.
- Included in mineral properties is \$12,750 incurred by the issuance of common shares pursuant to a property agreement.
- Included in mineral properties is \$475,094 which relates to accounts payable and accrued liabilities for the year.

**15. 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, 2010	\$ 49,491
Year ending December 31, 2011	49,491
Year ending December 31, 2012	28,870
	<u>\$ 127,852</u>



**16. SUBSEQUENT EVENTS**

- (a) On January 31, 2010, the Company terminated the Pine River winter drilling program due to consultation issues between local First Nations and the Government of Manitoba which the government neglected to complete prior to the Company's drill start up. The Company requested a refund from the Government of Manitoba of the deposits on the Pine River quarry permits until these consultation issues are settled. On March 17, 2010, the Company received a refund totalling \$1,248,413 relating to these quarry permit deposits.
- (b) On February 3, 2010, the Company received a refund totalling \$288,320 from the Saskatchewan Ministry of Energy and Resources relating to annual permit fees for the Border and Ballantyne properties.
- (c) On March 22, 2010, Westcore announced the discovery of several significant coal deposits adjacent to the Company's Border Property. The success criteria set out in the agreement (note 6) have been satisfied and the Company is entitled to receive an additional 1 million shares of Westcore and a 25% working interest in Westcore's coal lands in Saskatchewan and Manitoba.
- (d) On April 12, 2010, the Company issued 75,000 common shares pursuant to the Minera Pacific Inc. Agreement