GOLDSOURCE MINES INC.

MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER 31, 2009

FORWARD LOOKING STATEMENTS

Certain statements contained in this Management Discussion and Analysis (the "MD&A") and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance of achievements of the company to materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include: the availability of funds; the timing and content of work programs; results of exploration activities and development of mineral properties, the interpretation of drilling results and other geological data, the uncertainties of resource and reserve estimations, receipt and security of coal permits and mineral property titles; project cost overruns or unanticipated costs and expenses, fluctuations in product prices; currency fluctuations; and general market and industry conditions. Forward-looking statements are based on the expectations and opinions of the Company's management on the date the statements are made. The assumptions used in the preparation of such statements, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made.

PRELIMINARY INFORMATION

The MD&A is an overview of the activities of **Goldsource Mines Inc.** (the "Company") for the year end December 31, 2009. The MD&A should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2009 and the notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts are stated in Canadian dollars unless otherwise indicated.

The effective date of this Management Discussion & Analysis is April 21, 2010.

Additional information related to the Company is available for view on SEDAR at www.sedar.com and on the Company's website www.goldsourcemines.com.

OVERALL PERFORMANCE

The Company's 2008 discovery of major, thermal coal occurrences in east-central Saskatchewan has resulted in the aggressive exploration and development of this new coal discovery. The Company has drilled 119 holes to year end and found substantial coal resources in 15 deposits with an expenditure of approximately $12 million since the discovery. Overall, the estimated coal resources at Border consist of 63.5 million Indicated tonnes plus 89.6 million Inferred tonnes, and 18.7 million Speculative tonnes as stated in the "Technical Report on the Border Coal Property, Resource Estimation" dated December 24, 2009 by Moose Mountain Technical Services of Elkford, BC and posted on www.sedar.com.

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 the Company. 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 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.

The Company continues to focus its efforts on the delineation of these coal occurrences identified on the Border Property in east-central Saskatchewan and on two other coal properties of merit, Ballantyne in Saskatchewan and Pine River in Manitoba, that are being explored.

In October 2009, the Company regretfully announced the passing of Wendy Gale Mathison, Vice President, Operations after an arduous battle with cancer. Wendy was a cherished colleague and friend and is sorely missed by all who knew and worked with her.

Highlights for the reporting year are as follows:

- On April 7, 2009, the Border winter drilling program was completed with a total of 86 HQ core holes drilled totaling 12,225 metres. Approximately 85 kilometres of winter access roads were established and reclaimed.
- On August 24, 2009, the Border summer drilling program was successfully completed with a total of 20 core holes drilled and the discovery of the Niska sub-basin with several significant coal deposits (Niska 107 and 108).
- Of the total 119 holes drilled at Border at year end, coal was intercepted in a total of 57 holes and 44 contain aggregate coal intercepts ranging from 10 to 100 metres in true thickness.

OVERALL PERFORMANCE (continued)

- A total of 899 samples of the coal intervals from Border have been compiled to provide average proximate analyses for each deposit. Ranking of coal is sub-bituminous A to C.
- Six broad sub-basins with 15 discrete coal deposits have been defined with drilling as of December 31, 2009. These include Chemong, Pasquia, Split Leaf North, Split Leaf South, Red River North, and Niska.
- In 2009, Fugro Airborne Surveys Corp. completed flying approximately 5,000 line-kilometres of new airborne survey at Border and Ballantyne in Saskatchewan and Pine River in Manitoba properties. Results were used for the summer and winter programs**.**
- Resource estimation for NI 43-101 technical reporting was completed by Moose Mountain Technical Services and a summary of the report was release on November 9, 2009. The full report was filed on SEDAR in January 2010.
- Pine River winter drilling commenced in November 2009 with 5 holes completed by the end of the year on 7 geophysical targets near Pine River, Manitoba. Two minor coal intercepts were encountered in two holes.
- The Border winter drilling program commenced January 2010 with the purpose to convert Inferred Resources to Indicated Resources for the 2010 Preliminary Economic Assessment and explore additional targets.

EXPLORATION PROPERTIES

(A) Border Property, Saskatchewan

In April of 2008, the Company announced the completion of two holes on the Border property which intercepted a coal seam, including partings, of approximately 25.0 and 35.0 metres in thickness at a depth of approximately 80 metres. The holes were approximately 1.5 kilometres apart.

These two holes were the discovery holes for what is now developing into a major coal field with potential for district and regional coal occurrences. Due to the nature of the coal in the discovery holes it was initially presumed that it was a single coal seam which was named the "Durango Seam" and the developing trend was named the "Durango Trend". It has since been determined that the coal occurrences identified to date are found in discrete deposits of varying dimensions individually containing coal resources ranging from 3.4 million tonnes to 66.3 million tonnes.

On April 7, 2009 a winter drilling program at Border was completed with a total of 86 HQ core holes drilled totalling 12,225 metres. Approximately 85 kilometres of winter access roads were established and reclaimed. On August 24, 2009 a summer drilling program at Border was completed with a total of 20 HQ core holes drilled totaling 3,267 metres. Of the 119 holes drilled at Border to date, coal was discovered in a total of 57 holes of which 44 contain aggregate coal intercepts ranging from 10 to 100 metres in true thickness. Details of the hole locations, coal intervals and analytical results can be found in press releases on the Company's web site at www.goldsourcemines.com and in the Company's SEDAR file at www.sedar.com .

Six sub-basins with 15 discrete coal deposits have been defined with drilling to August 31, 2009 and include the following deposits; Chemong, Pasquia, Split Leaf North, Split Leaf South, Red River North, and Niska. The coal deposits range in size from approximately 0.3km by 0.3km up to 2km by 2km.

The average thickness of the coal in the Pasquia 02 Area is 27.8 metres. In the Chemong 03 Area, however, the average thickness is approximately 25 metres and reaches a maximum true thickness of 100 metres. These extraordinary thicknesses can provide large tonnages within a relatively small area.

Resource estimation for NI 43-101 technical reporting was completed during the period for Border. A summary of the report and the initial resource estimate for Border were press released on November 9, 2009 and can be reviewed on www.sedar.com. A preliminary assessment of the minability and economic viability of the project commenced in March, 2010.

In 2009, Fugro Airborne Surveys Corp. began flying approximately 5,000 line-kilometres of new Geotem EM airborne survey over areas not previously flown at Border, Ballantyne, Pine River and a number of other separate target areas within Saskatchewan and Manitoba. This data was reviewed with priority targets chosen for the 2009-2010 winter drilling programs. Each of the known coal deposits within the Border Project area are identifiable with a distinctive geophysical signature which now allows potential targets to be prioritized with a reasonably high degree of certainty of intersecting coal.

EXPLORATION PROPERTIES (continued)

During the year ended December 31, 2009 the Company incurred $201,250 on acquisition costs and $8,401,558 on exploration costs on the Border property. Most of the expenses incurred on the property during the year consist of drilling $2,641,633, site support $1,155,167, operations and general $772,945, personnel and related costs $641,022, air charter $574,357, geophysical services $553,997, roads and pad construction $553,024, and camp rental $539,211. The Company received a net refund on permit applications of $4,881.

The Border winter drilling program concluded on April 9, 2010 with 3,768 metres drilled. Focus was on converting Inferred to Indicated Resources for Preliminary Economic Assessment (PEA) and testing 3 new target areas.

On March 1, 2010, the PEA was commenced with Marston Consultants of Calgary, AB and EBA Engineering Consultants of Vancouver, BC. At the same time, environmental baseline work was commenced. The PEA will be finished in Q3 2010 and the environmental work will continue through the end of 2010.

(B) Ballantyne Property, Saskatchewan

The Company received issuance of 250 coal permit certificates from the Saskatchewan Ministry of Energy and Resources for coal applications filed by the Company. The permits cover the Ballantyne property located southeast of Wapawekka Hills, Saskatchewan. The area is easily accessible with highways and secondary improved gravel roads and is approximately 50km southwest of the village of Deschambault Lake.

The initial coal permits comprise a total of approximately 184,496 hectares (1,845 square kilometres). The permits allow the Company to explore the area for coal over a period of three years with two possible 6 month extensions. The permits are convertible to 15 year leases with subsequent renewals.

The Company was permitted in December 2009 for a drill program on the Ballantyne property with approximately 10 - 15 holes planned. The program is being designed to identify potentially shallow coal targets, provide preliminary information on coal quality, and give insight into the extent of potential coal basins. An airborne geophysical survey was completed by Fugro Airborne Surveys Corp. over the Ballantyne permits in July 2009 which will enable the application of proprietary data processing developed at Border to assist in defining priority targets at Ballantyne.

During the year ended December 31, 2009 the Company incurred $25,000 on acquisition costs, $7,500 on permit applications and $148,680 on exploration costs on the Ballantyne property which primarily relates to geophysical services.

Five drill holes totalling 569 metres were completed prior to spring break up at the Ballantyne property in Saskatchewan to test airborne geophysical targets. No coal was intercepted in these holes.

(C) Manitoba Properties

In 2008, the Company applied for quarry permits to cover prospective coal deposits in twelve areas in Manitoba which required cash deposits totaling $4.25 million. Subsequent to the initial applications but prior to the issuance of the quarry permits, the Company re-configured and reduced the number of hectares applied for, such that $3.03 million of the initial deposits were refunded. The remaining Manitoba quarry deposit of $1.22 million is refundable upon completion of a qualifying work program. On October 30, 2009 the Company received 8 quarry permits from the Manitoba Mines Branch totaling approximately 44,670 hectares.

An airborne geophysical survey was completed by Fugro Airborne Surveys Corp. over the Manitoba properties in July of 2009 which will enable the application of proprietary data processing developed at Border to assist in defining priority targets in Manitoba and further refinement of the land acquisition process.

During the year ended December 31, 2009 the Company incurred $25,000 on acquisition costs, $494,266 on permit applications and $721,754 on exploration costs in Manitoba. Most of the expenses incurred during the year were incurred for geophysical services $368,544 and drilling $222,495. The Company received refunds of $436,400 on 2008 quarry permit applications.

The Pine River winter drilling program commenced in December 2009 with continued drilling in January 2010. On January 31, the program was terminated 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. Deposits of approximately $1.25 million were returned to the Company on March 17, 2010. A total of 8 holes were completed in Manitoba with minor coal intercepts.

EXPLORATION PROPERTIES (continued)

Westcore Energy Ltd. Agreement

The Company entered into an agreement with Westcore Energy Ltd. ("Westcore") dated December 10, 2009 pursuant to which 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.

The Company has completed a significant amount of work and incurred considerable expense since its original Border coal discovery in April of 2008 in developing a proprietary geophysical matrix applicable to Fugro airborne geophysical data which provides a “signature” for prospective coal deposits based on a correlation between airborne geophysical data analyses, down-hole electronic logs and geological ground proofing through drilling.

This matrix was applied to Westcore's Fugro airborne geophysical data for the block of coal permits known as the Hudson Bay North Block immediately to the north of the Company’s Border Property. Based upon this review, the Company provided Westcore with coordinates for the highest priority drill targets.

As consideration, Westcore initially issued 100,000 common shares to Goldsource. The agreement stated 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.

Please refer to the Company’s news release dated December 11, 2009 at www.goldsourcemines.com for further details of the agreement.

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. As at December 31, 2009, the Company has an unrealized mark-to-market gain of $10,000.

The Company announced on April 9, 2010 the Success Criteria set out above had been satisfied. The Company is now entitled to receive an additional 1 million shares of Westcore and a 25% working interest in Westcore's coal lands in Saskatchewan and Manitoba. Westcore recently announced the discovery of several significant coal deposits adjacent to the Border property in which the Company now has a 25% interest.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date primarily through the issuance of common shares. The Company currently has no operations from which to derive revenues. It receives income from interest on cash balances and short term investments.

Net cash used in investing activities for the year ended December 31, 2009 was $1,525,293. Cash used during the year consists of $9,361,380 spent on mineral properties and $74,070 on equipment acquisition. The Company redeemed $7,473,757 of short term investments during the year and received $436,400 as refunds of deposits from 2008 quarry permit applications.

There were no financings in the year ended December 31, 2009. The Company received cash proceeds of $157,610 from the exercise of stock options. As a mineral exploration company the Company is reliant upon equity financings to fund its exploration activities. However, there can be no assurance that the Company will be successful in obtaining additional future financing particularly in the present economic environment.

The Company's working capital as at December 31, 2009 was $4,415,135 which is sufficient to fund the exploration programs on its Border, Ballantyne and Manitoba Properties as well as its administrative obligations planned for 2010. The Company has no material commitments in 2010.

The following table contains selected financial information of the Company's liquidity and capital resources:

		2009		2008		2007
Cash	$	355,751	$	2,757,014	$	9,625
Short term investments	$	4,257,976	$	11,723,757	$	3,799,238
Mineral properties	$	15,006,883	$	5,423,156	$	4,083,789
Working capital	$	4,415,135	$	13,983,244	$	3,795,684

FINANCIAL PERFORMANCE

Results of operations for the year ended December 31, 2009 and December 31, 2008

The net loss for the year ended December 31, 2009 is $2,151,595 as compared to $4,978,579 in 2008. The principal differences of note are as follows:

- Administration services $75,741 (2008 - $44,800), insurance $67,494 (2008 - $30,274), shareholder communications $53,752 (2008 - $34,260), trade shows and conferences $52,025 (2008 - $9,727) and travel and related costs $53,943 (2008 - $30,952) increased due to greater project administration and promotional activities for the Company.
- Investor relations increased to $121,834 (2008 - $15,304) due to a marketing video, increased website advertising, marketing brochures and mail outs.
- Management fees decreased to $120,000 (2008 - $290,000) as no bonus was paid to the President for services rendered in 2009.
- Professional fees amounted to $209,681 (2008 - $179,609) due to various contractual matters and additional accounting services relating to the Company's new accounting software implementation.
- Stock based compensation amounted to $1,413,998 (2008 - $588,909) due to the Company granting 1,500,000 (2008 – 805,000) stock options. 746,760 (2008 – 545,000) options vested in the year.
- Interest income decreased to $154,848 (2008 - $264,237) due to decreased funds on deposit and lower market interest rates.
- Unrealized gain on held-for-trading securities amounted to $10,000 (2008 - $Nil) due to the market to market gain on the 100,000 common shares of Westcore issued in consideration for the Company applying its proprietary geophysical matrix to Westcore's Fugro airborne geophysical data and providing Westcore with specific drill sites on its Saskatchewan and Manitoba coal lands.
- Write–off of mineral property expenditures was $NIL (2008 - $4,601,430) and future tax recovery was $NIL (2008 - $643,316) as the Company is continuing exploration on its mineral properties.

FINANCIAL PERFORMANCE (continued)

Results of operations for the three months ended December 31, 2009 and December 31, 2008

The net loss for the three months ended December 31, 2009 is $525,019 as compared to $ 542,177 in 2008. The principal differences of note are as follows:

- Investor relations increased to $28,609 (2008 - $6,193) due to presentation and brochure translations and greater marketing mail outs compared with 2008.
- Management fees decreased to $30,000 (2008 - $225,000) as no bonus was expensed for the President compared with 2008.
- Professional fees increased to $74,225 (2008 - $41,931) due to the 2009 audit fee expensed in the quarter.
- Trade shows and conferences increased to $18,971 (2008 $4,232) due to attendance at two further conferences compared with 2008.
- Interest income decreased to $6,120 (2008 - $92,183) due to decreased funds on deposit and lower market interest rates.
- Unrealized gain on held-for-trading securities of $10,000 was expensed in the fourth quarter as described above.

SELECTED ANNUAL INFORMATION

		2009		**2008**		**2007**
Total revenues	$	Nil	$	Nil	$	Nil
Net loss for the year	$	(2,151,595)	$	(4,978,579)	$	(100,266)
Net loss per share (1)	$	(0.11)	$	(0.27)	$	(0.01)
Total assets (2)	$	20,090,107	$	20,542,629	$	7,908,780
Total long term financial liabilities	$	Nil	$	Nil	$	Nil
Future income taxes	$	Nil	$	Nil	$	643,316
Cash dividends declared per share	$	Nil	$	Nil	$	Nil

(1) All per share amounts are calculated on a weighted average basis.
(2) Total assets increased in 2008 as a result of raising $16,873,537 from the issuance of share capital by means of a private placement and the exercise of stock options. There were no financings in fiscal 2009.

SUMMARY OF QUARTERLY RESULTS

The following financial data is selected information for the Company for the eight most recently completed financial quarters:

Period		**Revenues**		**Net Loss**		**Net Loss per Share (1)**
Q4 December 31, 2009	$	Nil	$	(525,019)	$	(0.03)
Q3 September 30, 2009	$	Nil	$	(621,312)	$	(0.03)
Q2 June 30, 2009	$	Nil	$	(799,681)	$	(0.04)
Q1 March 31, 2009	$	Nil	$	(205,583)	$	(0.01)
Q4 December 31, 2008	$	Nil	$	(542,177)	$	(0.03)
Q3 September 30, 2008	$	Nil	$	(4,076,084)	$	(0.22)
Q2 June 30, 2008	$	Nil	$	(319,418)	$	(0.02)
Q1 March 31, 2008	$	Nil	$	(40,900)	$	(0.00)

(1) All per share amounts are calculated on a weighted average basis.

The large net loss for the third quarter of 2008 is due primarily to the write-off of mineral property expenditures and for the second and third quarter of 2009 due to stock based compensation.

INVESTOR RELATIONS ACTIVITIES

Management and company personnel currently perform all investor relation services. There are no external investor relation contracts or commitments at December 31, 2009. Investor relations activities consist mainly of web-site and print advertising. Shareholder communications comprises communicating with existing shareholders, broadcasting news releases, printing, production work for the Company’s website, and direct website expenses. The Company also attends trade shows on a regular basis to present the affairs and merits of the Company to potential investors.

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

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
	$	127,852

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2009, the Company had no off-balance sheet arrangements, such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instrument obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

OUTSTANDING SHARE CAPITAL

Capital stock

a) Unlimited number of common shares without nominal or par value.

b) Unlimited number of preferred shares without nominal or par value (none outstanding).

As at December 31, 2009, the Company had outstanding 19,871,158 common shares. In addition the Company had outstanding 2,976,500 share purchase options for total diluted shares outstanding of 22,847,658.

As at the date hereof, the Company has outstanding 19,950,658 common shares. In addition the Company has outstanding 2,972,000 share purchase options for total diluted shares outstanding of 22,922,658. The increase in common shares since December 31, 2009, is a result of 4,500 share options exercised in the first quarter of 2010 and 75,000 common shares issued April 12, 2010 pursuant to a property agreement.

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.

RELATED PARTY TRANSACTIONS (continued)

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.

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 the date hereof, 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 it 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 the date hereof, 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.

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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

a) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

b) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

c) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

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

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates property acquisition transactions and, in some cases, makes proposals to acquire such properties. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction. As of this date, the Company has a number of possible transactions that it is examining. Management is uncertain whether any of these proposals will ultimately be completed.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

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.

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.

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.

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. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The adoption of this standard did not have a material impact on the Company's financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public enterprises need to adopt IFRS effective for years beginning on or after January 1, 2011. The Company's first mandatory filing under IFRS will be the unaudited interim financial statements for the quarter ending March 31, 2011, with comparative financial information for the quarter ended March 31, 2010 , an opening balance sheet as at January 1, 2010 and full disclosure of all new IFRS policies.

The first audited annual financial statements will be for the year ending December 31, 2011, with comparative financial information for the year ended December 31, 2010. Although IFRS uses a conceptual framework similar to GAAP, there are significant differences in recognition, measurement and disclosure.

In January 2010, the Company's management assessed the impact of adoption to IFRS and concluded that an adoption date will be January 1, 2011 and a transition date January 1, 2010.

During 2009, the Company's management examined the impact of the changes in accounting policies per IFRS and attended seminars on the adoption and implementation of IFRS. The examination revealed that there were a number of key accounting areas where IFRS differs from current Canadian GAAP and also identified alternatives in those and other key areas. The Company reviewed its existing accounting system along with its internal and disclosure control process and concluded that they would not need significant modification as a result of the Company's conversion to IFRS in 2011.

The Company is in the process of completing its detailed review and assessment of IFRS standards, and has preliminarily identified those standards which it believes will have the most material impact on the Company as follows:

Property, Plant and Equipment ("PP&E")

Under IFRS, PP&E can be measured at fair value or at cost while under Canadian GAAP, the Company has to carry PP&E on a cost basis and the revaluation is prohibited.

Upon adoption of IFRS, the Company has to determine whether to elect a cost model or revaluation model. Management has yet to decide on which model to adopt. The Company is in the process of identifying the potential impact on the property, plant and equipment balance.

In accordance with International Accounting Standard (IAS) 16 "Property, Plant and Equipment", upon acquisition of significant assets, the Company will need to allocate an amount initially recognized in respect of an asset to its component parts and accounts for each component separately when the components have different useful lives or the components provide benefits to the entity in a different pattern.

Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. IAS 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows).

IFRS also requires the reversal of any previous asset impairments, excluding goodwill, where circumstances have changed. Canadian GAAP prohibits the reversal of impairment losses.

The differences in methodology may result in asset impairments upon transition to IFRS. In addition, the potential for asset impairments will increase in the future.

Exploration and Evaluation Assets

Under the Company's current accounting policy, acquisition costs of mineral properties, together with direct exploration and development expenses incurred thereon are capitalized.

Upon adoption of IFRS, the Company has to determine the accounting policy for exploration and evaluation assets. The Company can decide to apply the International Accounting Standards Board ("IASB") Framework which requires exploration expenditures to be expensed and capitalization of expenditures only after the completion of a feasibility study or keep the existing Company policy, if relevant and reliable.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

Management has yet to decide on whether or not to fully adopt IFRS 6, "Exploration and Evaluation of Mineral Properties", and apply the IASB framework.

Share Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share based transactions with only a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the accelerated amortization method and therefore the adoption of IFRS 2 is not expected to have an impact on the Company's financial statements.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. The Company is expecting to use an estimate of forfeitures when determining the number of equity instruments expected to vest during fiscal 2010. The adoption is not expected to have an impact on the financial statements.

Future Income Taxes

As with Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings.

Implementing IAS 12, Income Taxes is not expected to have an impact on the financial statements. However, as events and circumstances of the Company's operations change that give rise to future income taxes, IAS 12 will be applied.

Presentation and Disclosure

Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its consolidated financial statements.

During 2010, the Company will continue to perform detailed assessments and technical analysis that will result in the conclusion of IFRS transitional adjustments, aid decisions on accounting policy choices and assist in the drafting of accounting policies. The Company will continue to assess resource and training requirements as the transition progresses. The Company will continue to monitor standards development as issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants Accounting Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS.

RISK FACTORS

Risk management is an ongoing exercise upon which the Company spends a substantial amount of time. There are a number of factors that could negatively affect the Company's business and the value of the Company's common shares, including the factors listed below. Additional risks and uncertainties currently not known to the Company or that the Company considers immaterial may also impair the business operations of the Company. If any such risks or uncertainties actually were to occur, the Company's business, prospects, financial condition and operating results could be materially harmed. While it is not possible to eliminate all of the risks inherent to the mining business, the Company strives to manage these risks, to the greatest extent possible, to ensure that its assets are protected.

Financing risks

The Company has sufficient financial resources to carry out planned exploration on all its projects and to fund its general administrative costs; however, there are no revenues from operations and no assurances that sufficient funding will be available to conduct further exploration and development of its projects or to fund exploration expenditures under the terms of any joint venture or option agreements after that time. If the Company's exploration and development programs are successful, additional funds will be required for development of one or more projects. Failure to obtain additional funding could result in the delay or indefinite postponement of further exploration and development or the possible loss of the Company's properties. It is intended that such funding will be obtained primarily from future equity issues. If additional funds are raised from the issuance of equity or equity-linked securities, the percentage ownership of the current shareholders of the Company will be reduced, and the newly issued securities may have rights, preferences or privileges

RISK FACTORS (continued)

senior to or equal to those of the holders of the Company's existing common shares. The ability of Company to raise the additional capital and the cost of such capital will depend upon market conditions from time to time. There can be no assurances that such funds will be available at reasonable cost or at all.

Dilution from further equity financing

If the Company raises additional funding by issuing additional equity securities, such financing may substantially dilute the interests of shareholders of the Company and reduce the value of their investment.

Risks inherent in the mining business

The business of exploring for coal is inherently risky. Few properties that are explored are ultimately developed into producing mines. The business involves significant financial risks over a significant period of time that even a combination of careful evaluation, experience and knowledge may not eliminate. It is impossible to ensure that the Company's current or proposed exploration programs will result in commercially viable mining operations.

Commercial viability of developing a coal reserve depends on a number of factors, such as, size and grade of the deposit, proximity to infrastructure, financing costs and governmental regulations that include regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of coal and environmental protection. The effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Coal properties are often non-productive for reasons that cannot be anticipated in advance. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including availability of a suitably trained or trainable labour force, an effective working relationship between the Company and its labour force, successful renegotiation of labour contracts when they expire, particularly with respect to its unionized labour force and related collective agreement, environmental hazards, industrial accidents, unusual or unexpected geological formations or conditions, unanticipated metallurgical difficulties, the ability to acquire on a timely basis the equipment and materials necessary to operate the mine at full planned capacity, weather conditions (including historically unforeseen and unpredictable changes in weather patterns such as significantly increased severity of adverse conditions that may be brought about by the phenomenon of global warming or climate change), rock bursts, caveins or other ground control problems, seismic activity, flooding, water conditions and coal or concentrate losses. The occurrence of any of the foregoing could result in damage to or destruction of coal properties or production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse government action.

Regulatory and environmental risks

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment, exploration, development, waste disposal, toxic substances and other matters. New laws and regulations, amendments to existing laws and regulations or more stringent implementation of existing laws and regulations could have a material adverse impact on the Company, increase costs, cause a delay or prevent the development of new mineral properties. The Company believes it is currently in compliance in all material respects with all applicable environmental laws and regulations.

Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of coal exploration and production. Environmental liability may result from mining activities conducted by others prior to the Corporation's ownership of a property. To the extent the Corporation is subject to uninsured environmental liabilities, the payment of such liabilities would reduce the Corporation's otherwise available earnings and could have a material adverse effect on the Corporation. Should the Corporation be unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy, which could have a material adverse effect on the Corporation. In addition, the Corporation does not have coverage for certain environmental losses and other risks as such coverage cannot be purchased at a commercially reasonable cost.

Licenses and permits

The Company's operations require licenses and permits from various governmental authorities. The Company believes it holds all material licenses and permits required under applicable laws and regulations and believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

RISK FACTORS (continued)

Competition

The mineral industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

Mineral reserve and resource estimates

Where used by the Company, figures for coal resources are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that reasonable levels of recovery will be realized. Market fluctuations in the price of coal and/or a fluctuation in currency exchange rates may render certain coal resources uneconomic. Prolonged declines in the market price of coal may also render coal resources containing relatively lower grades of coal uneconomic to exploit. Such price fluctuations could materially reduce the Company's reported coal resources. Should such reductions occur, material write-downs of its investment in mining properties or the discontinuation of development might be required, and there could be material delays in the development of new projects and increased net losses.

Exploration and development

All of the properties in which the Company has an interest are in the early to advanced exploration stages only and are without a demonstrated commercial body of coal. Development of the Company's mineral properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in the definition of commercial bodies of coal. The long-term profitability of the Company's operations, if any, will be in part directly related to the cost and success of its exploration and development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling, to develop processes to mine coal from the resources and, in the case of new properties to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized or coal deposit, no assurance can be given that minerals or coal will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals or coal acquired or discovered may be affected by numerous factors which are beyond the control of the Company and which cannot be accurately predicted, such as the proximity and capacity of processing facilities, commodities markets and processing equipment and governmental regulations including regulations relating to royalties, allowable production and importing and exporting of minerals or coal.

Operating hazards and risks

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company may have a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious metals, any of which could result in work stoppages, damage to property, and possible environmental damage. Although the Company currently maintains insurance to cover some of these risks, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

Fluctuating prices

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of mineral or coal products or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of commodities and therefore the economic viability of any of the Company's exploration or development projects cannot accurately be predicted.

RISK FACTORS (continued)

No assurance of titles

The Company's title to its mineral properties may be subject to challenge. While title to the properties has been diligently investigated and, to the best of the Company's knowledge, title to all properties in which it has, or has the right to acquire, an interest is in good standing, this should not be construed as a guarantee of title.

Recent Canadian jurisprudence requires governments to consult with aboriginal peoples with respect to grants of mineral rights and the issuance or amendment of project authorizations. This may affect the Company's ability to acquire, either within a reasonable time frame or at all, effective mineral titles in Canada in which aboriginal title is claimed. The risk of unforeseen aboriginal title claims also exists in foreign jurisdictions and also could affect existing operations as well as development projects and future acquisitions. These legal requirements may affect the Company's ability to expand or transfer existing operations or to develop new projects.

Key personnel

The Company's development to date has depended, and in the future will continue to depend, on the efforts of key management employees. The loss of the services of such key personnel could have a material adverse effect on the Company's business. The number of persons skilled in the acquisition, exploration, development and operation of mineral properties is limited and competition for such persons is intense. If the Company is not able to attract, hire and retain qualified personnel, the efficiency of the Company's operations could be impaired, which could have an adverse impact on the Company's future operations.

Accounting policies

The accounting policies and methods employed by the Company determine how it reports its financial condition and results of operations, and they may require management to make judgments or rely on assumptions about matters that are inherently uncertain. The Company's results of operations are reported using policies and methods in accordance with Canadian GAAP. Management exercises judgments in applying accounting methods to ensure that, while GAAP compliant, they reflect the most appropriate manner in which to record the Company's financial condition and operating results. In certain instances, Canadian GAAP allows accounting policies and methods to be selected from two or more alternatives, any of which might be reasonable but may result in the Company reporting materially different amounts. Management regularly re-evaluates its assumptions but the choice of method or policy employed may have a significant impact on the actual values reported.

Conflicts of interest

Some of the directors of the Company are also directors of other companies that are similarly engaged in the business of acquiring, exploring and developing natural resource properties. Such associations may give rise to conflicts of interest from time to time. In particular, one of those consequences will be that corporate opportunities presented to a director of the Company may be offered to another company or companies with which the director is associated, and may not be presented or made available to the Company. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company, to disclose any interest which they may have in any project or opportunity of the Company, and to abstain from voting on such matter. Conflicts of interest that arise will be subject to and governed by procedures prescribed in the Company's Code of Ethics and by the Canada Business Corporations Act.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES

Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the three month period ended December 31, 2009.

DISCLAIMER

The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. It should be read in conjunction and in context with all other disclosure documents of the Company. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented.