



**GOLDSOURCE
MINES INC.**

FINANCIAL STATEMENTS AND NOTES

FOR THE YEAR ENDED DECEMBER 31, 2011

GOLDSOURCE MINES INC.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Goldsource Mines Inc.

We have audited the accompanying financial statements of **Goldsource Mines Inc.**, which comprise the statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Goldsource Mines Inc.** as at December 31, 2011 and 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards.

Vancouver, Canada,
March 22, 2012.

Ernst + Young LLP

Chartered Accountants

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

AS AT

	December 31, 2011	December 31, 2010 (Note 4)	January 1, 2010 (Note 4)
ASSETS			
Current Assets			
Cash	\$ 415,039	\$ 132,634	\$ 355,751
Short term investments	1,510,800	752,992	4,257,976
Amounts receivable	5,000	5,122	290,474
Taxes receivable	49,554	20,328	27,772
Prepaid expenses	16,531	23,395	33,106
Held-for-trading securities (note 7)	168,750	473,000	60,000
	<u>2,165,674</u>	<u>1,407,471</u>	<u>5,025,079</u>
Non-Current Assets			
Investment subject to significant influence (note 8)	750,000	750,000	-
Equipment (note 9)	28,243	42,385	58,145
Exploration and evaluation assets (note 10, 11)	18,417,803	16,058,621	15,006,883
	<u>18,417,803</u>	<u>16,058,621</u>	<u>15,006,883</u>
TOTAL ASSETS	<u>\$ 21,361,720</u>	<u>\$ 18,258,477</u>	<u>\$ 20,090,107</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities (note 11)	\$ 490,604	\$ 174,277	\$ 609,944
Flow through share premium	60,095	-	-
Shareholders' Equity			
Capital stock (note 13)	29,863,065	26,434,334	26,225,974
Reserves (note 13)	7,825,863	7,506,838	6,322,680
Deficit	(16,877,907)	(15,856,972)	(13,068,491)
	<u>20,811,021</u>	<u>18,084,200</u>	<u>19,480,163</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 21,361,720</u>	<u>\$ 18,258,477</u>	<u>\$ 20,090,107</u>

Nature of operations (note 1)

Subsequent event (note 16)

Approved by the Board and authorized for issue on March 22, 2012.

"J. Scott Drever"

Director

"Graham C. Thody"

Director

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

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

YEARS ENDED DECEMBER 31,	2011	2010 (Note 4)
GENERAL AND ADMINISTRATIVE EXPENSES		
Insurance	\$ 38,400	\$ 60,513
Investor relations	48,012	30,786
Office and miscellaneous	32,519	62,072
Professional fees (note 11)	80,701	153,922
Regulatory and transfer agent fees	18,874	21,990
Remuneration (note 11)	287,349	283,908
Rent and communications	33,968	33,190
Shareholder communications	37,837	13,231
Trade shows and conferences	23,164	23,710
Travel and related costs	4,136	5,086
LOSS BEFORE OTHER ITEMS	604,960	688,408
OTHER ITEMS		
Gain on sale of held-for-trading securities (note 7)	(17,661)	-
Interest income	(20,446)	(12,879)
Service income (note 8)	-	(1,510,000)
Share-based compensation (note 13)	269,553	1,176,779
Transaction costs (note 15)	175,779	-
Unrealized loss on held-for-trading securities (note 7)	23,500	297,000
Write-off of mineral property expenditures (note 10)	-	2,229,056
	430,725	2,179,956
NET COMPREHENSIVE LOSS FOR THE YEAR	\$ (1,035,685)	\$ (2,868,364)
Basic and diluted comprehensive loss per common share	\$ (0.04)	\$ (0.14)
Weighted average number of common shares outstanding	24,400,986	19,949,010

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

GOLDSOURCE MINES INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

YEARS ENDED DECEMBER 31,	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (1,035,685)	(2,868,364)
Items not affecting cash:		
Share-based compensation	269,553	1,176,779
Write-off of mineral properties	-	2,229,056
Service income	-	(1,510,000)
Interest income	(20,446)	(12,879)
Gain on held-for-trading securities	(17,661)	-
Unrealized loss on held-for-trading securities	23,500	297,000
Cash flows before changes in working capital items	(780,739)	(688,408)
Amounts receivable	123	285,352
Taxes receivable	(29,226)	7,445
Prepaid expenses	6,865	9,711
Accounts payable and accrued liabilities	105,719	13,999
Net cash used in operating activities	(697,259)	(371,901)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	3,708,400	-
Share issuance costs	(402,561)	-
Stock options exercised	-	8,990
Net cash provided by financing activities	3,305,839	8,990
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(3,768)
Short term investments	(750,000)	3,500,000
Interest received	12,638	17,863
Exploration and evaluation	(1,887,224)	(4,705,119)
Proceeds from held-for-trading securities	298,411	-
Refund of quarry permits	-	1,330,818
Net cash (used in) provided by investing activities	(2,326,175)	139,794
Change in cash, during year	282,405	(223,117)
CASH, beginning of year	132,634	355,751
CASH, end of year	\$ 415,039	\$ 132,634

Supplemental disclosure with respect to cash flows (note 12)

The accompanying notes are an integral part of these financial statements

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

	Capital Stock		Reserves Share-Based Payments (Note 4)	Deficit (Note 4)	Total (Note 4)
	Number	Amount (Note 4)			
Balance at January 1, 2010	19,871,158	\$ 26,225,974	\$ 6,322,680	\$ (13,068,491)	\$ 19,480,163
Issuance pursuant to property agreement	121,875	194,250	-	-	194,250
Stock options exercised	17,500	14,110	(5,120)	-	8,990
Stock options expired / forfeited	-	-	(79,883)	79,883	-
Share-based compensation	-	-	1,269,161	-	1,269,161
Loss for the year	-	-	-	(2,868,364)	(2,868,364)
Balance at December 31, 2010	20,010,533	26,434,334	7,506,838	(15,856,972)	18,084,200
Issuance pursuant to property agreement	358,696	237,500	-	-	237,500
Issuance of capital stock	6,664,500	3,708,400	-	-	3,708,400
Share issuance costs (note 11)	-	(402,561)	-	-	(402,561)
Fair value of agent warrants	-	(54,513)	54,513	-	-
Flow through share premium	-	(60,095)	-	-	(60,095)
Stock options forfeited	-	-	(14,750)	14,750	-
Share-based compensation	-	-	279,262	-	279,262
Loss for the year	-	-	-	(1,035,685)	(1,035,685)
Balance at December 31, 2011	27,033,729	\$ 29,863,065	\$ 7,825,863	\$ (16,877,907)	\$ 20,811,021

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

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

The Company is a Canadian resource company engaged in the exploration and development of Canada's newest coal field in the province of Saskatchewan. Its mineral interests presently consist of coal exploration properties located in Saskatchewan referred to as the "Border Coal Project" and Manitoba, Canada. The Company is in the process of exploring its Border Coal Project, has not yet identified a commercial resource and has accumulated losses as at December 31, 2011 of \$16,877,907.

The recoverability of the carrying value of the Border Coal Project is dependent upon the discovery of an economically recoverable resource and the Company obtaining the necessary financing to complete exploration, development and construction of processing facilities, obtaining government approvals and attaining future profitable production of the mineral resources.

The Company completed a Preliminary Assessment (PA) on the Border Coal Project in March 2011 which reported the project has the potential to be technically and economically feasible based on a coal to liquids conversion process. A major capital project such as this requires a combination of favorable investment climate, timing, commodity pricing and technology changes to demonstrate rates of return commensurate with the capital at risk. Management believes this combination of circumstances is achievable but there is no certainty these results can be realized. Management recognizes the project requires a special expertise and financial capacity to bring it to fruition and will actively seek out participants with these capabilities.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") under the historical cost convention, as modified by revaluation of certain financial assets.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010, for the purpose of the transition. Prior to the adoption of IFRS, Goldsource's primary financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Disclosure of our elected transition exemptions and reconciliation and explanation of accounting policy differences compared to Canadian GAAP have been provided in Note 4 to these financial statements.

The accounting policies applied in these financial statements are based on IFRS in effect as at March 22, 2012, the date the Board of Directors approved these financial statements for issue.

Use of Judgments and Estimates

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts and the valuation of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year.

These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the consolidated financial statements. Information about such judgments and estimates are contained in the accounting policies and/or the notes to these financial statements, and the key areas are summarized below.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- The estimated useful lives of equipment and the measurement of depreciation expense;
- The estimated fair values of mineral properties for non-current asset impairment tests;
- The determination of the fair value of agent warrants in capital stock and inputs used in accounting for share-based compensation;
- The recoverability of amounts receivable and taxes receivable;
- The estimation of the tax basis of assets and liabilities and valuation allowance for deferred taxes.

Cash and Short term investments

Cash is comprised of cash on hand.

Short term investments comprise highly liquid Canadian dollar denominated guaranteed investment certificates with terms to maturity of greater than ninety days but no more than one year. These investments are subject to an insignificant risk of change in value.

Amounts receivable

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

Taxes receivable

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

Investments subject to significant influence

The Company follows the equity method of accounting for its investments over which it exercises significant influence but does not control. Under this method, the Company includes in its net earnings or loss its share of the net earnings or losses of the associated investees and capital contributions to, or distributions from, investees which increase or decrease the Company's investment. The Company accounts for its investment in the Westcore Energy Ltd. ("Westcore") joint venture agreement (note 8) using the equity method.

Equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties - exploration and evaluation assets

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

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

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

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

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

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

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

Impairment of tangible and intangible assets

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

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

Rehabilitation provision

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation and payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The cost of stock options granted is recorded based on the estimated fair-value at the grant date and charged to the statement of operations over the vesting period. Where stock options are subject to vesting, each vesting tranche is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by a charge to the statement of operations, with a corresponding increase to contributed surplus based on the number of options expected to vest. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to accumulated losses (deficit). The number of options expected to vest is reviewed at least annually, with any impact being recognized immediately.

Warrants issued in equity financing transactions

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

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 and evaluation expenditures. The amounts of these tax benefits are renounced to investors in accordance with Canadian tax legislation. A premium liability is recognized for the share price premium paid by investors when acquiring the flow-through shares. The premium liability is reduced and deferred income taxes are recognized on the renounced tax deductions as eligible expenditures are incurred.

Loss per share

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

Taxation

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity.

Current income tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

The Company follows the asset and liability method of accounting for income taxes whereby deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non-current in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

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

Held-to-maturity ("HTM")

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

Loans and receivables

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

Available-for-sale ("AFS")

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

The Company classified its financial assets as follows:

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

Financial liabilities

Financial liabilities are classified into one of two categories:

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

Fair value through profit or loss

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

Other financial liabilities

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

The Company classified its financial liabilities as follows:

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

Impairment of financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

For all financial assets objective evidence of impairment could include:

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

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

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

Related party transactions

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

3. NEW STANDARDS NOT YET ADOPTED

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

IFRS 9 - Financial Instruments ("IFRS 9") - In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in Other Comprehensive Income, and guidance on financial liabilities and derecognition of financial instruments. In December 2011, the IASB issued an amendment that adjusted the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015.

IFRS 10 - Consolidated Financial Statements ("IFRS 10") - In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements to replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The new consolidation standard changes the definition of control so that the same criteria apply to all entities, both operating and special purpose entities, to determine control. The revised definition focuses on the need to have both power and variable returns before control is present. IFRS 10 must be applied starting January 1, 2013 with early adoption permitted.

IFRS 11 - Joint Arrangements ("IFRS 11") - In May 2011, the IASB issued IFRS 11 Joint Arrangements to replace IAS 31, Interests in Joint Ventures. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. Focus is on the rights and obligations of the parties involved to reflect the joint arrangement, thereby requiring parties to recognize the individual assets and liabilities to which they have rights or for which they are responsible, even if the joint arrangement operates in a separate legal entity. IFRS 11 must be applied starting January 1, 2013 with early adoption permitted.

3. NEW STANDARDS NOT YET ADOPTED (continued)

IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12") - In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). IFRS 12 must be applied starting January 1, 2013 with early adoption permitted.

IFRS 13 - Fair Value Measurement ("IFRS 13") - In May 2011, the IASB issued IFRS 13 Fair Value Measurement as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. IFRS 13 must be applied starting January 1, 2013 with early adoption permitted.

IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") - In October 2011, the IASB issued IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. IFRIC 20 provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. IFRIC 20 must be applied starting January 1, 2013 with early adoption permitted.

4. FIRST TIME ADOPTION OF IFRS

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

Initial elections upon adoption

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

(1) IFRS exemption options

(i) Share-based payments

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

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

(2) Reconciliations

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

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

Notes to the IFRS reconciliations:

a) Reclassification of share-based reserve

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

4. FIRST TIME ADOPTION OF IFRS (continued)

Cash flows

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

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

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

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4. FIRST TIME ADOPTION OF IFRS (continued)

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

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

4. FIRST TIME ADOPTION OF IFRS (continued)

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

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
GENERAL AND ADMINISTRATIVE EXPENSES				
Insurance		\$ 60,513	\$ -	\$ 60,513
Investor relations		30,786	-	30,786
Office and miscellaneous		62,072	-	62,072
Professional fees		153,922	-	153,922
Regulatory and transfer agent fees		21,990	-	21,990
Remuneration		283,908	-	283,908
Rent and communications		33,190	-	33,190
Shareholder communications		13,231	-	13,231
Trade shows and conferences		23,710	-	23,710
Travel and related costs		5,086	-	5,086
LOSS BEFORE OTHER ITEMS		(688,408)	-	(688,408)
OTHER ITEMS				
Interest income		12,879	-	12,879
Share-based compensation		(1,176,779)	-	(1,176,779)
Service income		1,510,000	-	1,510,000
Unrealized loss on held-for-trading securities		(297,000)	-	(297,000)
Write-off mineral property expenditures		(2,229,056)	-	(2,229,056)
		(2,179,956)	-	(2,179,956)
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		\$ (2,868,364)	\$ -	\$ (2,868,364)

5. MANAGEMENT OF CAPITAL

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

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

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

There are no external restrictions on management of capital.

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

6. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

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

a. Capital Risk Management

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

The Company considers the items included in the shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. As at December 31, 2011, the Company did not have any debt and is not subject to externally imposed capital requirements.

b. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's cash is invested in business accounts with a quality financial institution and which is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. However, the Company will require significant additional funding in the future to continue to explore and develop its Border Coal Project. Accordingly, there is a risk that the Company may not be able to secure adequate funding on reasonable terms, or at all, at that future date.

c. Credit Risk

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

6. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)

d. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and short term investments. The Company's practice has been to invest cash at floating rates of interest, in short term investments, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in short term investments as they are generally held with a large and stable financial institution. As at December 31, 2011, with all other variables unchanged, a 1 percentage point change in interest rates would not have a significant impact on the Company's loss and comprehensive loss for the year.

e. Market Risk

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

Financial instruments carrying value and fair value

The Company's financial instruments consist of cash, short term investments, securities, amounts receivable and accounts payable and accrued liabilities. The carrying value of amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short periods until settlement.

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

	Level 1	Level 2	Level 3	Total
Cash	\$ 415,039	\$ -	\$ -	\$ 415,039
Short term investments	\$ 1,510,800	\$ -	\$ -	\$ 1,510,800
Held-for-trading securities	\$ 168,750	\$ -	\$ -	\$ 168,750

7. HELD-FOR-TRADING SECURITIES

	2011	2010
Opening balance	\$ 473,000	\$ 60,000
Value attributed to shares received	-	710,000
Changes in mark-to-market value	(23,500)	(297,000)
Disposals	(280,750)	-
Closing balance	168,750	473,000

In May 2011, the Company sold 425,000 common shares of Westcore for gross proceeds of \$301,545 and paid commissions of \$3,134. The Company realized a net gain of \$17,661 on the sale of shares for year ended December 31, 2011.

Under IFRS, held-for-trading securities are to be recorded at fair value at each reporting date and the resulting gains or losses are to be included in the results for the year. For the year ended December 31, 2011, the Company's 675,000 (2010 - 1,100,000) Westcore common shares had an unrealized marked-to-market loss of \$23,500 (2010 - \$297,000).

8. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE

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

By agreement dated December 10, 2009 with Westcore the Company agreed to apply its proprietary geophysical matrix to Westcore's Fugro airborne geophysical data and to provide Westcore with specific drill sites on its Saskatchewan and Manitoba coal lands. As partial consideration, the Company was issued in fiscal 2009 an initial 100,000 Westcore common shares with a value of \$50,000.

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

- (a) Westcore issued an additional 1 million common shares with a value of \$710,000 to the Company.

8. INVESTMENT SUBJECT TO SIGNIFICANT INFLUENCE (continued)

(b) The Company earned a 25% working interest in all of Westcore's existing coal lands in Saskatchewan and Manitoba. The initial value attributed to this interest was \$750,000 and recorded this value as service income in fiscal 2010.

(c) Westcore and the Company entered into a 75% / 25% joint venture agreement dated December 17, 2010 with terms and conditions standard to mining industry joint ventures. As part of the joint venture agreement Westcore is required to expend an additional \$3 million on the aforementioned lands before the Company will be required to contribute its 25% share of expenditures. The Company has contributed its 100% interest in its 10 sections of coal permits that are within the Hudson Bay North Block located adjacent to the Company's Border Property in Saskatchewan. A management committee established in August 2011 comprises two representatives from Westcore and two from the Company, with voting determined by the participating interest held by each party. There is a 15% royalty for coal mined with the Government of Saskatchewan; and

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

9. EQUIPMENT

	Equipment		Office Equipment		Vehicles		Computers		Total	
Cost										
Balance at January 1, 2010	\$	33,424	\$	9,953	\$	16,500	\$	14,193	\$	74,070
Additions		-		971		-		2,797		3,768
Balance at December 31, 2010 and December 31, 2011	\$	33,424	\$	10,924	\$	16,500	\$	16,990	\$	77,838
Accumulated depreciation										
Balance at January 1, 2010	\$	6,014	\$	995	\$	2,475	\$	6,441	\$	15,925
Depreciation for the year		6,685		2,120		3,300		7,423		19,528
Balance at December 31, 2010		12,699		3,115		5,775		13,864		35,453
Depreciation for the year		6,685		2,185		3,300		1,972		14,142
Balance at December 31, 2011	\$	19,385	\$	5,300	\$	9,075	\$	15,836	\$	49,595
Carrying amounts										
At January 1, 2010	\$	27,410	\$	8,958	\$	14,025	\$	7,752	\$	58,145
At December 31, 2010	\$	20,725	\$	7,809	\$	10,725	\$	3,126	\$	42,385
At December 31, 2011	\$	14,039	\$	5,624	\$	7,425	\$	1,154	\$	28,243

During the year ended December 31, 2011, depreciation of \$14,142 (2010 - \$19,528) was capitalized to exploration and evaluation assets.

10. MINERAL PROPERTIES – EXPLORATION AND EVALUATION ASSETS

By agreement (“MPI Agreement”) dated April 12, 2006 and amended May 1 and May 15, 2008 and May 31, 2010 with Minera Pacific Inc. (“Minera”), the Company acquired the exclusive rights to use certain information generated from Minera’s proprietary UMSERT Methodology which will assist the Company in identifying areas in Saskatchewan and Manitoba that may be prospective for minerals. Minera and the Company have two common officers and directors.

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

The Company has also agreed to pay to Minera \$1,000,000 (Feasibility Payment) in the event that the Company completes an independent feasibility study on any property acquired by the Company as a result of the UMSERT Methodology. The Company has agreed to make non-refundable payments to Minera of \$100,000 (Advanced Feasibility Payment) in each of the third (\$100,000 paid), fourth (\$25,000 paid, \$75,000 in common shares issued) and fifth years (\$25,000 paid, \$75,000 in common shares issued) from the effective date of the MPI Agreement as advances against the Feasibility Payment.

Minera is further entitled to receive a 2% gross overriding royalty (“GOR”) on commercial production from any such property, and the Company is entitled at any time to purchase one-half of the GOR for \$2,000,000.

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

Border Property

The Company during fiscal 2011 submitted applications to the Saskatchewan Ministry of Energy and Resources to convert 81 existing exploration permits comprising the Border project into Coal Mineral Licenses. The 81 licenses comprising 56,109 hectares were granted subsequent to the year end (note 15), for a period of 15 years renewable upon the terms and conditions set out in the Regulations which include an annual rental fee of \$5.50 per hectare.

2011	Saskatchewan Border Property
Balance, January 1, 2011	\$ 16,058,621
Additions:	
Acquisition and holding costs:	
Acquisition costs	262,500
Permit application and holding costs	316,511
	<u>579,011</u>
Exploration expenditures:	
Air Charter	506,928
Assays and Laboratory	17,858
Drilling	316,967
Fuel	42,705
Operations and general	142,517
Road and pad construction	347,095
Site support	24,905
Share-based compensation	9,709
Technical services and consulting	371,487
	<u>1,780,171</u>
Balance, December 31, 2011	<u>\$ 18,417,803</u>

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

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

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

Legal Fees

Paid or accrued \$38,013 (2010 - \$83,446) for legal fees which were included in professional fees, \$88,379 (2010 - \$Nil) for share issuance costs and \$236,287 (2010 - \$NIL) for transaction costs to a law firm of which an officer of the Company is a partner.

Key Management Compensation

	2011	2010
Salaries and short-term benefits		
Remuneration on the statement of operations	\$ 210,000	\$ 165,000
Capitalized to the Border Property	120,000	60,000
	330,000	225,000
Share-based payments	247,789	578,811
	\$ 577,789	\$ 803,811

Other Transactions

The Company shares rent, salaries and administrative services with a company related by common directors and officers. The Company incurred \$141,068 (2010 - \$160,272) for their share of rent, salaries and administrative expenses.

Paid or accrued \$NIL (2010 - \$471,836) for technical services which were included in exploration and evaluation assets to an engineering consulting firm of which an officer of the Company was an officer and shareholder until August 2010.

Minera Pacific Inc. has two directors and officers in common with the Company. During the year end December 31, 2011 the Company issued 358,696 (2010 - 121,875) common shares and paid \$25,000 (2010 - \$25,000) in cash pursuant to the terms of the MPI Agreement (note 10).

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Supplemental disclosure of significant non-cash transactions is provided in the table:

	2011	2010
Non-cash investing and financing activities		
Capitalized to resource property expenditures		
Accounts payable and accrued liabilities	\$ 210,608	\$ (394,228)
Issuance of common shares pursuant to acquisition of mineral properties	\$ 237,500	\$ 194,250

13. CAPITAL STOCK AND RESERVES

The Company's authorized capital stock consists of an unlimited number of common shares and an unlimited number of preferred shares without nominal or par value. At December 31, 2011, the Company had 27,033,729 common shares outstanding and no preferred shares outstanding.

	Capital Stock		Reserves
	Common Share	Amount	Share-Based Payments
Balance at January 1, 2010	19,871,158	\$ 26,225,974	\$ 6,322,680
Issuance pursuant to acquisition of mineral properties	121,875	194,250	-
Stock options expired / forfeited	-	-	(79,883)
Issuance pursuant to exercise of stock options	17,500	14,110	(5,120)
Share-based compensation	-	-	1,269,161
Balance at December 31, 2010	20,010,533	\$ 26,434,334	\$ 7,506,838
Issuance pursuant to acquisition of mineral properties	358,696	237,500	-
Issuance pursuant to offerings	6,664,500	3,708,400	-
Stock options forfeited	-	-	(14,750)
Share issuance costs and agent warrants	-	(457,074)	54,513
Flow through share premium	-	(60,095)	-
Share-based compensation	-	-	279,262
Balance at December 31, 2011	27,033,729	\$ 29,863,065	\$ 7,825,863

On May 19, 2011 the Company completed two offerings to raise gross proceeds of \$3,708,400. The Company completed a short form offering of 3,636,000 units ("Units") at \$0.55 per Unit for gross proceeds of \$1,999,800. The Company completed a private placement of 2,170,000 units ("PP Units") at \$0.55 per PP Unit and issued 858,500 flow-through common shares ("Flow-Through Shares") at \$0.60 per share, for gross proceeds of \$1,708,600. Each Unit and PP Unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"), with each Warrant being exercisable to purchase one Common Share at a price of \$0.70 until May 19, 2013. The offerings were conducted by Canaccord Genuity Corp. The Company paid a 6.5% agent's fee in cash on the gross proceeds of the offerings and issued a total of 433,192 agent's warrants (the "Agent's Warrants"). Each Agent's Warrant is exercisable to purchase one Common Share at a price of \$0.70 until May 19, 2013.

13. CAPITAL STOCK AND RESERVES (continued)

Stock options

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

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at January 1, 2010	2,976,500	\$1.08
Issued	725,000	\$0.84
Exercised	(17,500)	\$0.51
Forfeited	(76,500)	\$1.26
As at December 31, 2010	3,607,500	\$1.03
Forfeited	(12,500)	\$1.37
As at December 31, 2011	3,595,000	\$1.03

Exercise Price	Expiry Date	Options Outstanding			Options Exercisable	
		Number of Shares Issuable on Exercise	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares Issuable on Exercise	Weighted Average Exercise Price
\$ 0.38	April 23, 2013	420,000	1.31	\$ 0.38	420,000	\$ 0.38
\$ 1.33	June 2, 2013	100,000	1.42	\$ 1.33	100,000	\$ 1.33
\$ 1.33	October 9, 2013	100,000	1.78	\$ 1.33	100,000	\$ 1.33
\$ 1.50	December 15, 2013	50,000	1.96	\$ 1.50	50,000	\$ 1.50
\$ 1.33	May 22, 2014	1,425,000	2.39	\$ 1.33	1,425,000	\$ 1.33
\$ 1.58	November 19, 2014	25,000	2.89	\$ 1.58	25,000	\$ 1.58
\$ 0.82	September 28, 2015	700,000	3.75	\$ 0.82	525,000	\$ 0.82
\$ 0.90	December 23, 2015	775,000	3.98	\$ 0.90	775,000	\$ 0.90
		3,595,000	2.83	\$ 1.03	3,420,000	\$ 1.04

Share-based compensation

The Company granted Nil (2010 – 725,000) incentive stock options with a weighted average fair value per option granted of \$Nil (2010 – \$0.84) for a total fair value of \$Nil (2010 – \$600,725).

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

	2011	2010
Risk-free interest rate	-	1.97%
Expected dividend yield	-	0%
Expected stock price volatility	-	163%
Expected option lives	-	4.7years

The risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected stock price volatility is based on the Company's historical prices. The expected average option term is the average expected period to exercise, based on historical activity patterns.

The total share-based compensation recognized during the year ended December 31, 2011 under the fair value method was \$279,262 (2010 - \$1,269,161). The Company expensed \$269,553 (2010 - \$1,176,779) and capitalized \$9,709 (2010 - \$92,382) as mineral property expenditures.

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13. CAPITAL STOCK AND RESERVES (continued)

Warrants

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

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
As at January 1, 2010 and December 31, 2010	-	-	-
Issued	3,336,192	\$0.70	May 19, 2013
As at December 31, 2011	3,336,192	\$0.70	May 19, 2013

14. INCOME TAXES

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

	2011	2010
Loss before income tax recovery	\$ (1,035,685)	\$ (2,868,384)
Combined federal and provincial statutory tax rate	26.50%	28.50%
Income tax recovery at statutory rates	\$ (274,457)	\$ (817,484)
Permanent differences	208,707	377,705
Tax adjustment for rate change	9,753	54,008
Current year tax losses not recognized	100,867	362,675
Other	(44,870)	23,096
Total income tax recovery	\$ -	\$ -

b) The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2011 and 2010 are presented below:

	2011	2010
Deferred tax assets:		
Non-capital loss carry-forwards	\$ 887,734	\$ 620,506
Capital loss carry-forwards	2,719,093	2,719,093
Share issue costs and other	211,303	187,087
Mineral properties	804,744	998,857
Capital assets	14,894	11,358
Net unrecognized deferred income tax asset	4,637,768	4,536,901

As at December 31, 2011, the Company has non-capital loss carry-forwards of approximately \$3,549,000 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 \$21,750,000 of capital losses available for carry-forward. The Company also has exploration and development expenditures of approximately \$21,600,000 which may be available to reduce taxable income of future years. The non-capital loss carry-forwards expire according to the following schedule:

Year	Non Capital Loss Carryforwards
2015	\$ 203,000
2026	312,000
2027	201,000
2028	724,000
2029	1,040,000
2031	1,069,000
	\$ 3,549,000

Deferred tax assets, which may arise as a result of these losses and resource expenditures, have not been recognized as the Company determined that, as at December 31, 2011, their realization is uncertain.

15. TRANSACTION COSTS

In December, 2011 the Company terminated an Arrangement Agreement with Zero Emission Energy Plants Ltd. (ZEEP), in connection with the business combination of Goldsource and ZEEP. The Company incurred transactions costs of \$325,779 before the deal was terminated of which \$150,000 was reimbursed by ZEEP.

16. SUBSEQUENT EVENT

The Company received 81 Coal Mineral Leases comprising 56,109 hectares from the Saskatchewan Ministry of Energy and Resources that cover all of the coal deposits discovered to date as well as areas that are considered favorable for the discovery of additional coal deposits. The leases are for a period of 15 years renewable upon the terms and conditions set out in the Regulations which include an annual rental fee of \$5.50 per hectare.