

Goldsource Mines Inc.

GXS-V: \$2.79

October 6, 2008

TARGET: **\$9.00**

RECOMMENDATION: **BUY**

RISK RATING: **SPECULATIVE**

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Update from GXS includes plans for Q4/08

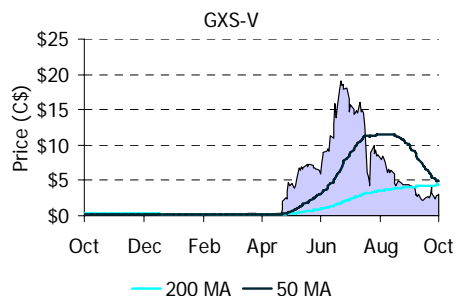
(all figures in C\$, unless noted)

Price (10/3/2008)	\$2.79
Total return to target	222.6%
Shares O/S (mm)	19.3
Shares F/D (mm)	21.2
Market cap F/D (\$mm)	\$ 59.0
Market value (\$mm)	\$ 53.9
10-day Ave Daily Vol (K)	130.0
Debt (mm)	\$0.0
Cash (\$mm)	\$16.4
Fully-diluted cash (\$mm)	\$21.1
12-mo Burn-rate	\$10.0
Shareholders	~15% Management

Investment thesis

- GXS will report proximate coal analysis in mid-October:**
 The summer 2008 drilling proximate analysis results, especially the large step-out holes, will be critical in evaluating the Durango seam discovery. We will be looking for calorific values greater than the previously reported average of 5140 kcal/kg for the 50-100 metre step out holes, as well as those from the large step out holes.
- 50 drill hole program to start in December 2008:** GXS has applied for 300 drill site permits, which should provide flexibility to expand the drilling scope for a “success-driven” winter drill program. We expect the initial 50 holes (5000 metres) will cost approximately \$5 million. Management has suggested it will investigate shooting seismic in an attempt to document the Durango coal seam.
- Discussion with management confirms our short-to-medium-term catalysts:** 1) proximate analysis for the summer of 2008 expected to be released mid-October; 2) drilling commences on Border project beginning of December; 3) winter drill program visual and proximate analysis results to be reported late Q4/08 through to early Q2/09; and 4) NI 43-101 resource on Durango seam expected Q1/09 to Q2/09.
- We recommend GXS as a BUY with a 12-month target price of \$9.00.** Our valuation is based upon a NAV underpinned by our geological estimation of the Durango coal seam size which has not been altered by the update. We rate GXS as **Speculative** and believe it is suitable for risk-tolerant investors only.

President	J. Scott Drever
Chief consultant	Eric Fier
CFO	Graham C. Thody



Company Profile

Goldsource Mines Inc. (GXS) is a Canadian exploration company based in Vancouver. The company is focused on exploring a new thermal coal seam at its 100%-owned Border property in east central Saskatchewan, Canada.

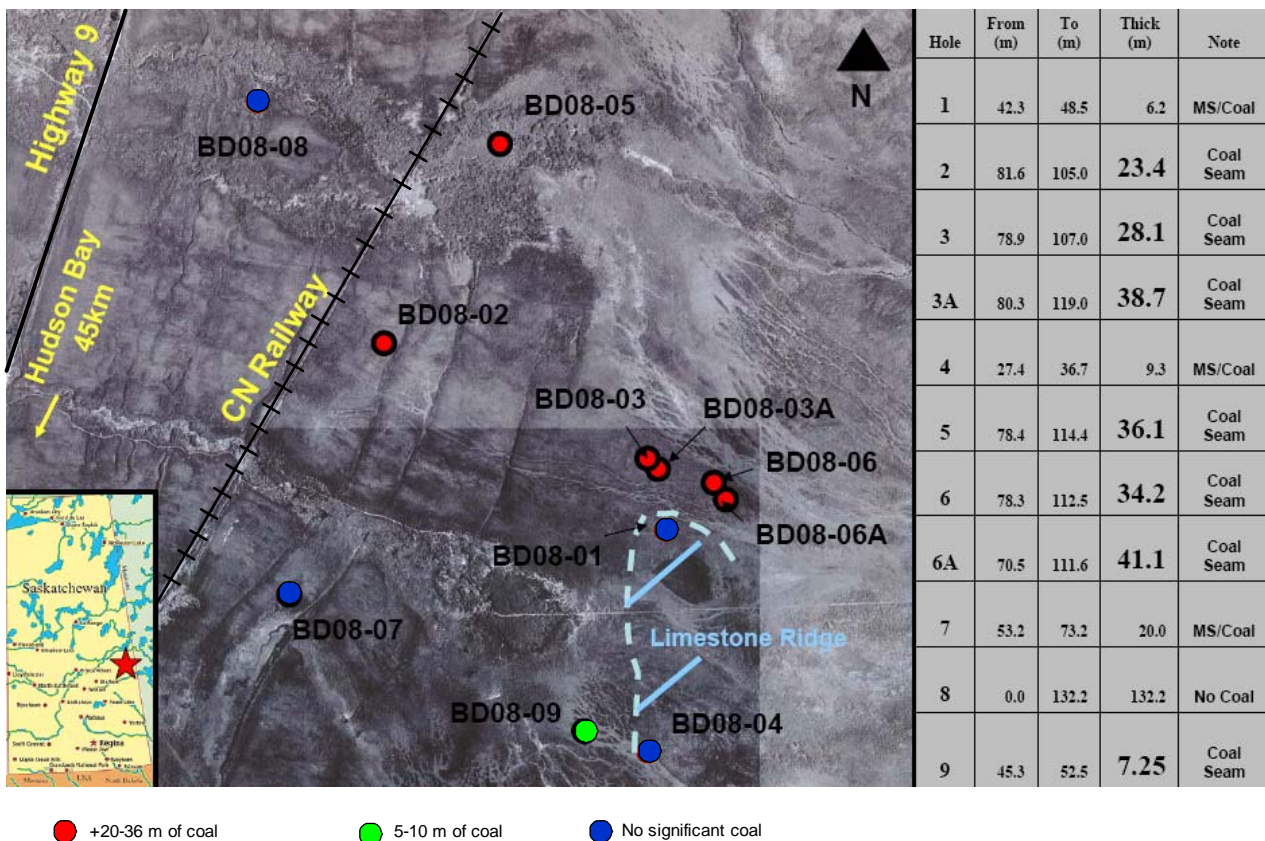
Event and background

On October 3, 2008, GXS updated the market regarding timing of results and future drilling on its 100%-owned Border property.

This past April, GXS discovered a new thermal coal deposit in Saskatchewan, Canada called the "Durango coal seam." The Border project, a 132,000 hectare property, has had six holes intersect significant amounts of coal.

Exhibit 1 below displays an updated map highlighting the drill hole locations, highway 9, and the CN railway that runs through the Border project.

Exhibit 1: Updated map from GXS outlining drill results from the Border property, Saskatchewan, Canada



Source: Goldsource Mines Inc., annotated by Genuity Capital Markets (drill hole colours coding and legend)

Key update points

Summarized below are the key points from the GXS October 3, 2008 update news release:

- **Summer drill holes proximate analysis** – GXS stated that proximate analysis results from the summer 2008 nine-hole program are expected to be back (Loring Labs), compiled and reported to the market in mid-October.
- **Coal intersection lengths revised** – Some coal seam intersection lengths have been updated as a result utilizing downhole E-logging data. However, no lengths had changed significantly to impact our 750 million to potential resource tonnage estimation. “Durango Coal Seam” was used for all of the coal intersections, implying a similar stratigraphic position for the coal seam in all holes drilled to date.
- **Winter drill program scope** – 300 drill hole site permits are in the process of being approved by the government. A 50-hole (5000 metre) drill program will commence in early December 2008. We expect this phase one winter drill program to cost \$5 million. We like the advance permitting of 300 holes that allows the program to be expanded on a success-driven basis.
- **Land acquisition is ongoing** – GXS is actively applying for permits within the region to add to its large “first mover” land position.
- **Hold period on most recent financing** – though not in the news release, we remind investors that the hold period on 1.53 million shares from the July 2008 financing expires on October 28, 2008.

Catalysts

Over the next two quarters we view the following as important catalysts:

- **Proximate analysis from eight of the summer drill program holes (mid-October):** Proximate analysis of the coal is anticipated to be complete in the first half of October, after compilation the results will be released. Coking characteristics and washability tests are being performed on select samples as well.
- **50-hole Winter drill program (early December 2008 to Q1/09):** Three drills are expected to begin drilling an initial 50 holes this winter, in a drill program designed to in-fill drill and expand the Durango seam.
- **Results from the winter program expected in “blocks” (late 2008 to Q2/09):** GXS is likely to release results in tranches of holes. We expect visual results to be released, followed by proximate analysis four to eight weeks later.
- **NI-43 101 Inferred Resource (Q2/09):** We expect Norwest consulting to produce a compliant inferred resource as a result of the phase one drill program.

Impact – Neutral

No new material information was reported by GXS, however, timelines were provided; see above catalysts.

Recommendation

We recommend GXS as a BUY with a 12-month target price of \$9.00. Our valuation is based upon a NAV underpinned by our potential 750 million tonne geological estimation of the Durango coal seam size which has not been altered by the recent update. We rate GXS as **Speculative** and believe it is suitable for risk-tolerant investors only.

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Genuity Capital Markets has acted as an underwriter in a distribution for Goldsource Mines Inc. in the last 12 months. A portion of the travel expenses for a recent trip to the Border property were paid for by Goldsource Mines Inc.

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NV – non-voting shares RS – restricted voting shares SV – subordinate voting shares UN – units

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