



**MANAGEMENT DISCUSSION & ANALYSIS**  
**FORM 51-102F1**  
**JUNE 30, 2007**  
**SECOND QUARTER**

---

---

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the three month period ended June 30, 2007

---

**FORWARD LOOKING STATEMENTS**

Certain statements contained in this 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 or achievements of the company to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. 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 Management Discussion and Analysis (MDA) is an overview of the activities of **GOLDSOURCE MINES INC.** (the "Company") for the three month period ended June 30, 2007. The MDA should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2006 and the notes attached thereto.

The effective date of this Management Discussion & Analysis is July 27, 2007.

**OVERALL PERFORMANCE**

The Company is a natural resource company engaged in the acquisition, exploration and development of mineral properties.

On October 25, 2005 the Company finalized an agreement with BEC International Corporation ("BEC") of Saskatoon, Saskatchewan to acquire a 90% interest in two blocks of mineral claims comprising 163,200 hectares in the Big River Area of Saskatchewan (the "Property"). These lands are prospective for the diamondiferous kimberlites. The Company subsequently acquired additional exploration lands in Saskatchewan bringing its total land holdings to approximately 614,000 hectares. The Company has flown nearly 15,000 line kilometres of Fugro GEOTEM surveys in 4 separate areas and carried out an initial 6 hole drill program to test geophysical anomalies in the Sturgeon Lake area. The Company is actively seeking other property interests and business opportunities which will advance its corporate goal of acquiring or discovering significant mineral assets.

The proposed business objectives of the Company involve a high degree of risk and there is no assurance that future acquisitions or participations will be identified. Moreover, if potential acquisitions or participations are identified, the Company may determine that the current market, pricing conditions or terms of participation may make the acquisition or participation unattractive. The Company will be in competition with others with greater resources. The Company may find that, even if the terms of the acquisition or participation are reasonable, additional funds may be required to complete the acquisition or participation, and the Company may not be able to obtain financing on the terms acceptable to the Company, or at all. Where an acquisition or participation is financed by the issuance of shares from the treasury, control of the Company may change and shareholders may suffer dilution to their investment.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company is in a strong financial position with \$3,934,932 in working capital, including cash and short term investments of \$3,941,757. These funds are more than sufficient to meet the planned exploration programs for the Company's properties and to finance general and administrative expenses for the remainder of 2007.

The Company currently has no source of income and is entirely reliant upon raising equity capital to fund its operations and general administrative costs.

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

---

**LIQUIDITY AND CAPITAL RESOURCES** continued

The Company plans to incur approximately \$650,000 of exploration expenditures on its properties during 2007. However these expenditures may not all be incurred in the current fiscal year, are subject to management discretion and may change depending on the circumstances encountered. During the period the Company paid a deficiency deposit of \$150,528 to the Government of Saskatchewan in lieu of assessment work on certain claims. The deposit is refundable on completion of required assessment work.

**FINANCIAL SUMMARY**

The net loss for the three months ended June 30, 2007, declined by \$56,097 to \$51,117. General and administrative expenses for the three months ended June 30, 2007 were \$86,994 (net of stock based compensation) compared to \$149,563 for the three months ended June 30, 2006. Overall the Company's expenses declined as delays in exploration activities were encountered due to permitting and drill equipment availability issues. Investor relations activities decreased by \$51,875 to \$Nil and trade shows and conferences decreased by \$12,978 to \$2,610 as the Company delayed investor awareness activities to coincide with anticipated exploration activities.

The net loss for the six months ended June 30, 2007 declined by \$158,014 to \$ 82,372. Investor relations expense declined by \$76,990 to \$Nil, stock-based compensation declined by \$39,625 to \$9,375 and trade shows and conferences expense declined by \$34,665 to \$6,858 compared to the comparative period in the prior year.

**FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, short term investments, amounts receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair market value of these financial instruments, approximate their carrying values unless otherwise noted.

**SUMMARY OF QUARTERLY RESULTS**

<b>Period Ending</b>	<b>Revenue (\$)</b>	<b>Net Income (Loss) (\$)</b>	<b>Net Loss per Share (\$)</b>
June 30, 2007	-	(51,117)	(0.00)
March 31, 2007	-	(31,255)	(0.00)
December 31, 2006	-	19,403	(0.00)
September 30, 2006	-	(42,729)	(0.00)
June 30, 2006	-	(107,214)	(0.01)
March 31, 2006	-	(133,172)	(0.01)
December 31, 2005	-	(617,906)	(0.10)
September 30, 2005	-	(42,265)	(0.01)

- (1) The net loss per share is calculated on a weighted average, basic and fully diluted basis.
- (2) There were no discontinued operations or extraordinary items to report during the most recent eight quarters.
- (3) The loss for the quarter ended December 31, 2005 was primarily attributable to stock based compensation expense of \$399,000 and the write-off of a mineral property of \$209,000.

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

**SHARE CAPITAL**

*Authorized*

Unlimited number of common shares without nominal or par value  
 Unlimited Class "A" preference shares without nominal or par value (none outstanding)  
 Unlimited Class "B" preference shares without nominal or par value (none outstanding)

*Issued and fully paid - common shares*

	Share Capital		Contributed Surplus Amount
	Number	Amount	
<b>December 31, 2004</b>	4,689,431	\$ 2,392,643	\$ 4,243,287
Issued pursuant to acquisition of the Big River Mineral Property	2,188,750	875,500	-
Exercise of warrants	225,000	78,750	-
Issued pursuant to a private placement of flow-through shares	1,550,000	1,085,000	-
Issued pursuant to a private placement - for cash	7,932,500	4,759,500	-
- for services	67,500	40,500	-
Share issue costs	-	(320,917)	69,262
Stock-based compensation	-	-	399,000
<b>December 31, 2005</b>	16,653,181	8,910,976	4,711,549
Exercise of warrants	945,000	330,750	-
Issuance pursuant to acquisition of the Border Property	50,000	30,000	-
Future income taxes on renunciation of flow through shares	-	(370,202)	-
Stock-based compensation	-	-	58,375
<b>December 31, 2006</b>	17,648,181	8,901,524	4,769,924
Issued pursuant to acquisition of the Border and Crossroads Properties	50,000	16,500	-
Stock-based compensation	-	-	9,375
<b>June 30, 2007</b>	17,698,181	\$ 8,918,024	\$ 4,779,299

*Stock options*

The Company has a stock option plan under which it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option equals the market price of the company's stock as calculated on the date of the grant. The options can be granted for maximum term of 5 years.

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

---

**SHARE CAPITAL** continued

***Stock options***

At June 30, 2007, stock options were outstanding, enabling holders to acquire common shares as follows:

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
300,000	\$0.35	July 08, 2009
100,000	\$0.30	December 08, 2009
800,000	\$0.90	December 23, 2010
75,000	\$0.60	October 10, 2007
1,275,000		

***Warrants***

At June 30, 2007, share purchase warrants were outstanding enabling holders to acquire shares as follows:

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
3,047,500	\$0.75	December 01, 2007
137,500	\$0.75	December 09, 2007
1,057,370	\$0.75	December 20, 2007
4,242,370		

***Fully Diluted Share Capital, as of the date of this report***

Common shares issued	17,698,181
Stock options outstanding	1,275,000
Warrants outstanding	4,242,370
	23,215,551

**OFF-BALANCE SHEET ARRANGEMENTS**

At June 30, 2007 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.

**RELATED PARTY TRANSACTIONS**

During the three month period ended June 30, 2007, the Company paid fees of \$22,500 (2006 - \$22,500) for management services to Nemesis Enterprises Ltd., which is wholly owned and controlled by a Director and Officer of the Company.

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

---

**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.

**INVESTOR RELATIONS ACTIVITIES**

During the period Company personnel performed all investor relations services.

**RESULTS OF OPERATIONS**

**(a) Big River Property, Saskatchewan**

On October 25, 2005 the Company finalized an agreement with BEC International Corporation (“BEC”) of Saskatoon, Saskatchewan to acquire a 90% interest in two blocks of mineral claims in the Big River Area of Saskatchewan (the “Property”). A detailed technical report (NI 43-101 complaint) supporting the acquisition, was prepared by independent Qualified Persons and is filed on SEDAR.

***Historic Activities***

Prior to the Company’s efforts, the most recent, serious exploration work on the Big River Property (Sturgeon Lake claims) was carried out more than 10 years ago. Although the area includes the site of the first discovery of diamonds in Saskatchewan, it has never been systematically explored using current geophysical techniques or applying the extensive knowledge base that has been developed for the kimberlite pipes of the Fort à la Corne area. Work carried out by previous operators on the Sturgeon Lake claim block and immediate area included 5 core and 27 rotary drill holes. Intercepts of kimberlite were reported in 19 holes in four widely separated areas. The two holes for which detailed analyses are available reported recoveries of micro-diamonds and significant indicator minerals from both holes.

Early in 2006, the Company engaged Fugro Airborne Surveys Corp to carry out a 3,900 line kilometer geotem and magnetic survey over the Sturgeon Lake claim block. The survey was completed in February, 2006 and results identified several drill targets that could represent diamondiferous kimberlites.

Subsequent to the initial property acquisition, the Company acquired an additional 186,000 hectares of mineral claims (the “Deban” claim block) covering the favourable geologic horizons between its Sturgeon Lake block and its Cowan Lake block to the northwest. The Company now controls a 90% interest in the Big River Property which now comprises a block of contiguous claims totalling approximately 459,260 hectares.

**RESULTS OF OPERATIONS** continued

**(a) Big River Property, Saskatchewan** continued

*Historic Activities*

The Company completed 6 drill holes on its Sturgeon Lake claim block. Three holes tested priority geophysical targets that exhibited electro-magnetic resistivity (“EM”) signatures somewhat similar to those generally associated with kimberlite pipes in the Fort à la Corne area. One of these holes intersected approximately 2.2 metres of what appears to be a fine grained pyroclastic unit within mudstones that are stratigraphically the same units that contain kimberlites in the Fort à la Corne area. This unit was sampled for further study but did not result in the identification of a previously unidentified kimberlite.

The remaining three drill holes tested kimberlite occurrences identified by previous operators in the Sturgeon Lake area. These holes served to confirm local stratigraphy and helped to define the extent and nature of the known kimberlite occurrences and their relationship to the recently acquired magnetic and electro-magnetic data. Only one minor intercept of kimberlite was encountered in the hole drilled nearest to the Sturgeon Lake occurrence.

*Current Activities*

The Company has re-evaluated the results of the airborne geophysics in the Sturgeon Lake area and has selected 2 priority and 2 secondary targets to be drilled in 2007.

The Company also flew approximately 3,200 line kilometers of Fugro airborne geophysics in the Cowan Lake area of the Big River project. This survey identified 2 high priority geophysical anomalies as well as several second priority targets in the same general area. These targets are expected to be drilled later this year. The timing of the program is subject to permitting and drill rig availability. The land position in the Cowan Lake area was reduced to 12,544 hectares which is sufficient to retain the priority targets.

**(b) Border and Crossroads Properties, Saskatchewan**

*Historic Activities*

On April 12, 2006 the Company finalized an agreement with Minera Pacific Inc., (“Minera”) for 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 diamonds.

In order to maintain the exclusive rights to use the Information, the Company has agreed to pay staged cash payments over a period of two years to Minera totaling \$160,000 (\$85,000 paid) and issue a total of 325,000 common shares of the Company (100,000 shares issued) over a period of four years and, by the end of the fifth year, pay an additional \$500,000 or issue 250,000 common shares, whichever is the lesser, as determined by the Company in its sole discretion. In order to maintain the agreement in good standing the next payments of \$75,000 and 75,000 common shares of the Company must be paid.

**GOLDSOURCE MINES INC.  
MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

---

**RESULTS OF OPERATIONS** continued

**(b) Border and Crossroads Properties, Saskatchewan** continued

*Historic Activities*

The Company has also agreed to pay to Minera \$1,000,000 (Feasibility Payment) in the event that the Company completes an independent feasibility study on any property acquired by the Company as a result of the UMSERT Methodology. The Company has agreed to make non-refundable payments to Minera of \$100,000 in each of the third, fourth and fifth years from the effective date of the Agreement as advances against the Feasibility Payment. Minera is further entitled to receive a 2% gross overriding royalty (“GOR”) on commercial production from any such property, and the Company is entitled at any time to purchase one-half of the GOR for \$2,000,000.

The 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.

Based on this independent research, the Company acquired 100% interest in approximately 148,600 hectares of mineral claims (the Border claim block) in the eastern portion of the province and has staked an additional 11,484 hectares to cover a second prospective area (the “Cross Roads” claim block).

*Current Activities*

An airborne geophysical survey of approximately 7,750 line kilometers using the Fugro Geotem system was completed covering both areas in 2006. The data has been interpreted and several drill targets that may be potential kimberlite pipes have been identified. The priority targets may possibly be subject to follow-up ground geophysical programs and the priority targets are expected to be drilled in 2007. A subsequent examination of a number of secondary targets will follow, depending in part on the results obtained from the priority targets.

With the reduction of approximately 101,986 hectares in the Cowan Lake area, the Company’s entire land position in Saskatchewan is now in the order of 518,000 hectares which will serve as a basis for ongoing exploration work in an effort to discover Saskatchewan’s second major diamondiferous kimberlite field.

The estimated budget for exploration work on all properties in Saskatchewan for 2007 is approximately \$650,000. This budget is subject to management discretion and may change substantially depending upon ongoing results and the success on each of the programs undertaken. These exploration programs are subject to permit approval and drill rig availability.

Unexpected delays have been encountered in the permitting process and obtaining a drill rig and crew to carry out a planned drilling program on the Border, Crossroads and Cowan Lake blocks. A permit application was filed during the period with Saskatchewan Environment and extensive discussions have been held with various governmental agencies to finalize the application. Numerous attempts to secure a drill contract have not yet met with success due to current shortages but the Company is hopeful that one will be in place by the time the permitting process is completed.

**INDUSTRY AND ECONOMIC FACTORS AFFECTING PERFORMANCE**

Certain factors affect the Company’s ability to finance and to carry on normal business. These include precious metal prices, competition amongst exploration firms for attractive mineral properties, the interest of investors in providing high-risk equity capital to exploration companies, regulatory permitting and the availability of qualified staff and drilling equipment to conduct exploration. For the Company, which is focused exclusively on exploration and development of diamond resources, diamond prices, and the availability of equity funds are important factors.



**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

---

**RISKS AND UNCERTAINTIES**

Mineral exploration and development involves a high degree of risk and few properties are ultimately developed into producing mines. Should any resource be defined on the Company's properties there can be no assurance that the mineral resources can be commercially mined or that processing will produce economically viable, saleable products. Future operations, if any, of the Company, including development activities and commencement of production on its properties, will require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the exploration and development or for the construction of any mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.-

**MANAGEMENT'S RESPONSIBILITY AND CORPORATE DISCLOSURE**

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 values 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 and has determined that such controls are working effectively.

There have been no changes in the issuers internal controls with respect to financial reporting during the period.

**CHANGES IN ACCOUNTING POLICIES**

The Company adopted three new accounting standards, effective January 1, 2007, related to financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

*Financial Instruments – Recognition and Measurement (CICA Handbook Section 3855)*

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

For the three month period ended June 30, 2007

---

**CHANGES IN ACCOUNTING POLICIES** continued

In accordance with this new standard, the Company now classifies all financial instruments as either held to maturity, available-for-sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized costs. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

The Company has classified its cash equivalents as held to maturity and, therefore, is already carrying its investments at fair market value and no adjustment needs to be recorded. This change in accounting policy had no material effect on the Company's previous financial statements.

*Comprehensive Income (CICA Handbook Section 1530)*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company would report a consolidated statement of comprehensive income (loss) and a new category, accumulated other comprehensive income, would be added to the shareholders' equity section of the consolidated balance sheet. The components of this new category would include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. For the three month ended March 31, 2007, there was no comprehensive income (loss) or accumulated other comprehensive income to record.

*Hedges (CICA Handbook Section 3865)*

The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The company has not designated any hedging relationship.

**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.

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: silver exploration and development costs and results, fluctuations of silver prices, foreign operations and foreign government regulations, competition, uninsured risks, recovery of reserves, capitalization and commercial viability and requirement for obtaining permits and licenses.

Certain data included in this document may be historical in nature and as such may not conform to the requirements of NI- 43-101, may not have been verified by the Company's qualified person and therefore should not be relied upon.

**ADDITIONAL INFORMATION**

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.goldsourcemines.com](http://www.goldsourcemines.com).