



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

**MANAGEMENT'S DISCUSSION & ANALYSIS**

**QUARTERLY HIGHLIGHTS**

**JUNE 30, 2017**

## **1. OVERVIEW**

Goldsource Mines Inc. (the “Company” or “Goldsource”) is headquartered in Vancouver, BC and its common shares trade on the TSX Venture Exchange (“TSX-V”) under the symbol GXS. This Interim Management’s Discussion and Analysis – Quarterly Highlights (“Interim MD&A”) is an overview of all material information about the Company’s operations, liquidity and capital resources for the three and six months ended June 30, 2017. The Interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2017 and 2016 and the related notes contained therein which have been prepared under International Accounting Standard 34 – Interim Financial Reporting as issued by the International Accounting Standards Board. The following should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015, and the related notes contained therein. All amounts are stated in Canadian dollars unless otherwise indicated. Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website [www.goldsourcemines.com](http://www.goldsourcemines.com).

The first, second, third, and fourth quarters of the Company’s fiscal years are referred to as “Q1”, “Q2”, “Q3”, and “Q4”, respectively. All amounts are stated in Canadian dollars unless otherwise indicated.

The effective date of this Interim MD&A is August 14, 2017. This Interim MD&A contains forward looking information. Reference to section “7. Cautionary Statements and Disclaimers” is advised.

## **2. HIGHLIGHTS**

### **a. Eagle Mountain Gold Project**

The Company’s main focus is its Eagle Mountain Gold Project (“Eagle Mountain”) located on its 100% owned Eagle Mountain Property (the “Property”) which consists of an area of approximately 5,050 hectares (12,480 acres) in central Guyana, South America.

During H1 2017 and to the date of this Interim MD&A, the following events occurred at Eagle Mountain:

#### **OPERATIONS**

- The Krebs cyclone\* was installed on February 12, 2017 to improve gold recovery. Initial assay results suggest gold recoveries of 15% to 50%, depending on cyclone parameters and processing feed rates. Work continues to define the optimal operating parameters for both short and long-term planning.
- Operations for the pilot gravity plant consist of a feed mix of dry (truck-excavator) and wet mining (Marok pumping).
- In Q2 2017, the Company intermittently operated the plant at a reduced average rate (below 300 tpd) with subsequent reduction in onsite costs. Operations will continue in this manner during selected days every month, until optimum processing parameters run on a consistent basis to support breakeven to positive cash flow in country. Other important reasons for operating are: (1) to further test the wet mining system for potential large-scale mining, (2) cyclone optimization and (3) mining and metallurgical test work for the Pre-Feasibility Study.
- The high-density polyethylene (“HDPE”) slurry pipeline, to reduce operating downtime, was installed by mid-May. Successful testing of the HDPE piping took place following the mobilization of the Marok system to Pit 6.
- The Company continues to monitor and expand the tailings facility on an as needed basis.
- Gold recovered during testing from January 1, 2017 to date of this Interim MD&A was 68.28 ounces resulting in revenue of CAD\$90,915 (US\$70,288), net of royalties.
- Capital and sustaining costs spent to date on the Eagle Mountain Phase I pilot plant for testing and optimizing gravity recovery is estimated at \$350,010 (US\$262,363).

*\*the Krebs cyclone is a materials classifier that has been successful at other gravity operations for increasing gold recovery.*

#### **2017 EXPLORATION PLANS**

- Based on recent and historical drilling data, the Company has defined priority exploration targets within its 5,030 hectare Eagle Mountain Prospecting License. The objective is to expand saprolite resources by completing additional shallow drill holes in the immediate proximity of the known deposit and infill drilling to reclassify Inferred Resources to Measured or Indicated.

- The program consists of low-cost drilling for an estimated 75 core holes totaling 1,500 metres and 450 holes with the manual (auger) drills totaling 2,700 metres. The program will take six to eight months to complete (Q4 2017).
- An updated resource estimate is anticipated in Q4 2017 with a subsequent Preliminary Feasibility Study (“PFS”) to be completed in 2018.
- A summary of completed drill holes to August 14, 2017 is as follows:

Period	Core drilling		Auger drilling	
	Holes	Metres	Holes	Metres
May 20 to June 30, 2017	22	238	47	241
July 1 to August 14, 2017	28	277	154	477
<b>Total, to date</b>	<b>50</b>	<b>515</b>	<b>201</b>	<b>718</b>

- Permitting work will commence in Q4 2017 and will be executed in parallel with the PFS, with expected completion in Q4 2018.
- The Company anticipates that exploration and operating activities will cost approximately US\$120,000 per month, net of revenue.

Currently, Eagle Mountain gold resources consist of both saprolite and fresh rock mineralization (refer to Technical Report titled “Preliminary Economic Assessment of the Eagle Mountain Saprolite Gold Project, Guyana”, dated September 12, 2014 (“PEA”)). The saprolite resources only are:

Category	Tonnes	Gold Grade (gpt)*	Contained Ounces Gold
Indicated	<b>1,590,000</b>	<b>1.45</b>	<b>74,100</b>
Inferred	<b>7,202,000</b>	<b>1.32</b>	<b>305,600</b>

\*Estimated at 0.5 gpt cut-off for gold.

*The Company cautions that the PEA is preliminary in nature in that it is based on inferred mineral resources which are considered too speculative geologically to have the economic considerations applied to them that would enable them to be characterized as mineral reserves, and there is no certainty that the results or recommendation of the PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability. Management’s production decision for Eagle Mountain was not based on a feasibility study of mineral reserves demonstrating economic and technical viability. This project has a much higher risk of economic or technical failure and may adversely impact the Company’s projected profits, if any.*

The Company’s target is to increase saprolite resources to a minimum of 600,000 ounces grading 1.0 to 1.5 grams per tonne (“gpt”) gold with a strip ratio of less than 1:1 (waste:ore). The Company believes that this will support the completion of a PFS on a low cost large-scale, 4,000 to 5,000 tpd, open pit gravity-cyanidation operation.

## **b. Corporate**

### **FINANCING**

- In February 2017, the Company completed a non-brokered private placement (the “Private Placement”) of 26,233,450 units (“Unit”) at a price of \$0.17 per Unit for gross proceeds of \$4.5 million. Each Unit consisted of one common share and one common share purchase warrant of Goldsource, with each warrant being exercisable for one common share of Goldsource at a price of \$0.23 for a two year term until February 8, 2019. The Company paid 6% finders’ fees totalling \$28,529 in respect of the placement of certain Units. As planned, the proceeds of the Private Placement have been applied to the capital and operating improvements completed to date totalling approximately \$260,000 (see “2.a. Highlights – Eagle Mountain Gold Project”), repayment of a loan principal and interest totalling \$1.8 million (US\$1.3 million) and general corporate purposes. The Company intends to use the balance of the proceeds of the Private Placement for 2017 Eagle Mountain exploration and operating work, including general working capital.

#### STOCK OPTIONS

- During H1, 2017, the Company granted stock options to directors, officers, employees and consultants exercisable for 2,525,000 common shares, of the Company at exercise prices ranging between \$0.16 per share and \$0.18 per share for a five year term. Of the stock options granted, 150,000 are subject to a 12-month vesting schedule pursuant to which 25% vested on three months from the grant date and a further 25% shall vest every three months thereafter until fully vested.
- During Q2, 2017, the Company cancelled 160,000 options with exercise prices ranging between \$0.17 and \$0.42 per share.

#### BOARD UPDATE

- On May 31, 2017, Goldsource held its Annual General Meeting of Shareholders ("AGM") in Vancouver, BC. Shareholders voted in favour of all items of business, including fixing the number of directors at four and the re-election of each of the director nominees: N. Eric Fier, Haytham Hodaly, Graham Thody and Ioannis Tsitos. In addition, shareholders voted and re-appointed Davidson & Company LLP, Chartered Professional Accountants, as auditor of the Company and approved the Company's "rolling 10%" Stock Option Plan.
- At the Board of Directors meeting following the AGM the Board re-appointed Mr. Thody as Chairman of the Board, Mr. Tsitos as President, Nicholas Campbell as Chief Financial Officer, N. Eric Fier as Chief Operating Officer and Bernard Poznanski as Corporate Secretary.

### **3. RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

During the three and six months ended June 30, 2017, comprehensive losses were \$921,245 and \$1,950,736, respectively, compared to \$1,221,422 and \$2,429,792 for the three and six months ended June 30, 2016. The significant variations between periods ended June 30, 2017 and Q2, 2016 included the following:

- Borrowing costs decreased to \$Nil (Q2, 2016 – \$51,353) during Q2, 2017, for a total of \$22,443 in H1, 2017 (H1, 2016 – \$92,434), as the Company repaid the loan with proceeds from the Private Placement.
- Exploration and evaluation expenditures decreased to \$632,796 (Q2, 2016 – \$845,163) during Q2, 2017, for a total of \$1,204,539 in H1, 2017 (H1, 2016 – \$1,777,990). This difference was due to reduced activity at the Eagle Mountain Gold Project as the Company focused work on the optimization of the processing plant and recoveries.
- Remuneration expense decreased to \$102,147 (Q2, 2016 – \$134,239) during Q2, 2017, for a total of \$229,742 in H1, 2017 (H1, 2016 – \$270,572). The change was primarily from the decreased in allocation of corporate staff time that is shared between the Company and SilverCrest Metals Inc. ("SilverCrest") in 2017.
- Rent and communications decreased to \$20,879 (Q2, 2016 – \$30,377) during Q2, 2017, for a total of \$42,522 in H1, 2017 (H1, 2016 – \$58,421) for the first quarter as the Company and SilverCrest agreed to amend its operating lease agreement to change the allocation of shared rent.
- Share-based compensation decreased to \$2,893 (Q2, 2016 – \$16,789) during Q2, 2017, for a total of \$210,375 in H1, 2017 (H1, 2016 – \$45,728). The Company granted 2,325,000 (March 31, 2016 – 385,000) incentive stock options during the first quarter 2017, with a weighted average fair value per option granted of \$0.17 (2016 – \$0.14) for total value of \$230,144 (March 31, 2016 – \$53,453).
- Shareholder and investors relations increased to \$36,218 (Q2, 2016 – \$20,101) during Q2, 2017, for a total of \$41,800 in H1, 2017 (H1, 2016 – \$34,474) as a result of an increase in number of investor related services rendered during the H1, 2017 when compared to the same period in 2016.
- Unrealized loss on held-for-trading securities increased to \$13,500 (Q2, 2016 – gain of \$7,725) during Q2, 2017, for a total of \$10,950 in H1, 2017 (H1, 2016 – gain of \$50,850) because the market value of securities did not increase significantly as compared to the same period in 2016.

### **4. LIQUIDITY AND CAPITAL RESOURCES**

#### **a. Assets**

At June 30, 2017, Goldsource held cash and cash equivalents of \$936,353 (December 31, 2016 – \$291,219). Goldsource continues to monitor cash resources against anticipated expenditures associated with advancing Eagle Mountain. Other current assets totalling \$225,769 consist primarily of prepaid expenses of \$119,644 (December 31, 2016 – \$22,346) and held-for-trading securities, valued at \$84,900 (December 31, 2016 – \$95,850) including 300,000 common shares of Para Resources and 135,000 common shares of Westcore Energy Inc.

The Company has a deposit of \$252,991 (US\$194,540) which is pledged as a reclamation site bond in the form of a non-interest bearing bank guarantee deposit to the Guyana Geology and Mines Commission for exploration permits on the Property.

Property, plant and equipment decreased to \$4,786,633 (December 31, 2016 – \$4,949,760), primarily due to depreciation offsetting equipment purchases. The significant items incurred during H1 2017 were the purchase and installation of the Krebs cyclone, Marok pump and other equipment (including a drill) totalling \$264,167. In comparison, during H1, 2016, property, plant and equipment additional cost for Phase I construction in progress of \$611,652, offset by gold sales of \$269,303, change in estimate of rehabilitation provision of \$48,026, and other equipment (including costs towards two generators, a pump and an excavator) of \$431,708.

**b. Liabilities**

At June 30, 2017, current liabilities include accounts payable and accrued liabilities of \$159,387 (December 31, 2016 – \$520,616), which relate to various contractual commitments in the normal course of business. A loan payable of \$1.8 million outstanding as of December 31, 2016 was fully repaid in February 2017.

As at June 30, 2017, the Company recorded rehabilitation provision of \$348,321 (December 31, 2016 – \$301,361), which was also included in property, plant and equipment. The present value of rehabilitation provision, using an effective discount rate of 5%, is currently estimated at US\$242,314 (December 31, 2016 – US\$212,589), reflecting anticipated cash flows to be incurred over approximately the next six years. The undiscounted value of these obligations is \$403,734 (US\$311,000) (December 31, 2016 – \$376,419 (US\$282,000)), calculated using a long-term inflation rate assumption of 1.2% (December 31, 2016 – 0.8%).

**c. Liquidity Outlook and Risks**

As at June 30, 2017, the Company had cash and cash equivalents of \$936,353 (December 31, 2016 – \$291,219), accumulated losses of \$46.2 million (December 31, 2016 – \$44.3 million) and working capital of \$1.0 million (December 31, 2016 – working capital deficiency of \$1.9 million). During Q1, 2017, the Company received gross proceeds of \$4.5 million upon the closing of the Private Placement. The Company used part of the proceeds to fully repay a loan of \$1.8 million. Goldsource has and continues to use the remaining proceeds for operating, exploration and improvements at Eagle Mountain and for working capital. Despite the completion of the Private Placement the Company will require additional funds to maintain its operations and meet its working capital requirements for the next twelve months.

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 and development programs, availability of financing and industry conditions. The Company's ability to continue as a going concern is dependent on its ability to raise debt or equity financing, profitably operate Eagle Mountain and discover additional economically viable mineral deposits. Ongoing exploration work at Eagle Mountain may be delayed or disrupted, require substantial additional financing and is subject to a number of factors many of which are beyond the Company's control. Although the Company has been successful in raising funds to date, there is no assurance that future equity capital or debt facilities will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable to it, if at all.

**5. RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2017, the Company entered into the following transactions with related parties:

**a. Legal fees**

Legal fees of \$15,468 (June 30, 2016 – \$19,507), included in professional fees, and capital stock issuance costs of \$45,396 (June 30, 2016 – \$Nil) were paid or accrued to Koffman Kalef LLP, a law firm of which an officer of the Company is a partner, of which \$Nil (December 31, 2016 – \$11,857) was payable at June 30, 2017.

**b. Key management compensation**

	Six months ended June 30, 2017	Six months ended June 30, 2016
Management fees <sup>(1)</sup>	\$ 119,063	\$ 183,000
Share-based compensation <sup>(2)</sup>	186,428	24,819
	<u>\$ 305,491</u>	<u>\$ 207,819</u>

<sup>(1)</sup> Management fees were paid to companies controlled by the former Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and President of the Company.

<sup>(2)</sup> Share-based compensation is the fair value of the vested portion of stock options that have been granted to directors and officers of the Company.

**c. Other transactions**

The Company paid remuneration of \$20,011 (June 30, 2016 – \$33,605) and recognized share-based compensation of \$6,778 (June 30, 2016 – \$4,365) to an employee who is an immediate family member of the Chief Operating Officer. Remuneration and share-based payments incurred to this employee were recorded as exploration and evaluation expenditures.

On October 1, 2015, the Company entered into a cost sharing agreement with SilverCrest Metals Inc. (“SilverCrest”), a company related by common directors and officers, whereby the Company shares salaries, administrative services, and other reimbursable expenses. During the six months ended June 30, 2017, the Company was allocated \$95,188 (June 30, 2016 – \$96,625) for its share of these expenses, of which \$13,847 (December 31 2016 – \$40,360) was payable to SilverCrest at June 30, 2017.

During H1, 2017, the Company incurred interest costs of \$22,443 (H1, 2016 – \$92,434) on, and fully repaid, the Loan with Mitan, a company controlled by a former director of the Company.

At June 30, 2017, advances of \$9,000 were receivable from the President of the Company. The advances are non-interest bearing and are repayable in monthly installments ending December 15, 2017.

**6. CHANGE IN ACCOUNTING POLICIES**

Effective December 31, 2016, the Company voluntarily changed its accounting policy for exploration and evaluation costs under IFRS 6 from capitalization of costs directly related to the exploration and evaluation of mineral properties to expensing these costs as incurred. The Company believes that this change to accounting policy will provide more relevant and useful information to the users of the financial statements. This change in accounting policy has been applied retrospectively. An explanation of how the transition from the amounts previously reported has affected the Company's financial position, financial performance and cash flows is set out in Note 18 of the audited consolidated financial statements for the year ended December 31, 2016.

**7. CAUTIONARY STATEMENTS AND DISCLAIMERS**

**a. Risk Factors**

Readers of this Interim MD&A are directed to read the “Risk Factors” contained in the Company's Annual MD&A dated April 5, 2017, available on [www.goldsourcemines.com](http://www.goldsourcemines.com) and under the Company's SEDAR profile on [www.sedar.com](http://www.sedar.com). Important risk factors to consider among others are:

- Risks inherent in the mining business
- No history of operations or earnings
- Licenses and permits
- Mineral resource estimates
- Mining capital and operating costs
- Financing risks
- Key employees
- Environmental risks and hazards

**b. Forward-Looking Statement**

This Interim MD&A contains “forward-looking statements” within the meaning of Canadian securities legislation. 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 be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. In particular, the Interim MD&A contains forward-looking statements pertaining to the following: strategic plans and expectations in the PEA for the development of Eagle Mountain; information with respect to the metal price assumptions, cash flow forecasts, internal rate of return, projected capital and operating costs, the amount of future production of gold over any period, the amount of expected grades and ounces of metals, gold recoveries mine life and gold production rates of Eagle Mountain; and expectations regarding the Company’s ability to manage capital resources and meet working capital requirements.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. Assumptions have been made regarding, among other things: the conditions in general economic and financial markets; precious metals prices; ability to realize the PEA and develop and finance the project; accuracy of the interpretations and assumptions used in calculating inferred mineral resource estimates; availability of mining equipment; availability of skilled labour; timing and amount of capital expenditures; performance of available laboratory and other related services; effects of regulation by governmental agencies; and future operating costs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Interim MD&A: the availability of funds; the timing and content of work programs; results of exploration activities and development of mineral properties; the interpretation of drilling results and other geological data; the uncertainties of resource estimations; receipt, maintenance and security of permits and mineral property titles; environmental and other regulatory risks; project cost overruns or unanticipated costs and expenses; uncertainty as to actual capital costs, operating costs, production and economic returns; uncertainty that development will result in a profitable mining operation at Eagle Mountain; reliance on the PEA; operating and hazards risks and limitations on insurance; fluctuations in precious metals prices; currency fluctuations; political and economic risks; and general market and industry conditions.

Forward-looking statements are based on the expectations and opinions of the Company’s management on the date the statements are made. The assumptions used in the preparation of such statements, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. The Company undertakes no obligation to update or revise any forward-looking statements included in this Interim MD&A if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.

**c. Qualified Person**

Technical information contained in this Interim MD&A has been prepared by or under the supervision of N. Eric Fier, CPG, P.Eng and Chief Operating Officer for Goldsource, who is a ‘Qualified Person’ for the purpose of NI 43-101.