



GOLDSOURCE **MINES INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES

FOR THE SIX MONTHS ENDED JUNE 30, 2020

(Unaudited - Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORTING

The accompanying condensed consolidated interim financial statements of Goldsource Mines Inc. ("the Company") have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Management acknowledges responsibility for the preparation and presentation of the condensed consolidated interim financial statements, including responsibility for significant accounting estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

GOLDSOURCE MINES INC.
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GOLDSOURCE MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
AS AT

	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,134,617	\$ 3,159,068
Amounts receivable	34,289	62,641
Prepaid expenses	208,117	58,635
Marketable securities	1,015	507
Total current assets	6,378,038	3,280,851
Non-current assets		
Deposit (note 3)	290,495	268,387
Rent deposit	36,053	36,053
Mineral property (note 3)	6,575,508	6,575,508
Property, plant and equipment (note 4)	2,651,653	3,067,855
Total non-current assets	9,553,709	9,947,803
TOTAL ASSETS	\$ 15,931,747	\$ 13,228,654
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 282,002	\$ 475,417
Lease liability (note 9)	55,720	55,720
Total current liabilities	337,722	531,137
Non-current liabilities		
Lease liability (note 9)	66,428	85,093
Rehabilitation provision (note 5)	359,235	391,051
Total liabilities	763,385	1,007,281
Shareholders' equity		
Capital stock (note 7)	69,002,244	63,225,056
Reserves (note 7)	6,872,147	6,753,121
Deficit	(60,706,029)	(57,756,804)
Total shareholders' equity	15,168,362	12,221,373
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 15,931,747	\$ 13,228,654

Nature and continuance of operations (note 1)

Contingency (note 8)

Subsequent events (note 12)

Approved by the Board and authorized for issue on August 18, 2020.

"Ioannis Tsitos"

Director

"Graham C. Thody"

Director

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

GOLDSOURCE MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30,

	Three months ended		Six months ended	
	2020	2019	2020	2019
Accretion (note 5)	\$ (4,409)	\$ 4,662	\$ 1,199	\$ 9,170
Depreciation (note 4)	14,440	16,043	30,088	31,978
Exploration and evaluation expenditures (note 3)	1,080,566	809,323	2,556,838	1,450,989
Foreign exchange loss	95,743	93,113	4,306	109,344
Insurance	18,603	17,271	36,428	34,689
Interest expense (note 9)	5,557	7,120	11,532	14,587
Interest income	(15,622)	(32,097)	(25,591)	(32,127)
Marketing	42,454	55,672	103,713	106,609
Office and miscellaneous expense (recovery)	7,696	3,003	20,090	5,295
Professional fees (note 6)	39,654	19,906	67,179	39,946
Regulatory and transfer agent fees	19,862	20,426	31,510	25,173
Remuneration (note 6)	163,273	255,322	284,123	374,048
Share-based compensation (note 7)	5,396	26,732	18,338	318,246
Unrealized loss (gain) on marketable securities	-	1,015	(508)	507
Net and comprehensive loss for the period	\$ (1,473,213)	\$ (1,297,511)	\$ (3,139,245)	\$ (2,488,454)
Basic and diluted comprehensive loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding	374,803,610	305,802,486	346,917,753	274,798,343

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

GOLDSOURCE MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
UNAUDITED - (EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (3,139,245)	\$ (2,488,454)
Items not affecting cash:		
Accretion expense	1,199	9,170
Depreciation	488,319	268,222
Foreign exchange (gain) loss	(22,108)	10,596
Interest expense	11,532	14,587
Interest income	(25,591)	(32,127)
Share-based compensation	18,338	364,311
Unrealized (gain) loss on marketable securities	(508)	507
Changes in non-cash working capital items:		
Amounts receivable	(544)	4,378
Taxes receivable	(4,032)	(9,186)
Prepaid expenses	(149,482)	(18,884)
Accounts payable and accrued liabilities	(193,415)	(10,535)
Net cash used in operating activities	(3,015,537)	(1,887,415)
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property	-	(33,271)
Purchase of property, plant and equipment	(105,132)	(48,437)
Interest received	58,519	(1,324)
Net cash used in investing activities	(46,613)	(83,032)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued	6,656,915	8,731,236
Capital stock issuance costs	(589,019)	(680,293)
Payment of lease liabilities	(30,197)	(30,197)
Net cash provided by financing activities	6,037,699	8,020,746
Change in cash and cash equivalents, during the period	2,975,549	6,050,299
Cash and cash equivalents, beginning of the period	3,159,068	398,144
Cash and cash equivalents, end of the period	\$ 6,134,617	\$ 6,448,443
Cash and cash equivalents is represented by:		
Cash	273,020	3,583,943
Cash equivalents	5,861,597	2,864,500
	\$ 6,134,617	\$ 6,448,443
Non-cash investing activities		
Capitalized to property, plant and equipment		
Right of use asset recognized	\$ -	\$ 173,493
Rehabilitation provision	\$ 33,015	\$ (32,173)
Accounts payable and accrued liabilities	\$ -	\$ 59,869
Non-cash financing activities		
Fair value of agents' warrants	\$ 290,708	\$ 403,195
Share subscription applied to share issuance	\$ -	\$ 438,404

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

GOLDSOURCE MINES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)

	Capital stock		Subscriptions received	Reserves	Deficit	Total
	Number	Amount		Share-based payments		
Balance at December 31, 2018	221,917,910	\$ 55,116,880	\$ 438,404	\$ 6,013,767	\$ (51,373,413)	\$ 10,195,638
Private placements	88,330,000	8,779,600	(438,404)	-	-	8,341,196
Capital stock issuance costs	-	(1,083,488)	-	403,195	-	(680,293)
Warrants Exercised	3,700,400	370,040	-	-	-	370,040
Share-based compensation	-	-	-	364,311	-	364,311
Stock options exercised	200,000	35,463	-	(15,463)	-	20,000
Stock options expired or forfeited	-	-	-	(209,348)	209,348	-
Net and comprehensive loss for the period	-	-	-	-	(2,488,454)	(2,488,454)
Balance at June 30, 2019	314,148,310	63,218,495	-	6,556,462	(53,652,519)	16,122,438
Warrants exercised	28,800	6,561	-	(3,105)	-	3,456
Share-based compensation	-	-	-	268,778	-	268,778
Stock options expired or forfeited	-	-	-	(69,014)	69,014	-
Net loss and comprehensive loss for the period	-	-	-	-	(4,173,299)	(4,173,299)
Balance at December 31, 2019	314,177,110	63,225,056	-	6,753,121	(57,756,804)	12,221,373
Private placements (note 7)	60,026,500	6,602,915	-	-	-	6,602,915
Capital stock issuance costs (note 7)	-	(879,727)	-	290,708	-	(589,019)
Warrants exercised (note 7)	600,000	54,000	-	-	-	54,000
Share-based compensation (note 7)	-	-	-	18,338	-	18,338
Stock options expired (note 7)	-	-	-	(190,020)	190,020	-
Net loss and comprehensive loss for the period	-	-	-	-	(3,139,245)	(3,139,245)
Balance at June 30, 2020	374,803,610	\$ 69,002,244	\$ -	\$ 6,872,147	\$ (60,706,029)	\$ 15,168,362

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

GOLDSOURCE MINES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30, 2020

1. NATURE AND CONTINUANCE OF OPERATIONS

Goldsource Mines Inc. (the “Company” or “Goldsource”) is a Canadian resource company engaged in exploration and development. The Company’s primary business objective is to expand and improve the quality of its existing resources through exploration in order to enable it to become a low-cost gold producer at its Eagle Mountain Gold Project, located on its Eagle Mountain Property, in Guyana, South America. Goldsource is incorporated under the Business Corporations Act (British Columbia). The common shares of the Company trade on the TSX Venture Exchange under the symbol “GXS” and on the OTCQB under the symbol “GXSFF”. The head office and principal address of the Company is 501-570 Granville Street, 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 currently has no proven or probable reserves and, based on information to date, has not yet determined whether its Eagle Mountain Gold Project contains economically recoverable ore reserves. Consequently, the Company considers itself to be an exploration stage company.

While the Company currently has no source of revenue, management believes its cash and cash equivalents of \$6.1 million, as of June 30, 2020, will be sufficient to fund its minimum exploration activities and general corporate activities for the next 12 months. These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business.

These condensed consolidated interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts, the classification of liabilities, or the impact on the statement of operations that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company’s business could be adversely affected by the effects of the recent outbreak of respiratory illness caused by the novel coronavirus (“COVID 19”). Since early March 2020, significant measures have been implemented in Canada, Guyana, and the rest of the world by governmental authorities in response to COVID-19. The Company cannot accurately predict the impact COVID 19 will have on the ability of third parties to meet their obligations with the Company, including due to uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In particular, the continued spread of the COVID-19 globally could materially and adversely impact the Company’s business including without limitation, employee health, limitations on travel, the availability of industry experts and personnel, restrictions on planned drill programs, and other factors that depend on future developments beyond the Company’s control. In addition, COVID-19 has resulted in a widespread health crisis that has adversely affected the economies and financial markets of many countries (including Canada and Guyana), resulting in an economic downturn that may negatively impact the Company’s financial position, financial performance, cash flows, and its ability to raise capital, in 2020. In compliance with directives issued by the Guyanese government, the Company suspended exploration activities at the Eagle Mountain Property on April 5, 2020 and resumed exploration activities on June 11, 2020. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on the Company’s exploration activities, including the impact on the timing of its planned pre-feasibility study, cannot be reasonably estimated at this time.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2019, which include information necessary or useful to understanding the Company’s business and financial statement presentation. In particular, the Company’s significant accounting policies and use of judgments and estimates were presented in notes 2 and 3 of those consolidated financial statements, and have been consistently applied in the preparation of these condensed consolidated interim financial statements.

GOLDSOURCE MINES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation and measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. Additionally, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information. These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on August 18, 2020.

Basis of consolidation

These condensed consolidated financial interim statements include the accounts of Goldsource and its wholly owned subsidiaries Eagle Mountain Gold Corp., a Canadian corporation, and Stronghold Guyana Inc. ("Stronghold"), a Guyanese corporation. Goldsource consolidates subsidiaries where the Company has the ability to exercise control. Control is achieved when the Company is exposed to variable returns from involvement with an investee and has the ability to affect the returns through power over the investee. Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. Control can also be achieved through power over more than half of the voting rights by virtue of an agreement with other investors or through the exercise of de facto control. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation.

Use of estimates and judgements and COVID-19

The preparation of these condensed consolidated interim 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 condensed consolidated interim financial statements and the reported amounts of revenues and expenditures during the period.

COVID-19 has led to the suspension of the Company's exploration activities from April 5 to June 11, 2020 and has severely disrupted the global economy and financial markets. It is difficult to estimate the nature, timing, and extent of the business and economic impact on the Company's financial performance and this uncertainty could materially affect the Company's operations and financial condition. This uncertainty could also materially affect estimates including the valuation of long-lived assets, including property and equipment and mineral property assets. Actual results may materially differ from these estimates.

3. MINERAL PROPERTY AND EXPLORATION AND EVALUATION EXPENDITURES

Eagle Mountain Gold Project – Guyana

	As at December 31, 2018	Additions during the year	As at December 31, 2019	Additions during the period	As at March 31, 2020
Mineral property acquisition costs					
Mineral property acquired	\$ 5,814,856	\$ 33,271	\$ 5,848,127	\$ -	\$ 5,848,127
Shares issued	853,427	-	853,427	-	853,427
Impairment	-	(126,046)	(126,046)	-	(126,046)
Total mineral property acquisition costs	\$ 6,668,283	\$ (92,775)	\$ 6,575,508	\$ -	\$ 6,575,508

During 2018, the Company entered into an option agreement to acquire a 100% interest in the Bishop Growler Property, located three kilometres from the Eagle Mountain Gold Project, for total consideration of US\$1,025,000. To December 31, 2019, the Company made two option payments (US\$75,000 and US\$25,000) totaling US\$100,000.

During the six months ended June 30, 2020, the Company terminated its option to purchase the Bishop Growler property, as exploration activities on the Bishop Growler property indicated that the property did not have the potential to be included in a large-scale mining operation. Accordingly, during the year ended December 31, 2019, the Company recorded impairment expense of \$126,046 for all related capitalized acquisition costs.

GOLDSOURCE MINES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30, 2020

3. MINERAL PROPERTY AND EXPLORATION AND EVALUATION EXPENDITURES (continued)

Eagle Mountain Gold Project – Guyana (continued)

The following table details the exploration and evaluation expenditures on the Company's Eagle Mountain Gold Project:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Exploration and evaluation expenditures:		
Assays	\$ 88,954	\$ 60,164
Camp costs	216,156	231,701
Depreciation (note 4)	458,231	236,244
Drilling	701,120	113,965
Operations and general	301,743	166,329
Salaries (note 6)	660,532	503,266
Share-based compensation	-	46,065
Technical services and consulting	130,102	93,255
Total exploration and evaluation expenditures	\$ 2,556,838	\$ 1,450,989

In connection with the acquisition of Eagle Mountain Gold Corp. in 2014, the Company acquired a 100% interest in the Eagle Mountain Gold Project located in Guyana. On March 6, 2014, the Company executed an Amendment Agreement with Omai Gold Mines Ltd. ("OGML"), a subsidiary of IAMGOLD Corporation with respect to the Eagle Mountain Gold Project. The summary of amending terms includes:

- I. Goldsource will issue to OGML 3,389,279 common shares (issued);
- II. Goldsource shall pay OGML US\$3,025,501 ("Initial Payment") in cash or, at Goldsource's option, in common shares of Goldsource, at a price per share equal to a five percent (5%) discount to the Volume Weighted Average Price ("VWAP") of Goldsource's common shares for the twenty trading days prior to issuance, upon the earlier of:
 - a. If average market price of gold is US\$1,400/oz. or higher upon achieving total production of 40,000 ounces of gold, then the Initial Payment is due 90 days after 40,000 ounces have been produced, otherwise payment to be made 90 days after 50,000 ounces produced from the Project;
 - b. Ninety days after having completed one year of gold production under a large-scale Mining License issued by the Guyana Geology and Mines Commission ("GGMC"); or
 - c. Five days after the date on which the 20-day VWAP of Goldsource exceeds \$0.75 per share.
- III. Goldsource shall pay OGML an additional US\$5,000,000 ("Final Payment") in cash or, at Goldsource's option, US\$2,500,000 cash and US\$2,500,000 in common shares of Goldsource, at a price per share equal to a five percent (5%) discount to the 20-day VWAP of Goldsource's common shares. The Final Payment shall be made one year after the earlier of:
 - a. The payment set out in, ("II a.") above has been made; or
 - b. After having completed one year of gold production under a large-scale Mining License issued by the GGMC.

The Company pledged a \$281,285 (US\$206,200) (December 31, 2019 – \$268,387 (US\$206,200)) reclamation site bond, included in deposits on the statement of financial position, held by the Guyana Geology and Mines Commission for exploration permits on the Eagle Mountain Gold Project.

Goldsource's subsidiary Stronghold holds a prospecting license on the Eagle Mountain Property ("EMPL"), which was renewed on October 18, 2019 for a three-year period. In August 2014, the Guyana Geology and Mines Commission granted a Medium Scale Mining Permit (the "Permit") to Kilroy Mining Inc. ("Kilroy") to mine gold, diamonds, precious metals and minerals on a portion within the Eagle Mountain Property. As the Permit is required under Guyanese law to be held by a Guyanese national, Stronghold has entered into agreements with Kilroy, a private arm's length Guyanese company pursuant to which Stronghold and Kilroy will jointly operate the Eagle Mountain Gold Project. Kilroy has granted Stronghold the exclusive right to conduct mining operations on the Eagle Mountain Gold Project including any additional areas acquired by Kilroy. Stronghold will fund all expenditures on the Eagle Mountain Gold Project and receive 100% of all revenues, subject to applicable government royalties and a 2% net smelter return royalty to Kilroy as compensation for its participation.

GOLDSOURCE MINES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30, 2020

4. PROPERTY, PLANT AND EQUIPMENT

	Eagle Mountain Gold Project			Right of use asset	Corporate office	Total
	Construction in progress	Processing plant ⁽³⁾	Other equipment ⁽²⁾			
Cost						
As at December, 31, 2018	\$ 87,394	\$ 3,355,224	\$ 2,411,846	\$ -	\$ 68,507	\$ 5,922,971
Recognition of right of use asset upon initial adoption of accounting policy	-	-	-	173,493	-	173,493
Additions	-	-	124,800	-	2,080	126,880
Changes in asset retirement obligation	-	(37,935)	-	-	-	(37,935)
Disposals	(87,394)	(61,640)	-	-	-	(149,034)
As at December 31, 2019	-	3,255,649	2,536,646	173,493	70,587	6,036,375
Additions	21,847	-	83,285	-	-	105,132
Changes in asset retirement obligation	-	(33,015)	-	-	-	(33,015)
As at June 30, 2020	\$ 21,847	\$ 3,222,634	\$ 2,619,931	\$ 173,493	\$ 70,587	\$ 6,108,492
Accumulated depreciation						
As at December, 31, 2018	\$ -	\$ 1,141,578	\$ 1,251,059	\$ -	\$ 65,993	\$ 2,458,630
Depreciation for the year	-	111,299	383,145	37,853	2,683	534,980
Disposal	-	(25,090)	-	-	-	(25,090)
As at December 31, 2019	-	1,227,787	1,634,204	37,853	68,676	2,968,520
Depreciation for the period ⁽¹⁾	-	215,205	253,507	18,926	681	488,319
As at June 30, 2020	\$ -	\$ 1,442,992	\$ 1,887,711	\$ 56,779	\$ 69,357	\$ 3,456,839
Carrying amounts						
As at December 31, 2019	\$ -	\$ 2,027,862	\$ 902,442	\$ 135,640	\$ 1,911	\$ 3,067,855
As at June 30, 2020	\$ 21,847	\$ 1,779,642	\$ 732,220	\$ 116,714	\$ 1,230	\$ 2,651,653

⁽¹⁾ During the six months ended June 30, 2020, depreciation expense of \$458,231 (June 30, 2019 – \$236,244) was recorded in exploration and evaluation expenditures (note 3).

⁽²⁾ Other equipment consists of vehicles, buildings, and equipment.

⁽³⁾ During the year ended December 31, 2019, the Company changed its estimate for the remaining useful life for the processing plant. The Company now estimates that the processing plant's useful life will end in 2027. The total effect of these changes on actual and expected depreciation expense, included in exploration and evaluation expenditures, is as follows:

	2019	2020	2021	2022	2023	Later
(Decrease) increase in depreciation expense	(201,565)	(201,565)	(201,565)	(201,565)	1,316	804,946

GOLDSOURCE MINES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30, 2020

5. REHABILITATION PROVISION

The rehabilitation provision relates to the construction of the Eagle Mountain Gold Project. Significant reclamation and closure activities include land rehabilitation, the removal of buildings and processing plant, and other costs.

	Six months ended June 30, 2020	Year ended December 31, 2019
Balance, beginning of period (year)	\$ 391,051	\$ 410,709
Changes in obligation	3,710	7,601
Accretion expense	1,199	18,277
Changes in estimates	(36,725)	(45,536)
Balance, end of period (year)	\$ 359,235	\$ 391,051

During the year ended December 31, 2019, the Company changed its estimate for when rehabilitation costs would be realized. The Company now estimates that rehabilitation costs will be incurred in 2027. As a result, the Company recorded a reduction of the rehabilitation provision, and a corresponding reduction of the related asset, of \$45,536.

The present value of the rehabilitation provision, using an effective discount rate of 5% (December 31, 2019 – 5%), is currently estimated at \$359,235 (US\$219,006) (December 31, 2019 – \$391,051 (US\$242,706), reflecting anticipated cash flows to be incurred over approximately the next eight years (December 31, 2019 – nine years). The undiscounted value of these obligations is \$433,960 (US\$335,500) (December 31, 2019 – \$429,185 (US\$332,000), calculated using a long-term inflation rate assumption of 1.3% (December 31, 2019 – 2.4%).

In view of uncertainties concerning asset retirement obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of future asset retirement obligations is subject to change based on amendments to applicable laws and legislation. Future changes in asset retirement obligations, if any, could have a significant impact.

6. RELATED PARTY TRANSACTIONS

Key management compensation

The Company's key management personnel have the authority and responsibility for planning, directing, and controlling the activities of the Company and include the Company's President, Chief Operating Officer and Interim Vice President of Finance ("COO"), former Chief Financial Officer ("CFO"), and directors. Key management personnel compensation is summarized as follows:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Management remuneration ⁽¹⁾	\$ 178,713	\$ 135,625
Directors fees	18,000	-
Share-based compensation ⁽²⁾	-	258,562
	\$ 196,713	\$ 394,187

⁽¹⁾ The Company paid management fees to companies controlled by the COO and the President, and paid remuneration and short-term benefits to the CFO.

⁽²⁾ Share-based compensation is the vested portion of the fair value at grant date of stock options awarded to all directors and officers of the Company.

Legal fees

During the six months ended June 30, 2020, legal fees of \$39,908 (June 30, 2019 – \$18,795), included in professional fees, and capital stock issuance costs of \$90,414 (June 30, 2019 – \$73,260) were paid or accrued to Koffman Kalef LLP, a law firm of which an officer of the Company is a partner, of which \$14,629 (December 31, 2019 – \$1,377) was payable at June 30, 2020.

GOLDSOURCE MINES INC.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED - EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30, 2020

6. RELATED PARTY TRANSACTIONS (continued)

Other transactions

During the six months ended June 30, 2020, the Company paid remuneration of \$Nil (June 30, 2019 – \$2,917) and recognized share-based compensation of \$Nil (June 30, 2019 – \$4,607) to a consultant who is an immediate family member of the COO. Remuneration and share-based payments incurred to this consultant was recorded as exploration and evaluation expenditures (note 3).

The Company has 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 expenses. During the six months ended June 30, 2020, the Company was allocated \$81,245 (June 30, 2019 – \$129,999) for its share of these expenses, of which \$15,046 (December 31, 2019 – \$36,428) was payable to SilverCrest at June 30, 2020.

7. CAPITAL STOCK

Authorized shares

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.

Issued and outstanding

At June 30, 2020, the Company had 374,803,610 common shares and no preferred shares outstanding.

Six months ended June 30, 2020

The Company issued 600,000 common shares at \$0.09 per common share for gross proceeds of \$54,000 on the exercise of warrants.

The Company completed a private placement of 60,026,500 units at a price of \$0.11 per unit for gross proceeds of \$6,602,915. Each unit consisted of one common share and one-half warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.16 until September 24, 2022. The Company determined that the warrants did not have any residual value. The Company paid cash commissions of \$371,777, and issued 3,571,590 agents’ warrants with a total fair value of \$290,708. Each agent warrant is exercisable to acquire one common share at a price of \$0.11 until March 24, 2022. The Company incurred capital stock issuance costs of \$217,242 in connection with the private placement.

Year ended December 31, 2019

The Company completed a private placement of 26,000,000 units at a price of \$0.05 per unit for gross proceeds of \$1,300,000. Each unit consisted of one common share and one warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.09 until January 17, 2021. The Company determined that the warrants did not have any residual value. The Company paid finder’s fees of \$28,500 and incurred capital stock issuance costs of \$79,418 in connection with the private placement.

The Company completed a private placement of 62,330,000 units at a price of \$0.12 per unit for gross proceeds of \$7,479,600. Each unit consisted of one common share and one-half warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.20 until April 11, 2021. The Company determined that the warrants did not have any residual value. The Company paid cash commissions of \$503,756 and issued 3,739,800 agents’ warrants with a total fair value of \$403,195. Each agent warrant is exercisable to acquire one common share at a price of \$0.12 per share until April 11, 2021. The Company incurred capital stock issuance costs of \$68,619 in connection with the private placement.

The Company issued 3,700,400 common shares at \$0.10 per common share and 28,800 common shares for \$0.12 per common share for gross proceeds of \$373,496 upon the exercise of warrants. Accordingly, the Company reallocated \$3,105 from reserves to capital stock. The Company also issued 200,000 common shares at \$0.10 per common share for gross proceeds of \$20,000 upon the exercise of stock options. Accordingly, the Company reallocated \$15,463 from reserves to capital stock.

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7. CAPITAL STOCK (continued)

Warrants

Warrant transactions during the period (year) are as follows:

	Six months ended June 30, 2020		Year ended December 31, 2019	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
Outstanding, beginning of period (year)	102,980,872	\$ 0.13	72,038,722	\$ 0.15
Issued	33,584,840	0.15	60,904,800	0.15
Exercised	(600,000)	0.09	(3,729,200)	0.10
Expired	(32,957,600)	0.10	(26,233,450)	0.23
Outstanding, end of period (year)	103,008,112	\$ 0.15	102,980,872	\$ 0.13

The warrants outstanding at June 30, 2020 are as follows:

Expiry date	Exercise price	Remaining life (years)	Number of Warrants
August 10, 2020*	\$ 0.09	0.11	9,147,272
January 17, 2021	\$ 0.09	0.55	25,400,000
April 11, 2021	\$ 0.20	0.78	31,165,000
April 11, 2021	\$ 0.12	0.78	3,711,000
March 24, 2022	\$ 0.11	1.73	3,571,590
September 24, 2022	\$ 0.16	2.24	30,013,250
			103,008,112

*Subsequent to June 30, 2020, 8,647,272 warrants were exercised before the expiry date and 500,000 warrants expired unexercised.

The weighted average remaining life of warrants outstanding is 1.12 years.

Stock options

The Company has a "rolling 10%" Stock Option Plan which authorizes the grant of stock options to directors, officers, employees, and consultants, enabling them to acquire common shares of the Company to a maximum of 10% of the then issued and outstanding common shares. The exercise price of each option shall equal the market price of the Company's stock as at the date of the grant. The options can be granted for a maximum term of 10 years with vesting determined by the Board of Directors. Options granted to investor relations consultants shall vest over a period of at least one year. The Company has not granted options for periods exceeding five years.

The Company's stock option transactions during the period (year) are as follows:

	Six months ended June 30, 2020		Year ended December 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period (year)	16,135,000	\$ 0.13	9,535,000	\$ 0.18
Issued	-	-	8,800,000	0.10
Exercised	-	-	(200,000)	0.10
Expired	(1,750,000)	0.20	(1,400,000)	0.24
Forfeited	-	-	(600,000)	0.21
Outstanding, end of period (year)	14,385,000	\$ 0.12	16,135,000	\$ 0.13

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7. CAPITAL STOCK (continued)

Stock options (continued)

During the six months ended June 30, 2020, the Company did not grant stock options.

During the year ended December 31, 2019, the Company granted:

- 3,400,000 stock options to directors, officers, employees, and consultants that can be exercised at a price of \$0.13 per share until January 25, 2024. These stock options vest immediately except for 150,000, which vest over a one-year period with 25% vesting after each of three months, six months, nine months, and twelve months after the grant date, respectively.
- 450,000 stock options to employees and consultants that can be exercised at a price of \$0.14 per share until June 13, 2024. These stock options vest immediately except for 300,000, which vest over a one-year period with 25% vesting after each of three months, six months, nine months, and twelve months after the grant date, respectively.
- 450,000 stock options to a consultant that can be exercised at a price of \$0.14 per share until June 13, 2022. These stock options vest over a one-year period with 25% vesting after each of three months, six months, nine months, and twelve months after the grant date, respectively.
- 500,000 stock options to a newly appointed director of the Company that can be exercised at a price of \$0.08 per share until November 18, 2024. These stock options vest immediately.
- 4,000,000 stock options to directors, officers, employees, and consultants that can be exercised at a price of \$0.06 per share until December 23, 2024. These stock options vest immediately except for 150,000, which vest over a one-year period with 25% vesting after each of three months, six months, nine months, and twelve months after the grant date, respectively.

Stock options outstanding and exercisable at June 30, 2020 are as follows:

Expiry date	Exercise price	Options outstanding		Options exercisable
		Number of shares issuable on exercise	Remaining life (years)	Number of shares issuable on exercise
October 1, 2020	\$ 0.16	35,000	0.25	35,000
December 16, 2020	\$ 0.21	1,625,000	0.46	1,625,000
February 1, 2021	\$ 0.28	75,000	0.59	75,000
February 21, 2022	\$ 0.17	1,700,000	1.65	1,700,000
March 28, 2022	\$ 0.16	500,000	1.74	500,000
May 30, 2022	\$ 0.13	50,000	1.92	50,000
June 13, 2022	\$ 0.14	450,000	1.95	450,000
January 31, 2023	\$ 0.10	1,600,000	2.59	1,600,000
January 25, 2024	\$ 0.13	3,400,000	3.57	3,400,000
June 13, 2024	\$ 0.14	450,000	3.96	450,000
November 18, 2024	\$ 0.08	500,000	4.39	500,000
December 23, 2024	\$ 0.06	4,000,000	4.48	3,925,000
		14,385,000		14,310,000

The weighted average remaining life of options outstanding is 3.03 years.

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7. CAPITAL STOCK (continued)

Share-based compensation

The fair value of agents' warrants issued and stock options granted during the six months ended June 30, 2020 and 2019, respectively, was estimated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	Six months ended June 30, 2020	Six months ended June 30, 2019
Expected option life (years)	2.00	3.14
Expected volatility	137%	122%
Expected dividend yield	-	-
Risk-free interest rate	0.59%	1.69%
Expected forfeiture rate	1.00%	1.00%
Fair value per option	\$ 0.08	\$ 0.10
Total fair value	\$ 290,708	\$ 838,402

During the six months ended June 30, 2020, the Company recognized share-based compensation of \$290,708, for the agents' warrants issued during the period, all of which was considered capital stock issuance costs. The Company also recognized share-based compensation expense of \$18,338 for the vested portion of options previously granted during 2019.

During the six months ended June 30, 2019, the Company recognized share-based compensation of \$767,369, for the vested portion of options granted during the period, of which \$318,109 was expensed, \$403,195 was considered capital stock issuance costs, and \$46,065 was considered exploration expenditures (note 3). The Company also recognized share-based compensation expense of \$137 for the vested portion of options previously granted during 2018.

Share-based payment reserve

The share-based payment reserve records items recognized as share-based compensation and the fair value of compensatory warrants. When stock options or warrants are exercised, the corresponding amount is reallocated to share capital or, if cancelled or expired, the corresponding amount is reallocated to deficit.

A summary of share-based payment reserve transactions is as follows:

	Six months ended June 30, 2020	Year ended December 31, 2019
Balance, beginning of period (year)	\$ 6,753,121	\$ 6,013,767
Share-based compensation	18,338	633,089
Fair value of agents' warrants	290,708	403,195
Stock options exercised, reallocated to capital stock	-	(15,463)
Agents' warrants exercised, reallocated to capital stock	-	(3,105)
Stock options expired, reallocated to deficit	(190,020)	(278,362)
Balance, end of period (year)	\$ 6,872,147	\$ 6,753,121

8. CONTINGENCY

In November 2019, Kilroy received a demand for foregone customs duty and taxes from the Guyana Revenue Agency ("GRA"). The GRA alleges that the joint venture agreement between Kilroy and Stronghold, a wholly owned subsidiary of the Company, has breached the terms of the customs duty and tax exemption granted to Kilroy during 2015 and 2016 on the purchase of mining equipment. The GRA seeks payment of \$459,478 (\$73,056,644 Guyanese dollars). Management believes that these claims are without merit and intends to defend against the claim. Accordingly, the Company has not accrued any amounts related to this claim.

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9. LEASE LIABILITY

Lease liability	June 30, 2020		December 31, 2019	
Lease liability	\$	122,148	\$	140,813
Less: current portion		(55,720)		(55,720)
Long-term portion	\$	66,428	\$	85,093

Changes to the Company's lease liability was as follows:

	Six months ended		Year ended	
	June 30, 2020		December 31, 2019	
Opening balance	\$	140,813	\$	-
Lease liability due to initial application of IFRS 16		-		173,493
Interest expense		11,532		27,714
Interest paid		(11,532)		(27,714)
Payment of principal portion of lease liabilities		(18,665)		(32,680)
Balance, end of period (year)	\$	122,148	\$	140,813

10. SEGMENTED INFORMATION

The Company primarily operates in one reporting operating segment, being the acquisition, exploration and evaluation of resource properties located in two geographical segments, Canada and Guyana.

Geographical segmented information is presented as follows:

	Canada	Guyana	Total
<u>Comprehensive loss</u>			
Six months ended June 30, 2020			
Net loss for the period	\$ 627,471	\$ 2,511,774	\$ 3,139,245
Six months ended June 30, 2019			
Net loss for the period	\$ 1,017,956	\$ 1,470,498	\$ 2,488,454
<u>Non-current assets and liabilities</u>			
June 30, 2020			
Deposit	\$ -	\$ 290,495	\$ 290,495
Rent deposit	\$ 36,053	\$ -	\$ 36,053
Mineral property	\$ -	\$ 6,575,508	\$ 6,575,508
Property, plant and equipment	\$ 117,943	\$ 2,533,710	\$ 2,651,653
December 31, 2019			
Deposit	\$ -	\$ 268,387	\$ 268,387
Rent deposit	\$ 36,053	\$ -	\$ 36,053
Mineral property	\$ -	\$ 6,575,508	\$ 6,575,508
Property, plant and equipment	\$ 137,550	\$ 2,930,305	\$ 3,067,855

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11. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

Financial instruments carrying value and fair value

The Company's financial instruments consist of cash and cash equivalents, marketable securities, deposit, accounts payable, and loan payable. The carrying value of the deposits and accounts payable approximates the fair value due to the short-term nature of these instruments. The fair value of the Company's long-term deposit approximates its' carrying value as it is a bond held at a financial institution.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's marketable securities are measured using level 1 inputs.

The following table summarizes the classification and carrying values of the Company's financial instruments:

		FVTPL	Amortized cost (financial assets)	Amortized cost (financial liabilities)	Total
June 30, 2020					
Financial assets					
Cash and cash equivalents	\$	-	\$ 6,134,617	\$ -	\$ 6,134,617
Amounts receivable		-	34,289	-	34,289
Held-for-trading securities		1,015	-	-	1,015
Total financial assets	\$	1,015	\$ 6,168,906	\$ -	\$ 6,169,921
Financial liabilities					
Accounts payable and accrued liabilities	\$	-	\$ -	\$ 282,002	\$ 282,002
Lease liability		-	-	122,148	122,148
Total financial liabilities	\$	-	\$ -	\$ 404,150	\$ 404,150
December 31, 2019					
Financial assets					
Cash and cash equivalents	\$	-	\$ 3,159,068	\$ -	\$ 3,159,068
Amounts receivable		-	62,641	-	62,641
Held-for-trading securities		507	-	-	507
Total financial assets	\$	507	\$ 3,221,709	\$ -	\$ 3,222,216
Financial liabilities					
Accounts payable and accrued liabilities	\$	-	\$ -	\$ 475,417	\$ 475,417
Lease liability		-	-	140,813	140,813
Total financial liabilities	\$	-	\$ -	\$ 616,230	\$ 616,230

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2020:

- the Company issued 13,647,271 common shares at \$0.09 per common share for gross proceeds of \$1,228,254 upon the exercise of warrants; and
- 500,000 warrants at \$0.09 per common share expired unexercised.