



**MANAGEMENT'S DISCUSSION & ANALYSIS OF  
FINANCIAL CONDITIONS & RESULTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

**FORM 51-102F1**

This Management's Discussion and Analysis ("MD&A") is an overview of the activities of **Goldsource Mines Inc.** (the "Company" or "Goldsource") for the three and nine months ended September 30, 2011. The MD&A should be read in conjunction with the unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 and 2010 and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS"). The following should also be read in conjunction with the audited financial statements, the related MD&A and Annual Information Form for the year ended December 31, 2010, and all other disclosure documents of the Company. It should be noted that the audited financial statements for the year ended December 31, 2010 were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"), the reconciliation of which can be found on page 9 of this MD&A. 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 effective date of this MD&A is November 28, 2011.

### **THIRD QUARTER AND RECENT HIGHLIGHTS**

- Goldsource and Zero Emission Energy Plants Ltd (ZEEP) entered into a definitive arrangement agreement whereby the two companies agreed to merge (see ZEEP Arrangement Agreement section).
- Goldsource agreed with ZEEP to extend the closing date of the business combination to December 31, 2011.
- Commenced a summer 8 core hole drilling program at the Border Project. This program was completed in mid-October (see Highlights in Exploration section).
- Submitted applications to the Saskatchewan Ministry of Energy and Resources for conversion of existing coal permits to coal leases. The Company has applied to retain approximately 56,110 hectares which covers all current coal resources, potential exploration targets and road and rail infrastructure access. The leases will be valid for a period of 15 years, renewable for a second 15 year period and are subject to a \$5.50 per hectare annual rental fee but no work commitments.

### **OVERVIEW OF THE BUSINESS**

**Goldsource Mines Inc. (TSX-V: GXS)** is a Canadian resource company engaged in the exploration and development of Canada's newest coal field in the province of Saskatchewan. Its mineral interests presently consist of coal exploration properties located in Saskatchewan and Manitoba in Canada referred to as the "Border Coal Project".

The Company's discovery of major thermal coal occurrences in east-central Saskatchewan in 2008 resulted in aggressive exploration and development of this new coal discovery. Since the initial discovery, Goldsource has drilled 154 holes, and found substantial coal resources in 17 deposits with an expenditure as at September 30, 2011 of approximately \$17.8 million since the discovery. Overall, the estimated coal resources at Border consist of 79.1 million Indicated tonnes plus 33.0 million Inferred tonnes, and 61.2 million Speculative tonnes as stated in the "Technical Report on the Border Coal Property, Resource Estimation" dated March 15, 2011 by Marston Consultants of Calgary, AB ("Marston") and EBA Engineering Consultants of Vancouver, BC ("EBA") and posted on SEDAR at [www.sedar.com](http://www.sedar.com). The recent program was successful in extending and reclassifying portions of the existing resources.

Marston and EBA completed a Preliminary Assessment (PA) report on the Border Coal Project, in March 2011. As part of the PA, Marston examined the economic viability of establishing a facility to convert the Border coals to liquids (CTL). Marston relied on CTL sources for the capital cost estimates associated with such a facility. The total installed cost of the facility has been estimated to be \$1.94 billion and was allocated over five years with commencement depending on the rate of advancement of Pre-Feasibility and Feasibility studies. There would be an additional \$90 million dollars of sustaining capital required over the life the project. All capital and operating costs are to a Preliminary Assessment level and were established using quotes, experience, and factored industry standard numbers. Costs are to a +/- 30% accuracy as are typical for this level of evaluation. Under the assumptions of the economic model and using a 5% discount rate, the discounted Net Present Value of the project is estimated to be \$256 million.

The Company continues to focus its efforts on the delineation of the coal occurrences identified on the Border Property in east-central Saskatchewan and to examine potential markets and processes that can utilize Border coals.

## **ZEEP ARRANGEMENT AGREEMENT**

Goldsource and Zero Emission Energy Plants Ltd. ("ZEEP") entered into a definitive arrangement agreement dated August 24, 2011, whereby the two companies would merge.

### **About ZEEP**

ZEEP is a private Bermuda company at arm's length to Goldsource that was founded in 2008 to commercialize and deploy certain gasification technologies (the "PWR Technology") developed by Pratt & Whitney Rocketdyne, Inc. ("PWR"). Gasification is an environmentally friendly method to use petroleum coke ("petcoke"), coal or biomass to generate synthetic gas ("syngas") which, in turn, can be efficiently converted to end products such as hydrogen, chemical feedstocks, transportation fuels or synthetic natural gas. Carbon dioxide, and other pollutants otherwise generated through the traditional combustion of coal are contained in the gasification process and can be sold as valuable by-products. ZEEP holds a world-wide license to use the PWR Technology and intends to commercialize the PWR Technology by building, owning and operating gasification facilities in "energy centres" that convert coal, petcoke or biomass into a wide variety of high quality end-products such as hydrogen, carbon monoxide, carbon dioxide, methanol, gasoline and electricity. ZEEP also intends to acquire and develop coal resources that can be processed in its poly-generation energy centres. ZEEP also plans to sub-license the PWR Technology to other project developers. ZEEP is managed by a team of professionals with extensive experience in gasification technologies and the acquisition and development of large energy projects. For further information please go to [www.ZEEP.com](http://www.ZEEP.com).

### **The Arrangement Agreement**

The Arrangement Agreement contemplates the following (collectively, the "**Transactions**"):

- under the terms of the Arrangement Agreement, Goldsource and ZEEP will effect a business combination whereby ZEEP will acquire all of the issued and outstanding common shares ("**Goldsource Shares**") of Goldsource in exchange for 1.2727 Class A common shares ("**ZEEP Shares**") of ZEEP for each Goldsource share held, and Goldsource will become a wholly-owned subsidiary of ZEEP (the "**Arrangement**");
- any warrants to acquire Goldsource Shares, if outstanding immediately prior to the effective time of the Arrangement, shall remain outstanding and exercisable for ZEEP Shares in accordance with the warrant adjustment provisions contained in the terms of such warrants;
- each stock option to acquire a Goldsource Share shall be exchanged for a ZEEP replacement stock option to purchase such number of ZEEP Shares equal to the number of Goldsource Shares that were the subject of such Goldsource stock option so exchanged multiplied by 1.2727. The exercise price, the term to expiry and vesting schedule of each ZEEP replacement stock option shall be the same as that of the Goldsource stock option;
- a new management team will be appointed led by Ronald E. Oligney as Chief Executive Officer and Bradley J. Thomson as Chief Financial Officer (the "**New Management**");
- a new board of directors will be comprised of three representatives of ZEEP, Ronald E. Oligney, Bruce A. Bernard and Barry A. Williamson, two representatives of Goldsource, J. Scott Drever and Steven B. Simpson, as well as two independent directors to be mutually agreed upon by ZEEP and Goldsource (the "**New Directors**");
- ZEEP shall have completed a financing for minimum aggregate proceeds of \$10,000,000; and
- ZEEP will be continued into the Province of Alberta under the name "Zero Emission Energy Plants Ltd."

Completion of the Arrangement is subject to the satisfaction of a number of conditions under the Arrangement Agreement, including receipt of the approval of the TSX Venture Exchange (the "Exchange") to the listing of the ZEEP shares, approval of the Arrangement and election of the New Directors by not less than 50% of the votes cast at the ZEEP shareholder meeting, approval of the Arrangement by not less than two-thirds of the votes cast at the Goldsource shareholder meeting, approval by the Supreme Court of British Columbia (the "Court"), receipt of all other required regulatory and third party approvals and consents; and such other conditions as may be required to complete and effect the Arrangement.

The Transactions were expected to close on or about October 20, 2011 assuming that Goldsource and ZEEP receive the requisite approvals and all of the conditions to closing are satisfied.

Goldsource agreed with ZEEP to extend the closing date of the business combination to December 31, 2011. Under the amended terms of the Arrangement Agreement ZEEP is required to have completed a financing for minimum aggregate proceeds of \$11,000,000. ZEEP is in advanced discussions for the balance of the financing with financial institutions and investors.

For further information, please refer to News Releases dated September 1, 2011 and November 4, 2011 on the Company's website at [www.goldsourcemines.com](http://www.goldsourcemines.com), and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **EXPLORATION**

### **Border Property, Saskatchewan**

On March 15, 2011, Goldsource filed on SEDAR at [www.sedar.com](http://www.sedar.com) its Preliminary Assessment ("PA") NI 43-101 Technical Report for its Border Coal Project in Saskatchewan. This report was prepared by Marston and EBA. The results are positive based on preliminary economics for a CTL conversion process.

### **Resource Estimates**

The revised resource estimates show a conversion of approximately 20% of the Inferred resources to the Indicated category with substantial additions to the speculative category. Decreases in the inferred category were due mainly to stricter definition of deposit boundaries provided by detailed airborne gravity surveys. The addition of the Niska 105 deposit accounted for much of the increase to the speculative category. There are a number of priority targets yet to be tested that could add to the overall resource base of the area.

#### **Revised Coal Resources at the Border Project**

<b>Category</b>	<b>December 24, 2009 (000's Tonnes)</b>	<b>March 15, 2011 (000's Tonnes)</b>
<b>Indicated</b>	63,500	79,161
<b>Inferred</b>	89,600	33,003
<b>Speculative</b>	18,700	61,183

### **2011 Border Update**

- 79 coal permits for a total of approximately 56,110 hectares are in the process of being converted to coal leases.
- A total of 8 holes were drilled during the fall exploration program (see highlights below). This program was completed in mid-October.
- 107 coal samples were collected and sent to Loring Labs in Calgary for proximate analysis.
- Seven Holes further tested the Pasquia 98 (2 holes) and Niska 105 (5 holes) coal deposits for expansion and conversion to Inferred and Indicated resources.
- One hole was drilled to test an airborne geophysical anomaly in the Red Deer target located near the Border property in Manitoba.
- Environmental baseline work under the direction of EBA Engineering Consultants, a Tetra Tech Company, has continued with emphasis on collecting data and reporting on results for a conveyed Pre-Feasibility Study and permitting.

### **Highlights of the 2011 fall exploration program are as follows:**

- The most significant coal zone intervals occurred in the Niska sub-basin in holes BD11-143, 144 and 145 with true, aggregate thicknesses of approximately 119.0, 100.3 and 113.0 metres respectively (see table below).
- Infill drilling has given better definition to the Niska 105 deposits where the emphasis was on upgrading Speculative Resources to Indicated and Inferred Resources. A majority of the Speculative Resource at Niska 105 are expected to be converted to Indicated Resources with potential increase in overall resources.
- Drilling has further defined a coal deposit at Pasquia 98. One drill hole intercepted coal seam 3 metres thick. Future drilling on this large geophysical anomaly will be contemplated.

**EXPLORATION** (continued)

Numbering of the drill holes for this phase of exploration continues sequentially from previous programs beginning at BD11-141. Names of deposits are based on an identifier in the general location and the areas are designated according to the discovery hole numbers.

Hole ID	From (m)	To (m)	Coal Zone Interval *(m)	Notes
BD11-142	73	76	3	Pasquia 98 deposit
BD11-143	80	199	119	Niska 105 deposit
BD11-144	85	185	100	Niska 105 deposit
BD11-145	61	174	113	Niska 105 deposit
BD11-146	71	161	90	Niska 105 deposit
BD11-147	74	143	69	Niska 105 deposit

\*The coal zone intervals are based on visuals (coal and carbonaceous material) and by down hole, e-log density of 1.6 g/cc or less. Holes BD11-141 and 148 showed no significant coal intercepts.

Once results are received for coal proximate analysis, a new Border resource estimate will be completed in 2012. Should the Zeep merger complete, the resulting management will determine the next steps for the Border project and work plan for 2012.

**Westcore Energy Ltd. Agreement**

In March 2011, the Company executed a definitive Joint Venture Agreement with Westcore Energy Ltd. ("Westcore") pursuant to a letter agreement dated December 10, 2009 by which Goldsource provided Westcore with specific drill sites on its Saskatchewan and Manitoba coal lands. Drilling of these prime coal targets was successful in intersecting substantial thicknesses of coal and accordingly Goldsource received 1,100,000 shares of Westcore and earned a 25% working interest in certain of Westcore's Manitoba and Saskatchewan coal permits. Under the terms of JV Agreement, Goldsource has the option to participate as to its 25% in any subsequent coal lands acquired by Westcore. Westcore is also required to spend \$3.0 million on exploration of the permits prior to Goldsource contributing its 25% share.

Westcore announced during the period the preliminary results of its successful 2011 winter exploration program in which 23 drill holes of a total 39 hole program were drilled on the Black Diamond Property in which Goldsource holds a 25% interest. The program focused on 4 principal targets (Ambit, Cyclops, Athena and Calypso) and 2 satellite deposits (Ambit and Athena). Substantial thickness of coal ranging from 22.1 metres to 75.2 metres were encountered in 11 of the 23 holes in the six deposits drilled (for details please see Westcore's press release dated March 30, 2011, on its web site at [www.westcoreenergy.ca](http://www.westcoreenergy.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com)).

**RESULTS OF OPERATION AND FINANCIAL CONDITION**

**Selected Annual Information**

YEAR ENDED DECEMBER 31,	2010 <sup>(1)</sup>		2009		2008	
		IFRS		CANADIAN GAAP		CANADIAN GAAP
Total revenues	\$	Nil	\$	Nil	\$	Nil
Loss for the year	\$	(2,868,364)	\$	(2,151,595)	\$	(4,978,579)
Loss per share	\$	(0.14)	\$	(0.11)	\$	(0.27)
Total assets	\$	18,258,477	\$	20,090,107	\$	20,542,629
Total non-current financial liabilities	\$	Nil	\$	Nil	\$	Nil
Shareholders's equity	\$	18,084,200	\$	19,480,163	\$	19,809,775
Cash dividends declared per share	\$	Nil	\$	Nil	\$	Nil

<sup>(1)</sup> These amounts have not been audited. Refer to note 4 in the unaudited condensed interim financial statements for the three and nine month period ended September 30, 2011 for a reconciliation of Canadian GAAP to IFRS.

**Summary of Quarterly Results**

The following financial data is selected information for the Company for the eight most recently completed financial quarters:

Period		Revenues	Net Gain (Loss)	Net Gain (Loss) per Share
Q3 September 30, 2011	IFRS <sup>(1)</sup>	\$ Nil	\$ (548,757)	\$ (0.02)
Q2 June 30, 2011	IFRS <sup>(1)</sup>	\$ Nil	\$ (265,134)	\$ (0.01)
Q1 March 31, 2011	IFRS <sup>(1)</sup>	\$ Nil	\$ (103,297)	\$ (0.01)
Q4 December 31, 2010	IFRS <sup>(1)</sup>	\$ Nil	\$ (3,240,153)	\$ (0.16)
Q3 September 30, 2010	IFRS <sup>(1)</sup>	\$ Nil	\$ (71,452)	\$ (0.00)
Q2 June 30, 2010	IFRS <sup>(1)</sup>	\$ Nil	\$ (638,655)	\$ (0.03)
Q1 March 31, 2010	IFRS <sup>(1)</sup>	\$ Nil	\$ 1,081,896	\$ 0.05
Q4 December 31, 2009	Canadian GAAP	\$ Nil	\$ (525,019)	\$ (0.03)

<sup>(1)</sup> These amounts have not been audited. Refer to note 4 in the unaudited condensed interim financial statements for the three and nine month period ended September 30, 2011 for a reconciliation of Canadian GAAP to IFRS.

The gain for the first quarter of 2010 was due primarily to service income of \$1,510,000 relating to the Westcore Agreement.

The large net loss for the fourth quarter of 2010 was due primarily to the write-off of mineral property expenditures.

**Comparison of the three months ended September 30, 2011 and September 30, 2010**

The loss and comprehensive loss for the three months ended September 30, 2011 is \$548,757 as compared to \$421,452 in 2010. The principal differences and significant amounts of note are as follows:

- General and administrative expenses decreased to \$130,298 (2010 - \$150,875) due a reduced level of corporate activity.
- Share-based compensation decreased to \$58,633 (2010 - \$218,436) due to a decrease in the number of options vesting.
- Transaction costs amounted to \$267,344 (2010 - \$Nil) which relates to professional costs incurred in relation to the ZEEP business combination.
- Unrealized loss on held-for-trading securities amounted to \$94,500 (2010 – \$55,000) on valuation of the Company's 625,000 (2010 - 1.1million) Westcore common shares. Under IFRS held-for-trading securities are to be recorded at fair value at each reporting date and the resulting gains or losses are to be included in the operational results for the period.

**RESULTS OF OPERATION AND FINANCIAL CONDITION (continued)****Comparison of the nine months ended September 30, 2011 and September 30, 2010**

The loss (gain) and comprehensive loss (gain) for the nine months ended September 30, 2011 is \$917,188 as compared to (\$21,789) in 2010. The principal differences and significant amounts of note are as follows:

- General and administrative expenses decreased to \$475,232 (2010 - \$533,293) due a reduced level of corporate activity.
- Service income amounted to \$Nil (2010 - \$1,510,000) which comprised \$710,000 from the initial value attributed to 1million Westcore common shares, \$750,000 from the initial value attributed to the 25% working interest earned in Westcore's existing coal lands in Saskatchewan and Manitoba and \$50,000 from the initial value attributed to 100,000 Westcore common shares (see Westcore Energy Ltd. Agreement section) booked against the Border Property in 2009 and reclassified to service income.
- Share-based compensation decreased to \$231,027 (2010 - \$525,741) due to fewer stock options vesting. During the 9 month period to September 30, 356,250 (2010 - 400,000) stock options vested with a weighted average fair value per option granted of \$0.85 (2010 - \$1.17).
- Gain on held-for-trading securities amounted to \$17,661 (2010 - \$Nil) from the sale of 425,000 Westcore common shares. The Company received gross proceeds of \$301,545 and paid commissions of \$3,134
- Unrealized gain on held-for-trading securities amounted to \$44,000 (2010 - loss (\$440,000)) as noted above.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company has financed its operations to date primarily through the issuance of common shares. The Company currently has no operations from which to derive revenues. It receives income from interest on cash balances and short term investments.

On May 19, 2011 the Company completed two offerings to raise gross proceeds of \$3,708,400. The Company completed a short form prospectus offering of 3,636,000 units ("Units") at \$0.55 per Unit for gross proceeds of \$1,999,800. Concurrently the Company completed a private placement of 2,170,000 units ("PP Units") at \$0.55 per PP Unit and 858,500 flow-through common shares ("Flow-Through Shares") at \$0.60 per share, the Company raised gross proceeds of \$1,708,600.

Each Unit and PP Unit consists of one common share of the Company (a "Common Share") and one-half of one common share purchase warrant of the Company (each whole warrant, a "Warrant"), with each Warrant being exercisable to purchase one Common Share at a price of \$0.70 until May 19, 2013.

The offerings were conducted by Canaccord Genuity Corp. The Company paid a 6.5% agent's fee in cash on the gross proceeds of the offerings and issued a total of 433,192 agent's warrants (the "Agent's Warrants"). Each Agent's Warrant is exercisable to purchase one Common Share at a price of \$0.70 until May 19, 2013.

As at September 30, 2011, the Company has paid a total of \$402,561 in share issuance costs relating to the two offerings.

Net cash used in investing activities for the nine month period ended September 30, 2011 was \$2,815,915. Cash used during the period consists of \$1,118,191 spent on exploration and evaluation assets and \$3,000,000 reserved in a short term investment. Cash provided in the period consists of \$298,411 from the proceeds of 425,000 Westcore common shares, \$3,865 in interest received and \$1,000,000 from redeeming short term investments.

As a mineral exploration company the Company is reliant upon equity financings to fund its exploration activities. However, there can be no assurance that the Company will be successful in obtaining additional future financing particularly in the present economic environment.

The Company's working capital as at September 30, 2011 was \$2,389,749. The Company completed a PEA on the Border property in March 2011, which reported the project has the potential to be technically and economically feasible based on a CTL conversion process. A major capital project such as this requires a combination of favourable investment climate, timing, commodity pricing and technology changes to demonstrate rates of return commensurate with the capital at risk. Management believes this combination of circumstances is achievable but there is no certainty these results can be realized. Management recognizes the project requires a special expertise and financial capacity to bring it to fruition and will actively seek out a participant with these capabilities. Management intends to pursue the recommendations of the PA report and completed financing in May, to fund these programs.

### **INVESTOR RELATIONS ACTIVITIES**

Management and company personnel currently perform all investor relation services. There are no external investor relation contracts or commitments at September 30, 2011. Investor relations activities consist mainly of web-site and print advertising. Shareholder communications comprises communicating with existing shareholders, broadcasting news releases, printing, production work for the Company's website, and direct website expenses. The Company also attends trade shows on a regular basis to present the affairs and merits of the Company to potential investors.

### **COMMITMENT**

The Company has entered into an operating lease agreement for office space. This agreement requires the Company to make the following lease payments:

	<b>Office Lease</b>
Year ending December 31, 2011	12,373
Year ending December 31, 2012	28,870
	<u>\$ 41,243</u>

### **OFF-BALANCE SHEET ARRANGEMENTS**

As at September 30, 2011, 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.

### **SUBSEQUENT EVENT**

Goldsource agreed with ZEEP to extend the closing date of the business combination to December 31, 2011. Under the amended terms of the Arrangement Agreement ZEEP is required to have completed a financing for minimum aggregate proceeds of \$11,000,000. ZEEP is in advanced discussions for the balance of the financing with financial institutions and investors.

### **RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

a) Legal Fees

Paid or accrued \$35,429 (2010- \$67,705) for legal fees which were included in professional fees, \$88,379 (2010 - \$Nil) for share issuance costs and \$178,163 (2010 - \$NIL) for transaction costs to a law firm of which an officer of the Company is a partner.

b) Key Management Compensation

Paid or accrued \$157,500 (2010 - \$112,500) for management fees to two companies (one controlled by the President and the other by the Chief Financial Officer).

Paid or accrued \$90,000 (2010 - \$30,000) for project management fees to a company controlled by the Chief Operations Officer.

Recorded share-based compensation of \$225,743 (2010 - \$423,421) for the fair value of options granted to officers and directors.

c) Other Transactions

The Company shares rent, salaries and administrative services with a company related by common directors and officers. The Company incurred \$108,027 (2010 - \$115,975) for their share of rent, salaries and administrative expenses.

Paid or accrued \$245,356 (2010 - \$423,560) for technical services which were included in exploration and evaluation assets to an engineering consulting firm of which an officer of the Company was an officer and shareholder until August 2010.

Minera Pacific Inc. has two directors and officers in common with the Company. During the period ended September 30, 2011 the Company issued 358,696 (2010 - 75,000) common shares and paid \$25,000 (2010 - \$50,000) in cash pursuant to the terms of the MPI Agreement.

Included in accounts payable and accrued liabilities at September 30, 2011 is \$176,791 (2010 - \$3,034) due to a law firm of which an officer of the Company is a partner, \$71,442 (2010 - \$29,615) due to an engineering consultants firm of which an officer of the Company was an officer until August 2010. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.



## **OUTSTANDING SHARE CAPITAL**

### **Capital stock**

Unlimited number of common shares without nominal or par value.

Unlimited number of preferred shares without nominal or par value (none outstanding).

As at September 30, 2011, the Company had outstanding 27,033,729 common shares. In addition the Company had outstanding 3,595,500 share purchase options and 3,336,192 share purchase warrants for total diluted shares outstanding of 33,964,921.

As at the date hereof, there had been no change in the total diluted shares outstanding of 33,964,921.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash, short term investments, securities, amounts receivable, accounts payable and accrued liabilities. They are initially recorded at amounts that approximate their fair values.

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

### a. Capital Risk Management

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

The Company considers the items included in the shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. As at September 30, 2011, the Company did not have any debt and is not subject to externally imposed capital requirements.

### b. Liquidity Risk

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

### c. Credit Risk

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

### d. Interest Rate Risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and short term investments. The Company's practice has been to invest cash at floating rates of interest, in short term investments, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in short term investments as they are generally held with a large and stable financial institution. As at September 30, 2011, with all other variables unchanged, a 1 percentage point change in interest rates would not have a significant impact on the Company's loss and comprehensive loss for the period.

### e. Market Risk

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

**FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Canadian Accounting Standards Board (“AcSB”) confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) will replace Canadian generally accepted accounting principles (“Canadian GAAP”) for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Company has adopted IFRS with an adoption date of January 1, 2011, and a transition date of January 1, 2010.

The unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. Notes 3 and 4 of our condensed interim financial statements provide more detail on our key Canadian GAAP to IFRS differences, our accounting policy decision and IFRS 1, First-Time Adoption of International Financial Reporting Standards, optional exemptions for significant or potentially significant areas that have had an impact on our financial statements on transition to IFRS or may have an impact in future periods.

As a result of the accounting policy choices selected and the changes required to be made on transition to IFRS, there was no material impact on the Company’s opening financial position as at January 1, 2010. The table below outlines the effect on the Company’s assets, liabilities and equity on adoption of IFRS on January 1, 2010, June 30, 2010, and December 31, 2010, for comparative purposes.

	December 31, 2010	September 30, 2010	January 1, 2010
Total assets under Canadian GAAP	\$ 18,258,477	\$ 19,724,949	\$ 20,090,107
Adjustment	-	800,000	-
<b>Total assets under IFRS - unaudited</b>	<b>\$ 18,258,477</b>	<b>\$ 20,524,949</b>	<b>\$ 20,090,107</b>
Total liabilities under Canadian GAAP	\$ 174,277	\$ 244,585	\$ 609,944
Adjustment	-	-	-
<b>Total liabilities under IFRS - unaudited</b>	<b>\$ 174,277</b>	<b>\$ 244,585</b>	<b>\$ 609,944</b>
Total shareholders' equity under Canadian GAAP	\$ 18,084,200	\$ 19,480,364	\$ 19,480,163
Adjustment	-	800,000	-
<b>Total shareholders' equity under IFRS - unaudited</b>	<b>\$ 18,084,200</b>	<b>\$ 20,280,364</b>	<b>\$ 19,480,163</b>

The following is a summary of the adjustment to operations and comprehensive loss for the nine months ended September 30, 2010, and the year ended December 31, 2010 under IFRS (all of which are outlined in the notes to our interim consolidated financial statements).

	December 31, 2010	September 30, 2010
Gain (Loss) and comprehensive gain (loss) under Canadian GAAP	\$ (2,868,364)	\$ (778,211)
Adjustment	-	800,000
<b>Loss and comprehensive loss under IFRS - unaudited</b>	<b>\$ (2,868,364)</b>	<b>\$ 21,789</b>

There was no material cash flow impact. Goldsource continues to monitor changes in IFRS. IAS 7, Statement of Cash flows requires that cash flows relating to finance costs/interest to be separately disclosed within the statement classifications. Under Canadian GAAP, these amounts were previously disclosed as a note to the statement of cash flows. These amounts have been separately disclosed under ‘operating and financing activities’ within the statement of cash flows under IFRS.

Management continues to monitor changes in IFRS. The standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies Goldsource has selected. In particular, management expect that there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact our financial statements primarily in the areas of capitalization of exploration costs and disclosures. The Company has processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC interpretations will be evaluated as required.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of Goldsource's condensed interim financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

The condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

#### Mineral Properties

The cost of acquiring, exploring and developing mineral properties and the cost to increase future output by providing access to additional reserves or resources, are deferred. After a mine commences production, these costs are depleted using the unit of production method.

The Company considers both internal and external sources of information in assessing whether there are any indicators that the Company's mineral properties are impaired. External sources of information considered include changes in market conditions, the economic and legal environment in which the Company operates that are not within its control and the impact these changes may have on the recoverable amount. Internal sources of information include the manner in which the mineral properties are being used or are expected to be used and indications of the economic performance of the assets.

In estimating the recoverable amount of the Company's mineral properties, management estimates the discounted future after-tax cash flows expected to be derived from the Company's mineral properties and the appropriate discount rate. Reductions in commodity price forecasts, increases in estimated future costs of production, increases in estimated future capital costs and reductions in the amount of recoverable reserves and resources could each result in a write-down of the carrying amount of the Company's mineral properties.

#### Share based payments

The Company uses assumptions to determine the fair value of share based payments.

### **NEW STANDARDS NOT YET ADOPTED**

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

IFRS 9 - Financial Instruments ("IFRS 9") IFRS 9 was issued in November 2009 and amended in October 2010. On August 4, 2011, the IASB issued an exposure draft to defer the mandatory effective date of from annual periods beginning on or after January 1, 2013 to annual periods beginning on or after January 1, 2015. Early adoption would continue to be permitted. This is the first part of a new standard on classification and measurement of financial 10 assets that will replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value.

IFRS 10 - Consolidated Financial Statements ("IFRS 10") was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 12 - Disclosure of Interests in Other Entities ("IFRS 12") was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted under certain circumstances. This standard combines and enhances the disclosure requirements for the Company's interests in other entities, such as joint arrangements, associates and unconsolidated structured entities. IFRS 12 requires disclosure of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements.

**NEW STANDARDS NOT YET ADOPTED (continued)**

IFRS 13 - Fair Value Measurement ("IFRS 13") was issued in May 2011 and is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized.

Amendments to IAS 1 - Presentation of Financial Statements ("IAS 1") was issued in June 2011 and is effective for annual periods beginning on or after July 1, 2012, with earlier adoption permitted. This amendment requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately.

**CAUTIONARY STATEMENT AND DISCLAIMER**

Readers of this MD&A are encouraged to read the "Risk Factors" contained in the Company's Annual Information Form ("AIF") dated April 15, 2011. There have been no major changes from the reported risks factors outlined in this AIF. Important risk factors to consider, among others, are

- Financing risks
- Licenses and permits
- Mineral reserve and resource estimates
- Operating hazards and risks
- Substantial volatility of share price

Certain statements contained in this MD&A and elsewhere constitute "forward-looking statements" within the meaning of Canadian securities legislation and the United States Securities Litigation Reform Act of 1995. 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. These factors include: the availability of funds; the timing and content of work programs; results of exploration and evaluation activities, the interpretation of drilling results and other geological data, the uncertainties of resource and reserve estimations, receipt and security of coal permits and mineral property titles; project cost overruns or unanticipated costs and expenses, fluctuations in product prices; currency fluctuations; 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 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.

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

Information provided in this MD&A, including the condensed interim financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value 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.

**MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES**

Management of the Company, under the supervision of the President and Chief Executive Officer and the Chief Financial Officer, is responsible for the design and operations of internal controls over financial reporting. There have been no changes in the Company's disclosure controls and procedures during the period ended September 30, 2011.

**QUALIFIED PERSON**

Technical information contained in this MD&A has been prepared by or under the supervision of N. Eric Fier, CPG, P.Eng, who is a 'Qualified Person' for the purpose of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101").