



**MANAGEMENT'S DISCUSSION & ANALYSIS OF**

**FINANCIAL CONDITIONS & RESULTS OF OPERATIONS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2015**

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 six months ended June 30, 2015. The MD&A is intended to help the reader understand the Company's operations, financial performance and present and future business environment. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2015 and 2014 and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The following should also be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2014 and 2013, 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 effective date of this MD&A is August 25, 2015. This MD&A contains forward looking information. Reference to the risk factors described on pages 7 to 8 and in the "Cautionary Statement" on page 9 of this MD&A is advised.

## **OVERVIEW OF THE BUSINESS**

The Company is a Canadian resource company engaged in exploration and development. The Company's primary business objective is to advance its Eagle Mountain Gold Project in Guyana, South America towards initial staged production in 2015. Goldsource's other mineral interests presently consist of coal exploration properties located in Saskatchewan. Goldsource is listed on the TSX Venture Exchange ("TSX-V") under the symbol GXS and is led by an experienced management team, proven in making exploration discoveries, achieving construction on time and budget, and fast-tracking production.

## **OUTLOOK**

The Company's immediate focus is to progress the development of the Eagle Mountain Gold Project towards the commencement of initial staged production by the end of 2015 (refer to "Mineral Resources" section).

## **SECOND QUARTER ("Q2") HIGHLIGHTS**

### **Eagle Mountain Gold Project**

- Construction of the Eagle Mountain Gold Project continues to progress well. The Company received the first shipment of processing plant equipment and has purchased significant amount of the mining equipment. See "Mineral Resources" section for details of significant construction activities. All current plans are based on the PEA (defined below). As of the date hereof, the second shipment of processing plant equipment will be shipped to Guyana as scheduled with expected receipt in September.

### **Corporate**

- Goldsource held its Annual General Meeting of Shareholders ("AGM") on Wednesday, June 10, 2015, in Vancouver, B.C. Shareholders voted in favor of all items of business, as follows:
  - The election of each director nominee – J. Scott Drever, Jonathan Dubois-Phillips, Steven B. Simpson, Graham C. Thody and Ioannis Tsitos;
  - To re-appoint Davidson & Company LLP, Chartered Accountants, as auditor of the Company; and
  - To approve and confirm the Company's rolling 10% Stock Option Plan.
- At the Board of Directors meeting following the AGM, Mr. Graham C. Thody was re-appointed Chairman of the Board, Mr. J. Scott Drever was re-appointed Chief Executive Officer and Mr. Ioannis Tsitos was re-appointed President. In addition, the Board re-appointed Mr. N. Eric Fier as Chief Operating Officer and Mr. Barney Magnusson as Chief Financial Officer.

## **MINERAL RESOURCES**

### **EAGLE MOUNTAIN GOLD PROJECT, Guyana**

Eagle Mountain Gold Project is an advanced, 100%-owned gold project. The project consists of an area of approximately 5,050 hectares (12,480 acres) in central Guyana, South America, approximately 200 kilometres southwest of the capital Georgetown and 45 kilometres from the historical Omai gold mine, which was in production from 1993 to 2005. Guyana is a republic within the British Commonwealth. The official language is English. The currency is the Guyanese dollar and the legal system is based mainly on the English common law.

In September 2014, Goldsource filed a Preliminary Economic Assessment ("PEA") report titled "Preliminary Economic Assessment of the Eagle Mountain Sapolite Gold Project, Guyana", dated September 12, 2014 with an effective date of June 15, 2014. The Report was completed by A.C.A. Howe International Limited of Toronto, Canada and can be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website [www.goldsourcemines.com](http://www.goldsourcemines.com).

**MINERAL RESOURCES (continued)**

**Resource Estimate (NI 43-101 Technical Report, with effective date June 15, 2014)**

<b>Category</b>	<b>Tonnes <sup>(1)</sup></b>	<b>Au g/t</b>	<b>Ounces Au</b>
<b>Indicated</b>	3,921,000	1.49	188,000
<b>Inferred</b>	20,635,000	1.19	792,000

<sup>(1)</sup> A block cut-off value of 0.5 g/t Au was applied to all resource blocks. All numbers are rounded.

The current resource covers only a small portion of the property so there is excellent potential for expansion. The deposit remains open in three lateral directions and at depth, showing strong mineralization along its edges.

The PEA's conceptual approach encompasses a "Phase I" starter open cut for mining at 1,000 tpd with subsequent low impact and low cost gravity-only processing. Upon successful completion of Phase I, the Company plans to systematically install and operate three additional similar plants over a four-year schedule with a cumulative production rate of 3,500 tpd to 4,000 tpd. Conceptually, additional processing plants are expected to be financed through operating cash flow. The project has several potential opportunities to accelerate PEA-defined production once initial success in Phase I is achieved.

The Company cautions that the PEA is preliminary in nature in that it is based largely 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 the Eagle Mountain Gold Project is 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 future profitability if any.

**PRELIMINARY ECONOMIC ASSESSMENT HIGHLIGHTS (NI 43-101 Technical Report, June 15, 2014)**

The PEA incorporates a gold price of US\$1,250 per ounce gold. Highlights of the Base Case economic estimates are as follows:

- Pre-tax Net Present Value ("NPV") (5%) of US\$69.4 million and after-tax NPV (5%) of US\$45.6 million.
- Pre-tax NPV (7%) of US\$61.1 million and after-tax NPV (7%) of US\$39.8 million.
- Pre-tax Internal Rate of Return ("IRR") of 84% and after-tax IRR of 63%.
- Phase I, pre-production capital costs of US\$5.9 million including a 15% contingency.
- Total capital costs including all proposed expansions (Phase II, III & IV expansions) and sustaining capital are estimated at US\$24.2 million.
- Cash operating costs, exclusive of sustaining capital, for saprolite mine life averages US\$480 per ounce gold including a 15% contingency.
- Cost per tonne of processing plant feed averages US\$8.96.
- Pre-tax undiscounted operating cash flow before capital expenditures totalling US\$123.4 million.
- 8-year LOMP PEA mine plan totalling 8.6 million tonnes at an average grade of 1.20 g/tonne gold (diluted and recoverable).
- Of the 8.6 million tonnes to be processed, only 7.3 million tonnes (undersize sub-2mm) grading 1.20 g/tonne gold will be (processed through the entire gravity separation plant) conceptually processed. The remaining tonnes (oversize larger than 2mm) would be stockpiled for further metallurgical test work and potential further processing.
- Conceptually, the first four years of gold production would be 5,600, 14,400, 21,600 and 28,800 ounces gold, respectively.
- Life of mine production of estimated 168,700 ounces gold from gravity-only processing at estimated 60% recovery.
- Inventory of 161,900 ounces gold in settlement ponds from gravity-only processing rejects for potential future reprocessing using standard technologies.

The Eagle Mountain Gold Project mining and processing schedules are based on a phased-approach model with four phases proposed over four years. Phase I mining rates would be 1,000 tpd (one 12-hour shift, 7-days per week) in year one ramping up to 4,000 tpd by year four. Conventional open cut mining of soft weathered rock (gold mineralized saprolite) is proposed using a team of excavators, bulldozers and wheel-loaders to excavate and separate materials within the open cut with downhill gravity transport by slurry to the processing facility. The stripping ratio is low and estimated at an average of 0.9:1 (waste:ore) over mine life. No blasting or truck hauling is required for mineralized saprolite.

**MINERAL RESOURCES (continued)**

The Phase I capital costs summary is as follows:

<b>Capital expense item (Phase I)</b>	<b>Estimated cost (US\$)</b>	<b>Revised cost (US\$)</b>	<b>As of June 30, 2015 (US\$)</b>	<b>As of date hereof (US\$)</b>	<b>Completion %</b>
Mining equipment purchases	\$ 1,167,000	\$ 645,000	\$ 265,000	\$ 459,000	71%
Process plant including, lab, refinery, construction and EPCM	\$ 2,345,000	\$ 2,353,000	\$ 1,450,230	\$ 1,450,230	62%
Tailings	\$ 468,000	\$ 353,000	\$ 43,929	\$ 43,929	12%
Road maintenance	\$ 315,000	\$ 406,000	\$ 239,775	\$ 306,690	76%
Indirect (Includes Working Capital)	\$ 828,000	\$ 587,000	\$ 257,686	\$ 257,686	44%
Contingency at 15%	\$ 769,000	\$ 326,000	\$ -	\$ -	0%
<b>Initial capital including contingency</b>	<b>\$ 5,892,000</b>	<b>\$ 4,670,000</b>	<b>\$ 2,256,620</b>	<b>\$ 2,517,535</b>	<b>54%</b>

Financing for the Phase I capital expenditures was completed on December 30, 2014. As at June 30, 2015, the Company incurred US\$2,256,620 (CAD\$2,886,358) in Phase I capital costs, of which US\$1,759,159 (CAD\$2,185,820) was recorded as property, plant and equipment and US\$497,461 (CAD\$700,537) was recorded under exploration and evaluation assets on the condensed consolidated interim statement of financial position.

**2015 PHASE I CONSTRUCTION UPDATE**

Currently the significant development activities are as follows:

- Construction of gold processing plant (100 tonnes per hour) from Sepro Minerals Systems Corp., Langley, Vancouver, British Columbia to be delivered to Guyana in two packages, as follows:
  1. Package #1 to be delivered on schedule to Guyana in July 2015.
  2. Package #2 to be delivered to Guyana in Q3 2015 (90% completed).
- Rehabilitation of the existing 10-kilometre road between Mahdia town (commercial airport) and Eagle Mountain camp including construction of eight new bridges. Delays in final construction due to heavy rains. Final road to be completed in Q3 2015 (80% completed).
- Procurement & purchase of mining equipment (85% completed).
- Pre-production auger drilling program for confirmation and condemnation (100% completed).
- Recruitment of key operations personnel (50% completed).
- Camp facility rehabilitation and upgrades (30% completed).
- Site preparation of upgraded camp, plant, tailings area and initial mining area (30% completed).
- Procurement & purchase of secondary gold processing plant for exploiting existing old tailings area (90% completed).
- Subsequent to June 30, 2015, Package #1 was delivered to Guyana on time. Purchase of all major equipment has been completed as of mid-August with costs and delivery on schedule. Also, secondary processing plant was delivered to the old tailings area and tested for one day which minor production of construction aggregate with residual gold. Modifications are underway as of mid-August to the secondary plant before restart in September.

**RECOMMENDATIONS & FUTURE OPPORTUNITIES**

The majority of the proposed plant feed consists of Inferred mineral resources. Further sampling and surveying will be carried out within and surrounding the proposed pits in an effort to upgrade Inferred blocks with adequate quality assurance and quality control and additional density data collection.

Resources are open in most lateral directions and good potential exists to initially expand mineralized saprolite. Further drilling is recommended to potentially expand resources for consideration in the phased development of the project.

This project envisions screening-out any material that is larger than 2mm and stockpiling it for potential further processing. If this material were ground finer in a grinding mill, it could be fed into the proposed processing plant. Further metallurgical testing and economic analysis should be carried out to determine whether this gold could be profitably recovered.

Using gravity processing methods alone, gold recovery is expected to be 60% with the remainder of the gold flowing to the tailings storage area. Most of this gold may be recovered with further processing such as flotation or cyanidation. Further metallurgical testing and economic analysis should be carried out to determine whether this gold could be profitably recovered from the tailings. This work should also include further tailings characterization and deposition properties.

**RESULTS OF OPERATION AND FINANCIAL CONDITION**

**Summary of Quarterly Results**

The following financial data is selected information for the Company for the eight most recently completed financial quarters, prepared in accordance with IFRS:

	Q2 June 30, 2015	Q1 March 31, 2015	Q4 December 31, 2014	Q3 September 30, 2014	Q2 June 30, 2014	Q1 March 31, 2014	Q4 December 31, 2013	Q3 September 30, 2013
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Comprehensive loss for the period	(256,569)	(364,785)	(195,253)	(329,082)	(285,477)	(209,064)	(3,867,216)	(177,451)
Loss per share - basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.14)	(0.01)
Total assets <sup>(1)(2)</sup>	14,672,876	14,667,865	14,963,825	8,123,024	8,364,952	8,167,491	588,229	4,185,946
Total liabilities <sup>(2)</sup>	278,140	108,550	193,589	155,439	176,570	535,271	95,969	77,705

<sup>(1)</sup> The increase in losses and decrease in assets in the fourth quarter of 2013 resulted primarily from a \$3.8 million impairment charge taken on the carrying value of the Border Coal Project.

<sup>(2)</sup> The increase in assets in Q4 2014 resulted primarily from the completion of a non-brokered private placement for gross proceeds of approximately \$7.1 million. The increase in assets in Q1 2014, resulted primarily from the amalgamation with Eagle Mountain Gold Corp. ("EMGC") and the net assets acquired of approximately \$5.3 million and a non-brokered private placement for gross proceeds of \$2.4 million.

**Comparison of the three and six months ended June 30, 2015 to June 30, 2014**

The net loss and comprehensive loss was \$256,569 for the second quarter and \$621,354 for the first six months of 2015, compared to \$285,477 and \$494,541, respectively for 2014. The principal differences and significant amounts of note are as follows:

- Corporate and administrative expenses decreased to \$192,073 (2014 – \$194,075) for the second quarter, primarily from a decrease in professional fees to \$20,552 (2014 – \$71,728) from the decrease in corporate legal matters compared to the second quarter for 2014, partially offset by a reduction in currency translation gain on US dollar purchases of \$12,614 (2014 –\$83,424). Corporate and administrative expenses increased to \$412,007 (2014 – \$377,143) for the first six months of 2015, primarily from an increase in remuneration \$232,889 (2014 – \$196,642) from the addition of new corporate personnel and increase in foreign exchange loss of \$21,347 (2014 – gain \$73,658), partially offset by a decrease in professional fees \$32,259 (2014 – \$111,032) relating to the decrease in corporate legal and accounting matters compared to the first six months in 2014, which included the adoption of a new stock option plan and other corporate legal matters related to the amalgamation with EMGC.
- During the six months ended June 30, 2015, the Company recorded a recovery of \$6,214 (2014 – expense of \$3,594) in general exploration. The recovery was mainly the result of receiving \$49,937 (2014 – \$nil) in relation to a refund of a consultation deposit held by the Government of Manitoba, offset by an annual rental fee payment made for the Border Coal Project of \$46,815 (2014 – \$3,594).
- During the six months ended June 30, 2014, the Company recorded \$50,000 in other income in relation to a promissory note receivable from Para Resources Inc. EMGC had recorded an impairment charge against the receivable amount during fiscal 2013.
- Share-based compensation amounted to \$91,354 (2014 – \$140,828) for the second quarter, and \$243,868 (2014 – \$151,933) for the six months ended June 30, 2015. The Company granted 3,140,000 (2014 – 3,415,182) incentive stock options during the six months ended June 30, 2015, with a weighted average fair value per option granted of \$0.11 (2014 – \$0.15) for total value of \$343,534 (2014 – \$302,284).

**CAPITAL COMMITMENTS**

In addition to entering into various operational commitments in the normal course of business, the Company has entered into a number of contractual commitments related to design and acquisition of plant and equipment for the Phase I Eagle Mountain Gold Project.

At June 30, 2015, these commitments totalled approximately \$2,345,087 (\$1,811,488 paid) related to the construction of the Sepro processing plant at the Eagle Mountain Gold Project and totalled approximately \$374,332 (\$374,332 paid) related to other contractual agreements for the Eagle Mountain Gold Project. Subsequent to June 30, 2015, the Company entered into additional contractual commitments related to the Eagle Mountain Gold Project totalling approximately \$360,655 (\$248,479 paid), which cumulative amounts to \$3,080,074 (\$2,434,299 paid).

**OFF-BALANCE SHEET ARRANGEMENTS**

As at June 30, 2015, 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.

**CASHFLOWS**

The Company currently has no operations from which to derive revenues and has financed its operations to date primarily through the issuance of common shares.

For the periods ended June 30	Three months ended		Six months ended	
	2015	2014	2015	2014
<b>Cash-flows provided by (used in):</b>				
<b>Operating Activities</b>	\$ (141,361)	\$ (591,434)	\$ (470,548)	\$ (1,079,756)
<b>Financing Activities</b>	-	(5,119)	-	2,344,920
<b>Investing Activities</b>	(1,399,122)	(363,483)	(2,682,550)	(425,460)
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,540,483)	(960,036)	(3,153,098)	839,704
<b>Cash and cash equivalents, beginning of period</b>	5,633,209	2,012,360	7,245,824	212,620
<b>Cash and cash equivalents, end of period</b>	\$ 4,092,726	\$ 1,052,324	\$ 4,092,726	\$ 1,052,324

**Operating activities**

Refer to “Results of Operation and Financial Condition” section for discussion on operating activities.

**Financing activities**

During the first six months of 2015, there were no financing activities.

On February 28, 2014, Goldsource completed a private placement of 17,142,858 units at a price of \$0.14 per unit for gross proceeds of \$2.4 million. Each unit consisted of one common share of Goldsource and one-half of a warrant of Goldsource, with each whole warrant being exercisable for one common share of Goldsource at a price of \$0.20 per share for three years until February 28, 2017. No commission or finder’s fee was payable on the private placement. The Company incurred \$55,080 in share issuance costs during the six months ended June 30, 2014. Proceeds from the private placement were used for general working capital purposes and expenditures advancing the Eagle Mountain Gold Project.

**Investing activities**

In relation to the Eagle Mountain Gold Project, the Company incurred \$1,297,758 (2014 – \$nil) during the second quarter of 2015 and \$2,185,777 (2014 – \$nil) during the first six months of 2015 in property plant and equipment. In addition, the Company incurred \$126,820 (2014 – \$368,910) during the second quarter of 2015 and \$522,242 (2014 – \$393,539) during the first six months of 2015 on exploration and evaluation expenditures. Refer to “Liquidity and Capital Resources – Assets” section for more information.

Goldsource received \$25,456 (2014 – \$5,427) during the second quarter and \$25,469 (2014 – \$7,227) during the first six months of 2015 from interest on cash and cash equivalents.

During the six months ended June 30, 2014, the Company incurred \$200,859 in transaction costs, acquired \$36,711 in cash relating to the amalgamation with EMGC and redeemed short term investments of \$125,000 for general working capital purposes.

**LIQUIDITY AND CAPITAL RESOURCES**

	June 30, 2015	December 31, 2014
<b>Assets</b>		
<b>Cash and cash equivalents</b>	(i) \$ 4,092,726	\$ 7,245,824
<b>Other current assets</b>	(i) 130,709	144,521
<b>Non-current assets</b>	10,449,441	7,573,480
<b>Total Assets</b>	14,672,876	14,963,825
<b>Liabilities</b>		
<b>Current liabilities</b>	(ii) 278,140	193,589
<b>Working Capital</b>	(i-ii) \$ 3,945,295	\$ 7,196,756

**Assets**

At June 30, 2015, Goldsource held cash and cash equivalents of \$4.1 million (December 2014 – \$7.2 million). Goldsource continues to monitor cash resources against expenditures forecasts associated with advancing the Company’s Eagle Mountain Gold Project.

**LIQUIDITY AND CAPITAL RESOURCES (continued)**

Property, plant and equipment increased to \$2,225,141 (December 2014 – \$49,717). During the six months ended June 30, 2015, the Company paid a deposit of \$1,811,488 towards the acquisition of the Sepro processing plant, purchased a front loader for \$69,941, purchased an excavator for \$250,391 and purchased a trammel for \$54,000.

Exploration and evaluation increased to \$8,017,475 (December 2014 – \$7,316,938) from expenditures incurred at Eagle Mountain Gold Project. During the six months ended June 30, 2015, the Company incurred \$700,538 in Phase I capital costs at Eagle Mountain Gold

Project, the significant items incurred were \$350,505 for road maintenance, \$151,072 for operations and general costs and \$122,989 for salaries. In addition, the Company incurred other exploration expenditures of \$75,972, which comprised mainly of \$25,206 for assays and \$22,579 for technical services and consulting.

**Liabilities**

Accounts payable and accrued liabilities increased to \$278,140 (December 2014 – \$193,589). The balance relates to various contractual commitments in the normal course of business.

**Liquidity Outlook**

While the Company currently has no source of revenue, management believes the Company's cash and cash equivalents of \$4.1 million and working capital of approximately \$4.0 million (at June 30, 2015), will be sufficient to fund a significant portion of the development and capital costs for Phase I mine and processing plant construction for the Company's Eagle Mountain Gold Project as well as general working capital requirements for the next 12 months. Refer to the "Capital Commitments" and "Mineral Resources" sections for more information. 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 financial success is dependent on its ability to discover economically viable mineral deposits. The development process of the Eagle Mountain Gold Project may be delayed, 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 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.

**RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2015, the Company entered into the following transactions with related parties:

Legal Fees

Legal fees of \$17,017 (June 30, 2014 – \$58,947), which were included in professional fees, \$nil (June 30, 2014 – \$26,618) for share issuance costs and \$nil (June 30, 2014 – \$92,580) for transaction costs, were paid or accrued to Koffman Kalef LLP, a law firm of which an officer of the Company is a partner, of which \$1,608 (December 31, 2014 – \$61,087) was payable at June 30, 2015. The Company recognized \$2,230 (June 30, 2014 – \$2,273) in share-based payments to this officer.

Key Management Compensation

	2015		2014	
Key management short-term benefits <sup>(1)</sup>	\$	157,500	\$	132,500
Share-based payments <sup>(2)</sup>		185,045		138,118
	\$	342,545	\$	270,618

<sup>(1)</sup> Goldsource's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Total key management remuneration was recorded in the statements of operations and comprehensive loss and paid to the President, Chief Executive Officer, Chief Operating Officer and Chief Financial Officer of Goldsource.

<sup>(2)</sup> Share-based payments recorded for all directors and officers of the Company and recognized in the statements of operations and comprehensive loss.

Other Transactions

The Company shares rent, salaries, administrative services and other reimbursable expenses with SilverCrest Mines Inc., a company related by common directors and officers. During the six months ended June 30, 2015 the Company incurred \$108,582 (June 30, 2014 – \$93,261) for its share of these expenses, of which \$48,601 (December 31, 2014 – \$16,947) was payable at June 30, 2015.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, held-for-trading securities, deposit and accounts payable and accrued liabilities. The carrying value of amounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short periods until settlement. The Company's cash and cash equivalents and held-for-trading securities are measured using level 1 inputs.

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

## **OUTSTANDING SHARE CAPITAL**

### **Capital stock**

- a) Unlimited number of common shares without nominal or par value authorized.
- b) Unlimited number of preferred shares without nominal or par value (none outstanding) authorized.

As at June 30, 2015 and the date hereof, the Company had 126,517,723 common shares outstanding. In addition the Company had 7,139,735 outstanding share purchase options with exercise prices ranging from \$0.16 and \$0.82 per share and 50,191,512 outstanding share purchase warrants with exercise prices ranging from \$0.19 and \$0.36 per share which, if exercised, would result in fully diluted common shares outstanding of 183,848,970.

On August 14, 2015, 6,505,298 warrants with an exercise price of \$0.19 per warrant expired unexercised.

As at the date hereof, the Company had 126,517,723 common shares outstanding. In addition the Company had 7,139,735 outstanding share purchase options with exercise prices ranging from \$0.16 and \$0.82 per share and 43,686,214 outstanding share purchase warrants with exercise prices ranging from \$0.20 and \$0.36 per share which, if exercised, would result in fully diluted common shares outstanding of 177,343,672.

More information on these instruments and the terms of their conversion is set out in note 8 of the Company's unaudited condensed consolidated interim financial statements for the six month ended June 30, 2015.

## **NEW STANDARDS NOT YET ADOPTED**

The IASB issued the following pronouncements that are effective for years beginning January 1, 2016, or later and may affect the Company's future consolidated financial statements:

- IFRS 9 – Financial Instruments; and
- IAS 16 – Property, Plant & Equipment and IAS 38 – Intangibles.

These new and revised accounting standards have not yet been adopted by Goldsource, and the Company has not yet completed the process of assessing the impact that they will have on its condensed consolidated interim financial statements, or whether to early adopt these new requirements.

## **RISK FACTORS**

Risk management is an ongoing exercise upon which the Company spends a substantial amount of time. The following factors are those which are the most applicable to the Company. The discussion which follows is not inclusive of all potential risks.

### **Risks Inherent in the Mining Business**

The business of exploring for mineral resources is inherently risky. Few properties that are explored are ultimately developed into producing mines. The business involves significant financial risks over a significant period of time that even a combination of careful evaluation, experience and knowledge may not eliminate. It is impossible to ensure that the Company's current or proposed exploration programs, and in particular, the Eagle Mountain Gold Project, will result in commercially viable mining operations.

Whether a mineral deposit will be commercially viable depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices which are highly cyclical; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital. There is no certainty that the expenditures made by the Company towards the search, evaluation and development of mineral deposits will result in commercial quantities of ore.

### **No History of Earnings or Production Revenues**

The Company has no history of earnings and has not commenced commercial production on any of its properties. The Company has experienced losses from operations and expects to continue to incur losses for the foreseeable future. There can be no assurance that the Company will be profitable in the future. The Company's operating expenses and capital expenditures are likely to increase in future years as needed consultants, personnel and equipment associated with advancing exploration, development and potentially, commercial



**RISK FACTORS (continued)**

production of its properties, are added.

The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the Company's acquisition of additional properties, government regulatory processes and other factors, many of which are beyond the Company's control. The Company expects to continue to incur losses unless and until such time as its properties enter into commercial production and generate sufficient revenues to fund its continuing operations. The development of the Eagle Mountain Gold Project will require the commitment of substantial resources. There can be no assurance that the Company will generate any revenues or achieve profitability.

**Licenses and Permits**

The Company's operations require licenses and permits from various governmental authorities. A medium scale mining permit is required under Guyana law to be held by a Guyanese national. The Company, through its wholly owned subsidiary, has entered into an agreement with a private arm's length Guyanese company to jointly operate the Eagle Mountain Gold Project. Although the required permits have been obtained by its joint operator, management believes the Company and its joint operator hold all material licenses and permits required under applicable laws and regulations for operation of the Property on the Eagle Mountain Gold Project and that they are presently complying in all material respects with the terms of such licenses and permits. However, the terms and conditions of such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties and, with reference to development of a mining operation on the Property, commence construction or operation of mining facilities or to maintain continued operations that economically justify the cost.

**Mineral Reserve and Resource Estimates**

Where used by the Company, figures for mineral resources are estimates and no assurance can be given that the anticipated tonnages and grades will be achieved or that reasonable levels of recovery will be realized. The Eagle Mountain Gold Project PEA Technical Report is preliminary in nature in that it is based largely 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 PEA will be realized. Mineral resources that are not mineral reserves do not have demonstrated economic viability. There is no assurance that mineral resources will be upgraded to mineral reserves as a result of continued exploration. Until reserves or resources are actually mined and processed, the quantities of mineralization and metal grades must be considered as estimates only. Any material change in the quantity of mineral reserves, mineral resources, grades and recoveries may affect the economic viability of the Eagle Mountain Gold Project. In addition, there can be no assurance that gold recoveries or other metal recoveries in small scale laboratory tests will be duplicated in a larger scale test under on-site conditions or during production. Fluctuations in gold and other base or precious metals prices, results of drilling, metallurgical testing and production and the evaluation of studies, reports and plans subsequent to the date of any estimate may require revision of such estimate. Any material reductions in estimates of mineral resources or reserves could have a material adverse effect on the Company's results of operations and financial condition.

**Mining Capital and Operating Costs**

The capital costs required by the Eagle Mountain Gold Project may be significantly higher than anticipated. Capital and operating costs, production and economic returns, and other estimates contained in the Company's current PEA may differ significantly from those provided for in future studies and estimates and from management guidance, and there can be no assurance that the Company's actual capital and operating costs will not be substantially higher than currently anticipated. In addition, delays to construction and exploration schedules may negatively impact the net present value and internal rates of return from the Eagle Mountain Gold Project as estimated in the PEA. Similarly, there can be no assurance that rates of production, grades of ore processed, rates of recoveries or mining cash costs estimated in the PEA will not experience fluctuations or differ significantly over the course of actual mining operations if and when commenced by the Company.

Additional risks and uncertainties currently not known to the Company or that the Company considers immaterial may also impair the business operations of the Company. If any such risks or uncertainties actually were to occur, the Company's business, prospects, financial condition and operating results could be materially harmed. While it is not possible to eliminate all of the risks inherent to the mining business, the Company strives to manage these risks, to the greatest extent possible, to ensure that its assets are protected.

**Financing Risks**

The Company's financial resources are limited. Substantial financial resources and sources of operating cash flow will be required in order to advance the exploration and development of the Eagle Mountain Gold Project. There can be no assurance that the Company has adequate financing to bring the Eagle Mountain Gold Project into production or that the Company will be able to obtain additional financing if required, or that the terms of such financing will be favorable. Failure to obtain such financing could result in delay or indefinite postponement of development of the Eagle Mountain Gold Project or further exploration and development of other mineral exploration projects with the possible loss of such properties.

**RISK FACTORS (continued)**

**Environmental risks and hazards**

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. The Company believes it is currently in compliance in all material respects with all applicable environmental laws and regulations. There is no assurance that any future changes in environmental regulation, will not adversely affect the Company's operations or affect the mineral resource estimates of the Eagle Mountain Gold Project. The costs of compliance with changes in environmental regulations have the potential to reduce the profitability of future operations.

Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of exploration and production. Environmental liability may result from mining activities conducted by others prior to the Company's ownership of a property and unknown to the Company. To the extent the Company is subject to uninsured environmental liabilities, the payment of such liabilities would negatively impact the Company's financial position and could have a material adverse effect on the Company. Should the Company be unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy, which could have a material adverse effect on the Company. The Company may not have coverage for certain environmental losses and other risks as such coverage cannot be purchased at a commercially reasonable cost.

As at June 30, 2015, the Company pledged a \$206,825 (US\$194,540) reclamation site bond, in the form of a non-interest bearing bank guaranteed deposit, to the Guyana Geology and Mines Commission for exploration permits on the Eagle Mountain Gold Project.

**CAUTIONARY STATEMENT AND DISCLAIMER**

Certain statements contained in this MD&A and elsewhere constitute "forward-looking statements" within the meaning of applicable 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 MD&A contains forward-looking statements pertaining to the following: strategic plans and expectations in the PEA for the development of the Eagle Mountain Gold Project; 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 the Eagle Mountain Gold Project; 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; 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 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 the Eagle Mountain Gold Project; reliance on the PEA; operating and hazards risks and limitations on insurance risk; fluctuations in commodity product prices; currency fluctuations; political and economical 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 MD&A if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.

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.

**QUALIFIED PERSON**

Technical information contained in this 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.