FORWARD LOOKING STATEMENTS

Certain statements contained in this Amended Management Discussion and Analysis (the "MD&A") and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance of 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.

PRELIMINARY INFORMATION

The MD&A is an overview of the activities of **Goldsource Mines Inc.** (the "Company" or "Goldsource") for the six months ended June 30, 2011. The MD&A should be read in conjunction with the unaudited condensed interim financial statements for the three and six months ended June 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 and on the Company's website www.goldsourcemines.com

The date of this MD&A is March 16, 2012.

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"). He has verified the data comprising such technical information, including sampling, analytical and test data underlying the information or opinions contained herein. [Note: the complete NI 43-101 reports may be viewed on SEDAR at www.sedar.com].

OVERVIEW

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".

OVERALL PERFORMANCE

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 146 holes, and found substantial coal resources in 17 deposits with an expenditure as at June 30, 2011 of approximately $17.1 million since the discovery. Overall, the estimated coal resources at Border consist of 79.1 million Indicated tonnes and 33.0 million Inferred tonnes, as stated in the "Preliminary Assessment Report on the Border Coal Project, Saskatchewan, Canada" dated February 15, 2011, as amended March 5, 2012 by Marston Consultants of Calgary, AB ("Marston") and EBA Engineering Consultants of Vancouver, BC ("EBA") and posted on SEDAR at www.sedar.com.

Marston and EBA completed a Preliminary Assessment (PA) report on the Border Coal Project, in March 2011 (as amended in March 2012). 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.

OVERALL PERFORMANCE (continued)

Highlights for the six month reporting period are as follows:

- In March 2011, Marston and EBA completed a Preliminary Assessment (PA) report on the Border Coal Project (subsequently amended in March 2012). The report provides positive results based on preliminary economics for a coal to liquids conversion (CTL) process.
- The estimated annual product revenues average $425 million/year with estimated operating costs of approximately $266 million/year.
- Based on the pro-forma development plan, technology for upgrading, and estimated costs of operations, the project generates a positive pre-tax internal rate of return of approximately 6.3% and a payback period of 13 years with a minimum project life of 30 years.
- Completed a $3.7 million financing which included full exercise of an increased over-allotment option.
- Prepared for a summer drill program.
- Submitted applications to the Saskatchewan Ministry of Energy and Resources to convert a substantial number of exploration permits comprising the Border project into Coal Licenses. The licenses were granted and have an initial term of 15 years and may be maintained by paying annual rental fees of $5.50 per hectare. See Subsequent Events.
- Westcore announced 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. Substantial thicknesses of coal ranging from 22.1 metres to 75.2 metres were encountered in 11 of the 23 holes in the six deposits drilled.

EXPLORATION PROPERTIES

Border Property, Saskatchewan

On March 7, 2012 the Company re-filed on SEDAR at 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.

Coal to Liquids Project Economic Parameters

Marston relied on CTL sources for the capital cost estimates associated with the coal to liquids 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 of 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.

Under the assumptions of this Preliminary Assessment, the project will produce approximately 6.45 billion gallons of saleable products at production rates of approximately 14,000 barrels per day. With assumed market prices of $2.25 per gallon for diesel and $2.11 and $1.29 per gallon for naptha and LPG/propane respectively, the estimated annual product revenues average $425 million/year with estimated operating costs of approximately $266 million/year. Based on the pro-forma development plan, technology for upgrading, and estimated costs of operations, the project generates a positive pre-tax internal rate of return of approximately 6.3% and a payback period of 13 years with a minimum project life of 30 years. Sensitivity analyses show that the project rate of return is much more sensitive to changes in revenue (product prices) than either operating or capital costs.

Marston, EBA and other independent qualified representatives conclude that, based upon the PA, development of the Border Coal project has the potential to be technically and economically feasible. The following recommendations were made to advance the project toward a Pre-Feasibility Study (PFS) level:

• Consider CTL processes which are based on standard petroleum refinery technologies to convert coal to liquids, in particular to high value transportation fuels.

• Complete bulk sampling of 5-10 tonnes to test CTL technologies, to develop or refine plant design, produce an updated product slate and product yield estimates and update the capital and operating cost estimates.

EXPLORATION PROPERTIES (continued)

• A rigorous marketing study is recommended to determine the impact of bringing these products, in the projected quantities, to the marketplace.

• Consider locating the processing facilities closer to the Province's main natural gas transmission and other product pipelines in southern Saskatchewan. This may provide an economic benefit on the cost side as well as possibly providing easier access to the market for the finished products.

• Consider several potential CTL technologies that could be used to monetize the Border resource, such as the Quantex Energy Inc. (Quantex) of Calgary, AB, CTL processing or the Synthesis Energy Systems ("SES") gasification processing which may have significantly lower capital and operating costs. These processes however, require further testing before being demonstrated as a proven commercial technology.

On-site power generation is still considered an alternative use for Border coal for energy production. However, the Border coals contain moderate to high amounts of sodium which causes problems (fouling) with coal-fired generators. Reduction in sodium may be possible with further test work. The PA recommends using part of the bulk sample to carry testwork for sodium and sulphur reduction.

Based on the revised coal resources (see below), the project contemplates mining coal at a rate of 3.0 million raw tonnes per year (1.8 million clean tonnes per year) over a 30 year life. The proposed operations would produce just over 90 million tonnes (Mt) of run-of-mine (ROM) coal with clean coal production of about 54 Mt.

Resource Estimates

The revised resource estimates show a conversion of approximately 20% of the Inferred resources to the Indicated category. Decreases in the inferred category were due mainly to stricter definition of deposit boundaries provided by detailed airborne gravity surveys. 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

Category	December 24, 2009 (000's Tonnes)	March 15, 2011 (000's Tonnes)
Indicated	63,500	79,161
Inferred	89,600	33,003

Westcore Energy Ltd. Agreement

In March, 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 theses 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 or on SEDAR at www.sedar.com).

RESULTS OF OPERATION AND FINANCIAL CONDITION

Selected Annual Information

YEAR ENDED DECEMBER 31,	2010 [(1)] IFRS	2009 CANADIAN GAAP	2008 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

(1) These amounts have not been audited. Refer to note 4 in the unaudited condensed interim financial statements for the three and six month period ended June 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
Q2	June 30, 2011	IFRS [(1)]	$ Nil	$ (265,134)	$ (0.01)
Q1	March 31, 2011	IFRS [(1)]	$ Nil	$ (103,296)	$ (0.01)
Q4	December 31, 2010	IFRS [(1)]	$ Nil	$ (3,240,153)	$ (0.16)
Q3	September 30, 2010	IFRS [(1)]	$ Nil	$ (71,452)	$ (0.00)
Q2	June 30, 2010	IFRS [(1)]	$ Nil	$ (638,655)	$ (0.03)
Q1	March 31, 2010	IFRS [(1)]	$ Nil	$ 1,081,896	$ 0.05
Q4	December 31, 2009	Canadian GAAP	$ Nil	$ (525,019)	$ (0.03)
Q3	September 30, 2009	Canadian GAAP	$ Nil	$ (621,312)	$ (0.03)

(1) These amounts have not been audited. Refer to note 4 in the unaudited condensed interim financial statements for the three and six month period ended June 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.

RESULTS OF OPERATION AND FINANCIAL CONDITION (continued)

Results of operations for the three months ended June 30, 2011 and June 30, 2010

The loss and comprehensive loss for the three months ended June 30, 2011 is $265,134 as compared to $638,655 in 2010. The principal differences and significant amounts of note are as follows:

- Professional fees decreased to $14,877 (2010 - $56,656) due to timing of various legal contractual matters.
- Remuneration increased to $73,125 (2010 - $54,817) due to an increase in the level of administration services.
- Share-based compensation decreased to $59,595 (2010 - $136,056) due to a decrease in the number of options vesting.
- Realized 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 loss on held-for-trading securities amounted to $59,500 (2010 – $297,000) 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 operations for the six months ended June 30, 2011 and June 30, 2010

The gain (loss) and comprehensive gain (loss) for the six months ended June 30, 2011 is $(368,430) as compared to $443,241 in 2010. The principal differences and significant amounts of note are as follows:

- Professional fees decreased to $55,304 (2010 - $83,726) due to timing of various legal contractual matters.
- Remuneration amounted to $146,297 (2010 - $142,437) which is consistent with prior period and level of work performed.
- 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 a reclass against the Border Property in 2009 to service income from the initial value attributed to 100,000 Westcore common shares (see Westcore Energy Ltd. Agreement section).
- Share-based compensation decreased to $172,394 (2010 - $307,305) due to fewer stock options vesting. During the 6 month period to June 30, 181,250 (2010 – 400,000) stock options vested.
- Realized gain on held-for-trading securities amounted to $17,661 (2010 – $Nil) and unrealized gain on held-for-trading securities amounted to $138,500 (2010 – loss ($385,000)) 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 June 30, 2011, the Company has paid a total of $402,507 in share issuance costs relating to the two offerings.

Net cash used in investing activities for the six month period ended June 30, 2011 was $2,628,596. Cash used during the period consists of $682,223 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, $5,216 in interest received and $750,000 from redeeming a short term investment.

LIQUIDITY AND CAPITAL RESOURCES (continued)

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 June 30, 2011 was $3,548,300. The Company completed a PEA on the Border property in March 2011 (subsequently amended in March 2012), 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 June 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.

SUBSEQUENT EVENTS

BCSC CTO

On March 1, 2012, the British Columbia Securities Commission ("BCSC") issued a cease trade order ("CTO") against the Company on the basis that certain previous public disclosures of the Company, which included the Company's Border Preliminary Assessment Report, contained disclosures of coal resources in the "Speculative" category that is not permitted under NI 43-101. The Company subsequently retracted references to Speculative coal resources in these disclosures and re-filed the Border Preliminary Assessment Report removing the references to Speculative coal resources. On March 9, 2012, the BCSC revoked the CTO on the basis that the Company had re-filed the amended Border Preliminary Assessment Report and had undertaken to re-file the other required records, which was completed on March 16, 2012. The Company confirms that Speculative coal resources were not included in the resource base utilized for the preliminary economic assessment contained in the Border Preliminary Assessment Report and the results of the economic analysis for the Border Coal Project remain unchanged. On March 16, 2012, the common shares of the Company resumed trading on the TSX-V.

Border Property

Between September and November 2011, the Company conducted a drilling program at the Border Coal property to test several previously defined geophysical anomalies for potential coal resource expansion. The 2011 program consisted of drilling 8 core holes: 5 holes in the Niska 105 , 2 holes in the Pasquia 98 deposits and one hole to test an airborne geophysical anomaly in the Red Deer area in Manitoba. Six out of the 8 holes encountered coal zone intercepts, and some of these holes encountered several thick coal zones in excess of 100 metres.

The 2011 drilling further defined a coal deposit at Pasquia 98. One drill hole intercepted a 3 metres thick coal seam. A previous hole drilled in this area encountered a 34.9 metre coal zone. Further drilling will be contemplated on this large geophysical anomaly. Environmental baseline work under the direction of EBA Engineering Consultants has continued with emphasis on data collection and reporting on results as a base for permitting and a possible pre-feasibility study.

In 2011, the Company submitted an application to the Saskatchewan Ministry of Energy and Resources to convert a substantial number of the Company's exploration permits at the Border Coal property into coal mineral leases. The Ministry granted a total of 81 coal mineral leases comprising 56,109 hectares covering all of the Company's coal deposits as well as areas considered by the Company prospective for new coal deposits. The leases have an initial term of 15 years and may be maintained by paying annual rental fees of $5.50 per hectare.

In early 2012, the Company received proximate analyses for the 8 core holes completed during the Fall 2011 exploration program. Five of the 6 drill holes that intercepted significant coal were in the Niska 105 deposit. The weighted average ash and calorific values on an air dried basis for the previously reported Indicated Resources were 24.4% and 17,555 KJ/Kg respectively and for the previously reported Inferred Resources these values were 25.11% and 19,620 Kj/Kg respectively. The weighted average ash and calorific values for the reported intercepts in respect of the six drill holes were 18.6 % and 22.570 KJ/Kg respectively. These results show a notable improvement

in the general characteristics of the coal quality of Niska 105 that could make it one of the best deposits found to date. The proximate analyses was completed by Loring Labs in Calgary, Alberta. The compilation of drill results has now been completed and the Company intends to prepare an updated NI 43-101 technical report that will include an updated resource estimate at the Border property.

Transaction with ZEEP

On July 11, 2011 the Company announced a proposed business combination (the "Business Combination") with Zero Emission Energy Plants Ltd. ("ZEEP"), a Bermuda company with rights to a coal gasification technology developed by the Pratt & Whitney Rocketdyne division of United Technologies Inc. A binding letter of intent was executed by the Company and ZEEP in Summer 2011, which was superseded by a definitive arrangement agreement dated August 24, 2011 (the "Arrangement Agreement"). Pursuant to the Business Combination, ZEEP agreed to acquire all of the issued and outstanding common shares of the Company in exchange for 1.2727 Class A common shares of ZEEP for each common share of the Company held, which would result in the Company becoming a wholly-owned subsidiary of ZEEP. The closing of the Business Combination was subject to a number of conditions, which included, among other things, obtaining the requisite TSX-V and shareholder approvals and the completion of a minimum financing of $11 million by ZEEP. In December 2011, the Company terminated the Arrangement Agreement with ZEEP due to the failure to meet the closing conditions on a timely basis.

Westcore Joint Venture

Westcore announced the preliminary results of its successful 2011 exploration program in which 23 drill holes of a total 39 hole program were drilled on the Black Diamond Property in which the Company holds a 25% interest. The program focused on four principal targets (Ambit, Cyclops, Athena and Calypso) and two satellite deposits (Ambit and Athena). Substantial thickness of coal ranging from 22.1 metres to 75.2 metres was encountered in 11 of the 23 holes in the six deposits drilled.

The Company has been notified by Westcore of its intent to carry out an extensive winter drill program on Westcore's Black Diamond property in Manitoba and the Hudson Bay North property in Saskatchewan in which the Company retains a 25% working interest. The primary objectives of the program are to delineate previously identified coal deposits and to test several new geophysical targets identified from interpretation of airborne geophysics carried out in 2010 and 2011. Westcore expects to drill 30 to 38 holes (3600 metres) at Black Diamond and has been approved for up to 20 holes for the Hudson Bay North property, drilling of which will be contingent on the successful results from the Black Diamond drilling.

COMMITMENT

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

		Office Lease
Year ending December 31, 2011		24,746
Year ending December 31, 2012		28,870
	$	53,616

OFF-BALANCE SHEET ARRANGEMENTS

As at June 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.

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 June 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 diliuted shares outstanding of 33,964,921.

RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Legal Fees

Paid or accrued $30,927 (2010 - $56,268) for legal fees which were included in professional fees, $88,379 (2010 - $Nil) for share issuance costs and $4,365 (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 $105,000 (2010-$60,000) for management fees to companies controlled by the President and Chief Financial Officer.

Paid or accrued $60,000 (2010-$Nil) for project management fees to a company controlled by the Chief Operations Officer.

Recorded share-based compensation of $171,377 (2010 - $229,532) 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 $95,044 (2010 - $85,266) for their share of rent, salaries and administrative expenses.

Paid or accrued $162,511 (2010 - $293,778) 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 June 30, 2011 the Company issued 358,696 (2010 – 75000) common shares and paid $25,000 (2010 - $50,000) in cash pursuant to the terms of a property agreement.

Included in accounts payable and accrued liabilities at June 30, 2011 is $34,690 (2010 - $13,556) due to a law firm of which an officer of the Company is a partner, $21,765 (2010 - $97,499) 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.

FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

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, and interest rate 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 June 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.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 June 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.

Financial instruments carrying value and fair value

The Company's financial instruments consist of cash, short term investments, securities, amounts receivable and accounts payable and accrued liabilities. The carrying value of amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short periods until settlement.

As at June 30, 2011, the Company's classification of financial instruments within the fair value hierarchy is summarized as follows:

	Level 1	Level 2	Level 3	Total
Cash	$ 545,669	$ -	$ -	$ 545,669
Short term investments	$ 3,005,035	$ -	$ -	$ 3,005,035
Held-for-trading securities	$ 330,750	$ -	$ -	$ 330,750

CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

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	June 30, 2010	January 1, 2010
Total assets under Canadian GAAP	$ 18,258,477	$ 20,863,457	$ 20,090,107
Adjustment	-	-	-
Total assets under IFRS - unaudited	$ 18,258,477	$ 20,863,457	$ 20,090,107
Total liabilities under Canadian GAAP	$ 174,277	$ 468,682	$ 609,944
Adjustment	-	-	-
Total liabilities under IFRS - unaudited	$ 174,277	$ 468,682	$ 609,944
Total shareholders' equity under Canadian GAAP	$ 18,084,200	$ 20,394,775	$ 19,480,163
Adjustment	-	-	-
Total shareholders' equity under IFRS - unaudited	$ 18,084,200	$ 20,394,775	$ 19,480,163

The following is a summary of the adjustment to operations and comprehensive loss for the six months ended June 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	June 30, 2010
Gain (Loss) and comprehensive gain (loss) under Canadian GAAP	$ (2,868,364)	$ 443,241
Adjustment	-	-
Loss and comprehensive loss under IFRS - unaudited	$ (2,868,364)	$ 443,241

There was no material cash flow impact. Goldsource continues to monitor changes in IFRS. The standard setting bodies that determine IFRS have significant ongoing projects that could impact the IFRS accounting policies the Company has selected. 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.

New standards not yet adopted

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on January 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact on the Company upon implementation of the issued standard.

CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES (continued)

Critical accounting estimates

Use of estimates

The preparation of 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:

The recoverability of amounts receivable and taxes receivable; the estimated useful lives of equipment and the related depreciation; the carrying value and recoverability of exploration and evaluation assets; accrued liabilities; fair value of agent warrants in capital stock and inputs used in accounting for share-based compensation.

Investments subject to significant influence

The Company follows the equity method of accounting for its investments over which it exercises significant influence but does not control. Under this method, the Company includes in its net earnings or loss its share of the net earnings or losses of the associated investees and capital contributions to, or distributions from, investees which increase or decrease the Company's investment. The Company accounts for its investment in the Westcore Energy Ltd. ("Westcore") joint venture agreement using the equity method.

Mineral properties - exploration and evaluation assets

Pre-exploration costs are expensed in the period in which they are incurred.

Once the legal right to explore a mineral property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, geological studies, drilling costs, payments made to contractors and depreciation of plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

Exploration and evaluation expenditures for each mineral property are carried forward as an asset provided that one of the following conditions is met;

Such costs are expected to be recouped in full through successful development and exploration of the mineral property or alternatively, by sale; or

Exploration and evaluation activities in the mineral property have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, however active and significant operations in relation to the mineral property are continuing, or planned for the future.

CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES (continued)

The carrying values of capitalized amounts are reviewed annually, or when indicators of impairment are present. In the case of undeveloped properties, there may be only inferred resources to allow management to form a basis for the impairment review. The review is based on the Company's intentions for the development of such a property. If a mineral property does not prove viable, all unrecoverable costs associated with the property are charged to profit or loss at the time the determination is made.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mining assets". Exploration and evaluation expenditures accumulated are also tested for impairment before the mineral property costs are transferred to development properties.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit of loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to accumulated losses (deficit).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement ("Agreement"), the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are assigned $Nil value and included in share capital with the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

Flow-through shares

The Company has issued flow-through shares to finance some of its exploration activities. Such shares were issued for cash in exchange for the Company giving up the tax benefits arising from the exploration and evaluation expenditures. The amounts of these tax benefits are renounced to investors in accordance with Canadian tax legislation. A premium liability is recognized for the share price premium paid by investors when acquiring the flow-through shares. The premium liability is reduced and deferred income taxes are recognized on the renounced tax deductions as eligible expenditures are incurred.

RISK FACTORS

Risk management is an ongoing exercise upon which the Company spends a substantial amount of time. A number of factors could negatively affect the Company's business and the value of the Company's common shares, including the factors listed below. Additional risks and uncertainties currently not known to Goldsource, or that the Company considers immaterial may also impair the business operations. 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

Goldsource has sufficient financial resources to fund recommendations of the PA report at its Border Property and its general administrative costs. There are no revenues from operations and no assurances that sufficient funding will be available to conduct further exploration and development of its projects. If the Company's exploration and development programs are successful, additional funds will be required for development of one or more projects. Failure to obtain additional funding could result in the delay or indefinite postponement of further exploration and development or the possible loss of the Company's properties. It is intended that such funding will be obtained primarily from future equity issues. If additional funds are raised from the issuance of equity or equity-linked securities, the percentage ownership of the current shareholders of Goldsource will be reduced, and the newly issued securities may have rights, preferences or privileges senior to or equal to those of the holders of the Company's existing common shares. Goldsource's ability to raise the additional capital, and the cost of such capital, will depend upon market conditions from time to time. There can be no assurances that such funds will be available at reasonable cost or at all.

Risks inherent in the mining business

Coal exploration is inherently risky. Few exploration properties 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 will result in commercially viable mining operations.

Commercial viability of developing a coal reserve depends on a number of factors, such as: size and grade of the deposit; proximity to infrastructure; financing costs and governmental regulations that include regulations relating to prices, taxes, royalties, infrastructure, land use, importing and exporting of coal and environmental protection. The 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.

Coal properties are often non-productive for reasons that cannot be anticipated in advance, and such operations may be subject to risks and hazards even after the commencement of mining operations. Potential risks include: availability of a suitably trained or trainable labour force; an effective working relationship between the Company and its labour force; successful renegotiation of labour contracts when they expire, particularly with respect to its unionized labour force and related collective agreement; environmental hazards; industrial accidents; unusual or unexpected geological formations or conditions; unanticipated metallurgical difficulties; the ability to acquire on a timely basis the equipment and materials necessary to operate the mine at full planned capacity; weather conditions (including historically unforeseen and unpredictable changes in weather patterns such as significantly increased severity of adverse conditions that may be brought about by the phenomenon of global warming or climate change); rock bursts, cave-ins or other ground control problems; seismic activity; flooding; water conditions; and coal or concentrate losses. The occurrence of any of the foregoing could result in damage to or destruction of coal properties or production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse government action.

Regulatory and environmental risks

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment, exploration, development, waste disposal, toxic substances and other matters. New laws and regulations, amendments to existing laws and regulations or more stringent implementation of existing laws and regulations could have a material adverse impact on the Company, increase costs, cause a delay or prevent the development of new mineral properties. Goldsource believes it is currently in compliance in all material respects with all applicable environmental laws and regulations.

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 coal exploration and production. Environmental liability may result from mining activities conducted by others prior to the Company's ownership of a property. To the extent Goldsource is subject to uninsured environmental liabilities, the payment of such liabilities would reduce the Company's otherwise available earnings and could have a material adverse effect on Goldsource. 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. In addition, Goldsource does not have coverage for certain environmental losses and other risks as such coverage cannot be purchased at a commercially reasonable cost.

RISK FACTORS (continued)

Licenses and permits

The Company's operations require licenses and permits from various governmental authorities. Goldsource believes it holds all material licenses and permits required under applicable laws and regulations, and believes it is presently complying in all material respects with the terms of such licenses and permits. However, 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, commence construction or operation of mining facilities and properties under exploration or development or to maintain continued operations that economically justify the cost.

Exploration and development

All of the properties in which Goldsource has an interest are in the early-to-advanced exploration stages only, and are without a demonstrated commercial body of coal. Development of the Company's mineral properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in the definition of commercial bodies of coal. The long-term profitability of the Company's operations, if any, will be in part directly related to the cost and success of its exploration and development programs, which may be affected by a number of factors.

Substantial expenditures are required to establish reserves through drilling, to develop processes to mine coal from the resources and, in the case of new properties to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized or coal deposit, no assurance can be given that minerals or coal will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals or coal acquired or discovered may be affected by numerous factors, which are beyond the control of the Company and which cannot be accurately predicted, such as: the proximity and capacity of processing facilities; commodities markets; and governmental regulations, including regulations relating to royalties, allowable production and importing and exporting of minerals or coal.

Mineral reserve and resource estimates

Where used by the Company, figures for coal 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. Market fluctuations in the price of coal and/or a fluctuation in currency exchange rates may render certain coal resources uneconomic. Prolonged declines in the market price of coal may also render coal resources containing relatively lower grades of coal uneconomic to exploit. Such price fluctuations could materially reduce the Company's reported coal resources. Should such reductions occur, material write-downs of its investment in mining properties or the discontinuation of development might be required, and there could be material delays in the development of new projects and increased net losses.

Coal resources are concentrations or occurrences of coals that are judged to have reasonable prospects for economic extraction, but for which the economics of extraction cannot be assessed, whether because of insufficiency of geological information or lack of feasibility analysis, or for which economic extraction cannot be justified at the time of reporting. Consequently, coal resources are of a higher risk and are less likely to be accurately estimated or recovered than coal reserves.

Competition

The mineral industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees.

RISK FACTORS (continued)

Operating hazards and risks

Mineral exploration involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company may have a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious metals, any of which could result in work stoppages, damage to property, and possible environmental damage. Although Goldsource currently maintains insurance to cover some of these risks, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable against, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event Goldsource could incur significant costs that could have a materially adverse effect upon its financial condition.

Fluctuating prices

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of mineral or coal products or interests related thereto. The price of these commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond Goldsource’s control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new mine developments and improved mining and production methods. The effect of these factors on the price of commodities and therefore the economic viability of any of the Company's exploration or development projects cannot accurately be predicted.

No assurance of titles

The Company’s title to its mineral properties may be subject to challenge. While title to the properties has been diligently investigated and, to the best of the Company’s knowledge, title to all properties in which it has, or has the right to acquire, an interest is in good standing, this should not be construed as a guarantee of title.

Recent Canadian jurisprudence requires governments to consult with aboriginal peoples with respect to grants of mineral rights and the issuance or amendment of project authorizations. This may affect the Company’s ability to acquire, either within a reasonable time frame or at all, effective mineral titles in Canada in which aboriginal title is claimed. The risk of unforeseen aboriginal title claims also exists in foreign jurisdictions, and could also affect existing operations as well as development projects and future acquisitions. These legal requirements may affect the Company’s ability to expand or transfer existing operations or to develop new projects.

Substantial volatility of share price

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The price of the Company’s common shares is also likely to be significantly affected by short-term changes in mineral prices or in the Company’s financial condition or results of operations as reflected in its quarterly financial reports. Other factors unrelated to the Company’s performance that may have an effect on the price of its common shares include the following: the extent of analytical coverage available to investors concerning the Company’s business may be limited if investment banks with research capabilities do not follow the Company’s securities; lessening in trading volume and general market interest in the Company’s securities may affect an investor’s ability to trade significant numbers of the Company’s common shares; the size of the Company’s public float may limit the ability of some institutions to invest in the Company’s securities.

Absolute assurance on Financial Statements

The Company prepares its financial statements in accordance with accounting policies and methods prescribed by IFRS. In the preparation of financial statements, management may need to rely upon assumptions, make estimates or use their best judgment in determining the financial condition of the Company. In order to have a reasonable level of assurance that financial transactions are properly authorized, assets are safeguarded against unauthorized or improper use and transactions are properly recorded and reported, the Company has implemented and continue to analyze its internal control systems for financial reporting. Although the Company believes that its financial reports and financial statements are prepared with reasonable safeguards to ensure reliability, the Company cannot provide absolute assurance in that regard.

Lack of dividends

No dividends on the Company’s common shares have been paid to date. The Company currently plans to retain all future earnings and other cash resources, if any, for the future operation and development of its business. Payment of any future dividends, if any, will be at the discretion of the Board of Directors after taking into account many factors, including the Company’s operating results, financial condition, and current and anticipated cash needs.

RISK FACTORS (continued)

Potential conflicts of interest

The directors and officers of the Company may serve as directors and/or officers of other public and private companies, and may devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of British Columbia, Canada, require the directors and officers to act honestly, in good faith, and in the best interests of the Company and its shareholders. However, in conflict of interest situations, directors and officers of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions.

There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger properties and programs; (ii) acquire an interest in a greater number of properties and programs; and (iii) reduce their financial exposure to any one property or program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors and officers of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Employee recruitment and retention

Recruiting and retaining qualified personnel is critical to the Company's success. The Company is dependent on the services of key executives including the Company's President, Chief Financial Officer, Chief Operating Officer and other highly skilled and experienced executives and personnel focused on managing the Company's interests. The number of persons skilled in acquisition, exploration, development and operation of mining properties are limited and competition for such persons is intense. As the Company's business activity grows, the Company will require additional key financial, administrative and mining personnel as well as additional operations staff. The Company could experience increases in its recruiting and training costs and decreases in its operating efficiency, productivity and profit margins. Failure of the Company to attract, hire and retain qualified personnel and the departure of any of its key executives could impair the efficiency of its operations and could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

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 June 30, 2011.

DISCLAIMER

The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. It should be read in conjunction and in context with all other disclosure documents of the Company. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented.