



**MANAGEMENT DISCUSSION & ANALYSIS**  
**FORM 51-102F1**

**DECEMBER 31, 2005**

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**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the year ended December 31, 2005

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The Management Discussion and Analysis (MDA) is an overview of the activities of **GOLDSOURCE MINES INC.** (the "Company") for the year ended December 31, 2005. The MDA should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2005 and the notes attached thereto. The effective date of this Management Discussion & Analysis is April 27, 2006.

**OVERALL PERFORMANCE**

The Company is a natural resource company engaged in the acquisition, exploration and development of mineral properties.

On October 25, 2005 the Company finalized an agreement with BEC International Corporation ("BEC") of Saskatoon, Saskatchewan to acquire a 90% interest in two blocks of mineral claims comprising 163,200 hectares in the Big River Area of Saskatchewan (the "Property"). These lands are prospective for the diamondiferous kimberlites. The Company is actively seeking other property interests and business opportunities which will advance its corporate goal of acquiring or discovering significant mineral assets.

The proposed business objectives of the Company involve a high degree of risk and there is no assurance that future acquisitions or participations will be identified. Moreover, if potential acquisitions or participations are identified, the Company may determine that the current market, pricing conditions or terms of participation may make the acquisition or participation unattractive. The Company will be in competition with others with greater resources. The Company may find that, even if the terms of the acquisition or participation are reasonable, additional funds may be required to complete the acquisition or participation, and the Company may not be able to obtain financing on the terms acceptable to the Company, or at all. Where an acquisition or participation is financed by the issuance of shares from the treasury, control of the Company may change and shareholders may suffer dilution to their investment.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company is in a strong financial position with \$6,312,476 in working capital, including cash and short term investments of \$6,339,057. These funds are sufficient to meet the planned exploration programs for the Company's properties and to finance general and administrative expenses for the next year.

During 2005 the Company raised \$5,923,250 through the issuance of share capital for cash, issued \$40,500 in share capital for services and incurred \$251,655 in share issuance costs.

The Company currently has no source of income and is entirely reliant upon raising equity capital to fund its operations and general administrative costs.

**PLANNED RESOURCE EXPENDITURES FOR 2006**  
**FOR THE BIG RIVER PROPERTY**

Drilling and assay	\$	350,000
Geophysical surveys		1,070,000
Engineering and geological services		100,000
Exploration and other		100,000
	\$	<u>1,620,000</u>

**FINANCIAL SUMMARY**

**Three months ended December 31, 2005**

General and administrative expenses, net of stock based compensation, for the three months ended December 31, 2005 were \$88,215 compared to \$56,457 for the three months ended December 31, 2004. Office and general expenses increased by \$18,131 due to increased activity levels and development of the Company's web site resulted in an increase of \$7,734 in shareholder communications expense for the period.

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the year ended December 31, 2005

**FINANCIAL SUMMARY** (continued)

**Year ended December 31, 2005**

General and administrative expenses, net of stock based compensation, for the year ended December 31, 2005 were \$246,181 compared to \$239,878 in 2004. Office and general expenses increased by \$19,167 due to increased activity levels and this increase was partially offset by a decrease of \$15,000 in management fees and by a decrease of \$9,826 in transfer agent and regulatory fees.

Working capital for the year ended December 31, 2005 increased by \$5,159,842 due mainly to \$5,923,250 being raised through the issuance of share capital for cash.

**FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair market value of these financial instruments, approximate their carrying values unless otherwise noted.

**SELECTED ANNUAL INFORMATION**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$
Total revenues	-	-	-
Net loss from continuing operations	(761,101)	(276,479)	(498,401)
Loss per share	(0.13)	(0.07)	(0.05)
Net loss for the year	(761,101)	(276,479)	(32,237)
Net loss per share	(0.13)	(0.07)	(0.01)
Total assets	7,967,462	1,324,263	1,022,817
Total long term financial liabilities	-	-	-
Future Income Taxes	388,925	-	-
Cash dividends per share	-	-	-

- (1) All per share amounts are calculated on a weighted average, basic and fully diluted basis.
- (2) Total assets increased in 2005 as a result of raising a net \$5,712,095 from the issuance of share capital by means of a private placement and the exercise of warrants and by the acquisition of the Big River Property.
- (3) Total assets increased in 2004 as a result of the cash realized from the exercise of stock options and the proceeds from the closing of the private placement.
- (4) Total assets decreased in 2003 as a result of the Corporate Restructuring.

**SUMMARY OF QUARTERLY RESULTS**

<b>Period</b>	<b>Revenue</b>	<b>Net loss</b>	<b>Net loss per</b>
	(\$)	(\$)	Share (\$)
December 31, 2005	-	(617,906)	(0.10)
September 30, 2005	-	(42,265)	(0.01)
June 30, 2005	-	(46,338)	(0.01)
March 31, 2005	-	(54,592)	(0.01)
December 31, 2004	-	(67,809)	(0.01)
September 30, 2004	-	(110,639)	(0.03)
June 30, 2004	-	(27,614)	(0.01)
March 31, 2004	-	(70,417)	(0.02)

- (1) The net loss per share is calculated on a weighted average, basic and fully diluted basis.
- (2) There were no discontinued operations or extraordinary items to report during the most recent eight quarters.

**GOLDSOURCE MINES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the year ended December 31, 2005

**SHARE CAPITAL**

*Authorized*

Unlimited number of common shares without nominal or par value  
Unlimited Class "A" preference shares without nominal or par value (none outstanding)  
Unlimited Class "B" preference shares without nominal or par value (none outstanding)

*Issued and fully paid - common shares*

	Share Capital		Contributed Surplus
	Number	Amount	Amount
<b>December 31, 2004</b>	4,689,431	\$ 2,392,643	4,243,287
Issued pursuant to acquisition of the Big River Mineral Property	2,188,750	875,500	-
Exercise of warrants	225,000	78,750	-
Issued pursuant to a private placement of flow-through shares	1,550,000	1,085,000	-
Issued pursuant to a private placement			
- for cash	7,932,500	4,759,500	-
- for services	67,500	40,500	-
Share issue costs	-	(320,917)	69,262
Stock-based compensation	-	-	399,000
<b>December 31, 2005</b>	16,653,181	\$ 8,910,976	\$ 4,711,549

*Stock options*

Stock option transactions for the year ended December 31, 2005 are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2004	400,000	\$ 0.34
Granted	800,000	\$ 0.90
As at December 31, 2005	1,200,000	\$ 0.71
Number of options currently exercisable	1,125,000	\$ 0.70

*Warrants*

Warrant transactions for the year ended December 31, 2005 are summarized as follows:

	2005	2004
Balance, beginning of the year	1,500,000	-
Issued	4,242,370	1,500,000
Exercised	(225,000)	-
Balance, end of the year	5,517,370	1,500,000

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the year ended December 31, 2005

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**SHARE CAPITAL** (continued)

*Fully Diluted Share Capital*

	<b>2005</b>	<b>2004</b>
Common shares issued	16,653,181	4,689,431
Stock options outstanding	1,200,000	400,000
Warrants outstanding	5,517,370	1,500,000
	<b>23,370,551</b>	<b>6,589,431</b>

**OFF-BALANCE SHEET ARRANGEMENTS**

At December 31, 2005 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.

**RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2005, the Company paid fees of \$60,000 (2004 - \$75,000) for management services to Nemesis Enterprises Ltd., which is wholly owned and controlled by a Director and Officer of the Company.

**PROPOSED TRANSACTIONS**

In the normal course of business, the Company evaluates property acquisition transactions and, in some cases, makes proposals to acquire such properties. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments. These future obligations are usually contingent in nature and generally the Company is only required to incur the obligation if it wishes to continue with the transaction. As of this date, the Company has a number of possible transactions that it is examining. Management is uncertain whether any of these proposals will ultimately be completed.

**INVESTOR RELATIONS ACTIVITIES**

Investor relations activities were handled by the Company and no professional fees were incurred using consultants.

**RESULTS OF OPERATIONS**

(a) *Big River Property, Saskatchewan*

On October 25, 2005 the Company finalized an agreement with BEC International Corporation (“BEC”) of Saskatoon, Saskatchewan to acquire a 90% interest in two blocks of mineral claims in the Big River Area of Saskatchewan (the “Property”). The Company will carry all costs of exploration and development on the Property to the conclusion of a positive Bankable Feasibility Study. BEC may then elect to back-in to a 25% working interest in the Property by reimbursing to the Company 25% of all past expenditures, or retain a 10% carried working interest in the Property whereby the Company will fund BEC’s share of capital and operating costs to be recovered solely from 80% of BEC’s share of cash flow from any future production from the Property.

As consideration for the 90% interest in the Property, the Company paid BEC \$55,000 in cash and issued 2.0 million common shares (“Purchase Shares”) to BEC as directed at an issue price of \$0.40 per share. In connection with the transaction, the Company also issued 188,750 common shares as a finder’s fee at an issue price of \$0.40 per share.

**RESULTS OF OPERATIONS** (continued)

A detailed technical report was prepared by independent Qualified Persons to compile data and assess from historical reports and is filed on SEDAR.

The Company has acquired additional claims in the general area of its claim blocks and has engaged Fuguro Airborne Surveys Corp to carry out a 3,900 line kilometer geotem and magnetic survey over the Sturgeon Lake claim blocks. The survey was completed in February, 2006 and results are being interpreted to define drill targets that may represent diamoniferous kimberlites.

**EXPLORATION EXPENDITURES 2005**

Engineering consulting	\$	16,759
Geophysical surveys		110,983
Exploration and general		2,333
	\$	130,075

**ACQUISITION AND STAKING EXPENDITURES  
2005**

Issuance of common shares	\$	875,000
Staking reimbursement costs		87,986
Acquisition expenses		54,794
	\$	1,018,280

(b) *Rox 1 Property, British Columbia*

On December 18, 2003, the Company entered into an option agreement to acquire a 100% interest in 20 claim units in the Omineca Mining Division of British Columbia. An initial option payment of \$20,000 was made upon execution of the agreement and the Company elected to make the second payment of \$25,000 on December 18, 2004 as required under the terms of the option agreement. After expending a net \$164,656 on exploration programs in 2004 and 2005 the Company elected not to make the December, 2005 option payment thereby terminating the agreement. The carrying values of the project were accordingly written-off.

**SUBSEQUENT EVENTS**

In February, 2006 the Company renounced the \$1,085,000 of tax deductions associated with qualified exploration expenditures incurred and to be incurred with flow-through funds.

**INDUSTRY AND ECONOMIC FACTORS AFFECTING PERFORMANCE**

Certain factors affect the Company's ability to finance and to carry on normal business. These include precious metal prices, competition amongst exploration firms for attractive mineral properties, the interest of investors in providing high-risk equity capital to exploration companies, and the availability of qualified staff and drilling equipment to conduct exploration. For the Company, which is focused exclusively on exploration and development of diamond resources, diamond prices, and the availability of equity funds are important factors.

**RISKS AND UNCERTAINTIES**

Mineral exploration and development involves a high degree of risk and few properties are ultimately developed into producing mines. Should any resource be defined on the Company's properties there can be no assurance that the mineral resources can be commercially mined or that processing will produce economically viable, saleable products.

**RISKS AND UNCERTAINTIES (continued)**

Future operations, if any, of the Company, including development activities and commencement of production on its properties, will require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the construction of any mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

**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.

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve 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 expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: silver exploration and development costs and results, fluctuations of silver prices, foreign operations and foreign government regulations, competition, uninsured risks, recovery of reserves, capitalization and commercial viability and requirement for obtaining permits and licenses.

Certain data included in this document may be historical in nature and as such may not conform to the requirements of NI- 43-101, may not have been verified by the Company's qualified person and therefore should not be relied upon.

**ADDITIONAL INFORMATION**

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and at the Company's website [www.goldsourcemines.com](http://www.goldsourcemines.com).