



MANAGEMENT DISCUSSION & ANALYSIS
FORM 51-102F1

JUNE 30, 2006

GOLDSOURCE MINES INC.
MANAGEMENT DISCUSSION AND ANALYSIS
For the three month period ended June 30, 2006

The Management Discussion and Analysis (MDA) is an overview of the activities of **GOLDSOURCE MINES INC.** (the "Company") for the three month period ended June 30, 2006. 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 August 23, 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 has since increased this initial land position to approximately 450,000 hectares and has completed a 3,900 line kilometer airborne survey in the Sturgeon Lake area to identify potential drill targets. The Company completed 6 drill holes for a total of 1,264 metres to confirm kimberlite occurrences reported by previous operators and to test geophysical anomalies in other areas. The Company has also flown approximately 3,325 line kilometers of Fugro airborne geophysics over its Cowan Lake claim block and is awaiting the results of the survey.

On April 12, 2006 the Company finalized an agreement with Minera Pacific Inc., ("Minera") for the exclusive rights to use certain information generated from Minera's proprietary UMSERT Methodology which will assist the Company in identifying areas in Saskatchewan and Manitoba that may be prospective for diamonds. The Company has since acquired approximately 150,468 hectares of mineral lands covering an area of interest flown identified by the Methodology and has flown approximately 7,750 line kilometers, in two areas, of airborne geophysics using the Fugro Geotem system.

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 Company is currently listed on the TSX-Venture Exchange (Trading Symbol: SVL) in Canada and the Frankfurt stock exchange (Trading Symbol: G5M)

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 \$4,461,086 in working capital, including cash and short term investments of \$5,123,759. These funds are more than sufficient to meet the planned exploration programs for the Company's properties and to finance general and administrative expenses for the next year.

At June 30, 2006 the Company's working capital decreased by \$1,851,390 to \$4,461,086 compared to working capital of \$6,312,476 at December 31, 2005. The decrease in working capital was due primarily to expenditures of \$1,703,754 on mineral properties during the six months ended June 30, 2006.

The Company realized proceeds of \$43,750 from the issuance of 125,000 common shares pursuant to the exercise of share purchase warrants during the second quarter. Subsequent to June 30th, 2006 the Company realized an additional \$287,000 from the issuance of 820,000 common shares on the exercise of share purchase warrants.

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

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LIQUIDITY AND CAPITAL RESOURCES (continued)

Planned Resource Expenditures For 2006

| | Big River Property | Border Property |
|-------------------------------------|-------------------------------|----------------------------|
| Drilling and analyses | \$ 650,000 | \$ 500,000 |
| Engineering and geological services | 100,000 | 50,000 |
| Exploration and other | 100,000 | 50,000 |
| Geophysical surveys | 750,000 | 500,000 |
| | <u>\$ 1,600,000</u> | <u>\$ 1,100,000</u> |

The planned amounts for 2006 may not all be incurred in the current fiscal year, are subject to management discretion and may change depending on the circumstances encountered.

FINANCIAL SUMMARY

Three months ended June 30, 2006

General and administrative expenses for the three months ended June 30, 2006 were \$149,563 compared to \$50,747 for the three months ended June 30, 2005 reflecting the increase in corporate activities. Investor relations activities incurred expenses of \$51,875 during the period as the Company continued with an advertising campaign with Stockgroup Media Inc., and further consulted with Value Relations GmbH of Frankfurt, Germany. Trade shows and conferences amounted to \$15,188 as the Company hosted booths at the Calgary and Vancouver Cambridge Investors Conferences and attended the StockDay Investors Conference in Frankfurt.

Interest income increased by \$37,940 reflecting the return on the Company's short-term investments.

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

| | 2005 | 2004 | 2003 |
|---------------------------------------|-------------|-------------|-------------|
| | \$ | \$ | \$ |
| 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, the exercise of warrants and 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 a private placement

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SUMMARY OF QUARTERLY RESULTS

| Period | Revenue (\$) | Net loss (\$) | Net loss per Share (\$) |
|--------------------|-------------------------|--------------------------|------------------------------------|
| June 30, 2006 | - | (107,214) | (0.01) |
| March 31, 2006 | - | (133,172) | (0.01) |
| 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) |

- (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.

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 |
| Balance, December 31, 2004 | 4,689,431 | \$ 2,392,643 | \$ 4,243,287 |
| Issuance pursuant to acquisition of the Big River Property | 2,188,750 | 875,500 | |
| Exercise of warrants | 225,000 | 78,750 | - |
| Issuance of share capital pursuant to private placement of flow-through shares | 1,550,000 | 1,085,000 | - |
| Issuance of share capital pursuant to 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 |
| Balance, December 31, 2005 | 16,653,181 | \$ 8,910,976 | \$ 4,711,549 |
| Exercise of warrants | 125,000 | 43,750 | |
| Issuance pursuant to acquisition of the Border Property | 50,000 | 30,000 | |
| Future income taxes on renunciation of flow through shares | - | (370,202) | - |
| Stock-based compensation | - | - | 49,000 |
| Balance, June 30, 2006 | 16,828,181 | \$ 8,614,524 | \$ 4,760,549 |

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SHARE CAPITAL (continued)

Stock options

The Company has a stock option plan under which it is authorized to grant stock options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option equals the market price of the company's stock as calculated on the date of the grant. The options can be granted for maximum term of 5 years.

At June 30, 2006, the Company had outstanding stock options, enabling holders to acquire common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|-------------------------|-----------------------|--------------------|
| 300,000 | \$0.35 | July 08, 2009 |
| 100,000 | \$0.30 | December 08, 2009 |
| 800,000 | \$0.90 | December 23, 2010 |
| 75,000 | \$0.60 | October 10, 2007 |
| 1,275,000 | | |

Warrants

At June 30, 2006, the Company has the following share purchase warrants enabling holders to acquire shares were outstanding:

| Number of shares | Exercise price | Expiry date |
|--------------------------|-----------------------|--------------------|
| 1,150,000 ⁽¹⁾ | \$0.35 | July 21, 2006 |
| 3,047,500 | \$0.75 | December 01, 2007 |
| 137,500 | \$0.75 | December 09, 2007 |
| 1,057,370 | \$0.75 | December 20, 2007 |
| 5,392,370 | | |

⁽¹⁾ Subsequent to June 30, 2006, 820,000 share purchase warrants were exercised and 330,000 share purchase warrants expired.

OUTSTANDING SHARE DATA

Fully Diluted Share Capital, at the date of this report

| | |
|---------------------------|-------------------|
| Common shares issued | 17,648,181 |
| Stock options outstanding | 1,275,000 |
| Warrants outstanding | <u>4,242,370</u> |
| | <u>23,165,551</u> |

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2006 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 three month period ended June 30, 2006, the Company paid fees of \$22,500 (2005 - \$15,000) 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

During the period the Company conducted an advertising campaign with Stockgroup Media Inc., and consulted with Value Relations GmbH in connection with a Frankfurt stock exchange listing. In addition the Company sponsored booths at the Vancouver and Calgary Cambridge Investors Conferences and at the Stock Day Investors Forum in Frankfurt, Germany.

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”). A detailed technical report (NI43101 complaint) was prepared by independent Qualified Persons and is filed on SEDAR.

The Company acquired additional claims in the general area of its Cowan Lake and Sturgeon Lake claim blocks acquired from BEC and engaged Fugro Airborne Surveys Corp to carry out a 3,900 line kilometer geotem and magnetic survey over the Sturgeon Lake claim block. The survey was completed in February, 2006 and results were being interpreted to define drill targets that may represent diamondiferous kimberlites. The Company also carried out a 3,325 line kilometer airborne geophysical survey over the Cowan Lake claim block. This data is presently being interpreted and the Company intends to drill test any geophysical targets that may potentially be kimberlites pipes.

(b) Border Property, Saskatchewan

On April 12, 2006 the Company finalized an agreement with Minera Pacific Inc., (“Minera”) for the exclusive rights to use certain information generated from Minera’s proprietary UMSERT Methodology which will assist the Company in identifying areas in Saskatchewan and Manitoba that may be prospective for diamonds.

In order to maintain the exclusive rights to use the Information, the Company has agreed to pay staged cash payments over a period of two years to Minera totaling \$160,000 (\$35,000 paid) and issue a total of 325,000 common shares of the Company (50,000 shares issued) over a period of four years and, by the end of the fifth year, pay an additional \$500,000 or issue 250,000 common shares, whichever is the lesser, as determined by the Company in its sole discretion.

The Company has also agreed to pay to Minera \$1,000,000 (Feasibility Payment) in the event that the Company completes an independent feasibility study on any property acquired by the Company as a result of the UMSERT Methodology. The Company has agreed to make non-refundable payments to Minera of \$100,000 in each of the third, fourth and fifth years from the effective date of the Agreement as advances against the Feasibility Payment. Minera is further entitled to receive a 2% gross overriding royalty (“GOR”) on commercial production from any such property, and the Company is entitled at any time to purchase one-half of the GOR for \$2,000,000.

The Agreement may be terminated by the Company at any time upon written notice to Minera, in which case Minera may elect to receive an assignment of any properties acquired by the Company as a result of the UMSERT Methodology.

RESULTS OF OPERATIONS (continued)

(b) Border Property, Saskatchewan

The Company has since acquired approximately 150,468 hectares of mineral lands covering an area of interest identified by the Methodology and has flown approximately 7,750 line kilometers of airborne geophysics using the Fugro Geotem system. The data is currently being interpreted and the Company expects to acquire additional lands and drill potential kimberlite targets based on the out come of the interpretations.

SUBSEQUENT EVENTS

Subsequent to June 30, 2006 the Company issued 820,000 common shares pursuant to the exercise of share purchase warrants for proceeds of \$287,000 and 330,000 share purchase warrants expired.

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. 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 and at the Company's website www.goldsourcemines.com.