



**MANAGEMENT DISCUSSION & ANALYSIS**  
**FORM 51-102F1**  
**SEPTEMBER 30, 2006**  
**THIRD QUARTER**

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

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The Management Discussion and Analysis (MDA) is an overview of the activities of **GOLDSOURCE MINES INC.** (the "Company") for the three month period ended September 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 October 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 459,000 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 has received the results of the survey which indicated a number of potential drill targets.

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 159,600 hectares of mineral lands covering an area of interest 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: GXS) 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 \$4,308,216 in working capital, including cash and short term investments of \$4,508,458. 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.

For the nine months ended September 30, 2006 the Company's working capital position decreased by \$2,004,260. The decrease was due primarily to mineral property expenditures of \$2,105,612 excluding non- cash items.

The Company realized proceeds of \$330,750 from the issuance of 945,000 common shares pursuant to the exercise of share purchase warrants during the nine month period. In the three month period ended September 30, 2006 the Company realized \$287,000 from the exercise of 820,000 warrants

The Company currently has no source of revenue 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**

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

During the nine months ended September 30, 2006 \$1,490,802 was expended on the Big River Project and \$644,810 was expended on the Border Project including \$30,000 of acquisition costs incurred by share issuance. 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 September 30, 2006***

General and administrative expenses for the three months ended September 30, 2006 were \$88,023 exclusive of stock based compensation compared to \$47,727 for the three months ended September 30, 2005 reflecting the increase in corporate activities. Investor relations activities incurred expenses of \$11,982 during the period as the Company continued with an advertising campaign with Stockgroup Media Inc. Management fees increased by \$7,425 to reflect an increase in the management contract with Nemesis Enterprises Ltd. Trade shows and conferences cost \$12,858 for registration at an Investors Forum held in Vancouver during the quarter and for additional expenses relating to the StockDay Forum held in Frankfurt, Germany during the previous quarter. Stock based compensation was \$4,687 for amortization of a consultant's stock option.

Interest income increased by \$44,519 reflecting the return on the Company's cash and cash equivalents and 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.

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**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, 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

**SUMMARY OF QUARTERLY RESULTS**

<b>Period</b>	<b>Revenue</b>	<b>Net loss</b>	<b>Net loss per</b>
	(\$)	(\$)	Share (\$)
September 30, 2006	-	(42,729)	(0.00)
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)

- (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)

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**SHARE CAPITAL (continued)**

*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	945,000	330,750	-
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	-	-	53,687
Balance, June 30, 2006	17,648,181	\$ 8,901,524	\$ 4,765,236

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

Number of shares	Exercise price	Expiry date
3,047,500	\$0.75	December 01, 2007
137,500	\$0.75	December 09, 2007
1,057,370	\$0.75	December 20, 2007
4,242,370		

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**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 September 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 September 30, 2006, the Company paid fees of \$22,500 (2005 - \$22,500) 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.

**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 (NI 43-101 complaint) was prepared by independent Qualified Persons and is filed on SEDAR.

***Historic Activities***

Prior to the Company’s efforts, the most recent, serious exploration work on the Big River Property (Sturgeon Lake claims) was carried out more than 10 years ago. Although the area includes the site of the first discovery of diamonds in Saskatchewan, it has never been systematically explored using current geophysical techniques or applying the extensive knowledge base that has been developed for the kimberlite pipes of the Fort à la Corne area. Work carried out by previous operators on the Sturgeon Lake claim block and immediate area included 5 core and 27 rotary drill holes. Intercepts of kimberlite were reported in 19 holes in four widely separated areas. The two holes for which detailed analyses are available reported recoveries of micro-diamonds and significant indicator minerals from both holes.

**RESULTS OF OPERATIONS (continued)**

***Current Activities***

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 identified several drill targets that may represent diamondiferous kimberlites.

Subsequent to the initial property acquisition, the Company acquired an additional 186,000 hectares of mineral claims (the "Deban" claim block) covering the favourable geologic horizons between its Sturgeon Lake block and its Cowan Lake block to the northwest. The Company controls a 90% interest in the Big River Property which now comprises a block of contiguous claims totalling approximately 459,260 hectares.

The Company utilized the services of Dr. Jovan Silic, Ph. D (Geophysics) of Flagstaff GeoConsultants, Australia for on-site supervision of the airborne geophysical programs and interpretation of the data. The Fugro data gathering system, in conjunction with interpretation using Dr. Silic's proprietary software has been extremely successful in identifying and delineating kimberlite bodies in the Fort à la Corne area of Saskatchewan.

The Company has completed 6 drill holes on its Sturgeon Lake claim block. Three holes tested priority geophysical targets that exhibited electro-magnetic resistivity ("EM") signatures somewhat similar to those generally associated with kimberlite pipes in the Fort à la Corne area. One of these holes intersected approximately 2.2 metres of what appears to be a fine grained pyroclastic unit within mudstones that are stratigraphically the same units that contain kimberlites in the Fort à la Corne area. This unit has been sampled for further study and if it proves to be kimberlitic it will be a significant new kimberlite occurrence well removed from previous areas of interest.

The remaining three drill holes tested kimberlite occurrences identified by previous operators in the Sturgeon Lake area. These holes served to confirm local stratigraphy and helped to define the extent and nature of the known kimberlite occurrences and their relationship to the recently acquired magnetic and electro-magnetic data. Only one minor intercept of kimberlite was encountered in the hole drilled nearest to the Sturgeon Lake occurrence.

***(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 (continued)**

Based on this independent research, the Company acquired 100% interest in approximately 148,600 hectares of mineral claims (the Border claim block) in the eastern portion of the province and has staked an additional 11,500 hectares to cover a second prospective area (the "Cross Roads" claim block). An airborne geophysical survey of approximately 7,750 line kilometers using the Fugro Geotem system was completed covering both areas. The data has been interpreted and several potential drill targets that may be potential kimberlite pipes have been identified. The priority targets will be subject to follow-up ground geophysical programs and possible drilling. A subsequent examination of a number of secondary targets will follow, depending in part on the results obtained from the priority targets.

The Company's entire land position is now in the order of 620,000 hectares which will serve as a basis for ongoing exploration work in an effort to discover Saskatchewan's second major diamondiferous kimberlite field.

**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.



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**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).