



*Auditors' Report and Consolidated Financial Statements of*

**JINSHAN GOLD MINES INC.**

*December 31, 2008 and 2007  
(stated in U.S. dollars)*

Deloitte & Touche LLP  
2800 - 1055 Dunsmuir Street  
4 Bentall Centre  
P.O. Box 49279  
Vancouver BC V7X 1P4  
Canada

Tel: 604-669-4466  
Fax: 604-685-0395  
www.deloitte.ca

## **Auditors' report**

To the Shareholders of  
Jinshan Gold Mines Inc.

We have audited the consolidated balance sheets of Jinshan Gold Mines Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
March 25, 2009

# JINSHAN GOLD MINES INC.

## Consolidated Balance Sheets

December 31, 2008 and 2007

(Stated in U.S. dollars)

	2008	2007
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 12,142,739	\$ 26,952,425
Restricted cash (Note 4)	5,215,704	-
Accounts receivable	148,771	348,914
Prepaid expenses and deposits (Note 5)	7,176,502	2,001,980
Inventory (Note 6)	29,147,278	434,609
	<b>53,830,994</b>	<b>29,737,928</b>
PROPERTY, PLANT AND EQUIPMENT (Note 7)	<b>66,711,336</b>	<b>57,727,460</b>
	<b>120,542,330</b>	<b>87,465,388</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	18,932,644	15,066,485
Short-term loan (Note 8)	18,672,730	-
Current portion of notes payable (Note 9)	22,930,784	-
Current portion of asset retirement obligation (Note 10)	590,035	346,978
	<b>61,126,193</b>	<b>15,413,463</b>
<b>NON-CURRENT</b>		
Notes payable (Note 9)	14,929,121	44,267,023
Asset retirement obligation (Note 10)	4,773,331	4,113,045
	<b>19,702,452</b>	<b>48,380,068</b>
NON-CONTROLLING INTEREST (Note 11)	295,731	-
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 12)		
Authorized - Unlimited common shares without par value		
Issued - 163,889,159 common shares (2007 - 156,561,424)	74,166,100	59,809,025
Contributed surplus	10,388,509	10,922,519
	<b>84,554,609</b>	<b>70,731,544</b>
Accumulated other comprehensive income	460,850	460,850
Deficit	(45,597,505)	(47,520,537)
	<b>(45,136,655)</b>	<b>(47,059,687)</b>
	<b>39,417,954</b>	<b>23,671,857</b>
	<b>\$ 120,542,330</b>	<b>\$ 87,465,388</b>

**NATURE AND CONTINUANCE OF OPERATIONS (Note 1)**  
**COMMITMENTS AND CONTINGENCIES (Notes 7 and 19)**

APPROVED BY THE BOARD

"Daniel Kunz"

Director

"Ian He"

Director

See accompanying notes to the consolidated financial statements

# JINSHAN GOLD MINES INC.

## Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended December 31, 2008 and 2007

(Stated in U.S. dollars)

	2008	2007
REVENUES	\$ 29,371,411	\$ -
COST OF SALES		
Cost of sales excluding depreciation, amortization and depletion	(18,109,057)	-
Depreciation, amortization and depletion	(2,390,460)	-
Accretion of asset retirement obligation	(422,427)	-
	(20,921,944)	-
MINE OPERATING EARNINGS	8,449,467	-
EXPENSES		
General and administrative	(6,005,784)	(5,347,019)
Exploration expenses	(5,287,610)	(6,604,015)
	(11,293,394)	(11,951,034)
LOSS FROM OPERATIONS	(2,843,927)	(11,951,034)
OTHER INCOME (EXPENSES)		
Foreign exchange gain (loss)	8,058,114	(3,319,847)
Interest income	174,620	439,032
Interest on notes payable (Note 9)	(3,169,791)	(1,688,442)
Other interest and financing expense	(253)	(10,973)
	5,062,690	(4,580,230)
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	2,218,763	(16,531,264)
NON-CONTROLLING INTEREST (Note 11)	(295,731)	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 1,923,032	\$ (16,531,264)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 12(c))	\$ 0.01	\$ (0.11)
BASIC WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 12(c))	162,059,379	151,747,438
DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 12(c))	163,670,982	151,747,438

See accompanying notes to the consolidated financial statements

**JINSHAN GOLD MINES INC.**  
**Consolidated Statement of Shareholders' Equity**  
**Years ended December 31, 2008 and 2007**  
**(Stated in U.S. dollars)**

	Number of Shares	Share Capital	Contributed Surplus	Subtotal	Accumulated Other Comprehensive Income	Deficit	Subtotal	Total
Balances, December 31, 2006	145,358,949	\$ 49,069,482	\$ 8,133,004	\$ 57,202,486	\$ 460,850	\$ (30,989,273)	\$ (30,528,423)	\$ 26,674,063
Shares issued for:								
Exercise of warrants	9,495,373	8,915,867	(994,521)	7,921,346	-	-	-	7,921,346
Exercise of stock options	1,707,102	1,823,676	(673,498)	1,150,178	-	-	-	1,150,178
Stock-based compensation charged to operations	-	-	2,127,010	2,127,010	-	-	-	2,127,010
Fair Value of share purchase warrants issued in connection with the 12% senior unsecured promissory notes, net of \$70,721 issue costs (Note 9)	-	-	2,330,524	2,330,524	-	-	-	2,330,524
Net loss and comprehensive loss	-	-	-	-	-	(16,531,264)	(16,531,264)	(16,531,264)
Balances, December 31, 2007	156,561,424	\$ 59,809,025	\$ 10,922,519	\$ 70,731,544	\$ 460,850	\$ (47,520,537)	\$ (47,059,687)	\$ 23,671,857
Shares issued for:								
Exercise of warrants	5,407,167	11,915,435	(2,306,276)	9,609,159	-	-	-	9,609,159
Exercise of stock options	1,920,568	2,441,640	(1,027,931)	1,413,709	-	-	-	1,413,709
Stock-based compensation charged to operations	-	-	1,505,959	1,505,959	-	-	-	1,505,959
Fair Value of share purchase warrants extended in connection with the 12% senior unsecured promissory notes (Notes 8 and 9)	-	-	1,294,238	1,294,238	-	-	-	1,294,238
Net income and comprehensive income	-	-	-	-	-	1,923,032	1,923,032	1,923,032
<b>Balances, December 31, 2008</b>	<b>163,889,159</b>	<b>\$ 74,166,100</b>	<b>\$ 10,388,509</b>	<b>\$ 84,554,609</b>	<b>\$ 460,850</b>	<b>\$ (45,597,505)</b>	<b>\$ (45,136,655)</b>	<b>\$ 39,417,954</b>

See accompanying notes to the consolidated financial statements

**JINSHAN GOLD MINES INC.**  
**Consolidated Statements of Cash Flows**  
**Years ended December 31, 2008 and 2007**  
(Stated in U.S. dollars)

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 1,923,032	\$ (16,531,264)
Items not requiring use of cash and cash equivalents:		
Depreciation, amortization and depletion	2,410,382	45,612
Accretion of asset retirement obligation	422,427	-
Accretion of interest expense on notes payable	981,380	-
Accretion of interest expense on short-term loan	808,469	-
Stock-based compensation	1,505,959	2,127,010
Unrealized foreign exchange (gain) loss	(7,941,666)	3,175,412
Non-controlling interest (Note 11)	295,731	-
	405,714	(11,183,230)
Change in non-cash operating working capital items (Note 15 (a))	(29,857,947)	6,505,993
	(29,452,233)	(4,677,237)
<b>INVESTING ACTIVITIES</b>		
Property, plant and equipment additions	(30,436,408)	(40,598,910)
Proceeds from sale of pre-commercial gold production	20,906,313	15,077,020
Restricted cash deposits (Note 4)	(5,215,704)	-
	(14,745,799)	(25,521,890)
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	11,022,868	9,071,524
Proceeds from short-term loan (Note 8)	18,909,916	-
Proceeds from the private placement offering comprising the 12% senior unsecured promissory notes and share purchase warrants, net of \$550,142 in issue costs (Note 9)	-	18,118,764
	29,932,784	27,190,288
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		
ON CASH AND CASH EQUIVALENTS	(544,438)	2,084,761
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR</b>	<b>(14,809,686)</b>	<b>(924,078)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>26,952,425</b>	<b>27,876,503</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 12,142,739</b>	<b>\$ 26,952,425</b>
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:</b>		
Cash in bank	\$ 12,140,045	\$ 9,896,230
Bank short-term deposits	2,694	17,056,195
	\$ 12,142,739	\$ 26,952,425

Supplemental cash flow information (Note 15(b))  
See accompanying notes to the consolidated financial statements

**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**  
**(Stated in U.S. dollars, except as otherwise noted)**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Jinshan Gold Mines Inc. (“Jinshan”) together with its subsidiaries (individually and collectively referred to as the “Company”) is a gold production company engaged in the acquisition, exploration, development and mining of mineral properties in the People’s Republic of China (“China”).

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has a working capital deficiency of \$7,295,199 and has an accumulated deficit of \$45,597,505. The Company’s ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flow from the Chang Shan Hao Gold Mine (“CSH Gold Mine”). The Company is monitoring cash flow generated from operations at the CSH Gold Mine against cash requirements for its operating costs, to fund other on-going expenses, for capital expansion plans and for future business opportunities. The Company is also reviewing this in the context of loans that have been secured to finance the development and operations of the CSH Gold Mine. These loans include \$40,829,659 (CDN \$50,000,000) (see Note 9) principal amount of senior unsecured promissory notes, of which \$24,497,795 (CDN \$30,000,000) principal amount falls due in December 2009 and \$16,331,864 (CDN \$20,000,000) principal amount falls due in June 2010, and trade credit extension by the Company’s significant shareholder, China National Gold Group Corporation (“CNG”), of \$14,600,000 (RMB 100,000,000) that represents advances on future gold sales. The Company is currently negotiating with Chinese banks for a project loan facility to complete construction of the CSH Gold Mine expansion. See other contractual obligations in Note 17(c). Even in the context of increased financial performance at the CSH Gold Mine, the Company does not expect that cash flow from the CSH Gold Mine will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. If current market conditions and tightening credit markets persist for an extended time, they could negatively affect the Company’s ability to obtain equity financing or external debt financing. There can be no assurance that additional funding will be available to the Company or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its development projects.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The significant accounting policies used in these consolidated financial statements are as follows:

*(a) Principles of consolidation*

These consolidated financial statements include the accounts of Jinshan and all its subsidiaries. All inter-company transactions and balances have been eliminated. Substantially all of the Company’s exploration activities are carried out on jointly owned properties.

Variable Interest Entities (“VIEs”), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline (“AcG”) 15, “Consolidation of Variable Interest Entities” (“AcG 15”), are entities in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities’ expected losses and/or expected residual returns. The Company has not identified any VIEs at December 31, 2008 or 2007.

# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Stated in U.S. dollars, except as otherwise noted)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *(b) Measurement uncertainties*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates. Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the quantities of recoverable gold on leach pads and in circuit, the proven and probable ore reserves and resources and the related depletion and amortization, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of inventory, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties, plant and equipment, the anticipated costs of asset retirement obligations including the reclamation of mine sites, the commencement of commercial production, the provision for income taxes and composition of future income tax assets and liabilities, and the computation of stock-based compensation.

#### *(c) Foreign currencies*

The Company's functional currency is the U.S. dollar. The temporal method of translation, for foreign currencies and financial statements, is being used as it was determined that the Company's foreign subsidiaries are integrated foreign operations as their exposure to exchange rate changes is similar to the exposure that would exist had the transactions and activities been undertaken by Jinshan itself. Accordingly, monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in operations.

#### *(d) Cash and cash equivalents*

Cash includes cash on hand and short-term highly liquid investments with terms to maturity, at the date of acquisition, not exceeding ninety days which are readily convertible to cash and subject to an insignificant risk of changes in fair value. Interest from cash and cash equivalents is recorded on an accrual basis. The Company does not have any asset backed commercial paper in its bank deposits.

#### *(e) Inventory*

Gold in process inventory consists of gold contained in the ore on leach pads and in-circuit material within processing operations. Gold doré is gold awaiting refinement. Gold inventories are valued at the lower of average production cost or net realizable value.

Production cost consists of the direct production costs in mining and processing including the cost of raw materials and direct labor; mine-site overhead expenses; and allocated indirect costs, including depreciation, depletion and amortization of mining interests. The recovery of gold from ore is achieved through a heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution which dissolves the gold contained in the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. For accounting purposes, costs are added to ore on leach pads using



# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Stated in U.S. dollars, except as otherwise noted)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Inventory (continued)

current mining and leaching costs, including applicable depreciation, depletion and amortization relating to mining interests. Costs are removed from ore on leach pads as ounces of gold are recovered based on the average cost per recoverable ounce on the leach pad. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured in tonnes added to the leach pads), the grade of the ore placed on the leach pads (based on assay data), and a recovery percentage (based on ore type). Although the quantities of recoverable gold placed on the leach pad are reconciled by comparing the grades of ore placed on the leach pad to the quantities actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The actual recovery of gold from the leach pad is not known until the leaching process has concluded at the end of the mine life.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimated selling price per ounce of gold is determined by the average of predicted future gold prices over the next year. The estimated costs of completion are refining costs which are determined based on current refining costs per ounce of gold charged by CNG, who is the refiner and the only customer. Consequently, there are no additional selling costs.

Consumables used in operations, such as fuel, chemicals, and reagents and spare parts inventory are valued at the lower of cost or net realizable value.

#### (f) Property, plant and equipment

Property, plant and equipment are recorded at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the following estimated useful lives.

Motor vehicles	5 years
Machinery and equipment	3 to 10 years
Furniture and office equipment	2 to 5 years
Buildings	10 years

The Company reviews the carrying values of its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying values may exceed the estimated net recoverable amounts determined by reference to estimated future operating results and undiscounted net cash flows. An impairment loss is recognized when the carrying value is not recoverable and exceeds fair value. At that time, the carrying amount is written down to fair value.

Fair value is determined based on the sum of discounted net cash flows expected to result from the use and eventual disposition of the property, plant and equipment. All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is not likely. Financing costs, including interest, are capitalized to mineral properties and deferred development for projects that are actively being prepared for production. Interest

**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2008 and 2007**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(f) Property, plant and equipment (continued)*

capitalization ceases after commencement of commercial production. Further development expenditures, subsequent to the establishment of economic recoverability, are capitalized and included in the carrying amount of the related property. Drilling and related costs incurred to define and delineate a mineral deposit that has not been classified as proven and probable reserves at a development stage or production stage mine are capitalized as part of the mineral deposit, in the accounting period when the expenditure is made, when management determines that there is sufficient evidence that the expenditure will result in a future economic benefit to the company. Management evaluates the following criteria in its assessment:

- Geology: whether or not there is sufficient geologic and economic certainty of being able to convert a residual mineral deposit into a proven and probable reserve at a development stage or production stage mine, based on the known geology and metallurgy. A history of conversion of resources to reserves at operating mines to support the likelihood of conversion.
- Scoping: there is a scoping study or preliminary feasibility study that demonstrates the additional resources will generate a positive commercial outcome. Known metallurgy provides a basis for concluding there is a significant likelihood of being able to recoup the incremental costs of extraction and production.
- Accessible facilities: mineral property can be processed economically at accessible mining and processing facilities where applicable.
- Life of Mine Plans: an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.
- Authorizations: operating permits and feasible environmental programs exist or are obtainable.

Therefore prior to capitalizing such costs, management determines that the following conditions have been met:

- There is a probable future benefit that will contribute to future cash inflows;
- The Company can obtain the benefit and control access to it; and
- The transaction or event giving rise to the benefit has already occurred.

On the commencement of commercial production, depletion of each mining property is provided on a unit-of-production basis using estimated proven and probable recoverable reserves as the depletion base. In cases where there are no proven or probable reserves, depletion is provided on a straight-line basis over the expected economic life of the mine.

Certain of the Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's interests in such activities.

Effective on July 1, 2008, the Company determined that the CSH Gold Mine entered into commercial production. From July 1, 2008, the financial statement presentation reflects revenues and cost of mining operations in the consolidated statement of operations. Commercial production was deemed to have commenced when management determined that operational commissioning of major mine and plant components were completed, operating results were being achieved consistently for a period of time and

**JINSHAN GOLD MINES INC.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(f) Property, plant and equipment (continued)*

that there were indicators that these operating results were being sustained. Management determined commencement of commercial production based on the following factors which indicated that planned principal operations had commenced. These included one or more of the following:

- A significant utilization rate of plant capacity has been achieved;
- A significant portion of available funding was directed toward operating activities;
- A pre-determined, reasonable period of time of stable operation has passed; or
- A development project significant to the primary business objective of the enterprise has been completed and significant milestones have been achieved.

In its pre-commercial production stage up to and including June 30, 2008, proceeds from the sale of gold produced were offset against mine development costs.

*(g) Asset retirement obligation*

The asset retirement obligation represents the estimated discounted net present value of liabilities for statutory, contractual or legal obligations, including those associated with the reclamation and closure of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is estimated based on its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and amortized as an expense over the economic life of the mine on a unit-of-production basis. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

*(h) Revenue recognition*

Revenue from the sale of gold is recognized and recorded when all significant risks and rewards of ownership pass to the purchaser including delivery of the product, a fixed or determinable selling price, and reasonable assurance of collectability. Settlement adjustments, if any, are reflected in revenue when the amounts are determinable. All gold revenue is received from one customer, CNG, who is also the third party refiner. Gold sales revenue is recognized at the fair value of consideration received net of refining charges.

Gold sale prices are based on world market spot prices at a specified date before shipment. Incidental revenues from the sale of silver by-product are classified with cost of sales.

*(i) Stock-based compensation*

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

**JINSHAN GOLD MINES INC.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(j) Non-controlling interest*

Non-controlling interests exist in less than wholly-owned subsidiaries when joint venture arrangements are made with earn-in obligations where the joint venture partner retains a certain percentage of ownership and the percentage owned by the non-controlling interest does not decrease with losses but shares in the profit based on the interest it holds.

*(k) Income taxes*

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. A reduction in respect of the benefit of a future income tax asset (a valuation allowance) is recorded against any future income tax asset if it is not more likely than not to be realized.

*(l) Earnings (loss) per share*

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method to reflect the potential dilutive effect of exercising outstanding stock options and share purchase warrants.

*(m) Financial instruments*

The Company classifies its financial instruments as either held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Held-for-trading is the required designation for all derivative financial instruments not included in a hedging relationship. Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Held-for-trading financial instruments are measured at fair value with unrealized gains and losses recognized in the statement of operations. Available-for-sale financial instruments are measured at fair value based on quoted prices in an active market with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has designated the following: cash and cash equivalents and restricted cash as held-for-trading; accounts receivable as loans and receivables; accounts payable and accrued liabilities, short-term loan, and notes payable (including current portion) as other financial liabilities.

Under Handbook Section 3855 of the Canadian Institute of Chartered Accountants ("CICA"), the Company adopted a policy to add transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities to their fair values.

**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(n) Comprehensive income*

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this standard, the Company reports a statement of comprehensive income (see the Consolidated Statement of Shareholders' Equity) and a new category accumulated other comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this new category may include unrealized gains and losses on financial assets classified as available-for-sale, exchange gains and losses arising from the translation of financial statements of a self-sustaining foreign operation and the effective portion of the changes in fair value of cash flow hedging instruments. In 2007, the Company reclassified the balance of \$460,850 of cumulative translation adjustment to accumulated other comprehensive income. There was no income tax effect as a result of this reclassification.

*(o) Recent accounting pronouncements*

Goodwill and Intangible Assets – The CICA issued Section 3064 – Goodwill and Intangible Assets, which replace Section 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 3064 applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, and is not expected to have a material impact on the Company's financial condition, operating results, or disclosures.

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company is evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. The conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting policies, financial reporting, IT systems, and processes as well as certain business activities. The Company is currently in the process of finalizing an IFRS changeover plan. This process involves assessing the impact of the transition to IFRS and planning to ensure that the appropriate resources are available for a timely conversion.

*(p) Comparative figures*

Certain of the prior years' figures have been reclassified to conform to the current year's presentation. Specifically, the asset retirement obligation has been segregated into current and long term portions to be consistent with this year's presentation. Such reclassification is for presentation purposes only and has no effect on previously reported results.

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**3. CHANGES IN ACCOUNTING STANDARDS**

On January 1, 2008, the Company adopted the following accounting standards issued by the CICA. There was no material impact on the Company's financial condition or operating results, as a result of the adoption of these new standards.

*(a) General Standards of Financial Statement Presentation (Section 1400)*

This standard requires management to assess and disclose an entity's ability to continue as a going concern (see Note 1).

*(b) Capital Disclosures (Section 1535)*

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, qualitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance (see Note 18).

*(c) Inventories (Section 3031)*

This standard replaces Section 3030 and establishes standards for the measurement and disclosure of inventories. The new standard provides more extensive guidance on the determination of costs, including allocation of overhead expenses and other costs to inventory. Inventories must be measured at the lower of cost and net realizable value. Consistent use must be made of the method of determining inventory values. Reversal of previous write-downs is required when there is subsequent increase in the value of inventories. The amount of inventories recognized as an expense during the year is disclosed in Note 6.

*(d) Financial Instruments – Recognition and Measurement (Section 3855), Disclosure (Section 3862), and Presentation (Section 3863)*

These standards replace Section 3861, Financial Instruments - Disclosure and Presentation, and increase the disclosures previously required which enable the users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risks, liquidity risk, and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. The new presentation standard carries forward the existing presentation requirements (see Note 17).

**4. RESTRICTED CASH**

The Company signed a contract with an equipment manufacturer to purchase crusher equipment for \$15,557,383 to be delivered in early 2009. The Company established a \$15,000,000 letter of credit facility with its bank and opened a \$14,001,645 standby letter of credit for the purchase of the equipment. As security for the standby letter of credit, which expires on January 15, 2009, the Company placed \$14,001,645 as restricted cash with its bank. The Company has reduced its standby letter of credit to \$3,889,346 after making progress payments of \$10,112,299. Subsequent to year end, the Company did not reissue its standby letter of credit which expired on January 15, 2009. On February 19, 2009, the Company paid the \$3,889,346 to the equipment supplier to discharge this obligation.

In December 2008, the Company's subsidiary in China, Inner Mongolia Pacific Mining Co. Ltd. ("Inner Mongolia Pacific"), received \$1,326,358 from the local Chinese tax authority. These funds were temporarily held

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### 4. RESTRICTED CASH (Continued)

on behalf of the local Chinese tax authority and therefore, not available for use by the Company and were returned to the local Chinese tax authority in January 2009.

### 5. PREPAID EXPENSES AND DEPOSITS

	<u>2008</u>	<u>2007</u>
Refundable CSH Gold Mine construction deposits	\$ 3,975,699	\$ 1,228,902
Prepaid taxes	1,476,319	-
Deposits for spare parts	634,789	-
Permit advance	426,063	-
Rent deposits	358,875	264,385
Insurance	304,757	402,091
Other	-	106,602
	<u>\$ 7,176,502</u>	<u>\$ 2,001,980</u>

### 6. INVENTORY

	<u>2008</u>	<u>2007</u>
Gold in process	\$ 26,639,495	\$ -
Gold doré bars	1,013,325	-
Consumables	1,328,923	429,277
Spare parts	165,535	5,332
	<u>\$ 29,147,278</u>	<u>\$ 434,609</u>

Inventory totaling \$20,852,874 (2007 - \$nil) plus selling costs of \$69,070 (2007 - \$nil) was recognized in cost of sales during 2008 after commercial production began.

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### 7. PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Motor vehicles	\$ 1,184,136	\$ 364,471	\$ 819,665
Machinery and equipment	24,922,822	3,014,996	21,907,826
Furniture and office equipment	722,972	358,973	363,999
Buildings	4,275,801	489,978	3,785,823
Capital works in progress	27,840,421	-	27,840,421
Mineral properties and deferred development	12,572,974	579,372	11,993,602
	<u>\$ 71,519,126</u>	<u>\$ 4,807,790</u>	<u>\$ 66,711,336</u>

  

	2007		
	Cost	Accumulated Amortization and Depletion	Net Book Value
Motor vehicles	\$ 1,090,237	\$ 193,385	\$ 896,852
Machinery and equipment	24,974,179	798,767	24,175,412
Furniture and office equipment	625,544	279,723	345,821
Buildings	4,058,146	114,103	3,944,043
Capital works in progress	41,316	-	41,316
Mineral properties and deferred development	28,324,016	-	28,324,016
	<u>\$ 59,113,438</u>	<u>\$ 1,385,978</u>	<u>\$ 57,727,460</u>

Capital works in progress in 2008 consisted of the crusher construction for the CSH Gold Mine and in 2007, a building under construction.

Mineral properties and deferred development consist of development costs capitalized for the CSH Gold Mine commencing on May 1, 2006, when the Company determined by way of a feasibility study that the CSH Gold Mine had economically recoverable reserves. Capitalization of development costs stopped when the CSH Gold Mine entered into commercial production on July 1, 2008. Deferred development costs included mine operating costs net of proceeds received from the sale of pre-commercial gold production and accordingly, the measurement and valuation of gold inventory at July 1, 2008 resulted in the reclassification of \$20,401,790 to inventory from mineral properties and deferred development.



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**7. PROPERTY, PLANT AND EQUIPMENT (Continued)**

A reconciliation of mineral properties and deferred development is provided in the table below:

<b>Balance as of December 31, 2007</b>	<b>\$ 28,324,016</b>
Additions to mineral properties and deferred development	4,650,748
Reclassification on commencement of commercial operations to inventory	(20,401,790)
Accumulated depletion	(579,372)
<b>Balance as of December 31, 2008</b>	<b>\$ 11,993,602</b>

During the year ended December 31, 2008, \$2,026,160 (2007 - \$2,847,853) of interest and \$1,581,586 (2007 - \$1,332,097) of accretion on the 12% senior unsecured promissory notes were capitalized to mineral properties and deferred development.

*Mineral property interests*

*(a) CSH Gold Mine*

The CSH Gold Mine consists of a licensed area of 36 square kilometres (“km<sup>2</sup>”) in the western part of Inner Mongolia, northern China. It is centrally positioned within the east-west-trending Tian Shan Gold Belt. The site is approximately 650 kilometres (“km”) northwest of Beijing.

In April 2002, the Company entered into a joint venture agreement with a Chinese partner, the Brigade 217 of the Northwest Geological Bureau (“the Brigade”), to acquire up to a 96.5% interest in the CSH Gold Mine. In April 2005, the Company completed its earn-in obligations and acquired the 96.5% interest. The Chinese partner was also entitled to receive from the Company two \$1,000,000 payments, the first of which was paid in May 2007, and the second was paid in February 2008.

The following table shows the cumulative expenditures made as of December 31, 2008.

	Cumulative Balance December 31, 2007	Changes During the Period	Cumulative Balance December 31, 2008
Exploration	\$ 7,029,874	\$ 1,806,489	\$ 8,836,363
Mineral properties and deferred development	\$ 28,324,016	\$ (16,330,414)	\$ 11,993,602
Capital expenditures	\$ 30,303,994	\$ 28,240,592	\$ 58,544,586

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**7. PROPERTY, PLANT AND EQUIPMENT (Continued)**

*(b) Dadiangou Gold Project*

The Dadiangou project consists of a licensed area of 15 km<sup>2</sup> in Gansu Province, China. The project is located in the Qinling Fold Belt, a gold producing region that trends west to east through the provinces of Gansu and Shaanxi in central China.

In September 2005, the Company entered into a joint venture agreement with its Chinese partner, Nuclear Industry Northwest Economic and Technology Company (“NINETC”), to acquire a majority interest in the Dadiangou project. Under the terms of the agreement, the Company can earn a 71% interest by incurring exploration expenditures of approximately \$3,700,000 over the first three years of exploration commencing on September 19, 2006 and making payments to NINETC of approximately \$1,494,080 (of which \$125,000 has been paid). The Company can increase its interest to 80% by incurring additional exploration expenditures of approximately \$3,200,000 and by making additional payments of approximately \$360,000 to NINETC. NINETC can then choose to participate at a 20% level for all future expenditures, or have their ownership interest diluted. The amounts in the joint venture agreement are denominated in Chinese Renminbi (“RMB”) and a rate of 6.9401 RMB per U.S. dollar was used to convert the RMB amounts to U.S. dollars.

The Company and NINETC are currently in a dispute concerning the status of certain of the Company’s obligations under the joint venture agreement. Although NINETC disagrees with the Company’s position, the Company believes that it has performed its exploration obligations and, upon completion of remaining payments to NINETC, will have earned a 71% participating interest in the Dadiangou. To date, discussions aimed at resolving the impasse have been unsuccessful and the Company is considering all of its options, including initiating binding arbitration to settle the matter.

The following table shows the cumulative expenditures charged to operations as of December 31, 2008.

	Cumulative Balance December 31, 2007	Additions During the Period	Cumulative Balance December 31, 2008
Exploration	\$ 3,825,906	\$ 1,601,996	\$ 5,427,902

*(c) Xinjiang Projects*

The Company currently holds 2 exploration permits covering 96 km<sup>2</sup> in the Xinjiang Uygur Autonomous Region (“Xinjiang”) of Northwest China. The permits are held under a Chinese-Foreign Joint Venture in which the Company holds a 99% interest and the partner, Yunnan Geological and Mining Co. Ltd., holds a 1% interest. The permits were granted between in June 2006 and will expire in June of 2009.

The following table shows the cumulative expenditures charged to operations as of December 31, 2008.

	Cumulative Balance December 31, 2007	Additions During the Period	Cumulative Balance December 31, 2008
Exploration	\$ 3,062,247	\$ 813,623	\$ 3,875,870

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### 8. SHORT-TERM LOAN

The Company received \$18,909,916 (RMB 130,000,000) of the Bridge Loan proceeds from ICBC in September 2008, to support operations at the CSH Gold Mine during the construction and installation of crushers. The Bridge Loan is unsecured, denominated in RMB and bears an annual interest rate of 6.21%. Interest is payable monthly and the principal amount is repayable in installments of \$4,421,192 (RMB 30,000,000) in January 2009, \$7,368,654 (RMB 50,000,000) in February 2009, and \$7,368,654 (RMB 50,000,000) in March 2009. The principal amount was fully repaid by March 26, 2009. Principal repayments of \$14.6 million (RMB 100 million) were funded by a prepayment of future gold sales from CNG. The Bridge Loan was guaranteed by the Company's significant shareholder, CNG, with no recourse to the Company. As a condition of its promissory note holders consenting to the unsecured Bridge Loan, the Company has extended to December 14, 2010 the expiry date of 3,860,000 common share purchase warrants to purchase 3,860,000 common shares issued in connection with a note offering that closed in December 2006, and extend to June 26, 2011 the expiry date of 2,450,000 warrants to purchase 2,450,000 common shares in connection with a note offering that closed in June 2007. The holders of the warrants may exercise the warrants at the original exercise price of CDN\$1.60 per common share in the case of the warrants issued in connection with the December 2006 note offering and CDN\$2.50 in the case of the warrants issued in connection with the June 2007 note offering, until the new expiry date. No other terms of the warrants were changed. As a result of the warrant expiry date extensions, the Company determined the additional value of the warrants taking into account the expiry date extensions and recorded the incremental value as costs of obtaining the Bridge Loan. The fair values totaling \$1,294,238 were measured using the Black-Scholes option pricing model and were based on risk free annual interest rates ranging from 2.5% to 3.0%, expected lives ranging from 0.21 to 2.74 years, an expected volatility of 62%, and a dividend yield rate of nil. The fair values of the warrants are included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. The fair value of the warrant extension was allocated to the Bridge Loan proceeds resulting in a Bridge Loan fair value of \$17,615,678 in September 2008. Accretion totaling \$808,469 was recorded for the Bridge Loan up to December 31, 2008.

### 9. NOTES PAYABLE

The balances of the notes payable are provided in the table below:

	<u>Note A</u>	<u>Note B</u>	<u>Note C</u>	<u>Total</u>
Balances of notes payable, December 31, 2006 \$	21,604,895 \$	- \$	- \$	21,604,895
Total proceeds	-	11,668,067	7,000,840	18,668,907
Less: fair value of warrants	-	(1,500,777)	(900,466)	(2,401,243)
Fair value of the notes payable	21,604,895	10,167,290	6,100,374	37,872,559
Less: transaction costs for the notes payable	-	(462,252)	(17,170)	(479,422)
Unrealized foreign exchange loss	3,771,705	831,956	520,987	5,124,648
Accretion to December 31, 2007	1,332,098	282,052	135,088	1,749,238
Balances of notes payable, December 31, 2007 \$	26,708,698 \$	10,819,046 \$	6,739,279 \$	44,267,023
Unrealized foreign exchange gain	(5,429,323)	(2,191,334)	(1,349,697)	(8,970,354)
Accretion to December 31, 2008	1,651,409	619,266	292,561	2,563,236
	\$ 22,930,784 \$	\$ 9,246,978 \$	\$ 5,682,143 \$	\$ 37,859,905
Less: current portion				<b>22,930,784</b>
Balances of notes payable, December 31, 2008				<b>14,929,121</b>

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**9. NOTES PAYABLE (Continued)**

- (a) On December 14, 2006, the Company completed a \$25,935,546 (CDN \$ 30,000,000) ("Note A") private placement offering consisting of senior unsecured promissory notes ("Notes") and 6,000,000 warrants for financing the development of the CSH Gold mine. The Notes mature on December 14, 2009, are repayable in Canadian dollars, and carry an annual interest rate of 12%. Interest on the Notes is payable on a calendar quarterly basis commencing on March 31, 2007. The Company can elect to prepay the Notes anytime after 18 months from the issue date with no prepayment penalty. The Company has allocated the \$25,935,546 face value of the private placement offering to the Notes and warrants proportionately, based on their respective fair values. The fair value of the Notes was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 17% for a debt instrument of comparable maturity and credit quality. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 3.9%, an expected life of 2 years, an expected volatility of 79%, and a dividend yield rate of nil. The fair value of the warrants, net of \$153,368 issue costs, is included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. Each warrant entitles the holder to acquire one common share at CDN \$1.60 and expires on December 14, 2010 (see Note 8). The Company has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of CDN \$2.75 for 20 consecutive trading days.
- (b) On June 26, 2007, the Company concluded an \$18,668,907 (CDN \$20,000,000) private placement offering consisting of senior unsecured promissory notes ("June 07 Notes") and 4,000,000 warrants. Ivanhoe Mines Ltd. ("Ivanhoe Mines"), a significant shareholder of the Company at that time, purchased \$7,000,840 (CDN \$7,500,000) ("Note C") of the June 07 Notes and \$11,668,067 (CDN \$12,500,000) ("Note B") was purchased by third parties. The June 07 Notes mature on June 26, 2010, are repayable in Canadian dollars and carry an annual interest rate of 12%. Interest on the June 07 Notes is payable on a calendar quarterly basis commencing on September 30, 2007. The Company can elect to prepay Note B anytime after 18 months from the issue date with no prepayment penalty and Note C after 6 months from the issue date with no prepayment penalty. Note B ranks pari passu with the notes issued in December 2006 ("Note A") while Note C is subordinate to Notes A and B. The Company has allocated the \$18,668,907 face value of the private placement offering to the June 07 Notes and warrants proportionately, based on their respective fair values. The fair value of the June 07 Notes was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 17% for a debt instrument of comparable maturity and credit quality. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 4.6%, an expected life of 2 years, an expected volatility of 72%, and a dividend yield rate of nil. The fair value of the warrants, net of the \$70,721 issue costs, is included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. Each warrant entitles the holder to acquire one common share at CDN \$2.50 and expires on June 26, 2011 (see Note 8). The Company has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of CDN \$4.25 for 20 consecutive trading days.

On September 30, 2008, the Company amended the indenture for its 12% unsecured promissory notes to include provisions for the distribution of funds received from its subsidiary, Inner Mongolia Pacific. The Company has a \$9,800,000 inter-corporate loan receivable from Inner Mongolia Pacific. Under the terms of the amended indenture, Inner Mongolia Pacific is required to repay the inter-corporate loan should it obtain an expansion credit facility to repay the Bridge Loan and fund the crusher expansion, following which the Company is required to distribute the proceeds received from the inter-corporate loan repayment to the promissory note holders on a pro rata basis. In addition, the Company is required to set up a redemption fund to deposit 50% of the proceeds that the Company receives from Inner Mongolia Pacific as dividends or other cash distributions. To the extent that the redemption fund exceeds \$5,000,000, the Company is required to distribute such funds to the promissory

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**9. NOTES PAYABLE (Continued)**

note holders on a pro rata basis. As of December 31, 2008, Inner Mongolia Pacific has not secured an expansion facility and there have been no dividends or other cash distributions

The notes payable are accreted using the effective interest method over the life of the notes payable to bring their balances from their carrying values to their face values at the maturity dates. Of the total accretion of \$2,563,236 (2007 - 1,749,238), \$1,581,856 (2007 - \$1,332,097) was capitalized (see Note 15 (b)) and \$981,380 (2007 - \$417,141) was expensed.

**10. ASSET RETIREMENT OBLIGATION**

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at fair value. Fair value is determined based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized as mine development costs and amortized over the life of the mine on a unit- of- production basis.

The asset retirement obligation relates to reclamation and closure costs relating to the Company's mine operations at the CSH Gold Mine. The asset retirement obligation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total \$7,891,000, discounted using a credit adjusted risk-free rate of 8%. The settlement of the obligations will occur through to 2017. No assets have been legally restricted for the purposes of settling the asset retirement obligation. There have been no liabilities incurred or settled in the year and no revision has been made to estimated cash flows.

The following is an analysis of the asset retirement obligation:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 4,460,023	\$ -
Additions to site reclamation during the year	-	4,142,380
Accretion incurred in current year	571,955	154,549
Foreign exchange loss	331,388	163,094
	<u>5,363,366</u>	<u>4,460,023</u>
Less: current portion	<u>590,035</u>	346,978
Balance, end of year	<u>\$ 4,773,331</u>	<u>\$ 4,113,045</u>

**11. NON-CONTROLLING INTEREST**

As of December 31, 2008, the Brigade holds a 3.5% non-controlling interest in Inner Mongolia Pacific, which is 96.5% owned by the Company. The balance of the non-controlling interest is shown in the table below:

Balance, December 31, 2007	\$ -
Non-controlling interest's share of mine operating earnings	295,731
<b>Balance, December 31, 2008</b>	<b>\$ 295,731</b>

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**12. SHARE CAPITAL**

*(a) Stock options*

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to directors, employees and non-employees to acquire common shares of the Company at the fair market value on the date of approval by the Board of Directors. A portion of the stock options vests immediately on the grant date and the balance vests over a period of up to five years from grant date. The stock options have a life of up to six years from grant date. The fair market value is the weighted average price of the common shares for the five days on which they were traded immediately preceding the date of approval by the Board of Directors. The Compensation and Benefits Committee makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The Company is authorized to issue options to a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. At December 31, 2008, there were 10,601,616 options available for future grants.

The following is a summary of option transactions under the Company's stock option plan for the year ended December 31, 2008:

	2008		2007	
	Number of Options	Weighted-average Exercise Price (Expressed in CDN \$)	Number of Options	Weighted-average Exercise Price (Expressed in CDN \$)
Balance, beginning of year	<b>9,026,535</b>	\$ <b>1.50</b>	7,412,140	\$ 1.21
Options granted	<b>50,000</b>	<b>2.45</b>	3,593,000	2.18
Options exercised	<b>(1,920,568)</b>	<b>0.64</b>	(1,707,102)	0.78
Options forfeited	<b>(1,083,000)</b>	<b>2.90</b>	(271,503)	1.22
Options expired	<b>(285,667)</b>	<b>1.31</b>	-	-
Balance, end of year	<b>5,787,300</b>	\$ <b>1.75</b>	9,026,535	\$ 1.50

During the year ended December 31, 2008, the Company granted 50,000 stock options to an employee at an exercise price of CDN \$2.45 with the expiry date of May 1, 2014. The grant-date fair value and compensation costs of \$67,816 will be expensed/recognized over the vesting periods of the options, of which \$18,530 was included in the net amount of \$1,505,959 expensed/recognized in the year ended December 31, 2008.

During the year ended December 31, 2007, the Company granted 3,593,000 stock options to certain employees and consultants at exercise prices ranging from CDN \$1.62 to CDN \$2.20 with expiry dates ranging from January 12, 2012 to July 20, 2013. The grant-date fair value and compensation costs of \$4,504,749 will be expensed/recognized over the vesting periods of the options, of which \$1,035,528 was included in the net amount of \$2,127,010 expensed/recognized in the year ended December 31, 2007.

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**12. SHARE CAPITAL (Continued)**

*(a) Stock options (continued)*

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

Expiring in	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2008 (a)	Remaining contractual life (years)	Weighted Average Exercise Price (Expressed in CDN \$)	Number Exercisable at December 31, 2008	Weighted Average Exercise Price (Expressed in CDN \$)
2009	506,300	0.07 to 0.92	\$ 1.34	506,300	\$ 1.34
2010	50,000	1.52	\$ 0.50	50,000	\$ 0.50
2011	1,801,000	2.13 to 2.84	\$ 1.09	1,214,600	\$ 1.09
2012	310,000	3.03 to 3.20	\$ 1.85	206,666	\$ 1.85
2013	3,070,000	4.55	\$ 2.20	614,000	\$ 2.20
2014	50,000	5.33	\$ 2.45	-	\$ 2.45
	5,787,300			2,591,566	

(a) In the first quarter of 2009, 25,000 stock options with an exercise price of CDN \$2.36 expired and 655,000 stock options with exercise prices ranging from CDN \$0.95 to CDN \$2.20 and expiry dates ranging from 2009 to 2013 were cancelled.

The weighted average exercise price of the stock options granted during 2008 and 2007 was \$2.20 (CDN \$2.45) and \$2.21 (CDN \$2.18), respectively. The weighted average remaining contractual life of the stock options as of December 31, 2008, is 3.48 years.

The fair value of options granted was determined using the Black-Scholes option pricing model, recognizing forfeitures as they occur, using the following weighted average assumptions:

	<u>2008</u>	<u>2007</u>
Risk free interest rate	3.34%	4.00%
Expected life (years)	6.0	4.6
Expected volatility	55.4%	73.4%
Expected dividend per share	\$nil	\$nil

The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting period or vesting date. Changes in the underlying assumptions as well as the foreign exchange rates will result in fluctuations in the fair value of the outstanding options and any adjustment is charged or credited to operations upon re-measurement.

**JINSHAN GOLD MINES INC.**  
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**12. SHARE CAPITAL (Continued)**

*(b) Warrants*

The following is a summary of warrants outstanding:

Number of warrants as at December 31, 2007				Number of warrants as at December 31, 2008		Exercise price (Expressed in CDN \$)	Expiry date
Issued	Exercised	Expired					
-	(3,015,167)	-	3,015,167	-	-	1.45	February 28, 2008
-	(842,000)	-	4,702,000	3,860,000	-	1.60	December 14, 2010
-	(50,000)	-	2,500,000	2,450,000	-	2.50	June 26, 2011
-	(1,500,000)	-	1,500,000	-	-	2.50	June 26, 2011
-	(5,407,167)	-	11,717,167	<b>6,310,000</b>	-		

Number of warrants as at December 31, 2006				Number of warrants as at December 31, 2007		Exercise price (Expressed in CDN \$)	Expiry date
Issued	Exercised	Expired					
-	(6,693,500)	-	6,693,500	-	-	0.70	June 20, 2007
-	(519,040)	-	519,040	-	-	0.60	June 20, 2007
-	(984,833)	-	4,000,000	3,015,167	-	1.45	February 28, 2008
-	(1,298,000)	-	6,000,000	4,702,000	-	1.60	December 14, 2010
2,500,000	-	-	-	2,500,000	-	2.50	June 26, 2011
1,500,000 (1)	-	-	-	1,500,000	-	2.50	June 26, 2011
4,000,000	(9,495,373)	-	17,212,540	11,717,167	-		

(1) Held by Ivanhoe Mines Ltd.

As a condition of its promissory note holders consenting to the unsecured Bridge Loan, the Company has extended to December 14, 2010, the expiry date of 3,860,000 common share purchase warrants, and to June 26, 2011, the expiry date of 2,450,000 warrants. The fair values totaling \$1,294,238 were measured using the Black-Scholes option pricing model and were based on risk free annual interest rates ranging from 2.5% to 3.0%, expected lives ranging from 0.21 to 2.74 years, an expected volatility of 62%, and a dividend yield rate of nil. The fair values of the warrants are included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. The holders of the warrants may exercise the warrants at the original exercise price of CDN\$1.60 and CDN\$2.50 per common share, respectively. No other terms of the warrants were changed (see Note 8).



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**12. SHARE CAPITAL (Continued)**

(c) *Earnings (loss) per share*

Earnings (loss) used in determining earnings per share ("EPS") are presented below:

	2008	2007
Net income (loss)	\$ 1,923,032	\$ (16,531,264)
Weighted average number of shares, basic	162,059,379	151,747,438
Dilutive securities:		
Options	985,111	-
Warrants	626,492	-
Weighted average number of shares, diluted	163,670,982	151,747,438
Basic and diluted earnings (loss) per share	\$ 0.01	\$ (0.11)

For the calculation of EPS for the year ended December 31, 2008, 2,467,300 stock options and 3,860,000 common share purchase warrants were dilutive. However, 3,320,000 stock options and 2,450,000 warrants were not included in the computation of diluted weighted average number of shares (the "EPS Computation") because the average exercise price of CDN\$2.33 of these stock options and warrants exceeded the average market price of the common shares of CDN\$1.91 making them anti-dilutive. Due to a net loss for the year ended December 31, 2007, all 20,743,702 stock options and warrants were excluded from the EPS Computation because their effect would have been anti-dilutive.

**13. RELATED PARTY TRANSACTIONS**

The following transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (a) The Company incurred the following expenses, on a cost recovery basis, with Global Mining Management ("GMM"), related by way of directors or shareholders in common. The salaries and benefits costs are included in exploration expense, inventory, and costs of sales as appropriate.

	2008	2007
Administration and office	\$ 785,648	\$ 721,166
Salaries and benefits	1,780,731	1,374,057
	\$ 2,566,379	\$ 2,095,223

- (b) Accounts payable of \$240,328 (2007 - \$375,409) as of December 31, 2008, is due to GMM, a company that is under common control.
- (c) Prepaid expenses and deposits as of December 31, 2008, include \$227,749 (2007 - \$227,749) which is deposited with GMM, a company that is under common control.
- (d) The Company paid \$835,602 (2007 - \$466,506) interest expense for the twelve months ended December 31, 2008, to its current and former significant shareholders, CNG and Ivanhoe Mines, respectively (see Note 9).
- (e) In October 2008, the Company terminated its contract for the refining and purchase and sale of gold doré with a third party refiner and entered into an equivalent agreement for the purchase and sale of gold doré with CNG, who is shipping the gold doré to a designated refiner in China. The new agreement is on

**JINSHAN GOLD MINES INC.**  
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**13. RELATED PARTY TRANSACTIONS (Continued)**

substantially the same terms as the original contract with the third party refiner, but the Company has determined that this arrangement will address delays in payment and counterparty risks being experienced under the contract with the third party refiner. As of December 31, 2008, receivables from gold sales of \$60,531 (2007 - \$nil) were due from CNG as well as other transactions for the twelve months ended December 31, 2008, outlined below (see Note 16 (c)).

	<u>2008</u>	<u>2007</u>
Gold sales made to CNG	\$ 14,011,969	\$ -
Refining costs paid to CNG	\$ 74,910	-

- (f) During 2008, the Company paid \$293,470 (RMB 2,039,000) (2007 - \$nil) in cash plus payment in kind that consisted of a vehicle exchanged at a value of \$71,964 (RMB 500,000) (2007 - \$nil) to a subsidiary of CNG to construct and install process plant equipment. The Company paid \$167,824 (RMB 1,166,025) (2007 - \$nil) to another CNG subsidiary to supervise and manage the crusher installation project. At December 31, 2008, accounts payable of \$76,190 (2007 - \$nil) is due to subsidiaries of CNG.

**14. INCOME TAXES**

A reconciliation of the provision for (recovery of) income taxes is below.

	<u>2008</u>	<u>2007</u>
Net income (loss) for the year	\$ 1,923,032	\$ (16,531,264)
Statutory tax rate	31.0%	34.1%
Expected (recovery of) income taxes based on combined Canadian federal and provincial statutory rates	\$ 596,139	\$ (5,640,467)
Deduct:		
Lower effective tax rate on (income) losses in foreign jurisdictions	(153,085)	63,783
Change in future tax rate	611,565	1,880,969
Non-deductible expenses and other permanent differences	(1,903,103)	2,040,168
Tax effect of losses not recognized	848,484	1,655,547
Provision for (recovery of) income taxes	\$ -	\$ -

Significant components of the Company's future income tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
<b>Future income tax assets:</b>		
Tax loss carry-forwards	\$ 8,027,268	\$ 8,183,321
Other tax deductible temporary differences	3,785,304	2,896,287
Capital assets	960,066	-
Asset retirement obligation	1,340,842	1,218,709
Total future income tax assets	14,113,480	12,298,317
<b>Future income tax liabilities:</b>		
Asset retirement obligation	(1,111,614)	(1,174,143)
Capital assets	(4,280,550)	(1,005,311)
Other taxable temporary differences	(447,733)	-
Total future income tax liabilities	(5,839,897)	(2,179,454)
Valuation allowance	8,273,583	10,118,863
Net future income tax assets	\$ -	\$ -

**JINSHAN GOLD MINES INC.**  
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**14. INCOME TAXES (Continued)**

At December 31, 2008, the Company and its subsidiaries have unrecognized non-capital losses for income tax purposes of \$31,021,181 that may be used to offset future taxable income as follows:

		Local Currency	U.S. Dollar Equivalent	Expiry Dates
<b>Non-capital losses:</b>				
Canadian	\$	2,720,017	\$ 2,221,147	2010
		7,791,010	6,362,086	2014
		3,653,217	2,983,192	2015
		1,972,687	1,610,883	2026
		6,170,325	5,038,645	2027
		10,998,580	8,981,366	2028
Chinese Renminbi	RMB	23,977,465	3,514,572	2012
		2,110,068	309,290	2013
			<b>31,021,181</b>	

At December 31, 2008, the Company and its subsidiaries had no capital losses for income tax purposes that may be used against any future realized capital gains.

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

(a) Change in non-cash operating working capital items:

	2008	2007
Net decrease (increase) in:		
Accounts receivable	\$ 295,864	\$ (25,459)
Prepaid expenses and deposits	(5,174,522)	15,103
Inventory (see Note 7)	(28,712,669)	(434,609)
Net increase (decrease) in:		
Accounts payable and accrued liabilities	3,733,380	6,950,958
	<b>\$ (29,857,947)</b>	<b>\$ 6,505,993</b>

(b) Additional information:

	2008	2007
Transfer of contributed surplus to share capital upon exercise of stock options and warrants	\$ 3,334,207	\$ 1,668,019
Amounts included in accounts payable for property, plant and equipment	132,779	5,521,167
Accretion of notes payable	1,581,856	1,749,238
Transfer of mineral properties and deferred development to inventory	20,401,790	-
Cash interest paid	7,363,287	4,761,393

**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
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**16. SEGMENTED INFORMATION**

*(a) Industry information*

The Company operates in one reportable operating segment, being mining operations, the acquisition, exploration, and development of mineral resource properties in China.

*(b) Geographic information*

	<u>China</u>	<u>Canada</u>	<u>Total</u>
<b>As of December 31, 2008</b>			
Revenues	\$ 29,371,411	\$ -	\$ 29,371,411
Depreciation, amortization and depletion	2,390,460	19,922	2,410,382
Income (loss) from operations	4,227,359	(7,071,286)	(2,843,927)
Property, plant and equipment	66,672,866	38,470	66,711,336
<hr/>			
As of December 31, 2007			
Depreciation, amortization and depletion	\$ -	\$ 45,612	\$ 45,612
Income (loss) from operations	(5,743,564)	(6,207,470)	(11,951,034)
Property, plant and equipment	57,708,098	19,362	57,727,460

*(c) Major customer information*

The Company sells all of its gold production exclusively to its current significant shareholder, CNG (see Note 13 (e)). Sales of gold during the year to CNG totaled \$14,011,969 (2007 - \$nil). The sales were made in China. The sales to CNG do not constitute economic dependence for the Company as there are many other customers in China to whom gold can be sold.

**17. FINANCIAL INSTRUMENTS**

The fair values of the Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and short-term loan approximate their carrying values due to their short term to maturity. The fair values of the notes payable approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks including currency risk, credit risk, liquidity risk, interest risk, and commodity price risk.

*(a) Currency risk*

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in China and Canada and its functional currency is the U.S. dollar. A significant change in the currency exchange rates between the RMB or Canadian dollar relative to the U.S. dollar could have a significant effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

**JINSHAN GOLD MINES INC.**  
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**17. FINANCIAL INSTRUMENTS (Continued)**

As of December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in RMB and Canadian dollars:

	<u>2008</u>	<u>2007</u>
	<u>In Canadian Dollars</u>	
Cash and cash equivalents	\$ 794,869	\$ 21,540,662
Accounts receivable	50,957	261,192
Accounts payable and accrued liabilities	(870,597)	(2,139,315)
Notes payable	(46,363,239)	(43,740,256)
	<u>\$ (46,388,010)</u>	<u>\$ (24,077,717)</u>
	<u>In Chinese Renminbi</u>	
Cash and cash equivalents	37,578,661	27,514,458
Restricted cash	9,000,000	-
Accounts receivable	770,561	348,267
Accounts payable and accrued liabilities	(122,325,673)	(91,398,781)
Short-term loan	(130,000,000)	-
Asset retirement obligation	(36,590,489)	(32,621,062)
	<u>(241,566,940)</u>	<u>(96,157,118)</u>

Based on the above net exposures as of December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar and RMB against the U.S. dollar would result in an increase/decrease of approximately \$7,037,456 (\$3,944,635 for the Canadian dollar and \$3,092,821 for the RMB) in the Company's net income/loss.

*(b) Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company sells all of its gold to one creditworthy customer, CNG who is also the Company's significant shareholder. The Company's cash and short-term bank deposits are held in large Chinese and Canadian financial institutions. Short-term bank deposits are composed of financial instruments issued by Canadian banks and companies with high investment-grade ratings. These investments mature at various dates over the current operating period. The Company does not have any asset backed commercial paper in its short-term bank deposits. The Company's accounts receivable consists primarily of a receivable for gold sales due from its customer and goods and services tax refund due from the Federal Government of Canada, all of which are not outstanding for more than 180 days.

The Company's maximum exposure to credit risk is as follows:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 12,140,045	\$ 9,896,230
Short-term bank deposits	2,694	17,056,195
Restricted cash	5,215,704	-
Accounts receivable	148,771	348,914

**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
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**17. FINANCIAL INSTRUMENTS (Continued)**

(c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see Note 1). The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 18.

Accounts payable and accrued liabilities, short-term loans, current portion of notes payable, and current portion of asset retirement obligation are due within the next 12 months.

Contractual obligations as of December 31, 2008, consist of the following:

	Total	Payments Due By Year					Thereafter
		2009	2010	2011	2012	2013	
Short term loan repayment	\$ 19,055,158	\$ 19,055,158	\$ -	\$ -	\$ -	\$ -	\$ -
Principal repayment on notes payable	40,829,658	24,497,795	16,331,863	-	-	-	-
Operating leases (a)	74,904	53,289	7,205	7,205	7,205	-	-
Payments to joint venture partner (b)	1,729,080	561,951	590,769	-	576,360	-	-
Purchase commitments (c)	25,030,987	22,391,831	429,337	2,209,819	-	-	-
Total	\$ 86,719,787	\$ 66,560,024	\$ 17,359,174	\$ 2,217,024	\$ 583,565	\$ -	\$ -

(a) Operating leases are primarily for premises.

(b) Payments to the Dadiangou Gold project joint venture partner.

(c) Purchase commitments relate to contracts signed for the construction of and equipment supply for the crusher expansion for the CSH Gold Mine.

(d) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited because these investments, although available for sale, are generally held to maturity and not material. The Company's notes payables and short-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations but changes to exchange rates could affect interest payable (see Note 17(a)).

(e) *Commodity price risk*

The profitability of the Company and its ability to develop its mineral properties are directly related to the market price of gold. The Company has not hedged any of its future gold sales. The Company's input costs are also affected by the price of energy. The Company closely monitors gold and energy prices to determine the appropriate course of action to be taken by the Company. A 10% change in the market price of gold would result in an increase/decrease of approximately \$2,937,141 in the Company's net income/loss.

# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Stated in U.S. dollars, except as otherwise noted)

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### 18. MANAGEMENT OF CAPITAL RISK

The Company manages its common shares, stock options, and warrants as capital (see Note 12). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to operate its mine, pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of operating results, changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, warrants or options, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including operating results, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company will need additional capital resources to complete or carry out its exploration and development plans and operations for the next 12 months (see Note 1). The Company has complied with all covenants included in its short-term loan and the indenture for its notes payable.

### 19. COMMITMENTS AND CONTINGENCIES

The following commitments and contingencies existed at December 31, 2008 (see also Note 17(c)):

- (a) In October 2006, the Company signed a ten year service contract with a third party to provide mining services for the CSH Gold Mine commencing in the first quarter of 2007. The value of the mining service each year will vary and is dependent upon the amount of mining work performed.
- (b) The Company established a \$15,000,000 letter of credit facility with its bank in February 2008 and as of December 31, 2008, had a \$3,889,346 standby letter of credit for the purchase of crusher equipment. On February 19, 2009, the Company paid the \$3,889,346 to the equipment supplier to discharge this obligation (see Note 4).
- (c) The Company signed several contracts for construction and equipment totaling \$25,030,987 for the crusher installation project at the CSH Gold Mine.
- (d) The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.



**JINSHAN GOLD MINES INC.**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations  
December 31, 2008**

(Unaudited)

(Stated in U.S. dollars, except as otherwise noted)



# **JINSHAN GOLD MINES INC.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**December 31, 2008**

**(Stated in U.S. Dollars, except as otherwise noted)**

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The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") was prepared as of March 31, 2009, and should be read in conjunction with the consolidated financial statements and notes thereto of Jinshan Gold Mines Inc. ("Jinshan" or the "Company") for the year ended December 31, 2008. Unless the context otherwise provides, references in this MD&A to Jinshan or the Company refer to Jinshan and each of its subsidiaries on a consolidated basis.

### **Overview**

Jinshan is a gold production company based in Vancouver, Canada that is currently engaged in the acquisition, exploration, development, and mining of mineral properties in the People's Republic of China ("China"). Jinshan's main property is the Chang Shan Hao Gold Mine ("CSH Gold Mine"), which is located in Inner Mongolia, China. Jinshan holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture partner holds the remaining 3.5% interest. Jinshan started up gold production at the CSH Gold Mine in July 2007 and commenced commercial production on July 1, 2008.

The Company's other properties include the Dadiangou project in Gansu Province, where the Company has completed a total of 14,910 metres drilled in 68 diamond drill holes. The Company also holds 2 exploration permits in the Eastern Xinjiang Uygur Autonomous Region of Northwest China known collectively as the Xinjiang project.

In September 2008, the Company realigned its management with a greater China focus in anticipation of an expansion of the Company's operations in China. Mr. Sun Zhaoxue, Chairman of Jinshan, was appointed as the Chief Executive Officer, and Mr. Ma Boping was appointed as Vice President for Corporate Administration. The Company established a new position of Secretary to the Board to coordinate between management and the Board. Mr. Ren Jian was appointed as the Secretary to the Board and Vice President. Former President and Chief Executive Officer, Jay Chmelauskas, and former Chief Operating Officer, Cal McKee, stepped down after the transition.

Jinshan is a reporting issuer in British Columbia, Alberta and Ontario, and the Company's shares trade under the symbol JIN on the Toronto Stock Exchange ("TSX"). Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

# JINSHAN GOLD MINES INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2008

(Stated in U.S. Dollars, except as otherwise noted)

### Highlights

	Six months ended December 31, 2008	Year ended December 31, 2008	From commencement to December 31, 2008
Commercial gold production (ounces)	33,671	33,671	33,671
Pre-commercial gold production (ounces)	-	23,839	45,833
Total gold production (ounces)	33,671	57,510	79,504

	2008	2007
Net income (loss)	\$ 1.9 Million	(\$ 16.5) Million
Basic income (loss) per share	\$0.01	(\$0.11)
Net cash outflows from operations	(\$ 29.5) Million	(\$ 4.7) Million
Property, plant and equipment cash expenditures	\$ 30.4 Million	\$ 40.6 Million

	Balance, December 31, 2008	Balance, December 31, 2007
Cash and cash equivalents	\$ 12.1 Million	\$ 27.0 Million
Working capital*	(\$7.3) Million	\$ 14.3 Million
Restricted cash	\$ 5.2	\$ nil

\*Working capital consists of current assets less current liabilities

### Outlook

The Company initiated gold production at the CSH Gold Mine in July 2007 and for accounting purposes, commenced commercial production on July 1, 2008. The Company continues to work toward achieving improved production levels by optimizing the leach circuit and taking various measures to improve gold recovery in the process plant.

The Company has started installation and related construction of the crusher to process sulphide ore with completion scheduled for the third quarter of 2009. This crusher installation is also expected to increase throughput capacity from 20,000 to 30,000 tonnes of ore per day. The timing of increased capacity is dependent on completion of the crusher construction activities. Furthermore, the increased production capacity requires further approval from various government agencies.

The company is drawing on CNG's technical and operating experience in China to improve operations at the CSH Gold Mine. Together with CNG's technical expertise, the Company will focus its efforts to resolve operating inefficiencies and improve gold production. CNG is also assisting the Company to reduce production costs at the CSH Gold Mine by using its bulk purchasing power to reduce mining and processing costs.

The Company is working with CNG to identify potential projects that have a high potential to be developed in the near term. The Company's objective is to identify projects that may also include the potential for further exploration to increase upon the existing resource base of the project. Other exploration projects are also being reviewed.

During 2009, the Company will focus on obtaining financing for the crusher expansion project, repayment or refinancing of the 12% promissory notes, and acquisition of new projects. The Company is in discussions with various financial institutions inside and outside China to obtain financing in the form of debt, equity or a combination thereof. However, there can be no assurance that additional funding will be available to the Company or, if available, that this funding will be on acceptable terms.

The Company is currently reviewing its plans for the Dadiangou project and weighing the merits of proceeding toward development versus generating cash through a sale of the project.

The Company continues to operate an exploration office in China and has a dedicated team of employees to conduct exploration on the Company's various projects in China. While these efforts are ancillary to the Company's main

# **JINSHAN GOLD MINES INC.**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**December 31, 2008**

**(Stated in U.S. Dollars, except as otherwise noted)**

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focus on the CSH Gold Mine, the Company intends to continue active exploration efforts to support medium-term and long-term growth of the Company.

### **Critical Accounting Estimates**

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the annual Consolidated Financial Statements for the year ended December 31, 2008. There have been no changes made to the Company's critical accounting estimates for the two year period ended December 31, 2008.

#### *Inventory*

Gold inventory in finished goods, work-in-process, and heap leach ore are valued at the lower of the average production costs or net realizable value. The assumptions used in the valuation of work-in process inventories include estimates of gold contained in the ore stacked on leach pads, assumptions of the amount of gold stacked that is expected to be recovered from the leach pads, and an assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Company's earnings and working capital. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The reversal is limited to the amount of the original write-down.

#### *Property, plant and equipment*

Property, plant and equipment are the most significant assets of the Company and represent capitalized expenditures related to the development of mining properties and related plant and equipment. Capitalized costs are depreciated and depleted using either a unit-of-production method over the estimated economic life of the mine which they relate to, or using the straight-line method over their estimated useful lives. All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources. Differences between management's assumptions and market conditions could have a material effect in the future on the Company's financial position and results of operation.

The Company reviews the carrying values of its property, plant and equipment at least annually or whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment is considered to exist if the total estimated future undiscounted cash flows are less than the carrying amount of the assets. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, metal prices, operating costs and capital costs.

#### *Mineral reserves and resources*

The amounts of reserves and resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic

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assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operations.

### *Asset retirement obligation*

The Company is required to undertake reclamation activities based on current applicable environmental laws and regulatory requirements. The estimated costs of these reclamation activities depend on labor costs, the environmental impacts of the Company's operations, the effectiveness of the chosen reclamation techniques, and applicable government environmental standards. The Company also estimates expected mine closure dates, interest rates, and foreign currency exchange rates when determining its asset retirement obligation. Changes in any of these factors could cause a significant change in the reclamation expense charged in a period.

### *Income taxes*

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

### *Stock-based compensation*

The Company accounts for stock options granted to directors, officers, employees, consultants that the Company considers as employees, and non-employees using the fair value method of accounting. The fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options at the date of the grant or thereafter.

### *Financial instruments*

Included in the Company's balance sheet are the fair values of the 12% senior unsecured promissory notes ("Notes") and warrants. The fair values of the Notes were determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate for a debt instrument of comparable maturity and credit quality. The fair value of the warrants on the date issued was determined using the Black-Scholes pricing model. Option pricing models require the input of highly subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the fair value estimates, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Notes, short term bank loan or the warrants at the date of the issue or thereafter.

## **Recent Accounting Pronouncements**

Goodwill and Intangible Assets – The Canadian Institute of Chartered Accountants ("CICA") issued Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 and establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 3064 applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, and is not expected to have a material impact on the Company's financial condition, operating results, or disclosures.

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In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("1601") and 1602, Non-controlling Interests, ("Section 1602") which replace CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company is evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

On May 9, 2008, The Canadian Securities Administrators issued Staff Notice 52-320 - Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards ("Staff Notice 52-320"). The Accounting Standards Board recently confirmed January 1, 2011, as the date International Financial Reporting Standards ("IFRS") will replace current Canadian standards and interpretations as Canadian generally accepted accounting principles for publicly accountable enterprises. Staff Notice 50-320 requires eventual disclosure in the MD&A of expected changes in accounting policies that will result from the adoption of IFRS on January 1, 2011.

The Company prepared a diagnostic and conversion report (the "IFRS Report") to assess the impact of IFRS. The IFRS Report aimed to determine material adjustments to Jinshan's financial statements required in order to present the information in accordance with IFRS. Under IFRS, the Company's financial statements will require increased note disclosure of items such as new accounting policies, significant accounting judgments and estimates, additional classes of property, plant and equipment and the additions and dispositions by asset class to be shown. Changes will be required to the inputs used in the Black-Scholes model used to calculate the fair values of stock-based compensation which will in turn change exploration expense, contributed surplus, and share capital. The Company will be required to review its material residual values deducted from the cost of its property, plant and equipment to ensure they are at fair market value as these affect depreciation and property, plant and equipment values. Standards and interpretations are continually being issued which could impact the conversion of future financial statements to IFRS. While the Company has begun assessing the adoption within the context of the IFRS Report, the full financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### **Changes in Accounting Policies**

On January 1, 2008, the Company adopted the following accounting standards issued by the CICA. There was no material impact on the Company's financial condition or operating results, as a result of the adoption of these new standards.

(a) *General Standards of Financial Statement Presentation (Section 1400)*

This standard requires management to assess and disclose an entity's ability to continue as a going concern (see Note 1 to the Company's consolidated financial statements for the year ended December 31, 2008).

(b) *Capital Disclosures (Section 1535)*

This standard requires disclosure of an entity's objectives, policies and processes for managing capital, qualitative data about what the entity regards as capital and whether the entity has complied with any

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capital requirements and, if it has not complied, the consequences of such non-compliance (see Note 18 to the Company's consolidated financial statements for the year ended December 31, 2008).

(c) *Inventories (Section 3031)*

This standard replaces Section 3030 and establishes standards for the measurements and disclosures of inventories. The new standard provides more extensive guidance on the determination of costs, including allocation of overhead expenses and other costs to inventory. Inventories must be measured at the lower of cost and net realizable value. Consistent use must be made of the method of determining inventory. Reversal of previous write-downs is required when there is a subsequent increase in the value of inventories. The amount of inventories recognized as an expense during the period is disclosed (see Note 6 to the Company's consolidated financial statements for the year ended December 31, 2008).

(d) *Financial Instruments – Recognition and Measurement (Section 3855), Disclosure (Section 3862), and Presentation (Section 3863)*

These standards replace Section 3861, Financial Instruments - Disclosure and Presentation, and increase the disclosures previously required which enable the users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risks, liquidity risk, and market risk. The quantitative disclosures must provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. The new presentation standard carries forward the existing presentation requirements (see Note 17 to the Company's consolidated financial statements for the year ended December 31, 2008).

## **Forward Looking Information**

Certain statements made herein, other than statements of historical fact relating to Jinshan, represents forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as "may", "will", "expect", "anticipate", "contemplates", "aim", "estimate", "intend", "plan", "believe", "potential", "continue", "is/are likely to", "should" or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward looking information includes, among other things, the timing of completion of the installation of the crusher and expansion at the CSH Gold Mine; projected revenues and cash flows from gold production at the CSH Gold Mine; anticipated development, capital costs and operating costs; the completion of project financing for the CSH Gold Mine crusher installation and expansion and further financings contemplated by the Company; the potential acquisition of additional gold or other mineral property assets; the results of the testing and analysis program being conducted on the CSH Gold Mine; the timing and receipt of an updated mining license for the CSH Gold Mine; the results of production and recovery rates once crusher operations commence; the results of discussions with Jinshan's joint venture partners regarding the earn-in on the Dadiangou project; the timing and scope of exploration activities on the Dadiangou and Xinjiang projects; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of Jinshan and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material adverse change in Jinshan's operations or in foreign exchange rates, the prevailing price of gold, effective tax rates and other assumptions underlying the financial performance of the CSH Gold Mine as listed in the 2008 CSH Technical Report; Jinshan's

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ability to obtain regulatory approvals on a timely basis; continuing positive labour relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, litigation or arbitration and adverse changes in government regulation; the availability and accessibility to Jinshan of financing; and the performance by counterparties of the terms and conditions of all contracts to which Jinshan and its subsidiaries are a party. The forward-looking information is also based on the assumption that none of the risk factors identified in this MD&A that could cause actual results to differ materially from the forward- looking information actually occurs.

Forward-looking information contained herein is stated as of the date of this MD&A based on the opinions, estimates and assumptions of management. There are a number of important risk, uncertainties and other factors that could cause actual actions, events or results to differ materially from those described as forward-looking information. In particular, important factors that could cause actual results to differ from this forward-looking information include those described under the heading "Risk Factors" in this MD&A. Jinshan disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates, opinions or assumptions, future events or results or otherwise except to the extent required by law. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking information in this MD&A is expressly qualified by this cautionary statement. The reader is cautioned not to place undue reliance on forward-looking information.

## Results of Operations

### Overview

The Company initiated gold production at the CSH Gold Mine in July 2007. Effective on July 1, 2008, management has determined that the CSH Gold Mine has entered into commercial production and commencing in the third quarter of 2008, the financial statement presentation reflects revenues and cost of mining operations in the consolidated statement of operations. As the CSH Gold Mine entered into commercial production in the third quarter of 2008, financial and production information for the year ended December 31, 2008, are not comparable to prior years.

CONSOLIDATED (\$ in thousands, except per share information)	Years ended December 31		
	2008	2007	2006
Revenue	\$ 29,371	\$ -	\$ -
Exploration expenses	(5,288)	(6,604)	(4,258)
Net income (loss)	1,923	(16,531)	(8,557)
Basic income (loss) per share	0.01	(0.11)	(0.06)
Cash and cash equivalents	12,143	26,952	27,877
Total assets	119,803	87,465	50,873
Total long-term liabilities	19,702	48,380	21,605

Sale proceeds, net of refining charges, received from the sale of pre-commercial gold production prior to July 1, 2008, were credited to deferred development costs. The Company sold production from the CSH Gold Mine pursuant to a contract for the purchase and sale of gold and silver with a third party refiner in China. Under the terms of the contract, the refiner refines the doré bars into 0.9995 pure gold and residual silver. Title to the gold and silver passes to the refiner on the date of payment by the refiner to the Company. The selling price of the refined gold is based on the Shanghai Gold Exchange, which closely tracks the London Gold Fixing, and the Shanghai Huatong Platinum & Silver Exchange for refined silver. Gold and silver sales prices are denominated in Renminbi ("RMB") and sale proceeds are received by the Company in RMB. In October 2008, the Company terminated this contract and entered into an equivalent agreement for the purchase and sale of doré with CNG, who ships the doré to

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a designated refiner in China. The new agreement is on substantially the same terms as the original contract with the third party refiner, but the Company has determined that this arrangement will address delays in payment and counterparty risks that were being experienced under the contract with the third party refiner.

Revenue from the sale of gold is recognized and recorded when all significant risks and rewards of ownership pass to the purchaser including delivery of the product, a fixed or determinable selling price, and reasonable assurance of collectability. Settlement adjustments, if any, are reflected in revenue when the amounts are determinable. All gold revenue is received from one customer, CNG. Gold sales revenue is recognized at the fair value of consideration received net of refining charges. Gold sale prices are based on market spot prices at a specified date before shipment. Incidental revenues from the sale of silver by-product are classified with cost of sales.

The following table provides selected financial and operating data for the CSH Gold Mine after commercial production began for the three months ended September 30, 2008 and three and six months ended December 31, 2008:

	<b>Three months ended September 30, 2008</b>	<b>Three months ended December 31, 2008</b>	<b>Six months ended December 31, 2008</b>
Revenue	\$ 13,096,113	\$ 16,275,298	\$ 29,371,411
Cost of sales excluding depreciation, amortization :	(7,309,802)	(10,799,255)	(18,109,057)
Depreciation, amortization and depletion	(719,051)	(1,671,409)	(2,390,460)
Accretion of asset retirement obligation	(84,335)	(338,092)	(422,427)
Cost of sales	(8,113,188)	(12,808,756)	(20,921,944)
Mine operating earnings	\$ 4,982,925	\$ 3,466,542	\$ 8,449,467
Gold produced (ounces)	18,078	15,593	33,671
Gold sold (ounces)	15,430	20,411	35,841
Total cost per ounce of gold sold	\$ 526	\$ 628	\$ 584
Cash cost per ounce	\$ 473	\$ 527	\$ 503

Gold revenue from commercial production for the six months ended December 31, 2008 was \$29.4 million which was realized from the sale of 35,841 ounces of gold at an average selling price of \$819 per ounce. For the six months ended December 31, 2008, gold production at the CSH Gold Mine averaged 5,612 ounces per month with a production high of 6,454 ounces in September 2008. The Company's target monthly production for 2008 was 9,000 ounces per month. Total gold produced since the startup of the process plant in July 2007 to the end of December 2008, was 79,504 ounces.

Throughout the second and third quarters of 2008, the Company engaged process experts from Summit Valley Engineering of Bountiful, Utah, Kappas Cassidy of Reno, Nevada, and KD Engineering of Tucson, Arizona as well as technical experts from CNG to review and make recommendations to improve expected performance of the process plant. These experts visited the mine site and identified areas where production performance could be improved. Their recommendations generally focused on improving the carbon handling procedures in the plant, improving heating elements in the kiln to regenerate the carbon, and installing water softeners for the stripping vessels. The Company is continuing to implement these recommendations, including the removal of inefficient "sick" carbon from the process circuit and the replacement and installation of new kiln components. Other measures taken include monitoring the mining contractor to ensure no oversize ore is being placed on the heap leach and using lime that has no coal content. As a result of these continuing enhancements, the process plant CIC efficiency has improved to about 80% from 60%, but is still below the expected efficiency of better than 90%. The Company has added one more CIC tank to the existing row of five tanks and installed a new row of six tanks that became operational in November 2008. In addition, extra pumps have been installed in February 2009 to increase the heap



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leach solution irrigation rate from 800 cubic meters per hour to about 1,200 cubic meters per hour. Plans are underway to change the irrigation method from drip tubing to sprinklers.

The CSH Gold Mine has experienced an overall gold recovery rate of approximately 42% since the start of gold production. However, the Company has estimated a 51% gold recovery rate for run of mine ore inventory reflecting recent production improvements and expected future benefits of the above noted improvements. This recovery rate covers only the estimated gold recovery after one year of leaching the current inventory of run of mine ("ROM") ore on the leach pad. The Company expects that overall recovery rate will be higher than this amount as gold continues to leach from the pad over the course of time. Current estimates of the long-term cumulative recovery rate for the current inventory of ore on the leach pad amounts to approximately 66%, although the Company has not recorded this rate for purposes of its inventory calculation or otherwise reflected this rate in its financial statements. Further discussion on the expected gold production improvement when the three stage crushing facility comes into operation in Q3 2009 can be found under "Mine Development and Exploration Properties" in this MD&A.

The following table provides certain operating data:

	Three months ended September 30, 2008	Three months ended December 31, 2008	Six months ended December 31, 2008	From commencement to December 31, 2008
Ore mined and processed (tonnes)	1,353,018	1,715,388	3,068,406	10,656,886
Average grade of ore (grams per tonne)	0.656	0.792	0.732	0.722
Recoverable gold at 51% recovery rate (ounces)	14,553	22,275	36,828	126,166
Ending gold inventory (ounces)	43,475	45,503	45,503	45,503
Waste mined (tonnes)	4,254,537	2,058,328	6,312,865	18,772,148

The following table provides certain unit costs for six months ended December 31, 2008:

	Six months ended December 31, 2008
Cost of mining per tonne of ore	\$ 1.56
Cost of mining waste per tonne of ore	3.01
Other mining costs per tonne of ore	0.58
Total mining costs per tonne of ore	\$ 5.15
Cost of reagents per tonne of ore	\$ 0.99
Other processing costs per tonne of ore	0.37
Total processing cost per tonne of ore	\$ 1.36

For the six months ended December 31, 2008, mine operating earnings were \$8.4 million, and cost of sales was \$20.9 million. Cost of sales is made up of mining costs, processing costs and general and administration costs. The Company has made recent efforts to realize cost savings, which include utilizing CNG's bulk purchasing power to reduce the purchase price of reagents and materials such as carbon, cyanide, lime, fuel and coal used in processing. The Company successfully negotiated amendments to the mining contract with its third party mining contractor that reduce mining costs and improve mining efficiency effective in December 2008. As a result of these changes the Company has begun to realize an incremental reduction in mining costs through reduced prices for reagents and materials relative to prevailing market prices and reduced mining contractor costs.

Depreciation, amortization and depletion was \$2.4 million for the six months ended December 31, 2008, and consist of depreciation, amortization and depletion of capitalized costs using either a unit-of-production method over the estimated economic life of the mine which they relate to, or using the straight-line method over their estimated useful lives.

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For the six months ended December 31, 2008, the per ounce total cost of gold sold was \$584 while the cash cost of production was \$503. The cash cost of production is higher than that estimated in the Throughput Expansion Technical Report ("2008 CSH Technical Report") prepared in March 2008 and is mainly a result of increases in the cost of relevant inputs such as cyanide, lime, and fuel, differences in the RMB exchange rate and differences in the gold recovery than those estimated in the 2008 CSH Technical Report.

The per ounce total cost of gold sold was \$628 for the three months ended December 31, 2008, compared to \$526 for the three months ended September 30, 2008, primarily because gold production decreased by 14% to 15,593 ounces from 18,078 ounces for the respective periods. The decrease in production is due primarily to more mixed and sulphide ore being mined and lower recovery rates experienced during the onset of winter.

At the start of commercial production on July 1, 2008, the Company recorded \$20.4 million of opening gold inventory and as of December 31, 2008, gold inventory recorded in the consolidated balance sheet was \$27.7 million. As the CSH Gold mine was not in commercial production prior to July 1, 2008, sale proceeds received from the sale of pre-commercial gold production was offset against pre-commercial gold production costs prior to July 1, 2008.

The cash cost of production is a measure that is not in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company has included cash cost per gold ounce data to supplement its financial statements, which are presented in accordance with GAAP. Non-GAAP measures do not have any standardized meaning prescribed under GAAP, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance, operating results or financial condition prepared in accordance with GAAP. The Company has included cash cost per ounce data because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flow for use in investing and other activities. The Company believes that conventional measures of performance prepared in accordance with GAAP do not fully illustrate the ability of its operating mine to generate cash flow. The measure is not necessarily indicative of operating results, cash flow from operations or financial condition as determined under GAAP. Cash costs are determined in accordance with the Gold Institute's Production Cost Standard.

The following table provides a reconciliation of cost of sales per the financial statements and cash cost of production per ounce:

	Three months ended September 30, 2008		Three months ended December 31, 2008		Six months ended December 31, 2008	
		Dollars per gold ounce		Dollars per gold ounce		Dollars per gold ounce
Cost of sales	\$ 8,113,188	\$ 526	\$12,808,756	\$ 628	\$20,921,944	\$ 584
Adjustments:						
Depreciation, amortization and depletion	(719,051)	(47)	(1,671,409)	(82)	(2,390,460)	(67)
Accretion of asset retirement obligation	(84,335)	(5)	(338,092)	(17)	(422,427)	(12)
Selling costs	(21,914)	(1)	(47,156)	(2)	(69,070)	(2)
Total cash costs	\$ 7,287,888	\$ 473	\$10,752,099	\$ 527	\$18,039,987	\$ 503

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The consolidated statements of operations for the years ended December 31, 2008, and 2007 are provided in the following table:

	2008	2007	Increase (Decrease)
<b>Revenues</b>	\$ 29,371,411	\$ -	\$ 29,371,411
<b>Cost of sales</b>			
Cost of sales excluding depreciation, amortization and depletion	(18,109,057)	-	18,109,057
Depreciation, amortization and depletion	(2,390,460)	-	2,390,460
Accretion of asset retirement obligation	(422,427)	-	422,427
	(20,921,944)	-	20,921,944
<b>Mine operating earnings</b>	8,449,467	-	8,449,467
<b>Expenses</b>			
Administration and office	(1,171,211)	(1,003,393)	167,818
Amortization	(19,922)	(45,612)	(25,690)
Exploration expenses	(5,287,610)	(6,604,015)	(1,316,405)
Investor relations	(552,001)	(325,392)	226,609
Professional fees	(854,250)	(654,103)	200,147
Salaries and benefits	(1,478,137)	(1,073,673)	404,464
Shareholder information, transfer agent and filing fees	(201,301)	(211,023)	(9,722)
Stock-based compensation	(1,153,605)	(1,629,613)	(476,008)
Travel	(575,357)	(404,210)	171,147
	(11,293,394)	(11,951,034)	(657,640)
<b>Other Income (Expenses)</b>			
Foreign exchange gain (loss)	8,058,114	(3,319,847)	11,377,961
Interest income	174,620	439,032	(264,412)
Interest on notes payable	(3,169,791)	(1,688,442)	(1,481,349)
Other Interest and financing expense	(253)	(10,973)	(10,720)
	5,062,690	(4,580,230)	9,642,920
<b>Non-controlling interest</b>	(295,731)	-	(295,731)
<b>Net Income (Loss)</b>	\$ 1,923,032	\$ (16,531,264)	\$ 18,454,296

### Year ended December 31, 2008 and 2007

Net income for the year ended December 31, 2008, was \$1.9 million compared to a net loss of \$16.5 million in 2007. The increase of \$18.4 million from 2007 to 2008 is primarily due to the mine operating earnings, an increase in foreign exchange gain and decreases in exploration and stock-based compensation expenses. These were partially offset by increases in interest paid on notes payable, salaries and benefits, investor relations, professional fees and travel and by a decrease in interest income.

There was an unrealized foreign exchange gain of \$8.6 million as a result of the conversion of the Canadian dollar denominated notes payable to U.S. dollars at the rate in effect on December 31, 2008. This unrealized foreign exchange gain was partially offset by an unrealized exchange loss of \$0.5 million on Canadian dollar cash deposits, resulting in a net foreign exchange gain of \$8.1 million for the year ended December 31, 2008, compared to a foreign exchange loss of \$3.3 million for 2007. The U.S. dollar exchange rate strengthened against the Canadian dollar during the year ended December 31, 2008.

Exploration expense decreased by \$1.3 million for the year ended December 31, 2008, compared to 2007, primarily because there was reduced drilling activity at the Dadiangou project and the Southwest Zone of the CSH Gold Mine.

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Interest on notes payable for the year ended December 31, 2008, increased by \$1.5 million from 2007 as interest on the Notes are no longer capitalized to deferred development cost starting on July 1, 2008. Interest income decreased by \$0.3 million from 2007 to 2008, due to the lower cash balance carried during 2008.

Stock-based compensation decreased by \$0.5 million for the year ended December 31, 2008, compared to 2007, primarily because there were fewer stock options granted in 2008 versus 2007 and the number of stock options that expired or were cancelled increased.

Salaries and benefits increased by \$0.4 million for the year ended December 31, 2008, compared to 2007 primarily due to severance payments made to terminated employees and the overall increase in salary costs for corporate head office employees and other benefit costs.

Investor relations costs increased by \$0.2 million for the year ended December 31, 2008, compared to 2007, primarily as a result of increased participation in investor conferences, donations, new presentation and trade show materials, and sponsorships.

Professional fees increased by \$0.2 million for the year ended December 31, 2008, compared to 2007 primarily due to fees and costs incurred for assistance with various accounting matters and legal costs for the review of various contracts.

Travel expenses for administrative personnel increased by \$0.2 million for the year ended December 31, 2008, compared to 2007, primarily due to increased travel for various Company presentations.

Administration and office expenses for the year ended December 31, 2008, increased by \$0.2 million compared with 2007, primarily due to increases in insurance, rent, communications expenses and administration support costs.

Amortization expense decreased by \$26,000 for the year ended December 31, 2008, compared to 2007, primarily due to certain fixed assets being fully depreciated.

There was no significant change in shareholder information, transfer agent and filing fees for the year ended December 31, 2008, compared to 2007.

Certain of the Company's administrative staff and office facilities are employed/provided by Global Mining Management ("GMM") (see "Related Party Transactions" below) whose costs are allocated on an as-used basis. Accordingly, fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in yearly corporate activity and the level of personnel employed.

### Selected Quarterly Data (Unaudited)

(\$ in thousands, except per share information)	2008				2007			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
QUARTER ENDED								
Revenues	\$16,275	\$13,096	\$0	\$0	\$0	\$0	\$0	\$0
Exploration expenses	\$1,958	\$1,035	\$926	\$1,369	\$2,131	\$1,851	\$1,678	\$943
Net income (loss)	4,454	2,492	(3,180)	(1,843)	(4,577)	(5,436)	(4,321)	(2,197)
Basic and diluted earnings (loss) per share	0.01	0.03	(0.02)	(0.01)	(0.03)	(0.04)	(0.03)	(0.01)

For each of the quarters prior to July 1, 2008, the Company had no net sales or other operating revenues, and no dividends were declared.

Fluctuations in the quarterly net loss amounts leading up to commercial production in the third quarter of 2008 were primarily due to fluctuations in the level of exploration expenditures, foreign exchange gain or loss on the conversion of the notes payable from Canadian dollars to U.S. dollars, and interest expense for the 12% promissory notes on a period over period basis. Exploration expenditures fluctuate on a quarterly basis due to such factors as:

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variations in the scheduled contributions to joint venture companies and partners; and fluctuations in the recognition of stock-based compensation charged to operations.

The consolidated statements of operations for the three months ended December 31, 2008 and 2007 are provided in the following table:

	Three Months Ended		
	December 31,		Increase
	2008	2007	(Decrease)
<b>Revenues</b>	\$ 16,275,298	\$ -	\$ 16,275,298
<b>Cost of sales</b>			
Cost of sales excluding depreciation, amortization and depletion	(10,799,255)	-	10,799,255
Depreciation, amortization and depletion	(1,671,409)	-	1,671,409
Accretion of asset retirement obligation	(338,092)	-	338,092
	(12,808,756)	-	12,808,756
<b>Mine operating earnings</b>	3,466,542	-	3,466,542
<b>Expenses</b>			
Administration and office	(272,696)	(290,770)	(18,074)
Amortization	(6,984)	(11,048)	(4,064)
Exploration expenses	(1,957,822)	(2,131,334)	(173,512)
Investor relations	(145,255)	(84,939)	60,316
Professional fees	(195,214)	(74,042)	121,172
Salaries and benefits	(323,779)	(389,013)	(65,234)
Shareholder information, transfer agent and filing fees	(21,248)	(53,854)	(32,606)
Stock-based compensation	106,840	(554,749)	(661,589)
Travel	(53,979)	(113,915)	(59,936)
	(2,870,137)	(3,703,664)	(833,527)
<b>Other Income (Expenses)</b>			
Foreign exchange gain (loss)	5,318,003	(274,802)	5,592,805
Interest income	13,039	244,271	(231,232)
Interest on notes payable	(1,351,816)	(843,018)	508,798
	3,979,226	(873,549)	4,852,775
<b>Non-controlling interest</b>	(121,329)	-	(121,329)
<b>Net Income (Loss)</b>	\$ 4,454,302	\$ (4,577,213)	\$ 9,031,515

### Three months ended December 31, 2008 and 2007

Net income for the three months ended December 31, 2008, was \$4.5 million, compared to a net loss of \$4.6 million in 2007. The increase of \$9.0 million from 2007 to 2008 was primarily due to an increase in mine operating earnings, an increase in foreign exchange gain, and a decrease in exploration and stock-based compensation expense. These were partially offset by increases in interest paid on notes payable and professional fees and a decrease in interest income.

Unrealized foreign exchange gain for the three months ended December 31, 2008, was \$5.3 million compared to an unrealized loss of \$0.3 million for 2007. The unrealized foreign exchange gain of \$5.3 million for the three months ended December 31, 2008, was a result of the conversion of the Canadian dollar denominated notes payable to U.S. dollars at the rate in effect on December 31, 2008. The U.S. dollar exchange rate strengthened against the Canadian dollar during the three months ended December 31, 2008.

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Exploration expense decreased by \$0.2 million for the three months ended December 31, 2008, compared to 2007, primarily because there was reduced drilling activity this year at the Dadiangou project and the Southwest Zone of the CSH Gold Mine.

Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. On May 1, 2006, the Company commenced capitalization of development costs for its CSH Gold Mine, as it was determined in the April 2006 feasibility study that the CSH Gold Mine has economically recoverable reserves. Capitalization of development costs stopped when the CSH Gold Mine entered into commercial production on July 1, 2008. Deferred development costs included mine operating costs net of proceeds received from the sale of pre-commercial gold production and accordingly, the measurement and valuation of gold inventory at July 1, 2008, resulted in the reclassification of \$20.4 million to inventory.

Stock-based compensation decreased by \$0.7 million for the three months ended December 31, 2008, compared to 2007, primarily because higher weighted average fair value stock options were granted earlier in 2007, and the number of stock options that expired or were cancelled increased in 2008 resulting in a reversal of expenses.

Interest on notes payable for the three months ended December 31, 2008, increased by \$0.5 million from 2007 as interest on the Notes are no longer capitalized to deferred development cost starting on July 1, 2008. Interest income decreased by \$0.2 million from 2007 to 2008 due to the lower cash balance carried during the 2008 quarter.

Professional fees increased by \$0.1 million for the three months ended December 31, 2008, compared to 2007 primarily due to costs incurred for assistance with various accounting matters and legal costs for the review of various contracts.

Salaries and benefits decreased by \$0.1 million for the three months ended December 31, 2008, compared to 2007 primarily due to fewer full time corporate employees during the fourth quarter of 2008.

Travel expenses for administrative personnel decreased by \$0.1 million for the three months ended December 31, 2008, compared to 2007 primarily due to fewer trips taken by corporate head office staff.

Investor relations increased by \$0.1 million for the three months ended December 31, 2008, compared to 2007 primarily due to increased participation in investor conferences.

The non-controlling interest amount of \$0.1 million relates to the 3.5% Chinese joint venture partner's interest in the earnings of Inner Mongolia Pacific Mining Co. Ltd. ("Inner Mongolia Pacific"), a Chinese joint venture company, which is 96.5% owned by the Company.

Shareholder information, transfer agent and filing fees decreased by \$33,000 for the three months ended December 31, 2008, compared to 2007 primarily due to decreased activity with the transfer agent and filing fees and a decrease in printed material for shareholders.

Administration and office expenses for the three months ended December 31, 2008, decreased by \$18,000 compared to 2007, primarily due to a decrease in general liability insurance.

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### Mine Development and Exploration Properties

#### a) CSH Gold Mine

**Property description** - The CSH Gold Mine consists of a licensed area of 36 square kilometres ("km<sup>2</sup>") in the western part of Inner Mongolia, northern China, including an Exploration Permit of 25.91 km<sup>2</sup> contiguously surrounding a Mining Permit of 10.09 km<sup>2</sup>. It is centrally positioned within the east-west-trending Tian Shan Gold Belt. The site is approximately 650 kilometres ("km") northwest of Beijing.

**Joint venture agreement** - In April 2002, the Company entered into a joint venture agreement with a Chinese partner, Brigade 217 of the Northwest Geological Bureau, to acquire up to a 96.5% interest in the CSH Gold Mine. In April 2005, the Company completed its earn-in obligations and acquired the 96.5% interest. The joint venture is operated through Inner Mongolia Pacific.

The following table shows the cumulative expenditures made as of December 31, 2008.

	Cumulative Balance December 31, 2007	Changes During the Period	Cumulative Balance December 31, 2008
Exploration	\$ 7,029,874	\$ 1,806,489	\$ <b>8,836,363</b>
Mineral properties and deferred development	\$ 28,324,016	\$ (16,330,414)	\$ <b>11,993,602</b>
Capital expenditures	\$ 30,303,994	\$ 28,240,592	\$ <b>58,544,586</b>

**Updated resource estimate and Development Reports** – Since the release of the Company's feasibility study in April 2006, the Company has announced updated resource estimates. The Company also completed a drill program on the CSH Gold Mine, focusing on expanding resources at both the Southwest and Northeast zones.

In February 2008, the Company reported an updated resource estimate on the CSH Gold Mine which included resources from both the Northeast Zone that is the subject of current mining activities and from the Southwest Zone. The National Instrument 43-101 compliant resource estimate was prepared by Mario Rossi of Geosystems International Inc., who reported Measured and Indicated Resources, at a 0.35 g/t cut-off grade, of 43.4 and 127.9 million tonnes, respectively, at an average grade of 0.71 g/t gold for 3.92 million ounces of contained gold. In addition, inferred resources are now estimated at 1.33 million ounces of gold contained within 64.2 million tonnes grading 0.65 g/t gold at a 0.35 g/t cut-off. This updated resource estimate relies on all previous data and the 11,432 metres of drilling completed in 2007. In total, 41,623 metres of drilling in 182 drill holes have been completed in the Northeast and Southwest Zones at the CSH Gold Mine and 18,687 individual assays were used to build the block model.

On March 31, 2008, the 2008 CSH Technical Report was prepared by Joseph Keane of KD Engineering Co, Inc., Mario Rossi of Geosystems International Inc., John Nilsson of Nilsson Mine Services, and Russell Brown of Golder Associates Inc., which included the updated resource estimate and established an expanded mining plan for the CSH Gold Mine.

The original mine production schedule was developed to process 20,000 tonnes of ore per day with an estimated production rate based on installed capacity of approximately 120,000 ounces of gold per annum. In the 2008 CSH Technical Report, the authors prepared a mine plan for an open pit mine with a heap leach facility at a processing rate of approximately 30,000 tonnes of ore per day over a period of ten years, amounting to an average production estimate of approximately 165,000 ounces of gold per year. The development contemplates open pit mines in both the Northeast and Southwest Zones, along with associated waste dumps, heap leach facility, crusher and ancillary support infrastructure such as maintenance, fuel and administration facilities. Additionally, the projection for overall mine production tonnage increases to indicate an average of 26.5 million tonnes per annum during the next

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six years and then taper off as the lower benches of the Northeast Pit will be primarily ore. An emphasis has been placed on recovering weathered ore from the Northeast Zone in 2008, and therefore the majority of the strike length of the deposit will be opened up during this period.

Under the expansion framework, a total of 99 million tonnes of ore with an average grade of 0.71 grams per tonne, comprised of approximately 35 million tonnes of proven reserves grading at 0.74 g/t gold, and approximately 64 million tonnes of probable reserves grading at 0.69 g/t gold, will be placed on the heap leach pads during the mine life. The total waste mined is estimated at 121.8 million tonnes for a strip ratio of 1.23:1. Assuming that anticipated production rates can be achieved, it is estimated that a total of 1,648,200 ounces of gold will be recovered from the CSH Gold Mine during the life of the mine.

The 2008 CSH Technical Report concluded that increasing the mining rate capacity to 30,000 tonnes per day will involve additional mining equipment and personnel. In the 2008 CSH Technical Report, it is envisaged that capital infrastructure development for the CSH Gold Mine will evolve in two phases. The crushing plant purchased by the Company is capable of operating at a nominal rate of 30,000 tonnes per day. A leach pad extension for Phase II will need to be installed. Capital costs for Phases I and II are estimated at approximately \$68.1 million, which includes costs for the primary, secondary and tertiary crushing systems, infrastructure, and processing facility upgrades. The capital cost for future phases, which include leach pad expansion and the addition of an event pond, is estimated at \$21.2 million. Accordingly, the estimated aggregate capital costs for the entire project are estimated at approximately \$89.3 million.

When the crushing facility is installed, ore will be fed to a primary crusher. The primary crusher discharge will pass to an open circuit secondary crusher, then to a closed circuit tertiary crushing system. The final crusher product will have a size distribution of 80 percent passing nine millimetres. The crushed ore will then be transported to the heap for leaching of the gold.

Operating costs were developed in RMB and converted to U.S. dollars using an exchange rate of 7.1 RMB for each U.S. dollar. In assessing operating costs for the expansion, the 2008 CSH Technical Report divided operating costs into three components: (i) general and administrative ("G&A") expenses; (ii) processing operating costs; and (iii) mining operating costs. Annual costs for G&A are estimated at \$0.63 per tonne of processed ore. Process cost is estimated at \$2.12 per tonne. Finally, annual operating costs for mining operations are expected to be variable with material type and time, and are estimated at approximately \$3.10 per tonne of ore over the life of the mine.

Using a \$600 gold price and a 100% production rate in the cash flow analysis, the 2008 CSH Technical Report indicated an internal rate of return of 38.2% (currently revised to 36%) and a payback period of 4 years. Using these assumptions, the pre-tax net present value at a 10% discount rate of the plan going forward was \$87 million (currently revised to \$83 million). The 2008 CSH Technical Report also included a sensitivity analysis on the financial conclusions based on changes in the price of gold, recovery rates for gold and silver, gold and silver grade and capital and operating costs. It was concluded that the CSH Gold Mine is particularly sensitive to the prevailing price of gold, the recovery rate of gold and the grade of gold in the ore. The project economics are somewhat less sensitive to changes in capital and operating costs and silver inputs. The sensitivity of recovery rates is particularly relevant in light of the current less than anticipated recovery rates on weathered ore being processed through run of mine operations as described below and, depending on the success of efforts to increase recovery rates, this factor has and may continue to affect relevant financial performance.

The Company's ROM operations have encountered lower than estimated quantities of available oxidized ore and a resultant greater than estimated quantity of mixed and sulfide ore in the pit. The Company has determined that this factor is the largest contributor to gold production underperforming the 9,000 ounce per month design expectations. The Company expects gold production to improve when the three stage crushing facility comes into operation, which is scheduled to occur in Q3 2009.

Monthly commercial gold production for the months of July 2008 to February 2009 is shown in the table below.



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Month	2008						2009		Total
	July	August	September	October	November	December	January	February	
Ounces Produced	5,229	6,395	6,454	5,358	5,237	4,998	4,561	2,408	40,640

The chart evidences incremental improvements in the production rate through to October 2008, and then a gradual decrease in the production rate from that month through to February. This pattern is consistent with the Company's experience in 2007/2008 and the Company has identified that the primary contributor to lower production in the Winter months relates to increasingly cold weather that slows the cyanide solution flow and its reactive properties.

As a result of the variance experienced from actual ROM extraction and refining process, as compared to the estimates contained for ROM ore in the 2008 CSH Technical Report, the Company has undertaken a test program and mine analysis. This program developed in consultation with and operated under the review of KD Engineering, Geosystems International, and Nilsson Mine Services, qualified persons responsible for the 2008 CSH Technical Report, is focussing, in particular, on the contemplated fresh material and crushing operations that will form the bulk of future mining operations. While the Company has experienced gold grades that are consistent with the resource estimates, the discrepancy experienced with recovery rates prompted the Company to undertake further metallurgical analysis in advance of mining of fresh material and completion of construction of the crusher installation. Testing includes verifying estimates from the 2008 CSH Technical Report on mineralogy throughout the deposit, verifying fresh material recovery rates and modelling adjustments in certain key operating inputs such as transitioning from a 6 meter to 12 meter bench height and changing the crush size from 6 millimetres to 9 millimetres.

The test program includes locked cycle column leach tests on 15 composite samples from the Northeast and Southwest deposits. Samples have been selected to represent possible variability in ores along strike, across strike, and with depth within the deposits. The bulk of samples have been collected from material that is scheduled to be mined in 2009 and 2010 and, depending on the results of this work, additional test work may be necessary to adequately characterize material to be mined in later years.

**Development activities** – Construction is underway to install the crusher system and expand processing capacity based on the plan established in the 2008 CSH Technical Report.

Construction efforts for the 30,000 tonne per day, three stage crushing facility is scheduled for completion in Q3 2009 with initial testing of the crushers scheduled to begin in July 2009. For the mixed and sulfide ore at the CSH Gold Mine, three stage crushing is required to allow more efficient heap leach recovery of gold. More than half of the new crushers have now arrived at site and the remainder are expected to arrive on site by May 2009. Completed portions of the crusher installation include: all earth work and foundations; over 30,000 cubic meters of concrete poured; and over 2,500 tonnes of steel structures completed. Domestic equipment supply contracts are signed, including conveyor belts, dust collectors, boilers and electric equipment, such as transformers and motors. Construction of the required leach pad extension is scheduled to begin in May 2009.

Weathered ore in the Northeast Zone was expected to be sufficient for mining until the originally scheduled installation of the crusher. However, due to the crusher installation delay, mining of weathered ore in the Southwest Zone will commence in the spring of 2009, in order to facilitate uninterrupted mining operations. The Company believes that there is sufficient run of mine weathered ore in the Northeast and Southwest Zones to continue mining until the scheduled completion of the crusher installation in the third quarter of 2009.

During the course of the Company's operations, the Company expects that additional normal business operating permits and licenses that are typical for an operating mine will be required. The Company will make applications for these permits and licenses as and when required during the course of its development and operations. In addition, the Company will require an updated mining permit and additional operating permits in order to implement its plans to increase throughput from 20,000 to 30,000 tonnes of ore per day.

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### b) Dadiangou Project

**Property description** – The Dadiangou project consists of a licensed area of 15 km<sup>2</sup> in Gansu Province, China. The project is located in the Qinling Fold Belt, a gold producing region that trends west to east through the provinces of Gansu and Shaanxi in central China.

**Joint venture agreement** – In September 2005, the Company entered into a joint venture agreement with its Chinese partner, Nuclear Industry Northwest Economic and Technology Company (“NINETC”) to acquire a majority interest in the Dadiangou project. Under the terms of the agreement, the Company can earn a 71% interest by incurring exploration expenditures of approximately \$3.7 million over the first three years of exploration commencing on September 19, 2006 and making payments to NINETC of approximately \$1.4 million (of which \$0.125 million has been paid). The Company can increase its interest to 80% by incurring additional exploration expenditures of approximately \$3.2 million and by making additional payments of approximately \$0.4 million to NINETC. NINETC can then choose to participate at a 20% level for all future expenditures, or have their ownership interest diluted. The amounts in the joint venture agreement are denominated in RMB and a rate of 6.9401 RMB per U.S. dollar was used to convert the RMB amounts to U.S. dollars.

The Company and NINETC are currently in a dispute concerning the status of certain of the Company's obligations under the joint venture agreement. Although NINETC disagrees with the Company's position, the Company believes that it has performed its exploration obligations and, upon completion of remaining payments to NINETC, will have earned a 71% participating interest in the Dadiangou. To date, discussions aimed at resolving the impasse have been unsuccessful and the Company is considering all of its options, including initiating binding arbitration to settle the matter.

The following table shows the cumulative expenditures made as of December 31, 2008.

	Cumulative Balance December 31, 2007	Additions During the Period	Cumulative Balance December 31, 2008
Exploration	\$ 3,825,906	\$ 1,601,996	\$ 5,427,902

On September 19, 2006, the Company announced the receipt of the business license for the joint venture company, Gansu Pacific Mining Co. Ltd., and paid NINETC \$150,000 pursuant to an additional agreement entered into on July 11, 2006. Since the receipt of the business license, the Company has completed Phase I, II, and III drill programs for a total of 14,910 metres drilled in 68 diamond drill holes. The drilling programs have been designed to test the Dadiangou Main Shear Zone (“Zone”) along a strike length of approximately four kilometers. In addition to drilling, the Company has completed surface mapping, trenching, soil sampling, and underground channel sampling programs.

**Exploration results** – The Dadiangou project hosts multiple gold-bearing shear zones up to 80 metres wide over a strike length estimated to be 4,000 metres. Gold mineralization occurs within the shear zones associated with quartz and sulphide minerals (predominantly pyrite). Phase I drilling tested the Zone over 2,000 metres of strike length with drill holes spaced between 100 and 180 metres apart. Most drill holes were angled at -45° and tested the Zone at depths of up to 350 metres. Phase II drilling extended the known mineralized strike length of the Zone to approximately 3,000 metres and reduced the spacing of drill sections in the central portion of the Zone to 80 to 100 metres in order to provide the data density needed to support a National Instrument 43-101 compliant resource estimation.

The Phase I drill program successfully showed the Zone to be mineralized along its length, width and depth and that it can be considered as a single, large-scale, bulk-tonnage target. The Zone was intersected in every hole in the approximate position and attitude expected, and has a relatively consistent width in both horizontal and vertical profiles. It is narrower at the western end (20 metres) and wider at the eastern end (80 metres) of the drill area, and averages 50 to 60 metres width for approximately three quarters of its central length.

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Phase II drilling has generally returned grades and widths consistent with expectations based on Phase I drilling. The most westerly hole completed during the Phase II program, hole 39, returned an intercept of 20 metres (17 metres true width) grading 0.73 grams per tonne gold and leaves the Zone open for further expansion to the west.

In addition to the diamond drilling programs, crews have re-sampled the accessible underground cross-cuts and surface trenches with high-quality channel samples. Outside of the Zone, a property wide soil sampling program has been completed and covers approximately 85% of the 15 square kilometre property with soil samples spaced 50 metres apart on 100 and 200 metre spaced lines. Significant results from the soil sampling program include gold-in-soil anomalies along strike from the Zone to both the east and west and the discovery of the Dadiangou North Anomaly area. The Dadiangou North Anomaly was tested by four drill holes during Phase II drilling which intercepted several smaller gold-bearing zones but failed to delineate significant gold mineralization.

Based on the results of Phase I and II drilling and underground channel sampling, the first National Instrument 43-101 compliant resource estimate at Dadiangou was released on January 31, 2008. The resource estimate was prepared by Mario Rossi, M.Sc., Min.Eng. of Geosystems International Inc., an Independent Qualified Person. An Inferred Resource of 26.3 million tonnes grading 0.92 g/t gold, totaling 778,000 ounces of contained gold, was calculated using a cut-off grade of 0.4 g/t gold. Within this global resource, a 1.9 million-tonne higher-grade core was delineated that grades 2.48 g/t gold and contains 152,000 ounces at the same 0.4 g/t cut-off.

The Phase III diamond drill program was completed in August 2008 and consisted of 17 drill holes for a total of 3,045 metres of drilling. The majority of the drill holes were designed to fill in gaps in the previous resource model within the central portions of the Dadiangou Main Zone. In addition, two holes were completed to the west of previous drilling (DDG08-01 and 02) and extend the total strike length of the drill-tested shear zone to 4,000 metres. Results of the Phase III drilling were in line with expectations based on Phase I and II results.

An updated resource estimate incorporating the Phase III drilling results was released on December 1, 2008. The National Instrument 43-101 compliant resource estimate was prepared by Mario Rossi, M.Sc., Min. Eng., of Geosystems International Inc., an Independent Qualified Person. This updated resource estimate relies on data from all three phases of drilling (14,910 metres in 68 drill holes), underground channel sampling, and surface trench sampling. At a 0.4 gram per tonne cut-off, Indicated Resources total 20.0 million tonnes at 0.87 grams per tonne for 544,910 ounces of contained gold and Inferred Resources total 16.6 million tonnes at 0.96 grams per tonne for 497,950 ounces of contained gold. Within this overall resource, a higher grade core has been defined that includes Indicated Resources of 5.6 million tonnes at 2.05 grams per tonne for 369,250 ounces of contained gold and Inferred Resources of 3.8 million tonnes at 2.07 grams per tonne for 253,560 ounces of contained gold.

The Company is currently reviewing its plans for the Dadiangou project and weighing the merits of proceeding toward development versus generating cash through a sale of the project.

### **c) Xinjiang Projects**

The Company currently holds 2 exploration permits covering 96 km<sup>2</sup> in the Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China. The permits are held under a Chinese-Foreign Joint Venture in which the Company holds a 99% interest and the partner, Yunnan Geological and Mining Co. Ltd., holds a 1% interest. The permits were granted in June 2006 and will expire in June 2009.

At present, the Company has no plans to continue with further exploration work on any of the Xinjiang exploration permits. The Company is focused on the identification and acquisition of new gold projects with large scale potential.

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The following table shows the cumulative expenditures made as of December 31, 2008.

	Cumulative Balance December 31, 2007	Additions During the Period	Cumulative Balance December 31, 2008
Exploration	\$ 3,062,247	\$ 813,623	\$ 3,875,870

### d) Generative activities

The Company continues to review prospective exploration properties and potential acquisitions in China as part of a strategy to expand its project portfolio. The Company intends to focus its generative efforts on identifying opportunities that have known zones of gold mineralization that are or could be expanded into economic gold deposits within specifically targeted areas of the country.

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### Liquidity and Capital Resources

The consolidated balance sheets as of December 31, 2008 and 2007 are shown in the following table:

	2008	2007
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 12,142,739	\$ 26,952,425
Restricted cash	5,215,704	-
Accounts receivable	148,771	348,914
Prepaid expenses and deposits	7,176,502	2,001,980
Inventory	29,147,278	434,609
	53,830,994	29,737,928
<b>PROPERTY, PLANT AND EQUIPMENT</b>	66,711,336	57,727,460
	<b>\$ 120,542,330</b>	<b>\$ 87,465,388</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 18,932,644	\$ 15,066,485
Short-term loan	18,672,730	-
Current portion of notes payable	22,930,784	-
Current portion of asset retirement obligation	590,035	346,978
	61,126,193	15,413,463
<b>NON-CURRENT</b>		
Notes payable	14,929,121	44,267,023
Asset retirement obligation	4,773,331	4,113,045
	19,702,452	48,380,068
<b>NON-CONTROLLING INTEREST</b>	295,731	-
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	74,166,100	59,809,025
Contributed surplus	10,388,509	10,922,519
	84,554,609	70,731,544
Accumulated other comprehensive income	460,850	460,850
Deficit	(45,597,505)	(47,520,537)
	(45,136,655)	(47,059,687)
	39,417,954	23,671,857
	<b>\$ 120,542,330</b>	<b>\$ 87,465,388</b>

In the second half of 2008, the global economy continued to experience one of the most unsettling times in recent history and has resulted in share prices of many mining companies declining significantly. In these turbulent times, management continues to focus on improving cash flow from its CSH Gold Mine by taking the time to properly develop assets, ensuring effective management of capital expenditures, preserving capital, maximizing cash balances and maintaining maximum flexibility with assets.

The Company's consolidated financial statements for the year ended December 31, 2008, have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. The Company has a working capital deficiency of \$7.3 million and an accumulated deficit of \$45.6

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million. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flow from the CSH Gold Mine. The Company is monitoring cash flow generated from operations at the CSH Gold Mine against cash requirements for its operating costs, to fund other on-going expenses, for capital expansion plans and for future business opportunities. The Company is also reviewing this in the context of loans that have been secured to finance the development and operations of the CSH Gold Mine. These loans include \$40.8 million (CDN \$50.0 million) principal amount of senior unsecured promissory notes, of which \$24.5 million (CDN \$30.0 million) principal amount falls due in December 2009 and \$16.3 million (CDN \$20.0 million) principal amount falls due in June 2010, and trade credit extension by CNG of \$14.6 million (RMB 100 million) that represents advances on future gold sales. The Company is currently negotiating with Chinese banks for a project loan facility to complete construction of the CSH Gold Mine expansion. Even in the context of increased financial performance at the CSH Gold Mine, the Company does not expect that cash flow from the CSH Gold Mine will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof. If current market conditions and tightening credit markets persist for an extended period of time, the Company's ability to obtain equity financing or external debt financing may be negatively affected. There can be no assurance that additional funding will be available to the Company or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its development projects.

Management has performed a review to assess whether there are facts and circumstances that indicate potential impairment of the CSH Gold Mine. Management has considered the expected future gold prices and cost structures, and concluded that there was no indication of a potential impairment for the CSH Gold Mine as of December 31, 2008. However, the ongoing challenging conditions in the financial markets, the commodity markets, and the related uncertainty about the future business environment make an assessment of the mid-to-long term performance by using estimates and assumptions extremely difficult. The continuation of the global liquidity crisis, the commodity market volatility and its wider implications for the operating environment of the Company's mining operation could result in an impairment of mineral properties in the future.

The Company received \$19 million (RMB 130 million) of the Bridge Loan proceeds from ICBC in September 2008, to support operations at the CSH Gold Mine during the construction and installation of crushers. The Bridge Loan was unsecured, denominated in RMB with an annual interest rate of 6.21%, which was payable monthly. The principal amount was fully repaid by March 26, 2009. Principal repayments of \$14.6 million (RMB 100 million) were funded by a prepayment of future gold sales from CNG. The Bridge Loan was guaranteed by CNG for no consideration. As a condition of its promissory note holders consenting to the unsecured Bridge Loan, the Company has extended to December 14, 2010, the expiry date of 3,860,000 common share purchase warrants to purchase 3,860,000 common shares issued in connection with a note offering that closed in December 2006, and extended to June 26, 2011, the expiry date of 2,450,000 warrants to purchase 2,450,000 common shares in connection with a note offering that closed in June 2007. The holders of the warrants may exercise the warrants at the original exercise price of CDN\$1.60 per common share in the case of the warrants issued in connection with the December 2006 note offering and CDN\$2.50 in the case of the warrants issued in connection with the June 2007 note offering, until the new expiry date. No other terms have been affected. As a result of the warrant expiry date extensions, the Company recorded the fair values of the warrants taking into account the expiry date extensions as costs of obtaining the Bridge Loan. The fair values totaling \$1.3 million were measured using the Black-Scholes option pricing model and were based on risk free annual interest rates ranging from 2.5% to 3.0%, expected lives ranging from 0.21 to 2.74 years, an expected volatility of 62%, and a dividend yield rate of nil. The fair values of the warrants are included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet.

As of December 31, 2008, the Company had a working capital deficiency of \$7.3 million and cash resources of \$12.1 million. During the year ended December 31, 2008, net cash outflows from operations were \$29.5 million while \$30.4 million of cash was spent on property, plant and equipment, primarily for the crusher construction at the CSH Gold Mine. Cash inflows during the year ended December 31, 2008, were \$20.9 million from the sale of pre-commercial gold production, \$18.9 million from the Bridge Loan and \$11.0 million from the exercise of share

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purchase warrants and stock options. The net cash decrease for the year ended December 31, 2008, was \$14.8 million, net of \$5.2 million of restricted cash.

The Company signed a contract with an equipment manufacturer to purchase crusher equipment for \$15.6 million to be delivered in early 2009. The Company established a \$15.0 million letter of credit facility with its bank and opened a \$14.0 million standby letter of credit for the purchase of the equipment. As security for the standby letter of credit, which expired on January 15, 2009, the Company placed \$14.0 million as restricted cash with its bank. On February 19, 2009, the Company made the remaining payment to discharge this obligation.

As of December 31, 2008, of the total \$12.1 million in cash and cash equivalents, the Company had approximately CDN \$0.8 million (\$0.6 million) held in Canadian funds and RMB 46.5 million (\$6.9 million) in Chinese funds, which exposes the Company to risks associated with foreign exchange fluctuations. Included in the Company's total cash and cash equivalents are \$2,694 in bank short-term deposits, none of which are invested in asset backed commercial paper. Of the Company's \$5.2 million in restricted cash, \$3.9 million has been placed in bank short-term deposits, none of which is invested in asset backed commercial paper.

The Company's primary source of cash has been through gold sales, the issuance of common shares and warrants from private placements, exercise of stock options, warrants, and long-term debt. Such proceeds received have been used to fund operations, development of the CSH Gold Mine and exploration expenditures. The following table details the Company's contractual obligations as of December 31, 2008.

	Payments Due By Year						
	Total	2009	2010	2011	2012	2013	Thereafter
Short term loan repayment	\$ 19,055,158	\$ 19,055,158	\$ -	\$ -	\$ -	\$ -	\$ -
Principal repayment on notes payable	40,829,658	24,497,795	16,331,863	-	-	-	-
Operating leases (a)	74,904	53,289	7,205	7,205	7,205	-	-
Payments to joint venture partner (b)	1,729,080	561,951	590,769	-	576,360	-	-
Purchase commitments (c)	25,030,987	22,391,831	429,337	2,209,819	-	-	-
Total	\$ 86,719,787	\$ 66,560,024	\$ 17,359,174	\$ 2,217,024	\$ 583,565	\$ -	\$ -

(a) Operating leases are primarily for premises.

(b) Payments to the Dadiangou Gold project joint venture partner.

(c) Purchase commitments relate to contracts signed for the construction of and equipment supply for the crusher expansion for the CSH Gold Mine.

In October 2006, the Company signed a ten year service contract with a third party to provide mining services for the CSH Gold Mine commencing in the first quarter of 2007. The value of the mining service each year will vary and is dependent upon the amount of mining work performed. In November 2008, this contract was amended and restated to set fixed rate mining costs and extend the term to November 2018.

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

On December 14, 2006, the Company completed a \$25.9 million (CDN \$30.0 million) ("Note A") private placement offering consisting of senior unsecured promissory notes ("Notes") and 6,000,000 warrants for financing the development of the CSH Gold Mine. The Notes mature on December 14, 2009, are repayable in Canadian dollars, and carry an annual interest rate of 12%. Interest on the Notes is payable on a calendar quarterly basis commencing on March 31, 2007. The Company could have elected to prepay the Notes after 18 months from the issue date with no prepayment penalty. The Company has allocated the \$25.9 million face value of the private placement offering to the Notes and warrants proportionately, based on their respective fair values. The fair value of the Notes was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 17% for a debt instrument of comparable maturity and credit quality. The fair value of the warrants was

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measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 3.9%, an expected life of 2 years, an expected volatility of 79%, and a dividend yield rate of nil. The fair value of the warrants, net of \$153,000 issue costs, is included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. Each warrant entitles the holder to acquire one common share at CDN \$1.60 and expires on December 14, 2010. The Company had the right to accelerate the expiry date of the warrants after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of CDN \$2.75 for 20 consecutive trading days.

On June 26, 2007, the Company concluded an \$18.7 million (CDN \$20.0 million) private placement offering consisting of senior unsecured promissory notes ("June 07 Notes") and 4,000,000 warrants. CNG holds \$7.0 million (CDN \$7.5 million) ("Note C") of the June 07 Notes. Other third parties hold the remaining \$11.7 million (CDN \$12.5 million) ("Note B"). The June 07 Notes mature on June 26, 2010, are repayable in Canadian dollars and carry an annual interest rate of 12%. Interest on the June 07 Notes is payable on a calendar quarterly basis commencing on September 30, 2007. The Company could have elected to prepay Note B after 18 months from the issue date with no prepayment penalty and Note C after 6 months from the issue date with no prepayment penalty. Note B ranks pari passu with Note A, while Note C is subordinate to Notes A and B. The Company has allocated the \$18.7 million face value of the private placement offering to the June 07 Notes and warrants proportionately, based on their respective fair values. The fair value of the June 07 Notes was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 17% for a debt instrument of comparable maturity and credit quality. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 4.6%, an expected life of 2 years, an expected volatility of 72%, and a dividend yield rate of nil. The fair value of the warrants, net of the \$71,000 issue costs, is included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. Each warrant entitles the holder to acquire one common share at CDN \$2.50 and expire on June 26, 2011. The Company had the right to accelerate the expiry date of the warrants after 18 months from the issue dates, if the Company's common shares trade at or above a volume weighted average share price of CDN \$4.25 for 20 consecutive trading days.

The Company amended the indenture for its 12% unsecured promissory notes to include provisions for the distribution of funds received from its subsidiary, Inner Mongolia Pacific that operates the CSH Gold Mine. The Company has a \$9.8 million inter-corporate loan receivable from Inner Mongolia Pacific. Under the terms of the amended indenture, Inner Mongolia Pacific is required to repay the inter-corporate loan as a condition to note holder approval of a credit facility from ICBC that repays the Bridge Loan and funds the capital expansion program, and use the funds to repay a portion of the promissory notes on a pro rata basis (excluding promissory notes held by CNG). In addition, the Company is required to set up a redemption fund to deposit 50% of the proceeds that the Company receives from Inner Mongolia Pacific as dividends or other cash distributions. To the extent that the redemption fund exceeds \$5.0 million, the Company is required to distribute such funds to the promissory note holders on a pro rata basis.

The balances of the notes payable are provided in the table below.

	<u>Note A</u>	<u>Note B</u>	<u>Note C</u>	<u>Total</u>
Balances of notes payable, December 31, 2007	\$ 26,708,698	\$ 10,819,046	\$ 6,739,279	\$ 44,267,023
Unrealized foreign exchange gain	(5,429,323)	(2,191,334)	(1,349,697)	(8,970,354)
Accretion to December 31, 2008	1,651,409	619,266	292,561	2,563,236
	<u>\$ 22,930,784</u>	<u>\$ 9,246,978</u>	<u>\$ 5,682,143</u>	<u>\$ 37,859,905</u>
Less: current portion				<u>22,930,784</u>
Balances of notes payable, December 31, 2008				<u>14,929,121</u>

Profit and other cash distributions by the Company's subsidiaries in China must comply with China's tax and foreign exchange regulations. Such distributions must also be approved by various regulatory authorities such as the State Administration for Exchange Control.



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### **Off-Balance Sheet Arrangements**

The Company had a \$15.0 million letter of credit facility with its bank and had an outstanding \$3.8 million standby letter of credit, which expired on January 15, 2009. The standby letter of credit was secured by a term deposit with the bank and was to support the Company's purchase of the crusher equipment. On February 19, 2009, the Company paid \$3.8 million to the equipment supplier to discharge this obligation.

### **Related Party Transactions**

The Company is a party to a shareholders' cost-sharing agreement with certain other public and private companies, (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Global Mining Management ("GMM") and, through GMM, share office space, furnishings and equipment and communications facilities (on a cost recovery basis) and the employment of various administrative, office and management personnel in Vancouver, British Columbia. Costs of the shared office facilities and the shared employees are recovered from the Company proportionate to the time spent by the shared employees on matters pertaining to the Company. Certain of the directors and officers of the Company were also officers and directors of GMM. Accordingly, fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in yearly corporate activity and the level of personnel employed. The Company has utilized the services of the GMM staff and office since April 1, 2003, and has incurred costs of \$2.6 million (2007 - \$2.1 million) for the year ended December 31, 2008. Accounts payable of \$0.2 million (2007 - \$0.4 million) was owed to GMM and prepaid expenses and deposits of \$0.2 million (2007 - \$0.2 million) was deposited with GMM as of December 31, 2008. Effective May 2008, GMM and its affiliated companies were no longer related parties to Jinshan.

The Company paid \$0.8 million (2007 - \$0.5 million) for the year ended December 31, 2008, to its current and former significant shareholders, CNG and Ivanhoe Mines Ltd., respectively. These represent interest payments on their respective holdings of the 12% promissory notes.

In October 2008, the Company terminated its contract for the refining and purchase and sale of gold doré with a third party refiner and entered into an equivalent agreement for the purchase and sale of gold doré with CNG, who is shipping the gold doré to a designated refiner in China. The new agreement is on substantially the same terms as the original contract with the third party refiner, but the Company has determined that this arrangement will address recent delays in payment and counterparty risks being experienced under the contract with the third party refiner. The Company received \$14.0 million (2007 - \$nil) from CNG for the sale of gold for the year ended December 31, 2008, and paid \$0.07 million (2007 - \$nil) for gold refining costs. As of December 31, 2008, receivables from gold sales of \$0.06 million (2007 - \$nil) were due from CNG.

During 2008, the Company paid \$0.3 million (RMB 2.0 million) (2007 - \$nil) in cash plus payment in kind that consisted of a vehicle valued at \$0.1 million (RMB 0.5 million) (2007 - \$nil) to a subsidiary of CNG to construct and install process plant equipment. The Company paid \$0.2 million (RMB 1.2 million) (2007 - \$nil) to another CNG subsidiary to supervise and manage the crusher installation project during 2008. At December 31, 2008, accounts payable of \$0.08 million (2007 - \$nil) is due to subsidiaries of CNG.

### **Financial Instruments**

The fair values of the Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and short-term loan approximate their carrying values, due to their short-term to maturity. The fair values of the notes payable approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest risk, and commodity price risk.

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### (a) Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in China and Canada and its functional currency is the U.S. dollar. A significant change in the currency exchange rates between the RMB or Canadian dollar relative to the U.S. dollar could have a significant effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations. As of December 31, 2008, the Company is exposed to currency risk through the following assets and liabilities denominated in RMB and Canadian dollars:

	<u>2008</u>	<u>2007</u>
	<u>In Canadian Dollars</u>	
Cash and cash equivalents	\$ 794,869	\$ 21,540,662
Accounts receivable	50,957	261,192
Accounts payable and accrued liabilities	(870,597)	(2,139,315)
Notes payable	(46,363,239)	(43,740,256)
	<u>\$ (46,388,010)</u>	<u>\$ (24,077,717)</u>
	<u>In Chinese Renminbi</u>	
Cash and cash equivalents	37,578,661	27,514,458
Restricted cash	9,000,000	-
Accounts receivable	770,561	348,267
Accounts payable and accrued liabilities	(122,325,673)	(91,398,781)
Short-term loan	(130,000,000)	-
Asset retirement obligation	(36,590,489)	(32,621,062)
	<u>(241,566,940)</u>	<u>(96,157,118)</u>

Based on the above net exposures as of December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar and RMB against the U.S. dollar would result in an increase/decrease of approximately \$7 million (\$3.9 million for the Canadian dollar and \$3.1 million for the RMB) in the Company's net income/loss.

### (b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company sells all of its gold to one creditworthy customer. The Company's cash and short-term bank deposits are held in large Chinese and Canadian financial institutions. Short-term bank deposits are composed of financial instruments issued by Canadian banks and companies with high investment-grade ratings. These investments mature at various dates over the current operating period. The Company does not have any asset backed commercial paper in its short-term bank deposits. The Company's accounts receivable consists primarily of receivable for gold sales due from its customers and goods and services tax refunds due from the Federal Government of Canada all of which are not outstanding for more than 180 days.

The Company's maximum exposure to credit risk is as follows:

	<u>2008</u>	<u>2007</u>
Cash in bank	\$ 12,140,045	\$ 9,896,230
Short-term bank deposits	2,694	17,056,195
Restricted cash	5,215,704	-
Accounts receivable	148,771	348,914

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### (c) 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 manages liquidity risk through the management of its capital structure and financial leverage.

Accounts payable and accrued liabilities, and short term loans are due within the next 12 months. The Company's contractual obligations are shown above in the table under the "Liquidity and Capital Resources" section.

### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited because these investments, although available for sale, are generally held to maturity and not material. The Company's notes payables and short term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations.

### (e) Commodity price risk

The profitability of the Company and its ability to develop its mineral properties are directly related to the market price of gold. The Company has not hedged any of its future gold sales. The Company's input costs are also affected by the price of energy. The Company closely monitors gold and energy prices to determine the appropriate course of action to be taken by the Company. A 10% change in the market price of gold would result in an increase/decrease of approximately \$2.9 million in the Company's net income/loss.

## **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares without par value. As of March 31, 2009, 163,889,159 common shares were issued and outstanding, 5,107,300 stock purchase options had been granted and were outstanding, and 6,310,000 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 175,306,459 common shares were outstanding.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2008. While the Company did not identify any material weakness related directly to disclosure controls, the Company did identify a material weakness in internal control over financial reporting in connection with its concurrent evaluation of those controls as described below. Accordingly, in accordance with the requirements established under National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), the Chief Executive Officer and Chief Financial Officer have concluded that as at December 31, 2008, the Company's disclosure controls and procedures were not effective to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

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### Internal Control over Financial Reporting

#### *Summary of Internal Control Evaluation*

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting as defined in 52-109. The Company's management believes that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Management has used the Committee of Sponsoring Organization of the Treadway Commission ("COSO") framework to evaluate the effectiveness of the Company's internal control over financial reporting.

A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with its evaluation of the effectiveness of internal control over financial reporting as at December 31, 2008, management identified a material weakness as described below. Accordingly, management has concluded that the Company did not maintain effective control over financial reporting as at December 31, 2008.

#### *Internal Control Weakness*

The items listed below represent the matters that, in the aggregate, have contributed to a determination by the Company that a material weakness in internal control over financial reporting existed as at December 31, 2008. While each of these factors represents a procedural weakness in the internal control reporting environment of the Company, there was no evidence of actual loss or misstatement in the financial affairs of the Company. In particular, a thorough review of the Company's internal control system was conducted by management as an incidental part of audit procedure and specifically by independent consultants retained to review internal controls and there was no evidence of actual malfeasance, misstatement or loss. Moreover, these procedural breakdowns occurred in the latter half of 2008 in the context of significant changes to the Board and management of the company, including replacement of the Chairman, CEO, COO, CSH Gold Mine Manager and several other senior members of the company; and in many respects can be attributed to the process of integrating the new personnel into the Company within a short time frame and to the cultural and language barriers between North American and Chinese personnel. Nevertheless, the matters listed below, in the aggregate, led management to conclude that there was a reasonable possibility that a material misstatement of the annual financial statements would not be prevented or detected on a timely basis as at December 31, 2008.

#### (a) Control environment

In connection with management's evaluation of internal controls it has identified weaknesses in its overall control environment that have negatively impacted the effectiveness of internal controls over financial reporting. This weakness was identified as part of the process in which the management and board changes occurred in the latter

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part of 2008. The Company has determined that there was not sufficient communication and education to some of the incoming personnel about the Company's Code of Conduct, whistle blowing procedures, and the internal control and regulatory financial reporting requirements as a Canadian public company. In addition, there was a lack of understanding and clarity by some of the incoming members of management regarding the chain of reporting and management responsibility.

(b) Management override

Management identified specific instances in which members of management of its operating subsidiary, Inner Mongolia Pacific, circumvented and overrode internal control over financial reporting procedures. None of these instances involved directors or corporate officers of the Company and none of the instances amounted to a material deficiency on its own. Moreover, none of these matters directly resulted in a material misstatement to the financial statements or a loss to the Company. Nevertheless, these instances involved persons with positions of substantive responsibility within Inner Mongolia Pacific and occurred with sufficient frequency that the Company has determined that they contributed to a material weakness in internal controls as at December 31, 2008. In particular, the following transactions at Inner Mongolia Pacific were not carried out or reported in accordance with the Company's existing Delegation of Authority (i) a restructuring and termination of employees at Inner Mongolia Pacific occurred without prior approval from Jinshan's Board of Directors; (ii) Company funds were temporarily deposited in a personal account without proper approval; (iii) funds were received from a local government agency and subsequently repaid without proper approval; and (iv) a senior manager approved his own business expense reports.

(c) Fraud risk assessment

The Company did not conduct a comprehensive fraud risk assessment. Such an assessment would include a process to identify and evaluate the risk of fraud, including management override that could result in misstatements to any account in the financial statements. This deficiency, which is pervasive in potential impact, did not result in a material misstatement to the financial statements or loss to the Company. However, in combination with the material weaknesses discussed above, this deficiency results in a reasonable possibility that a material misstatement to the annual financial statements would not be prevented or detected on a timely basis.

## **Changes in Internal Control over Financial Reporting**

The Company already has controls and procedures in place, and while management believes that the material weakness described above is not a systemic problem, management is currently designing and implementing improved controls to address the matters described above. Since December 31, 2008, the Company has taken (and, in certain cases, is continuing to take) the following steps in an effort to enhance its overall internal control over financial reporting and to address the material weakness identified above:

- (a) The Company together with its legal counsel will hold special sessions to communicate and educate new board members and employees about the Company's Code of Conduct, whistle blowing procedures, and the internal control and regulatory financial reporting requirements of a Canadian public company. The Company will reaffirm these procedures on an annual basis or as needed.
- (b) The Company is currently reviewing reporting responsibilities of its subsidiaries to the corporate head office to strengthen oversight and monitoring of activities. The accounting department of Inner Mongolia Pacific now reports directly to the office of the Chief Financial Officer at corporate head office.
- (c) The Company has reiterated to management at Inner Mongolia Pacific the importance of complying with its existing Delegation of Authority. Training sessions for management will be conducted to enhance the understanding of the Company's Delegation of Authority. Business expense reports of senior management at Inner Mongolia Pacific will now be approved by either the Chief Financial Officer or the Vice President for Corporate Administration.

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- (d) The Company's Board of Directors has taken appropriate disciplinary actions against the individuals involved in the management override described above.
- (e) During 2009, the Company will undertake a comprehensive fraud risk assessment that will include a process to identify and evaluate the risk of fraud, including management override that could result in misstatements to any account in the financial statements.
- (f) The Company's Audit Committee will review and monitor on a quarterly basis the progress of the above efforts to improve internal control over financial reporting.

### Risk Factors

The business of mineral exploration and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact, and the Company's principal risk management strategies, are as follows:

*Jinshan's indebtedness and the conditions imposed on it by its financing agreements could materially and adversely affect Jinshan's business and results of operations.*

As of March 31, 2009, Jinshan had amounts outstanding under the Notes of Cdn\$50 million, as well as trade credit, including an advance on gold sales to CNG of \$14.6 million (RMB 100,000,000). Jinshan may also incur additional indebtedness in the future. Jinshan's indebtedness could have several important consequences, including but not limited to the following:

- a portion of Jinshan's cash flow will be used towards repayment of its existing debt, which will reduce the availability of cash to fund working capital needs, capital expenditures, acquisitions and other general corporate requirements;
- Jinshan expects that it will need to secure financing to satisfy the amounts owing on maturity of some or all of the Notes;
- Jinshan's ability to obtain additional financing in the future at all or on reasonable terms may be restricted; and
- Jinshan may be more vulnerable to economic downturns, may be limited in its ability to withstand competitive pressures and may have reduced flexibility in responding to changing business, regulatory and economic conditions.

Jinshan's financing agreements include various conditions and covenants that require Jinshan to obtain lender consents prior to carrying out certain activities and entering into certain transactions. In some cases, Jinshan must, among other requirements, seek, and may be unable to obtain, lenders' consents to amend its constitution; or incur additional debt, create additional charges on or further encumber assets, provide additional guarantees or dispose of certain assets, except where such debt, charges, encumbrances, guarantees or disposals are of a type specifically permitted, whether or not there is any failure by Jinshan to comply with the other terms of such agreements. Failure to meet these conditions or obtain these consents could materially and adversely affect Jinshan's business and results of operations.

Compliance with the various terms of Jinshan's loans is, however, subject to interpretation and there can be no assurance that Jinshan has requested or received all consents from its lenders that would be advisable under its financing documents. As a result, it is possible that a lender could assert that Jinshan has not complied with all the terms under its financing documents. Any failure to service Jinshan's indebtedness, comply with a requirement to obtain a consent or perform any condition or covenant could lead to a termination of one or more of Jinshan's credit facilities, acceleration of amounts due under such facilities and cross-defaults under certain of Jinshan's other

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financing agreements, any of which could materially and adversely affect Jinshan's business and results of operations.

***Jinshan will need to obtain further financing.***

Jinshan will require further financing to pursue its business objectives and meet its loan obligations. Cash flow from existing operations will be insufficient to fund all project development initiatives and address maturing loans and other costs, and accordingly, the Company will need to rely on external sources of financing. The most immediate financing requirement relates to project financing to fund the balance of the capital costs for the crusher installation and expansion, which Jinshan intends to source from a Chinese bank. Thereafter, further financing will be required. To date Jinshan has relied upon a mixture of equity capital and debt financing to fund its operations. It may seek future funding through the exercise of options and warrants, the debt and equity markets or through project participation arrangements with third parties, but it cannot be assured that it will be able to obtain additional funding when it is required and whether it will be available on commercially acceptable terms. If Jinshan fails to obtain the funding that it needs when it is required, it may have to forego or delay development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

***The Company's business will be dependent on the CSH Gold Mine for substantially all of its revenues and cash flows from operating activities in the near term.***

While Jinshan intends to continue investing in additional mining and exploration projects in the future, the CSH Gold Mine is likely to be the Company's only significant operational mining project in the short term and the Company expects that this mine will produce substantially all of the Company's revenues and cash flows in the near term. Consequently, delays or difficulties encountered in production could materially and adversely affect the Company's business and results of operations. In addition, the Company's business and results of operations could be materially and adversely affected by any events which impact the CSH Gold Mine, including among other things, equipment failure or shortages, adverse weather, transportation problems, changes in relevant government policy and/or any permitting or licensing delays.

***Jinshan has a limited operating history, and there is no assurance that it will be capable of consistently producing positive cash flows.***

Jinshan has paid no dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. To date, Jinshan has generated cash flow from the CSH Gold Mine, and no cash flow from its other operations. Jinshan has a limited operating history and there can be no assurance of its ability to operate its projects profitably. While Jinshan may in the future generate additional working capital through the operation, development, sale or possible syndication of its properties, there is no assurance that Jinshan will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration, development and production programs.

***The operating costs of the CSH Gold Mine may differ from Jinshan's estimates.***

The estimates regarding operating costs of the CSH Gold Mine are based on the 2008 CSH Technical Report. The 2008 CSH Technical Report derives estimates of average cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of minerals from the ore;
- cash operating costs of comparable facilities and equipment; and
- anticipated climatic conditions.

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Actual operating costs, production and economic returns may differ significantly from those anticipated by the 2008 CSH Technical Report. Accordingly, there is no assurance that future operating activities will result in profitable mining operations.

*The actual cost of expanding the CSH Gold Mine may differ significantly from Jinshan's estimates and involve unexpected problems or delays.*

The estimates regarding the proposed expansion of the CSH Gold Mine are based on the 2008 CSH Technical Report. This study establishes estimates of reserves and resources, capital and operating costs, and project economic returns. These estimates are based, in part, on assumptions about future metal prices. The 2008 CSH Technical Report derives estimates of average cash operating costs based upon, among other things:

- anticipated tonnage, grades, and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of minerals from the ore;
- cash operating costs of comparable facilities and equipment;
- and anticipated climatic conditions.

Actual operating costs, production, and economic returns may differ significantly from those anticipated by the 2008 CSH Technical Report. There are also a number of uncertainties inherent in the development and construction of new mining facilities including the CSH Gold Mine. These uncertainties include:

- the timing and cost, which can be considerable, of the construction of mining and processing facilities;
- the availability and cost of skilled labor, power, water, and transportation;
- the availability and cost of appropriate smelting and refining arrangements;
- the need to obtain necessary environmental and other government permits, and the timing of those permits;
- and the availability of funds to finance construction and development activities.

The cost, timing, and complexities of mine construction and development are increased by the remote location of a property such as the CSH Gold Mine. It is common in new mining operations to experience unexpected problems and delays during development, construction, and mine start-up. In addition, delays in the commencement of mineral production often occur. Accordingly, there is no assurance that the Company's future development activities will result in profitable mining operations.

*Fluctuations in exchange rates could materially and adversely affect Jinshan's operating cash flows and profitability.*

Fluctuations in the U.S. \$ relative to RMB or in the U.S. \$ relative to the Canadian dollar ("Cdn \$") could materially and adversely affect the cash flow and earnings of Jinshan. The majority of Jinshan's operating costs are denominated in RMB, and although Jinshan's revenue is denominated in RMB, the RMB gold price effectively moves in line with the U.S.\$ gold price. A significant portion of Jinshan's loan obligations and general and administrative expenses is denominated in Cdn \$. Therefore, if the U.S. \$ weakens relative to the RMB, or if the U.S. \$ weakens relative to the Cdn \$, Jinshan's consolidated financial results could be materially and adversely affected.



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### ***Share Price Volatility.***

In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those in the resource sector, has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that such fluctuations will not affect the price of Jinshan's securities.

### ***Production Estimates for the CSH Gold Mine may be inaccurate.***

Gold production estimates at the CSH Gold Mine are based on, among other things, the accuracy of reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; the accuracy of estimated rates of recovery and costs of mining and processing; and the assumption of ongoing timely regulatory approvals where these are required.

At present, gold production from run-of-mine operations since the start of commercial production in July 2008 has averaged 56% of the originally estimated production rate. The differential from estimated production capacity is due to several factors, including a greater than anticipated amount of sulphide ore in the weathered material being mined through run of mine operations and lower than estimated carbon capture in the processing plant. The Company is still in the process of attempting to address several of these factors. Crushing operations should address much of the recovery limitations arising from the sulphide ore, and the Company anticipates that the recovery rate will improve. Nevertheless, there can be no guarantee of the extent to which crushing of material, or any other changes in operations, will affect recovery rates at the CSH Gold Mine. The Company is undertaking a testing and analysis program to verify assumptions and conclusions in the mine plan, particularly as it relates to crushed material operations, and depending on the results of such test program the Company may determine that it needs to adjust its mine plan, adjust reserves and otherwise modify the conclusions regarding financial performance of the CSH Gold Mine. Ultimately, failure to achieve production estimates could have a material adverse impact on Jinshan's future cash flows, earnings, results of operations and financial condition.

### ***Jinshan has limited experience in placing properties into production.***

Jinshan has retained a number of individuals with gold production experience or experience in the conduct of commercial mining operations. Nevertheless, prior to the CSH Gold Mine, Jinshan had no experience in placing mineral deposit properties into production, and its ability to operate the CSH Gold Mine.

### ***Fluctuations in the market price for gold could materially and adversely affect Jinshan's Share Price and Jinshan's business and results of operations.***

Substantially all of Jinshan's revenues and cash flows are and will continue to be derived from the sale of gold doré. Therefore, the financial performance of Jinshan is exposed to gold price fluctuations. Historically, the market price for gold has fluctuated widely and has experienced periods of significant decline. The gold price in China is highly influenced by the international gold price, which is denominated in U.S. dollars. Gold prices may be influenced by numerous factors and events which are beyond the control of Jinshan. These factors and events include world demand, forward selling activities, gold reserve movements at central banks, costs of production by other gold producers and other macro-economic factors such as expectations regarding inflation, interest rates, currency exchange rates (especially the strength of the U.S.\$), as well as general global economic conditions and political trends. If gold prices should fall below or remain below Jinshan's cost of production for any sustained period due to these and other factors and events, Jinshan's share price and results of operations could be materially and adversely affected.

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*The Company relies substantially on third party contractors to conduct its mining operations.*

The Company has retained a contractor to conduct the open pit mining operations at the CSH Gold Mine. Although the Company maintains supervision over the contractor, such an arrangement with a contractor carries risks associated with the possibility that the contractors may (i) have economic or other interests or goals that are inconsistent with the Company's, (ii) take actions contrary to the Company's instructions or requests, or (iii) be unable or unwilling to fulfill its obligations. Unanticipated problems with the third party contractor could materially and adversely affect the Company's business and results of operations.

*As Jinshan's mines become more mature, production volumes could decrease and unit production costs could increase.*

The mining process typically starts at surface level and progresses to deeper levels. Production efficiency typically decreases as mining depth increases, due to increased costs of drainage and transportation. This may cause the unit production cost to increase. As production efficiency decreases, Jinshan's business and results of operation could be materially and adversely affected.

*Jinshan's prospects depend on its ability to attract and retain key personnel.*

Recruiting and retaining qualified personnel is critical to Jinshan's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and there is substantial competition for such persons. As Jinshan's business activity grows, it will require additional key financial, administrative, mining, marketing, and public relations personnel as well as additional staff on the operations side. Meanwhile, if Jinshan is not able to retain its existing management and technical personnel its business may be harmed. Although Jinshan believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

*Mineral Reserve and resource estimates are subject to uncertainties.*

Jinshan's ore reserves and mineral resources are estimates based on a number of assumptions, any adverse changes in which could require Jinshan to lower its ore reserves and mineral resources.

The estimation of reserves and resources is inherently uncertain and involves subjective judgments about many relevant factors. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgments used in engineering and geological interpretation, which may prove to be unreliable. Should Jinshan encounter mineralization different from that predicted by past drilling, sampling and similar examination, mineral resource and/or ore reserve estimates may have to be adjusted downward. This downward adjustment could materially affect Jinshan's development and mining plans, which could materially and adversely affect Jinshan's business and results of operations. There can be no assurance that these estimates will be accurate or that such mineral resources can be mined or processed profitably. Furthermore, mineral resources that are not mineral reserves do not have demonstrated economic viability.

The grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also materially and adversely affect Jinshan's business and results of operations. Material changes in ore reserves resulting from unexpected changes to the gold price, grades, production costs, stripping ratios and recovery rates may affect their economic viability. Ore reserves are reported as general indicators of mine life and should not be interpreted as assurances of mine life or of the profitability of current or future operations.

The economic viability of ore reserves and mineral resources may also be affected by such factors as permit regulations and requirements, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions.

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*Jinshan's mining operations have a finite life amid eventual closure of these operations will entail costs amid risks regarding ongoing monitoring, rehabilitation amid compliance with environmental standards.*

The key risks for mine closure are (i) long-term management of permanent engineered structures (dam walls, spillways, wetlands, roads, waste dumps) and acid rock drainage; (ii) achievement of environmental closure standards; (iii) orderly retrenchment of employees and contractors; and (iv) relinquishment of the site with associated permanent structures and community development infrastructure and programs to new owners. The successful completion of these tasks is dependent on the ability to successfully implement negotiated agreements with the relevant government, community and employees. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing environmental impacts and corporate reputation damage if desired outcomes cannot be achieved, which could materially and adversely affect Jinshan's business and results of operations.

*Jinshan's operations depend on an adequate and timely supply of water, electricity, chemicals and other critical supplies.*

Timely and cost effective execution of Jinshan's mining projects is dependent on the adequate and timely supply of water, electricity, chemicals and other critical supplies. Jinshan's mining projects will consume a substantial amount of water and electricity in the production process. At the CSH Gold Mine, Jinshan relies on the local rivers and water table for its water supply, and relies on the local power grids to supply the electricity to meet its requirements. Diesel generators have been installed at the mine site; however these generators are intended as a back-up device only, to be used to maintain vulnerable production components during times when the local power grids are unable to meet the CSH Gold Mine's electricity demands. The generators cannot supply sufficient electricity to operate the full production process. Chemicals and supplies are transported to the operations by road and this supply can be interrupted during periods of bad weather.

There can be no assurance that Jinshan will receive adequate supplies of water from local sources or electricity from the local power grids to meet its requirements. There is a risk that those in control of the local power grids will oversell the capacity of those power grids, and that resulting power shortfalls or outages at the CSH Gold Mine could occur. If Jinshan is unable to procure the requisite quantities of water or electricity in time and at commercially acceptable prices or if there are significant disruptions in the supply of electricity or water to any of Jinshan's project sites including the CSH Gold Mine, the performance of Jinshan's business and results of operations could be materially and adversely affected, and in the worst case scenario, result in a shutdown of a project's operation.

*Jinshan's mining operations face material risk of liability, delays and increased production costs from design defects, environmental and industrial accidents, and other factors.*

By its nature, the business of mineral exploration, project development, mining and processing, contains elements of significant risk and hazards. The continuous success of Jinshan's business is dependent on many factors such as:

- discovery and/or acquisition of new ore reserves;
- securing and maintaining title to tenements and obtaining necessary consent for exploration and mining;
- successful design and construction of mining and processing facilities;
- successful commissioning and operating of mining and processing facilities; and
- the performance of the processing facility..

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Mining operations are subject to technical risk in that they may not perform as designed. Increased development costs, lower output or higher operating costs may all combine to make a project less profitable than that expected at the time of the development decision. This would have a negative impact on Jinshan's expected cash flow. No assurance can be given that Jinshan would be adequately compensated by third party project design, construction and supply companies in the event of equipment failure or that a project did not meet its expected design specifications.

The business may also be disrupted by a variety of events that, in most cases, are beyond the control of Jinshan. Such events could result in disruptions to Jinshan's operations, increases in its operating costs or personal injuries, labour disruption and other risks encountered in the course of operating a mine. For example, an environmental event concerning changes in the water table (man-made or naturally occurring) or landslides, could materially and adversely affect the CSH Gold Mine. The occurrence of any of these events could result in damage to or destruction of production facilities, personal injury, environmental damage, business interruption, delay in production, increased production costs, monetary losses and possible legal liability (including compensatory claims, fines and penalties) to Jinshan, which could materially and adversely affect Jinshan's business and results of operations.

### ***Jinshan's operations are exposed to risks in relation to mishandling of dangerous articles.***

Jinshan's exploration, mining and gold production operations involve the handling and storage of explosive, toxic and other dangerous articles. More stringent laws, regulations and policies may be implemented by the relevant China authorities, and there can be no assurance that Jinshan will be able to comply with any future laws, regulations and policies in relation to the handling of dangerous articles economically or at all. In addition, there can be no assurance that accidents arising from the mishandling of dangerous articles will not occur in the future. Should Jinshan fail to comply with any relevant laws, regulations or policies or should any accident occur as a result of the mishandling of dangerous articles, Jinshan's business and results of operations may be materially and adversely affected, and Jinshan may be subject to penalties and/or civil and/or criminal liabilities.

### ***Competition for new mining properties by larger, more established companies may prevent Jinshan from acquiring interests in additional properties or mining operations.***

Significant and increasing competition exists for mineral acquisition opportunities throughout the world. As a result of this competition, some of which is with large, more established mining companies with substantial capabilities and greater financial and technical resources, the Company may be unable to acquire rights to exploit additional attractive mining properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will acquire any interest in additional operations that would yield reserves or result in commercial mining operations.

### ***Jinshan may undertake strategic acquisitions or investments, which may prove to be difficult to integrate and manage or may not be successful.***

In the future, Jinshan may consider making strategic acquisitions or investments as a means of pursuing Jinshan's corporate strategy. It is possible that Jinshan may not identify suitable acquisition or investment opportunities, or if it does identify suitable opportunities, that it may not complete those transactions on terms commercially acceptable to Jinshan or at all. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions could materially and adversely affect Jinshan's competitiveness and growth prospects. In the event Jinshan successfully completes an acquisition or investment, it could face difficulties managing the investment or integrating the acquisition with its operations. There can be no assurance that Jinshan will be able to achieve the strategic purpose of such an acquisition or investment. These difficulties could disrupt Jinshan's ongoing business, distract its management and employees, and increase its expenses, any of which could materially and adversely affect Jinshan's business and results of operations.

### ***A portion of Jinshan's operations involve exploration and development and there is no guarantee that any such activity will result in the commercial production of mineral deposits.***

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Other than the CSH Gold Mine, development of Jinshan's mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expense and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when an issuer's properties are in the exploration as opposed to the development phase. There is no assurance that commercial quantities of ore will be discovered on any of Jinshan's exploration properties other than the CSH Gold Mine. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved.

### ***Mining permits and licenses are required.***

Pursuant to applicable law, all mineral resources in China are owned by the State. Thus, Jinshan's further development and exploration of the various mineral properties in which it holds interests, particularly the CSH Gold Mine and any expansion thereof, depends upon its ability to obtain permits and licenses from various governmental authorities. As an example, the national branch of China's National Development and Reform Commission has, in the past, asserted authority over gold production in China, and while this assertion of authority has been rejected by other branches of the Chinese Government as being invalid, an ultimate conclusion of this matter has not been reached. There can be no assurance that the Company will be successful in obtaining all required permits and licenses when needed. Meanwhile, the proposed expansion of production at the CSH Gold Mine will require an updated mining permit from MOLAR and other government agencies. While the Company has no reason to believe that applications for such permits will be rejected, there is also no guaranty that any such permit will be forthcoming. Failure to obtain permits and licenses on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.

***There can be no assurance that the interest Jinshan holds in its exploration, development and mining properties is free from defects or that material contractual arrangements between Jinshan and entities owned or controlled by foreign governments will not be unilaterally altered or revoked.***

The acquisition of title to resource properties or interests therein is a very detailed and time-consuming process. Title to, and the area of, resource concessions may be disputed. Jinshan has conducted an internal investigation of title to the CSH Gold Mine. Based on a review of records the relevant government agencies in China maintain, the CSH Gold Mine interests are registered in the name of the applicable joint venture company. There is no guarantee of title to any of Jinshan's properties. The properties may be subject to prior unregistered agreements or transfers and undetected defects may affect title. Title is based upon interpretation of the applicable laws, which laws may be ambiguous, inconsistently applied and subject to reinterpretation or change. Jinshan has not surveyed the boundaries of any of its mineral properties and consequently the boundaries of the properties may be disputed.

### ***Changes in or more aggressive enforcement of laws and regulations could adversely impact Jinshan's business.***

Mining operations and exploration activities are subject to extensive laws and regulations. Compliance with these laws and regulations increases the costs of exploring, drilling, developing, constructing, operating and closing mines and other facilities. It is possible that the costs, delays, and other effects associated with these laws and regulations may impact Jinshan's decision to continue to operate existing mines and other facilities or whether to proceed with exploration or development of properties. Since legal requirements change frequently, are subject to interpretation and may be enforced to varying degrees in practice, Jinshan is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Furthermore, changes in government, regulations and policies and practices could have an adverse impact on Jinshan's future cash flows, earnings, results of operations, and financial condition.

Failure or delays in obtaining necessary approvals could have a materially adverse affect on Jinshan's financial condition and results of operations.

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### ***Restrictions on foreign investment in China could materially and adversely affect Jinshan's business.***

In China, foreign companies have in the past been, and are currently, required to operate within a framework that is different from that imposed on domestic Chinese companies. However, the Chinese Government has been opening up opportunities for foreign investment in mining projects and this process is expected to continue, especially following China's accession into the World Trade Organization. However, if the Chinese Government should reverse this trend, or impose greater restrictions on foreign companies, or seek to nationalize Jinshan's Chinese operations, Jinshan's business and results of operations could be materially and adversely affected.

### ***Jinshan may be unable to enforce its legal rights in certain circumstances.***

In the event of a dispute arising at or in respect of, Jinshan's foreign operations, including the CSH Gold Mine or the Dadiangou Gold Project, Jinshan may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or other jurisdictions. Jinshan may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

### ***Jinshan does not maintain insurance over certain of its business operations.***

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fire, floods, earthquakes or other environmental occurrences, and political and social instability. These risks can result in, among other things, damage to and destruction of mineral properties or production facilities, personal injury, environmental damage, delays in mining, monetary losses and legal liability. It is not always possible to obtain insurance against all risks, and Jinshan has elected not to insure against certain risks as a result of high premiums or other reasons or has agreed to policy limits on certain coverage that may not cover all potential liabilities for similar reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of Jinshan.

### ***Jinshan is subject to substantial environmental and other regulatory requirements and such regulations are becoming more stringent. Non-compliance with such regulations, either through current or future operations or a pre-existing condition could materially adversely affect Jinshan.***

Jinshan's operations are subject to environmental regulations in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Jinshan's operations. Government approvals and permits are required in connection with Jinshan's operations. To the extent such approvals are required and not obtained; Jinshan may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, 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 for violations 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 Jinshan and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

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One of the main environmental issues in the gold mining industry is wastewater and tailings management. Wastewater and tailings can contain substances that are potentially harmful to human beings and the environment, especially in large quantities. There can be no assurance that Jinshan will not be subject to claims for damages to persons or property resulting from the release into the environment of wastewater or tailings residue by Jinshan's operations. Furthermore, higher environmental protection standards may be imposed by China in the future, which could increase Jinshan's costs of compliance.

In either event, such costs and liabilities could materially and adversely affect Jinshan's business and results of operations.

### ***There are risks associated with conducting business in China.***

China is, and for the foreseeable future is expected to remain, the country in which Jinshan concentrates most of its business activities and financial resources. Jinshan has applied for and received mining licences and exploration licences for its properties; nevertheless, the legal framework is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. As a result, there may be ambiguities, inconsistencies and anomalies in the agreements or the legislation upon which they are based, which are atypical of more developed legal systems and which may affect the interpretation and enforcement of Jinshan's rights and obligations. The laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable. As an example, Jinshan holds its interest in the CSH Gold Mine through a joint venture company. Many aspects of the law regarding Chinese joint venture companies are ambiguous, inconsistently applied and subject to reinterpretation or change. While Jinshan believes that Inner Mongolia Pacific, the joint venture company that holds the CSH Gold Mine, has been properly established and has taken the steps necessary to obtain its interest in the CSH Gold Mine, there can be no guarantee that such steps will be sufficient to preserve Jinshan's interest in the CSH Gold Mine.

There are several levels of government with influence over Jinshan's mineral production, development and exploration activities. A loss of support for one or more of the Company's projects by any one of those levels of government could result in substantial disruption in Jinshan's ability to continue operations. Such a loss of support could occur on a national level, such as a change in government policy to discourage foreign investment or nationalization of mining industries or it may occur at a provincial or local level, in which Jinshan's ability to conduct operations is hindered by aggressive or capricious application of jurisdiction within the control of a particular level of government.

In addition to the above risks, Jinshan also faces risk in respect of the repatriation of earnings outside China. Chinese regulations provide that, subject to payment of applicable taxes, foreign investors may remit out of China, in foreign exchange, profits or dividends derived from a source within China. Remittance by foreign investors of any other amounts (including, for instance, proceeds of sale arising from a disposal by a foreign investor of any of its investments in China) out of China is subject to the approval of the State Administration for Exchange Control or its local branch office. No assurance can be given that such approval would be granted if Jinshan disposes of all or part of its interest in a project located in China. Further, there can be no assurance that additional restrictions on the repatriation of earnings in China will not be imposed in the future.

***Jinshan owns its projects through CJV companies which are established pursuant to CJV agreements. Jinshan's CJV partners have rights under the CJV Agreements that may affect Jinshan's interests, including discretion as to earn-in and the right to trigger early termination of the CJV agreement.***

Pursuant to the provisions of the CJV Law, the CJV companies have been, or will be, established as legal persons with limited liability. A party shares, or will share, in the profits, and bears, or will bear, the losses and risks, of a CJV company in proportion to the percentage of its equity interest in the CJV company.

Under the terms of some of the CJV agreements, including the Dadiangou CJV, Jinshan is obligated to complete earn-in expenditures and payments to the CJV partner in order to earn its interest in the CJV. If Jinshan does not

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complete all expenditures it will not secure its full, or in some cases any, interest in the property. Meanwhile, even if expenditures are completed, earn-in expenditures are subject to review by the partner and can be disputed as being inapplicable. In the case of the Dadiangou project the partner has disagreed with the applicability of certain expenses that Jinshan has attributed to its earn-in and has delayed the transfer of title to the relevant Exploration License to the CJV, and the parties are currently in discussion regarding the potential to adjust a portion of the equity interest in the applicable CJV to address this disagreement.

A party to a CJV agreement is entitled to terminate the CJV agreement prior to its expiration by delivering written notice to the other party if: (i) the other party materially breaches the CJV agreement or the articles of association of the CJV company, and such breach is not cured (depending on the terms of the CJV agreement) within 90 or 180 days of written notice to such party; or (ii) the other party or the CJV company becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business, or becomes unable to pay its debts as they come due.

All of Jinshan's mining and exploration rights are currently held by CJV companies. If Jinshan is unable to come to an agreement with a CJV partner as to the exploitation of the areas with mining and mineral rights, the CJV company will be unable to exploit the same.

***A CJV company is a joint venture company - it does not confer the same level of control as a wholly-owned subsidiary.***

Under all of the existing CJV agreements, Jinshan is entitled to:

- appoint a majority of the directors of the CJV company; and
- appoint the general manager of the CJV company, who is responsible for the day-to-day operation and management of the CJV company and implementing resolutions of the board.

Therefore, Jinshan controls the day-to-day management and operations of the CJV companies. However, this control is qualified in that:

- under the CJV Law and the CJV agreements, certain decisions require the unanimous consent of the directors present at a meeting of the board (including the consent of directors appointed by the CJV partner);
- the CJV partner is entitled to terminate the CJV agreement in specified circumstances; and
- the CJV partner may breach its obligations to contribute to an increase in the registered capital of the CJV company, which may result in Jinshan deciding to make an additional capital contribution to the CJV company in order to satisfy the capital requirements of the CJV company.

Additionally, if a dispute arises between Jinshan and a CJV partner and the partners are unable to amicably resolve the dispute, Jinshan may be involved in lengthy proceedings to resolve the dispute, which could materially and adversely affect Jinshan's business and results of operations.

***There are risks associated with conducting business through joint ventures with government-controlled entities.***

Jinshan conducts certain of its operations through co-operative joint ventures with government-controlled entities. While this connection benefits Jinshan in some respects, there is a substantial inequality with respect to the influence of the parties with the Chinese government. The Chinese government holds a substantial degree of subjective control over the application and enforcement of laws and the conduct of business. This inequality would become particularly detrimental if a business dispute arises between joint venture parties. Jinshan seeks to minimize this by



## **JINSHAN GOLD MINES INC.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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**(Stated in U.S. Dollars, except as otherwise noted)**

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including international arbitration clauses in relevant agreements whenever possible and by maintaining positive relations with both its joint venture partners and local governments, but there can be no guarantee that these measures will be sufficient to protect Jinshan's interest in China.

#### ***A controlling shareholder holds corporate control over Jinshan.***

China Gold holds approximately 41% of the outstanding Common Shares. Accordingly, China Gold is able to substantially influence the outcome of any matter submitted to a vote of shareholders, including election of directors and matters requiring a special shareholders' resolution such as amendments to Jinshan's articles, mergers, amalgamations and the sale of all or substantially all of Jinshan's assets.

#### ***Certain directors of Jinshan are directors or officers of other mineral resource companies and there is the potential that such directors will encounter conflicts of interest with Jinshan.***

Certain of the directors and officers of Jinshan are directors or officers of other mineral resource companies and, to the extent that such other companies may participate in ventures in which Jinshan may participate, the directors of Jinshan may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with Jinshan for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director or officer who has such a conflict will disclose the conflict to a meeting of the directors of Jinshan and, if the conflict involves a director, the director will abstain from voting for or against the approval of such participation or such terms. In appropriate cases, Jinshan will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. In accordance with the provisions of the British Columbia *Business Corporations Act*, the directors and officers of Jinshan are required to act honestly in good faith, with a view to the best interests of Jinshan.

## **Qualified Persons**

Joseph Keane, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to the 2008 CSH Gold Technical Report in this MD&A. Keith Patterson, P. Geo., the Company's Vice President of Exploration, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to the Dadiangou project, Xinjiang project, and generative activities in this MD&A.

March 31, 2009