

Auditors' Report and Consolidated Financial Statements of

JINSHAN GOLD MINES INC.

*December 31, 2007 and 2006
(stated in U.S. dollars)*

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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, 2007 and 2006 and the consolidated statements of operations, 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, 2007 and 2006 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 13, 2008

JINSHAN GOLD MINES INC.
Consolidated Balance Sheets
December 31, 2007 and 2006
(Stated in U.S. dollars)

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	\$ 26,952,425	\$ 27,876,503
Accounts receivable	348,914	295,884
Prepaid expenses and deposits (Note 5)	2,001,980	2,017,083
Inventory (Note 6)	434,609	-
	29,737,928	30,189,470
PROPERTY, PLANT AND EQUIPMENT (Note 7)	57,727,460	20,683,848
	\$ 87,465,388	\$ 50,873,318
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 11 (b))	\$ 15,066,485	\$ 2,594,360
LONG TERM		
Notes payable (Note 8)	44,267,023	21,604,895
Asset retirement obligation (Note 9)	4,460,023	-
	\$ 48,727,046	\$ 21,604,895
COMMITMENTS AND CONTINGENCIES (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)		
Authorized		
Unlimited common shares without par value		
Issued		
156,561,424 common shares (2006 - 145,358,949)	59,809,025	49,069,482
Contributed surplus	10,922,519	8,133,004
Accumulated other comprehensive income	460,850	460,850
Deficit	(47,520,537)	(30,989,273)
	23,671,857	26,674,063
	\$ 87,465,388	\$ 50,873,318

CONTINUING OPERATIONS (Note 1)

APPROVED BY THE BOARD

"Daniel Kunz"

Director

"Pierre Lebel"

Director

See accompanying notes to the consolidated financial statements

JINSHAN GOLD MINES INC.
Consolidated Statements of Operations
Years ended December 31, 2007 and 2006
(Stated in U.S. dollars)

	2007	2006
EXPENSES		
Administration and office	\$ 1,003,393	\$ 1,050,448
Amortization	45,612	61,462
Exploration expenses (See Schedule)	6,604,015	4,257,861
Investor relations	325,392	298,612
Professional fees	654,103	443,636
Salaries and benefits	1,073,673	632,170
Shareholder information, transfer agent and filing fees	211,023	222,921
Stock-based compensation	1,629,613	1,165,222
Travel	404,210	302,999
	11,951,034	8,435,331
OTHER (EXPENSES) INCOME		
Foreign exchange loss	(3,319,847)	(84,874)
Interest income	439,032	247,976
Interest on notes payable (Note 8)	(1,688,442)	-
Other interest and financing expense	(10,973)	(284,850)
	(4,580,230)	(121,748)
NET LOSS	\$ (16,531,264)	\$ (8,557,079)
BASIC LOSS PER SHARE	\$ (0.11)	\$ (0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	151,747,438	132,206,264

See accompanying notes to the consolidated financial statements

JINSHAN GOLD MINES INC.
Consolidated Statement of Shareholders' Equity
Years ended December 31, 2007 and 2006
(Stated in U.S. dollars)

	Number of Shares	Amount	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
Balances, December 31, 2005	127,105,896	\$ 35,433,993	\$ 2,449,090	\$ 460,850	\$ (22,432,194)	\$ 15,911,739
Shares issued for:						
Private placement, net of \$167,306 share issue costs	8,000,000	7,237,641	1,236,431	-	-	8,474,072
Exercise of warrants	9,587,460	5,785,843	-	-	-	5,785,843
Exercise of stock options	665,593	612,005	(265,155)	-	-	346,850
Stock-based compensation charged to operations	-	-	1,522,649	-	-	1,522,649
Fair Value of share purchase warrants issued in connection with the 12% senior unsecured promissory notes, net of \$153,368 issue costs	-	-	3,189,989	-	-	3,189,989
Net loss	-	-	-	-	(8,557,079)	(8,557,079)
Balances, December 31, 2006	145,358,949	\$ 49,069,482	\$ 8,133,004	\$ 460,850	\$ (30,989,273)	\$ 26,674,063
Shares issued for:						
Exercise of warrants	9,495,373	8,915,867	(994,521)	-	-	7,921,346
Exercise of stock options	1,707,102	1,823,676	(673,498)	-	-	1,150,178
Stock-based compensation charged to operations	-	-	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 8)	-	-	2,330,524	-	-	2,330,524
Net loss and comprehensive loss	-	-	-	-	(16,531,264)	(16,531,264)
Balances, December 31, 2007	156,561,424	\$ 59,809,025	\$ 10,922,519	\$ 460,850	\$ (47,520,537)	\$ 23,671,857

See accompanying notes to the consolidated financial statements

JINSHAN GOLD MINES INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006
(Stated in U.S. dollars)

	2007	2006
OPERATING ACTIVITIES		
Net loss	\$ (16,531,264)	\$ (8,557,079)
Items not requiring use of cash and cash equivalents:		
Amortization	45,612	61,462
Stock-based compensation	2,127,010	1,522,649
Unrealized foreign exchange loss	3,175,412	81,304
	(11,183,230)	(6,891,664)
Change in non-cash operating working capital items (Note 13 (a))	6,505,993	(1,304,949)
	(4,677,237)	(8,196,613)
INVESTING ACTIVITY		
Property, plant and equipment additions	(25,521,890)	(18,586,968)
FINANCING ACTIVITIES		
Issuance of common shares net of \$nil issue costs (2006 - \$167,306)	9,071,524	14,606,765
Proceeds from the private placement offering comprising the 12% senior unsecured promissory notes and share purchase warrants, net of issue costs of \$550,143 (2006 - \$1,192,006) (Note 8)	18,118,764	24,743,540
	27,190,288	39,350,305
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		
ON CASH AND CASH EQUIVALENTS	2,084,761	(104,802)
NET (DECREASE) INCREASE IN CASH FOR THE YEAR	(924,078)	12,461,922
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,876,503	15,414,581
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 26,952,425	\$ 27,876,503
CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING:		
Cash at bank	\$ 9,896,230	\$ 27,841,963
Bank term deposits	17,056,195	34,540
	\$ 26,952,425	\$ 27,876,503

Supplemental Cash Flow Information (Note 13 (b))

See accompanying notes to the consolidated financial statements

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006
(Stated in U.S. dollars, except as otherwise noted)

1. NATURE OF OPERATIONS

Jinshan Gold Mines Inc. together with its subsidiaries and joint ventures (individually and collectively referred to as the “Company”) is a pre-commercial production stage company engaged in the acquisition, exploration, and development of mineral properties in the People’s Republic of China (“China”) and, accordingly, has not yet recorded any revenue.

The Company’s ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to develop properties, including sustaining capital for its Chang Shan Hao Gold Mine (“CSH Gold Mine”), and to establish future profitable production. The Company may not have sufficient cash to fund the exploration and development of its mineral properties to commercial production and, therefore, may require additional funding, which if not raised, may result in the curtailment of operations. Management is of the opinion that additional financing will be available to continue its planned activities in the normal course. There can, however, be no assurance that the Company will be able to raise sufficient funds in the future to complete its planned activities.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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 through 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, 2007 or 2006.

(b) Measurement uncertainties

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 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, and the computation of stock-based compensation.

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006
(Stated in U.S. dollars, except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currencies

The Company's functional currency is the U.S. dollar since it is the currency in which expenditures are incurred. Accordingly, monetary assets and liabilities of the Company and its subsidiaries 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 short-term liquid investments with terms to maturity, at the date of acquisition, not exceeding ninety days.

(e) 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 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.

The Company started up gold production in July 2007, and its gold mine is in the pre-commercial production stage as of December 31, 2007. Accordingly, proceeds from the sale of gold produced have been offset against mine development costs. Commercial production is deemed to have commenced when management determines that operational commissioning of major mine and plant components are completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be sustained. The Company determines commencement of commercial production based on the following factors which indicate that planned principal operations have commenced. These would include one or more of the following:

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

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

(f) Asset retirement obligation

The Company recognizes liabilities for statutory, contractual or legal obligations, including those associated with the reclamation 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 recognized at 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 is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. 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.

(g) Mineral properties

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 which projects that are actively being prepared for production. Interest capitalization ceases after commencement of commercial production.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds its fair value.

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.

(h) 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.
Notes to the Consolidated Financial Statements
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(Stated in U.S. dollars, except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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 on a regular basis and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

(j) Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted per share amounts reflect the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the “treasury stock method” is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2007 and 2006, all of the outstanding stock options and warrants were antidilutive.

(k) Recent accounting pronouncements

In March 2007, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. The CICA also issued Section 3863 – Financial Instruments – Presentation, to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows. Sections 3862 and 3863 apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007, and are not expected to have a material impact on the Company’s financial condition, operating results, or disclosures.

In June 2007, the CICA issued Section 3031 – Inventories, to replace Section 3030 – Inventories. Section 3031 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Section 3031 establishes standards for the measurement and disclosure of inventories. It provides the Canadian equivalent to International Accounting Standard IAS 2 – Inventories. The main features of Section 3031 are:

- measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory;
- cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of their individual costs;
- consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories; and
- reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.

The Company does not expect the adoption of Section 3031 on January 1, 2008, to have a material impact on its financial condition or operating results.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Recent accounting pronouncements (continued)

In December 2006, the CICA issued Section 1535 – Capital Disclosures, which is effective for interim and annual financial statements beginning on or after October 1, 2007. This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Company will be required to disclose the following, based on the information provided internally to the Company's key management personnel:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The Company does not expect the adoption of Section 1535 on January 1, 2008, to have a material impact on its financial condition or operating results.

The CICA amended section 1400 – General Standards of Financial Statement Presentation to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The amendment applies to interim and annual financial statements on or after January 1, 2008, and is not expected to have a material impact on the Company's financial condition or operating results.

3. CHANGES IN ACCOUNTING POLICIES

The Company adopted the provisions in Sections 3251 – Equity, 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, 3865 – Hedges and 1530 – Comprehensive Income, on January 1, 2007, which address the classification, recognition and measurement of financial instruments in the financial statements and the inclusion of other income.

The Company classifies its financial assets in the following categories: held-to-maturity, held-for-trading, loans and receivables and available-for-sale. The Company classifies its financial liabilities in the following categories: held-for-trading and other. Held-for-trading is the required designation for all derivative financial instruments not included in a hedging relationship. The Company has not designated any other financial assets or liabilities as held-for-trading. Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available-for-sale financial assets include financial assets that are quoted in an active market.

As a result of adopting these new standards, 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.

As a result of the adoption of these new standards, the Company has classified the notes payable as other liabilities, which were initially measured at fair value and carried at their amortized cost. Under Section 3855, 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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(Stated in U.S. dollars, except as otherwise noted)

4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consist of cash in bank and bank short-term deposits with terms of maturity, at the date of acquisition, not exceeding ninety days. The Company does not have any asset backed commercial paper in its bank term deposits.

	<u>2007</u>	<u>2006</u>
Cash in bank	\$ 9,896,230	\$ 27,841,963
Bank short-term deposits	17,056,195	34,540
	<u>\$ 26,952,425</u>	<u>\$ 27,876,503</u>

5. PREPAID EXPENSES AND DEPOSITS

	<u>2007</u>	<u>2006</u>
CSH Gold Mine construction deposits	\$ 1,228,902	\$ 1,358,855
Deposits for spare parts	-	104,376
Insurance	402,091	108,287
Rent deposits	264,385	340,698
Other	106,602	104,867
	<u>\$ 2,001,980</u>	<u>\$ 2,017,083</u>

6. INVENTORY

Inventory consists of consumables and spare parts, and is valued at the lower of cost or net realizable value.

	<u>2007</u>	<u>2006</u>
Consumables	\$ 429,277	\$ -
Spare parts	5,332	-
	<u>\$ 434,609</u>	<u>\$ -</u>

JINSHAN GOLD MINES INC.

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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

7. PROPERTY, PLANT AND EQUIPMENT

	2007		
	Cost	Accumulated Amortization	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
	\$ 59,113,438	\$ 1,385,978	\$ 57,727,460

	2006		
	Cost	Accumulated Amortization	Net Book Value
Motor vehicles	\$ 274,330	\$ 83,981	\$ 190,349
Machinery and Equipment	165,502	46,213	119,289
Furniture and Office Equipment	441,908	200,143	241,765
Buildings	56,308	704	55,604
Capital works in progress	14,749,310	-	14,749,310
Mineral properties and deferred development	5,327,531	-	5,327,531
	\$ 21,014,889	\$ 331,041	\$ 20,683,848

Capital works in progress in 2007 consist of a building under construction and in 2006 consisted primarily of the modular process plant, pregnant solution and overflow ponds, heap leach pad, buildings, and associated infrastructure for the CSH Gold Mine.

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
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7. PROPERTY, PLANT AND EQUIPMENT (Continued)

Mineral properties and deferred development consist of development costs capitalized for the CSH Gold Mine commencing on May 1, 2006, as the Company determined in the final feasibility study that the CSH Gold Mine has economically recoverable reserves. Development costs capitalized primarily consist of fees paid to consulting engineers, interest on the 12% senior unsecured notes payable issued in December 2006 (\$4,338,310 on a cumulative basis, net of related interest income), asset retirement obligation amounts, and other pre-commercial production costs. Net proceeds of \$14,269,641 received from the sale of pre-commercial gold production during the year ended December 31, 2007, have been credited to development costs.

During the year ended December 31, 2007, \$4,179,950 (2006 - \$158,360) of interest (including \$1,332,097 of accretion on the 12% senior unsecured promissory notes) was 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 (“km²”) in the western part of Inner Mongolia, northern China. It is centrally positioned within the east-west-trending TianShan 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, 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 is 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, 2007.

	Cumulative Balance December 31, 2006	Additions During the Year	Cumulative Balance December 31, 2007
Exploration	\$ 5,840,503	1,189,371	\$ 7,029,874
Mineral properties and deferred development	\$ 5,327,531	22,996,485	\$ 28,324,016
Capital expenditures	\$ 14,749,310	16,040,112	\$ 30,789,422

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7. PROPERTY, PLANT AND EQUIPMENT (Continued)

Mineral property interests (continued)

(b) Dadiangou Gold Project

The Dadiangou project consists of a licensed area of 15 km² 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 a Chinese partner 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 (all of which have been incurred), and making payments to the Chinese partner of approximately \$1,426,000 (of which \$125,000 was paid as of December 31, 2007) over the first three years of exploration commencing on September 19, 2006. The Company can increase its interest to 80% by incurring additional exploration expenditures of approximately \$2,700,000 and by making additional payments to the Chinese partner of approximately \$342,000. The Chinese partner can then choose to participate at a 20% level for all future expenditures, or have their ownership interest diluted. 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 the Chinese partner \$150,000 pursuant to an additional agreement entered into on July 11, 2006. The amounts in the joint venture agreement are denominated in Chinese Renminbi ("RMB") and a rate of 7.30 RMB per U.S. dollar was used to convert the RMB amounts to U.S. dollars.

The following table shows the cumulative expenditures made as of December 31, 2007.

	Cumulative Balance December 31, 2006	Additions During the Year	Cumulative Balance December 31, 2007
Exploration	\$ 699,488	3,126,418	\$ 3,825,906

(c) Xinjiang Projects

The Company currently holds 12 exploration permits covering 443 km² 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% share and the partner, Yunnan Geological and Mining Co. Ltd., holds a 1% share. The permits were granted between February 2006 and December 2006, by the Ministry of Land and Resources in Beijing.

The following table shows the cumulative expenditures made as of December 31, 2007.

	Cumulative Balance December 31, 2006	Additions During the Year	Cumulative Balance December 31, 2007
Exploration	\$ 1,634,472	1,427,775	\$ 3,062,247

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8. 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 the notes payable, December 31, 2005	\$ -	\$ -	\$ -	\$ -
Total proceeds	25,935,546	-	-	25,935,546
Less: fair value of warrants	<u>(3,343,357)</u>	-	-	<u>(3,343,357)</u>
Fair value of the Notes	22,592,189	-	-	22,592,189
Less: transaction costs for the Notes	(1,038,638)	-	-	(1,038,638)
Accretion to December 31, 2006	51,344	-	-	51,344
Balances of the 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	-	<u>(1,500,777)</u>	<u>(900,466)</u>	<u>(2,401,243)</u>
Fair value of the notes payable	<u>21,604,895</u>	<u>10,167,290</u>	<u>6,100,374</u>	<u>37,872,559</u>
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 the notes payable, December 31, 2007	\$ 26,708,698	\$ 10,819,046	\$ 6,739,279	\$ 44,267,023

- (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. Accrued interest payable of \$900,000 is included in the Company’s consolidated balance sheet as of December 31, 2007, and was paid in January 2008. The Company can elect to prepay the Notes 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 expire 24 months from the issue date. The Company has 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.
- (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, 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. Accrued interest payable of \$600,000 is included in the Company’s consolidated balance sheet as of December 31, 2007, and was paid in January 2008. The Company can elect 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 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

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
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(Stated in U.S. dollars, except as otherwise noted)

8. NOTES PAYABLE (Continued)

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 24 months from the issue date. The Company has 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 \$4.25 for 20 consecutive trading days.

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.

9. 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 obligations relate to reclamation and closure costs relating to the Company's mine operations at the CSH Gold Mine. The asset retirement obligations are calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total \$7,891,000 and are required to satisfy the obligations, discounted using a credit adjusted risk-free rate of 8%. The settlement of the obligations will occur through to 2017.

The following is an analysis of the asset retirement obligation.

Balance, December 31, 2006	\$ -
Additions to site reclamation during the year	4,305,474
Accretion incurred in current year	154,549
Balance, December 31, 2007	<u>\$ 4,460,023</u>

JINSHAN GOLD MINES INC.
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10. SHARE CAPITAL

(a) Common shares

On August 31, 2006, the Company completed a non-brokered private placement of 8,000,000 units at a price of CDN \$1.20 per unit for total proceeds of \$8,641,378 (CDN \$9,600,000) net of \$167,306 share issue costs. Each unit consisted of one common share and one-half of a share purchase warrant. Each full warrant entitles the holder to purchase one common share at the exercise price of CDN \$1.45 for a period of eighteen months. The Company has allocated \$7,380,536 of the private placement offering to the common shares and \$1,260,842 to the warrants on a proportionate basis, based on their respective fair values. The fair value of the common shares was determined by the market price of the Company's common shares on the date of issue. 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%, an expected life of 18 months, an expected volatility of 82%, and a dividend yield rate of nil. The fair value of the warrants, net of \$24,411 issue costs, is included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet.

(b) Warrants

The following is a summary of warrants outstanding:

Number of warrants as at				Number of warrants as at		Exercise price (Expressed in CDN \$)	Expiry date
December 31, 2006	Issued	Exercised	Expired	December 31, 2007			
6,693,500	-	(6,693,500)	-	-	0.70	June 20, 2007	
519,040	-	(519,040)	-	-	0.60	June 20, 2007	
4,000,000	-	(984,833)	-	3,015,167 (1)	1.45	February 28, 2008	
6,000,000	-	(1,298,000)	-	4,702,000	1.60	December 14, 2008	
-	2,500,000	-	-	2,500,000	2.50	June 26, 2009	
-	1,500,000 (2)	-	-	1,500,000	2.50	June 26, 2009	
<u>17,212,540</u>	<u>4,000,000</u>	<u>(9,495,373)</u>	<u>-</u>	<u>11,717,167</u>			

(1) All of these warrants were exercised by February 28, 2008

(2) Held by Ivanhoe Mines

Number of warrants as at				Number of warrants as at		Exercise price (Expressed in CDN \$)	Expiry date
December 31, 2005	Issued	Exercised	Expired	December 31, 2006			
5,100,000 (1) (2)	-	-	(5,100,000)	-	1.15	July 2, 2006	
2,000,000 (1) (3)	-	-	(2,000,000)	-	1.20	October 10, 2006	
15,000,000	-	(8,306,500)	-	6,693,500	0.70	June 20, 2007	
1,800,000	-	(1,280,960)	-	519,040	0.60	June 20, 2007	
-	4,000,000	-	-	4,000,000	1.45	February 28, 2008	
-	6,000,000	-	-	6,000,000	1.60	December 14, 2008	
<u>23,900,000</u>	<u>10,000,000</u>	<u>(9,587,460)</u>	<u>(7,100,000)</u>	<u>17,212,540</u>			

(1) Held by Ivanhoe Mines

(2) The warrants' original expiration date of July 2, 2004, was extended to July 2, 2006

(3) The warrants' original expiration date of October 10, 2004, was extended to October 10, 2006, and the exercise price amended from CDN \$1.10 to CDN \$1.20

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
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10. SHARE CAPITAL (Continued)

(c) Stock options

The Company has a stock option plan which permits the Board of Directors of the Company to grant options, which vest over a period of years, 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. 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, 2007, there were 6,629,607 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, 2007:

	<u>2007</u>		<u>2006</u>	
	Number of Options	Weighted- average Exercise Price (Expressed in CDN \$)	Number of Options	Weighted- average Exercise Price (Expressed in CDN \$)
Balance, beginning of year	7,412,140	\$ 1.21	4,941,067	\$ 1.18
Options granted	3,593,000	2.18	3,390,000	1.09
Options exercised	(1,707,102)	0.78	(665,593)	0.62
Options forfeited	(271,503)	1.22	(253,334)	0.51
Balance, end of year	9,026,535	\$ 1.80	7,412,140	\$ 1.21

JINSHAN GOLD MINES INC.
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10. SHARE CAPITAL (Continued)

(c) Stock options (continued)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2007:

Options Outstanding		Options Exercisable	
Number		Number	Exercise Price
Outstanding at		Exercisable at	(Expressed
December 31,		December 31,	in CDN \$)
2007	Expiry Date	2007	
60,000	17-Feb-08	60,000	\$ 1.16
177,500	8-May-08	177,500	\$ 0.80
679,000	6-Aug-08	679,000	\$ 0.73
75,000	18-Nov-08	75,000	\$ 3.60
133,335	22-Nov-08	133,335	\$ 0.50
641,732	24-Nov-08	641,732	\$ 0.50
150,000	1-Jan-09	83,333	\$ 0.53
13,668	13-Jan-09	335	\$ 0.63
25,000	26-Jan-09	20,000	\$ 2.36
50,000	11-Apr-09	33,333	\$ 1.18
475,000	13-Apr-09	384,800	\$ 2.00
10,000	20-May-09	8,000	\$ 1.31
200,000	17-Jul-09	60,000	\$ 1.28
150,000	14-Sep-09	100,000	\$ 1.33
163,300	1-Dec-09	113,900	\$ 0.87
50,000	7-Jul-10	50,000	\$ 0.50
281,000	17-Feb-11	177,000	\$ 0.95
1,604,000	29-Jun-11	1,044,833	\$ 1.05
500,000	11-Nov-11	333,333	\$ 1.29
185,000	12-Jan-12	37,000	\$ 1.62
125,000	13-Mar-12	30,000	\$ 2.18
3,278,000	20-Jul-12	-	\$ 2.20
<u>9,026,535</u>		<u>4,242,435</u>	

The weighted average fair value of the stock options granted during 2007 and 2006 was \$1.35 (CDN \$1.34) and \$0.76 (CDN \$0.76), respectively. The weighted average remaining contractual life of the stock options outstanding as of December 31, 2007, is 3.07 years.

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
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(Stated in U.S. dollars, except as otherwise noted)

10. SHARE CAPITAL (Continued)

(c) Stock options (continued)

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. Compensation costs of \$4,504,749 will be recognized/expensed over the vesting periods of the options, of which \$1,035,528 was included in the net amount of \$2,127,010 recognized in the year ended December 31, 2007.

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>2007</u>	<u>2006</u>
Risk free interest rate	4.00%	4.09%
Expected life	4.6 years	3.4 years
Expected volatility	73.4%	96.0%
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 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.

11. RELATED PARTY TRANSACTIONS

- (a) The Company incurred the following expenses, on a cost recovery basis, with companies related by way of directors or shareholders in common. The salaries and benefits costs are included in exploration expense and mineral properties and deferred development cost as appropriate.

	<u>2007</u>	<u>2006</u>
Administration and office	\$ 721,166	\$ 596,581
Salaries and benefits	1,374,057	894,253
	<u>\$ 2,095,223</u>	<u>\$ 1,490,834</u>

- (b) Accounts payable as of December 31, 2007, includes \$375,409 (2006 - \$242,382), which is due to a company under common control or companies related by way of directors in common.
- (c) The Company paid \$461,712 (2006 - \$nil) interest expense for the twelve months ended December 31, 2007, to Ivanhoe Mines (see Note 8).
- (d) Prepaid expenses and deposits as of December 31, 2007, include \$227,749 (2006 - \$227,749), which is deposited with a company under common control.

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006
(Stated in U.S. dollars, except as otherwise noted)

12. INCOME TAXES

A reconciliation of the provision for (recovery of) income taxes is as follows:

	<u>2007</u>	<u>2006</u>
Net loss for the year	\$ 16,531,264	\$ 8,557,079
Statutory tax rate	34.1%	34.1%
Expected recovery of income taxes based on combined Canadian federal and provincial statutory rates	\$ 5,640,467	\$ 2,919,676
Deduct:		
Lower effective tax rate on losses in foreign jurisdictions	(63,783)	1,986,684
Change in future tax rate	(1,880,969)	-
Non-deductible expenses	(2,040,168)	(1,589,739)
Tax effect of losses not recognized	(1,655,547)	(3,316,621)
Provision for (recovery of) income taxes	\$ -	\$ -

Significant components of the Company's future income tax assets and liabilities at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Future income tax assets:		
Tax loss carry-forwards	\$ 7,874,351	\$ 6,291,380
Other tax deductions carried forward	2,896,287	3,583,020
Capital assets	-	1,835,461
Asset retirement obligation	1,218,709	-
Total future income tax assets	11,989,347	11,709,861
Future income tax liabilities:		
Asset retirement obligation	(1,174,143)	-
Capital assets	(1,005,311)	-
Total future income tax liabilities	(2,179,454)	-
	9,809,893	11,709,861
Valuation allowance	(9,809,893)	(11,709,861)
Net future income tax assets	\$ -	\$ -

At December 31, 2007, the Company and its subsidiaries have unrecognized capital and non-capital losses for income tax purposes of \$32,699,143 that may be used to offset future taxable income as follows:

		<u>Local Currency</u>	<u>U.S. Dollar Equivalent</u>	<u>Expiry Dates</u>
Non-capital losses				
Canadian	\$	14,818,010	\$ 14,996,468	2008 - 2027
Chinese Renminbi	RMB	112,107,432	15,350,874	2008 - 2012
			\$ 30,347,342	
Capital losses				
Canadian	\$	2,323,815	\$ 2,351,801	(a)

(a) These losses are carried forward indefinitely for utilization against any future net realized capital gains.

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
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(Stated in U.S. dollars, except as otherwise noted)

13. SUPPLEMENTAL CASH FLOW INFORMATION

(a)

	<u>2007</u>	<u>2006</u>
Net (increase) decrease in:		
Accounts receivable	\$ (25,459)	\$ 297,022
Prepaid expenses and deposits	15,103	(1,801,958)
Inventory	(434,609)	-
Net increase in:		
Accounts payable and accrued liabilities	6,950,958	199,987
	<u>\$ 6,505,993</u>	<u>\$ (1,304,949)</u>

(b)

	<u>2007</u>	<u>2006</u>
Transfer of contributed surplus to share capital upon exercise of stock options and warrants	\$ 1,668,019	\$ 265,155
Amounts included in accounts payable for property, plant and equipment	5,521,167	1,188,297
Accretion of notes payable	1,749,238	51,344

14. SEGMENTED INFORMATION

(a) Industry Information

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

(a) Geographic Information

	<u>China</u>	<u>Canada</u>	<u>Total</u>
As of December 31, 2007			
Property, plant and equipment	\$ 57,708,098	19,362	\$ 57,727,460
<hr/>			
As of December 31, 2006			
Property, plant and equipment	\$ 20,642,151	\$ 41,697	\$ 20,683,848
<hr/>			

JINSHAN GOLD MINES INC.
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006
(Stated in U.S. dollars, except as otherwise noted)

15. FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, accounts receivable, and accounts payable approximate their carrying values. The fair value of the notes payable, by their nature, is not readily determinable.

The Company undertakes transactions denominated in foreign currencies and as such is exposed to foreign exchange risk due to fluctuations in foreign exchange rates.

16. COMMITMENTS AND CONTINGENCIES

(a) Contractual commitments as of December 31, 2007, consist of the following:

	Total	Payments Due By Year					
		2008	2009	2010	2011	2012 Thereafter	
Principal repayment on notes payable	\$ 50,602,165	\$ -	\$ 30,361,299	\$ 20,240,866	\$ -	\$ -	\$ -
Operating leases (a)	171,722	101,329	49,852	6,847	6,847	6,847	-
Payments to joint venture partner (b)	1,643,160	534,027	561,413	-	547,720	-	-
Total	\$ 52,417,047	\$ 635,356	\$ 30,972,564	\$ 20,247,713	\$ 554,567	\$ 6,847	\$ -

(a) Operating leases are primarily for premises.

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

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 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.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2007:

- (a) 480,668 stock options were exercised at prices ranging from CDN \$0.50 to CDN \$1.28. As a result, the Company issued 480,668 common shares and received net proceeds of \$378,582 (CDN \$376,651) upon the exercise of the stock options. In addition, 3,000 stock options were cancelled.
- (b) 3,457,167 warrants were exercised at prices ranging from CDN \$1.45 to CDN \$2.50. As a result, the Company issued 3,457,167 common shares and received net proceeds of \$5,150,459 (CDN \$5,124,192) upon the exercise of warrants.
- (c) The Company signed a contract with an equipment manufacturer to purchase crusher equipment for \$15,557,383 to be delivered in late 2008. The Company established a \$15,000,000 letter of credit facility with its bank and opened a standby letter of credit of \$14,001,645 for the purchase of this crusher equipment. As security for the standby letter of credit, which expires on January 15, 2009, the Company has placed \$14,001,645 as restricted cash with its bank.

JINSHAN GOLD MINES INC.
Consolidated Schedule of Exploration Expenses
(Stated in U.S. dollars, except as otherwise noted)

	(1) Gold Mine		Generative			Year ended December 31, 2007
	CSH (217)		General	Dadiangou	Xinjiang	
	Gold					
Drilling	\$ 1,189,371	\$ -	\$ 1,496,178	\$ -	\$ -	2,685,549
Geological	-	49,532	1,034,367	704,355		1,788,254
Engineering & other	-	1,232	30,110	507,520		538,862
Project management	-	-	-	3,150		3,150
Sampling and assaying	-	10,456	10,990	118,327		139,773
General & administrative	-	3,281	97,589	46,723		147,593
Salaries & benefits	-	200,425	415,982	38,785		655,192
Travel	-	98,128	41,202	8,915		148,245
	\$ 1,189,371	\$ 363,054	\$ 3,126,418	\$ 1,427,775	\$	6,106,618
Stock-based compensation						497,397
					\$	6,604,015

(1) Commencing May 1, 2006, costs incurred for the development of the CSH (217) Gold Mine have been capitalized.
Current exploration expenses relate to the drilling campaign in the Southwest Zone.

	Gold Mine		Generative			Year ended December 31, 2006
	CSH (217)		General	Dadiangou	Xinjiang	
	Gold					
Payments to joint venture partners	\$ -	\$ -	\$ 150,000	\$ -	\$ -	150,000
Geological	164,284	115,171	330,355	772,532		1,382,342
Engineering & other	1,309,915	10,558	3,188	2,217		1,325,878
Project management	181,103	14,647	-	2,700		198,450
Sampling and assaying	106,763	2,673	-	14,725		124,161
General & administrative	19,342	27,408	3,991	31,162		81,903
Salaries & benefits	180,101	119,877	9,194	63,487		372,659
Travel	163,029	39,872	10,451	51,689		265,041
	\$ 2,124,537	\$ 330,206	\$ 507,179	\$ 938,512	\$	3,900,434
Stock-based compensation						357,427
					\$	4,257,861



JINSHAN GOLD MINES INC.

**Management's Discussion and Analysis of Financial Condition
and Results of Operations
December 31, 2007**

(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, 2007

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

The following management's discussion and analysis of financial condition and results of operations ("MD&A") was prepared as of March 14, 2008, 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, 2007. 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 mineral company that is currently engaged in the acquisition, exploration, and development 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 from the property in July 2007, and it is currently in the pre-commercial production stage.

The Company's other properties include the Dadiangou project in Gansu Province, where the Company has completed a total of 11,865 metres drilled in 51 diamond drill holes, and has completed an initial estimate of inferred resources. The Company also holds 12 exploration permits in the Eastern Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China, where the Company is conducting early stage reconnaissance exploration, including geophysical surveys, geological mapping, and geochemical sampling.

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

Highlights For 2007

- Jinshan completed the construction of all infrastructure necessary to start production at the CSH Gold Mine.
- In July 2007, Jinshan initiated pre-commercial gold production.
- As of December 31, 2007, pre-commercial production reached 21,995 ounces of gold and 8,421 ounces of silver.
- As of December 31, 2007, Jinshan received net proceeds of \$14.3 million from the sale of pre-commercial gold and silver production.
- Jinshan completed Phases I and II drilling at the Dadiangou project and in February 2008, issued the first National Instrument 43-101 compliant resource estimate of 26.3 million tonnes grading 0.92 grams per tonne ("g/t") gold, totaling 778,000 ounces of inferred gold resources.
- On June 26, 2007, the Company concluded an \$18.7 million (CDN \$20 million) private placement offering consisting of senior unsecured promissory notes ("June 07 Notes") and 4,000,000 warrants.
- The net loss for 2007 was \$16.5 million compared to \$8.6 million for 2006.
- The cash balance as of December 31, 2007, was \$27 million compared to \$28 million in 2006.
- Working capital as of December 31, 2007, was \$14.7 million compared to \$27.6 million in 2006.
- Net cash outflows from operations were \$11.2 million for 2007 compared to \$6.9 million for 2006.
- Property, plant and equipment cash expenditures for 2007 were \$25.5 million compared to \$18.6 million for 2006.

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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, 2007.

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.

The Company reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

The Company is required to undertake reclamation activities based on the Company's interpretation of current applicable environmental laws and regulatory requirements. The estimated costs of these reclamation activities depend on labour 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.

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.

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.

Included in the Company's balance sheet are the fair values of the 12% senior unsecured promissory notes ("Notes") and warrants. The fair value of the 12% senior unsecured promissory notes was 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 12% senior unsecured promissory notes or the warrants at the date of the issue or thereafter.

There have been no changes made to the Company's critical accounting estimates for the two year period ended December 31, 2007.

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Recent Accounting Pronouncements

In March 2007, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3862 – Financial Instruments – Disclosures, which replaces Section 3861 and provides expanded disclosure requirements that provide additional detail by financial asset and liability categories. The CICA also issued Section 3863 – Financial Instruments – Presentation, to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. Sections 3862 and 3863 apply to interim and annual financial statements for fiscal years beginning on or after October 1, 2007, and are not expected to have a material impact on the Company's financial condition, operating results, or disclosures.

In June 2007, the CICA issued Section 3031 – Inventories, to replace the Section 3030 – Inventories. Section 3031 applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. Section 3031 establishes standards for the measurement and disclosure of inventories. It provides the Canadian equivalent to International Accounting Standard IAS 2 – Inventories. The main features of Section 3031 are:

- measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost, including allocation of overheads and other costs to inventory;
- cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, assigned by using a specific identification of their individual costs;
- consistent use (by type of inventory with similar nature and use) of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories; and
- reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.

The Company does not expect the adoption of Section 3031 on January 1, 2008, to have a material impact on its financial condition or operating results.

In December 2006, the CICA issued Section 1535 – Capital Disclosures, which is effective for interim and annual financial statements beginning on or after October 1, 2007. This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Company will be required to disclose the following, based on the information provided internally to the Company's key management personnel:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and
- when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

The Company does not expect the adoption of Section 1535 on January 1, 2008, to have a material impact on its financial condition or operating results.

The CICA amended section 1400 – General Standards of Financial Statement Presentation to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The amendment applies to interim and annual financial statements on or after January 1, 2008, and is not expected to have a material impact on the Company's financial condition or operating results.

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Changes in Accounting Policies

The Company adopted the provisions in Sections 3251 – Equity, 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation, 3865 – Hedges and 1530 – Comprehensive Income, on January 1, 2007, which address the classification, recognition and measurement of financial instruments in the financial statements and the inclusion of other income.

The Company classifies its financial assets in the following categories: held-to-maturity, held-for-trading, loans and receivables and available-for-sale. The Company classifies its financial liabilities in the following categories: held-for-trading and other. Held-for-trading is the required designation for all derivative financial instruments not included in a hedging relationship. The Company has not designated any other financial assets or liabilities as held-for-trading. Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Available-for-sale financial assets include financial assets that are quoted in an active market.

As a result of adopting these new standards, 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.

As a result of the adoption of these new standards, the Company has classified the notes payable as other liabilities, which were initially measured at fair value and carried at their amortized cost. Under Section 3855, 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.

Forward Looking Statements

Certain statements made herein, other than statements of historical fact relating to the Company, are forward-looking statements. These include, but are not limited to, statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects, the actual nature and scope of any financing transactions, the expected timing and success for receipt of required government approvals, the timing of commercial production, anticipated future production rates at the CSH Gold Mine and efforts being implemented to improve recovery and production rates, the results of the expansion study and a decision on whether to pursue the expansion, anticipated production and capital costs, the timing and scope of exploration activities and other statements that are not historical facts. When used in this MD&A, the words such as, “could,” “plan,” “estimate,” “expect,” “intend,” “may,” “potential,” “should,” and similar expressions, are forward-looking statements. Although the Company believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ from these forward looking statements include those described under the heading “Risk Factors” included elsewhere in this MD&A and in the Company’s Annual Information Form. The reader is cautioned not to place undue reliance on forward-looking statements.

This MD&A also contains references to estimates of mineral resources. The estimation of 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. There can be no assurance that these estimates will be accurate or that such mineral resources can be mined or processed profitably. Mineral resources that are not mineral reserves do not have demonstrated economic viability. The Company does not assume the obligation to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

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Development and Exploration Properties

a) CSH Gold Mine

Property description - The CSH Gold Mine consists of a licensed area of 36 square kilometres ("km²") in the western part of Inner Mongolia, northern China. It is centrally positioned within the east-west-trending TianShan 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, the 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 Chinese partner is also entitled to receive from the Company two \$1 million 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, 2007.

	Cumulative Balance December 31, 2006	Additions During the Year	Cumulative Balance December 31, 2007
Exploration	\$ 5,840,503	1,189,371	\$ 7,029,874
Mineral properties and deferred development	\$ 5,327,531	22,996,485	\$ 28,324,016
Capital expenditures	\$ 14,749,310	16,040,112	\$ 30,789,422

Feasibility Study and Resource estimate – Since the release of the Company's feasibility study in April 2006, the Company has announced updated resource estimates and has started up pre-commercial gold production. The Company also expects to issue a new expansion feasibility study by the end of the first quarter of 2008. Accordingly, the estimates contained in the April 2006 feasibility study discussion below do not necessarily reflect current conditions and those estimates are expected to change.

In February 2008, Jinshan announced results of a new National Instrument 43-101 compliant resource estimate at its CSH Gold Mine. Measured and Indicated Resources, at a 0.35 g/t cut-off grade, are now 43.4 and 127.9 million tonnes, respectively, at an average 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. The resource estimate was prepared by Mario Rossi, M.Sc., Min.Eng., of Geosystems International Inc. and relies on all previous data and the 11,432 metres of drilling completed in 2007. In total, 35,510 metres of drilling in 162 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.

In May 2007, the Company announced the commencement of an engineering study to expand the designed gold production of the CSH Gold Mine from 117,000 ounces per year to approximately 150,000 – 180,000 ounces per year. The expansion feasibility study, being prepared principally by KD Engineering Inc., is designed to incorporate the mining of measured and indicated resources in the Southwest Zone. The expansion feasibility study will examine the increase in mine and plant capacity from 20,000 tonnes per day to 30,000 tonnes per day. In particular, the study will examine the increase of capacity for the process plant and crushing facilities, and other infrastructure upgrades such as power and water. The additional mine capacity will be subject to further regulatory approvals. A decision on expansion is expected to occur in 2008 following review and analysis of the expansion study and in the context of prevailing market and operating conditions.

In April 2006, the Company released the results of a feasibility study that included results from Jinshan's 2005 infill drilling campaign. Total proven and probable open-pit reserves were estimated to be 66.7 million tonnes for the Northeast Zone, with a grade of 0.75 g/t gold, containing approximately 1.6 million ounces of proven and probable reserves.

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During the life of the mine, the April 2006 feasibility study indicated that approximately 66.7 million tonnes of ore will be placed upon the heap for processing. Approximately 71.3 million tonnes of waste rock will be placed upon waste dumps. The overall strip ratio was 1 (ore) to 1.07 (waste rock).

Development activities – As the Company is currently preparing a new expansion feasibility study, the estimates contained in the April 2006 feasibility study regarding the inputs used to determine capital construction and cost of production are expected to change. These changes are due to the change in magnitude, scope and timing of construction and mining activities. The Company is currently mining run-of-mine ore and a three-stage crushing plant is being built to process primarily sulphide ore beginning in 2009 through to the end of the mine life. As of December 31, 2007, the Company has spent \$30.8 million on capital costs.

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.

The Company has completed substantially all infrastructure necessary for gold production and the Company has a full complement of mining personnel for operating the mine. Open pit mining is performed by a third party mining contractor and the first ore mined was trucked and placed on the leach pad in April 2007. As of February 2008, 5,137,000 tonnes of ore with an average grade of 0.68 g/t were placed on the heap leach pad. The Company estimates that it has approximately 56,500 ounces of recoverable gold in the leach circuit as of February 29, 2008.

Gold production continues at the CSH Gold Mine with a total production of 29,900 gold ounces since startup in July 2007 to the end of February 2008. Gold sales have totaled \$22.3 million for an average unhedged price of \$798 per ounce over this period. Jinshan's most recent shipment of gold was sold at approximately \$934 per ounce.

The mine is currently performing at about 50% of its design capacity with leaching slowed during startup and through the first winter of operation. In future years, as the volume of ore on the leach pad will be substantially increased, it is expected that solution temperature, volume and pregnant grade will be easier to maintain, resulting in improved performance.

The mine continues to work through startup toward commercial production, expected later this year, by optimizing the leach circuit. Improvements are currently underway to:

- better insulate header piping for solution flow in cold weather;
- increase volume of solution flow by increasing the area under leach;
- improve the quality of carbon, and optimize carbon handling technique;
- identify and potentially eliminate any sources of preg-robbing material; and
- stabilize pH of solutions.

The Company is currently in the pre-commercial production stage. Commercial production is deemed to have commenced when management determines that operational commissioning of major mine and plant components are completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be sustained. The Company determines commencement of commercial production based on the following factors which indicate that planned principal operations have commenced. These would include one or more of the following:

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

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Exploration activities – Exploration and drilling will continue at the CSH Gold Mine during the 2008 field season. The first priority for exploration is to convert inferred resources to the measured and indicated category with additional infill drilling at the Northeast and Southwest Zones. The second priority will be to drill several gold anomalies and carry out trenching along the 9 km surface strike extension of prospective stratigraphy that was defined by grid rock sampling during the 2007 field season.

b) Dadiangou Project

Property description – The Dadiangou project consists of a licensed area of 15 km² 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 a Chinese partner 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 (all of which have been incurred) and making payments to the Chinese partner of approximately \$1.4 million (of which \$125,000 has been paid) over the first three years of exploration commencing on September 19, 2006. The Company can increase its interest to 80% by incurring additional exploration expenditures of approximately \$2.7 million and by making additional payments to the Chinese partner of approximately \$342,000. The Chinese partner 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 7.30 RMB per U.S. dollar was used to convert the RMB amounts to U.S. dollars.

The following table shows the cumulative expenditures made as of December 31, 2007.

	Cumulative Balance December 31, 2006	Additions During the Year	Cumulative Balance December 31, 2007
Exploration	\$ 699,488	3,126,418	\$ 3,825,906

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 the Chinese partner \$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 and Phase II drill programs for a total of 11,865 metres drilled in 51 diamond drill holes. In addition to drilling, the Company has completed surface mapping, trenching, soil sampling, and underground channel sampling programs. A camp has been established on site and approximately 15 km of road into the site has been rehabilitated.

Exploration results – The Dadiangou project hosts multiple gold-bearing shear zones up to 80 metres wide over a strike length estimated to be 3,000 metres. Gold mineralization occurs within the shear zones associated with quartz and sulphide minerals (predominantly pyrite). Phase I drilling tested the Dadiangou Main Shear Zone (“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 three quarters of its central length.

Phase II drilling has generally returned grades and widths consistent with expectations based on Phase I drilling. The most westerly hole drilled to date, 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.

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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. Further exploration efforts targeting additional resources at Dadiangou and possible infill drilling of the present resource are currently being assessed, and Jinshan now plans to begin gathering the information needed for a preliminary economic assessment at Dadiangou.

c) Xinjiang Projects

The Company currently holds 12 exploration permits covering 443 km² 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 January 2006 and February 2007 by the MOLAR in Beijing and/or the Xinjiang Bureau of Land and Resources. Four of the initial permits had expiration dates in late 2007, and accordingly the Company has filed application to renew the exploration permits. At the present time the Company is awaiting approval for these renewals.

Field programs commenced in early March 2006 and by the end of 2006, the Company had completed an initial phase of geological mapping, sampling and prospecting on six permits. More than 4,000 rock chip, stream sediment, and soil samples were collected during the course of exploration and submitted to SGS Laboratories in Tianjin, China for gold fire assay and multi-element geochemical analyses. In addition, approximately 150 km² have been covered with ground magnetic geophysical surveys.

Fieldwork during the 2007 season has been confined to the Changsheng A and Xingou A+B+C+D properties. At Changsheng A, a geologic mapping, 300m by 20m grid rock chip sampling, and trenching program was completed in late August 2007. A total of 999 rock chip samples were collected during the course of exploration and submitted to SGS laboratories in Tianjin, China for gold fire assay and multi-element geochemical analyses. Results of this work are being evaluated over the winter season and follow-up programs will be planned accordingly. At Xingou A+B+C+D, a large-scale stream sediment sampling program was completed in mid-September 2007. A total of 449 stream sediments samples were collected during the course of exploration and submitted to SGS laboratories in Tianjin, China for gold fire assay and multi-element geochemical analyses. Stream sediments sampling resulted in numerous gold anomalies that are currently being followed up by field crews. In addition to the permit-specific work, the Company continues to evaluate new opportunities in the Xinjiang region.

The following table shows the cumulative expenditures made as of December 31, 2007.

	Cumulative Balance December 31, 2006	Additions During the Year	Cumulative Balance December 31, 2007
Exploration	\$ 1,634,472	1,427,775	\$ 3,062,247

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Generative Activities

The Company continues on a concerted program to acquire prospective exploration properties and to identify potential acquisitions in China as part of a strategy to expand its project portfolio. The Company has a strong technical exploration team working in China which is exploring for gold in specifically targeted areas of the country. 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.

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Results of Operations

Overview

The Company started up gold production in July 2007 and is in the pre-commercial production stage. Accordingly, the company did not record any revenue and the financial results are not fully comparable to prior years due to potential significant changes to the nature of the Company's activities.

For each of the years ended December 31, 2007, 2006 and 2005, the Company had no net sales or other operating revenues, and no dividends were declared.

(\$ in thousands, except per share information)	Years ended December 31,		
	2007	2006	2005
Exploration expenses	\$ 6,604	\$ 4,258	\$ 4,290
Net loss	16,531	8,557	6,214
Basic loss per share	0.11	0.06	0.12
Cash and cash equivalents	26,952	27,877	15,415
Total assets	87,465	50,873	17,118
Total long-term liabilities	48,727	21,605	-

For each of the three years 2007, 2006 and 2005, exploration expenditures were the major component of the annual net loss. Exploration expenditures increased significantly during 2007, particularly for the Dadiangou project. Foreign exchange loss for 2007 was \$3.3 million, primarily due to the conversion of the notes payable from Canadian dollars to U.S. dollars. Interest expense increased due to the issuance of the \$18.7 million 12% promissory notes in June 2007. Stock-based compensation charged to exploration activities in 2007 and 2006 was \$497,000 and \$357,000, respectively. The recognition of stock based-compensation, particularly that which is related to stock options issued to non-employee contractors, can be volatile on a year over year basis as the fair value of each option granted must be recalculated on periodic vesting and financial reporting dates. Salaries and benefits have increased significantly in 2007 due to the addition of full time employees as the Company moves towards having the CSH Gold project start commercial production.

As of December, 31 2007, long term assets primarily consisted of mine construction and development costs on the CSH Gold project, and accounted for \$56.7 million of the total asset amount. During 2007, the Company issued \$18.7 million of 12% senior unsecured promissory notes and warrants, which accounted for the increase in total long-term liabilities at the end of 2007.

Sale proceeds, net of refining charges, currently received from the sale of pre-commercial gold production are credited to deferred development costs. The Company has a contract for the purchase and sale of gold and silver with a 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 RMB and sale proceeds are received by the Company in RMB.

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The statements of operations for the years ended December 31, 2007, and 2006 are provided in the following table:

	2007	2006	Increase (Decrease)
Expenses			
Administration and office	\$ 1,003,393	\$ 1,050,448	\$ (47,055)
Amortization	45,612	61,462	(15,850)
Exploration expenses	6,604,015	4,257,861	2,346,154
Investor relations	325,392	298,612	26,780
Professional fees	654,103	443,636	210,467
Salaries and benefits	1,073,673	632,170	441,503
Shareholder information, transfer agent and filing fees	211,023	222,921	(11,898)
Stock-based compensation	1,629,613	1,165,222	464,391
Travel	404,210	302,999	101,211
	11,951,034	8,435,331	3,515,703
Other (Expenses) Income			
Foreign exchange loss	(3,319,847)	(84,874)	3,234,973
Interest income	439,032	247,976	191,056
Interest on notes payable	(1,688,442)	-	1,688,442
Other interest and financing expense	(10,973)	(284,850)	(273,877)
	(4,580,230)	(121,748)	(4,458,482)
Net Loss	\$ (16,531,264)	\$ (8,557,079)	\$ 7,974,185

Year ended December 31, 2007 and 2006

The Company incurred a net loss of \$16.5 million for the year ended December 31, 2007, compared to a net loss of \$8.6 million in 2006. The increase of \$7.9 million from 2006 to 2007 is primarily due to the increases in foreign exchange loss, exploration expenses, interest on notes payable, salaries and benefits, stock-based compensation, and professional fees.

Foreign exchange loss for the year ended December 31, 2007, was \$3.3 million compared to a loss of \$85,000 for 2006. There was an unrealized foreign exchange loss of \$5.1 million for the year ended December 31, 2007, 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, 2007. This unrealized foreign exchange loss was partially offset by an unrealized exchange gain of \$2.1 million on Canadian dollar cash deposits. The U.S. dollar exchange rate weakened against the Canadian dollar during the year ended December 31, 2007.

Exploration expense increased by \$2.3 million for the year ended December 31, 2007, compared to 2006, primarily due to the drilling programs at the Dadiangou project and the Southwest Zone at 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. Development costs capitalized primarily consists of capitalized interest, asset retirement obligations, amounts paid to the Chinese partner, fees paid to consulting engineers, and other pre-commercial production costs. The results of the April 2006 feasibility study are discussed above under the "Development and Exploration Properties" section of this MD&A. As of December 31, 2007, \$28.3 million in development costs incurred at the CSH Gold Mine were capitalized, which include \$4.5 million of asset retirement obligations, \$4.3 million of capitalized interest (net of related interest income) on the promissory notes issued in

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December 2006 to fund the development of the CSH Gold Mine, and \$2 million for the Company's Chinese partner, of which \$1 million was paid in May 2007, and the second was paid in February 2008. As of December 31, 2007, the Company is in the pre-commercial production stage and accordingly, approximately \$14.3 million realized from the sale of gold produced has been offset against development costs.

Interest on notes payable for the year ended December 31, 2007, increased by \$1.7 million from 2006 due to the issuance of the \$18.7 million 12% promissory notes in June 2007. This was offset by an increase of \$191,000 in interest income earned on cash deposits from the proceeds of the 12% promissory notes. Other interest and financing expense for the year ended December 31, 2007, decreased by \$273,000 from 2006 due to pre-financing costs incurred in 2006.

Salaries and benefits increased by \$442,000 for the year ended December 31, 2007, compared to 2006, primarily due to the increase in full time corporate employees as the Company moves towards having the CSH Gold Mine start commercial production.

Stock-based compensation increased by \$464,000 for the year ended December 31, 2007, compared to 2006, primarily due to the increase in the number of stock options granted during the period and the higher weighted average fair value on the stock option grant date.

Professional fees increased by \$210,000 for the year ended December 31, 2007, compared to 2006, primarily due to increased fees and costs incurred as the Company sought an equity offering to finance its development and exploration activities. The Company also incurred fees on assistance with various tax matters.

Travel expenses for administrative personnel increased by \$101,000 for the year ended December 31, 2007, compared to 2006, primarily due to the increased presence by senior management at the Company's project locations during the year ended December 31, 2007. Planning and administration for mine development on the CSH Gold Mine and implementation of infrastructure necessitated this increased travel from North America to China during 2007.

Investor relations costs increased by \$27,000 for the year ended December 31, 2007, compared to 2006, primarily as a result of increased participation in investor conferences and increased investor relations activities carried out by marketing and investor relations service companies.

Administration and office expenses for the year ended December 31, 2007, decreased by \$47,000 compared with 2006, primarily due to \$110,000 in one-time capital taxes and penalties that were incurred in 2006 for the late filing of the Company's 2003, 2004, and 2005 tax returns.

Shareholder information, transfer agent and filing fees decreased by \$12,000 for the year ended December 31, 2007, compared to 2006, primarily due to the Company's application in 2006 for listing on the TSX. The Company's shares began trading on the TSX on October 6, 2006.

Amortization expense decreased by \$16,000 for the year ended December 31, 2007, compared to 2006, primarily due to certain fixed assets being fully depreciated.

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.

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Selected Quarterly Data (Unaudited)

(\$ in thousands, except per share information)	2007				2006			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Exploration expenses	\$2,131	\$1,851	\$1,678	\$943	\$798	\$551	\$953	\$1,956
Net loss	4,577	5,436	4,321	2,197	2,482	2,018	1,499	2,558
Basic loss per share	0.03	0.04	0.03	0.01	0.01	0.02	0.01	0.02

Fluctuations in the quarterly net loss amounts over the two year period ended December 31, 2007, is primarily due to fluctuations in the level of exploration expenditures on a period over period basis. Exploration expenditures fluctuate on a quarterly basis due to such factors as: variations in the scheduled contributions to joint venture companies and partners; and fluctuations in the recognition of stock-based compensation charged to operations.

The statements of operations for the three months ended December 31, 2007 and 2006, are provided in the following table:

	2007	2006	Increase (Decrease)
Expenses			
Administration and office	\$ 290,770	\$ 261,482	\$ 29,288
Amortization	11,048	15,945	(4,897)
Exploration expenses	2,131,334	797,634	1,333,700
Investor relations	84,939	87,499	(2,560)
Professional fees	74,042	131,111	(57,069)
Salaries and benefits	389,013	219,836	169,177
Shareholder information, transfer agent and filing fees	53,854	26,396	27,458
Stock-based compensation	554,749	386,627	168,122
Travel	113,915	89,093	24,822
	<u>3,703,664</u>	<u>2,015,623</u>	<u>1,688,041</u>
Other (Expenses) Income			
Foreign exchange loss	(274,802)	(247,500)	27,302
Interest income	244,271	65,773	178,498
Interest on notes payable	(843,018)	-	843,018
Other interest and financing expense	-	(284,850)	(284,850)
	<u>(873,549)</u>	<u>(466,577)</u>	<u>(406,972)</u>
Net Loss	<u>\$ (4,577,213)</u>	<u>\$ (2,482,200)</u>	<u>\$ (2,095,013)</u>

Three months ended December 31, 2007 and 2006

The Company incurred a net loss of \$4.6 million for the three months ended December 31, 2007, compared to a net loss of \$2.5 million in 2006. The increase of \$2.1 million from 2006 to 2007 is primarily due to the increases in exploration expenses and interest on notes payable.

Exploration expense increased by \$1.3 million for the three months ended December 31, 2007, compared to 2006, primarily due to the drilling program at the Dadiangou project and additional drilling in the Southwest Zone at the CSH Gold Mine.

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Interest on notes payable for the three months ended December 31, 2007, increased by \$843,000 from 2006 due to the issuance of the \$18.7 million 12% promissory notes in June 2007. This was offset by an increase of \$178,000 in interest income earned on cash deposits from the proceeds of the 12% promissory notes.

Salaries and benefits increased by \$169,000 for the three months ended December 31, 2007, compared to 2006, primarily due to the increase in the addition of full time corporate employees as the Company moves towards having the CSH Gold Mine start commercial production.

Stock-based compensation increased by \$168,000 for the three months ended December 31, 2007, compared to 2006, primarily due to the increase in the number of stock options granted earlier in 2007 with a higher weighted average fair value on the stock option grant date.

Shareholder information, transfer agent and filing fees increased by \$27,000 for the three months ended December 31, 2007, compared with 2006, primarily due to transfer agent fees incurred for the 12% promissory notes.

Travel increased by \$25,000 primarily due to the increased presence by senior management at the Company's project locations during the three months ended December 31, 2007. Planning and administration for mine development on the CSH Gold Mine and implementation of infrastructure necessitated this increased travel from North America to China during 2007.

Administration and office expenses for the three months ended December 31, 2007, increased by \$29,000 compared with 2006, due to additional rent charged for increased head office space.

Amortization and investor relations costs remained relatively constant for the three months ended December 31, 2007 and 2006.

Foreign exchange loss for the three months ended December 31, 2007, was \$275,000 compared to a \$248,000 for 2006. There was an unrealized foreign exchange loss of \$206,000 for the three months ended December 31, 2007, 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, 2007. This unrealized foreign exchange loss was partially offset by an unrealized exchange gain of \$290,000 on Canadian dollar cash deposits. The U.S. dollar exchange rate weakened against the Canadian dollar during the three months ended December 31, 2007.

Professional fees decreased by \$57,000 for the three months ended December 31, 2007, compared with 2006, primarily because there were increased legal and consulting expenses in 2006.

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Liquidity and Capital Resources

The balance sheets as of December 31, 2007 and December 31, 2006, are shown in the following table:

	2007	2006
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 26,952,425	\$ 27,876,503
Accounts receivable	348,914	295,884
Prepaid expenses and deposits	2,001,980	2,017,083
Inventory	434,609	-
	29,737,928	30,189,470
PROPERTY, PLANT AND EQUIPMENT		
	57,727,460	20,683,848
	\$ 87,465,388	\$ 50,873,318
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 15,066,485	\$ 2,594,360
LONG TERM		
Notes payable	44,267,023	21,604,895
Asset retirement obligation	4,460,023	-
	48,727,046	21,604,895
SHAREHOLDERS' EQUITY		
Share capital	59,809,025	49,069,482
Contributed surplus	10,922,519	8,133,004
Accumulated other comprehensive income	460,850	460,850
Deficit	(47,520,537)	(30,989,273)
	23,671,857	26,674,063
	\$ 87,465,388	\$ 50,873,318

As of December 31, 2007, the Company had a working capital balance of \$14.7 million and cash resources of \$27 million. During the year ended December 31, 2007, net cash outflows from operations were \$11.2 million and \$25.5 million was expended on property, plant and equipment, primarily for the CSH Gold Mine. Cash inflows of \$27.2 million during the year ended December 31, 2007, included net proceeds of \$18.1 million received from the June 07 Notes and share purchase warrants, and \$9.1 million from the exercise of share purchase warrants and stock options. The net cash decrease for the year ended December 31, 2007, was \$924,000.

As of December 31, 2007, of the total \$27 million in cash and cash equivalents, the Company had approximately CDN \$21.5 million (\$21.8 million) held in Canadian funds and RMB 27.5 million (\$3.8 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 \$17.1 million in bank short-term deposits, none of which are invested in asset backed commercial paper.

In February 2008, the Company signed a contract with an equipment manufacturer to purchase crusher equipment for \$15.6 million to be delivered in late 2008. The Company established a \$15 million letter of credit facility with its bank and opened a \$14 million standby letter of credit for the purchase of this crusher equipment. As security for the standby letter of credit, which expires on January 15, 2009, the Company has placed \$14 million as restricted cash with its bank. Accordingly, the Company's current available free cash has been reduced by \$14 million from the \$27 million it had as of December 31, 2007.

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As the Company is in the pre-commercial production stage, its primary source of cash has been through 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 the development of the CSH Gold Mine and exploration expenditures.

The Company's future plans include the possible expansion of mining from 20,000 to 30,000 tonnes per day at its CSH Gold Mine. The Company expects that the expansion will require additional capital expenditure. However, the extent and timing of such capital expenditure are currently being estimated and will be finalized when the new expansion feasibility study is issued later in the first quarter of 2008. The Company is currently reviewing and evaluating financing alternatives for the expansion and if additional funding is required. The Company continues to receive proceeds from the sale of pre-commercial gold production and expects proceeds from the sale of gold when it achieves commercial production, which is expected later in 2008, to be a source of financing. There can, however, be no assurance that the Company will be able to raise sufficient funds in the future to complete its planned activities.

The following table details the Company's contractual obligations as of December 31, 2007.

	Payments Due By Year					
	Total	2008	2009	2010	2011	2012 Thereafter
Principal repayment on notes payable	\$ 50,602,165	\$ -	\$ 30,361,299	\$ 20,240,866	\$ -	\$ -
Operating leases (a)	171,722	101,329	49,852	6,847	6,847	6,847
Payments to joint venture partner (b)	1,643,160	534,027	561,413	-	547,720	-
Total	\$ 52,417,047	\$ 635,356	\$ 30,972,564	\$ 20,247,713	\$ 554,567	\$ 6,847

(a) Operating leases are primarily for premises.

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

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.

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 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. Accrued interest payable of \$900,000 is included in the Company's consolidated balance sheet as of December 31, 2007, and was paid in January 2008. The Company can elect 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 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 24 months from the issue date. The Company has 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.

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On June 26, 2007, the Company concluded an \$18.7 million (CDN \$20 million) 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, purchased \$7 million (CDN \$7.5 million) ("Note C") of the June 07 Notes and \$11.7 million (CDN \$12.5 million) ("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. Accrued interest payable of \$0.6 million is included in the Company's consolidated balance sheet as of December 31, 2007, and was paid in January 2008. The Company can elect 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 the notes issued in December 2006 ("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 24 months from the issue date. The Company has 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 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 the 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	-	<u>(1,500,777)</u>	<u>(900,466)</u>	<u>(2,401,243)</u>
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 the notes payable, December 31, 2007	\$ 26,708,698	\$ 10,819,046	\$ 6,739,279	\$ 44,267,023

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.

The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to develop properties, including sustaining capital for its CSH Gold Mine, and to establish future profitable production. The Company may not have sufficient cash to fund the exploration and development of its mineral properties to commercial production and, therefore, may require additional funding, which if not raised, may result in the curtailment of operations. Management is of the opinion that additional financing will be available to continue its planned activities in the normal course. There can, however, be no assurance that the Company will be able to raise sufficient funds in the future to complete its planned activities.

The Company expects to finance future obligations and commitments through internally generated cash flow, the exercise of options and warrants, additional equity or debt financings, or a combination thereof, all of which are subject to favorable market conditions. However, there can be no assurance that debt facilities or additional equity financings will be available or at terms that are favorable to the Company.

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Subsequent to December 31, 2007:

- a) 480,668 stock options were exercised at prices ranging from CDN \$0.50 to CDN \$1.28. As a result, the Company issued 480,668 common shares and received net proceeds of \$378,582 (CDN \$376,651) upon the exercise of the stock options. In addition, 3,000 stock options were cancelled.
- b) 3,457,167 warrants were exercised at prices ranging from CDN \$1.45 to CDN \$2.50. As a result, the Company issued 3,457,167 common shares and received net proceeds of \$5,150,459 (CDN \$5,124,192) upon the exercise of warrants.

Off-Balance Sheet Arrangements

As of December 31, 2007, the Company had no off-balance sheet arrangements. However, in February 2008, the Company established a \$15 million letter of credit facility with its bank and opened a \$14 million standby letter of credit, which expires on January 15, 2009

Related Party Transactions

The Company is a party to a shareholders' cost-sharing agreement with certain other public and private companies, including Ivanhoe Mines (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in 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 are 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 \$2.1 million (2006 - \$1.5 million) for the year ended December 31, 2007. The Company paid Ivanhoe Mines \$462,000 (2006 - \$nil) interest expense for Note C, which is held by Ivanhoe Mines, for the year ended December 31, 2007.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of March 10, 2008, 160,499,259 common shares were issued and outstanding, 8,542,867 stock purchase options had been granted and were outstanding, and 8,260,000 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 177,302,126 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. Based on this evaluation as of December 31, 2007, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), are effective to ensure that the information required to be disclosed

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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.

Internal Control over Financial Reporting

Management is also responsible for the design of the Company's internal control over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the design of the Company's internal control over financial reporting. Based on this evaluation as of December 31, 2007, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal control over financial reporting, as defined in MI 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended December 31, 2007, in accordance with Canadian generally accepted accounting principles.

There has been no change in the Company's internal control over financial reporting that occurred during the most recently completed quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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:

- *Limited operating history* – The Company has paid no dividends on its common shares since incorporation and does not anticipate doing so in the foreseeable future. To date, the Company has not received any cash flow generated from planned commercial operations. All exploration projects of the Company will need funding from the Company. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably. For example, the Company's CSH Gold Mine is currently performing at about 50% of its design capacity and while the Company continues to work through startup toward commercial production, there can be no assurance that the Company will achieve commercial production levels. While the Company may in the future generate additional working capital through the operation, development, sale or possible syndication of its properties, there is no assurance that the Company will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.
- *Servicing the Company's Debt* – The Company's ability to make payments on and to refinance its debt depends on its ability to generate cash in the future, which will be affected by the financial performance of the CSH Gold Mine and by general economic, financial, competitive, legislative, regulatory and other factors beyond the Company's control. The Company cannot assure that its business will generate sufficient cash flows from operations or that future borrowings will be available to it in amounts sufficient to enable it to service its debt at maturity or otherwise, or to fund its other liquidity needs. If the Company is unable to meet its debt obligations or to fund its other liquidity needs, the Company may need to restructure or refinance its debt. The Company's ability to refinance its debt or obtain additional financing will depend on: its financial condition at the time; restrictions in agreements governing its debt; and other factors, including financial market or industry conditions. As a result, it may be difficult for the Company to obtain financing on terms that are acceptable to it, or at all. Without this financing, the Company could be forced to sell assets under unfavorable circumstances to make up for any shortfall in its payment obligations. In addition, the Company may not be able to sell assets quickly enough or for sufficient amounts to enable it to meet its obligations.
- *The repatriation of any earnings could have adverse consequences* - 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 a 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 of 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.
- *Additional Funding Requirements* – The further development and exploration of the various mineral properties in which it holds interests, particularly the CSH Gold Mine, depends upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There can be no assurance that the Company will be successful in obtaining any required financing as and when needed. Depressed markets for precious and base metals may make it difficult, or impossible, for the Company to obtain debt financing or equity financing on favorable terms, or at all. Failure to obtain additional financing 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.
- *Risks pertaining to foreign countries* – China is, and for the foreseeable future is expected to remain, the country in which the Company concentrates most of its business activities and financial resources. In addition to interests in projects in China, the Company may enter into contractual arrangements in other

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foreign jurisdictions. The foreign legal framework for these agreements, particularly in developing countries, is often based on recent political reforms and 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 the Company's rights and obligations and those of our foreign partners. Local institutions and bureaucracies responsible for administering foreign laws may lack a proper understanding of the laws or the experience necessary to apply them in a modern business context. Foreign laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable.

- *There are title risks with respect to the Company's mineral properties* – 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. The Company has conducted an internal investigation of title to the CSH Gold Mine. Based on a review of records maintained by the relevant government agencies in China, 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 the Company's properties. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Title may be based upon interpretation of laws, which may be ambiguous, inconsistently applied and subject to reinterpretation or change. The Company has not surveyed the boundaries of any of its mineral properties and consequently the boundaries of the properties may be disputed.
- *There are specific risks associated with the ongoing development and operation of the CSH Gold Mine* – The Company's current and future development and operation of the CSH Gold Mine are being undertaken on the basis of management's understanding of the prevailing legal and regulatory framework in China relating to, among other things, permitting requirements and taxation rates. Based on this understanding, management believes that the joint venture company possesses substantially all the permits required in order for the CSH Gold Mine to commence commercial production. However, the laws of China governing such matters as the establishment of joint venture companies, permitting matters, taxation matters and other laws relevant to mining operations are ambiguous, inconsistently applied and subject to arbitrary reinterpretation or change. Accordingly, an unexpected change to, or reinterpretation of, the legal and regulatory framework in China as it pertains the CSH Gold Mine could materially affect some or all the assumptions and understandings, such as assumptions regarding taxation rates and other economic inputs and understandings relating to permitting requirements, that now form the basis for the Company's current and future development and operation of the CSH Gold Mine and could have a material adverse effect on the Company's ability to develop and operate the CSH Gold Mine on the basis currently contemplated or at all.
- *Permits and licenses are required* – The further development and exploration of the various mineral properties in which the Company holds interests depends upon the Company's ability to obtain permits and licenses from various governmental authorities in China. In particular, an expansion of the CSH Gold Mine will require an updated mining licence and other permits. There can be no assurance that the Company will be successful in obtaining any required permits and licenses when needed. 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.
- *Environmental and other regulatory requirements could have a materially adverse affect on the Company* - The Company'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 the Company's operations. Government approvals and permits are required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

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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 the Company 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.

- *Uncertainties related to mineral resource estimates* – There is a degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity and value of reserves or resources may vary, depending on metals prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company's properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production.
- *Metal price volatility* – Metal prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectations of inflation, global and regional demand, currency-exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods.
- *Lack of infrastructure could adversely affect mining feasibility* – With the exception of the CSH Gold Mine, the Company's mining properties are located in remote areas, which currently lack basic infrastructure, including sources of electric power, water, housing, food, and transport necessary to develop and operate a major mining project. While the Company is establishing infrastructure necessary to conduct its current exploration and development activities, substantially greater sources of power, water, physical plant, and transport infrastructure in the area may need to be established before the Company can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured.
- *Currency risks* – The bulk of the Company's activities are denominated in U.S. currency with other minor activities denominated in Chinese Renminbi and Canadian dollars. In addition, the Company's notes payable and interest thereon are payable in Canadian dollars. During 2006 and the year ended December 31, 2007, the Company maintained some of its surplus funds in Canadian dollars and Chinese Renminbi, which amounts expose the Company to risks associated with foreign exchange fluctuations.
- *Mining operations are subject to numerous hazards that could have a materially adverse effect on the financial position of the Company* - Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although the Company takes adequate precautions to minimize risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.
- *Uninsurable risks or self-insured risks* – Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities

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arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

- *The Company's prospects depend on its ability to attract and retain key personnel* - Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company'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. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

Qualified Persons

Calvin McKee, P.Geo., the Company's COO, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to the CSH Gold Mine 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.

Outlook

The Company initiated gold production at the CSH Gold Mine in July 2007 and continues to work toward achieving commercial production levels by optimizing the leach circuit and taking various measures to improve gold recovery.

The process of establishing the necessary internal management and operational capacity and of establishing the physical and operational infrastructure to conduct commercial mining operations on the CSH Gold Mine has transitioned the Company from a junior exploration company to an operating mining company. The Company believes that operating the CSH gold mine and the generation of positive cash flow will result in a maturing of its business profile and will support its long-term growth strategy of becoming a significant gold producer in Asia. In this regard, the Company also continues to evaluate strategic acquisition prospects on a selective basis, focussing on businesses that have potential synergies with the Company's existing Chinese operations.

An expansion study at the CSH Gold Mine is underway to evaluate the potential to increase the mining rate from 20,000 tonnes to 30,000 tonnes per day and update the proven and probable reserves to include the Southwest Zone and the expanded resource at the Northeast Zone. Exploration will continue at the CSH Gold Mine during the 2008 field season. In addition, additional drilling is planned for the Dadiangou Project and potentially other projects in China during 2008.

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

March 14, 2007