



Condensed consolidated financial statements of

## **Jinshan Gold Mines Inc.**

March 31, 2010  
(Unaudited)  
(Stated in U.S. dollars)

*[These condensed consolidated financial statements have not been reviewed by the Company's independent auditor, Deloitte Touche Tohmatsu]*

# **Jinshan Gold Mines Inc.**

March 31, 2010

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# Jinshan Gold Mines Inc.

## Condensed consolidated statement of comprehensive income

(Stated in U.S. dollars)

(Unaudited)

	Notes	Three month periods ended March 31,	
		2010	2009
		\$	\$
<b>Revenues</b>		<b>10,498,968</b>	7,685,989
Cost of sales			
Cost of sales excluding depreciation and depletion		<b>3,940,243</b>	4,047,818
Depreciation and depletion		<b>1,367,725</b>	1,241,386
		<b>5,307,968</b>	5,289,204
Mine operating earnings		<b>5,191,000</b>	2,396,785
Expenses			
General and administrative		<b>945,733</b>	970,151
Exploration and evaluation expenditure		<b>23,444</b>	326,646
		<b>969,177</b>	1,296,797
Income from operations		<b>4,221,823</b>	1,099,988
Other (expenses) income			
Foreign exchange gain		<b>618,297</b>	2,784,365
Interest income		-	2,053
Listing expenses		<b>(351,022)</b>	-
Finance costs	5	<b>(739,522)</b>	(1,273,050)
Fair value change on warrant liabilities	13	<b>(6,282,657)</b>	(271,612)
		<b>(6,754,904)</b>	1,241,756
(Loss) income before income tax		<b>(2,533,081)</b>	2,341,744
Income tax expense	6	<b>1,651,899</b>	-
<b>Net (loss) income and comprehensive (loss) income for the period</b>		<b>(4,184,980)</b>	2,341,744
Attributable to			
Non-controlling interest		<b>181,685</b>	73,289
Owners of the Company		<b>(4,366,665)</b>	2,268,455
		<b>(4,184,980)</b>	2,341,744
Basic (loss) earnings per share	7	<b>(0.03)</b>	0.01
Diluted (loss) earnings per share	7	<b>(0.03)</b>	0.01
Basic weighted average number of common shares outstanding	7	<b>167,943,108</b>	163,889,159
Diluted weighted average number of common shares outstanding	7	<b>167,943,108</b>	163,889,159

See accompanying notes to the condensed consolidated financial statements.

# Jinshan Gold Mines Inc.

## Condensed consolidated statement of financial position

(Stated in U.S. dollars)

(Unaudited)

	Notes	March 31, 2010	December 31, 2009
		\$	\$
<b>Current assets</b>			
Cash and cash equivalents		7,925,393	23,984,660
Accounts receivable		816,763	1,681,880
Prepaid expenses and deposits	8	2,437,939	1,734,181
Inventory	9	23,102,945	10,166,429
		34,283,040	37,567,150
Assets classified as held for sale	10	107,281	188,971
		34,390,321	37,756,121
<b>Non-current assets</b>			
Inventory	9	16,488,903	18,852,686
Property, plant and equipment	10	115,522,363	117,918,672
Long-term receivable		37,118	49,689
		132,048,384	136,821,047
<b>Total assets</b>		<b>166,438,705</b>	<b>174,577,168</b>
<b>Current liabilities</b>			
Accounts payable and accrued expenses		24,215,382	35,072,604
Borrowings	11	8,752,558	12,092,005
		32,967,940	47,164,609
Liabilities classified as held for sale	10	28,472	41,252
		32,996,412	47,205,861
<b>Non-current liabilities</b>			
Deferred lease inducement		193,786	193,758
Borrowings	11	81,016,026	80,841,331
Warrant liabilities	13	9,204,803	5,286,123
Deferred tax liabilities	6	2,608,632	1,339,601
Environmental rehabilitation	12	2,322,581	1,599,120
		95,345,828	89,259,933
<b>Total liabilities</b>		<b>128,342,240</b>	<b>136,465,794</b>
<b>Owners' equity</b>			
Share capital		103,646,093	99,186,918
Equity reserve		2,836,343	3,125,447
Deficit		(69,839,868)	(65,473,203)
		36,642,568	36,839,162
Non-controlling interest		1,453,897	1,272,212
Total owners' equity		38,096,465	38,111,374
<b>Total liabilities and owners' equity</b>		<b>166,438,705</b>	<b>174,577,168</b>

Approved and authorized for issue by Board on May 17, 2010

**(Signed) Zhanming Wu**

Zhanming Wu, Director

**(Signed) Bing Liu**

Bing Liu, Director

See accompanying notes to the condensed consolidated financial statements.

**Jinshan Gold Mines Inc.****Condensed consolidated statement of changes in equity**

(Stated in U.S. dollars)

(Unaudited)

	Notes	Number of shares	Share capital \$	Equity reserve \$	Deficit \$	Subtotal \$	Non- controlling interest \$	Total owners' equity \$
Balance, December 31, 2008		163,889,159	90,384,469	4,884,800	(56,125,822)	39,143,447	295,731	39,439,178
Shares issued for								
Exercise of warrants	13	2,250,000	5,597,821	-	-	5,597,821	-	5,597,821
Exercise of stock options	13	1,490,300	3,204,628	(1,297,570)	-	1,907,058	-	1,907,058
Stock-based compensation		-	-	(461,783)	-	(461,783)	-	(461,783)
Net loss and comprehensive loss		-	-	-	(9,347,381)	(9,347,381)	976,481	(8,370,900)
<b>Balance, December 31, 2009</b>		<b>167,629,459</b>	<b>99,186,918</b>	<b>3,125,447</b>	<b>(65,473,203)</b>	<b>36,839,162</b>	<b>1,272,212</b>	<b>38,111,374</b>
Shares issued for								
Exercise of warrants	13	1,000,000	4,158,644	-	-	4,158,644	-	4,158,644
Exercise of stock options	13	105,000	300,531	(118,853)	-	181,678	-	181,678
Stock-based compensation		-	-	(170,251)	-	(170,251)	-	(170,251)
Net loss and comprehensive loss		-	-	-	(4,366,665)	(4,366,665)	181,685	(4,184,980)
<b>Balance, March 31, 2010</b>		<b>168,734,459</b>	<b>103,646,093</b>	<b>2,836,343</b>	<b>(69,839,868)</b>	<b>36,642,568</b>	<b>1,453,897</b>	<b>38,096,465</b>
Balance, December 31, 2008		163,889,159	90,384,469	4,884,800	(56,125,822)	39,143,447	295,731	39,439,178
Stock-based compensation		-	-	125,733	-	125,733	-	125,733
Net income and comprehensive income		-	-	-	2,268,455	2,268,455	73,289	2,341,744
<b>Balance, March 31, 2009</b>		<b>163,889,159</b>	<b>90,384,469</b>	<b>5,010,533</b>	<b>(53,857,367)</b>	<b>41,537,635</b>	<b>369,020</b>	<b>41,906,655</b>

See accompanying notes to the condensed consolidated financial statements.

# Jinshan Gold Mines Inc.

## Condensed consolidated statements of cash flows

(Stated in U.S. dollars)

(Unaudited)

	Notes	Three month periods ended March 31,	
		2010	2009
<b>Operating activities</b>			
Net (loss) income before income tax for the period		(2,533,081)	2,341,744
Items not requiring use of cash and cash equivalents			
Depreciation		1,389,226	1,247,045
Fair value change on warrant liabilities	13	6,282,657	271,612
Finance costs	5	739,522	1,273,050
Stock-based compensation		(170,251)	125,733
Unrealized foreign exchange gain		(479,190)	(1,286,041)
Change in non-cash operating working capital items			
Accounts receivable		726,010	(149,807)
Prepaid expenses and deposits		(703,758)	658,278
Inventory		(10,572,733)	(2,886,299)
Accounts payable and accrued liabilities		(5,590,910)	461,903
Cash (used in) generated from operations		(10,912,508)	2,057,218
Interest paid		(1,263,524)	(1,699,376)
Income taxes paid		(306,868)	-
Net cash flows (used in) from operating activities		(12,482,900)	357,842
<b>Investing activities</b>			
Property, plant and equipment additions net of construction payable		(1,482,579)	(10,486,349)
Restricted cash deposits received		-	5,215,704
Net cash flows used in investing activities		(1,482,579)	(5,270,645)
<b>Financing activities</b>			
Issuance of common shares		1,976,345	-
Customer advances		-	16,812,865
Repayments of borrowings	11	(3,931,026)	(18,909,916)
Net cash flows used in financing activities		(1,954,681)	(2,097,051)
Effect of foreign exchange rate changes on cash and cash equivalents		(139,107)	(26,361)
Net decrease in cash and cash equivalents		(16,059,267)	(7,036,215)
Cash and cash equivalents, beginning of period		23,984,660	12,142,739
<b>Cash and cash equivalents, end of period</b>		<b>7,925,393</b>	<b>5,106,524</b>
Cash and cash equivalents are comprised of			
Cash in bank		7,925,393	5,106,524
Bank short-term deposits		-	-
		<b>7,925,393</b>	<b>5,106,524</b>

Supplemental cash flow information

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See accompanying notes to the condensed consolidated financial statements.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

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### 1. General business description

Jinshan Gold Mines Inc., formerly known as Pacific Minerals Inc., (the "Company") is a publicly listed company incorporated in British Columbia on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange. The Company together with its subsidiaries (collectively the "Group") are principally engaged in the acquisition, exploration, development, and mining of mineral properties in the People's Republic of China ("PRC"). The Company's substantial shareholder is China National Gold Group Corporation ("CNG"), a company registered in Beijing, China.

The head office, principal address and registered and records office of the Company are located at #1030 - 505 Burrard Street, Vancouver, BC, Canada, V7X 1M5.

The condensed consolidated financial statements are presented in United States Dollars ("\$\$") which is the functional currency of the Company and its principal subsidiaries.

### 2. Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity and going concern of the Group in light of the Group's loss of \$4,184,980 for the three months ended March 31, 2010. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the internally generated positive cash flows from the Chang Shan Hao Gold Mine ("CSH Gold Mine"). The Company is monitoring cash flows generated from operations at the CSH Gold Mine against cash requirements for its operating costs, to fund other ongoing expenses, for capital expansion plans, and for future business opportunities. The Company is also reviewing this in the context of loans that have been secured to finance the development and operations of the CSH Gold Mine as of March 31, 2010.

The directors of the Company are of the opinion that, taking into account the aforesaid internally generated positive cash flows from the CSH Gold Mines and the loans that have been secured to finance the development and operations of the CSH Gold Mines as of March 31, 2010, the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

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### 3. Accounting Policies and new International Financial Reporting Standards ("IFRS")

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the Group's annual consolidated financial statements for the year ended December 31, 2009.

In the current interim period, the Group has applied for the first time the following new and revised standards, amendments to standards, and interpretations issued by the International Accounting Standard Board ("IASB") which are effective for the financial year beginning January 1, 2010.

- |                         |  |
|-------------------------|--|
| • IFRSs (Amendments)    | Amendment to IFRS 5 as part of Improvements to IFRSs issued in May 2008    |
| • IFRSs (Amendments)    | Improvements to IFRSs issued in April 2009 (except for amendment to IAS 1) |
| • IAS 27 (January 2008) | Consolidated and Separate Financial Statements                             |
| • IAS 39 (Amendment)    | Eligible Hedged Items  |
| • IFRS 2 (Amendment)    | Group Cash-settled Share-based Payment Transactions                        |
| • IFRS 3 (Revised)      | Business Combinations  |
| • IFRIC 17              | Distributions of Non-cash Assets to Owners                                 |

The adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied the following new and revised standards, amendments, or interpretations that have been issued but not yet effective:

- |                        |  |
|------------------------|--|
| • IFRSs (Amendments)   | Improvements to IFRSs issued in May 2010 <sup>(i)</sup>                                    |
| • IAS 24 (Revised)     | Related Party Disclosures <sup>(ii)</sup>  |
| • IAS 32 (Amendment)   | Classification of Rights Issues <sup>(iii)</sup>   |
| • IFRS 1 (Amendment)   | Limited Exemption for Comparative IFRS 7 Disclosure for First Time Adopters <sup>(v)</sup> |
| • IFRS 9               | Financial Instruments <sup>(iv)</sup>  |
| • IFRIC 14 (Amendment) | Prepayments of a Minimum Funding Requirement <sup>(ii)</sup>                               |
| • IFRIC 19             | Extinguishing Financial Liabilities with Equity Instruments <sup>(v)</sup>                 |

(i) Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

(ii) Effective for annual periods beginning on or after January 1, 2011

(iii) Effective for annual periods beginning on or after February 1, 2010

(iv) Effective for annual periods beginning on or after January 1, 2013

(v) Effective for annual periods beginning on or after July 1, 2010

The Group anticipates that the application of these new and revised standards, amendments to standards, and interpretations would have no material impact on the condensed consolidated financial statements of the Group.



# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

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#### 4. Significant accounting judgements and estimates

In the current interim period, the Group's has the following changes in significant accounting judgements and estimates:

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. A change in the estimated life of the mine from 10 years to 24 years as a result of the recent technical report released in March 2010 has resulted in Management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and as a result, Management has increased the life of the buildings from 10 years to 24 years effective January 1, 2010. The depreciation of buildings was reduced by US\$63,842 for the three months ended March 31, 2010 due to the change of buildings useful life as mentioned above.

The assumptions used in the valuation of gold-in-process inventories particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads has been reconsidered by Management. As a result, Management has reduced the recovery rate used in its inventory model from 43% to 38.6% for the three month period ended March 31, 2010. The inventory balance was reduced by approximately US\$136,000 as at March 31, 2010.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

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### 5. Finance costs

The finance costs for the Group are as follows:

	Three month period ended March 31,	
	2010	2009
	\$	\$
Effective interest	1,604,065	2,452,811
Accretion on environmental rehabilitation	44,942	101,055
	1,649,007	2,553,866
Less: Amount capitalized	(909,485)	(1,280,816)
Total finance costs	739,522	1,273,050

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction, or, where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

### 6. Income tax expense

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which is calculated at 28.5% of the estimated assessable profit for the three months ended March 31, 2010 (30% for the three months ended March 31, 2009). The Company and its subsidiaries in Canada had no assessable profit for the three months ended March 31, 2010 (Nil for the three months ended March 31, 2009).

PRC Enterprise Income Tax is calculated at the prevailing tax rate on taxable income determined in accordance with the relevant laws and regulations in the PRC.

For the three months ended March 31, 2010, the Company's subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% of taxable income. Income tax expense for the three months ended March 31, 2010 represents PRC Enterprise Income Tax of \$382,868 and deferred tax expenses of \$1,269,031 (Nil for the three months ended March 31, 2009).

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

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### 7. Loss (earnings) per share

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

	Three month period ended March 31,	
	2010	2009
	\$	\$
(Loss) income attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	(4,366,665)	2,268,455
Weighted average number of shares, basic and diluted	167,943,108	163,889,159
Basic (loss) earnings per share	(0.03)	0.01
Diluted (loss) earnings per share	(0.03)	0.01

The calculation of diluted (loss) earnings per share for the periods ended March 31, 2010 has not assumed the exercise and conversion of the Company's stock options and warrants (has not assumed the exercise and conversion of the Company's stock options for the three months ended March 31, 2009) as these potential ordinary shares are anti-dilutive during the period.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

### 8. Prepaid expenses and deposits

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Deposit for environmental protection	<b>794,132</b>	-
Deposits for mine supplies and services	<b>570,131</b>	705,420
Refundable CSH Gold Mine construction deposits	<b>434,916</b>	192,876
Rent deposits	<b>246,864</b>	246,846
Insurance	<b>178,787</b>	286,787
Deposits for spare parts	<b>21,803</b>	133,036
Other	<b>191,306</b>	169,216
Total prepaid expenses and deposits	<b>2,437,939</b>	1,734,181

### 9. Inventory

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Gold in process	<b>36,022,891</b>	27,076,254
Gold doré bars	<b>1,593,027</b>	1,069,014
Consumables	<b>1,321,701</b>	344,231
Spare parts	<b>654,229</b>	529,616
Total inventory	<b>39,591,848</b>	29,019,115

Inventory totalling \$5,307,968 for the three month ended March 31, 2010 (\$5,289,204 for the three months ended March 31, 2009) was recognized in cost of sales after commercial production began.

Management has allocated inventory that is expected to be recovered more than twelve months after the reporting period to take into consideration the longer term process involved in recovering gold from a heap leaching system.

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Amounts expected to be recovered within 12 months	<b>23,102,945</b>	10,166,429
Amounts expected to be recovered after 12 months	<b>16,488,903</b>	18,852,686
Total inventory	<b>39,591,848</b>	29,019,115

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

### 10. Property, plant and equipment

	Motor vehicles	Furniture and office equipment	Crusher	Machinery and equipment	Buildings	Leasehold improvements	Mineral assets	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>									
As at December 31, 2009	1,121,931	884,070	-	26,708,182	4,777,971	100,458	18,760,374	75,982,945	128,335,931
<b>As at March 31, 2010</b>	<b>1,155,457</b>	<b>885,033</b>	<b>70,700,995</b>	<b>25,822,276</b>	<b>4,777,971</b>	<b>100,458</b>	<b>19,413,636</b>	<b>4,349,526</b>	<b>127,205,352</b>
<i>Accumulated depreciation</i>									
As at December 31, 2009	(479,685)	(503,867)	-	(5,152,288)	(864,813)	(4,566)	(3,412,040)	-	(10,417,259)
<b>As at March 31, 2010</b>	<b>(530,725)</b>	<b>(540,930)</b>	<b>-</b>	<b>(5,730,391)</b>	<b>(907,755)</b>	<b>(9,133)</b>	<b>(3,964,055)</b>	<b>-</b>	<b>(11,682,989)</b>
<i>Carrying value</i>									
As at December 31, 2009	642,246	380,203	-	21,555,894	3,913,158	95,892	15,348,334	75,982,945	117,918,672
<b>As at March 31, 2010</b>	<b>624,732</b>	<b>344,103</b>	<b>70,700,995</b>	<b>20,091,885</b>	<b>3,870,216</b>	<b>91,325</b>	<b>15,449,581</b>	<b>4,349,526</b>	<b>115,522,363</b>

Included in the cost above is \$15,983,920 as at March 31, 2010 (at December 31, 2009: \$15,074,435) related to finance costs which have been capitalized.

Construction in progress as at December 31, 2009 consisted of the crushing facility construction for the CSH Gold Mine. Costs for the construction of the crushing facility for the CSH Gold Mine amounting to \$69,052,699 (during the three months ended December 31, 2009: Nil) were transferred to crusher from construction in progress during the three months ended March 31, 2010. The life of the crushing facility has been estimated to be 14 years.

During the period, the Group spent \$3,920,583 (\$16,463,917 for the three months ended March 31, 2009) on additions of property, plant and equipment.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

### 10. Property, plant and equipment (continued)

#### Mineral property interests

##### (a) CSH Gold Mine

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

	January 1, 2009	Increase/decrease during the year (3)	December 31, 2009	Increase/decrease during the period	March 31, 2010
	\$	\$	\$	\$	\$
Exploration expenditure charged to profit or loss	8,903,877	267,299	9,171,176	32,093	<b>9,203,269</b>
Mineral assets (1)	11,957,158	6,803,216	18,760,374	653,262	<b>19,413,636</b>
Construction in progress (2)	28,727,117	47,255,828	75,982,945	(71,633,419)	<b>4,349,526</b>

(1) During the three months ended March 31, 2010, there was increase in mineral assets resulting from changes in the discount rate applied in estimating the provision for environmental rehabilitation of \$668,825 (Nil for the three months ended March 31, 2009). During the year ended December 31, 2009, there was an adjustment to the Group's estimate for environmental rehabilitation of \$3,145,917 (Note 12).

(2) During the three months ended March 31, 2010, \$69,052,699 was transferred out of construction in progress to crusher and the Group reversed \$5,719,987 in over-accruals on construction in progress upon the completion of the crushing facility construction (Nil for the three months ended March 31, 2009).

(3) During the three months ended March 31, 2010, additions to mineral assets and construction in progress were \$725,486 (\$5,584,213 for the three months ended March 31, 2009) and \$3,139,267 (\$10,154,440 for the three months ended March 31, 2009).

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

### 10. Property, plant and equipment (continued)

*Assets classified as held for sale and liabilities classified as held for sale*

#### (b) Dadiangou Gold Project

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

In 2009, the Company decided to sell its interest in Gansu Pacific Mining Company Ltd. ("Gansu Pacific") and in December 2009, the Group entered into a letter of intent with a potential purchaser in relation to the disposal of its entire interest in Gansu Pacific. The consideration will be determined after the completion of due diligence procedures. As a result, the Group has recorded the assets and liabilities of Gansu Pacific since December 31, 2009 as assets classified as held for sale and liabilities classified as held for sale.

Assets classified as held for sale and liabilities classified as held for sale are broken down as follows:

#### Assets classified as held for sale

	March 31, 2010	December 31, 2009
	\$	\$
Cash	11,423	81,186
Accounts receivable	5,006	1,047
Property, plant and equipment	71,786	75,071
	<b>88,215</b>	<b>157,304</b>

#### Liabilities classified as held for sale

	March 31, 2010	December 31, 2009
	\$	\$
Accounts payable	5,940	17,054
	<b>5,940</b>	<b>17,054</b>

See events after the reporting period in Note 20(i) for further details of the proposed sale of the Dadiangou Gold Project.

# Jinshan Gold Mines Inc.

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### 10. Property, plant and equipment (continued)

*Assets classified as held for sale and liabilities classified as held for sale (continued)*

#### (c) Xinjiang Projects

The Group held two exploration permits covering 96 km<sup>2</sup> in the Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China. The permits were held under a Chinese-Foreign Joint Venture in which the Group held a 99% interest and the partner, Yunnan Geological and Mining Co. Ltd., held a 1% interest. The permits were granted in June 2006 and expired on June 30, 2009. The Group had not renewed the permits and has ceased further development in this site subsequent to June 30, 2009.

As the project did not find any resources with commercial values, the Group has decided to sell its interest in the Xinjiang Projects and as a result, has recorded the assets and liabilities of Yunnan Xindian Mining Co., Ltd ("Yunnan Xindian") since December 31, 2009 as assets classified as held for sale and liabilities classified as held for sale. Negotiations with interested parties to dispose of its entire interest in Yunnan Xindian have taken place in 2009.

Assets classified as held for sale and liabilities classified as held for sale are broken down as follows:

	<b>March 31, 2010</b>	December 31, 2009
	\$	\$
Cash	<b>7,347</b>	8,382
Accounts receivable	<b>4,895</b>	4,920
Prepaid expenses - rent deposit	-	1,215
Property, plant and equipment	<b>6,824</b>	17,150
	<b>19,066</b>	31,667

#### Liabilities classified as held for sale

	<b>March 31, 2010</b>	December 31, 2009
	\$	\$
Accounts payable	<b>22,532</b>	24,198
	<b>22,532</b>	24,198

See events after the reporting period in Note 20(ii) for further details of the proposed sale of the Xinjiang Projects.



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### 11. Borrowings

	Effective interest rate	Maturity	March 31, 2010	December 31, 2009
	%		\$	\$
<b>Current</b>				
Current portion of long-term loan - ABC(ii)	5.184	September 9, 2014	<b>1,464,858</b>	1,458,619
Notes payable (i)	19.48	June 26, 2010	<b>7,287,700</b>	10,633,386
			<b>8,752,558</b>	12,092,005
<b>Non-current</b>				
Long-term loan - ABC (ii)	5.184	September 9, 2014	<b>41,016,026</b>	40,841,331
Long-term loan - CNG (ii)	6.00	December 6, 2011	<b>40,000,000</b>	40,000,000
			<b>81,016,026</b>	80,841,331
			<b>89,768,584</b>	92,933,336

#### (i) Notes payable

	Note A	Note B	Note C	Total
	\$	\$	\$	\$
Balances of notes payable,				
December 31, 2008	22,930,784	9,246,978	5,682,143	37,859,905
Unrealized foreign exchange loss	3,693,230	1,243,176	960,770	5,897,176
Effective interest	4,721,339	2,235,146	1,107,779	8,064,264
Interest paid	(3,024,764)	(1,291,349)	(795,898)	(5,112,011)
Principal payments	(28,320,589)	-	-	(28,320,589)
Principal repurchase	-	(7,755,359)	-	(7,755,359)
Balances of notes payable,				
December 31, 2009	-	3,678,592	6,954,794	10,633,386
Unrealized foreign exchange loss	-	1,468	243,602	245,070
Effective interest	-	143,241	310,000	453,241
Interest paid	-	(13,777)	(220,696)	(234,473)
Principal repurchase	-	(3,809,524)	-	(3,809,524)
<b>Balances of notes payable,</b>				
<b>March 31, 2010</b>	-	-	<b>7,287,700</b>	<b>7,287,700</b>

#### (a) Note 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") with an annual interest rate of 12% payable on a calendar quarterly basis, and 6,000,000 warrants for financing the development of the CSH Gold mine. The Notes matured and were repaid in full on December 14, 2009 in Canadian dollars. The effective interest rate was 19.54%.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

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### 11. Borrowings (continued)

#### (i) Notes payable (continued)

##### (a) Note A (continued)

At the issue date, the Group allocated the \$25,935,546 face value of the private placement offering to the Notes and warrants based on the fair value of the warrants and the Notes. 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 two years, an expected volatility of 79%, and a dividend yield rate of Nil. Each warrant entitled the holder to acquire one common share at Cdn\$1.60 each which expired on December 14, 2008. The expiry date was subsequently extended to December 14, 2010.

The Company had the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares traded at or above a volume weighted average share price of Cdn\$2.75 for 20 consecutive trading days. The expiry date was accelerated by the Company on March 18, 2010. By April 17, 2010, all the warrants had been exercised (see Note 13 (c)(i)).

##### (b) Notes B and C

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 substantial shareholder of the Company at that time, purchased \$7,000,840 (Cdn\$7,500,000) ("Note C") of the June 07 Notes and \$11,668,067 (Cdn\$12,500,000) ("Note B") was purchased by third parties. The June 07 Notes mature on June 26, 2010, are repayable in Canadian dollars and carry an annual interest rate of 12%. Interest on the June 07 Notes is payable on a calendar quarterly basis commencing on September 30, 2007. The Company can elect to prepay Note B anytime after 18 months from the issue date with no prepayment penalty and Note C after six 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 effective interest rate of Note B and Note C is 19.48% and 17.66% respectively.

At issue date, the Group has allocated the \$18,668,907 face value of the private placement offering to the June 07 Notes and warrants based on the fair value of the warrants and the June 07 Notes. 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 two years, an expected volatility of 72%, and a dividend yield rate of Nil. Each warrant entitles the holder to acquire one common share at Cdn\$2.50 and expires on June 26, 2010. Subsequently, the expiry date has been extended to June 26, 2011.

On December 14, 2009, Cdn\$8,500,000 of Note B was repurchased from the market at a consideration of \$8,024,167. The loss on the repurchase was \$268,808. The balance of Cdn\$4,000,000 was repurchased on January 11, 2010 at a consideration of \$3,931,026 and the loss on the purchase was \$121,502.

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## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

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### 11. Borrowings (continued)

#### (i) Notes payable (continued)

##### (c) Notes B and C (continued)

The Company has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of Cdn\$4.25 for 20 consecutive trading days.

On April 18, 2010, the expiry date of the warrants with an exercise price of Cdn\$2.50 was accelerated by the Company. Subsequent to March 31, 2010, all the warrants had been exercised (see Note 13 (c)(ii)).

#### (ii) Long-term loans

On September 14, 2009, the Company's subsidiary, Inner Mongolia Pacific Mining Co., Ltd. ("IMP"), secured a five-year Renminbi ("RMB") 290,000,000 (\$42,299,950) long-term loan from the Agricultural Bank of China ("ABC"). The purpose of the term loan is to satisfy the outstanding funding requirements for the capital expansion loan provided by CNG in June 2009. The term loan is supported by a guarantee from CNG. The annual interest rate for the term loan is currently 5.184%, and interest is payable monthly. The term loan principal is repayable through periodic instalments with RMB 10,000,000 (US\$1,466,340) due in each of September 2010 and 2011 and further instalments of RMB 30,000,000 (US\$4,399,020) due in successive three-month intervals starting in September 2012 through to September 2014, when the remaining outstanding balance is scheduled to be repaid in full.

On December 3, 2009, the Group secured a two year term loan in the amount of US\$40,000,000 from its largest shareholder, CNG. The purpose of the term loan was to redeem the CDN\$30,000,000 of the 12% promissory notes due to mature on December 14, 2009. The funds were also used for the early redemption of the CDN\$12,500,000 of the 12% promissory notes, due to mature on June 26, 2010. The loan is unsecured with interest at 6% per annum payable quarterly. Subject to prior repayment, the loan will become due and payable in December 2011.

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### 12. Environmental rehabilitation

The environmental rehabilitation relates to reclamation and closure costs relating to the Group's mine operations at the CSH Gold Mine. The environmental rehabilitation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total \$9,538,000 (at December 31, 2009: \$9,495,000), discounted at 7.9% (at December 31, 2009: 10%) per annum at March 31, 2010. The settlement of the obligations will occur through to 2030. No assets have been legally restricted for the purposes of settling the environmental rehabilitation.

The following is an analysis of the environmental rehabilitation:

	<b>January 1 to March 31, 2010</b>	January 1 to December 31, 2009
	\$	\$
Balance, beginning of period	<b>1,599,120</b>	4,131,735
Additions to site reclamation during the period	-	244,066
Accretion incurred in the current period	<b>44,942</b>	392,277
Foreign exchange loss (gain)	<b>9,694</b>	(23,041)
Additions resulted from changes in discount rate	<b>668,825</b>	-
Reductions resulted from changes in the estimated timing and amount of cash flows	-	(3,145,917)
	<b>2,322,581</b>	1,599,120

### 13. Share capital, options and warrants

#### (a) Common shares

Authorized - Unlimited common shares without par value

Issued and outstanding - 168,734,459 common shares at March 31, 2010

Issued and outstanding – 167,629,459 common shares at December 31, 2009

#### (b) Stock options

The Company has a stock option plan which permits the Board of Directors of the Company to grant options to directors, employees and non-employees to acquire common shares of the Company at the fair market value on the date of approval by the Board of Directors. A portion of the stock options vest immediately on the grant date and the balance vest over a period of up to five years from the grant date.

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### 13. Share capital, options and warrants (continued)

#### (b) Stock options (continued)

The stock options have a life of up to six years from the grant date. The fair market value of the exercise price 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 March 31, 2010 and December 31, 2009, there were 15,701,446 and 15,215,946 options available for future grants.

The following is a summary of option transactions under the Company's stock option plan:

	January 1 to March 31, 2010		January 1 to December 31, 2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	
Balance, beginning of period	1,547,000	2.04	5,787,300	1.75
Options exercised	(105,000)	1.78	(1,490,300)	1.36
Options forfeited	(270,000)	2.16	(2,625,000)	1.06
Options expired	-	-	(125,000)	1.74
Balance, end of period	1,172,000	2.03	1,547,000	2.04

Due to forfeitures of stock options by employees before the vesting date, the Company re-estimated the number of options that will ultimately vest in the future and recognized a reversal of compensation cost of \$170,251 (\$125,733 expenses for the three months ended March 31, 2009) during the three months ended March 31, 2010. No stock options were granted during the three months ended March 31, 2010 (Nil for the three months ended March 31, 2009).

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

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### 13. Share capital, options and warrants (continued)

(b) *Stock options (continued)*

The following table summarizes information about stock options outstanding and exercisable at March 31, 2010.

Expiring in	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2010	Remaining contractual life (years)	Weighted average exercise price Cdn\$	Number exercisable at March 31, 2010	Weighted average exercise price Cdn\$
2011	175,000	1.25	1.05	175,000	1.05
2013	997,000	3.31	2.20	280,000	2.20
	<b>1,172,000</b>		<b>2.03</b>	<b>455,000</b>	<b>1.76</b>

The following table summarizes information about stock options outstanding and exercisable at December 31, 2009:

Expiring in	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2009	Remaining contractual life (years)	Weighted average exercise price Cdn\$	Number exercisable at December 31, 2009	Weighted average exercise price Cdn\$
2011	210,000	1.50	1.05	210,000	1.05
2013	1,337,000	3.56	2.20	350,000	2.20
	<b>1,547,000</b>		<b>2.04</b>	<b>560,000</b>	<b>1.77</b>

(c) *Warrants*

The following is a summary of number of warrants outstanding:

	January 1 to March 31, 2010	January 1 to December 31, 2009
Balance, beginning of period	4,060,000	6,310,000
Exercised	(1,000,000)	(2,250,000)
Balance, end of period	<b>3,060,000</b>	4,060,000

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### 13. Share capital, options and warrants (continued)

#### (c) Warrants (continued)

The following is a summary of warrants amounts outstanding:

	<b>January 1 to March 31, 2010</b>	January 1 to December 31, 2009
Balance, beginning of period	5,286,123	274,507
Exercised	(2,363,977)	(2,175,105)
Fair value change on warrant liabilities	6,282,657	7,186,721
Balance, end of period	<b>9,204,803</b>	5,286,123

#### *Warrants issued with Canadian dollar exercise prices*

As a result of having exercise prices denominated in other than the Company's functional currency, being the U.S. dollar, these warrants meet the definition of derivatives and are therefore classified as held for trading and recorded as derivative liabilities measured at fair value. The fair values of the warrants were determined using the Black-Scholes option pricing model at the end of each reporting period. Upon exercise into common shares, the fair values of warrants included in derivative liabilities were reclassified to equity.

The fair value of warrants granted was determined using the Black-Scholes option pricing model, using the following weighted average assumptions at the end of each reporting period:

	<b>March 31, 2010</b>	December 31, 2009
Risk free interest rate	<b>0.12%</b>	0.71%
Expected life (years)	<b>0.11</b>	1.16
Expected volatility	<b>69.20%</b>	94.12%
Expected dividend per share	<b>Nil</b>	Nil

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

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### 13. Share capital, options and warrants (continued)

(c) Warrants (continued)

The following table summarizes information about warrants outstanding at March 31, 2010:

<b>Number of warrants</b>	<b>Exercise price</b>	<b>Expiry date</b>
	<b>Cdn\$</b>	
<b>910,000 (i)</b>	<b>1.60</b>	<b>April 22, 2010</b>
<b>2,150,000 (ii)</b>	<b>2.50</b>	<b>May 17, 2010</b>
<b>3,060,000</b>		

The following table summarizes information about warrants outstanding at December 31, 2009:

<b>Number of warrants</b>	<b>Exercise price</b>	<b>Expiry date</b>
	<b>Cdn\$</b>	
<b>1,610,000 (i)</b>	<b>1.60</b>	<b>December 14, 2010</b>
<b>2,450,000 (ii)</b>	<b>2.50</b>	<b>June 26, 2011</b>
<b>4,060,000</b>		

- (i) As mentioned in Note 11 (i), the Company exercised its right to accelerate the expiry date of the Cdn\$1.60 per share warrants. The expiry date of these warrants was April 22, 2010. Subsequent to March 31, 2010, all these warrants were exercised.
- (ii) On April 16, 2010, the Company exercised the right to accelerate the expiry date of these warrants, which will expire on May 17, 2010. Subsequent to March 31, 2010, all these warrants were exercised.



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### 14. Related party transactions

CNG owned the following percentages of outstanding common shares of the Company:

	<u>March 31,</u> <b>2010</b>	<u>December 31,</u> 2009
	%	%
CNG	<b>40.02</b>	40.3

The breakdown of the sales transactions between related parties is as follows:

	<u>Three month period ended March 31,</u>	
	<b>2010</b>	2009
	\$	\$
Gold sales to CNG	<b>10,498,968</b>	7,685,989
Silver sales (netted in cost of sales) to CNG	<b>401,759</b>	37,310
Prepayment of future gold sales from CNG	-	16,812,865

The Group incurred the following interest expenses and salaries and benefits expenses with CNG. Interest expense has been recorded on the effective interest method.

	<u>Three month period ended March 31,</u>	
	<b>2010</b>	2009
	\$	\$
Salaries and benefits	-	62,686
Interest	<b>820,696</b>	178,713
<b>Total related party expenses</b>	<b>820,696</b>	241,399

During the year ended December 31, 2009, the Group entered into a letter of intent with Zhongjin Gold Corporation Limited, a subsidiary of CNG to dispose of its entire interest in Gansu Pacific. The transaction has not yet been completed as of the date of this report (see Note 20 (i)).

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### 14. Related party transactions (continued)

#### *Related party balances*

The assets of the Group include the following amounts due from related parties:

	<u>March 31,</u> <u>2010</u>	December 31, 2009
	\$	\$
Assets		
Amount receivable from CNG	<b>13,954</b>	346,437
Listing expense receivable from CNG's subsidiary	<b>555,954</b>	1,184,911
Prepaid expenses to CNG's subsidiary	-	283,451
<b>Total related party assets</b>	<b>569,908</b>	1,814,799

The amount receivable from CNG arose from sales of gold to CNG. There is no credit period.

Listing expense receivable is from Skyland Mining Limited ("Skyland"), CNG's subsidiary. The amount receivable from CNG is included in accounts receivable and prepaid expenses to CNG's subsidiary is included in prepaid expenses and deposits in the condensed consolidated statement of financial position.

The liabilities of the Group include the following amounts due to related parties:

	<u>March 31,</u> <u>2010</u>	December 31, 2009
	\$	\$
Liabilities		
Accounts payable to CNG 's subsidiaries	<b>32,954</b>	109,391
<b>Total related party liabilities</b>	<b>32,954</b>	109,391

#### *Key management personnel*

	<u>Three month period ended March 31,</u>	
	<u>2010</u>	2009
	\$	\$
Salary cost		
Salaries and other benefits	<b>118,329</b>	166,449
Post employment benefits	<b>4,156</b>	7,404
	<b>122,485</b>	173,853

# Jinshan Gold Mines Inc.

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### 15. Segment information

IFRS 8 *Operating Segments* ("IFRS 8") requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

The chief operating decision-maker which is responsible for allocating resources and assessing performance of the operating segments, has been defined as the executive directors.

The Group derives its revenue primarily from mining, extraction, production, and selling of gold ore to external clients.

The executive directors review the Group's consolidated financial statements prepared under IFRS for the purposes of resources allocation and performance evaluation. The Group's segment loss is \$4,184,980 during the three month ended March 31, 2010 (segment income of \$2,341,744 for the three months ended March 31, 2009) which is the same as the net (loss) income and comprehensive (loss) income for the period as disclosed in the condensed consolidated statement of comprehensive income.

The Group operates in two geographical areas, Canada and China. The Group's Corporate Division located in Canada only earns revenues that are considered incidental to the activities of the Group and therefore does not meet the definition of an operating segment as defined in IFRS 8. During the period, the Group's revenue was solely generated from the CSH Gold Mine for gold sales to customers in China.

The CSH Gold Mine has been generating revenue since 2008. The total segment revenue comprises revenue from one customer. The Group sells 100% (100% for the three months ended March 31, 2009) of its gold to one creditworthy customer, CNG who is also the Company's substantial shareholder for the three month ended March 31, 2010. The sales to CNG do not constitute economic dependence for the Group as there are other customers in China to whom gold can be sold.

### 16. Supplemental cash flow information

#### *Non-cash investing and financing activities*

The Group incurred the following non-cash investing and financing activities:

	Three month periods ended March 31,	
	2010	2009
	\$	\$
Value of warrants transferred to share capital upon exercise	2,363,977	-
Transfer of share option reserve upon exercise of options	118,853	-

# Jinshan Gold Mines Inc.

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### 17. Capital risk management

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

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

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

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

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the internally generated positive cash flows from the CSH Gold Mine (see Note 2). The Group has complied with all covenants included in its long-term loan and the indenture for its notes payable.

### 18. Financial instruments

		Carrying amount	
Financial instrument classification		March 31, 2010	December 31, 2009
		\$	\$
<i>Financial assets</i>			
Cash and cash equivalents			
	Loans and receivables	7,925,393	23,984,660
Accounts receivable	Loans and receivables	816,763	1,681,880
Long-term receivable	Loans and receivables	37,118	49,689
<i>Financial liabilities</i>			
Accounts payable and accrued expenses			
	Other financial liabilities	24,061,382	35,072,604
Notes payable	Other financial liabilities	7,287,700	10,633,386
Long-term loans	Other financial liabilities	82,480,884	82,299,950
Warrant liabilities	FVTPL	9,204,803	5,286,123

The fair values of the Group's cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their carrying values due to their short term nature. The carrying amounts of the notes payable and long-term loan measured at amortized cost in the Group's financial statements approximate their fair values.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

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### 18. Financial instruments (continued)

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

(a) *Currency risk*

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

The Group is exposed to currency risk through the assets and liabilities denominated in Canadian dollars and RMB.

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a decrease in the Group's loss before tax/increase in loss before tax of approximately \$1,558,000 for the three month period ended March 31, 2010 (increase in the Group's income before tax/decrease in income before tax of approximately \$3,708,000 for the three month period ended March 31, 2009).

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in a decrease in the Group's loss before tax/increase in loss before tax of approximately \$6,028,000 for the three month period ended March 31, 2010 (increase in the Group's income before tax/decrease in income before tax of approximately \$3,805,000 for the three month period ended March 31, 2009).

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

March 31, 2010

(Stated in U.S. dollars)

(Unaudited)

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### 18. Financial instruments (continued)

#### (b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Group sells 100% of its gold to one creditworthy customer, CNG, who is also the Company's substantial shareholder and exposes the Group to concentration of credit risk. The failure of this customer to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from this customer. The Group's cash and short-term bank deposits are held in large Chinese and Canadian banks. These investments mature at various dates within 3 months. The Group does not have any asset backed commercial paper in its short-term bank deposits. The Group's accounts receivable consists primarily of listing expense receivable from Skyland, goods and services tax refund due from the Federal Government of Canada, all of which are not outstanding for more than 180 days.

The Group has a concentration of credit risk by geographical locations as other receivables comprise various debtors which are located either in PRC or Canada.

Maximum exposure to credit risk is as follows:

	<u>March 31,</u>	<u>December 31,</u>
	<u>2010</u>	<u>2009</u>
	\$	\$
Cash and cash equivalents	<b>7,925,393</b>	23,984,660
Accounts receivable	<b>816,763</b>	1,681,880
Long-term receivable	<b>37,118</b>	49,689
	<b>8,779,274</b>	25,716,229

#### (c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due (see Note 2). The Group manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 17. The Group has secured financing as set out in Note 11(ii).

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

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### 18. Financial instruments (continued)

#### (c) Liquidity risk (continued)

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

	Weighted average interest rate	Within 1 year	1-2 years	2-5 years	Total undiscounted cash flow	Carrying Amount
	%	\$	\$	\$	\$	\$
As at March 31, 2010						
Accounts payable and accrued expenses	-	24,061,382	-	-	24,061,382	24,061,382
Current portion of long-term loan - ABC	5.184	3,657,153	-	-	3,657,153	1,464,858
Long-term loan - ABC	5.184	-	3,585,855	42,612,111	46,197,966	41,016,026
Long-term loan - CNG	6.00	2,433,333	41,666,667	-	44,100,000	40,000,000
Note payables	12.00	7,594,527	-	-	7,594,527	7,287,700
		37,746,395	45,252,522	42,612,111	125,611,028	<b>113,829,966</b>
As at December 31, 2009						
Accounts payable and accrued expenses	-	35,072,604	-	-	35,072,604	35,072,604
Current portion of long-term loan - ABC	5.184	3,660,480	-	-	3,660,480	1,458,619
Long-term loan - ABC	5.184	-	3,583,815	42,946,690	46,530,505	40,841,331
Long-term loan - CNG	6.00	2,433,333	42,433,333	-	44,866,666	40,000,000
Note payables	12.00	11,373,917	-	-	11,373,917	10,633,386
		52,540,334	46,017,148	42,946,690	141,504,172	128,005,940

#### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's short term bank deposits, notes payables and long-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations but changes to exchange rates could affect interest payable (see Note 11) and is subject to fair value interest rate risk. The risk that the Group will realize a loss as a result of a decline in the interest rates relates to its variable rate bank balances and a 30 basis point higher/lower in the interest rate of its variable rate bank balances would result in a decrease in the Group's loss before tax/increase in loss before tax of \$5,944 for the three month period ended March 31, 2010 (increase in the Group's income before tax/decrease in income before tax of \$3,830 for the three month period ended March 31, 2009).

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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## Notes to the condensed consolidated financial statements

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### 18. Financial instruments (continued)

(e) *Price risk*

The Group is exposed to price risk of the Company's shares through its financial liabilities at FVTPL – warrant liabilities. Therefore, the Group are exposed to price risk because of changes in market prices of its shares.

*Price sensitivity analysis*

The sensitivity analysis has been determined based on the exposure to price risks for warrant liabilities fluctuating in the Toronto Stock Exchange stock market. If the Company's share price had been 50% higher/lower at March 31, 2010 and all other variables were held constant, the Group's loss before income tax would be increased/decreased by approximately \$8.0 million/\$7.6 million for the three months ended March 31, 2010 (Group's income before income tax would be decreased/increased by approximately \$667,000/\$433,000 for the three months ended March 31, 2009).

(f) *Fair value measurements recognized in the statement of financial position*

The analysis of financial instruments that are measured subsequent to initial recognition at fair value can be categorized into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial liabilities at FVTPL include warrant liabilities and are categorized into Level 3. The amount of fair value change on warrant liabilities charged to profit or loss amounted to \$6,282,657 for the three months ended March 31, 2010 (\$271,612 for the three months ended March 31, 2009):

		<u>March 31,</u>	December 31,
		<u>2010</u>	2009
		\$	\$
<i>Financial liabilities at FVTPL</i>			
Warrant liabilities	Level 3	<b>9,204,803</b>	5,286,123



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### 19. Commitments and contingencies

#### *Operating leases commitments*

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Within one year	<b>98,791</b>	95,482
Between two and five years	<b>405,749</b>	391,307
	<b>504,540</b>	486,789

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for an average term of three to five years.

#### *Capital commitments*

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for	<b>2,634,708</b>	10,465,453

#### *Other commitments and contingencies existed at March 31, 2010*

In October 2006, the Group 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 Group is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Group 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 Group.

# Jinshan Gold Mines Inc.

## Notes to the condensed consolidated financial statements

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### 20. Subsequent events

- (i) Following an auction process, and review and consideration by the independent members of the board of the Company, the Group entered into a letter of intent to a potential purchaser in relation to the disposal of its entire interest in Gansu Pacific as disclosed in note 10(b). Subsequent to the end of the reporting period and on April 28, 2010, the Company's subsidiary, Gansu Pacific, and its joint venture partner, Nuclear Industry Northwest Economic and Technology Co, entered into an agreement to sell the Dadiangou Gold Project (note 10(b)) in Gansu Province, China. The parties are selling the project to Gansu Zhongjin Gold Mining Co. Ltd., a subsidiary of Zhongjin Gold Corporation Limited, a company listed on the Shanghai Stock Exchange and a subsidiary of CNG. The purchase price is RMB 88 million (approximately \$13.1 million), of which the Group will be entitled to 53%, or RMB 46.6 million (approximately \$7 million). The transaction has not yet been completed as of the date of this report.
- (ii) On April 26, 2010, the Company's subsidiary, Pacific PGM Inc., entered into an agreement with an independent third party to dispose of all equity interests in Yunnan Southern Copper (Barbados) Inc. which in turn held a 99% interests in Xinjiang Projects (note 10(c)). The consideration is US\$20,000. The transaction has not yet been completed as of the date of this report.



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*The following Management's Discussion and Analysis of financial condition and results of operations ("MD&A") was prepared as of May 17, 2010. They should be read in conjunction with the consolidated financial statements and notes thereto of Jinshan Gold Mines Inc. ("Jinshan" or the "Company") for the three months ended March 31, 2010 and the annual audited consolidated financial statements for the year ended December 31, 2009. 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 are collectively known as the "Group".*

*The following discussion contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of our Company please refer to the section entitled "Forward looking Statements" and "Risk Factors" and to discussions elsewhere in this prospectus.*

### **OVERVIEW**

Jinshan is a mining company based in Vancouver, Canada and its principal property is the Chang Shan Hao Gold Mine ("CSH Gold Mine or CSH Mine"), which is located in Inner Mongolia, China. Jinshan holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture partner holds the remaining 3.5% interest. Jinshan started up gold production at the CSH Gold Mine in July 2007 and commenced commercial production on July 1, 2008.

According to the Behre Dolbear Technical Report ("BD ITR") released March 30, 2010, the CSH Mine had measured and indicated gold resources (inclusive of reserves) of approximately 4,992,000 ounces (155.3 tonnes), inferred gold resources of 7,000 ounces (0.2 tonne) and gold reserves of approximately 3,001,000 ounces (93.3 tonnes) as of December 31, 2009. The CSH Mine commenced commercial production in July 2008 with a design processing capacity of 20,000 tonnes of ore per day. For the year ended December 31, 2009, the total gold production was approximately 83,570 ounces. We have recently implemented a series of steps to achieve additional production growth. In particular, we have installed a new ore crushing facility which ramped up to its design processing capacity of 30,000 tonnes of ore per day in March 2010. According to the Behre Dolbear Technical Report, the total gold production is forecasted to be approximately 132,210 ounces and 144,780 ounces in 2010 and 2011, respectively.

The Company has negotiated the sale of its two other resource properties, the Dadiangou gold project and the Xinjiang projects, in order to concentrate on its principal property, the CSH Gold Mine, and the purchase of similar producing properties in the near future. Following an auction process and review and consideration by the independent members of the Board of the Company, Jinshan's subsidiary, Gansu Pacific Mining Co. Ltd (Gansu) and its joint venture partner, Nuclear Industry Northwest Economic and Technology Co., have entered into an agreement to sell the Dadiangou gold project in Gansu Province, China, to a related party. The purchase price is RMB 88 million (\$13.1 million) of which the Company will be entitled to 53% or RMB 46.6 million (\$7.0 million). The sale is still subject to conditions and has not yet completed. Jinshan's subsidiary, Pacific PGM Inc., entered into an agreement with an independent third party to dispose of all equity interests in Yunnan Southern Copper (Barbados) Inc. for consideration of \$20,000. Yunnan held a 99% interest in the Xinjiang Projects.

The last of the CDN\$50.0 million promissory notes at 12% issued in 2006 and 2007, Note C for CDN\$7.5 million, is due to be repaid June 26, 2010. The Note is being held by the Company's majority shareholder, China National Gold Group ("CNG"). In addition, the Company is also responsible for its first principal repayment of \$1.5 million on its RMB290 million (\$42.3 million) loan from the Agricultural Bank of China in September 2010.

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

# JINSHAN GOLD MINES INC.

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

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### HIGHLIGHTS

	Three months ended March 31, 2010	Three months ended March 31, 2009	From commencement to March 31, 2010
Commercial gold production (ounces)	12,484	9,328	129,725
Pre-commercial gold production (ounces)	-	-	45,833
Total gold production (ounces)	12,484	9,328	175,558

	Three months ending March 31, 2010	Three months ending March 31, 2009
Net (loss) income	(\$4.4) Million	\$ 2.3 Million
Basic (loss) income per share	(\$0.03)	\$0.01
Net cash flows (used in) from operations	(\$12.5) Million	\$ 0.4 Million
Property, plant and equipment cash expenditures	\$1.5 Million	\$ 10.5 Million

	Balance, March 31, 2010	Balance, March 31, 2009
Cash and cash equivalents	\$7.9 Million	\$24.0 Million
Working capital(deficiency)*	\$1.4 Million	(\$9.5) Million

\*Working capital consists of current assets less current liabilities

### OUTLOOK

The Company initiated gold production at the CSH Gold Mine in July 2007 and for accounting purposes, commenced commercial production on July 1, 2008. In September 2009, Jinshan poured a record high of 11,388 ounces of gold surpassing the design capacity of 9,000 ounces per month. The Company continues to improve production levels by optimizing the leach circuit and taking various other measures to increase gold recovery in the process plant.

The Company completed the installation of a 30,000 tonnes per day crushing facility and began test running such facility in mid-August, 2009. The throughput has gradually ramped up and in March, the crushing facility began operating at its design capacity of 30,000 tonnes of ore per day.

The Company continues to look for ways to improve gold recoveries during the winter months as the recoveries are sensitive to cold temperatures. This winter has been exceptionally harsh. Some of the trial un-buried drip meters froze, and as a result, gold recoveries during these past three months have suffered. However, recoveries and gold production are still expected to reach projected cumulative levels for 2010 with more recoveries during the warmer months of the year.

The Company continues to draw upon China National Gold Corporation's ("CNG") technical and operating experience in China to improve operations at the CSH Gold Mine. Together with CNG's technical expertise, the Company will continue to focus its efforts on increasing and optimizing gold production.

The Company is working with CNG to identify potential projects that can be readily and quickly brought into production. The Company's objective is to identify projects that may also include the potential for further exploration to increase upon the existing resource base of the project. One such project has been identified. On September 23, 2009, the Company announced that it executed a memorandum of understanding with CNG and another partner to acquire a 100% interest in the Jiama mineral property ("Jiama"). The Jiama property is a significant polymetallic deposit consisting of copper, gold, silver, molybdenum, and other minerals. The parties have commenced the negotiation and preparation of definitive agreements regarding the purchase and sale of the property. As the acquisition will be a related party transaction under Canadian securities laws, the Company has established a special committee of independent directors to review the transaction. A review process is in progress to conform to related party transaction requirements, and upon completion of this process, the terms of any potential

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acquisition will be determined by negotiation between CNG and its partner on the one hand and a special committee of the Board on the other.

### ACCOUNTING POLICIES AND NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

Except as described below, please refer to Note 4 of the Company's annual audited consolidated financial statements for the accounting policies applied for the three month period ended March 31, 2010.

In the current interim period, the Group has applied for the first time the following new and revised standards, amendments to standards, and interpretations issued by the International Accounting Standard Board (IASB) which are now effective for the financial year beginning January 1, 2010.

- |                         |   |
|-------------------------|---|
| • IFRSs (Amendments)    | Amendment to IFRS 5 as part of Improvements to IFRSs issued in May 2008 |
| • IFRSs (Amendments)    | Improvements to IFRSs issued in 2009 (except for amendment to IAS 1)    |
| • IAS 27 (January 2008) | Consolidated and Separate Financial Statements                          |
| • IAS 39 (Amendment)    | Eligible Hedged Items   |
| • IFRS 2 (Amendment)    | Group Cash-settled Share-based Payment Transactions                     |
| • IFRS 3 (Revised)      | Business Combinations   |
| • IFRIC 17              | Distributions of Non-cash Assets to Owners                              |
| • IFRIC 18              | Transfers of Assets from Customers                                      |

The Group has not early applied the following new and revised standards, amendments to standards, or interpretations that have been issued but are not yet effective:

- |                        |  |
|------------------------|--|
| • IFRS (Amendments)    | Improvements to IFRS's May 2010 <sup>(i)</sup>   |
| • IAS 24 (Revised)     | Related Party Disclosures <sup>(ii)</sup>  |
| • IAS 32 (Amendment)   | Classification of Rights Issues <sup>(iii)</sup>   |
| • IFRS 1 (Amendment)   | Limited Exemption for Comparative IFRS 7 Disclosure for First Time Adopters <sup>(v)</sup> |
| • IFRS 9               | Financial Instruments <sup>(iv)</sup>  |
| • IFRIC 14 (Amendment) | Prepayments of a Minimum Funding Requirement <sup>(iii)</sup>                              |
| • IFRIC 19             | Extinguishing Financial Liabilities with Equity Instruments <sup>(v)</sup>                 |

- (i) Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate  
(ii) Effective for annual periods beginning on or after January 1, 2011  
(iii) Effective for annual periods beginning on or after February 1, 2010  
(iv) Effective for annual periods beginning on or after January 1, 2013  
(v) Effective for annual periods beginning on or after July 1, 2010

The Group anticipates that the application of these new and revised standards, amendments to standards, and interpretations would have no material impact on the condensed consolidated financial statements of the Company.

### SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Except as identified below, the significant accounting judgments and estimates that are applicable to the three month period ended March 31, 2010 are consistent with those identified in Note 5 of the Company's annual audited consolidated financial statements.

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. A change in the estimated life of the mine from 10 years to 24 years as a result of the recent technical report released in March 2010 has resulted in Management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and

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as a result, Management has increased the life of the buildings from 10 years to 24 years effective January 1, 2010. The depreciation of buildings was reduced by US\$63,842 for the three months ended March 31, 2010 due to the change of buildings useful life as mentioned above.

The assumptions used in the valuation of gold-in-process inventories particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads has been reconsidered by Management. As a result, Management has reduced the recovery rate used in its inventory from 43% to 38.6% for the three month period ended March 31, 2010. The inventory balance was reduced by approximately US\$136,000 as at March 31, 2010.

#### **FORWARD LOOKING STATEMENTS**

Certain statements made herein, other than statements of historical fact relating to the Company, represent forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as "may", "will", "expect", "anticipate", "contemplates", "aim", "estimate", "intend", "plan", "believe", "potential", "continue", "is/are likely to", "should" or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward looking information includes, among other things; projected revenues and cash flows from gold production at the CSH Gold Project; performance of the crusher and recovery rates from the processing facility; obtaining regulatory confirmations and updated and expanded permits for the CSH Gold Project to cover all resources and reserves and the entire contemplated mine life; anticipated operating costs; the potential acquisition of other mineral property assets; the proposed sale of the Dadiangou Gold Project; the proposed sale of the Xinjiang Projects; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of Jinshan and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material adverse change in Jinshan's operations or in foreign exchange rates, the prevailing price of gold, effective tax rates and other assumptions underlying the financial performance of the CSH Gold Project as listed in the CSH Technical Report; Jinshan's ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labour relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, litigation or arbitration and adverse changes in government regulation; the availability and accessibility to Jinshan of financing; and the performance by counterparties of the terms and conditions of all contracts to which Jinshan and its subsidiaries are a party. The forward-looking information is also based on the assumption that none of the risk factors identified in this MD&A that could cause actual results to differ materially from the forward-looking information actually occurs.

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

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**FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our results of operations have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in the section entitled "Risk Factors" in this MD&A and those set out below.

***Prices of Products***

Our principal product from the CSH Mine is gold dore bar. The sales prices of gold dore bars are primarily determined based on prevailing gold prices in the market, with reference to prices on the Shanghai Gold Exchange, which in turn have historically correlated with international gold prices.

The following table sets forth the monthly weighted average sales price for the gold produced at the CSH Mine since the commencement of commercial production in July 2008:

	Weighted average sales price (US\$ per ounce)		Weighted average sales price (US\$ per ounce)
July 2008.....	940.0	July 2009.....	931.7
August 2008.....	852.6	August 2009.....	952.9
September 2008.....	823.4	September 2009.....	992.3
October 2008.....	789.7	October 2009.....	1027.0
November 2008.....	818.9	November 2009.....	1098.2
December 2008.....	828.8	December 2009.....	1063.0
January 2009.....	856.0	January 2010.....	1090.6
February 2009.....	948.0	February 2010.....	1115.9
March 2009.....	912.0	March 2010.....	1108.4
April 2009.....	870.4	April 2010.....	1097.9
May 2009.....	951.1		
June 2009.....	937.4		

Historically, the market prices for these metals have fluctuated significantly. The prices may be influenced by numerous factors beyond our control such as world supply and demand, selling and purchase activities by central banks and other macro-economic factors such as expectations regarding inflation rates, interest rates, currency exchange rates, as well as general global economic conditions and political trends. We do not currently employ any financial instruments to hedge market fluctuations. Fluctuations in market prices will lead to fluctuations in our financial results.

***Production Volume***

Our production volume is primarily determined by the reserves at our mines, our production capacity and our recovery rate with respect to the CSH Mine. We commenced pre-commercial production at the CSH Mine in July 2007 and commercial production in July 2008. The average monthly commercial production volume at the CSH Mine for the three month periods ended March 31, 2010 and 2009, was 4,161 ounces and 3,123 ounces respectively and for the years ended December 31, 2009 and 2008, approximately 6,964 ounces and 5,612 ounces respectively.

The CSH Mine commenced commercial production in July 2008 with a design processing capacity of 20,000 tonnes of ore per day. Since then, we have installed a new ore crushing facility which ramped up to the design processing capacity of 30,000 tonnes of ore per day in March 2010.

The gold recovery rate at the CSH Mine is determined by various factors including the grade and size of ore placed on the leach pad and the weather conditions. We have installed a new crushing facility at the CSH Mine to crush the extracted ore to a size where 80% passes through nine millimeter screens before being loaded onto the leach pad.



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Reduced ore particle size will increase the gold recovery rate. The current recovery for the Run of Mine (non-crushed) ore is about 37%, however, gold will continue to be leached out from the ROM material during the current and future years. From 2010 on, most of the ore mined is fresh and crushed with only minor amounts of obviously well oxidized finer sized ore being hauled directly to the leach pad. For the crushed ore, the recovery ranges from 60% to 80% dependant on the gold grade as indicated by the recent column leach testing. We have and will continue to experience lower production in the winter months due to low temperatures, which the company is actively seeking better control to keep the leach solution temperature from going down too much during the winter months. The recovery rate increases greatly during the warmer months of the year.

### ***Cost of Production***

Our cost of production primarily includes mining costs, ore processing costs, other mine operating costs, relevant taxes, depreciation and depletion.

Historically, mining costs have been the largest component of our cost of production at the CSH Mine. Mining costs are primarily affected by the amount of fees paid to third-party contractors. Ore processing costs are primarily affected by the prices of auxiliary materials (such as chemical products and grinding balls) and utilities and production staff costs. Additional capital expenditure will increase our depreciation and depletion which will in turn increase our cost of production.

### ***Finance Costs***

Historically, our working capital and capital expenditure needs have been primarily funded with proceeds from the issuances of promissory notes and loans from commercial banks and China National Gold. Effective interest expense on such indebtedness has been significant. It includes both the actual interest charged based on the interest rate as well as additional amounts either expensed or capitalized that relate to the original indebtedness. An example would be the promissory notes and the cost of the additional warrants issued as a result of the promissory notes. For the three month periods ended March 31, 2010 and 2009, our effective interest (including the amount capitalized) was \$1.6 million and \$2.5 million, respectively. For the years ended December 31, 2009 and 2008, our effective interest expense (including the amount capitalized) was \$9.9 million and \$9.1 million, respectively. Finance costs, as an item on our income statement, which excludes capitalized interest, has been significantly less than our effective interest. For the three month periods ended March 31, 2010 and 2009, our finance costs totaled \$0.7 million and \$1.3 million, respectively. For the years ended December 31, 2009 and 2008, our finance costs totaled \$6.3 million and \$3.6 million, respectively.

In the future, we expect our working capital and capital expenditure needs to continue to be partially met with bank loans like the Agricultural Bank of China Loan we presently have. Accordingly, we expect finance costs to continue to affect our results of operations. Fluctuations in interest rates will affect our finance costs, which may in turn affect our results of operations.

### ***Exchange Rate Fluctuations***

Our functional currency is the U.S. dollar. During 2006 and 2007, we issued promissory notes denominated in Canadian dollars. In recent years, the exchange rate between the U.S. dollar and Canadian dollar has fluctuated significantly, leading to relatively substantial amounts of foreign exchange gains or losses recorded by us, which in turn had an impact on our net profit or loss.

For the three month periods ended March 31, 2010 and 2009, we had \$0.6 million and \$2.8 million of foreign exchange gain respectively. Both were largely attributable to the Canadian dollar denominated promissory notes and the conversion of financial statements of Chinese subsidiaries into USD. After redeeming the majority of the promissory notes to date, Note A for CDN\$30.0 million on December 14, 2009 and Note B for CDN\$12.5 million on January 11, 2010, Note C for CDN\$ \$7.5 million still remains outstanding until it's redeemed on June 26, 2010. Accordingly, we expect fluctuations in the exchange rate between the U.S. dollar and Canadian dollar to continue to affect our results of operations but not to the degree they have in the past.

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*Fair Value Change on Warrant Liabilities*

In December 2006 and July 2007, we issued warrants as part of a series of issuances of promissory notes. In December 2006, as part of our issuance of the Series A Notes, we issued 6,000,000 warrants with an exercise price of CDN\$1.60 per Share. In June 2007, as part of our issuance of the Series B and Series C Notes, we issued 4,000,000 warrants with an exercise price of CDN\$2.50 per Share. As of March 31, 2010, 910,000 of our warrants at CDN\$1.60 per Share and 2,150,000 warrants at CDN\$2.50 per Share were outstanding. The fair value change on our warrant liabilities has been significant since the issuance of these warrants. For the three month periods ended March 31, 2010 and 2009, we had fair value losses on our warrant liabilities of \$6.3 million and \$0.3 million, respectively while in the years ended 2009 and 2008, we had a fair value loss of \$7.2 million and a fair value gain of \$12.8 million, respectively, on our warrant liabilities. The fair values of our warrants were determined by applying the Black-Scholes option pricing model, based on a number of assumptions which are subject to change. The significant change in fair value on our warrant liabilities has been attributable to a number of factors including a higher share price, a decrease in exchange rate between Canadian and U.S. dollars, a lower interest rate, and a shorter expected life of the warrants. As a result of our rising stock price, we were able to exercise the accelerated expiry right for the CDN\$1.60 per Share warrants on March 18, 2010, resulting in all CDN\$1.60 per Share warrants subsequently exercised by April 22, 2010.

We were also able to exercise the accelerated expiry right for the CDN\$4.25 per Share warrants on April 16, 2010 with all such warrants now expiring by May 17, 2010. Subsequent to March 31, 2010, all warrants have been exercised.

*Exploration Success*

Our long-term growth depends on our ability to grow resources at CSH organically and to acquire economic and accretive reserves. The Company is working to continue to add resources at CSH. A drilling program is planned for the warmer months in 2010. The Company is also reviewing a number of projects with both proven and probable resources as defined under NI 43-101 and with additional exploration potential for acquisition.

**HISTORICAL FINANCIAL INFORMATION**

*Basis of Presentation*

The consolidated financial statements of the Company include the consolidated the financial statements of Jinshan and our controlled subsidiaries (including our operating subsidiary, namely, the CSH CJV). The assets and liabilities of the Dadiangou CJV and the Xinjiang CJV have been segregated and held for sale. Our financial statements are presented in U.S. dollars.

**Principal Income Statement Components**

*Revenue*

Revenue represents proceeds from the sale of gold produced at the CSH Mine to customers after the commencement of commercial production on July 1, 2008. The Company's revenue was generated from the sale of gold to China National Gold and two independent third-party refineries in China. Proceeds from the sale of gold at the CSH Mine to customers prior to the commencement of commercial production were netted off against costs and were capitalized and included in mineral assets under property, plant and equipment. For information on the capitalization of development costs, see note 11 of our condensed consolidated financial statements.

Revenue from the sale of gold is recognized when all significant risks and rewards of ownership pass to the customers, no further work or processing is required by us, the quantity and quality of the products has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured. When sales are subject to adjustment based on an inspection of products by the customers, revenue is initially recognized on a provisional basis using our best estimate of contained metal and adjusted subsequently. As a result, we generally recognize revenue from the sale of gold on a provisional basis when gold dore bars are loaded into

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China National Gold's transporting vehicle and title to our gold dore bars passes. The initially recognized revenue is subject to subsequent adjustment at the time of settlement. The sale price of our gold is generally equal to the market price of gold with reference to the dated gold prices on the Shanghai Gold Exchange, net of refining charges. Our sales of the silver by-product are used to offset cost of sales instead of being included in revenue.

### ***Cost of sales***

Our cost of sales primarily consists of mining costs (which primarily include fees paid to third-party contractors), ore processing costs (which primarily include costs of auxiliary materials used in the production process (such as chemical products), production staff costs and utilities costs), other mine operating costs (primarily operating expenses of the CSH CJV, such as administrative and management staff salaries and benefits and office expenses), taxes, and depreciation and depletion. With respect to the CSH Mine, we are subject to the People's Republic of China ("PRC") resource tax at RMB3 per tonne of ore processed as well as a resource compensation fee at a rate of 2.8% of the revenue of the CSH CJV. The rates of this tax and fee are subject to adjustment by relevant PRC government authorities from time to time. Cost of sales is netted against sales of the silver by-product because the amount of proceeds from silver sales is insignificant. Fees paid to third-party contractors are primarily for the provision of mine construction work and mining services.

### ***Depreciation and depletion***

Depreciation and depletion primarily consist of (i) depreciation of property, plant and equipment; and (ii) depletion of exploration expenditures incurred on sites within an existing mine or in areas within the boundary of a known mineral deposit which contain proved and probable reserves, provided that such exploration costs are economically recoverable and commercial production has already commenced at such sites. For the accounting treatment of exploration expenditure incurred at other stages, see "Exploration and evaluation expenditures" below.

### ***General and administrative expenses***

General and administrative expenses primarily consists of administrative and management staff salaries, benefits and travel expenses of administrative and management staff of our head office in Canada, office expenses, investor relations expenses, professional fees, and other miscellaneous expenses relating to general administration of our head office in Canada.

### ***Exploration and evaluation expenditures***

Exploration and evaluation expenditures primarily consist of fees paid to third-party contractors for exploration activities such as drilling on sites other than the operating mine and on areas outside the boundary of a known mineral deposit which contains proved and probable reserves and preparing drilling reports, fees paid to obtain exploration permits, and in-house exploration staff costs.

Exploration and evaluation expenditures are charged to the consolidated statement of comprehensive income in the period incurred until such time when our management has determined that a mineral property has economically recoverable reserves. For the criteria our management uses when making assessment of economic recoverability, see note 4(k) in our annual audited consolidated financial statements. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and included in the carrying amount of mineral assets under property, plant and equipment.

### ***Foreign exchange gain (loss)***

Our reporting currency and the functional currency of our operations is the U.S. dollar. Transactions in currencies other than the U.S. dollar are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a currency other than the U.S. dollar are translated using the exchange rates as at the dates of the

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initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. All gains and losses on translation of these foreign currency transactions are included in our consolidated statements of comprehensive income.

Foreign exchange gain (loss) primarily consists of foreign exchange differences arising from the conversion of the balances of Canadian-dollar denominated promissory notes to U.S. dollars and the conversion of foreign subsidiaries denominated in RMB to U.S. dollars.

***Interest income***

Interest income primarily consists of interest on bank deposits.

***Finance costs***

Finance costs consist of effective interest accrued on our borrowings and accretion on environmental rehabilitation liabilities, net of capitalized interest. Interest expenses are capitalized if the borrowings underlying the interest expenses are for a specific project or mine development purposes.

Effective interest consists of interest expenses and interest accretion on our borrowings. For information on accretion on environmental liabilities, see "Selected Balance Sheet Items - Environmental rehabilitation".

***Fair value change on warrant liabilities***

Value change on warrant liabilities records the change between two consecutive reporting periods in the fair value of warrants that were granted and outstanding as of the end of the previous reporting period. Fair value of warrants is determined using the Black-Scholes option pricing model and requires the input of various subjective assumptions such as the expected volatility of our share price and the expected per share dividend. For further information on the warrants issued by us, see note 12 (ii) of our condensed consolidated financial statements.

***Income tax expense***

The Company was subject to Canadian federal and provincial tax at a rate of 28.5% and 30.0% for the three month period ended March 31, 2010 and the year ended December 31, 2009, respectively. During the same periods, our operating PRC subsidiaries, namely the CSH CJV and Dadiangou CJV, were all subject to PRC enterprise income tax at a rate of 25% and 25%.

At March 31, 2010, we recognized \$1.3 million of deferred tax liabilities in addition to the deferred tax liabilities of \$1.7 million at December 31, 2009 for total deferred tax liabilities of \$2.6 million. We also recognized current income tax expense of \$383,000 for total current tax expense for the three month period of March 31, 2010 of \$2.1 million.

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**Results of Operations of Our Company**

The following table provides selected financial data for the CSH Gold Mine for three month periods ended March 31, 2010 and 2009:

	<b>Three months ended March 31, 2010</b>	Three months ended March 31, 2009
Revenue	\$ 10,498,968	\$ 7,685,989
Cost of sales excluding depreciation, amortization and depletion	(3,940,243)	(4,047,818)
Depreciation, amortization and depletion	(1,367,725)	(1,241,386)
Cost of sales	(5,307,968)	(5,289,204)
Mine operating earnings	\$ 5,191,000	\$ 2,396,785
Gold produced (ounces)	12,484	9,328
Gold sold (ounces)	9,464	8,605
Total cost of gold sold per ounce	\$ 561	\$ 615
Cash cost per ounce (Non-GAAP measure)	\$ 416	\$ 470

The following table provides certain operating data for the CSH Gold Mine for three month periods ended March 31, 2010 and 2009:

	<b>Three months ended March 31, 2010</b>	Three months ended March 31, 2009
Ore mined and placed on pad (tonnes)	2,947,925	1,665,154
Average grade of ore (grams per tonne)	0.747	0.681
Recoverable gold at 51% recovery rate (ounces)	27,353	18,585
Ending gold inventory (ounces)	68,345	49,793
Waste rock mined (tonnes)	3,513,583	733,255

The following table provides certain unit costs for the CSH Gold Mine for three months ended March 31, 2010 and 2010:

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	<b>Three months ended March 31, 2010</b>	Three months ended March 31, 2009
Cost of mining per tonne of ore	\$ <b>1.12</b>	\$ 1.69
Cost of mining waste per tonne of ore	\$ <b>1.19</b>	\$ 0.54
Other mining costs per tonne of ore	\$ <b>0.62</b>	\$ 0.64
<b>Total mining costs per tonne of ore</b>	<b>\$ 2.93</b>	\$ 2.87
Cost of reagents per tonne of ore	\$ <b>0.59</b>	\$ 0.80
Other processing costs per tonne of ore	\$ <b>0.38</b>	\$ 0.27
<b>Total processing cost per tonne of ore</b>	<b>\$ 0.97</b>	\$ 1.07

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

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

	<b>Three months ended March 31, 2010</b>		Three months ended March 31, 2009	
	Total	Price per gold ounce	Total	Price per gold ounce
Cost of sales	\$ 5,307,968	\$ 561	\$ 5,289,204	\$ 615
Adjustments:				
Depreciation and depletion	(1,367,725)	(145)	(1,241,386)	(144)
Selling costs	(999)	(0)	(782)	(0)
<b>Total cash costs</b>	<b>\$ 3,939,244</b>	<b>\$ 416</b>	<b>\$ 4,047,036</b>	<b>\$ 470</b>

**Selected Quarterly Data**

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(\$ in thousands, except per share information)	2010	2009				2008		
QUARTER ENDED	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun (1)
Revenues	\$10,498	\$34,009	\$21,048	\$18,304	\$7,686	\$16,275	\$13,096	\$0
Exploration expenses	\$23	\$907	\$396	\$279	\$327	\$1,958	\$1,035	\$926
Net (loss) income	(4,185)	(3,457)	(3,480)	(3,775)	2,341	5,665	7,769	(2,007)
Basic (loss) earnings per share	(0.03)	(0.02)	(0.02)	(0.02)	0.01	0.03	0.05	(0.01)
Diluted (loss) earnings per share	(0.03)	(0.02)	(0.02)	(0.02)	0.01	0.03	0.08	(0.01)

(1) Pre-dates the commencement of commercial production which began July 1, 2008.

**Three month period ended March 31, 2010 compared to three month period ended March 31, 2009**

***Revenue***

Revenue increased by 37%, or \$2.8 million, from \$7.7million for the three month period ended March 31, 2009, to \$10.5 million for the three month period ended March 31, 2010. The increase was due to a \$216 per ounce increase in the weighted average price of gold at the CSH Mine as well as an increase in the ounces of gold sold. For the three month period ended March 31, 2010, the CSH Mine produced a total of 12,484 ounces of gold and sold 9,464 ounces of gold at a weighted average price of \$1,109 per ounce. For the three month period ended March 31, 2009, the CSH Mine produced a total of 9,328 ounces of gold and sold 8,605 ounces of gold at a weighted average price of \$893 per ounce.

***Cost of sales excluding depreciation and depletion***

Cost of sales excluding depreciation and depletion decreased by 2.7% or \$0.1 million, from \$4.0 million for the three month period ended March 31, 2009 to \$3.9 million, for the three month period ended March 31, 2010. Cost of sales excluding depreciation and depletion as a percentage of revenue decreased from 52.7% for the three month period ended March 31, 2009 to 37.5% for the three month period ended March 31, 2010 primarily due to an increase in the sale price of gold for the three month period ended March 31, 2010.

***Depreciation and depletion***

Depreciation and depletion increased by 10.2%, or \$126,000, from \$1.2 million for the three month period ended March 31, 2009 to \$1.4 million for the three month period ended March 31, 2010. Depreciation should have increased more with the increase in capital expenditures since the first quarter of 2009 but the estimated useful life of the buildings at the mine site was extended from 10 years to 24 years as a result of the extension of the mine life resulting in reduced depreciation from this quarter forward.

***Total cost of sales***

Total cost of sales increased by 0.4% or \$19,000, from \$5.3 million for the three month period ended March 31, 2009 to \$5.3 million, for the three month period ended March 31, 2010. Total cost of sales as a percentage of revenue decreased from 68.8% for the three month period ended March 31, 2009 to 50.6% for the three month period ended March 31, 2010 primarily due to an increase in the sale price of gold for the three month period ended March 31, 2010.

***Mine operating earnings***

As a result of the foregoing, mine operating earnings more than doubled from \$2.4 million for the three month period ended March 31, 2009 to \$5.2 million for the three month period ended March 31, 2010. Mine operating earnings as a percentage of revenue rose from 31.2% to 49.4%.

***General and administrative expenses***

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General and administrative expenses decreased by 2.5 %, or \$24,000, from \$970,000 for the three month period ended March 31, 2009 to \$946,000 for the three month period ended March 31, 2010. This decrease was primarily attributable to a decrease of \$0.1 million in salaries and benefits and a decrease of \$0.1 million in professional fees which was partially offset by an increase of \$27,000 in administration and office expenses, an increase of \$16,000 in depreciation, an increase of \$13,000 in investor relations, and an increase of \$11,000 in travel. The decrease in salaries and benefits was primarily attributable to a decrease in the size of management of our Company as a result of our efforts to streamline senior management.

#### ***Exploration and evaluation expenditure***

Exploration and evaluation expenditure decreased by 92.8%, or \$0.3 million, from \$0.3 million for the three month period ended March 31, 2009 to \$23,000 for the three month period ended March 31, 2010. This decrease was primarily due to decreases in exploration expenses in respect of the Dadiangou Project and the CSH Mine, respectively, as a result of a decreased level of drilling activities. The drilling activities in respect of the CSH Mine decreased mainly because the Company was focusing its resources on getting the crushing circuit built to ramp up the production. The drilling activities in respect of the Dadiangou Project decreased primarily because exploration has been completed and the project is now being sold.

#### ***Income from operations***

As a result of the foregoing, income from operations increased by 283.8%, or \$3.1 million, from income of \$1.1 million for the three month period ended March 31, 2009 to income of \$4.2 million for the three month period ended March 31, 2010.

#### ***Foreign exchange gain***

The gain in foreign exchange decreased by 77.8% or \$2.2 million from \$2.8 million for the three month period ended March 31, 2009 to \$0.6 million for the three month period ended March 31, 2010. The gain in 2009 primarily relates to the outstanding amount of our Canadian dollar promissory notes issued in 2006 and 2007 and the depreciation in their value in US dollar terms while the gain in 2010 relates to the conversion of foreign subsidiaries denominated in RMB to the US dollar functional currency.

#### ***Interest income***

Interest income decreased by 100.0%, or \$2,100, from \$2,100 for the three month period ended March 31, 2009 to \$nil for the three month period ended March 31, 2010. This decrease was primarily due to a decrease in bank deposits as a result of increasing capital and operating expenditures as CSH Mine improved production and continued to complete payments for the construction of the crusher facilities.

#### ***Listing expenses***

We recorded listing expense of \$0.4 million for the three month period ended March 31, 2010 while we had no such expenses for the three month period ended March 31, 2009. The listing expenses were incurred primarily for professional services related to the proposed listing on an Asian stock exchange which was initiated after the quarter.

#### ***Fair value change on warrant liabilities***

We recorded a \$6.0 million increase in the fair value change of warrant liabilities from \$0.3 million for the three month period ended March 31, 2009 to \$6.3 million for the three month period ended March 31, 2010. This increase related to the rise in the share price of the Company from CDN\$3.17 per Share at December 31, 2009 to CDN\$5.29 per Share at March 31, 2010.

#### ***Finance costs***

Finance costs decreased by 41.9% or \$0.6 million from \$1.3 million for the three month period ended March 31, 2009 to \$0.7 million for the three month period ended March 31, 2010, primarily attributable to a decrease in



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effective interest of \$0.8 million and a decrease in capitalized interest expense of \$0.3 million. The decrease in effective interest expense was attributable to the repayment of the CDN\$30 million promissory note December 14, 2009, the early redemption of the CDN\$12.5 million promissory note January 11, 2010, and the reduction of outstanding warrants issued to promissory note holders as they were being exercised. The reduction in the capitalized interest corresponds to the reduction in promissory notes originally issued for the construction of the crushing facility. For information on the promissory notes issued in December 2006 and June 2007, see "Indebtedness" and note 11(i) of the condensed consolidated financial statements.

#### ***Income tax expense***

We incurred current income tax expense of \$0.4 million and deferred tax liabilities of \$1.3 million for total current tax expense of \$1.7 million for the three month period ended March 31, 2010 due to taxable profit during this period. No income tax was accrued for the three month period ended March 31, 2009 as we had no taxable profit during this period.

#### ***Net/comprehensive (loss) income attributable to shareholders of the Company***

As a result of the foregoing, we had net/comprehensive loss attributable to our shareholders of \$4.4 million for the three month period ended March 31, 2010 and net/comprehensive income attributable to our shareholders of \$2.3 million for the three month period ended March 31, 2009.

## **MINE DEVELOPMENT**

### **CSH Mine—**

#### ***Property Description***

The CSH Gold Project is located in Inner Mongolia Autonomous Region of Northern China (Inner Mongolia). The property hosts two low-grade, near surface gold deposits, along with other mineralized prospects. The main deposit is called the Northeast Zone (the "Northeast Zone"), while the second, smaller deposit is called the Southwest Zone (the "Southwest Zone").

#### ***Joint venture agreement***

The CSH Gold Project is operated and owned by Inner Mongolia Pacific Mining Co., a CJV in which Jinshan holds a 96.5% interest and Brigade 217 holds the remaining 3.5%.

#### ***Cumulative expenditures***

The following table shows the cumulative expenditures made as of March 31, 2010:

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	Increase/decrease		Increase/decrease		
	December 31, 2008	during the period (3)	December 31, 2009	during the period	March 31, 2010
	\$	\$	\$	\$	\$
Exploration expenditure charged to					
profit or loss	8,903,877	267,299	9,171,176	32,093	<b>9,203,269</b>
Mineral assets <sup>(1)</sup>	11,957,158	6,803,216	18,760,374	1,675,377	<b>20,435,751</b>
Construction in progress <sup>(2)</sup>	28,727,117	47,255,828	75,982,945	(71,633,419)	<b>4,349,526</b>

<sup>(1)</sup> During the three months ended March 31, 2010, there was an increase in mineral assets resulting from changes in the discount rate applied in estimating the provision for environmental rehabilitation of \$668,825 (Nil for the three months ended March 31, 2009). During the year ended December 31, 2009, there was an adjustment to the Group's estimate for environmental rehabilitation of \$3,145,917.

<sup>(2)</sup> During the three months ended March 31, 2010, \$69,052,699 was transferred out of construction in progress to crusher and the Group reversed \$5,719,987 in over-accruals on construction in progress upon the completion of the crushing facility construction (Nil for the three months ended March 31, 2009).

<sup>(3)</sup> During the three months ended March 31, 2010, additions to mineral assets and construction in progress were \$1,006,552 (\$5,584,213 for the three months ended March 31, 2009) and \$3,139,267 (\$10,154,440 for the three months ended March 31, 2009).

#### **Mineral Resources and Ore Reserves**

An updated mine plan for the CSH Gold Project has been developed and reported in the BD ITR dated March 30, 2010. This plan has been prepared for heap leaching with a crushing plant throughput rate of 30,000 tonnes per day by the end of the first quarter of 2010.

Mineral reserves have been reported for the final pit designs at a positive net value cutoff that corresponds to a gold grade cutoff of approximately 0.3 grams per tonne gold as scheduled in the mine plan. The proven and probable reserves at CSH mine as of December 31, 2009 stand at approximately 138 million tonnes of ore with an average grade of 0.67 g/t gold, representing approximately 3.0 million ounces of contained gold. In the previous March 2008 Independent Technical Report ("ITR"), the company reported 99 million tonnes of reserves at an average grade of 0.71 g/t gold, consisting of 35 million tonnes of proven reserves averaging 0.74g/t gold and 64 million tonnes of probable reserves averaging 0.69 g/t gold at 0.28 g/t gold cut-off grade.

The reserves are summarized in the table below:

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*CSH Mine Reserves by category, Northeast and Southwest pits combined December 2009*

Classification	Cutoff Au (g/t)	Ore (M tonnes)	Grade Au (g/t)	Contained Au (kOz)	Contained Au (kgs)
<b>Proven</b>	0.30	83.6	0.70	1,868	58,100
<b>Probable</b>	0.30	55.2	0.64	1,133	35,240
<b>Total</b>	0.30	<b>138.8</b>	<b>0.67</b>	<b>3,001</b>	<b>93,340</b>

### Resource Estimate

The new CSH mine resource estimate was reported in the BD ITR dated March 30<sup>th</sup>, 2010. The 2008 drilling campaign added significant tonnages above cutoff and also improved the grade, partly due to the confirmation of grades and upgrade in resource classification down-dip and laterally. The CSH deposit in the Southwest (SW) area is now well delineated, and still significant potential exists for down-dip extensions to the mineralization. Mineralization at depth in the Northeast (NE) has been confirmed, with increases in both tonnages and confidence.

At the end of December 2009, the project's Measured and Indicated Gold Resources, using 0.3 grams per tonne ("g/t") Au cut-off grade, stand at 243 million tonnes averaging 0.64 (g/t) gold. This translates into 4.99 million ounces of gold (inclusive of reserves) in the deposit. In the previous March 2008 ITR, 183 million tonnes of Measured and Indicated resources average 0.69 g/t gold were reported with the same 0.30 g/t gold cut-off grade. Details of the new resources are summarized in the following table.

*Table 2: CSH Mine Resources by category, Northeast and Southwest Zones (inclusive of reserves).*

Resources by category below pit surface to December 31 <sup>st</sup> , 2009, CSH Mine Project, 2009 Resource Model										
Cutoff f (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	M Tonnes	Au Grade (g/t)	M Tonnes	Au Grade (g/t)	M Tonnes	Au Grade (g/t)	Million Ounces Au	M Tonnes	Au Grade (g/t)	Million Ounces Au
<b>0.3</b>	<b>105.8</b>	<b>0.68</b>	<b>137.6</b>	<b>0.61</b>	<b>243.4</b>	<b>0.64</b>	<b>4.993</b>	<b>0.53</b>	<b>0.43</b>	<b>0.007</b>
0.35	96.1	0.71	120.8	0.65	216.9	0.68	4.716	0.35	0.49	0.005
0.4	86.5	0.75	104.1	0.69	190.6	0.72	4.400	0.24	0.54	0.004
0.45	77.2	0.79	89.1	0.74	166.3	0.76	4.068	0.18	0.57	0.003
0.5	68.0	0.83	76.2	0.78	144.2	0.80	3.732	0.12	0.62	0.002
0.55	59.6	0.88	64.9	0.83	124.4	0.85	3.399	0.08	0.68	0.002
0.6	51.9	0.92	54.9	0.87	106.8	0.90	3.073	0.05	0.73	0.001
0.65	44.6	0.97	46.6	0.92	91.2	0.94	2.760	0.03	0.83	0.001
0.7	38.1	1.02	39.6	0.96	77.7	0.99	2.467	0.02	0.88	0.001
0.75	32.3	1.07	33.4	1.00	65.7	1.04	2.188	0.02	0.93	0.000

### Production Update

In July 2007, Jinshan completed the construction of the 20,000 tonnes per day ("tpd") gold heap leach process facility. Since operations commenced in 2007, the Company's gold production at the CSH mine has totaled 163,074 troy ounces including 83,570 ounces poured in 2009. The CSH project has experienced erratic gold production numbers based on the monthly data, which has been below the gold production estimates set out in prior feasibility studies of approximately 9,000 oz per month. The Company has identified several reasons for this, including in

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particular that the previously identified "weathered" zone near surface is actually mixed with gradationally increasing amount of sulphide ore down depth, which, when not crushed, has very slow leaching kinetics or gold recovery is dramatically slowed down for ROM processing. Other factors include larger sized ore placed on the heap leach pad by the mining contractor than designed, which will take a longer period of time for gold to be leached out and seasonal slowdowns due to cold weather in winter months. The Company has implemented a number of adjustments that will augment recoveries and production rates including better control on ore size and irrigation rate etc.

In addition, a 30,000-tpd crushing plant was installed in August 2009 and underwent a process of commissioning and adjustment through the fall of 2009 and early 2010. Since March, 2010, mine production has consisted of almost entirely crushed ore, and the crusher facility reached its design capacity of 30,000-tpd in March 2010. According to the most recent column leach test done by Metcon Research of KDE, once the ore is crushed the gold recovery will be greatly improved to approximately 70% to 80% depending on the gold grades. The higher the gold grade, the better the recovery will be. Based on the new technical report done by Behre Dolbear, for 2010, the mining budget is set at 10.65 million tonnes and gold production is estimated to be 132,210 ounces. For the first three month period of 2010, the total amount of ore put on leach pad is 2,947,925 tonnes, about 7% over budget; while the total amount of gold put on leach pad is 2,201,831 grams (70,790 oz), about 40% over budget. This is mainly due to improved ore grade. However, the amount of gold poured for the three month period ended March 31<sup>st</sup>, 2010 is lower than expected due to harsh long winter and some frozen dripmeters that were not buried. In addition, most of the ore are placed on top (3<sup>rd</sup> to 4<sup>th</sup>) lifts or farther away from the process plant, which will take a longer time to circulate the solution. Like many other heap leach operations, gold production at the CSH project will gradually increase from now on according to the BD ITR.

Monthly commercial gold production for the months of July 2008 to March 2010 is shown in the tables below:

Month	2008						Total
	Jul	Aug	Sep	Oct	Nov	Dec	
Ounces Produced	5,229	6,395	6,454	5,358	5,237	4,998	33,671

Month	2009												Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Ounces Produced	4,561	2,408	2,401	6,877	6,085	6,936	5,290	8,421	14,832	8,800	7,253	9,705	83,570

(1) September includes cleaning of cells for difference with release of 11,388 ounces reported

Month	2010			Total
	Jan	Feb	Mar	
Ounces Produced	3,108	3,332	6,044	12,484

2010
April
9,057

### Project Economics

According to the new mine plan, the CSH mine life is extended from 2018 to 2023 with four more years of leaching afterwards. By the end of 2009 and prior to the use of the crusher, approximately 20 million tonnes of ROM ore were put under leach. The observed recovery from this uncrushed ROM material based on gold poured has been 37.3%. It is estimated that the ultimate recovery rate for the uncrushed ROM ore already on pad will be over 53%. With the new crushers now at the design capacity of 30,000 tpd, it is expected that the gold recovery will be greatly improved. According to the column test done by Metcon Research of KDE in 2009, the recovery rate for the crushed ore is a function of the ore grade. The higher the ore grade the higher the recovery rate, which ranges from the lowest of 62.1% in the SW pit to the highest of 80.9% in the NE pit. According to the new mine production plan, approximately 2.35 million ounces of gold will be produced in the next 15 years starting with annual production of approximately 132,210 ounces in 2010, and gradually increasing to over 150,000 ounces in 2014 and then to over 200,000 ounces in 2021. Production will decline sharply after that.

In the previous technical report released in March 2008, a 600 US dollar per ounce gold price was used to estimate the project economics and the Pre-Income Tax NPV was only \$87 million at 10% discount. In the BD ITR dated

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March 30, 2010, gold prices ranging from \$1,033 per ounce to \$849 per ounce over the next 5 years were used to estimate the Pre-Income Tax NPV as of the end of December 2009 at \$517 million at 9% discount at the exchange rate of one US dollar to 6.83 RMB yuan. Please refer to the Behre Dolbear report dated March 30, 2010 for more information. Gold prices and the recovery rate are still the two most sensitive factors for the project economics.

### **Exploration**

From 2003 through to 2005, Jinshan undertook annual drill campaigns that allowed Jinshan to complete resource estimates and quantify the size and scope of both the Northeast and Southwest Zones. This was followed by further drilling campaigns in 2007 through to 2008 to increase confidence levels in resource estimates and test extensions of mineralization. In 2007, 41 holes at approximately 11,500 metres were drilled, while in 2008, 23 holes at approximately 5,000 m were drilled.

Exploration and drilling is scheduled to continue at the CSH gold mine during the 2010 field season within the company's 25 square kilometer licensed area immediately adjoining the mining permit and mineralization at depth below the current mining permit. Priorities for exploration are given to trenching and drilling on several gold anomalies along the prospective stratigraphy that was defined by grid rock sampling during the previous field seasons. Deeper drill holes are also planned for the CSH property to explore for higher grades down dip.

### **Environmental and Community Considerations**

The Company is committed to observe and dedicated to comply with Chinese and global environmental and social responsibility standards.

In 2006, an Environmental Impact Study ("EIS") was submitted to the Inner Mongolian Environment Protection Bureau ("EPB") to comply with local (Chinese) requirements, including industrial policies and regional economic development plans, and an Environmental and Social Impact Assessment for the CSH Mine was conducted by internationally recognized consultants Environmental Resources Management ("ERM") utilizing both Chinese EIA requirements as well as World Bank Group Environmental and Social Guidelines. A key aspect of this ERM assessment concerned minimization of community impact as a result of water use by the mine, and it has also been used to provide the basis for an Environmental Management Plan for the site. Various social issues were addressed in the study. This has contributed towards protection of local social heritage and culture, employment of local people (currently approximately 30% of the workforce), employment of women (currently approximately 10% of the workforce) as well as contributions towards local education, medical equipment, various community activities and support of poor families with food and coal (which collectively have been cost at approximately RMB1.6 million to date) having been implemented by the Company.

In November 2007, the CSH Gold Project received its environmental approval from the Inner Mongolian EPB following review of the documents and a site inspection by an expert panel. Environmental Approval, which requires approval of both the EIS and a Soil and Water Conservation Plan, is required to obtain a Mining Permit, thereby enabling the mining operation to commence production.

Due to the semi-desert conditions and scarce water supply in the area, the project is being developed as a zero discharge site, hence it only requires a Water Supply (and not a Discharge) Permit, to be issued by the regulatory authorities. A comprehensive Water Resource Estimation by the Baogang Engineering Investigation and Survey Institute in Baotou was followed by a similar independent study by international experts Golder Associates, and a further hydrogeology and water resources study was conducted by the Baogang Institute. The objective of the mine project in securing its water supply is to balance the extraction of water from local sources with the capacity for recharge of these sources. The collective studies have determined that a sustainable water extraction rate would be 4,000 m<sup>3</sup>/day in average years and 3,000 m<sup>3</sup>/day in dry years, which is sufficient to meet the demand of the mining operation. The current Water Permit allows water to be pumped from the Molen River and Xinhure alluvial aquifer as well as the Hushaogou bedrock aquifer, at a rate of up to approximately 1 Mm<sup>3</sup>/year.

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Environment protection measures for the mine site include programs for water management, solid waste, rock dust mitigation, noise control, rehabilitation and seismic and flood risk.

**LIQUIDITY AND CAPITAL RESOURCES**

We operate in a capital intensive industry. Our liquidity requirements arose principally from the need for working capital to finance development of our mining and processing operations, exploration activities and acquisition of exploration and mining rights. Our principal sources of funds have been proceeds from the issuance of promissory notes, borrowing from PRC Commercial banks and China National Gold and cash generated from operations. Our liquidity will primarily depend on our ability to generate cash flow from operations and obtain external financing to meet our debt obligations as they become due as well as our future operating and capital expenditure requirements.

At March 31, 2010, the Company had an accumulated deficit of \$69,839,868 and working capital of \$1,393,909 . Jinshan's cash balance at the end of March 31, 2010 was \$7.9 million. The principal amount on the Company's last promissory note, Note C, for CDN\$7.5 million along with the quarterly interest of \$225,000 are due on June 26, 2010 while the first principal installment of \$1.5 million on the Company's RMB 290 million term loan from the Agricultural Bank of China ("ABC") is due in September 2010. Monthly interest payments of \$175,000 on the ABC loan total \$1,575,000 for the year. Finally, quarterly interest payments of \$0.6 million are due for the balance of the quarters of 2010 for the \$40.0 million CNG term loan.

Per the Company's 2010 working capital and profit forecast, management believes that its forecasted operating cash flows from the CSH Mine are sufficient to cover the next twelve months of operations factoring in planned capital expenditures and current debt repayments.

***Cash flows***

The following table sets out selected cash flow data from our consolidated cash flow statements for the three months ended March 31, 2010 and 2009:

Net cash flows (used in) from operating activities	<b>(12,482,900)</b>	357,842
Net cash flows used in investing activities	<b>(1,482,579)</b>	(5,270,645)
Net cash flows used in financing activities	<b>(1,954,681)</b>	(2,097,051)
Effect of foreign exchange rate changes on cash and cash equivalents	<b>(139,107)</b>	(26,361)
Net decrease in cash and cash equivalents	<b>(16,059,267)</b>	(7,036,215)
Cash and cash equivalents, beginning of period	<b>23,984,660</b>	12,142,739
<b>Cash and cash equivalents, end of period</b>	<b>7,925,393</b>	5,106,524

For the three month period ended March 31, 2010, cash decreased by \$16.1 million to \$7.9 million primarily due to cash used in operating activities. For the three month period ended March 31, 2009, cash decreased by \$7.0 million to \$5.1 million primarily due to cash used in investing and financing activities.

***Operating cash flow***

For the three months ended March 31, 2010, net cash used in operating activities was \$12.5 million, which was primarily attributable to (i) an increase in inventory of \$10.6 million primarily due to the reduction of the recovery rate in the winter months, (ii) a decrease in accounts payable and accrued liabilities of \$5.6 million due to the payment of third-party mining contractors and third party contractors for the installation of the crushing facility at the CSH Mine, and (iii) interest paid of \$1.3 million, partially offset by (i) a fair value loss of \$6.3 million on the warrant liabilities due to our rising stock price, (ii) depreciation and depletion of \$1.4 million, and (iii) unrealized foreign exchange gain of \$0.5 million.

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For the three months ended March 31, 2009, net cash from operating activities was \$0.3 million which was primarily attributable to (i) finance costs of \$1.3 million, and (ii) depreciation and depletion of \$1.2 million, partially offset by (i) an increase in inventory of \$2.9 million primarily reflecting an increase in the inventory of gold-in-process after the commencement of commercial production in July 2008, and (ii) interest paid of \$1.7 million primarily on the promissory notes.

#### ***Investing cash flow***

For the three months ended March 31, 2010, net cash used in investing activities was \$1.5 million, which was attributable to purchases of property, plant and equipment of \$1.5 million, net of construction payables.

For the three months ended March 31, 2009, net cash used in investing activities was \$5.3 million, which was primarily attributable to purchases of property, plant and equipment of \$10.5 million in relation to the installation of the crushing facility and expansion of processing facilities at the CSH Mine which was partially offset by restricted cash deposits received of \$5.2 million as a result of the reduction of cash deposits required on the stand-by credit facility.

#### ***Financing cash flow***

For the three months ended March 31, 2010, net cash used in financing activities was \$1.9 million, which was attributable to the repayment of Series B Notes in an aggregate amount of approximately \$3.9 million net of cash proceeds of \$2.0 million from the issuance of common shares in connection with the exercise of warrants and stock options during the three month period

For the three months ended March 31, 2009, net cash used in financing activities was \$2.1 million, which was attributable to the \$18.9 million from the bridge loan we received from the Industrial and Commercial Bank of China in September 2008 net of the aggregate proceeds of \$16.8 million from customer advances on gold production to in connection with CNG.

## **SELECTED BALANCE SHEET ITEMS**

#### ***Accounts receivable***

Accounts receivable primarily represents interest receivables, goods and services tax refund from relevant government authorities, listing expense receivable, and other receivables such as employee travel advances. We did not record any trade receivables from the sale of our gold dore bars to China National Gold as China National Gold pays an estimate sale price within two days before delivery. The estimate sale price is calculated on the basis of the estimated weight of gold and silver contained in the gold dore bars we sell. The final sale price is settled when the parties finalize the weight of gold and silver contained in the gold dore bars in accordance with the weighing and sampling procedures specified in the sale agreement. We did not record any accounts receivable from the sale of our gold dore bars to the independent third-party refinery because we started and stopped selling our products to them in July 2008 and October 2008, respectively. Therefore, as of December 31, 2008, all amounts receivable from this refinery, if any, had been settled.

Accounts receivable decreased from \$1.7 million as of December 31, 2009 to \$0.8 million as of March 31, 2010, primarily due to a reduction of listing expense receivable of \$0.6 million, based on a cost sharing agreement with the owners of the Jiama property and the repayment of an amount due from shareholder of \$0.3 million. The listing expenses included professional expenses incurred for a proposed Asian stock exchange listing.

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The following table sets forth an aging analysis of our accounts receivable as of the dates indicated:

	March 31, 2010	December 31, 2009
	\$	\$
Less than 1 month	113,075	65,167
1 to 3 months	703,688	1,270,276
Over 6 months	-	346,437
<b>Total accounts receivable</b>	<b>816,763</b>	<b>1,681,880</b>

Our trade receivable turnover days for the three month period ended March 31, 2010 and for the year ended December 31, 2009 were zero because we did not have trade receivables relating to sales of our gold.

As of May 17, 2010, 70 % of our accounts receivables as of March 31, 2010 had been settled.

***Prepaid expenses and deposits***

Prepaid expenses and deposits primarily consist of CSH Mine construction deposits paid to third-party contractors, deposits for supplies and services for mining operations at the CSH Mine, rent deposits for our corporate offices, deposits to suppliers for purchase of spare parts, insurance premium for future periods and resource tax prepaid to relevant PRC government.

As of March 31, 2010 and December 31, 2009, prepaid expenses and deposits were \$2.4 million and \$1.7 million, respectively. The increase of \$0.7 million in prepaid expenses and deposits was primarily due to a new deposit for environmental rehabilitation of \$0.8 million and an increase in refundable construction deposits of \$0.2 million offset by reductions of \$0.1 million in deposits for mine supplies and services, \$0.1 million in deposits in spare parts, and \$0.1 million in insurance.

***Inventory***

Inventory consists of gold-in-process (comprising gold contained in the ore placed on the leach pad and in-circuit material within processing operations), gold dore bars, auxiliary materials and spare parts.

Costs capitalized and included in mineral assets were mine operating costs netted off against proceeds received from sales of products prior to the commencement of commercial production on July 1, 2008. Costs of \$20.4 million that were capitalized and included in mineral assets (as part of property, plant and equipment) upon commencement of commercial production in July were reclassified as and transferred to inventory.

Our inventory increased from \$29.0 million as of December 31, 2009 to \$39.5 million as of March 31, 2010. The extremely harsh winter slowed the leaching process down resulting in lower than normal recovery rates and using 38.6% as our recovery rate for the first quarter of 2010. Although 2.9 million tonnes of ore was mined and placed on the leach pad in the first quarter of 2010, up from 1.7 million tonnes in the same three month period ended March 31, 2009, and the ore was crushed to a size smaller than 0.8 millimeters which is much smaller than the uncrushed ore placed in the same period in March 2009, less gold was poured. Our inventory increased by 15,000 ounces. We expected the crushed ore to produce better results but instead it soaked up the cyanide solution. As the weather warms, the recovery rate will improve dramatically and inventory should begin to decline. Inventory turnover days for the three months ended March 31, 2010 and for the year ended December 31, 2009 were 671 days and 188.5 days, respectively. These inventory turnover periods were primarily attributable to the amount of gold-in-process we had which was in turn primarily attributable to the nature of the heap leaching method we use at the CSH Mine. It generally requires a significant period of time (several years) from the time when ore is placed on leach pads to the time when gold is poured.



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As of March 31, 2010 and December 31 2009, inventory primarily consists of gold-in-process.

As of May 17, 2010, 100% of our gold dore bar inventory as of March 31, 2010 had been sold.

***Accounts payable and accrued expenses***

Accounts payable and accrued expenses primarily consists of amounts outstanding for trade purchases relating to gold production activities (such as purchases of auxiliary materials) and construction activities and fees payables to third-party contractors.

Accounts payable and accrued expenses decreased from \$35.1 million as of December 31, 2009 to \$24.2million as of March 31, 2010 primarily due to the payment of third-party mining contractors and third party contractors for the installation of the crushing facility at the CSH Mine.

The accounts payable turnover days for the three months ended March 31, 2010 and the year ended December 31, 2009 are calculated based on accounts payable and accrued expenses as of the period end divided by the cost of sales for the period. The accounts payable turnover days for the three months ended March 31, 2010 and the year ended December 31, 2009 was 411 days and 228 days. The rate for 2009 was relatively long and primarily attributable to the increase of unpaid amounts to Chinese governmental authorities whose amounts come due in one to twelve months after the period end, third-party mining contractors at CSH mine, and the listing services provided by third-party vendors.

As of May 17, 2010, 62% of our trade accounts payables as of March 31, 2010 had been settled. None of our construction payables as of March 31, 2010 were due to be paid as outlined in the contract terms.

***Warrant liabilities***

Warrant liabilities represented the fair value of the warrants that were outstanding as of the end of each reporting period. Warrants were granted primarily in connection with the promissory notes issued in December 2006 and June 2007, respectively, and a private placement of common shares in August 2006. For further information on the promissory notes, the private placement of common shares in August 2006 and the warrants granted in relation thereto, see note 18 annual audited consolidated financial statements.

Total warrant liabilities increased from \$5.3 million as of December 31, 2009 to \$9.2 million as of March 31, 2010, primarily attributable to an increase in fair value of warrant liabilities as of December 31, 2009 of \$6.3 million which was in turn primarily due to the increase in the Canadian dollar relative to the US dollar and the increasing share price.

For further information on warrants, see not 13(c) in the condensed consolidated financial statements.

***Environmental rehabilitation***

Environmental rehabilitation primarily represents reclamation and closure costs relating to our operations at the CSH Mine. We have estimated reclamation and closure costs based on our interpretation of current regulatory requirements and the recorded amount is the net present value of estimated future cash expenditures on reclamation and closure in connection with the areas estimated to be disturbed. Reclamation and closure costs were capitalized as mine development costs (under mineral assets as part of property, plant and equipment) since the commencement of pre-commercial production and depreciated over the life of the mine on a unit-of-production basis. At the same time, we started to recognize environmental rehabilitation liabilities since the commencement of pre-commercial production with the same amount of net present value of estimated future cash expenditures on reclamation and closure and accrete the balance of the environmental rehabilitation liabilities for each reporting period through to 2030. Such accretion is recorded as part of the finance costs.

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The environmental rehabilitation was calculated as the net present value of estimated future net cash outflows of the reclamation and closure costs in a total amount of approximately \$9.5 million discounted at 7.9% and 10.0% as of March 31, 2010 and December 31, 2009, respectively. The accretion incurred in connection with the environment rehabilitation represented interest expense calculated based on the foregoing discount rates and therefore it was recorded as part of the finance costs. Our environmental rehabilitation liabilities increased from \$1.6 million as of December 31, 2009 to \$2.3 million as of March 31, 2010, primarily attributable to the decrease of the discount rate from 10.0% to 7.9%

#### *Net current assets / Net current liabilities*

We had net current assets of \$1.4 million as of March 31, 2010, respectively, and net current liabilities of \$9.5 million as of December 31, 2009. See "Risk Factors - Risks relating to Our Business and Industry."

#### RELATED PARTY TRANSACTIONS

	March 31, 2010	December 31, 2009
	%	%
CNG	40.02	40.30

CNG owned 39.54 % of outstanding common shares of the Company as at April 30, 2010.

In October 2008, the Company terminated its contract for the refining and purchase and sale of gold dore with a third-party refiner and entered into an equivalent agreement for the purchase and sale of gold dore with CNG, who is shipping the gold dore to a designated refiner in China. The new agreement is on substantially the same terms as the original contract with the third-party refiner, but the Company has determined that this arrangement will address delays in payment and counterparty risks being experienced under the contract with the third-party refiner.

The breakdown of the sales transactions between related parties is as follows:

	Three month period ended March 31,	
	2010	2009
	\$	\$
Gold sales	10,498,968	7,685,989
Silver sales (netted in cost of sales)	401,759	37,310
Prepayment of future gold sales from CNG	-	16,812,865

The Company's gold dore and silver sales were sold to CNG at market price under the relevant agreement.

The Company incurred the following expenses with CNG:

	Three month period ended March 31,	
	2010	2009
	\$	\$
Salary cost		
Salaries and other benefits	118,329	166,449
Post employment benefits	4,156	7,404
	122,485	173,853

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During the three month period ended March 31, 2010, interest was paid at 6% per annum for the \$40,000,000 term loan advanced in December 2009 and at 12% per annum for the \$7.5 million promissory note outstanding. During the three month period ended March 31, 2009, interest was paid at 12% per annum for the \$7.5 million promissory note.

***Related party balances***

The assets of the Company include the following amounts due from related parties:

	<u>March 31,</u>	<u>December 31,</u>
	<b>2010</b>	2009
	\$	\$
Assets		
Amount receivable from CNG	<b>13,954</b>	346,437
Listing expense receivable from CNG's subsidiary	<b>555,954</b>	1,184,911
Prepaid expenses to CNG's subsidiary	-	283,451
<b>Total related party assets</b>	<b>569,908</b>	1,814,799

Accounts receivable from CNG arose from the sale of gold to CNG. There is no credit period.

Listing expenses receivable from CNG's subsidiary and accounts receivable from CNG are included in accounts receivable and prepaid expenses to CNG's subsidiaries are included in prepaid expenses and deposits in the consolidated statements of financial position.

The liabilities of the Company include the following amounts due to related parties:

	<u>March 31,</u>	<u>December 31,</u>
	<b>2010</b>	2009
	\$	\$
Liabilities		
Accounts payable to CNG's subsidiaries	<b>32,954</b>	109,391
<b>Total related party liabilities</b>	<b>32,954</b>	109,391

The Company has agreed to apply future gold deliveries to CNG at the then gold spot prices against the customer advances. The customer advances do not have any other terms of repayment and were made by CNG to assist the Company to meet its debt obligations.

***Key management personnel***

	<u>Three month period ended March 31,</u>	
	<b>2010</b>	2009
	\$	\$
Salary cost		
Salaries and other benefits	<b>86,771</b>	166,449
Post employment benefits	<b>4,896</b>	7,404
	<b>91,668</b>	173,853

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**INDEBTEDNESS**

Our borrowings are denominated in RMB, US dollars and Canadian dollars. As of March 31, 2010 and December 31, 2009, we had the following outstanding borrowings:

	<u>March 31,</u>	<u>December 31,</u>
	<b>2010</b>	2009
	\$	\$
Current		
Current portion of long-term loan - ABC	<b>1,464,858</b>	1,458,619
Notes payable	<b>7,287,700</b>	10,633,386
	<b>8,752,558</b>	12,092,005
Non-current		
Long-term loan - ABC	<b>41,016,026</b>	40,841,331
Long-term loan - CNG	<b>40,000,000</b>	40,000,000
	<b>81,016,026</b>	80,841,331
	<b>89,768,584</b>	92,933,336

Our indebtedness comprised the following:

***Notes A, B, and C (Notes A and B fully repaid)***

On December 14, 2006, and June 26, 2007 private placement offerings were completed of senior unsecured promissory notes in the principal amount of CDN\$30.0 million (\$25.9 million)( Note A ) and CDN\$12.5 million (\$18.7 million) (Note B) and CDN\$7.5 million (Note C) with interest at 12% per annum payable quarterly along with 6,000,000 and 4,000,000 warrants which entitled the holder to purchase one Share at an exercise price of CDN\$1.60 per Share and CDN\$2.50 per Share, respectively. We fully repaid Note A on December 14, 2009 and redeemed Note B January 11, 2010 in Canadian dollars. We exercised an early expiry dates for the warrants on March 18, 2010 and April 16, 2010, respectively. Note C is due June 26, 2010. The effective interest rate on Notes A and B was 19.5%. The effective rate on Note C was 17.7%.

***Loan from the Agricultural Bank of China***

In September 2009, the CSH CJV received an unsecured bank loan in the principal amount of RMB290.0 million (\$42.5 million) from the Agricultural Bank of China. China National Gold provided a guarantee for the loan. The loan is repayable within five years from the date of the first draw-down. The annual interest rate for the term loan is currently 5.184% and the interest is payable monthly.

***Shareholder's loan from China National Gold***

In December 2009, we received an unsecured non-revolving shareholder's loan from China National Gold Hong Kong in the principal amount of \$40 million. The loan bears interest (payable on a quarterly basis) at an annual rate of 6% and matures in December 2011. The proceeds of the loan have partially been used to redeem Series A Notes due on December 14, 2009. We used the remaining amount of the proceeds to prepay Series B Notes in their entirety on January 11, 2010.

***Restrictive covenants***

We are subject to various customary conditions and covenants under the terms of our financing agreements. For example, under the indenture for the outstanding Series C Notes held by China National Gold, we are required to

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obtain note holder's consents prior to carrying out certain activities and entering into certain transactions, including but not limited to (i) incurring additional debt; (ii) creating additional charges on our assets; (iii) making guarantee in favor of any third party; (iv) dispose of material assets other than to an arm's length third party on arm's length commercial terms; (v) entering into commercial arrangements with any non-arm's length third party unless the arrangements are entered into in good faith and on arm's length commercial terms; (vi) changing the character of our main business; and (v) distributing dividends. We intend to repay the Series C Notes in full on June 26, 2010.

Under the loan agreement between CSH CJV and Agricultural Bank of China, the CSH CJV is prohibited from distributing dividends before repaying amounts due under the loan agreement in the same fiscal year. In addition, the CSH CJV is required to obtain the lender's consent prior to carrying out certain activities or entering into certain transactions such as reduction of registered capital, disposal of assets, mergers and acquisitions and provision of guaranty or creating charges over its material assets in favor of third-parties. See "Risk Factors -Limitations on the ability of CJV's to pay dividends could have a material adverse effect on Jinshan's ability to conduct business" as we could have dividends from China in the future.

The following table sets forth the maturity profiles for our outstanding borrowings as of the dates indicated:

	March 31, 2010	December 31, 2009
	\$	\$
Within one year	8,752,558	12,092,005
Between two to five years	81,016,026	80,841,331
	<b>89,768,584</b>	<b>92,933,336</b>

#### Commitments and contingencies

##### *Operating leases*

We have leased certain properties in China and Canada. All the leases are under operating lease arrangements and the leases are negotiated for an average term of three to five years. We are generally required to prepay certain amount of rental/ leasing fees under the terms of these leases.

The following table sets forth our material future aggregate minimum operating lease payments under these operating leases as of the dates indicated:

	March 31, 2010	December 31, 2009
	\$	\$
Within one year	98,791	95,482
Between two and five years	405,749	391,307
	<b>504,540</b>	<b>486,789</b>

##### *Capital commitments*

Our capital commitments related primarily to payments for purchase of equipment and machinery for the CSH Mine, the payments to Brigade 217 and NINETC, our joint venture partners for the CSH Joint Venture ("JV") and the Dadiangou JV, and payments to third-party contractors for provision of mining and exploration engineering work and mine construction work for the CSH Mine. We have entered into contracts that prescribed such capital commitments, but have not included them in our consolidated financial statements.

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The following table sets forth our capital commitments in respect of acquisition of property, plant and equipment for the CSH Mine and payments to our joint venture partners as of the dates indicated:

	<b>2010</b>	2009
	\$	\$
Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for	<b>2,634,708</b>	10,465,453

In addition to the table set forth above, we entered into service agreements with third-party contractors such as China Railway and China Metallurgical for the provision of mining and exploration engineering work and mine construction work for the CSH Mine. The amount of fees for such work performed and to be performed each year varies depending on the amount of work performed. For the three months ended March 31, 2010 and the year ended December 31, 2009, aggregate fees paid to third-party contractors amounted to approximately \$25.9 million and \$42.3 million, respectively.

**Quantitative and Qualitative Disclosures about Market Risks**

*Currency risk*

We are exposed to the risk of the fluctuation of foreign exchange rates. We operate in China and Canada and our functional currency is the U.S. dollar. A significant change in the currency exchange rates between the RMB or Canadian dollar relative to the U.S. dollar could have a significant effect on our results of operations, financial position or cash flows. We have not hedged our exposure to currency fluctuations.

We are exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and RMB.

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a decrease in the Company's loss before tax/increase in loss before tax of approximately \$1,558,000 for the three month period ended March 31, 2010, and an increase in the Company's profit before tax/decrease in profit before tax of approximately \$3,708,000 for the three month period ended March 31, 2009.

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in a decrease in the Company's loss before tax/increase in loss before tax of approximately \$6,028,000 for the three month period ended March 31, 2010 and an increase in the Company's profit before tax/decrease in profit before tax of approximately \$3,805,000 for the three month period ended March 31, 2009.

*Credit risk*

Credit risk is the risk of unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. For the three month period ended March 31, 2010 and December 31, 2009, we sold approximately 100.0% and 95.9% of our gold to China National Gold, who we believe is credit worthy. The failure of China National Gold to make required payments could have a material adverse effect on our results of operations. We manage this risk by requiring China National Gold to make prepayment for an estimate price of the gold dore bars at the time of delivery.

Our cash and short-term bank deposits are deposited in large Chinese and Canadian banks. These investments mature at various dates within three months. We do not have any asset backed commercial paper in our short-term

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bank deposits. Our accounts receivable consists of listing expense receivable from CNG's subsidiary, Skyland, and amounts receivable from CNG for silver sales for which we have not concluded on selling at the present price, as well as goods and services tax refunds due from the Federal Government of Canada, all of which are outstanding for 180 days or less. We had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in the PRC or Canada.

Our maximum exposure to credit risk is as follows:

	March 31, 2010	December 31, 2009
	\$	\$
Bank balances	7,925,393	23,984,660
Accounts receivable	816,763	1,681,880
Long term receivable	37,118	49,689
	<b>8,779,274</b>	<b>25,716,229</b>

### *Liquidity risk*

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk through the management of our capital structure and financial leverage.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that we will realize a loss as a result of a decline in the interest rates relates to our variable rate bank balances, and the risk is limited because these balances are not material. Our short term bank deposits, notes payables and short-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations. The risk we will realize a loss as a result of a decline in the interest rate relates to our variable interest rate bank balances. A 30 basis point higher or lower in the interest rate of our variable rate bank balances would result in a decrease or increase in our loss before income tax of approximately \$5,944 and \$3,830 for the three months ended March 31, 2010 and 2009, respectively. We monitor interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

### *Share price risk*

We are exposed to price risk of our Shares due to our warrant liabilities as determined by the fair value of warrants, which in turn is affected by our Share price.

If our Share price on the Toronto Stock Exchange had been 50% higher or lower at each balance sheet date and all other variables remain constant, as a result of the change in warrant liabilities, our loss before tax would increase / decrease by \$8.0 million / \$7.6 million for the three months ended March 31, 2010, and our income before tax would decrease / increase by \$667,000 / \$433,000 for the three months ended March 31, 2009.

## CONTINGENT LIABILITIES

As of March 31, 2010, we do not have any material contingent liabilities.

## OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2010, we had not entered into any material off-balance sheet arrangements.

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**DISTRIBUTABLE RESERVES**

As of March 31, 2010, we had no reserves available for distribution to the shareholders of our Company.

**DIVIDEND AND DIVIDEND POLICY**

We have not paid any dividends since our incorporation. We do not currently have a fixed dividend policy. Our Directors will determine any future dividend policy on the basis of, among others, our results of operations, cash flows and financial conditions, operating and capital requirements, the amount of distributable profits and all other relevant factors.

Subject to the BCBCA, the Directors may from time to time declare and authorize payment of such dividends as they may deem advisable, including the amount thereof and time and method of payment provided that the record date for the purpose of determining Shareholders entitled to receive payment of the dividend must not precede the date on which the dividend is to be paid by more than two months.

A dividend may be paid wholly or partly by the distribution of cash, specific assets or of fully paid Shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways. No dividend may be declared or paid in money or assets if there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

In addition, we are subject to various customary conditions and covenants under the terms of our financing agreements, including those restricting our ability to declare and distribute dividends. Under the indenture for the outstanding Series C Notes held by China National Gold, we are required to obtain China National Gold's consent prior to distributing dividends. Therefore, prior to the repayment of the promissory notes in full, we will not be able to declare and distribute any dividends without the prior consent of China National Gold. We intend to repay such promissory notes in full.

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's DC&P and ICFR as of March 31, 2010 and, in accordance with the requirements established under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of March 31, 2010 and have concluded that these controls and procedures have been designed to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls can provide absolute assurance that all control issues and instances of fraud will be detected. During the three month period ended March 31, 2010, there were no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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### RISK FACTORS

*Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties described below. Of particular note is the fact that the Company's principal operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Jinshan's business, financial condition or results of operations could be materially and adversely affected by any of these risks.*

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

Substantially all of the Company's revenues and cash flows from operating activities are derived from the sale of gold doré bars. Historically, the market prices for gold has fluctuated widely and experienced periods of significant decline. Prices are influenced by numerous factors and events which are beyond the Company's control such as world demand and supply, forward selling activities, gold reserve movements at central banks, costs of production by other producers and other macro-economic factors such as expectations regarding inflation, interest rates, currency exchange rates (especially the strength of the U.S. dollar), as well as general global economic conditions and political trends. If market prices of gold and other nonferrous metals that Jinshan produces should fall due to these and other factors and events, Jinshan's business, results of operations and the price of the Common Shares could be materially and adversely affected.

#### **Jinshan has a limited operating history and future revenues and profits are uncertain.**

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

#### **If Jinshan's relationship with China Gold materially changes, growth prospects and results of operations may be materially and adversely affected.**

China Gold is the Company's controlling shareholder. Jinshan has benefited significantly from its relationship with China Gold, and a key aspect of its strategy is to continue to capitalize on this relationship. However, there can be no assurance that the relationship will remain the same in the future or that plans for ongoing cooperation will be effectively implemented. For instance, China Gold may determine to conduct its overseas activities through another acquired overseas-listed company, another controlled entity listed overseas or in China, or by itself.

#### **Jinshan has had net current liabilities and significant net cash outflows from operating and investing activities.**

Jinshan had net current assets of \$1.5 million as of March 31, 2010 but had net current liabilities of \$9.5 million as of December 31, 2009. A net current liability or negative operating and other cash flow position may impair the Company's ability to make necessary capital expenditures, develop business opportunities or make strategic acquisitions. If debt and interest repayment obligations are not met, creditor(s) could choose to demand immediate repayment, which could result in a complete loss of investment for equity holders if Jinshan is not able to repay such obligations, the result of which could materially and adversely affect the Company's business and results of operations.

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**Jinshan depends on the CSH Gold Project for substantially all revenue and cash flow from operating activities in the near term. Failure to obtain the expected economic benefits from this mine could materially and adversely affect the business, financial condition and results of operations.**

The Company's operations are exposed to uncertainties in relation to the CSH Gold Project, which is the Company's only operating mine at present. The Company contemplates the acquisition of additional producing mineral properties, including potentially the Jiama Project, but has not and may never complete any such acquisitions to diversify its operations. If the Company fails to derive the expected economic benefits from the CSH Gold Project due to a delay or difficulty encountered in the operation of the mine, an occurrence of any event that causes the mine to operate at less than optimal capacity or for other reasons, Jinshan's business, financial condition and results of operations could be materially and adversely affected.

**Jinshan is relatively inexperienced in the acquisition and development of mining assets.**

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

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

The estimates regarding operating costs of the CSH Gold Project are based on the CSH Technical Report. The CSH Technical Report derives estimates of average cash operating costs based upon, among other things: (i) anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed; (ii) anticipated recovery rates of minerals from the ore; (iii) cash operating costs of comparable facilities and equipment; and (iv) anticipated climatic conditions. Actual operating costs, production and economic returns may differ significantly from those anticipated by the CSH Technical Report. Accordingly, there is no assurance that future operating activities will result in profitable mining operations.

**Fluctuations in exchange rates could materially and adversely affect financial position and results of operations.**

Although the functional currency is the U.S. dollar, Jinshan incurs a large portion of expenditures in RMB. Meanwhile, revenue from gold sales is denominated in RMB, but the gold price effectively moves in line with the United States dollar gold price, while significant loan obligations have in the past been denominated in CDN\$. As a result, Jinshan's financial position and results are significantly impacted by exchange rate fluctuations related to the U.S. dollar, the Canadian dollar and RMB. Foreign exchange rate fluctuation has been a principal factor leading to the significant variations in fair value change on warrant liabilities of the Company. Such foreign exchange gain or loss and fair value change in turn could have a significant impact on financial position and results.

**The interests of China Gold, Jinshan's controlling shareholder, may not be the same as, and may conflict, with those of other shareholders.**

China Gold holds approximately 40% of outstanding Common Shares, and holds a controlling interest in the Company. The interests of China Gold may conflict with those of other shareholders. As an example, China Gold holds a controlling interest in Zhongjin Gold Corporation, a public company whose shares are listed on the Shanghai Stock Exchange and whose principal scope of business includes the exploration, mining, processing smelting and

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refining of gold in the PRC. As the operations of Zhongjin Gold Corporation are substantially larger than those of the CSH Gold Project in terms of resources, annual gold production and revenue generated from the sale of gold, China Gold may, for business considerations or otherwise, take actions that favor itself or Zhongjin Gold Corporation instead of the interests of the shareholders of Jinshan. China Gold may exercise its influence over Jinshan as a controlling shareholder in manners inconsistent with the best interests of the other shareholders. If that occurs, the Company may lose some of its competitive advantages and its business and results of operations may be materially and adversely affected.

#### **Reserve and resource estimates are based on assumptions which may prove to be inaccurate, and Jinshan may produce less minerals than the current estimates.**

Ore reserves and mineral resources estimates are based on a number of assumptions. If those assumptions prove inaccurate, the Company may need to lower ore reserves and mineral resources. The accuracy of estimates is a function of the quantity and quality of available data and the assumptions made and judgments used in engineering and geological interpretation, which may prove to be unreliable. There is no assurance that estimates will prove accurate or that such mineral resources can be mined or processed profitably.

Estimates of resources and reserves may change significantly when new information becomes available or new factors arise, and interpretations and deductions on which resource and reserve estimates are based may prove to be inaccurate. Resource estimates indicate in-situ mineral occurrences from which valuable or useful minerals may be recovered, but do not take into account whether such resources could be mined or whether valuable or useful minerals could be recovered economically from them, nor do resource estimates incorporate mining dilution or allow for mining losses. Jinshan's reserve estimates represent the amount of minerals that it believes can be mined and processed, based on the selling price that is not lower than the total estimated costs of production and anticipated additional capital expenditures, and are calculated based on estimates of future production costs and metal prices. In the future the Company may need to revise reserve estimates, if, for instance, production costs increase or the sales prices to metals produced decrease and as a result a portion or all of the mineral reserves may become uneconomical to recover.

The inclusion of reserve and resource estimates should not be regarded as a representation that all these amounts can or will be economically exploited or recovered.

#### **Failure to achieve production estimates could have a material adverse effect on future cash flow, results of operations and financial condition.**

Estimates of future production for mining operations are subject to change. The Company cannot give any assurance that it will achieve production estimates. Failure to achieve production estimates could have a material and adverse effect on future cash flow, results of operations and financial condition. The production estimates are based on, among other things, reserve estimates, assumptions regarding ground conditions and physical characteristics of ores (such as hardness and presence or absence of certain metallurgical characteristics) and estimated rates and costs of production. Actual production may vary from estimates for a variety of reasons, including risks and hazards of the types discussed elsewhere in this AIF, and as set out below:

- actual ore mined varying from estimates in grade, tonnage, and metallurgical and other characteristics;
- mining dilution;
- pit wall failures or cave-ins;
- industrial accidents;
- equipment failures;
- natural phenomena such as inclement weather conditions, floods, blizzards, droughts, rock slides and earthquakes;
- encountering of unusual or unexpected geological conditions;
- changes in power costs and potential power shortages;
- shortages of principal supplies needed for operation, including explosives, fuels, equipment parts and lubricating oil;

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- litigation; and
- restrictions imposed by government authorities.

Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property or the property of others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable. Estimates of production from properties not yet in production or from operations that are to be expanded are based on similar factors (including, in some instances, feasibility studies prepared by the Company's personnel and/or outside consultants), but it is possible that actual cash operating costs and economic returns will differ significantly from those currently estimated.

**A portion of estimated resources and reserves for the CSH Gold Project falls outside of the scope of its current mining permit. Jinshan may not be able to obtain a new mining permit if it plans to conduct mining activities on this portion of the CSH Gold Project.**

According to the CSH Technical Report, a portion of the defined mineral resources and mineral reserves at the CSH Gold Project as of December 31, 2009 are located below the lower elevation limit of the current mining permit for the CSH Gold Project. The Company is applying for a confirmation that the permit will also cover minerals below this elevation limit. However, there can be no assurance that it will be able to obtain such a confirmation or a new mining permit. If Jinshan does not obtain such confirmation or new permit, future growth prospects and results of operations may be materially and adversely affected.

**Failure to obtain and maintain required government approvals, permits and licenses for exploration and mining activities or renewals thereof could materially and adversely affect business and results of operations.**

Under relevant PRC laws, Jinshan is required to obtain certain government approvals, permits and licenses for each of its mineral properties, among which exploration permits, mining permits, production safety certificates and gold operating permits are crucial to business operations. There is no assurance that the Company will obtain such approvals, permits and licenses in a timely manner in the future or at all. Any failure to obtain or any delay in obtaining or retaining any required governmental approvals, permits or licenses could subject the Company to a variety of administrative penalties or other government actions and adversely impact business operations. Specifically,

- under the "Mineral Resources Law" and the "Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey", if the Company fails to obtain or renew the exploration permit and conducts exploration without valid exploration permits, it may be ordered to cease exploration and subjected to a fine of up to RMB100,000, and for failure to present the annual report of the exploration or pass annual verification, it may be ordered to cease the exploration and subjected to a warning or a fine of up to RMB50,000, and, in the worst case, the exploration permit may be suspended;
- under the "Administrative Measures on Registration of Mineral Resources Exploitation" and "Mineral Resources Law", if the Company fails to obtain or renew the mining permit and conducts mining without valid mining permits, it may be ordered to cease mining and pay for the damages caused, any mineral products and illicit gains may be confiscated, and it may also be fined; for failure to present the annual report or pass the annual verification, the Company may be ordered to cease mining activities, and subjected to a warning or a fine of up to RMB50,000, and in the worst case, the mining permit may be suspended;
- under the "Regulations on Production Safety Certificate", if the Company fails to obtain the production safety certificate, it may be subjected to the confiscation of the illicit gains and a fine ranging from RMB100,000 to RMB500,000; if it continues production without duly renewing the production safety certificate upon its expiration, Jinshan may be ordered to suspend production and take the corrective

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measures within a prescribed time period, and it may be subjected to the confiscation of the illicit gains and a fine ranging from RMB50,000 to RMB100,000; and

- under the “Mineral Resources Law” and the “Regulations on Administration of the Permit for Gold Exploitation”, if Jinshan fails to obtain or renew the permit for gold exploitation and engages in gold exploitation without valid permits, it may be ordered to stop mining, and pay for the damages caused, any mineral products and illicit gains may be confiscated, and may also be fined.

If any administrative penalties and other government actions are imposed on or taken against Jinshan due to Jinshan's failure to obtain or delay in obtaining or retaining any required governmental approvals, permits or licenses, business, financial condition and results of operations could be materially and adversely affected.

#### **Jinshan may be unable to renew the mining permit for the CSH Gold Project.**

The mining permit for the CSH Gold Project will expire in August 2013. Under the PRC laws and regulations, if there will remain residual reserves in a property when the mining permit in respect of such property expires, the holder of the expiring mining permit is entitled to apply for extensions for additional terms. However, there can be no assurance that the Company will successfully renew its mining permit on favorable terms, or at all, once such permit expires. If Jinshan is unable to renew such permit, its business and results of operations will be materially and adversely affected.

#### **Jinshan may not pass the annual verification of mining rights to the CSH Gold Project.**

The Company's mining rights for the CSH Gold Project are subject to annual verification by the Department of Land and Resources of Inner Mongolia. In the annual verification, the relevant authorities will consider whether mining activities in the past year have been in compliance with the relevant laws and regulations. If Jinshan does not pass the annual verification for failing to meet the relevant requirements or materially breaching any laws or regulations, it may be penalized according to the relevant laws and regulations or given a deadline to rectify the situation, or its mining rights may be revoked. While Jinshan has passed the annual verifications in the past and has not been penalized in the past, there can be no assurance that the Company will be able to pass the annual verification of its mining rights in the future. Should this occur, the Company's business and results of operations will be materially and adversely affected.

#### **Jinshan owns the CSH Gold Project through a CJV company, which is established pursuant to a CJV agreement. Therefore, it is subject to risks relating to operations through CJV companies.**

IMP, the entity that holds the CSH Gold Project, is a CJV established under a CJV agreement. Although under the existing CJV agreement Jinshan is entitled to appoint a majority of the directors of IMPM and appoint the general manager (who is responsible for the day-to-day operation and management of IMPM and implementing resolutions of the board), certain members of the management and boards of directors of IMPM are nominated by the Company's CJV partner. Under the CJV Law and the CJV agreement, certain decisions require unanimous consent of the directors present at a meeting of the board, such as (i) amendment to the articles of association of IMPM, (ii) increase or reduction of the registered capital of IMPM; (iii) dissolution of IMPM; (iv) mortgage of the assets of IMPM; or (v) merger or division of IMPM or a change in its form of organization; and to the extent unanimous consent cannot be obtained, there is a risk that Jinshan will not be able to effect these matters despite its desire to do so.

Furthermore, the exploration and mining permits of the CSH Gold Project are currently held by IMPM and the operation of the CSH Gold Project is carried out by IMPM. If the CJV partner makes an early termination of the CJV agreement or materially breaches the CJV agreement, Jinshan's business and results of operations could be materially and adversely affected.

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In addition, the CJV agreement with the CJV partner involves a number of risks, including (i) disputes with the CJV partner as to the performance or scope of each party's obligations under the CJV agreement, (ii) financial difficulties encountered by the CJV partner affecting its ability to perform its obligations under the CJV agreement or other contracts with the Company, and (iii) conflicts between the policies or objectives adopted by the CJV partner and those adopted by the Company. There can be no assurance that a dispute will not arise in the future. If a dispute or disagreement does arise between the CJV partner and Jinshan, it could be time-consuming, costly and distracting for the Company to resolve such dispute or any legal proceedings that develop from the dispute or disagreement. Furthermore, if Jinshan receives an adverse decision in any of such legal proceeding, it may be required to pay compensation or damages to the CJV partner. As a result, the Company's business and results of operations could be materially and adversely affected.

#### **Changes in PRC tax laws and regulations could materially and adversely affect Jinshan's business and results of operations.**

The Company's PRC subsidiaries are subject to, among other things, corporate income tax, resources tax, VAT, city maintenance and construction tax, education surcharge and property tax under PRC laws and regulations. The PRC government increased the resources tax rate of gold effective on May 1, 2006. There is no assurance that the PRC government will not increase the rates of resources tax or other taxes. Any increase in these tax rates could materially and adversely affect the Company's results of operations.

#### **Jinshan may not be able to obtain further financing to fund the expansion and development of its business.**

The Company is in a capital-intensive industry and has relied on a mixture of equity capital and debt financing to fund operations. Jinshan also has outstanding a number of debt obligations that may need to be finalized on or prior to maturity depending on future cash flow, including Cdn\$7.5 million of promissory notes due in June 2010 owing to China Gold. Jinshan has previously funded capital expenditures primarily by the issuance of equity and debt securities and credit facilities. In the future, Jinshan expects to use cash generated from operations, and potentially further financing, if required, to meet its business growth objectives and payment obligations, including further development of existing exploration, mining and processing operations, development of new properties and future acquisitions. Any required additional funding may be sought through the debt and equity markets or through project participation arrangements with third parties, but there is no assurance that Jinshan will be able to obtain sufficient funding or obtain funding at all when it is required and that such additional funding will be available on commercially acceptable terms. If any such additional funding is obtained, it may be on terms that are highly dilutive or otherwise adverse to its existing stockholders. Failure to obtain the funding or obtain the funding on commercially acceptable terms that the Company needs when it is required could have material and adverse effect on its business and results of operations.

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

The Company has a high level of indebtedness. It may continue to incur debts to fund daily operations and to pursue expansion plans. Jinshan's ability to meet regularly scheduled interest and principal payments on its indebtedness will depend on future operating performance and cash flow, which in turn will depend on prevailing economic and political conditions and other factors, many of which may be beyond its control. Furthermore, a high level of indebtedness will expose the Company to interest rate risks which could substantially affect its ability to generate cash or make a profit.

In addition, Jinshan's financing agreements include various conditions and covenants that require it to obtain lenders' consents prior to carrying out certain activities and entering into certain transactions, such as incurring additional debt, creating additional charges on assets, providing additional guarantees or disposing of certain assets. In connection with existing borrowings and other financing arrangements, Jinshan has agreed to comply with various financial and other covenants. For example, under the indenture for the outstanding promissory notes in the June 2007 Placement held by China Gold, Jinshan is required to obtain China Gold's consent prior to carrying out certain activities and entering into certain transactions, including but not limited to (i) incurring additional debt; (ii)

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creating additional charges on assets; (iii) making guarantees in favor of any third party; (iv) disposal of material assets other than to an arm's length third party on arm's length commercial terms; (v) entering into commercial arrangements with any non-arm's length third party unless the arrangements is entered into in good faith and on arm's length commercial terms; (vi) changing the character of the its main business; and (vii) distributing dividends. While Jinshan intends to repay the promissory notes in full upon maturity in June 2010, it may be required to comply with similar or even more restrictive covenants or other terms under any new loan and other financing agreements. If this happens, the Company's ability to pay dividends or other distributions on the Shares may be limited. In addition, Jinshan may also be significantly restricted in its ability to raise additional capital through bank borrowings and debt and equity issuances or to engage in some transactions that it expects to be of benefit. Jinshan's inability to meet these conditions and covenants or obtain lenders' consent to carry out restricted activities could materially and adversely affect the business and results of operations.

#### **Jinshan relies on third-party contractors to conduct a substantial portion of exploration, mine construction and mining activities.**

The Company outsources all of its mining and exploration engineering work (such as drilling) and most of its mine construction work to third-party contractors. The Company maintains supervision over these contractors and amends the outsourcing agreements from time to time to better address cost and quality controls. However, notwithstanding its efforts, contractors may take actions contrary to instructions or requests, or be unable or unwilling to fulfill their obligations. In such event the Company may have disputes with the contractors, which could lead to additional expense, distractions and potentially loss of production time and additional costs, any of which could materially and adversely affect the business and results of operations.

In addition, under the relevant PRC laws and regulations, an owner of an exploration or mining permit has a statutory obligation to ensure safe production. In the event of any production safety-related accident involving a contractor, Jinshan may be held directly liable or liable for compensation to the extent of its fault regardless of any contractual provisions to the contrary. Any of such liabilities could have a material and adverse effect on the financial condition and results of operations.

#### **Jinshan's operations may face material risk of liability, delays and increased production costs from design defects, environmental and industrial accidents and other factors such as severe weather conditions, natural disasters, community protests or civil unrest.**

By its nature, the business of mineral exploration and development, mining and processing contains elements of significant risk and hazards. The continuous success of business is dependent on many factors such as (i) successful design and construction of mining and processing facilities, and (ii) successful commissioning and operating of mining and processing facilities.

The CSH Gold Project is subject to technical risks in that the infrastructure may not perform as designed. For example, according to the CSH Technical Report, the mine production at the CSH Gold Project is expected to depend mostly on the crushing production and heap leach gold recovery rate. However, the early trial runs of the crushing facility at the CSH Gold Project demonstrated design problems that did not allow the facility to function properly. The crushing facility was shut down to modify and correct the problems before October 2009. Since a single large crushing system is used at the CSH Gold Project, equipment breakdown at the crushing facility could cause delays in the crushing production. According to the CSH Technical Report, there are still uncertainties with respect to the heap leach gold recovery rate at the CSH Gold Project. The eventual total gold recovery rate for all ore can be reached after five years. The ROM ore extracted from 2007 to December 31, 2009 is expected to reach 53% over this period of time, which is less than the 80% recovery rate originally expected. Increased development costs, lower output or higher operating costs may all combine to make a mine less profitable than expected at the time of the development decision. There can be no assurance that the Company will be adequately compensated by third-party mine design and construction companies in the event that a mine did not meet its expected design specifications.

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Jinshan's business may also be disrupted by a variety of other risks and hazards, including environmental hazards, industrial accidents (including but not limited to mishandling of dangerous articles), technical or mechanical failures, processing deficiencies, labor disputes, community protests or civil unrest, unusual or unexpected geological occurrences, severe seismic activity, flooding, discharge of toxic chemicals, fire, explosions, and other delays. Accidents, technical difficulties, mechanical failures or plant breakdowns encountered in the exploration and development, mining and processing activities could result in disruptions to operations and increases in operating costs or personal injuries. Environmental events such as changes in the water table (man-made or naturally occurring), mud-slides and instability of the slopes could materially and adversely affect underground and open-pit mining. Mishandling of dangerous articles such as explosives and toxic materials could result in material disruptions to operations. The occurrence of any of these risks and hazards could result in damage to or destruction of production facilities, personal injury, environmental damage, business interruption, delay in production, increased production costs, monetary losses and possible legal liability (including compensatory claims, fines and penalties), which could materially and adversely affect the business and results of operations.

#### **Jinshan may not complete the sale of the Dadiangou Gold Project.**

Jinshan has ceased all development on the Dadiangou Gold Project and, along with its CJV partner, proposes to sell the project. To date, the Company has not consummated a sales agreement, and there is a risk that the Company will never complete such a sale or only complete such a sale on lower than expected commercial terms. In such event, the Company will be deprived of any substantive benefit from its investment in the Dadiangou Gold Project.

#### **Jinshan may not be able to maintain an adequate and timely supply of electricity, water, auxiliary materials, equipment, spare parts and other critical supplies at reasonable prices or at all.**

Cost effective operations of the CSH Gold Mine depends, among other things, on the adequate and timely supply of electricity, water and auxiliary materials. Major auxiliary materials used in production include forged steel grinding balls, chemical products, explosives, lubricating oil, electric wires and cables, rubber products and fuel. Auxiliary materials are sourced from domestic suppliers and equipment from suppliers in the PRC and other countries. If supplies of auxiliary materials, equipment or spare parts are interrupted or their prices increase, or existing suppliers cease to supply the Company on acceptable terms, Jinshan's business, financial condition and results of operations could be materially and adversely affected.

#### **There are certain risks relating to the real properties that Jinshan owns uses or leases.**

There are a number of title defects relating to the real properties that Jinshan owns uses or leases. As a result of these defects, the Company faces title related risks. There is a risk that the Company will be subject to challenges, lawsuits or other actions taken with respect to the properties owned, used or leased. If any of the owned or leased properties were successfully challenged, it may impact operations and the Company could be materially and adversely affected by any lawsuits or actions unfavorably decided or resolved against it.

#### **Jinshan's operations are governed by extensive and increasingly stringent environmental and other laws and regulations.**

The Company's operations are subject to extensive PRC environmental laws and regulations relating to air and water quality, waste management and public health and safety. To comply with these laws and regulations, Jinshan incurs significant costs associated with its production facilities, production process and the installation of pollution control equipment. Jinshan must undergo inspections by relevant PRC environmental authorities and maintain various environmental permits. Failure to comply with relevant PRC environmental laws and regulations could materially and adversely affect business and results of operations.

In addition, PRC environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed mines and a heightened degree of responsibility for companies and their officers, directors and employees.



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Amendments to current PRC laws and regulations governing operations and activities of mining companies or more stringent implementation thereof could have a material adverse impact on Jinshan and cause increases in capital expenditure, production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

### **Mining operations have a limited life and eventual closure of these operations will entail costs and risks regarding ongoing monitoring, rehabilitation and compliance with environmental standards.**

The CSH Gold Project has a limited mine life. The key costs and risks for mine closures are: (i) long-term management of permanent engineered structures (such as tailings dams) and acid drainage; (ii) achievement of environmental closure standards (such as rehabilitation requirements); (iii) orderly retrenchment of employees and third-party contractors; and (iv) relinquishment of the sites with associated permanent structures and community development infrastructure and programs to new owners. The consequences of a difficult closure range from increased closure costs and handover delays to ongoing monitoring and environmental rehabilitation costs and damage to reputation if desired outcomes cannot be achieved. In the event of a difficult closure, the Company's business and results of operations could be materially and adversely affected.

In an effort to address mine closure and other geological environment issues, a mining company is required to submit rehabilitation undertakings and pay rehabilitation deposits to the relevant government authorities under applicable PRC laws and regulations. Jinshan has submitted the rehabilitation undertakings and paid the installments of rehabilitation deposits that have become due with respect to the CSH Gold Project. However, in the event of non-compliance of applicable rehabilitation, undertakings or deposits requirements in the future, the Company could be subject to a variety of penalties and other administrative actions, including inability to proceed with certain administrative procedures relating to mining permits (including annual inspection, renewal, alteration and mortgage registration), suspension of mining permits or ceasing of operations.

### **Dividends payable by Jinshan to foreign investors and gain on the sale of its Shares may become subject to withholding taxes under PRC tax laws.**

Pursuant to new PRC Enterprise Income Tax Law and implementation regulations issued by the State Council, to the extent any dividends for earnings derived since January 1, 2008 are considered sourced within China, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business). Similarly, any gain realized on the transfer of the Common Shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. If the Company is considered to be a "resident enterprise", the dividends it pays with respect to its Common Shares would be treated as income derived from sources within China and be subject to PRC income tax. It is uncertain whether the Company will be considered a PRC "resident enterprise". Accordingly, there is uncertainty as to whether the dividends payable to Jinshan's foreign investors, or the gain its foreign investors may realize from the transfer of its Shares, would be treated as income sourced within China and be subject to PRC tax. If the Company is required under the new tax law to withhold PRC income tax on dividends payable to foreign shareholders who are "non-resident enterprises," or if shareholders are required to pay PRC income tax on the transfer of their Common Shares, the value of shareholders' investment in the Common Shares may be materially and adversely affected.

### **Limitations on the ability of CJVs to pay dividends could have a material adverse effect on Jinshan's ability to conduct business.**

Jinshan is a holding company and expects to rely on dividends and other distributions to be paid by IMPM for future cash and financing requirements, and to service any debt and pay its expenses. Relevant PRC laws, rules and regulations permit payments of dividends only out of retained earnings, if any, determined in accordance with PRC accounting standards and regulations. Under PRC laws, rules and regulations, each of the entities incorporated in the PRC is required to set aside a portion of its net income each year to fund certain reserves and to make up for

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previously accumulated losses before it can distribute dividends to its shareholders. These reserves, together with the registered equity of these entities, are not distributable as cash dividends. As a result of these PRC laws, rules and regulations, IMMI will be restricted in its ability to distribute dividends.

**The global financial markets have experienced significant volatility recently, which have had negative repercussions on the global economy. As a result, Jinshan's business, financial condition and results of operations could be materially and adversely affected.**

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. While it is difficult to predict how long these conditions will last, they could continue to present risks for an extended period of time, including increase in interest expenses on the Company's bank borrowings, or reduction of the amount of banking facilities currently available. If the economic downturn continues, the Company's business, financial condition and results of operations could be materially and adversely affected.

**Jinshan's risk management and internal control systems may not be adequate or effective.**

Jinshan's Directors together with senior management are responsible for overseeing internal control policies and procedures. The Company has established risk management and internal control systems consisting of relevant organizational framework policies, procedures and risk management methods that it believes are appropriate. In order to enhance internal control and risk management system, the Company engaged a qualified consulting firm, which has adequate experience in providing enterprise risk services, to perform an internal control review.

Jinshan believes it has a proper internal control and risk management system in place. However, it has in the past experienced weaknesses in internal controls. The Company has undertaken efforts to address the causes of the internal control weaknesses. But there will always be inherent limitations in the design and implementation of these systems. There can be no assurance that the systems will be sufficiently effective in identifying and preventing all such risks. In addition, as some of the Company's risk management and internal control policies and procedures are relatively new, the Company may need to establish and implement additional policies and procedures to further improve systems from time to time. Since risk management and internal controls depends on the implementation by employees, there can be no assurance that such implementation will be free from human errors or mistakes. If the Company fails to timely implement policies and procedures, or fails to identify risks that affect the business with sufficient time to plan for contingencies for such events, the business, results of operations and financial condition of the Company could be materially and adversely affected.

**Jinshan may not be able to retain or secure key qualified personnel, key senior management or other personnel.**

Recruiting and retaining qualified personnel is critical. Jinshan depends on certain key qualified personnel, key senior management and other employees in its business. The Company is led by a distinguished integrated PRC and international management team. As the business grows, the Company may recruit additional management and other personnel. There is no assurance that the key qualified personnel will continue to provide services or will honor the agreed terms and conditions of employment or contracts. Any loss of key personnel or failure to recruit and retain personnel for the Company's future operations and development could have a material adverse effect on Jinshan's business and results of operations.

**Jinshan may not be adequately insured against losses and liabilities arising from operations.**

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological conditions, rock bursts or slides, fire, floods, earthquakes or other environmental occurrences and political and social instability. These risks can result in, among other things, damage to and destruction of mineral properties or production facilities, personal injury, environmental damage, delays in mining, monetary losses and legal liability.

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Jinshan maintains insurance within ranges of coverage consistent with industry practice in the PRC. However, in line with industry practice in the PRC, it has elected not to insure against certain risks as a result of high premiums or other reasons or has agreed to policy limits on certain coverage that may not cover all potential liabilities for similar reasons.

In the event that Jinshan suffers a significant liability for which it is not insured or its insurance coverage is inadequate to cover the entire liability, Jinshan's business and results of operation could be materially and adversely affected.

#### **Some of Jinshan's Directors and officers are directors and officers of other mineral resource companies and these directors and officers may encounter conflicts of interests with Jinshan.**

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

#### **Jinshan faces increasing domestic and foreign competition.**

Jinshan faces increasing competition from both domestic and international gold and other nonferrous metal producers. Major competitors are large international gold and nonferrous metals producers. These competitors may have certain advantages, including greater financial, technical and raw materials resources, greater economies of scale, broader name recognition and more established relationships in certain markets. Increased competition may prevent Jinshan from acquiring new properties and ultimately may have a material adverse impact on the business, results of operations and growth prospects.

#### **Failure to discover new reserves, maintain or enhance existing reserves, develop new operations or expand current operations could negatively affect the business and results of operations.**

Mining exploration is unpredictable in nature. The success of any mining exploration program depends on various factors including, among other things, (i) whether ore bodies can be located; (ii) whether the location of ore bodies are economically viable to mine; (iii) whether appropriate metallurgical processes can be developed and appropriate mining and processing facilities can be economically constructed; and (iv) whether necessary governmental permits, licenses and consents can be obtained.

In order to maintain mineral production beyond the life of the current proven and probable reserves, the Company must identify further reserves capable of economic exploitation. However, due to the unpredictable and speculative nature of this industry, there is no assurance that any exploration program will result in the discovery of valuable resources. If a valuable resource is discovered, it can take several years and capital expenditure from the initial phases of exploration before production commences during which period the capital cost and economic feasibility may change. There is also no assurance that reported resources can be converted into reserves. Furthermore, actual results upon production may differ from those anticipated at the time of discovery.

To access additional reserves in explored areas, the Company will need to successfully complete development projects, including extending the CSH Gold Mine and developing or acquiring new mines. There are a number of uncertainties inherent in the development and construction of any new mine or an extension to an existing mine, including: (i) the availability and timing of necessary governmental approvals, (ii) the timing and cost necessary to construct mining and processing facilities, and the availability and cost of smelting and refining arrangements; (iii)

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the availability and cost of labor, utilities, auxiliary materials and other supplies and the accessibility of transportation and other infrastructure; and (iv) the availability of funds to finance construction and production activities. Accordingly, there is no assurance that any future exploration activities or development projects will extend the life of existing mining operations or result in any new economic mining operations.

#### **Changes to the PRC regulatory regime for the mining industry may materially and adversely affect the business and results of operations.**

The PRC local, provincial and central authorities exercise a substantial degree of control over the gold industry in the PRC. Jinshan's operations are subject to a range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, mine exploration, development, production, taxation, labor standards, occupational health and safety, waste treatment and environmental protection and operation management. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or enforcement thereof may increase Jinshan's operating costs and thus adversely affect its results of operations.

Although Jinshan seeks to comply with all PRC laws, regulations, policies, standards and requirements applicable to the mining industry or all changes in existing laws, regulations, policies, standards and requirements, there can be no assurance that the Company will be able to comply with them economically or at all. Furthermore, any new PRC laws, regulations, policies, standards and requirements or any change in existing laws, regulations, policies, standards and requirements may also constrain future expansion plans and adversely affect profitability.

#### **PRC political, economic and social conditions government policies could affect Jinshan's business.**

China is, and for the foreseeable future is expected to remain, the country in which Jinshan concentrates most of its business activities and financial resources. Currently all of its operating assets are located in the PRC and all revenue is derived from operations in the PRC. Results of operations and prospects are subject, to a significant degree, to economic, political and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate and government control of foreign exchange.

The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. Jinshan believes that it has benefited from the economic reforms implemented by the PRC government and its economic policies and measures. However, there is no assurance that the PRC government will continue to pursue economic reforms. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Jinshan's business, results of operations, financial condition and prospect may be adversely affected by the PRC government's political, economic and social conditions and government policies.

#### **Jinshan's business could be negatively affected by changes and uncertainties in the PRC legal system.**

The PRC legal system is based on civil law system. Unlike a common law system, prior legal decisions and judgments have limited significance for guidance. The PRC is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC government has established a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new. The implementation and interpretation of these laws and regulations remain uncertain in many areas and may not be consistent with long-standing local conventions and customs. As a result, there may be ambiguities, inconsistencies and anomalies in applicable agreements or the legislation upon which these agreements are based, which are atypical of more developed legal systems and which may affect the interpretation and enforcement of rights and obligations. Furthermore, the PRC legal system is based in part on government policies and administrative rules that Jinshan may not be aware. Moreover, the legal protections available under

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these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action may be protracted and could result in substantial costs and diversion of resources and management attention.

In addition, there are several levels of government with influence over the CSH Gold Project. A loss of support by any one of those levels of government could result in substantial disruption in the ability to continue operations. Such a loss of support could occur on a national level, such as a change in government policy to discourage foreign investment. It may also occur at a provincial or local level, in which the ability to conduct operations is hindered by aggressive or capricious application of jurisdiction within the control of a particular level of government.

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

Jinshan is incorporated in British Columbia. In the event of a dispute arising from or in respect of its operations in the PRC, the Company may be subject to the exclusive jurisdiction of PRC courts or may not be successful in subjecting foreign persons to the courts in Canada, Hong Kong or other jurisdictions. Jinshan may also be hindered or be prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

#### **Government control of currency conversion and changes in the exchange rate between the RMB and other currencies could negatively affect Jinshan's financial condition, operations and ability to pay dividends.**

The RMB currently is not a freely convertible currency. All of the Company's revenue is in RMB and Jinshan will need to repatriate earnings outside of China and convert RMB to foreign currency for payment of dividends, if any, to the shareholders. Under the current foreign exchange regulations in the PRC, PRC subsidiaries will be permitted to effect foreign exchange for current-account transactions (including the distribution of dividends) through accounts permitted by the PRC government. Under existing PRC foreign exchange regulations, profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. There can be no assurance that the PRC government will refrain from imposing restrictions on foreign exchange transactions for current-account items, including the payment of dividends.

#### **Certain restrictions on foreign investment in the PRC mining industry could materially and adversely affect the business and results of operations.**

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

#### **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares without par value. As of March 31, 2010, 168,734,459 common shares were issued and outstanding, 1,172,000 stock purchase options had been granted and were outstanding, and 3,060,000 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 172,966,459 common shares were outstanding.

As of May 17, 2010, 171,794,459 common shares were issued and outstanding, 1,142,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 172,966,459 common shares were outstanding.

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**QUALIFIED PERSON**

Dr. Qingping Deng, 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 Technical Report in this MD&A.

May 17, 2010