# JINSHAN GOLD MINES INC.

## Consolidated Financial Statements
## March 31, 2007

**(Unaudited)**
**(Stated in U.S. dollars)**

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# JINSHAN GOLD MINES INC.
## Consolidated Balance Sheets
**(Unaudited)**
**(Stated in U.S. dollars)**

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash and cash equivalents | **$ 22,174,286** | $ 27,876,503 |
| Accounts receivable | **359,216** | 295,884 |
| Prepaid expenses and deposits (Note 3) | **3,180,144** | 2,017,083 |
| | **25,713,646** | 30,189,470 |
| PROPERTY, PLANT AND EQUIPMENT (Note 4) | **26,296,483** | 20,683,848 |
| | **$ 52,010,129** | $ 50,873,318 |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued liabilities (Note 8 (b)) | **$ 2,144,370** | $ 2,594,360 |
| LONG TERM | | |
| Notes payable (Note 5) | **21,954,515** | 21,604,895 |
| Asset retirement obligations (Note 6) | **788,792** | - |
| | **22,743,307** | 21,604,895 |
| COMMITMENTS (Note 12) | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 7) | | |
| Authorized | | |
| Unlimited common shares without par value | | |
| Issued | | |
| 148,417,631 common shares (2005 - 145,358,949) | **51,418,415** | 49,069,482 |
| Contributed surplus | **8,429,795** | 8,133,004 |
| Accumulated other comprehensive income | **460,850** | 460,850 |
| Deficit | **(33,186,608)** | (30,989,273) |
| | **27,122,452** | 26,674,063 |
| | **$ 52,010,129** | $ 50,873,318 |

**CONTINUING OPERATIONS (Note 1)**

APPROVED BY THE BOARD

***"Daniel Kunz"***

Director

***"Pierre Lebel"***

Director

See accompanying notes to the interim consolidated financial statements

# JINSHAN GOLD MINES INC.
## Consolidated Statements of Operations
**(Unaudited)**
**(Stated in U.S. dollars)**

| | Three months ended March 31, 2007 | | Three months ended March 31, 2006 | |
|---|---|---|---|---|
| EXPENSES | | | | |
| Administration and office | **$** | **238,840** | $ | 181,703 |
| Amortization | | **10,606** | | 15,632 |
| Investor relations | | **56,252** | | 47,677 |
| Travel | | **88,764** | | 57,418 |
| Exploration expenses (See Schedule) | | **943,316** | | 1,955,985 |
| Professional fees | | **178,076** | | 21,889 |
| Salaries and benefits | | **196,881** | | 148,074 |
| Stock-based compensation | | **417,209** | | 206,367 |
| Shareholder information, transfer agent and filing fees | | **47,701** | | 15,671 |
| | | **2,177,645** | | 2,650,416 |
| OTHER INCOME/(EXPENSES) | | | | |
| Interest income | | **-** | | 76,656 |
| Interest and financing expense | | **(10,973)** | | - |
| Foreign exchange (loss) gain | | **(8,717)** | | 15,395 |
| | | **(19,690)** | | 92,051 |
| NET LOSS | **$** | **(2,197,335)** | $ | (2,558,365) |
| BASIC AND DILUTED LOSS PER SHARE | $ | (0.01) | $ | (0.02) |
| WEIGHTED AVERAGE NUMBER OF BASIC AND DILUTED SHARES OUTSTANDING | | **146,789,324** | | 127,150,685 |

See accompanying notes to the interim consolidated financial statements

# JINSHAN GOLD MINES INC.
## Consolidated Statements of Shareholders' Equity
**(Unaudited)**
**(Stated in U.S. dollars)**

| | Share Capital | | | Accumulated | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Contributed Surplus | Other Comprehensive Income | Deficit | Total |
| Balances, December 31, 2005 | 127,105,896 | $ 35,433,993 | $ 2,449,090 | $ 460,850 | $ (22,432,194) | $ 15,911,739 |
| Shares issued for: | | | | | | |
| Private placement, net of $167,306 share issue costs | 8,000,000 | 7,237,641 | 1,236,431 | - | - | 8,474,072 |
| Exercise of warrants | 9,587,460 | 5,785,843 | - | - | - | 5,785,843 |
| Exercise of stock options | 665,593 | 612,005 | (265,155) | - | - | 346,850 |
| Stock-based compensation charged to operations | - | - | 1,522,649 | - | - | 1,522,649 |
| Fair Value of share purchase warrants issued in connection with the 12% senior unsecured promissory notes, net of $153,368 issue costs (Note 5) | - | - | 3,189,989 | - | - | 3,189,989 |
| Net loss | - | - | - | - | (8,557,079) | (8,557,079) |
| Balances, December 31, 2006 | 145,358,949 | $ 49,069,482 | $ 8,133,004 | $ 460,850 | $ (30,989,273) | $ 26,674,063 |
| Shares issued for: | | | | | | |
| Exercise of warrants | 2,591,250 | 1,856,466 | (108,188) | - | - | 1,748,278 |
| Exercise of stock options | 467,432 | 492,467 | (208,270) | - | - | 284,197 |
| Stock-based compensation charged to operations | - | - | 613,249 | - | - | 613,249 |
| Net loss and comprehensive loss | - | - | - | - | (2,197,335) | (2,197,335) |
| **Balances, March 31, 2007** | **148,417,631** | **$ 51,418,415** | **$ 8,429,795** | **$ 460,850** | **$ (33,186,608)** | **$ 27,122,452** |

See accompanying notes to the interim consolidated financial statements

# JINSHAN GOLD MINES INC.
# Consolidated Statements of Cash Flows
**(Unaudited)**
(Stated in U.S. dollars)

| | Three months ended March 31, 2007 | Three months ended March 31, 2006 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | **$ (2,197,335)** | $ (2,558,365) |
| Items not requiring use of cash: | | |
| Amortization | **10,606** | 15,632 |
| Stock-based compensation | **613,249** | 408,000 |
| Unrealized foreign exchange loss (gain) | **103,691** | (2,283) |
| Non-controlling interest | **-** | |
| | **(1,469,789)** | (2,137,016) |
| Change in non-cash operating working capital items (Note 9 (a)) | **(3,143,806)** | (124,334) |
| | **(4,613,595)** | (2,261,350) |
| INVESTING ACTIVITY | | |
| Property, plant and equipment additions | **(3,087,094)** | (1,857,471) |
| FINANCING ACTIVITY | | |
| Issuance of common shares net of $nil issue costs | **2,032,475** | 73,394 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH | **(34,003)** | (13,112) |
| NET DECREASE IN CASH FOR THE PERIOD | **(5,702,217)** | (4,058,539) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | **27,876,503** | 15,414,581 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | **$ 22,174,286** | $ 11,356,042 |
| CASH AND CASH EQUIVALENTS ARE COMPRISED OF THE FOLLOWING: | | |
| Cash at bank | **$ 9,724,137** | $ 11,321,502 |
| Bank term deposits | **12,450,149** | 34,540 |
| | **$ 22,174,286** | $ 11,356,042 |

Supplemental Cash Flow Information (Note 9 (b))

See accompanying notes to the interim consolidated financial statements

### 1. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). However, they do not include all the information and disclosures required by Canadian GAAP for annual consolidated financial statements. They have been prepared using the same accounting policies and methods of applications as the latest annual consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been made. The results for interim periods are not necessarily indicative of results for the entire year. The information contained in the interim consolidated financial statements should be read in conjunction with Jinshan Gold Mines Inc.'s ("Jinshan") latest annual consolidated financial statements for the year ended December 31, 2006, and the notes thereto.

The unaudited interim consolidated financial statements include the accounts of Jinshan and all its subsidiaries (individually and collectively referred to as the "Company"). All significant inter-company transactions and balances have been eliminated.

The preparation of these interim consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

The Company is a pre-production stage company engaged in the acquisition, exploration, and development of mineral properties in the People's Republic of China ("China") and, accordingly, does not have any revenues. The Company's ability to continue as a going concern is dependant upon the ability of the Company to obtain the necessary financing to develop properties and to establish future profitable production. The Company may not have sufficient cash to fund the exploration and development of its mineral properties to commercial production and, therefore, may require additional funding, which if not raised may result in the curtailment of operations. Management is of the opinion that additional financing will be available to continue its planned activities in the normal course. There can, however, be no assurance the Company will be able to raise sufficient funds in the future.

### 2. CHANGE IN ACCOUNTING POLICIES

The Company adopted the provisions in the Canadian Institute of Chartered Accountants Handbook Sections 3251 – Equity, 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation and 1530 – Comprehensive Income, on January 1, 2007, which address the classification, recognition and measurement of financial instruments in the financial statements and the inclusion of other comprehensive income. As a result of adopting these new standards, the Company reclassified the balance of $460,850 of cumulative translation adjustments to accumulated other comprehensive income.

As a result of the adoption of these new standards, the Company has classified the notes payable as other liabilities and they are recorded at their amortized cost. Under Section 3855, the Company

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

### 2. CHANGE IN ACCOUNTING POLICIES (Continued)

adopted a policy to add transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities to their fair values.

### 3. PREPAID EXPENSES AND DEPOSITS

| | **March 31, 2007** | December 31, 2006 |
|---|---|---|
| Deposits for spare parts | **$ 324,542** | $ 104,376 |
| Rent deposits | **258,551** | 340,698 |
| Insurance | **74,767** | 108,287 |
| CSH (217) Gold project construction deposits | **2,334,408** | 1,358,855 |
| Other | **187,876** | 104,867 |
| | **$ 3,180,144** | $ 2,017,083 |

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

## 4. PROPERTY, PLANT AND EQUIPMENT

| | March 31, 2007 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Motor vehicles | **$ 357,048** | **$ 96,030** | **$ 261,018** |
| Machinery and equipment | **166,508** | **51,815** | **114,693** |
| Computer equipment | **149,382** | **95,140** | **54,242** |
| Furniture and fixtures | **95,203** | **32,094** | **63,109** |
| Office equipment | **41,679** | **19,568** | **22,111** |
| Computer software | **198,868** | **81,685** | **117,183** |
| Buildings | **56,308** | **1,126** | **55,182** |
| Capital works in progress | **17,468,175** | **-** | **17,468,175** |
| Mineral properties and deferred development | **8,140,770** | **-** | **8,140,770** |
| | **$ 26,673,941** | **$ 377,458** | **$ 26,296,483** |

| | December 31, 2006 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Motor vehicles | $ 274,330 | $ 83,981 | $ 190,349 |
| Machinery and equipment | 165,502 | 46,213 | 119,289 |
| Computer equipment | 146,007 | 89,773 | 56,234 |
| Furniture and fixtures | 75,867 | 26,730 | 49,137 |
| Office equipment | 27,399 | 17,050 | 10,349 |
| Computer software | 192,635 | 66,590 | 126,045 |
| Buildings | 56,308 | 704 | 55,604 |
| Capital works in progress | 14,749,310 | - | 14,749,310 |
| Mineral properties and deferred development | 5,327,531 | - | 5,327,531 |
| | $ 21,014,889 | $ 331,041 | $ 20,683,848 |

Capital works in progress consists primarily of the modular process plant, pregnant solution and overflow ponds, heap leach pad, buildings, and associated infrastructure for the Company's CSH (217) Gold project.

Mineral properties and deferred development consist of development costs capitalized for the CSH (217) Gold project commencing on May 1, 2006, as the Company determined in the final feasibility study that the CSH (217) Gold project has economically recoverable reserves. Development costs capitalized primarily consist of fees paid to consulting engineers, interest on the 12% senior unsecured notes payable, asset retirement obligation amounts, salaries and wages, travel and other project management costs. Commercial production is a convention for determining the point at which the mine is producing at a sustainable commercial level, after which costs are no longer capitalized and are reported as operating costs.

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

## 5. NOTES PAYABLE

On December 14, 2006, the Company completed a $25,935,546 (CDN $ 30,000,000) private placement offering consisting of senior unsecured promissory notes ("Notes") and 6,000,000 warrants for financing the development of the CSH (217) Gold project. The Notes mature on December 14, 2009, and carry an annual interest rate of 12%. Interest on the Notes is payable on a calendar quarterly basis commencing on March 31, 2007. The Company can elect to prepay the Notes after 18 months from the issue date with no prepayment penalty. The Company has allocated the $25,935,546 face value of the private placement offering to the Notes and warrants proportionately, based on their respective fair values. The fair value of the Notes was determined by discounting the stream of future payments of interest and principal at the estimated prevailing market rate of 17% for a debt instrument of comparable maturity and credit quality. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 3.9%, an expected life of 2 years, an expected volatility of 79%, and a dividend yield rate of nil. The fair value of the warrants, net of $153,368 issue costs, is included in contributed surplus in the shareholders' equity section of the Company's consolidated balance sheet. The warrants entitle each holder to acquire one common share at CDN $1.60 and expire 24 months from the issue date. The Company has the right to accelerate the expiry date of the warrants after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of CDN $2.75 for 20 consecutive trading days. The following shows the continuity of the Notes:

| | | |
|---|---|---|
| Balance of the Notes, December 31, 2006 | $ | 21,604,895 |
| Unrealized foreign exchange loss | | 73,653 |
| Accretion to December 31, 2006 | | 275,967 |
| **Balance of the Notes, March 31, 2007** | **$** | **21,954,515** |

The Notes will be accreted using the effective interest method over the life of the Notes to bring the balance from $21,954,515 as of March 31, 2007, to its face value of $26,021,337 (CDN $30,000,000) at the maturity date.

## 6. ASSET RETIREMENT OBLIGATIONS

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

The asset retirement obligations relate to reclamation and closure costs relating to the Company's mine operations at the CSH (217) Gold project. The asset retirement obligations are calculated as the net present value of estimated future cash flows which total $1,447,069 and are required to satisfy the obligations discounted using a credit adjusted risk-free rate of 8%. The settlement of the obligations will occur through to 2017. The Company recorded the asset retirement obligations as of March 31, 2007, and accordingly, there has been no change in the opening and closing balances.

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

## 7. SHARE CAPITAL

**Stock-based Compensation – Directors, Officers, Employees and Consultants**

During the three months ended March 31, 2007, the Company granted 310,000 stock options to certain employees and consultants at exercise prices ranging from CDN $1.62 to CDN $2.18 with expiry dates ranging from January 12, 2012 to March 13, 2012. The weighted average grant date fair value per option issued was estimated at CDN $1.20 using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation were an expected life of 5 years, volatility of 76%, a risk-free interest rate of 4% and expected dividends of $Nil. Compensation costs of $296,541 will be recognized/expensed over the vesting periods of the options, of which $125,790 was included in the net amount of $613,249 recognized in the three-month period ended March 31, 2007.

**Outstanding stock options and warrants**

As of March 31, 2007, there were 7,244,708 stock options outstanding with exercise prices and expiry dates ranging from CDN $0.50 to CDN $3.60 and June 2, 2007 to March 13, 2012, respectively.

As of March 31, 2007, there were 14,621,290 warrants outstanding with exercise prices and expiry dates ranging from CDN $0.60 to CDN $1.60 and June 20, 2007 to December 14, 2008, respectively.

## 8. RELATED PARTY TRANSACTIONS

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

| | Three months ended March 31, 2007 | 2006 |
|---|---|---|
| Administration and office | **$ 166,916** | $ 136,629 |
| Salaries and benefits | **230,711** | 202,935 |
| | **$ 397,627** | $ 339,564 |

(b) Accounts payable as of March 31, 2007, included $333,421 (2006 - $141,952), which was due to a company under common control or companies related by way of directors in common.

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

**9. SUPPLEMENTAL CASH FLOW INFORMATION**

(a)

| | Three months ended March 31, 2007 | 2006 |
|---|---|---|
| Net decrease (increase) in: | | |
| Accounts receivable | **$ (59,367)** | $ 316,237 |
| Prepaid expenses and deposits | **(1,163,061)** | (71,483) |
| Net increase in: | | |
| Accounts payable and accrued liabilities | **(1,921,378)** | (369,088) |
| | **$ (3,143,806)** | $ (124,334) |

(b)

| | Three months ended March 31, 2007 | 2006 |
|---|---|---|
| Transfer of contributed surplus to share capital upon exercise of stock options and warrants | **$ 316,458** | $ 39,900 |
| Amounts accrued for property, plant and equipment | **1,471,388** | - |
| Accretion of notes payable | **275,967** | - |

**10. SEGMENTED INFORMATION**

*(a) Industry Information*

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

*(b) Geographic Information*

| | China | Canada | Total |
|---|---|---|---|
| **As of March 31, 2007** | | | |
| Property, plant and equipment | **$ 26,261,209** | **$ 35,274** | **$ 26,296,483** |
| As of December 31, 2006 | | | |
| Property, plant and equipment | $ 20,642,151 | $ 41,697 | $ 20,683,848 |

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

## 11. FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, accounts receivable, and accounts payable approximate their carrying values.

The fair value of the Notes having a face value of $26,021,337, including the warrants (Note 5), is estimated to be $21,954,515 as of March 31, 2007.

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

## 12. COMMITMENTS

Contractual commitments as of March 31, 2007, consist of the following:

| | | Payments Due By Year | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** |
| Principal repayment on the Notes | **$ 26,021,337** | $ - | $ - | $ 26,021,337 | $ - | $ - | $ - |
| Operating leases (a) | **146,026** | 56,854 | 56,926 | 32,246 | - | - | - |
| Payments to joint venture partners (b) | **2,175,000** | 1,500,000 | 675,000 | - | - | - | - |
| Purchase commitments (c) | **4,558,049** | 4,558,049 | - | - | - | - | - |
| Total | **$ 32,900,412** | **$ 6,114,903** | **$ 731,926** | **$ 26,053,583** | **$ -** | **$ -** | **$ -** |

(a) Operating leases are primarily for premises.
(b) Payments to the CSH (217) Gold project and Dadiangou Gold project joint venture partners.
(c) Purchase commitments relate to construction and engineering contracts for the development of the CSH (217) Gold project.

In October 2006, the Company signed a ten year service contract with a third party to provide mining services for the CSH (217) Gold project commencing in December 2006. The value of the mining service each year will vary and is dependent upon the amount of mining work performed.

The Company signed a contract with a drilling company to provide drilling services in 2007 for its drilling program at the Dadiangou Gold project. The value of the drilling service will vary and is dependent upon the amount of drilling services performed.

## 13. SUBSEQUENT EVENTS

Subsequent to March 31, 2007:

*(a)* 554,600 warrants were exercised at prices ranging from CDN $0.60 to CDN $1.60. As a result, the Company issued 554,600 common shares and received net proceeds of $385,545 (CDN $433,160) upon the exercise of warrants.

*(b)* The Company cancelled 14,000 stock options.

**13. SUBSEQUENT EVENTS (Continued)**

*(c)* 354,300 stock options were exercised at prices ranging from CDN $0.50 to CDN $2.00. As a result, the Company issued 354,300 common shares and received net proceeds of $266,578 (CDN $299,500) upon the exercise of the stock options.

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

| | (1) Gold Project | Generative | | | Three months ended |
|---|---|---|---|---|---|
| | CSH (217) | General | Dadiangou | Xinjiang | **March 31, 2007** |
| Drilling consultants | $ 32,848 | $ - | $ 197,067 | $ - | $ 229,915 |
| Geological consultants | - | 30,217 | 48,298 | 243,390 | 321,905 |
| Engineering & other consultants | - | - | 2,375 | - | 2,375 |
| Project management | - | - | - | 3,150 | 3,150 |
| Maps & reproductions | - | - | - | - | - |
| Sampling and assaying | - | 9,746 | 722 | 1,218 | 11,686 |
| General & administrative | - | 21,256 | 3,770 | - | 25,026 |
| Salaries & benefits | - | 44,958 | 57,656 | 9,641 | 112,255 |
| Travel | - | 30,696 | 8,818 | 1,450 | 40,964 |
| | $ 32,848 | $ 136,873 | $ 318,706 | $ 258,849 | $ 747,276 |
| Stock-based compensation | | | | | 196,040 |
| | | | | | $ 943,316 |

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

| | Gold Project | Generative | | | Three months ended |
|---|---|---|---|---|---|
| | CSH (217) | General | Dadiangou | Xinjiang | **March 31, 2006** |
| Geological consultants | $ 71,568 | $ 36,773 | $ 3,253 | $ 189,723 | $ 301,317 |
| Engineering & other consultants | 948,057 | 1,062 | 63 | 1,375 | 950,557 |
| Project management | 142,266 | 14,647 | - | - | 156,913 |
| Maps & reproductions | - | 2,500 | - | 2,088 | 4,588 |
| Sampling and assaying | 74,563 | 2,890 | - | 4,500 | 81,953 |
| General & administrative | 11,155 | 8,500 | 1,195 | 589 | 21,439 |
| Salaries & benefits | 87,612 | 9,653 | 9,780 | 18,619 | 125,664 |
| Travel | 104,280 | 1,662 | - | 5,979 | 111,921 |
| | $ 1,439,501 | $ 77,687 | $ 14,291 | $ 222,873 | $ 1,754,352 |
| Stock-based compensation | | | | | 201,633 |
| | | | | | $ 1,955,985 |

# JINSHAN GOLD MINES INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations
## March 31, 2007

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

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The following management's discussion and analysis of financial condition and results of operations ("MD&A") was prepared as of May 9, 2007, and should be read in conjunction with the interim consolidated financial statements and notes thereto of Jinshan Gold Mines Inc. ("Jinshan") for the three months ended March 31, 2007.

# Overview

Jinshan is a pre-production stage company engaged in the acquisition, exploration, and development of mineral properties in the People's Republic of China ("China"). Jinshan and its subsidiaries are individually and collectively referred to as the "Company." 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").

Jinshan's main property is the Chang Shan Hao (217) Gold project ("CSH (217) Gold project"), which is located in Inner Mongolia, China. Jinshan holds a 96.5% interest in the CSH (217) Gold project, while its Chinese joint venture partner holds the remaining 3.5% interest.

The Company's other properties include the Dadiangou project in Gansu Province, where the Company has recently completed a 5,000 metre drill program and is waiting for the final assay results. The Company currently holds 13 exploration permits in the Eastern Xinjiang Uygar Autonomous Region ("Xinjiang") of Northwest China, where the company is conducting early stage reconnaissance exploration including geophysical surveys, geological mapping, and geochemical sampling.

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com and the Company's website at www.jinshanmines.com.

# Critical Accounting Estimates

A detailed summary of all of the Company's significant accounting policies is included in Note 2 to the annual Consolidated Financial Statements for the year ended December 31, 2006.

All direct costs related to the acquisition of mineral property interests are capitalized by property. Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. Exploration costs include value-added taxes incurred in foreign jurisdictions when recoverability of those taxes is uncertain.

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

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

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

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

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

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

# Change in Accounting Policies

The Company adopted the provisions in the Canadian Institute of Chartered Accountants Handbook Sections 3251 – Equity, 3855 – Financial Instruments – Recognition and Measurement, 3861 – Financial Instruments – Disclosure and Presentation and 1530 – Comprehensive Income, on January 1, 2007, which address the classification, recognition and measurement of financial instruments in the financial statements and the inclusion of other comprehensive income. As a result of adopting these new standards, the Company reclassified the balance of $460,850 of cumulative translation adjustments to accumulated other comprehensive income.

As a result of the adoption of these new standards, the Company has classified the notes payable as other liabilities and they are recorded at their amortized cost. Under Section 3855, the Company adopted a policy to add transaction costs that are directly attributable to the acquisition or issue of financial assets or liabilities to their fair values.

# Forward Looking Statements

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

This MD&A also contains references to estimates of mineral resources. The estimation of resources is inherently uncertain and involves subjective judgments about many relevant factors. The accuracy of any such estimates is a function of the quantity and quality of available data, and of the assumptions made and judgments used in engineering and geological interpretation, which may prove to be unreliable. There can be no assurance that these estimates will be accurate or that such mineral resources can be mined or processed profitably. Mineral resources that are not mineral reserves do not have demonstrated economic viability. The Company does not assume the obligation to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

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

# Development and Exploration Properties

## a) CSH (217) Gold Project

**Property description -** The CSH (217) Gold project consists of a licensed area of 36 square kilometres ("$km^2$") in the western part of Inner Mongolia, northern China. The CSH (217) Gold project is centrally positioned within the east-west-trending Tian Shan Gold Belt. The site is approximately 650 kilometres ("km") northwest of Beijing.

**Joint venture agreement-** In April 2002, the Company entered into a joint venture agreement with a Chinese partner, the Brigade 217 of Northwest Geological Bureau, to acquire up to a 96.5% interest in the CSH (217) Gold project. Under the terms of the agreement, the Company has completed its earn-in obligations and acquired the 96.5% interest by contributing, in aggregate, payments of $750,000 to the Chinese partner and capital contributions in the amount of $250,000 to the joint venture company, Ningxia Pacific Mining Co. Ltd. ("NPM"). In April 2005, the Company made the final payment to complete its earn-in requirement and the transfer of interest occurred. The Chinese partner is also entitled to receive from the Company two $1 million payments, the first of which became payable when the Company received the mining permit from the Ministry of Land and Resources ("MOLAR") in Beijing on September 12, 2006, and is accrued in the Company's balance sheet as of March 31, 2007, and the second payment is due 30 days following commencement of commercial mining operations.

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

| | | Cumulative Balance December 31, 2006 | Additions During the Period | | **Cumulative Balance March 31, 2007** |
|---|---|---|---|---|---|
| Exploration | $ | 5,840,503 | 32,848 | $ | **5,873,351** |
| Mineral properties and deferred development | $ | 5,327,531 | 2,813,239 | $ | **8,140,770** |
| Capital works in progress | $ | 14,749,310 | 2,718,865 | $ | **17,468,175** |

**Feasibility Study and Resource estimate –** In April 2006, the Company released the results of the final feasibility study that included results from Jinshan's 2005 infill drilling campaign. The final feasibility study increased the CSH (217) Gold project's measured and indicated resources estimated in the pre-feasibility study by approximately 700,000 ounces of gold, using a 0.5 grams per tonne ("g/t") gold cut-off. The new independent resource estimate, based on a 0.5 g/t gold cut-off, is 42 million tonnes of measured and 68 million tonnes of indicated resources grading 0.85 g/t gold and 0.81 g/t gold, and containing 1.1 million and 1.8 million ounces of gold, respectively. The CSH (217) Gold project also contains inferred resources of 18 million tonnes grading 0.78 g/t, for an additional 460,000 ounces of gold. The estimate was calculated by Mario E. Rossi, MSc., Min Eng., of GeoSystems International Inc., Florida, USA, a qualified person as defined by National Instrument 43-101. The independent final feasibility study was designed to not exceed the current mine permit application area and indicates that the mine would be capable of producing approximately 117,000 ounces of gold per year for an initial mine life of approximately nine years.

Using a base case gold price of $425 per ounce, the final feasibility study indicates that the project is forecast to generate a pre-tax internal rate of return of 32% and a net present value ("NPV"), discounted at 5%, of $71 million. As a sensitivity to the gold price, the final feasibility study indicates that at the April 2006 gold price of $600 per ounce, the project internal rate of return is 87%, and the project has an NPV discounted at 5%, of $212 million.

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

The mine is designed for an ore mining rate of 20,000 tonnes per day. Near-surface ore has been weathered along gold-bearing fractures and is classified as oxide. At depth, the gold is associated with sulphide mineralization. During the initial two years of the mine life, run-of-mine ("ROM") ore will be delivered to the heap-leach pad. A three-stage crushing plant is planned to be built in Year 2 to process primarily sulphide ore beginning in approximately Year 3 through to the end of the mine life. The three-stage crushing plant, associated mining equipment, additional heap leach pad capacity, and other future sustaining capital costs are estimated by the final feasibility study to cost approximately $28.8 million. Based on the metallurgical test work conducted the study assumes the following gold recoveries:

- Oxide (ROM) 80%
- Oxide (Crushed) 85%
- Sulphide (ROM) 40%
- Sulphide (Crushed) 70%

The process for gold recovery has been designed as a heap-leach operation utilizing a multiple-lift, single-use leach pad. Both ROM and crushed ore will be hauled by truck and placed on the pad. Leach solution will be distributed by a buried drip-irrigation system. The solution will be collected in a double-lined pond designed to operate in harsh winter conditions and be pumped to a process plant inside a heated building. Precious metals will be recovered from the pregnant solution in a carbon adsorption plant and the gold and silver recovered will be refined into dore bars.

**Development activities** – The MOLAR in Beijing has approved the Company's Chinese reserve and resource study and, on September 12, 2006, granted the mining permit. In July 2006, the Company's application for project registration was approved by the provincial government of Inner Mongolia Autonomous Region**.**

The Chinese Regulatory Environmental Impact Assessment ("EIA") has been completed by Earth Resource Management, of Shanghai, China, in partnership with the Inner Mongolia Environmental Science Academy. The EIA has been reviewed and approved by an expert panel of the Environmental Protection Bureau of Inner Mongolia.

As the Company moves closer to production, the Company expects that additional normal business operating permits and licenses that are typical for an operating mine will be required. The Company will make applications for these permits and licenses as and when required during the course of its development and operations. The Company expects that it will be capable of commencing commercial gold production in June or July of 2007.

As of April 2006, the final feasibility study indicates that the initial going forward capital cost for the ROM development (net of sunk cost) is $32.3 million. As of March 31, 2007, the Company has spent $17.5 million on mine infrastructure costs.

In October 2006, the Company signed a ten year mining contract with China National Railway Corporation, a major Chinese mining contractor. In January 2007, the mining contractor commenced haul road construction, open pit preparations, and in March began ore placement on the heap leach pad. A 500 person camp is undergoing final completion of civil works and has already housed the contract miners and most of the Company's start-up work force. Infrastructure work for power and water is near completion.

While the estimates contained in the feasibility study regarding the inputs used to determine capital construction and cost of production remain substantively consistent with current expectations, there have been changes in several variables from those reported in the feasibility study. As examples, there has been an approximate 50% increase in the cost of cyanide, increase in local labour and related costs, a reduction in the exchange rate from Chinese Renminbi to US dollars, and a greater number of expatriate staff hired for operations than previously estimated. These changes have occurred in the context of a much higher gold price than that used as the base case for the feasibility study, and accordingly, the Company views the overall effect of the change in circumstances since the date of the feasibility study as positive. Nevertheless, the Company expects to report higher overall capital costs and cash operating costs than those reported in the feasibility study. The exact extent of the cost increase cannot be precisely quantified by management, as it is subject to continual adjustments based on prevailing market factors, but management's current view is that the increase would amount to between 5% and 10% of the amounts estimated in the feasibility study.

**Exploration activities** – In March 2007, the Company commenced a 5,000 metre drill program at the CSH (217) Gold project. The drill program, budgeted at $800,000, is concentrated on the Southwest Zone, including 50-metre spaced infill drill holes designed to upgrade resources from the inferred category to the indicated category, and step-out drilling to test the southwest extension of the mineralized zone. Three step-out holes drilled in 2005 at the Southwest Zone encountered significant intercepts of gold mineralization that expanded the zone to the west beyond previously determined boundaries. The host rock structure suggests that the mineralized zone may extend at least 600 metres further to the west where a secondary fold is interpreted. At a 0.5 g/t gold cut-off grade, the current Southwest Zone has measured and indicated resources of approximately 32 million tonnes grading 0.86 g/t, for contained gold content of approximately 860,000 ounces. The Southwest Zone has additional inferred resources of nine million tonnes grading 0.74 g/t, for an additional contained gold content of 220,000 ounces. The current Southwest Zone resource and any additional resources that are delineated by the drilling campaign will be included in a 2007 engineering study, to investigate the expansion potential of the mine. The current CSH (217) Gold project mine development, which is expected to start commercial production in June or July of 2007, does not consider any resources from the Southwest Zone.

## b) Dadiangou Project

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

**Joint venture agreement** – In September 2005, the Company entered into a joint venture agreement with a Chinese partner to acquire a majority interest in the Dadiangou project. Under the terms of the agreement, the Company can earn a 71% interest by incurring exploration expenditures of approximately $3.3 million and making payments to the Chinese partner of approximately $1.3 million (of which $125,000 was paid) over the first three years of exploration commencing on September 19, 2006. The Company can increase its interest to 80% by incurring additional exploration expenditures of approximately $2.8 million and by making additional payments to the Chinese partner of approximately $300,000. The Chinese partner can then choose to participate at a 20% level for all future expenditures, or have their ownership interest diluted. The amounts in the joint venture agreement are denominated in Chinese Renminbi ("RMB") and a rate of 8.2 RMB per U.S. dollar was used to convert the RMB amounts to U.S. dollars.

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

| | Cumulative Balance December 31, 2006 | Additions During the Period | **Cumulative Balance March 31, 2007** |
|---|---|---|---|
| Exploration | $ 699,488 | 318,706 | $ **1,018,194** |

On September 19, 2006, the Company announced the receipt of the business license for the joint venture company, Gansu Pacific Mining Co. Ltd., and paid the Chinese partner $150,000 pursuant to an additional agreement entered into on July 11, 2006. Since the receipt of the business license, the Company has recently completed a planned

5,000 metre drill program and is waiting for the final assay results. A camp has been established on site and approximately 15 km of road into the site has been rehabilitated.

**Exploration results –** The Dadiangou project hosts multiple gold-bearing shear zones up to 40 metres wide over a strike length estimated to be 3,000 metres. Gold mineralization occurs within the shear zones associated with quartz and sulphides (predominantly pyrite, with rare arsenopyrite). Free gold is reported to represent 85% of the total gold. Preliminary metallurgical test work by the Chinese partner indicates that the gold mineralization is non-refractive.

The Chinese partner has tested the gold mineralization with several exploration adits, including crosscuts across key portions of the zone approximately every 40 metres. Two of the underground drifts and crosscuts were designed to test the vertical continuity of the system. The results of continuous underground channel sampling by the Chinese partner indicate an average gold grade of approximately 1.5 g/t over significant widths (greater than 40 metres in some locations). Jinshan has re-assayed approximately 1,048 pulp samples from the Chinese partner's underground sampling program, which included 22 standards randomly injected as check samples. The re-assaying was conducted at the SGS Laboratory in Tianjin, China, using standard fire assay techniques.

On February 6, 2007, Jinshan commenced a 5,000 metre, Phase I diamond drill program designed to test the Dadiangou main zone over a strike length of approximately 2,000 metres and to depths of 200 metres or more. The drill program consists of wide-spaced drill sections with one or two drill holes per section. If results of this program show continuity of gold grades over significant widths, an additional program of infill drilling will be required before commissioning a resource estimate. To date, all of the planned 22 drill holes have been completed and the Company has not received the final assay results.

In addition to the diamond drilling program, crews are currently on site preparing to collect high-quality channel samples from the accessible underground cross-cuts and from the trenches on surface. As both trenches and underground crosscuts have been completed on 40 metre spaced sections, this data will give Jinshan a detailed picture of grade distribution in the near-surface portions of the Dadiangou main zone. Outside of the main zone, a property wide soil sampling program is underway and will test for strike extensions and possible parallel shear zones at the project. This program is planned to cover approximately 85% of the 15 square kilometre property with soil samples spaced 50 metres apart on 100 and 200 metre spaced lines. The budget for all Phase I drilling activities at Dadiangou is approximately $1.8 million.

## c) Xinjiang Projects

The Company currently holds 13 exploration permits covering 483 $km^2$ in the Xinjiang Uygur Autonomous Region (Xinjiang) of Northwest China. The permits are held under a Chinese-Foreign Joint Venture in which the Company holds a 99% share and the partner, Yunnan Geological and Mining Co. Ltd., holds a 1% share. The permits were granted between February and December, 2006, by the MOLAR in Beijing.

Field programs commenced in early March 2006 and by the end of 2006, the Company had completed an initial phase of geological mapping, sampling and prospecting on each of the initial six permits. More than 4,000 rock chip, stream sediment, and soil samples were collected during the course of exploration and submitted to SGS Laboratories in Tianjin, China for gold fire assay and multi-element geochemical analyses. In addition, approximately 150 square kilometres have been covered with ground magnetic geophysical surveys. Based on the results of work to date, the company is currently planning detailed follow-up on a number of the permits during the 2007 field season.

In addition to the permit-specific work, the company continues to evaluate new opportunities in this region.

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

| | Cumulative Balance December 31, 2006 | Additions During the Period | **Cumulative Balance March 31, 2007** |
|---|---|---|---|
| Exploration | $ 1,634,472 | 258,849 | $ **1,893,321** |

# Generative Activities

The Company continues on a concerted program to acquire prospective exploration properties and to identify potential acquisitions in China as part of a strategy to expand its project portfolio. The Company has a strong technical exploration team working in China which is exploring for gold in specifically targeted areas of the country. The Company intends to focus its generative efforts on identifying opportunities that have known zones of gold mineralization that are or could be expanded into significant gold deposits.

# Results of Operations

## Overview

The Company is in the pre-production stage and, accordingly, financial results are not fully comparable to those of the corresponding periods in the prior year due to potential significant changes to the nature of the Company's activities.

For the three months ended March 31, 2007 and 2006, the Company had no net sales or other operating revenues, and no dividends were declared.

**Selected Quarterly Data (Unaudited)**

($ in thousands, except per share information)

| | 2007 | 2006 | | | | 2005 | | |
|---|---|---|---|---|---|---|---|---|
| QUARTER ENDED | 31-Mar | 31-Dec | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep | 30-Jun |
| Exploration expenses | $943 | $798 | $551 | $953 | $1,956 | $2,484 | $966 | $133 |
| Net loss | 2,197 | 2,482 | 2,018 | 1,499 | 2,558 | 3,282 | 1,339 | 435 |
| Net basic and diluted loss per share | 0.01 | 0.01 | 0.02 | 0.01 | 0.02 | 0.06 | 0.03 | 0.01 |

Fluctuations in the quarterly net loss amounts over the two year period ended March 31, 2007, is primarily due to fluctuations in the level of exploration expenditures on a period over period basis. Exploration expenditures fluctuate on a quarterly basis due to such factors as: variations in the scheduled contributions to joint venture companies and partners; timing of recovery and recognition of exploration costs from Ivanhoe Mines Ltd.; and fluctuations in the recognition of stock-based compensation charged to operations. The decrease in exploration expenditures and the net loss for the quarter ended June 30, 2005, is primarily attributable to the sale of the JBS Platinum and Palladium property, which was recorded as a recovery of previously expensed exploration costs.

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

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

| | Three Months Ended March 31, 2007 | Three Months Ended March 31, 2006 | Increase (Decrease) |
|---|---|---|---|
| **Expenses** | | | |
| Administration and office | $ 238,840 | $ $ 181,703 | $ 57,137 |
| Amortization | 10,606 | 15,632 | (5,026) |
| Investor relations | 56,252 | 47,677 | 8,575 |
| Travel | 88,764 | 57,418 | 31,346 |
| Exploration expenses | 943,316 | 1,955,985 | (1,012,669) |
| Professional fees | 178,076 | 21,889 | 156,187 |
| Salaries and benefits | 196,881 | 148,074 | 48,807 |
| Stock-based compensation | 417,209 | 206,367 | 210,842 |
| Shareholder information, transfer agent and filing fees | 47,701 | 15,671 | 32,030 |
| | 2,177,645 | 2,650,416 | (472,771) |
| **Other Income (Expenses)** | | | |
| Interest income | - | 76,656 | (76,656) |
| Interest and financing expense | (10,973) | - | 10,973 |
| Foreign exchange (loss) gain | (8,717) | 15,395 | (24,112) |
| | (19,690) | 92,051 | (111,741) |
| **Net Loss For The Period** | $ (2,197,335) | $ (2,558,365) | $ (361,030) |

**Three months ended March 31, 2007 and 2006**

The Company incurred a net loss of $2.2 million for the three months ended March 31, 2007, compared to a net loss of $2.6 million in 2006. The decrease of $361,000 from 2006 to 2007 is primarily due to the decrease in exploration expenses, partially offset by increases in stock-based compensation and professional fees.

Exploration costs are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. On May 1, 2006, the Company commenced capitalization of development costs for its CSH (217) Gold project, as it was determined in the final feasibility study that the CSH (217) Gold project has economically recoverable reserves. Development costs capitalized primarily consisted of fees paid to consulting engineers, salaries and wages, travel and other administrative costs. The results of the final feasibility study are discussed above under the "Development and Exploration Properties" section of this MD&A. As a result of capitalizing development costs at the CSH (217) Gold project, exploration expenses decreased by $1 million for the three months ended March 31, 2007, compared to 2006. As of March 31, 2007, $8.1 million in development costs incurred at the CSH (217) Gold project were capitalized, which included $1.0 million that became payable to the Company's Chinese partner when the Company received the mining permit in September 2006.

Stock-based compensation increased by $211,000 for the three months ended March 31, 2007, compared to 2006, primarily due to the increase in exercise price of stock options granted. The weighted average stock option grant date fair value for the three months ended March 31, 2007 was CDN $1.20, compared to CDN $0.57 for 2006.

Professional fees increased by $156,000 for the three months ended March 31, 2007, compared to 2006, primarily due to increased legal fees for regulatory filings and contract reviews, and accounting assistance on various tax matters.

Administration and office for the three months ended March 31, 2007, increased by $57,000 compared with 2006, and salaries and benefits increased by $49,000 from 2006 to 2007, primarily due to the increase in office overhead required as a result the addition of full time employees as the Company moves towards having the CSH (217) Gold project start commercial production in June or July of 2007.

The Company's shares began trading on the TSX on October 6, 2006 and consequently, there was an increase in regulatory filings. This resulted in an increase of $32,000 in shareholder information, transfer agent and filing fees for the three months ended March 31, 2007, compared to 2006.

Travel expenses for administrative personnel increased by $31,000 for the three months ended March 31, 2007, compared to 2006, primarily due to the increased presence by senior management at the Company's project locations during the three months ended March 31, 2007. Planning and administration for mine development on the CSH (217) Gold project and implementation of infrastructure necessitated this increased travel to China during 2007.

Amortization expense decreased by $5,000 for the three months ended March 31, 2007, compared to 2006, primarily due to certain fixed assets being fully depreciated.

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

The proceeds from the Notes are used to fund the development of the CSH (217) Gold project and accordingly, interest expense of $862,000, net of interest income of $181,000, was capitalized to development costs for the three months ended March 31, 2007.

Interest and financing expenses of $11,000 for the three months ended March 31, 2007, was due to late filing interest and penalties on prior years' tax returns.

Foreign exchange loss for three months ended March 31, 2007, was $9,000 compared to a gain of $15,000 for 2006. The loss is primarily due to the strengthening of the U.S. dollar exchange rate against the Canadian dollar and the higher amount of Canadian dollar deposits held during 2007.

# Liquidity and Capital Resources

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

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash | $ 22,174,286 | $ 27,876,503 |
| Accounts receivable | 359,216 | 295,884 |
| Prepaid expenses | 3,180,144 | 2,017,083 |
| | 25,713,646 | 30,189,470 |
| **PROPERTY, PLANT AND EQUIPMENT** | 26,296,483 | 20,683,848 |
| | $ 52,010,129 | $ 50,873,318 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable and accrued liabilities | $ 2,144,370 | $ 2,594,360 |
| **LONG TERM** | | |
| Notes payable | 21,954,515 | 21,604,895 |
| Asset retirement obligation | 788,792 | - |
| | 22,743,307 | 21,604,895 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 51,418,415 | 49,069,482 |
| Contributed surplus | 8,429,795 | 8,133,004 |
| Cumulative translation adjustment | 460,850 | 460,850 |
| Deficit | (33,186,608) | (30,989,273) |
| | 27,122,452 | 26,674,063 |
| | $ 52,010,129 | $ 50,873,318 |

As of March 31, 2007, the Company had a working capital balance of $23.6 million and cash resources of $22.2 million. During the three months ended March 31, 2007, net cash outflows from operations were $1.5 million, and $3.1 million was expended on property, plant and equipment of which $2.5 million was capitalized to mineral property development costs, primarily for the CSH (217) Gold project. Cash inflows of $2 million during the three months ended March 31, 2007, was from the issuance of common shares from the exercise of share purchase warrants and stock options. The net cash decrease for the three months ended March 31, 2007, was $5.7 million. As the Company does not have any revenues, its primary source of cash has been through the issuance of common shares and warrants from private placements, exercise of stock option and warrants and long term debt. Such proceeds received have been used to fund the development of the CSH (217) Gold project and exploration expenditures.

As of March 31, 2007, other than U.S. funds, the Company had approximately CDN $10.2 million ($8.8 million) held in Canadian funds and 16.7 million ($2.2 million) in Chinese Renminbi, which exposes the Company to risks associated with foreign exchange fluctuations. For the three months ended March 31, 2007, Canadian and Chinese denominated funds incurred an unrealized foreign exchange loss of $34,000, due to the strengthening of the U.S. dollar versus its Canadian and Chinese counterparts.

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

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

| | | Payments Due By Year | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** |
| Principal repayment on the Notes | **$ 26,021,337** | $ - | $ - | $ 26,021,337 | $ - | $ - | $ - |
| Operating leases (a) | **146,026** | 56,854 | 56,926 | 32,246 | - | - | - |
| Payments to joint venture partners (b) | **2,175,000** | 1,500,000 | 675,000 | - | - | - | - |
| Purchase commitments (c) | **4,558,049** | 4,558,049 | - | - | - | - | - |
| Total | **$ 32,900,412** | **$ 6,114,903** | **$ 731,926** | **$ 26,053,583** | **$ -** | **$ -** | **$ -** |

(a) Operating leases are primarily for premises.

(b) Payments to the CSH (217) Gold project and Dadiangou Gold project joint venture partners.

(c) Purchase commitments relate to construction and engineering contracts for the development of the CSH (217) Gold project.

As of March 31, 2007, the Company expects to spend approximately $10 million in further capital costs on the CSH (217) Gold project and $3.5 million on its exploration projects during 2007.

In October 2006, the Company signed a ten year service contract with a third party to provide mining services for the CSH (217) Gold project. The value of the mining service each year will vary and is dependent upon the amount of mining work performed, commenced in the first quarter of 2007.

In February 2007, the Company signed a contract with a drilling company to provide drilling services in 2007 for its drilling program at the Dadiangou Gold project. The value of the drilling service will vary and is dependent upon the amount of drilling services performed.

The Company is a pre-production stage company engaged in the acquisition, exploration, and development of mineral properties and, accordingly, does not have any revenues. The Company's ability to continue as a going concern is dependant upon the ability of the Company to obtain the necessary financing to develop properties and to establish future profitable production. The Company may not have sufficient cash to fund the exploration and development of its mineral properties to commercial production and, therefore, may require additional funding, which if not raised may result in the curtailment of operations. Management is of the opinion that additional financing is available to continue its planned activities in the normal course.

The Company expects to finance future obligations and commitments through the exercise of options and warrants, additional equity or debt financings, or a combination of each, all of which are subject to favorable market conditions. However, there can be no assurance that debt facilities or additional equity financings will be available when required or at terms that are favorable to the Company**.** Subsequent to March 31, 2007:

*(a)* 554,600 warrants were exercised at prices ranging from CDN $0.60 to CDN $1.60. As a result, the Company issued 554,600 common shares and received net proceeds of $386,000 (CDN $433,000) upon the exercise of warrants.

*(b)* The Company cancelled 14,000 stock options.

*(c)* 354,300 stock options were exercised at prices ranging from CDN $0.50 to CDN $2.00. As a result, the Company issued 354,300 common shares and received net proceeds of $267,000 (CDN $300,000) upon the exercise of the stock options.

# Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

# Related Party Transactions

Certain administrative costs are paid to GMM for corporate secretarial, accounting, investor relations and administrative services performed on behalf of the Company. GMM is related to Jinshan as certain officers are common to each company. GMM provides these services to a group of companies, some of which are related to Jinshan and others which are not. The services provided by GMM are incurred on an as-used basis. Accordingly, fluctuations in the costs of administrative and personnel costs can be expected commensurate with increases or decreases in yearly corporate activity and the level of personnel employed. The Company has utilized the services of the GMM staff and office since April 1, 2003, and has incurred costs of $398,000 (2006 - $340,000) for the three months ended March 31, 2007.

# Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. As of May 4, 2007, 149,326,531 common shares were issued and outstanding, 6,876,408 share purchase options had been granted and were outstanding, and 14,066,690 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 170,269,629 common shares were outstanding.

# Changes in Internal Controls over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

# Risk Factors

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

- *Servicing the Company's Debt* – The Company's ability to make payments on and to refinance its debt depends on its ability to generate cash in the future, which will be affected by general economic, financial, competitive, legislative, regulatory and other factors beyond the Company's control. The Company cannot assure that its business will generate sufficient cash flows from operations or that future borrowings will be available to it in amounts sufficient to enable it to service its debt at maturity or otherwise, or to fund its other liquidity needs. If the Company is unable to meet its debt obligations or to fund its other liquidity needs, the Company may need to restructure or refinance its debt. The Company's ability to refinance its debt or obtain additional financing will depend on: its financial condition at the time; restrictions in agreements governing its debt; and other factors, including financial market or industry conditions. As a result, it may be difficult for the Company to obtain financing on terms that are acceptable to it, or at all. Without this financing, the Company could be forced to sell assets under unfavorable circumstances to make up for any shortfall in its payment obligations. In addition, the Company may not be able to sell assets quickly enough or for sufficient amounts to enable it to meet its obligations.
- *The repatriation of any earnings could have adverse consequences* - Chinese regulations provide that, subject to payment of applicable taxes, foreign investors may remit out of China, in foreign exchange, profits or dividends derived from a source within China. Remittance by foreign investors of any other amounts (including, for instance, proceeds of sale arising from a disposal by a foreign investor of any of its investments in China) out of China is subject to the approval of the State Administration of Exchange Control or its local branch office. No assurance can be given that such approval would be granted if Jinshan disposes of all or part of its interest in a project located in China. Further, there can be no assurance that additional restrictions on the repatriation of earnings in China will not be imposed in the future.
- *Additional Funding Requirements* – The further development and exploration of the various mineral properties in which it holds interests, particularly the CSH (217) Gold project, depends upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There can be no assurance that the Company will be successful in obtaining any required financing as and when needed. Depressed markets for precious and base metals may make it difficult, or impossible, for the Company to obtain debt financing or equity financing on favorable terms, or at all. The Company operates in a region of the world that is prone to economic and political upheaval and mineral properties held by the Company are located in politically and economically unstable countries, which may make it more difficult for the Company to obtain debt financing from project lenders. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.
- *Risks pertaining to foreign countries* – China is, and for the foreseeable future is expected to remain, the country in which the Company concentrates most of its business activities and financial resources. In addition to interests in projects in China, the Company may enter into contractual arrangements in other foreign jurisdictions. The foreign legal framework for these agreements, particularly in developing countries, is often based on recent political reforms and newly enacted legislation, which may not be consistent with long-standing local conventions and customs. As a result, there may be ambiguities, inconsistencies and anomalies in the agreements or the legislation upon which they are based, which are atypical of more developed legal systems and which may affect the interpretation and enforcement of the Company's rights and obligations and those of our foreign partners. Local institutions and bureaucracies responsible for administering foreign laws may lack a proper understanding of the laws or the experience

necessary to apply them in a modern business context. Foreign laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable.

- *There are title risks with respect to the Company's mineral properties* – The acquisition of title to resource properties or interests therein is a very detailed and time-consuming process. Title to and the area of resource concessions may be disputed. The Company has conducted an internal investigation of title to the CSH (217) Gold project. Based on a review of records maintained by the relevant government agencies in China, the CSH (217) Gold project interests are registered in the name of the applicable joint venture company. There is no guarantee of title to any of the Company's properties. The properties may be subject to prior unregistered agreements or transfers and title may be affected by undetected defects. Title may be based upon interpretation of a country's laws, which laws may be ambiguous, inconsistently applied and subject to reinterpretation or change. The Company has not surveyed the boundaries of any of its mineral properties and consequently the boundaries of the properties may be disputed.
- *There are specific risks associated with title to and future development of the CSH (217) Gold project* – While the joint venture company has obtained a mining permit for the CSH (217) Gold project and is authorized to explore for gold, it is required to obtain further approvals from regulatory authorities in China in order to explore for minerals other than gold and prior to commencing mining operations. The joint venture company will also need to clarify certain government related inputs on the project such as taxation rates. The laws of China governing the establishment of joint venture companies, taxation matters and other relevant laws are ambiguous, inconsistently applied and subject to reinterpretation or change. There can be no guarantee that the steps taken to establish the joint venture and obtain an interest in the CSH (217) Gold project will be sufficient to preserve the Company's interests in the joint venture or project or that Jinshan's assumptions regarding taxation rates and other inputs will be realized.
- *Mining permits and licenses are required* – The further development and exploration of the various mineral properties in which it holds interests depends upon the Company's ability to obtain permits and licenses from various governmental authorities. There can be no assurance that the Company will be successful in obtaining any required permits and licenses when needed. The Company operates in a region of the world that is prone to economic and political upheaval and mineral properties held by the Company are located in politically and economically unstable countries, which may make it more difficult for the Company to obtain mining permits and licenses from various governmental authorities. Failure to obtain permits and licenses on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.
- *Environmental and other regulatory requirements could have a materially adverse affect on the Company* - The Company's operations are subject to environmental regulations in the various jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Government approvals and permits are required in connection with the Company's operations. To the extent such approvals are required and not obtained, The Company may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties.

  Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

  Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the

Company and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or require abandonment or delays in development of new mining properties.

- *Uncertainties related to mineral resource estimates* – There is a degree of uncertainty attributable to the calculation of mineral resources and corresponding grades being mined or dedicated to future production. Until resources are actually mined and processed, the quantity of resources and grades must be considered as estimates only. In addition, the quantity and value of reserves or resources may vary, depending on metals prices. Any material change in the quantity of resources, grades or stripping ratio may affect the economic viability of the Company's properties. In addition, there can be no assurance that metal recoveries in small-scale laboratory tests will be duplicated in larger-scale tests under on-site conditions, or during production.
- *Metal price volatility* – Metal prices are subject to volatile price changes from a variety of factors, including international economic and political trends, expectations of inflation, global and regional demand, currency-exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods.
- *Lack of infrastructure could adversely affect mining feasibility* – The Company's mining properties are located in remote areas, which currently lack basic infrastructure, including sources of electric power, water, housing, food, and transport necessary to develop and operate a major mining project. While the Company is establishing infrastructure necessary to conduct its current exploration and development activities, substantially greater sources of power, water, physical plant, and transport infrastructure in the area may need to be established before the Company can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured.
- *Currency risks* – The bulk of the Company's activities are denominated in U.S. currency with other minor activities denominated in Chinese Renminbi and Canadian dollars. In addition, the Company's Notes and interest thereon are payable in Canadian dollars. During 2006 and the three months ended March 31, 2007, the Company maintained some of its surplus funds in Canadian dollars and Chinese Renminbi, which amounts expose the Company to risks associated with foreign exchange fluctuations.
- *Limited operating history* – The Company has paid no dividends on its common shares since incorporation and does not anticipate doing so in the foreseeable future. To date, the Company has not received any cash flow generated from planned commercial operations. All exploration projects of the Company will need funding from the Company. The Company has a limited operating history and there can be no assurance of its ability to operate its projects profitably. While the Company may in the future generate additional working capital through the operation, development, sale or possible syndication of its properties, there is no assurance that the Company will be capable of producing positive cash flow on a consistent basis or that any such funds will be available for exploration and development programs.
- *Mining operations are subject to numerous hazards that could have a materially adverse effect on the financial position of the Company* - Mining operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, rock falls, flooding, dam wall failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimize risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.
- *Uninsurable risks or self-insured risks* – Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fires, floods, earthquakes or other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide

not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

- *The Company's prospects depend on its ability to attract and retain key personnel* - Recruiting and retaining qualified personnel is critical to the Company's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Although the Company believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

# Qualified Persons

Calvin McKee, P.Geo., the Company's COO, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to the CSH 217 Gold project in this MD&A. Keith Patterson, P.Geo., the Company's Vice President of Exploration, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to the Dadiangou project, Xinjiang project, and generative activities in this MD&A.

# Outlook

The Company's principal near term focus is completing all outstanding matters for the development of the CSH 217 Gold project in order to commence commercial mining operations on the property. Construction, financing and permitting are all well-advanced, and the Company now anticipates that it will begin commercial gold production in June or July of 2007. The Company is also planning to undertake drilling and further engineering studies on the property during 2007 to determine the expansion potential of the mine.

The process of establishing the necessary internal management and operational capacity and of establishing the physical and operational infrastructure to conduct commercial mining operations on the CSH 217 Gold project is changing the nature of the Company as a whole, as it effectively represents a transition for the Company from a junior exploration company to a mining company. The Company believes that operating the CSH 217 gold mine and the generation of positive cash flow will result in a maturing of its business profile and will support its long term growth strategy to become a significant gold producer in Asia. In this regard, the Company also continues to identify and evaluate strategic acquisition alternatives on a selective basis, focussing in particular on businesses that have potential synergies with the Company's existing Chinese operations.

The Company continues to operate a separate office and team of employees and consultants to conduct exploration on the Company's other exploration projects in China. While these efforts are ancillary to the Company's main focus on the CSH 217 Gold project, the Company intends to continue active exploration efforts to support medium term and long-term growth of the Company.

May 9, 2007