

*Auditors' Report and Consolidated Financial Statements of*

**JINSHAN GOLD MINES INC.**

*December 31, 2005 and 2004  
(stated in U.S. dollars)*

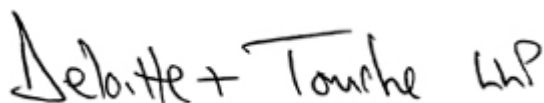
## Auditors' Report

To the Shareholders of  
Jinshan Gold Mines Inc.

We have audited the consolidated balance sheets of Jinshan Gold Mines Inc. as at December 31, 2005 and 2004 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Vancouver, British Columbia  
April 18, 2006

# JINSHAN GOLD MINES INC.

## Consolidated Balance Sheets

December 31, 2005 and 2004

(Stated in U.S. dollars)

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
CURRENT		
Cash	\$ 15,414,581	\$ 4,030,374
Accounts receivable	569,409	575,884
Receivable from related party (Note 6(b))	-	1,807,801
Prepaid expenses	215,125	364,841
	<u>16,199,115</u>	<u>6,778,900</u>
PROPERTY, PLANT AND EQUIPMENT (Note 4)	918,700	222,090
	<u>\$ 17,117,815</u>	<u>\$ 7,000,990</u>
<b>LIABILITIES</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,206,076	\$ 741,105
COMMITMENTS (Note 11)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 5)		
Authorized		
Unlimited common shares without par value		
Issued and outstanding		
127,105,896 (2004 - 48,552,948)	35,433,993	20,077,100
Contributed surplus	2,449,090	1,939,729
Cumulative translation adjustment	460,850	460,850
Deficit	(22,432,194)	(16,217,794)
	<u>15,911,739</u>	<u>6,259,885</u>
	<u>\$ 17,117,815</u>	<u>\$ 7,000,990</u>

APPROVED BY THE BOARD

"Pierre Lebel"

Director

"Dan Kunz"

Director

The accompanying notes are an integral part of these consolidated financial statements.

**JINSHAN GOLD MINES INC.**  
**Consolidated Statements of Operations**  
Years ended December 31, 2005 and 2004  
(Stated in U.S. dollars)

	<u>2005</u>	<u>2004</u>
<b>EXPENSES</b>		
Administration and office	\$ 554,175	\$ 547,298
Amortization	88,234	44,988
Investor relations	146,288	88,669
Travel	201,887	95,510
Exploration expenses (Note 3 and Schedule)	4,289,873	3,586,643
Professional fees	213,504	233,742
Salaries and benefits	339,857	350,859
Stock-based compensation	416,732	556,320
Shareholder information, transfer agent and filing fees	98,812	74,920
	<u>6,349,362</u>	<u>5,578,949</u>
<b>OTHER INCOME</b>		
Interest income	98,267	49,565
Foreign exchange gain	11,830	77,120
	<u>110,097</u>	<u>126,685</u>
<b>LOSS BEFORE NON-CONTROLLING INTEREST</b>	<b>6,239,265</b>	<b>5,452,264</b>
Non-controlling interest	(24,865)	-
<b>NET LOSS</b>	<b>\$ 6,214,400</b>	<b>\$ 5,452,264</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ (0.12)</b>	<b>\$ (0.11)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>53,396,881</b>	<b>47,584,962</b>

The accompanying notes are an integral part of these consolidated financial statements.

**JINSHAN GOLD MINES INC.**  
**Consolidated Statements of Shareholders' Equity**

Years ended December 31, 2005 and 2004  
(Stated in U.S. dollars)

	Share Capital		Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total
	Number of Shares	Amount				
Balances, December 31, 2003	45,594,264	\$ 16,326,789	\$ 1,865,009	\$ 460,850	\$ (10,765,530)	\$ 7,887,118
Shares issued for:						
Definitive Agreement (Note 3(a))	2,500,000	3,247,476	-	-	-	3,247,476
Exercise of warrants	140,000	43,995	-	-	-	43,995
Exercise of stock options	318,684	458,840	(216,076)	-	-	242,764
Stock compensation charged to operations	-	-	290,796	-	-	290,796
Net loss	-	-	-	-	(5,452,264)	(5,452,264)
Balances, December 31, 2004	48,552,948	20,077,100	1,939,729	460,850	(16,217,794)	6,259,885
Shares issued for:						
Definitive Agreement (Note 3(a))	48,552,948	3,392,293	-	-	-	3,392,293
Private placements						
net of issue costs of \$928,644	30,000,000	11,964,600	-	-	-	11,964,600
Stock compensation charged to operations	-	-	509,361	-	-	509,361
Net loss	-	-	-	-	(6,214,400)	(6,214,400)
Balances, December 31, 2005	127,105,896	\$ 35,433,993	\$ 2,449,090	\$ 460,850	\$ (22,432,194)	\$ 15,911,739

The accompanying notes are an integral part of these consolidated financial statements.

**JINSHAN GOLD MINES INC.**  
**Consolidated Statements of Cash Flows**  
Years ended December 31, 2005 and 2004  
(Stated in U.S. dollars)

	<u>2005</u>	<u>2004</u>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (6,214,400)	\$ (5,452,264)
Items not requiring use of cash:		
Amortization	88,234	44,988
Stock-based compensation expense	509,361	290,796
Exploration expense (Note 3(a))	-	3,247,476
Unrealized foreign exchange (gains)/losses	(8,540)	(113,410)
Non-controlling interest	(24,865)	-
	<u>(5,650,210)</u>	<u>(1,982,414)</u>
Change in non-cash operating working capital items (Note 8)	<u>2,344,677</u>	<u>(2,121,495)</u>
	<u>(3,305,533)</u>	<u>(4,103,909)</u>
<b>INVESTING ACTIVITIES</b>		
Cash acquired on acquisition of 41.5% of Ningxia Pacific Mining (Note 3(b))	120,983	-
Expenditures on property, plant and equipment additions	(784,844)	(165,658)
	<u>(663,861)</u>	<u>(165,658)</u>
<b>FINANCING ACTIVITY</b>		
Issuance of common shares (net of issue costs)	15,356,893	286,759
	<u>15,356,893</u>	<u>286,759</u>
<b>NET CHANGE IN CASH FOR THE YEAR</b>	<b>11,387,499</b>	<b>(3,982,808)</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		
<b>ON CASH</b>	<b>(3,292)</b>	<b>109,363</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>4,030,374</b>	<b>7,903,819</b>
<b>CASH, END OF YEAR</b>	<b>\$ 15,414,581</b>	<b>\$ 4,030,374</b>

Supplemental Cash Flow Information (Note 8)

The accompanying notes are an integral part of these consolidated financial statements.

# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 1. NATURE OF OPERATIONS

Jinshan Gold Mines Inc. together with its subsidiaries and joint venture (individually and collectively referred to as the “Company”) is an exploration company engaged in the acquisition and exploration of mineral properties in the People’s Republic of China (“China”).

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) *Principles of consolidation*

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

Variable Interest Entities (“VIEs”), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline (“AcG”) 15, “Consolidation of Variable Interest Entities” (“AcG 15”), are entities in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities’ expected losses and/or expected residual returns. The Company has not identified any VIEs at December 31, 2005.

(b) *Measurement uncertainties*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates.

Significant estimates used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties, plant and equipment, the anticipated costs of asset retirement obligations including the reclamation of mine sites and the computation of stock-based compensation.

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Foreign currencies*

The Company's functional currency is the U.S. dollar since it is the currency of the primary economic environment in which Jinshan and its subsidiaries operate. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions. All exchange gains and losses are included in operations.

(d) *Cash and cash equivalents*

Cash includes short-term money market instruments with terms to maturity, at the date of acquisition, not exceeding ninety days. There were no short-term money market investments at December 31, 2005 or 2004.

(e) *Property, plant and equipment*

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

Motor vehicles	5 years
Machinery and equipment	3 to 10 years
Computer equipment	3 years
Furniture and fixtures	5 years
Office equipment	5 years
Computer software	2 years

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

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) *Asset retirement obligations*

The Company recognizes liabilities for statutory, contractual or legal obligations, including those associated with the reclamation of mining property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

(g) *Mineral properties*

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

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

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

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

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) *Stock-based compensation*

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with 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. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital.

(i) *Income taxes*

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

(j) *Loss per share*

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the "treasury stock method" is used for the assumed proceeds upon the exercise of stock options and warrants that are used to purchase common shares at the average market price during the year. During the years ended December 31, 2005 and 2004, all of the outstanding stock options and warrants were antidilutive.

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 3. MINERAL PROPERTY INTERESTS

(a) *Definitive Agreement with Ivanhoe Mines*

Ivanhoe Mines Ltd. ("Ivanhoe Mines") and the Company signed an agreement dated April 15, 2004, to restructure their May 2002 mineral project participation agreement. The revised agreement reduces from 80% to 50% Ivanhoe Mines' maximum earn-ins on the Company's interests in its most significant projects in China, including: the 217 Gold Project; the Dandong (QCZ) Gold Project; and the JBS Platinum and Palladium development and exploration projects. Ivanhoe Mines paid the Company \$2,369,691, as a reimbursement for prior exploration costs. Ivanhoe Mines retains the right to earn up to 80% of the available interest in any new projects acquired by the Company in China (excluding properties acquired by the Company in Anhui and Liaoning provinces). In addition, Ivanhoe Mines transferred to the Company 50% of its interest in the Shuteen exploration licence in southern Mongolia. The Company issued to Ivanhoe Mines 2.5 million common shares with a fair value of \$3,247,476 for prior exploration costs incurred on the projects.

On October 24, 2005, Ivanhoe Mines and the Company signed a definitive agreement to restructure their April 2004 mineral project participation agreement. The Company acquired all of Ivanhoe's participating interest in the CSH (217) Gold project, Ivanhoe's interests in all other joint venture arrangements between the parties, Ivanhoe's existing contractual rights to participate with the Company in mineral exploration and development opportunities in China and cash proceeds of \$3,392,293 from Ivanhoe in exchange for the issuance to Ivanhoe of 48,552,948 common shares.

(b) *CSH (217) Gold project*

In April 2005, the Company completed its earn-in agreement on the CSH (217) Gold project in Inner Mongolia, China, by completing aggregate payments of \$750,000 to its Chinese partner. The Company acquired an additional 41.5% interest and now holds 96.5% interest in Ningxia Pacific Mining. The acquisition of the additional 41.5% resulted in the Company acquiring net assets of \$294,823 and the resulting purchase price discrepancy of \$219,234 has been treated as a recovery of previously expensed exploration costs. The Company is using the purchase method of accounting to account for the acquisition.

The Chinese partner is also entitled to receive from the Company two \$1 million payments, the first one being after receipt of a mining licence and within thirty days of the decision of the Board of Directors of Ningxia Pacific Mining Company Ltd. ("NPM") to commence construction and installation of a commercial mining operation, and the second within thirty days of commencement of commercial mining operations. As of December 31, 2005, the Company had contributed \$7,466,282 to NPM and to the Chinese partner, and had incurred costs of \$4,475,859 on the project, of which \$4,184,120 was funded by Ivanhoe Mines to September 2005 (see (a) above).

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 3. MINERAL PROPERTY INTERESTS (Continued)

(c) *JBS Platinum and Palladium Project*

During the year ended December 31, 2005, the Company sold its interest in the JBS Joint Venture Company which holds an option on the Jinbaoshan (JBS) Palladium and Platinum property and other regional exploration properties in Yunnan Province, China for \$1.4 million. Subsequent to December 31, 2005, the Company received the final payment of \$400,000.

(d) *Dadiangou Gold Project*

In October 2005, the Company entered into a co-operative joint venture agreement with a Chinese partner, to develop the Dadiangou Gold prospect located in Gansu Province, China. The Company's investment in the Dadiangou project is held through Gansu Mining Company Ltd. ("GMCL"), a wholly owned subsidiary of the Company. Under the agreement, the Company has to incur exploration expenditures of \$3.3 million and make payments to the Chinese partner of \$1.3 million. The Company can further increase its ownership in the property to a minimum of 80% by conducting additional property expenditures of \$2.8 million, which include payments to the Chinese partner of \$300,000. As of December 31, 2005, the Company had incurred expenditures of \$192,000 towards the exploration expenditures commitment.

### 4. PROPERTY, PLANT AND EQUIPMENT

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Motor vehicles	\$ 125,734	\$ 44,860	\$ 80,874	\$ 48,820
Machinery and equipment	125,910	14,452	111,458	32,029
Computer equipment	99,962	64,179	35,783	51,045
Furniture and fixtures	79,265	18,416	60,849	61,121
Office equipment	22,508	11,724	10,784	13,820
Computer software	77,662	30,855	46,807	15,255
Capital works in progress	572,145	-	572,145	-
	<u>\$ 1,103,186</u>	<u>\$ 184,486</u>	<u>\$ 918,700</u>	<u>\$ 222,090</u>

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 5. SHARE CAPITAL

(a) *Warrants*

The following is a summary of warrants outstanding at December 31, 2005:

<u>Number of Warrants</u>	<u>Exercise price (Expressed in CDN \$)</u>	<u>Expiry date</u>
5,100,000 (1) (2)	1.15	July 2, 2006
2,000,000 (1) (3)	1.20	October 10, 2006
15,000,000	0.70	June 20, 2007
1,800,000	0.60	June 20, 2007
<u>23,900,000</u>		

(1) Held by Ivanhoe Mines

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

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

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**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
December 31, 2005 and 2004  
(Stated in U.S. dollars)

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**5. SHARE CAPITAL (Continued)**

*(b) Stock options*

The Company has a stock option plan which permits the Board of Directors of the Company to grant options, which vest over a period of years, to directors, employees and non-employees to acquire common shares of the Company at the closing trading price of the common shares on the day preceding the date of the grant. The Compensation and Benefits Committee determines and 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 9,000,000 common shares pursuant to the stock option plan. At December 31, 2005, there were 669,942 options available for future grants.

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

	<u>2005</u>		<u>2004</u>	
	Number of Options	Weighted- average Exercise Price (Expressed in CDN \$)	Number of Options	Weighted- average Exercise Price (Expressed in CDN \$)
Balance, beginning of year	<b>3,178,634</b>	<b>\$ 1.09</b>	2,916,943	\$ 0.88
Options granted	<b>2,200,000</b>	<b>0.51</b>	907,000	1.59
Options exercised	-	-	(318,684)	1.01
Options cancelled	<b>(437,567)</b>	<b>0.84</b>	(326,625)	0.84
<b>Balance, end of year</b>	<b>4,941,067</b>	<b>\$ 1.18</b>	3,178,634	\$ 1.09

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

*(b) Stock options (continued)*

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

Options Outstanding			Options Exercisable	
Number Outstanding at December 31, 2005	Weighted-average Remaining Contractual Life (years)	Exercise Price (Expressed in CDN \$)	Number Exercisable at December 31, 2005	Exercise Price (Expressed in CDN \$)
250,000	1.42	\$ 0.90	250,000	\$ 0.90
110,000	1.67	\$ 0.90	110,000	\$ 0.90
60,000	2.13	\$ 1.16	60,000	\$ 1.16
388,050	2.35	\$ 0.80	388,050	\$ 0.80
1,126,017	2.60	\$ 0.73	810,723	\$ 0.73
75,000	2.88	\$ 3.60	30,000	\$ 3.60
25,000	3.07	\$ 2.36	5,000	\$ 2.36
515,000	3.28	\$ 2.00	109,000	\$ 2.00
10,000	3.39	\$ 1.31	2,000	\$ 1.31
287,000	3.92	\$ 0.87	65,400	\$ 0.87
25,000	4.25	\$ 0.57	5,000	\$ 0.57
200,000	4.50	\$ 0.47	40,000	\$ 0.47
75,000	4.49	\$ 0.50	15,000	\$ 0.50
200,000	0.49	\$ 0.56	50,000	\$ 0.56
200,000	2.92	\$ 0.50	66,667	\$ 0.50
1,395,000	2.92	\$ 0.50	465,000	\$ 0.50
<b>4,941,067</b>	<b>2.89</b>	<b>\$ 0.85</b>	<b>2,471,840</b>	<b>\$ 0.82</b>

The weighted average fair value of the stock options granted during 2005 and 2004 was CDN\$0.43 and CDN\$1.21, respectively.

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

# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 5. SHARE CAPITAL (Continued)

(b) *Stock options (continued)*

	<u>2005</u>	<u>2004</u>
Risk free interest rate	3.70%	4.35%
Expected life	4.6 years	5 years
Expected volatility	97.6%	100%
Expected dividend per share	\$Nil	\$Nil

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

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 realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

Subsequent to December 31, 2005, the Company granted 665,000 stock options with exercise prices ranging from C\$0.53 – C\$0.95 per common share and expiry dates ranging from January 1, 2009 to February 17, 2011.

### 6. 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:

	<u>2005</u>	<u>2004</u>
Office and administration	\$ 359,356	\$394,314
Salaries and benefits	370,281	382,513
	<u>\$ 729,637</u>	<u>\$776,827</u>

- (b) Exploration expenses of \$1,214,390 (2004 - \$2,282,004) were recovered or recoverable from Ivanhoe Mines, a significant shareholder of the Company, on a cost recovery basis, during the year ended December 31, 2005. As at December 31, 2005, an amount of \$ Nil (2004 - \$1,807,801) was receivable from Ivanhoe Mines.
- (c) Accounts payable at December 31, 2005 included \$93,775 (2004 - \$184,283) which was due to a company under common control or companies related by way of directors in common.
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**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
December 31, 2005 and 2004  
(Stated in U.S. dollars)

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**7. INCOME TAXES**

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

	<u>2005</u>	<u>2004</u>
Net loss for the year	\$ 6,214,400	\$ 5,452,264
Statutory tax rate	34.9%	35.6%
Recovery of income taxes based on combined Canadian federal and provincial statutory rates	\$ 2,166,961	\$ 1,941,006
Deduct:		
Lower effective tax rate on losses in foreign jurisdictions	386,449	202,590
Tax effect of losses not recognized	(2,117,118)	(1,752,784)
Non-deductible expenses	(436,292)	(390,812)
<b>Provision for (recovery) of income taxes</b>	<b>\$ -</b>	<b>\$ -</b>

Significant components of the Company's future income tax assets and liabilities at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
<b>Future income tax assets:</b>		
Tax loss carry-forwards	\$ 5,157,469	\$ 2,714,142
Other tax deductions carried forward	883,469	891,190
Book and tax base differences on assets	498,410	365,968
<b>Total future income tax assets</b>	<b>6,539,348</b>	<b>3,971,300</b>
Valuation allowance	(6,539,348)	(3,971,300)
<b>Net future income tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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**JINSHAN GOLD MINES INC.**  
**Notes to the Consolidated Financial Statements**  
December 31, 2005 and 2004  
(Stated in U.S. dollars)

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**7. INCOME TAXES (Continued)**

At December 31, 2005, the Company and its subsidiaries have unrecognized capital and non-capital losses for income tax purposes of approximately \$15.0 million that may be used to offset future taxable income as follows:

		<u>Local Currency</u>	<u>U.S. Dollar Equivalent</u>	<u>Expiry Dates</u>
Non-capital losses				
Canadian	\$	10,465,014	\$ 8,040,463	2007 - 2015
Chinese Renminbi	RMB	49,409,469	6,105,581	(a)
			<u>\$ 14,146,044</u>	
Capital losses				
Canadian	\$	1,026,591	\$ 883,469	(b)

(a) These losses are carried forward indefinitely until such time as production from a mine commences; thereafter, they can be amortized on a straight-line basis over a period of five years.

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

**8. SUPPLEMENTAL CASH FLOW INFORMATION**

Net change in non-cash working capital items:

	<u>2005</u>	<u>2004</u>
Net (increase) decrease in:		
Accounts receivable	\$ (69,807)	\$ (470,249)
Receivable from related party	1,807,801	(1,804,038)
Prepaid expenses	149,716	(256,669)
Net increase in:		
Accounts payable and accrued liabilities	456,967	409,461
	<u>\$ 2,344,677</u>	<u>\$ (2,121,495)</u>

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# JINSHAN GOLD MINES INC.

## Notes to the Consolidated Financial Statements

December 31, 2005 and 2004

(Stated in U.S. dollars)

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### 9. SEGMENTED INFORMATION

(a) *Industry Information*

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

(b) *Geographic Information*

	<u>China</u>	<u>Canada</u>	<u>Total</u>
As at December 31, 2005			
Property, plant and equipment	\$ 852,625	\$ 66,075	\$ 918,700
<hr/>			
As at December 31, 2004			
Property, plant and equipment	\$ 188,497	\$ 33,593	\$ 222,090
<hr/>			

### 10. FINANCIAL INSTRUMENTS

The fair values of the Company's cash, accounts receivable, receivable from related party and accounts payable were estimated to approximate their carrying values.

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

### 11. COMMITMENTS

The Company has commitments related to the construction at the CSH (217) Gold project of approximately \$5.0 million which consist of contracts that will be settled within the next 6 months.

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# JINSHAN GOLD MINES INC.

## Consolidated Schedule of Exploration Expenses

December 31, 2005 and 2004  
(Stated in U.S. dollars)

	Gold Projects			Generative			December 31,
	CSH (217) Gold	Dandong (QCZ) Gold	JBS Platinum & Palladium	General	Dadiangou	Xinjiang	2005
Payments to (recoveries from) joint venture companies & partners	\$ 298,500	\$ (361,282)	\$ (1,400,000)	\$ 53,000	\$ 125,000	\$ 440,000	\$ (844,782)
Geological consultants	227,817	568	5,383	348,073	57,219	(38,302)	600,758
Engineering & other consultants	3,541,002	1,063	-	10,479	2,125	123,734	3,678,403
Project management	78,873	-	-	48,244	2,250	3,771	133,138
Maps & reproductions	6,075	-	-	4,840	-	-	10,915
Sampling and assaying	422,734	-	1,221	5,480	192	5,799	435,426
General & administrative	275,318	5,689	11,061	66,196	1,030	89,608	448,902
Salaries & benefits	342,096	-	422	48,512	4,015	46,840	441,885
Travel	407,688	1,329	1,203	76,063	478	24,510	511,271
Amount recovered / recoverable	(1,664,903)	176,144	489,321	-	-	-	(999,438)
Recovery of previously expensed exploration costs upon acquiring 41.5% Ningxia Pacific Mining	(219,234)	-	-	-	-	-	(219,234)
	\$ 3,715,966	\$ (176,489)	\$ (891,389)	\$ 660,887	\$ 192,309	\$ 695,960	\$ 4,197,244
Stock-based compensation							92,629
							\$ 4,289,873
	Gold Projects			Copper Projects			December 31,
	CSH (217) Gold	Dandong (QCZ) Gold	JBS Platinum & Palladium	Generative			2004
				Zhaotong	Huize-Xuanwei	Guizhou	
Payments to joint venture companies & partners	\$ 2,625,000	\$ -	\$ -	\$ 190,000	\$ -	\$ -	\$ 2,925,000
Drilling consultants	329,918	-	320	1,390	-	-	331,628
Geological consultants	118,306	3,604	44,390	483,789	14,143	13,764	730,177
Engineering & other consultants	468,680	-	21,056	44,731	-	13,283	547,750
Project management	30,850	806	14,283	92,146	3,315	9,999	154,371
Maps & reproductions	24,518	247	5,544	14,246	-	-	44,555
Sampling and assaying	539,736	2,807	49,462	(994)	7,012	9,320	611,201
General & administrative	236,390	13,120	8,545	61,835	14,112	107	334,141
Salaries & benefits	191,419	93	22,849	27,917	11,077	128	253,639
Travel	162,260	42,791	32,541	210,515	40,647	17,764	525,526
Amount recovered / recoverable	(4,624,805)	76,886	(1,078,465)	-	(94,817)	(33,958)	(5,853,297)
Stock-based recovery							604,691
Costs incurred pursuant to restructuring agreement (Note 3(a))	\$ 102,272	\$ 140,354	\$ (879,475)	\$ 1,125,575	\$ (4,511)	\$ 30,407	\$ 604,691
							(265,524)
							3,247,476
							\$ 3,586,643



**JINSHAN GOLD MINES INC.**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations  
December 31, 2005**

**(Unaudited)**

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

# **JINSHAN GOLD MINES INC.**

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

**December 31, 2005**

**(Expressed in U.S. Dollars)**

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### **Overview**

Jinshan Gold Mines Inc. ("Jinshan") is an exploration stage company engaged in the acquisition and exploration 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 and Alberta and trades on the TSX Venture Exchange under the symbol JIN.

### **Private Placement**

In December 2005, Jinshan completed a private placement equity financing for gross proceeds of CDN\$15 million (US\$12,893,244) with total issue costs of CDN\$1.1 million (US\$928,644). The financing consisted of 30 million Units at a price of CDN\$0.50 cents per Unit. Each Unit consists of one common share and one half of a common share purchase warrant. Each whole common share purchase warrant will be exercisable for one common share at a price of CDN\$0.70 for a period of 18 months. The securities issued in this financing are subject to a four-month hold period. The net proceeds of the private placement will be used to further the development of Jinshan's gold mining projects in China, including the Chang Shan Hao (217) Gold project ("CSH (217) Gold project"), and for general corporate purposes. Jinshan paid a cash fee and issued 1,566,900 compensation warrants to the financing syndicate and each compensation warrant is exercisable for one common share at a price of CDN\$0.60 for 18 months. Jinshan also paid a finder's fee consisting of cash and 233,100 compensation warrants exercisable at a price of CDN\$0.60 for 18 months. The common shares issuable upon the exercise of the compensation warrants also are subject to a four-month hold period.

### **Reorganization of the Project Participation Arrangements with Ivanhoe Mines Ltd. ("Ivanhoe Mines")**

In June 2005, the Company's senior management began exploring the concept of reorganizing its project participation arrangements with Ivanhoe Mines. Management concluded that the Company would be better served by acquiring Ivanhoe's interests in the various joint venture mineral project arrangements. By consolidating the parties' interests in these projects, management concluded that it would facilitate future fund raising by improving the Company's financial transparency for present and future shareholders and also provide for added economies through efficiencies in administrative costs. This would also provide the Company with a greater opportunity to develop its existing mineral resource properties and pursue new projects without the limitations imposed upon it by the definitive agreement of April 2004.

On November 30, 2005, the parties agreed to fundamentally restructure their current mineral project participation arrangements as follows:

- The Company acquired Ivanhoe Mines' 48.25% participating interest in the (217) Gold project, its 50% interest in the \$400,000 of residual sales consideration from the JBS project, its 10% carried interest in the Shuteen Project and its interest in Pacific Northern Gold and the parties terminated any existing joint venture arrangements related directly or indirectly to such projects or interests;
- the Company and Ivanhoe Mines terminated the definitive agreement of April 2004 and Ivanhoe Mines transferred all of its direct or indirect rights, interests and resulting obligations to the Company, including its shares in Guizhou Copper-Silver Mining Inc., China Platinum & Palladium Inc. and Yunnan Southern Copper Inc.;

# **JINSHAN GOLD MINES INC.**

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

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- the parties implemented an exclusion zone extending twenty-five kilometres from the outer perimeter of each party's existing Inner Mongolia mineral projects in which the other party will not acquire any direct or indirect interest;
- Ivanhoe Mines paid to the Company \$4,002,488 of which \$610,000 was the reimbursement of exploration expenditures;
- the Company issued to Ivanhoe Mines 48,552,948 common shares.

## **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, 2005.

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.

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 substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The Company accounts for stock options granted to directors, officers, employees and non-employees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model, as required by generally accepted accounting principles, 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 realistic measure of the fair value of the Company's stock options at the date of the grant or thereafter.

# **JINSHAN GOLD MINES INC.**

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

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**(Expressed in U.S. Dollars)**

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### **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 a mining license and other required government approvals in respect of the CSH (217) Gold project, the timing and results of a feasibility study on the CSH (217) Gold project, the estimated cost and timing to bring the CSH (217) Gold project into commercial production, anticipated future production and date of installation of production facilities on the CSH (217) Gold project, the timing and scope of exploration activities on the Dadiangou project 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” 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.



# JINSHAN GOLD MINES INC.

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

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## Exploration Properties

### Gold

#### a) CSH (217) Gold Project

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

**Option agreement**- In April 2002, the Company entered into a joint venture agreement with a Chinese partner 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"). The Company made the final payment amount and the transfer of interest occurred in April 2005. The Chinese partner is also entitled to receive from the Company two \$1 million payments, the first one being when a mining license is received and the decision is made to start construction of a mining operation and the second, thirty days following commencement of commercial mining operations.

Up to December 31, 2005, registered capital contributions to NPM and payments to the Chinese partner aggregated \$7.5 million. In addition, the Company has incurred exploration and other expenditures in respect of this project aggregating \$4.5 million.

**Funding arrangement** – Under the terms of the definitive agreement dated April 20, 2004 as restructured on November 30, 2005, Ivanhoe Mines and the Company have each funded 50% of the exploration expenditures on the CSH (217) Gold project to September 1, 2005; Ivanhoe Mines funded a total of \$4.2 million of exploration expenditures to that date. (see "Reorganization of the Project Participation Arrangements with Ivanhoe Mines Ltd."). The Company has funded 100% of the project expenses since September 1, 2005.

**Resource estimate** – In March, 2005, the Company released the results of a new independent resource estimate on the CSH (217) Gold project which estimates the measured and indicated resource at 83 million tonnes grading 0.82 grams per tonne ("g/t") gold, for contained gold content of approximately 2.2 million ounces. In addition, the project contains an estimated 37 million tonnes of inferred resources grading 0.89 g/t gold, for an additional contained gold content of approximately 1.0 million ounces. The resource estimate was calculated by Mario E. Rossi of GeoSystems International Inc., a qualified person as defined in National Instrument 43-101, and was based on the results of a drilling program undertaken during 2004. Details of this new resource estimate are available on SEDAR.

**Exploration results** – Open pit pilot mining of oxide mineralized material commenced in July 2004 and was completed along with a 1,000 tonne per day ("tpd") crushing system in October 2004. The operation produced enough mineralized material to construct a 50,000 tonne heap-leach pad of run-of-mine material and a second 50,000 tonne heap-leach pad of single stage crushed material. Pilot heap leaching pads have produced approximately 1,600 ounces of gold to date. In addition, an underground tunnel extending approximately 300 metres in length into a sulphide mineralized zone was completed in March 2005. The pilot mining and underground tunnel were designed to provide bulk-tonnage samples to better establish anticipated grade and metallurgical recoveries. Large scale column leaching tests of both oxide and sulphide material have commenced in the city of Baotou, China under the supervision and design of KD Engineering Inc. of Tuscon, Arizona.

CSH (217) Gold project is planned for commercial production starting in late 2006. The Company has completed, or is in the process of completing, all necessary regulatory studies required to receive final State and Provincial government approval to commence commercial mining activities.

# JINSHAN GOLD MINES INC.

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Final applications that include a Chinese engineering and Chinese resource study have been filed with the Ministry of Land and Resources (MLR), in Beijing, for the approval of a Mining License. In addition, final applications for Project Registration are being filed with the provincial government of Inner Mongolia Autonomous Region.

The Chinese Regulatory Environmental Impact Assessment (EIA) has been completed by Earth Resource Management (ERM), of Shanghai, China, in partnership with the Inner Mongolia Environmental Science Academy (IMESA). The EIA will be reviewed by an expert panel with the Environmental Protection Bureau (EPB) of Inner Mongolia, prior to final approval. The Company expects government issuance of a mining permit in the third quarter of 2006, which will authorize commercial gold mining operations. Assuming the mining permit is received as scheduled, the Company expects that it will be capable of commencing commercial gold production in the fourth quarter of 2006 with a limited 'cold weather' start, and then scale-up to full commercial production in the Spring of 2007.

Four key mine construction and excavation contracts that are already underway include:

1. Construction of a crushing plant to crush over-liner material for the heap leach pads;
2. Excavation and pouring of concrete foundations for the process plant;
3. Excavation of the pregnant solution pond and the overflow pond for the heap leach processing; and,
4. Construction of the modular process plant by Summit Valley Engineering of Utah, USA, (scheduled for shipment to China in May 2006).

The Company plans to complete its final feasibility study, under the direction of KD Engineering of Tucson, Arizona, USA, in the second quarter of, 2006. The study will incorporate the positive results from the 2005 drilling campaign. The Company expects that this feasibility study will support project debt financing of the project to a commercial mining stage.

### **b) Dadiangou Project**

**Property description** - The Dadiangou project consists of a licensed area of 15 km<sup>2</sup> 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.

**Option agreement**- In October 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 must incur exploration expenditures of approximately \$3.3 million and make payments to the Chinese partner of approximately \$1.3 million over the first three years of exploration, to earn a 71% interest. 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.

Up to December 31, 2005, the Company has incurred exploration and other expenditures in respect of this project aggregating \$192,000.

**Exploration results** – The Dadiangou project hosts multiple gold-bearing shear zones up to 50 metres wide over a strike length estimated to be 3,000 metres. Gold mineralization occurs in vertical lenses within the shear zones associated with quartz and sulfides (mostly pyrite). 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.

# **JINSHAN GOLD MINES INC.**

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

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The Chinese partner has tested the gold mineralization with three exploration adits, including crosscuts across the zone every 50 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 indicate an average gold grade of approximately 1.5 grams per tonne (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 standardized pulps randomly injected as check samples. The re-assaying was conducted at the SGS Laboratory in Tianjin, China, using standard fire assay techniques. The re-assay program confirmed that the average gold grade of the underground channel samples is approximately 1.5 g/t.

The mineralized zone is open along strike in both directions and has been tested only to a depth of about 100 metres below surface. Jinshan believes that the deposit has the potential to be developed as an open-pit mine. However, the deposit's grade and potential tonnage are still conceptual in nature and it is uncertain if further exploration will result in the discovery of an economic mineral resource. The company is planning an extensive exploration program consisting of surface geological and geochemical surveys, surface diamond drilling, underground development and diamond drilling, and additional metallurgical testing. The first phase of the program will cost approximately US\$1.5 million and will consist of surface drilling during the first year of exploration.

### **c) Xinjiang Projects**

The Company has acquired four exploration permits totaling 153 km<sup>2</sup> in the Eastern 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 by the state Ministry of Lands and Resources in Beijing. The Company plans to complete geological mapping, geochemical sampling, and geophysical surveys in the first half of 2006, with the intent of defining targets for drill testing in the second half of 2006.

## **Platinum & Palladium**

### **JBS Platinum and Palladium Project & JBS Regional Project**

In April, 2005, the Company sold its interest in Yunnan Yunbao Platinum & Palladium Mining Co. Ltd. ("YYPP"), the JBS joint venture company, which holds an option on the JBS Palladium and Platinum property and other regional exploration properties in Yunnan Province, China, for \$1.4 million. The Company together with its joint-venture partner, Ivanhoe Mines, had earned an approximate 20% interest in the JBS Joint Venture. The interest in YYPP was sold back to the Chinese partner.

The first and second payments of \$500,000 each were received in April 2005, and July 2005, respectively, and were shared evenly between the Company and Ivanhoe Mines in accordance with their respective interests. The balance of \$400,000 was received in January 2006 and was retained in its entirety by the Company in accordance with the terms of the reorganization agreement with Ivanhoe Mines.

## **Generative Activities**

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

# JINSHAN GOLD MINES INC.

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

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(Expressed in U.S. Dollars)

### RESULTS OF OPERATIONS

#### Overview

The Company is in the exploration stage and financial results are generally 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 operations. Accordingly, in addition to quarterly comparisons, the current quarter's operating results are compared to those of the immediately preceding quarter.

(\$ in thousands, except per share information)	Year ended December 31,		
	2005	2004	2003
Exploration expenses	\$ 4,290	\$ 3,587	\$ 4,813
Net loss	6,214	5,452	6,243
Net loss per share	(0.12)	(0.11)	(0.16)
Cash and cash equivalents	15,415	4,030	7,904
Total assets	17,118	7,001	8,219

For each of the years ended December 31, 2005, 2004, and 2003, the Company had no net sales or other operating revenues, no long-term liabilities and no dividends were declared.

For each of the three years 2003, 2004 and 2005, exploration expenditures were the major component of the annual net loss. Exploration expenditures increased significantly during the 2005 year as pre-feasibility costs were incurred in respect to the CSH (217) Gold project particularly in the later part of the year when the Company was responsible for funding 100% of these costs. Exploration expenditures in 2004 included the recovery, from Ivanhoe Mines, of its share of exploration expenditures on projects subject to joint venture agreements. Of this recovery, \$2.1 million received and credited to operations in 2004 were in respect of expenditures originally incurred during 2003. Stock-based compensation charged to exploration activities in 2004 was \$358,000 and \$1.4 million less than the amounts charged in 2005 and 2003, respectively. The recognition of stock based-compensation, particularly that which is related to stock options issued to non-employee contractors, can be volatile on a year over year basis as the fair value of each option granted must be recalculated on periodic vesting and financial reporting dates. Administrative expenditures have remained relatively stable over the three year period.

Total assets consist primarily of cash and current assets which will fluctuate on a year to year basis as these working capital items are utilized for operations and additional financings received. In 2005, long term assets consisting of mine construction costs on the CSH (217) Gold project and capital assets account for \$919,000 of the total asset amount. During 2005, common shares issued for cash totaled \$16.0 million and accounted for the increase in the cash balance at the end of this year.

# JINSHAN GOLD MINES INC.

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The statements of operations for the years ended December 31, 2005 and 2004 are provided in the following table for ease of reference:

	Years Ended December 31,	
	2005	2004
<b>EXPENSES</b>		
Administration and office	\$ 554,175	\$ 547,298
Amortization	88,234	44,988
Investor relations	146,288	88,669
Travel	201,887	95,510
Exploration expenses	4,289,873	3,586,643
Professional fees	213,504	233,742
Salaries and benefits	339,857	350,859
Stock-based compensation	416,732	556,320
Shareholder information, transfer agent and filing fees	98,812	74,920
	<b>6,349,362</b>	<b>5,578,949</b>
<b>OTHER INCOME</b>		
Interest income	98,267	49,565
Foreign exchange gain	11,830	77,120
	<b>110,097</b>	<b>126,685</b>
<b>NET LOSS BEFORE NON-CONTROLLING INTEREST</b>	<b>6,239,265</b>	<b>5,452,264</b>
Non-controlling interest	(24,865)	-
<b>NET LOSS</b>	<b>\$ 6,214,400</b>	<b>\$ 5,452,264</b>

### Years ended December 31, 2005 and 2004

The Company incurred a net loss of \$6.2 million for the year ended December 31, 2005 as compared to a net loss of \$5.5 million in 2004. This change is due primarily to an increase in exploration expenditures of \$703,000 from 2004 to 2005.

Exploration expenditures totaled \$4.3 million for the year ended December 31, 2005 as compared to \$3.6 million for 2004. This increase is primarily due to increased expenditures, particularly during the fourth quarter of 2005, on pre-feasibility and other pre-development costs on the CSH (217) Gold project. For 2005, \$3.7 million was spent on the CSH (217) Gold project and generative exploration activities accounted for expenditures of \$1.5 million. Also during 2005, proceeds from the sale of the JBS Platinum project and cessation of the Dandong (QCZ) Gold project provided a net aggregate recovery of exploration expenses of \$1.1 million.

During 2004, exploration costs were reduced due to the recovery, from Ivanhoe Mines, of its share of exploration expenditures on projects subject to joint venture agreements and certain of these recoveries received and credited to operations in 2004 were in respect of expenditures originally incurred during 2003.

Total exploration expenditures incurred on the Company's projects in China, without giving effect to the cost recoveries received from Ivanhoe or stock-based compensation expenses and recoveries, were \$7.2 million and \$6.5 million for 2005 and 2004, respectively. This increase of \$700,000 in 2005 is reflective of an increase in both activities at the CSH (217) Gold project as well as increased generative exploration activities.

# JINSHAN GOLD MINES INC.

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General and administrative expenses increased from \$2.0 million in 2004 to \$2.1 million in 2005. Stock-based compensation charges were \$140,000 higher in 2004, a difference which reflects the vesting pattern of the underlying stock options that gave rise to the compensation expense. Net administration costs, excluding stock-based compensation were \$1.6 million in 2005 and \$1.4 million in 2004. Increases to investor relations expenses, travel costs and amortization were primarily responsible for this year over year change.

Travel expenses for administrative personnel increased by \$106,000 from 2004 to 2005 reflecting an increased presence by senior management at the Company's project locations during 2005. Advanced planning for potential mine development on the CSH (217) project, implementation of administrative infrastructure, renegotiation of joint venture agreements and negotiation of new joint venture arrangements all necessitated this increased travel to Asia during 2005.

Investor relations costs increased by \$58,000 in 2005 primarily as a result of contracts with two marketing and investor relation services companies which were entered into during the latter half of 2005. These firms will assist the Company in gaining increased exposure to investors, analysts and the media as well as assisting the Company in developing its communication strategies. Other investor relations activities include expenditures for news releases, conferences and printing.

The increase of \$43,000 to amortization charges reflects higher average capital asset balances in 2005.

Professional fees, which include legal fees and audit and other accounting services, salary expenses and administration and office costs, were relatively unchanged on a year over year basis. 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 quarterly corporate activity and the level of personnel employed.

There was a decrease in the foreign exchange gain recorded for 2005 of \$65,000 versus the amount incurred for 2004. These losses are the result of changes to the U.S. to Canadian dollar exchange rates during these periods and the resultant decrease in, primarily, the U.S. dollar equivalent of Canadian dollar denominated cash deposits.

### Selected Quarterly Data (Unaudited)

(\$ in thousands, except per share information)

QUARTER ENDED	2005				2004			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Exploration expenses	\$2,484	\$966	\$133	\$707	\$822	\$884	\$1,342	\$538
Net loss	3,282	1,339	435	1,158	1,142	1,102	2,047	1,161
Net loss per share	(0.06)	(0.03)	(0.01)	(0.02)	(0.02)	(0.02)	(0.04)	(0.03)

Fluctuations in the quarterly net loss amounts over the two year period ended December 31, 2005 is almost entirely due to fluctuations in the level of exploration expenditures on a period over period basis. Exploration expenditures have fluctuated 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; 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 proceeds from the sale of the JBS property. Exploration expenditures increased significantly during the fourth quarter of 2005 as pre-feasibility costs were incurred in respect to the CSH (217) Gold project particularly in the later part of the year when the Company was responsible for funding 100% of these costs.

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The statements of operations for the three month periods ended December 31, 2005, September 30, 2005 and December 31, 2004 are provided in the following table for ease of reference:

	<b>Three Months Ended</b>		
	<b>December 31, 2005</b>	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Expenses</b>			
Administration and office	\$ 198,462	\$ 134,474	\$ 134,969
Amortization	28,863	24,597	16,250
Investor relations	89,557	30,357	20,721
Exploration expenses	2,483,785	966,334	822,149
Professional fees	119,051	34,528	49,721
Salaries and benefits	83,618	98,300	99,636
Stock-based compensation	171,908	82,268	111,918
Shareholder information, transfer agent and filing fees	58,220	7,298	4,093
Travel	110,651	37,410	15,390
	<b>3,344,115</b>	<b>1,415,566</b>	<b>1,274,847</b>
<b>Other Income and Expenses</b>			
Interest income	31,631	25,470	17,685
Foreign exchange gain	30,325	34,362	114,875
	<b>61,956</b>	<b>59,832</b>	<b>132,560</b>
	<b>3,282,159</b>	<b>1,355,734</b>	<b>1,142,287</b>
Non-controlling interest	-	(16,296)	-
<b>Net loss for the period</b>	<b>\$ 3,282,159</b>	<b>\$ 1,339,438</b>	<b>\$ 1,142,287</b>

**Three months ended December 31, 2005 and 2004**

The Company incurred a net loss of \$3.3 million in the three months ended December 31, 2005 as compared to a net loss of \$1.1 million for the three months ended December 31, 2004. Exploration expenditures for the December, 2005 quarter were \$2.5 million versus an amount of \$822,000 in the 2004 quarter. This increase of \$1.7 million in exploration expenditures is primarily responsible for the increase in operating loss for the 2005 period.

Total exploration expenditures for the quarters ended December 31, 2005 and 2004, excluding recoveries from Ivanhoe Mines and stock-based compensation were \$3.1 million and \$2.2 million, respectively. This change is due primarily to an increase in project expenditures at the CSH (217) Gold project associated with engineering and other pre-development work undertaken to support mine design and feasibility studies.

General and administrative expenses were \$860,000 in the 2005 quarter as compared to \$453,000 in the 2004 quarter. There were significant increases in virtually all administrative expense categories which is reflective of increased exploration activities, particularly at the CSH (217) Gold project, that ultimately affect the levels of corporate administrative activity. Increased personnel levels resulted in higher salary and administration costs, investor relations activities saw increases resulting from expanded communications with shareholders and others, and professional fees increased due primarily to legal costs associated with the reorganization of the project participation agreements with Ivanhoe Mines. Travel costs increased as senior management and other administrative personnel traveled to the Company's project locations during the December quarter of 2005 for joint venture meeting and to implement administrative infrastructure necessary to support the development of the CSH (217) Gold project in 2006.

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There was a decrease in the foreign exchange gain recorded for the 2005 period versus the amount incurred for the corresponding period in 2004. These gains are the result of changes to the U.S. to Canadian dollar exchange rates during these periods and the resultant increase in, primarily, the U.S. dollar equivalent of Canadian dollar denominated cash deposits. Canadian dollar denominated cash deposits decreased significantly from December, 2004 to December, 2005 as certain of these funds were utilized for operations and others were converted to U.S. dollars.

### **Three months ended December 31, 2005 and September 30, 2005**

The Company incurred a net loss of \$3.3 million in the three-month period ended December 31, 2005, as compared to the net loss of \$1.3 million for the three-month period ended September 30, 2005. Exploration costs for the September, 2005 quarter were \$966,000 versus an amount of \$2.5 million incurred in the December, 2005 quarter; the majority of this difference resulting from increased pre-feasibility activity at the CSH (217) Gold project. Total exploration expenditures for the quarters ended December, 2005 and September 30, 2005, excluding recoveries from Ivanhoe Mines, stock-based compensation and a recovery of \$361,000 from the Dandong (QCZ) Gold project, were \$3.7 million for the December quarter and \$1.9 million for the September quarter.

General and administrative expenses increased to \$860,000 in the December, 2005 quarter from the \$449,000 in the September, 2005 period. Increases in administration costs, investor relations charges, professional fees, travel costs and salary expenses made up the majority of this difference. These increases resulted generally from an overall build up of corporate activity associated with the reorganization agreement with Ivanhoe Mines as well as expanded operations in China. In particular, increased activity at the CSH (217) Gold project in preparation for a production decision and planned mine construction has necessitated the commencement of the design and implementation of a number of administrative initiatives. Stock-based compensation also increased during the fourth quarter, these charges fluctuate due to the vesting pattern of the underlying stock options that gave rise to the expense.



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### Liquidity and Capital Resources

The balance sheets as at December 31, 2005 and 2004 are shown in the following table for ease of reference:

	December 31,	
	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 15,414,581	\$ 4,030,374
Accounts receivable	569,409	575,884
Receivable from related party	-	1,807,801
Prepaid expenses	215,125	364,841
	16,199,115	6,778,900
<b>Property, plant and equipment</b>	918,700	222,090
	\$ 17,117,815	\$ 7,000,990
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,206,076	\$ 741,105
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	35,433,993	20,077,100
Contributed surplus	2,449,090	1,939,729
Cumulative translation adjustments	460,850	460,850
Deficit	(22,432,194)	(16,217,794)
	15,911,739	6,259,885
	\$ 17,117,815	\$ 7,000,990

As at December 31, 2005, the Company had a working capital balance of \$15.0 million and cash resources of \$15.4 million. During the three months ended December 31, 2005, net cash out-flows from operations were \$3.1 million, \$572,000 was expended on construction costs at the CSH (217) Gold project and \$213,000 was used to acquire other capital assets. Cash inflows during this period included a private placement financing in the net amount of \$12.0 million as well as an amount of \$3.4 million from the issuance of shares to Ivanhoe Mines as part of the reorganization of the project participation agreements. Net cash inflows for the three month period ended December 31, 2005 were \$11.6 million.

At December 31, 2005, the Company had approximately \$14.1 million held in Canadian funds which amount exposes the Company to risks associated with foreign exchange fluctuations. For the three months ended December 31, 2005, Canadian denominated funds incurred an unrealized foreign exchange gain of \$2,900 due to the strengthening of the Canadian dollar versus its U.S. counterpart.

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The Company expects to spend approximately \$8.0 million during 2006 on its exploration and development projects, including pre-feasibility engineering and infrastructure work at the CSH (217) Gold project, other generative exploration expenses and general and administrative costs. The Company expects to fund these operations from its working capital balance on hand. When a mining license and other regulatory approvals are received and subject to availability of financing, a decision will be made to commence commercial production at the CSH (217) Gold project. It is currently estimated that capital and start-up costs would be approximately \$31 million for the 2006 year. The Company anticipates that funding for this project would be either through a debt facility, new equity financings, or a combination of both.

The Company's long term financial requirements both in respect of the CSH (217) Gold project and other optional payments under various joint venture projects currently exceed the working capital available on hand. The Company expects to finance future obligations and commitments through the exercise of options and warrants, additional equity or debt financings, 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.

### **Related Party Transactions**

Certain administrative costs are paid to Global Mining Management Corporation ("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. The Company has utilized the services of the GMM staff and office since April 1, 2003 and has incurred costs of \$730,000 and \$777,000 for the years ended December 31, 2005 and 2004 respectively.

See also "Reorganization of the Project Participation Arrangement with Ivanhoe Mines Ltd." on page 1.

### **Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares without par value. As at April 18, 2006, 127,335,229 common shares were issued and outstanding, 5,276,734 share purchase options had been granted and were outstanding, and 23,900,000 common share purchase warrants had been issued and were outstanding. On a fully diluted basis, 156,511,963 common shares were outstanding.

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### 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. At present, none of the Company's properties has a known body of commercial ore. Material risks and uncertainties affecting the Company, their potential impact, and the Company's principal risk management strategies, are as follows:

- *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 is authorized to explore for gold on the CSH (217) Gold project, it is required to obtain further approvals from regulatory authorities in China in order to explore for minerals other than gold or to conduct mining operations. The laws of China governing the establishment of joint venture companies are ambiguous, inconsistently applied and subject to reinterpretation or change. While the Company believes that the joint venture company has been properly established and has taken the steps necessary to obtain its interest in the CSH (217) Gold project, there can be no guarantee that such steps will be sufficient to preserve the Company's interests in the project.

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- *Mining permits and licenses are required* - 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 mining permits and licenses from various governmental authorities. There can be no assurance that the Company will be successful in obtaining any required mining 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 mining 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.
- *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 Jinshan has established the limited infrastructure necessary to conduct its current exploration and development activities, substantially greater sources of power, water, physical plant and transport infrastructure in the area will need to be established before Jinshan 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. During 2005, the Company maintained some of its surplus funds in Canadian dollars. During most of this period, the Canadian dollar weakened against the U.S. dollar, resulting in foreign exchange losses to the Company.
- *Limited production 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.

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- *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.

## **Outlook**

The Company will focus mainly on advancing the CSH (217) Gold project through permitting and final feasibility toward a production decision at this time. It will also continue to identify and evaluate prospective mineral properties for acquisition on a selective basis. The Company seeks to generate positive cash flow from its mineral properties in China, starting with the CSH (217) Gold project, in order to underpin its business development and geological strategies.

April 18, 2006