

# **JINSHAN GOLD MINES INC.**

Annual Information Form

For the Year Ended  
December 31, 2005

**Dated July 10, 2006**

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## Forward-Looking Statements

Certain statements made herein, other than statements of historical fact relating to Jinshan, 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 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 and Xinjiang projects and other statements that are not historical facts. When used in this AIF, the words such as, “could”, “plan”, “estimate”, “expect”, “intend”, “may”, “potential”, “should” and similar expressions, are forward-looking statements. Although Jinshan 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” in this AIF. The reader is cautioned not to place undue reliance on forward-looking statements.

This AIF 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. Jinshan 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.

## Currency and Exchange Rates

In this AIF, unless otherwise specified, all references to “dollars” and to “\$” are to Canadian dollars, references to “U.S. dollars” and to “U.S.\$” are to United States dollars, references to RMB are to the Chinese Yuan Renminbi. The Bank of Canada noon buying rates for the purchase of one United States dollar using Canadian dollars were as follows for the indicated periods:

	Year Ended December 31		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
End of period	1.1659	1.1774	1.2924
High for the period	1.2704	1.4003	1.5777
Low for the period	1.1507	1.1746	1.2839
Average for the period	1.2116	1.3015	1.4015

The Bank of Canada noon buying rate on July 7, 2006 for the purchase of one United States dollar using Canadian dollars was Cdn.\$1.11 (one Canadian dollar on that date equalled U.S.\$0.90).

The Bank of Canada noon buying rate on July 7, 2006 for the purchase of one United States dollar using RMB was RMB7.99 (one RMB on that date equalled US\$0.1252).

### Conversion Factors

For ease of reference, the following conversion factors are provided:

<b>Imperial Measure</b>	<b>=</b>	<b>Metric Unit</b>	<b>Metric Unit</b>	<b>=</b>	<b>Imperial Measure</b>
2.47 acres		1 hectare	0.4047 hectares		1 acre
3.28 feet		1 metre	0.3048 metres		1 foot
0.62 miles		1 kilometre	1.609 kilometres		1 mile
0.032 ounces (troy)		1 gram	31.1 grams		1 ounce (troy)
2.205 pounds		1 kilogram	0.454 kilograms		1 pound
1.102 tons (short)		1 tonne	0.907 tonnes		1 ton
0.029 ounces (troy)/ton		1 gram/tonne	34.28 grams/tonne		1 ounce (troy)/ton

### Glossary of Geological and Mining Terms

**andalusite:** an aluminium-silicate metamorphic mineral found in high-temperature, low pressure metamorphic terranes.

**assay:** the chemical analysis of an ore, mineral or concentrate to determine the amount of valuable species.

**breccia:** rock consisting of more or less angular fragments in a matrix of finer-grained material.

**carbonaceous:** containing carbon or coal, especially shale or other rock containing small particles of carbon distributed throughout the whole mass.

**diorite:** intermediate coarse grained igneous rock.

**dyke:** a tabular igneous intrusion that cuts across the bedding or foliation of the country rock, generally vertical in nature.

**footwall:** the underlying side of a fault, orebody, or mine working; particularly the wall rock beneath an inclined vein or fault.

**formation:** a persistent body of igneous, sedimentary, or metamorphic rock, having easily recognizable boundaries that can be traced in the field without recourse to detailed paleontologic or petrologic analysis, and large enough to be represented on a geologic map as a practical or convenient unit for mapping and description.

**granitoid:** pertaining to or composed of granite.

**hangingwall:** the overlying side of an orebody, fault, or mine working, especially the wall rock above an inclined vein or fault.

**heap leaching:** a process used for the recovery of copper, uranium, and precious metals from weathered low-grade ore. The crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered by conventional methods from the solution.

**igneous rock:** rock that is magmatic in origin.

**indicated mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and test information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

**inferred mineral resource:** that part of a mineral resource for which the quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

**intercalated:** said of layered material that exists or is introduced between layers of a different character; especially said of relatively thin strata of one kind of material that alternates with thicker strata of some other kind, such as beds of shale intercalated in a body of sandstone.

**lamprophyre:** a group of dark-colored, porphyritic, medium grained igneous rocks usually occurring as dykes or small intrusions.

**leach:** to dissolve minerals or metals out of ore with chemicals.

**measured mineral resource:** that part of a mineral resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

**meta:** a prefix that, when used with the name of a sedimentary or igneous rock, indicates that the rock has been metamorphosed.

**mineral reserve:** the economically mineable part of a measured or indicated mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A mineral

reserve includes diluting materials and allowances for losses that may occur when the material is mined.

**mineral resource (deposit):** a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource (deposit) are known, estimated or interpreted from specific geological evidence and knowledge.

**oxide:** a compound of ore that has been subjected to weathering and alteration as a result of exposure to oxygen for a long period of time.

**phyllite:** a regional metamorphic rock, intermediate in grade between slate and schist. Minute crystals of sericite and chlorite impart a silky sheen to the surfaces of cleavage.

**probable reserve:** the economically mineable part of an indicated and, in some circumstances, a measured mineral resource demonstrated by at least a preliminary feasibility study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

**run-of-mine:** ore in its natural state, that has not been subjected to processing.

**schist:** a strongly foliated crystalline rock, which readily splits into sheets or slabs as a result of the planar alignment of the constituent crystals. The constituent minerals are commonly specified (e.g. "quartz-muscovite-chlorite schist").

**shear zone:** a tabular zone of rock that has been crushed and brecciated by parallel fractures due to "shearing" along a fault or zone of weakness. These can be mineralized with ore-forming solutions.

**strike:** the direction, or course or bearing of a vein or rock formation measured on a level surface.

**strip (or stripping) ratio:** the tonnage or volume of waste material that must be removed to allow the mining of one tonne of ore in an open pit.

**sulfides:** compounds of sulfur with other metallic elements.

**tailing:** material rejected from a mill after the recoverable valuable minerals have been extracted.

**vein:** sheet-like body of minerals formed by fracture filling or replacement of host rock.

## CORPORATE STRUCTURE

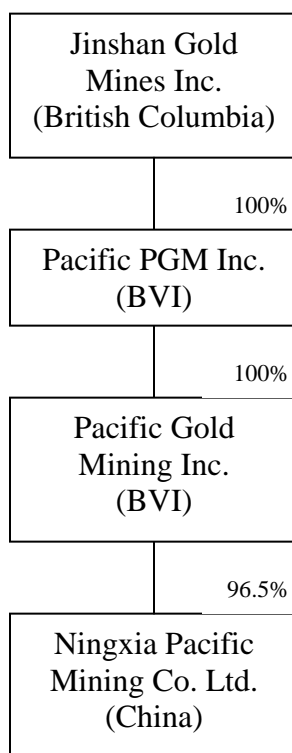
### Name and Incorporation

Jinshan Gold Mines Inc. (the “Company” or “Jinshan”) was incorporated pursuant to the *Company Act* (British Columbia) under the name Pacific Minerals Inc. on May 31, 2000. The Company changed its name to Jinshan Gold Mines Inc. on March 9, 2004. In April 2004, Jinshan transitioned to the British Columbia *Business Corporations Act*.

Jinshan’s corporate head office and registered and records office is located at Suite 654 - 999 Canada Place, Vancouver, British Columbia, Canada, V6C 3E1. The Company also has offices in China located at Room A-1, 21st Floor, Zhi Yuan Building, No. 389, Qing Nian Road, Kunming, Yunnan 650051 and Room 205, Software Building, Pioneer Park, Baotou Rare Earth Hi-Tech Zone, Baotou, Inner Mongolia 014010.

### Subsidiaries and Management Structure

The corporate structure of Jinshan, its material subsidiaries, the percentage ownership that Jinshan holds or has contractual rights to acquire in such subsidiaries and the jurisdiction of incorporation of such corporations as at July 7, 2006 is set out in the following chart:



## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Overview**

Jinshan is a mineral exploration and development company engaged in the acquisition and exploration of mineral properties in the People's Republic of China. Jinshan's main property is the Chang Shan Hao (217) Gold project (the "CSH 217 Gold Project"), which is located in Inner Mongolia, China. Jinshan holds a 96.5% interest in the CSH 217 Gold Project. Jinshan also holds or has the right to acquire an interest in several other mineral properties in China, including the Dadiangou project in Gansu Province, China and the Xinjiang projects located in the Eastern Uygur Autonomous Region (Xinjiang) of Northwest China.

### **History**

The Company was incorporated on May 31, 2000. Since incorporation its business has been focussed on exploration of mineral projects in China, with the Company's initial principle project being an earn-in agreement executed with a Chinese government entity for the JBS Platinum Palladium project located in Yunnan, China (the "JBS Project").

In April 2002 Jinshan entered into a joint venture agreement (the "217 Joint Venture Agreement") with the Brigade 217 ("Brigade 217") of the Northwest Geological Bureau, China National Nuclear Company ("CNNC") to acquire up to a 96.5% interest in the CSH 217 Gold Project. In order to complete the earn-in of its interest, Jinshan needed to complete earn-in exploration programs, to pay an aggregate of U.S.\$750,000 to Brigade 217 and make capital contributions in the amount of U.S.\$250,000 to the joint venture company, Ningxia Pacific Mining Co. Ltd. ("Ningxia"). Under the 217 Joint Venture Agreement, Brigade 217 is also entitled to receive from Jinshan two U.S.\$1 million payments, the first one being when the decision is made to start construction of a mining operation and the second, thirty days following commencement of commercial mining operations. Following the execution of the 217 Joint Venture Agreement, Jinshan commenced a comprehensive exploration program on the property.

In May 2002, Jinshan entered into a participation agreement (the "Participation Agreement") with Ivanhoe Mines Ltd. ("Ivanhoe"). Under the terms of the Participation Agreement, Jinshan granted Ivanhoe an option to earn an interest in the CSH 217 Gold Project and the JBS Project. Ivanhoe had the right to earn a 60% participating interest in the projects by completing a feasibility study by no later than July 1, 2006, and a right to increase its interest to 76.5% by arranging project financing by July 1, 2007. If Ivanhoe elected to earn an interest in these projects, Jinshan's residual participating interest in the applicable project would convert to a carried interest until the commencement of commercial production. The Participation Agreement also gave Ivanhoe the right to participate equally with Jinshan in each new mineral project Jinshan acquired anywhere in China, except Anhui Province, with a right to increase its interest to 75% by funding a feasibility study and to 80% by also arranging project financing. Ivanhoe also subscribed for 5,100,000 units of Jinshan at a price of \$0.90 per unit, each unit consisting of one common share in the capital of Jinshan ("Common Shares") and one share purchase warrant exercisable to purchase one Common Share.

In October 2002, Jinshan completed an internal reorganization of management. Rui Feng resigned as Jinshan's President and was replaced by Dan Kunz, who was appointed as interim President. Concurrent with the management changes, Ivanhoe purchased a further 2,000,000



units, each unit consisting of one Common Share and one share purchase warrant, at a price of \$1.00 per unit and acquired 6,597,112 outstanding Common Shares from five shareholders.

In April 2003, Westervelt Engineering Ltd. (“Westervelt”) completed a technical report on the CSH 217 Gold Project. In the report, Westervelt announced that it had identified measured and indicated resources of approximately 35 million tonnes grading 0.84 grams per tonne (“g/t”) gold at a 0.6 g/t cut-off grade and inferred resources of 85 million tonnes grading 0.928 g/t gold at a 0.6 g/t cut-off. The resources were located in the Northeast Zone of the property.

In November 2003, Westervelt completed an updated technical report in which the in-pit resources estimated on the Northeast Zone were revised to record measured and indicated resources of 29 million tonnes grading 0.95 g/t gold and an additional 7 million tonnes of inferred resources grading 0.98 g/t gold.

In January 2004 Westervelt completed an independent resource estimate on the Southwest Zone, which lies 1,800 metres south of the Northeast Zone, containing in-pit inferred resources of 14.79 million tonnes grading 1.25 g/t gold.

In April 2004 Ivanhoe and Jinshan agreed to restructure the Participation Agreement so that each of the CSH 217 Gold Project, the JBS Project and the Dandong Project operated as an equal, fully participating joint venture. Ivanhoe retained the right, in respect of each new project Jinshan acquired in China (excluding properties acquired in Anhui Province and Liaoning Province), to elect to participate equally with Jinshan and to increase its participating interest to 75% by completing a feasibility study and to 80% by further arranging project financing. As part of the restructuring transaction Jinshan issued to Ivanhoe 2.5 million Common Shares.

In March 2005 Mario Rossi of GeoSystems International Inc. of Florida, U.S.A. (“GeoSystems International”) completed an independent resource estimate on the CSH 217 Gold Project. In the estimate, the author reported measured and indicated resources of approximately 83 million tonnes grading 0.82 grams per tonne (g/t) gold, for contained gold content of approximately 2.2 million ounces and inferred resources of 37 million tonnes grading 0.89 g/t gold, for an additional contained gold content of approximately 1.0 million ounces. The estimates were calculated using a cut-off of 0.5 g/t gold and a gold price of U.S.\$400 per ounce.

In April 2005 Jinshan sold its interest in the JBS Project for U.S.\$1.4 million. Jinshan, together with its joint-venture partner Ivanhoe, had earned an approximate 20% interest in the JBS Project joint venture company. The proceeds from the sale were split evenly between Jinshan and Ivanhoe.

In April 2005 Jinshan also completed all earn-in requirements under the 217 Joint Venture Agreement, and Brigade 217 transferred the property and relevant assets constituting the CSH 217 Gold Project to Ningxia, which is owned as to 96.5% by Jinshan.

In September 2005, Jinshan reached an agreement-in-principle with Ivanhoe to acquire Ivanhoe’s entire participating interest in the CSH 217 Gold Project, Ivanhoe’s interests in other joint venture arrangements between the parties, Ivanhoe’s existing contractual rights to participate in Jinshan projects in China and cash proceeds of approximately U.S.\$3.4 million plus approximately U.S.\$600,000 in reimbursed expenses in exchange for the issuance to Ivanhoe of

48,552,948 Common Shares (the “Restructuring Transaction”). This Restructuring Transaction effectively terminated the Participation Agreement and all obligations of Jinshan to offer Ivanhoe participation rights in Jinshan projects. In October 2005, Jinshan and Ivanhoe entered into a definitive agreement, on substantially the same terms. In December 2005, Jinshan received minority shareholder approval, and the Restructuring Transaction closed.

Also in September 2005, KD Engineering Co., Inc. of Tucson, Arizona (“KD Engineering”) completed an independent Mine Engineering and Development Study (the “Study”) to support the development of a commercial mining operation at the CSH 217 Gold Project. Contributing consultants on the Study included Golder Associates Ltd. of Reno, Nevada (“Golder Associates”), Nilsson Mine Services Ltd. (“Nilsson Mine Services”) of Vancouver, Canada, GeoSystems International and the Beijing General Institute of Mining and Metallurgy of China. The Study was completed to a pre-feasibility standard pursuant to National Instrument 43-101 and indicated that the planned mine would be capable of producing approximately 120,000 ounces of gold per year for the first 7.5 years at a cash cost of approximately U.S.\$232 per ounce. It was proposed that the property be developed as an open-pit mine and that processing occur through heap leaching pads.

In December 2005 Jinshan closed a private placement equity financing for gross proceeds of \$15 million. The financing consisted of 30 million units at a price of \$0.50 cents per unit, each unit consisting of one common share and one half of a common share purchase warrant. Each whole warrant is exercisable at a price of \$0.70 cents for a period of 18 months. In connection with this financing Jinshan issued 1,800,000 compensation warrants which are each exercisable into one common share at a price of \$0.60 cents for 18 months.

Over the course of the last three years Jinshan has identified several exploration properties where exploration work has been carried out in order to assess the geological potential of the property. Some of these properties have been rationalized due to exploration results that did not meet the company’s technical criteria. The Company is currently in the process of obtaining a business license for its Dadiangou Gold Property in Gansu Province. The company has also received exploration permits for four properties in the Eastern Xinjiang Autonomous Region. Additional new exploration permits are pending for other properties in Xinjiang.

In March 2006 Jinshan engaged Macquarie Bank Ltd. (“Macquarie”) as Lead Arranger for a U.S.\$35 million project loan facility. The loan facility is intended to fund the mine development and working capital requirements for the CSH 217 Gold Project. Macquarie has provided Jinshan with an indicative term sheet outlining commercially acceptable financial terms for the project financing, with the final terms to be negotiated upon Macquarie’s completion of technical and legal due diligence. As part of its consideration, and subject to regulatory approval, Macquarie will receive 1,500,000 transferable common share purchase warrants exercisable at \$1.45 for 36 months from the date of issue. 650,000 warrants will vest once a Committed Term Sheet is accepted by Jinshan. A further 650,000 warrants will vest once Jinshan commences draw down of the loan facility. The final 200,000 warrants will vest only if Jinshan draws down on more than U.S.\$30 million of the loan facility. Macquarie is currently conducting due diligence on the project. In order to finalize the facility, the parties must first agree upon a commitment letter, which is conditional upon, among other things, Jinshan obtaining a mining license for the CSH 217 Gold Project.

In April 2006 a consortium of independent consultants consisting of KD Engineering, GeoSystems International, Nilsson Mine Services and Golder Associates completed a feasibility study on the CSH 217 Gold Project. The independent study was designed to conform to the current mine permit application 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 9 years at an average cash operating cost of approximately U.S.\$253 per ounce.

## **Trends and Outlook**

Jinshan is currently focussed on developing the CSH 217 Gold Project. Key developments required in order to transition the project to commercial production include obtaining a mining license from the Chinese government, completing procurement and human resources arrangements and other development preparations, arranging project financing and completing development construction. The mining permit application is well advanced, and management anticipate that the permit will be issued in the third quarter of 2006. The Company has also completed a substantial portion of its procurement decisions and purchased and installed some initial infrastructure. Completion of mine development will be dependent on project financing, receipt of the mining license and other factors. Nevertheless, management estimates commercial operations may begin on a limited scale late in the fourth quarter of 2006, with full production commencing in the Spring of 2007.

Jinshan has also established a separate office and team of employees and consultants to continue exploration on Jinshan's other exploration projects in China. While these efforts are ancillary to Jinshan's main focus on the CSH 217 Gold Project, Jinshan intends to continue active exploration efforts to support medium term and long-term growth of the Company. It will also continue to identify and evaluate prospective mineral properties for acquisition on a selective basis.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **Risk Factors**

Investment in the common shares of Jinshan involves a significant degree of risk and should be considered speculative due to the nature of Jinshan's business and the present stage of its development. Prospective investors should carefully review the following factors together with other information contained in this AIF before making an investment decision.

***There can be no assurance that Jinshan will be capable of raising the additional funding that is needed to carry out its production, development and exploration objectives***

Jinshan's long term financial requirements both in respect of the CSH 217 Gold Project and other projects and business objectives currently exceeds the working capital available on hand. Jinshan expects to finance future obligations and commitments through the exercise of options, warrants, and additional equity or debt financings. There is no assurance that Jinshan will be successful in obtaining required financing as and when needed. Volatile markets for precious and base metals may make it difficult or impossible for Jinshan to obtain debt financing or equity financing on favourable terms or at all. Jinshan operates in a region of the world that is prone to economic and political upheaval, which may make it more difficult for Jinshan to obtain debt

financing from project lenders. Failure to obtain additional financing on a timely basis may cause Jinshan to postpone its development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

***There can be no assurances that Jinshan will be able to obtain the necessary mining permits and licences needed to carry out its production, development and exploration objectives***

The further development and exploration of the various mineral properties in which Jinshan holds interests, particularly the CSH 217 Gold Project, depends upon Jinshan's ability to obtain mining permits and licenses from various governmental authorities. Jinshan is currently filing final documentation for mining permit approvals for the CSH 217 Gold Project with the Ministry of Land and Resources in Beijing in order to start commercial gold production. Jinshan also filed the final application for project registration with the provincial government of Inner Mongolia Autonomous Region. There can be no assurance that Jinshan will be successful in obtaining any required mining permits and licenses when needed. Failure to obtain mining permits and licenses on a timely basis may cause Jinshan to postpone its development plans, forfeit rights in some or all of its properties or reduce or terminate some or all of its operations.

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

The acquisition of title to resource properties or interests therein is a very detailed and time-consuming process. Title to, and the area of resource concessions may be disputed. Jinshan has conducted an internal investigation of title to the CSH 217 Gold Project. Based on a review of records the relevant government agencies in China maintain, 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 Jinshan's properties. The properties may be subject to prior unregistered agreements or transfers and undetected defects may affect title. Title is based upon interpretation of the applicable laws, which laws may be ambiguous, inconsistently applied and subject to reinterpretation or change.

***Jinshan does not have experience in placing properties into production***

Jinshan has no experience in placing mineral deposit properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that Jinshan will have available to it the necessary expertise if it places mineral deposit properties into production.

***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 his 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.

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

China is, and for the foreseeable future is expected to remain, the country in which Jinshan concentrates most of its business activities and financial resources. Jinshan has applied for mining licences and exploration licences for its properties; nevertheless, the legal framework is, in many instances, based on recent political reforms or newly enacted legislation, which may not be consistent with long-standing local conventions and customs. As a result, there may be ambiguities, inconsistencies and anomalies in the agreements or the legislation upon which they are based, which are atypical of more developed legal systems and which may affect the interpretation and enforcement of Jinshan's rights and obligations. 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. The laws may be applied in an inconsistent, arbitrary and unfair manner and legal remedies may be uncertain, delayed or unavailable. As an example, Jinshan holds its interest in the CSH 217 Gold Project through a joint venture company. Many aspects of the law regarding Chinese joint venture companies are was are ambiguous, inconsistently applied and subject to reinterpretation or change. While Jinshan believes that Ningxia, the joint venture company that holds the CSH 217 Gold Project, 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 Jinshan's interest in the CSH 217 Gold Project.

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

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

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

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

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

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts or slides, fire, floods, earthquakes or other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all risks and Jinshan may decide not to insure against certain risks as a result of high premiums or other reasons or in amounts that exceed policy limits. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of Jinshan.

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

Ivanhoe Mines Ltd. ("Ivanhoe") holds approximately 53% of the outstanding Common Shares. Accordingly, Ivanhoe is able to elect a majority, if not all, of the directors of Jinshan and influence the outcome of any matter submitted to a vote of shareholders, including matters requiring a special shareholders' resolution such as amendments to Jinshan's articles, mergers, amalgamations and the sale of all or substantially all of Jinshan's assets. Ivanhoe is contractually entitled to nominate at least four of the six directors to Jinshan's Board of Directors so long as it holds 50% or more of Jinshan's issued share capital.

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

Certain of the directors and officers of Jinshan are directors or officers of, or have significant shareholdings in, other mineral resource companies and, to the extent that such other companies may participate in ventures in which Jinshan may participate, the directors of Jinshan may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with Jinshan for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director or officer who has such a conflict will disclose the conflict to a meeting of the directors of Jinshan and, if the conflict involves a director, the director will abstain from voting for or against the approval of such a participation or such terms. In appropriate cases, Jinshan will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. From time to time, several companies may participate in the acquisition, exploration and development of natural resource properties thereby allowing their participation in larger programs, permitting involvement in a greater number of programs and reducing financial exposure in respect of any one program. It may also occur that a particular company will assign all or a portion of its interest in a particular program to another of these companies due to the financial position of the company making the assignment. In accordance with the provisions of the British Columbia *Business Corporations Act*, the directors and officers of Jinshan are required to act honestly in good faith, with a view to the best interests of Jinshan. In determining whether or not Jinshan will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to Jinshan, the degree of risk to which Jinshan may be exposed and its financial position at that time.

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

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

***Jinshan's financial position is subject to fluctuations in currency***

Jinshan's operations incur most expenditures in RMB and in U.S. dollars, while most of the funds it raises are Canadian dollars. This renders Jinshan subject to foreign currency fluctuations, which may materially affect its financial position and operating results.

***Mining projects are sensitive to the volatility of metal prices***

The mining industry is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are recovered from the CSH 217 Gold Project or discovered on Jinshan's other properties, a profitable market will exist for the sale of the same. There can be no assurance that metal prices will be such that Jinshan's properties can be mined at a profit. Factors beyond the control of Jinshan may affect the marketability of any minerals discovered. 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. The supply of, and demand for, Jinshan's principal products and exploration targets: gold, copper and silver, is affected by various factors, including political events, economic conditions and production costs.

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

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

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

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

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

Recruiting and retaining qualified personnel is critical to Jinshan's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As Jinshan's business activity grows, it will require additional key financial, administrative, mining, marketing and public relations personnel as well as additional staff on the operations side. Jinshan commenced hiring additional personnel in China when it assumed responsibility for its exploration program in China. Although Jinshan believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

***Mining operations are subject to numerous hazards that could have a materially adverse effect on the financial position of Jinshan***

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.

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

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



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

Other than the CSH 217 Gold Project, development of Jinshan's mineral properties is contingent upon obtaining satisfactory exploration results. Mineral exploration and development involves substantial expense and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when an issuer's properties are in the exploration as opposed to the development phase. There is no assurance that commercial quantities of ore will be discovered on any of Jinshan's exploration properties other than the CSH 217 Gold Project. There is also no assurance that, even if commercial quantities of ore are discovered, a mineral property will be brought into commercial production. The discovery of mineral deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of Jinshan.

***There are risks associated with conducting business through joint ventures***

Jinshan conducts certain of its operations through co-operative joint ventures with government-controlled entities. While this connection benefits Jinshan in some respects, there is a substantial inequality with respect to the influence of the parties with the Chinese government. The Chinese government holds a substantial degree of subjective control over the application and enforcement of laws and the conduct of business. This inequality would become particularly detrimental if a business dispute arises between joint venture parties. Jinshan seeks to minimize this by including international arbitration clauses in relevant agreements whenever possible and by maintaining positive relations with both its joint venture partners and local governments, but there can be no guarantee that these measures will be sufficient to protect Jinshan's interest in China.

## **Mineral Properties**

### **Overview**

For the purposes of National Instrument 43-101 of the Canadian Securities Administrators (“NI 43-101”), the CSH 217 Gold Project has been identified as the only mineral property that is material to Jinshan. None of Jinshan’s other mineral property interests are considered material for the purposes of NI 43-101.

### **Qualified Persons**

Disclosure of a scientific or technical nature in this AIF in respect of the CSH 217 Gold Project was prepared by or under the supervision of Joseph M. Keane, a principal of KD Engineering and an independent qualified person for the purposes of NI 43-101.

### **Technical Report**

The scientific and technical information in respect of the CSH 217 Gold Project contained in this AIF is summarized from a Technical Report dated May 16, 2006 and prepared by Joseph M. Keane, a principal of KD Engineering and an independent qualified person for the purposes of NI 43-101 (the “Technical Report”). Mr. Mario Rossi, MSc. Min. Eng. of GeoSystems International, and John Nilsson, P. Eng. of Nilsson Mine Services respectively, both qualified persons for the purpose of NI 43-101 completed the geological and mining estimates in the Technical Report. Russell Browne of Golder Associates, a qualified person for the purposes of NI 43-101, prepared the material relating to geotechnical information in the Technical Report. A complete copy of the Technical Report is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CSH 217 Gold Project**

### ***Project Description and Location***

The CSH 217 Gold Project covers an area of approximately 36 kilometres in the Nei Mongol Autonomous Region of northern China (Inner Mongolia). The property hosts two low-grade, near surface gold deposits, along with other mineralized prospects. The main deposit is called the Northeast Zone (the “Northeast Zone”), while the second, smaller deposit is called the Southwest Zone (the “Southwest Zone”).

Jinshan’s rights to the property are held through a single Exploration Permit (No. 0100000220028). The permit is valid until August 3, 2006 and can be renewed by payment of bi-annual rental fees thereafter. Jinshan is currently filing final documentation for mining permit approvals with the Ministry of Land and Resources (“MOLAR”) in Beijing. MOLAR has approved Jinshan’s Chinese reserve and resource study. In addition, Jinshan has filed final applications for project registration with the provincial government of Inner Mongolia Autonomous Region.

The CSH 217 Gold Project is operated and owned by Ningxia, a Chinese joint venture company. Jinshan holds a 96.5% interest in Ningxia and Brigade 217 holds the remaining 3.5%. The Chinese Partner is still entitled to receive from Jinshan two U.S. \$1 million payments, the first

one being when the decision is made to start construction of a mining operation and the second, thirty days following commencement of commercial mining operations.

In China, the actual rates of taxation and applicable royalties for a mining project will vary significantly from province to province and are subjected to negotiation with the relevant authorities. Jinshan continues to finalize some of the taxes and fees that will be payable upon commencement of mining operations, but the principle property-related payment obligations assumed for the purposes of the feasibility study include the following: (i) a mineral resource tax, which is not yet finalized but is assumed to be 0.60 RMB per tonne of ore in the feasibility study; (ii) a mineral resource compensation fee, which amounts to 0.50% of the net value of gold produced with a tax holiday for the first five production years; (iii) water resource fees of 0.40 RMB per cubic metre of fresh water consumed; (iv) local government payments consisting of a one-time payment to the Inner Mongolia Provincial Government of 1.5 million RMB and an annual tax payment of 0.10 RMB per tonne of ore produced; (v) local welfare trust fund payment of 200,000 RMB annually; (vi) a land acquisition, pads, ponds, and infrastructure use fee of 11 million RMB; (vii) land acquisition, open pit mine and dumps use fee of 6.75 million RMB; (viii) a reclamation, soil and water conservation funds fee of 3 million RMB per year; and (ix) a payment for rights to land covering the water pipeline of 480,000 RMB.

The regulatory framework governing environmental matters in China includes several laws regulating the use, extraction and treatment of water. There are also a number of laws and regulations within mining legislation and otherwise that regulate the environment which impact the CSH 217 Gold Project. Jinshan has commissioned several studies relating to the environment demonstrating compliance with local and international norms, including a soil and water conservation study, a cultural and heritage survey, an impact of previous mining activities study and an environmental base line database study.

To the Company's knowledge, there are no recognized environmental problems that might preclude or inhibit mining operations in the area. Earth Resource Management, of Shanghai China, in partnership with the Inner Mongolia Environmental Science Academy has completed the Chinese Regulatory Environmental Impact Assessment ("EIA"). The Environmental Protection Bureau of Inner Mongolia has reviewed and approved the EIA. The EIA is also being adapted to international standards to produce an International Environmental and Social Impact Assessment.

### ***Accessibility, Climate, Local Resources, Infrastructure and Physiography***

The CSH 217 Gold Project is located approximately 650 kilometres northwest of Beijing and 126 kilometres north-west from the city of Baotou (population of 1.5 million), which is the most important industrial city in the Nei Mongol Autonomous Region of northern China. Daily scheduled airline flights from Beijing service Baotou. The project area is readily accessible via 200 km of paved and gravel roads northward from Baotou, with driving time of about 3 hours. Baotou is the central service and supply point for the general area. Most equipment and skilled labour would probably be available in this centre for any major mine development. For current purposes, a year-round exploration camp has been established in the town of XinHuRe located 10 kilometres southwest of the property.

The project is located on the Inner Mongolian Plateau, an area of gently rolling hills with elevations ranging from 1550 to 1750 metres above sea level. The climate is semi-desert with average annual precipitation of 230 millimetres. Most of the rainfall (greater than 70 percent) occurs in the brief period between July and September. The summers are dry and comfortable with temperatures rarely exceeding 30°C. The winters are cold and windy with cold spells down to minus 25°C. Winter conditions prevail from early October through mid-March but snowfall is minimal.

Vegetation consists of sparse desert grasses with scrub bushes with outcrop exposure generally being abundant. There are few inhabitants within the general area with most of the land being used only for low intensity sheep and goat grazing.

With the open rolling terrain, there is an abundance of land available for mine infrastructure purposes including waste and tailing disposal areas, heap leach pad areas, and processing plant sites. Power and water supplies have been identified for mining purposes.

The main water sources available are the XinHuRe lacustrine aquifer (“XHR”) and the Molenghe River alluvial aquifer (“MRA”), located approximately 9 kilometres southwest of the project area. A detailed water resource estimation indicates the annual water flux through these aquifers is 1.2 million cubic metres per annum, which is approximately 20 percent greater than the required water demand for planned mining, leaching and processing operations and local domestic uses.

Water flowing through the alluvium in the Molenghe River will be dammed with a buried weir constructed in the narrows of the Molenghe River, to capture the drainage along the river and from the XHR aquifer. Water will be abstracted from wells in the river alluvium and pumped in a 12 kilometre pipeline to the process plant area.

In addition to the water resource in the XHR and MRA, there is an additional water resource in the mining area that must be abstracted to keep the pit excavation from flooding. Detailed calculation of the water resource currently in progress, but are estimated at an additional 500 cubic metres per day.

### ***History***

The area in which the CSH 217 Gold Project is located has undergone a long history of small-scale alluvial gold mining.

The Chinese government completed regional geological mapping of the area in the 1960s. In the 1970s, a Chinese government entity conducted further mapping and trenching with mixed results.

During a regional stream sediment sampling program in the 1980s, a geological team of the Bureau of Geology and Mining originally discovered the prospect, which the CSH 217 Gold Project now covers. Brigade 217 acquired the CSH 217 Gold Project in the early 1990's and explored the property from 1992 through 1998. Exploratory work that Brigade 217 completed included soil and rock geochemical surveys, surface trenching, the driving of a 188-metre long decline, and the heap leaching of a 30,000 tonne test sample on site.

Between 1992 and 1993, Brigade 217 carried out geological mapping, grid geochemical sampling, and magnetic surveying at a scale of 1:10,000 over the property. In addition, some 6,000 cubic metres of trenching in four trenches and five pits was carried out. This work identified significant areas of mineralization, and in 1994, a 188 metre decline was developed to test mineralization in the Northeast Zone of the CSH 217 Gold Project. On the basis of these programs, Brigade 217 estimated, using Chinese resource estimation methods, that the deposit contained five tonnes (about 160,000 ounces) of gold down to 80 metres below the surface and 9 to 10 tonnes (about 300,000 ounces) of gold down to 120 metres below the surface. These Chinese resource estimations do not comply with Canadian NI 43-101, do not qualify as mineral resources, and should not be relied on.

Between 1995 and 1997, Brigade 217 conducted limited trial mining and test leaching. An estimated 30,000 tonnes was mined from shallow pits on the Northeast Zone and run-of-mine (“ROM”) ore was leached on four heaps. The leaching test indicated that gold extractions of between 55 and 60 percent could be expected on ROM material.

Alluvial mining has also taken place along the full length of the ChangShanHao creek that drains the ChangShanHao valley from east to west. Although alluvial mining has been halted on the property, the nature of the disturbances and the condition of the re-deposited alluvial material indicate considerable activity in the recent past. Artisanal mining by local peasant mines is reported to have occurred on the property, particularly between 1993 and 1998. As exploration trenches exposed mineralization, artisanal mining commenced with “high grading” veinlets and sulfide stringers on a very selective basis. It is estimated that 4,000 to 6,000 ounces of gold have been recovered from artisanal operations on the property. Finally, Brigade 208 of the CNNC conducted unlicensed mining on the property during two distinct periods: 1997-1999 and 2002-2004. Brigade 208 mining has been confined to the Southwest Zone where a number of shallow open pits have been mined to a maximum depth of about 30 metres. ROM ore has been leached on pads in three different locations. Jinshan estimates that up to 360,000 tonnes of ore has been processed on the leach pads, amounting to an estimated 6,000 ounces of gold.

Previous mining activities have caused some minor degradation of the natural environment in the project area; however, the effects are mostly visual with little evidence of actual chemical or heavy metals contaminating the ground water.

In 1999 Brigade 217 entered into a joint venture with a Canadian consortium, Southwestern - Global Pacific Joint Venture (“SWGP”). SWGP conducted a regional exploration program under an agreement with the Inner Mongolia Exploration Bureau of the China National Non-Ferrous Corporation (“CNFC”) on the CSH 217 Gold Project area and on exploration permit areas known as the Haoya areas. These permits covered some 342 square kilometres surrounding the CSH 217 property.

Work completed during the 1999 campaign included satellite imagery, geological mapping, extensive surface trenching and lithochemistry, and the drilling of ten widely spaced diamond drill holes. The 1999 program confirmed the presence of a major low-grade, gold-bearing zone of mineralization trending westerly across the CSH 217 Gold Project with widths up to 150 metres and suggested a significant potential for a large tonnage, low-grade open pit gold target. The SWGP joint venture agreement was terminated in 2000, which is reported to be largely due to the downturn in the mining industry.

The Company entered into the 217 Joint Venture Agreement with Brigade 217 in 2002. Shortly thereafter the Company conducted a major drilling campaign comprising some 4,997 metres in 23 diamond drill holes. The drilling was guided by previous geological mapping and trenching as well as by magnetic and electro-magnetic surveys undertaken by the Company. In addition, a 750 kilogram bulk sample from earlier core and surface trenches was sent to SGS Lakefield Research in Canada for preliminary metallurgical testwork.

The Company continued exploratory and infill drilling in 2003 and 2004 and produced resource estimates of the deposits. In September 2005 KD Engineering completed a pre-feasibility study. This study indicated that the planned mine would be capable of producing approximately 120,000 ounces of gold per year for the first 7.5 years at a cash cost of approximately U.S.\$232 an ounce. See “General Development of the Business – History” for more details.

In April 2006 a consortium of independent consultants consisting of KD Engineering, GeoSystems International, Nilsson Mine Services and Golder Associates completed a feasibility study on the CSH 217 Gold Project. Jinshan is now advancing mine permitting and construction with a target to start production by the end of 2006 or early 2007.

### ***Geological Setting***

#### *Regional Geology*

The CSH 217 Gold Project is located within the North China Gold Belt extending along the northern margin of the North China Craton. Archean and Early Proterozoic gneisses, schists, amphibolites and banded iron formations outcrop over about one-third of the area between North Korea and Baotou City, Inner Mongolia. Low grade metamorphosed Proterozoic quartzites, shales and limestones plus unmetamorphosed Paleozoic rocks occur as accretionary complexes surrounding the Early Proterozoic and older basement rocks. These complexes extend northward into Mongolia and make up part of the broader Mongolian-Great Hinggan Fold Belt located between the North China and Siberian Cratons. Continental basinal sediments – commonly coal-bearing and sub aerial volcanic rocks of Permian through Cretaceous age unconformably overlie the Proterozoic sequences in valleys adjacent to uplifted Precambrian basement.

The North China Craton has undergone Proterozoic and Phanerozoic accretion and collision along both its northern and southern boundaries and has been exposed to a subduction related strike-slip fault regime along its eastern edge. Deformation is characterized by major east-striking reverse fault zones within the cratonic margin, such as the Gaoletu Fault within the immediate CSH 217 Gold Project area.

Late Jurassic and Early Cretaceous Yanshanian deformation is recognized in the eastern portion of the North China Craton. The resulting magmatic arc now lies beneath the North China sea between China and Japan. Back arc magmatism extended for another 1,000 kilometres inland and is recorded by the widely distributed Yanshanian granitoids.

Gold mineralization within the CSH 217 Gold Project area is hosted by Middle to Upper Proterozoic metasedimentary rocks of the Bayan Obo Group. The Bayan Obo Group is dominated by clastic sedimentary formations intercalated with carbonate rich rocks and includes quartz sandstone, greywacke, siltstone and shale with dolomite and limestone.

The southern edge of the Altaid Orogenic Zone contains the Tien Shan gold belt, a 1,000 kilometre long curvilinear belt of large gold deposits in the Tien Shan Mountains extending into Northwestern Xinjiang Autonomous Region. These deposits are located within a Hercynian orogenic belt.

In the North China Gold Belt, there is evidence that gold mineralization occurred during several orogenic events in the Early and Late Paleozoic and Mesozoic. This history of repeated tectonism facilitates formation of gold deposits by producing slip planes and zones of weakness, which facilitate fluid flow during later events. This is believed to be instrumental at Muruntau, for example, where Carboniferous hydrothermal fluid flow produced zones of sheeted quartz veins focused by permeability contrasts along pre-existing (Caledonian) thrust planes.

### *Property Geology*

Proterozoic carbonaceous metasedimentary rocks host the CSH 217 Gold Project gold mineralization in the south limb of the CSH 217 Gold Project syncline. The syncline is one of the most prominent structural features in a major east-west trending fold belt that is characterized by complex fold interference patterns. Caledonian and Hercynian age composite granitoid batholiths occur to the north and south of the property.

Within the project area, only the middle portion of the Bayan Obo Group is represented. Stratigraphic units outcropping on the CSH 217 Gold Project from oldest to youngest include the Jianshan, Halahougete and Bilute Formations.

The Jianshan Formation is comprised of black carbonaceous slate, silty slate, andalusite hornfels, metasilstone and quartzose wacke. It mainly outcrops in the western, northern and southern portions of the CSH 217 Gold Project. The contact with overlying calcareous clastic rocks is gradational. High-grade gold veins hosted in this unit have been mined in the vicinity of the CSH 217 Gold Project.

The Halahougete Formation is dominated by carbonate lithologies and is comprised of thin to medium bedded dolomitic limestone intercalated with cherty slate and siliceous calcareous clastic units including sandstone, siltstone and slate. The formation outcrops extensively on the property and underlies in sharp contact the Bilute Formation, which hosts the majority of the known gold mineralization.

The Bilute Formation can be subdivided into four lithological members as follows, from youngest to oldest: (i) calcareous and carbonatized black phyllite and schist; (ii) metasilstone, metasandstone and sedimentary breccia; (iii) carbonaceous phyllite, and andalusite - garnet schist with minor metasilstone and metawacke (the "b<sub>2</sub> Unit"); and (iv) carbonaceous metasilstone.

All of the significant gold mineralization on the property occurs within the b<sub>2</sub> Unit of the Bilute Formation. Drilling has defined this target stratigraphy as an intercalated sequence of sediments with no internal distinctive marker horizons. This sequence dips quite uniformly to the north at approximately 82°, but noticeably steepens and even slightly overturned in the western part of the property.

Intrusive rocks within the CSH 217 Gold Project area were emplaced during the Late Caledonian, Hercynian and Indosianian. These major composite granitoid batholiths outcrop to the north and south of the CSH 217 Gold Project gold mineralization. The granitoids are interpreted to be syn-kinematic on the basis of deformation fabrics.

Within the area of mineralization, numerous igneous bodies, traditionally described as dykes of various compositions are present within the metasedimentary sequence. These bodies include diabase, lamprophyre, diorite, aplite and pegmatite. The pegmatite and some diorite bodies cross cut original bedding planes, however the lamprophyre and some other diorite bodies are concordant with the bedding as indicated in the drill cores. All of these bodies are barren of gold values, but elevated gold values may occur near their contacts to the host phyllite rocks.

In the Northeast Zone, drilling has identified an abundance of lamprophyre bodies in the hangingwall rocks above the mineralized zone. The quantity of lamprophyre material gradually decreases down stratigraphy through the gold bearing sections. The lamprophyres in the lower footwall mineralized sections are relatively sparse and less consistent.

The lamprophyre “dykes” can be followed on surface over hundreds of metres. Drill hole data suggest that the lamprophyre bodies are rather flat lenses in shape. Most are concordant with the original bedding. The texture of these dykes is quite variable – some are quite fresh and massive, most are moderately to strongly foliated, and some show remnant porphyritic and amygdaloidal textures. Their composition ranges from ultramafic to felsic. All of the lamprophyres lie conformably within the sedimentary sequence. The orientation of the lamprophyre bodies, and bedding where preserved, is slightly different from the mineralization trend, with about 10° differences in both strike and dip directions. Most of the contacts are knife sharp with no evidence of any alteration selvage within the host sediments.

It is suggested that most, if not all, of these lamprophyres are actually representative of discontinuous volcanic flows and tuffs, which were emplaced periodically during the original sedimentary cycle.

### ***Mineralization***

The host rocks to the gold mineralization on the CSH 217 Gold Project are mainly carbonaceous phyllite, schist, and slate within the lower members of the Bilute Formation.

The gold mineralization is composed of thin (1 to 10 millimetre) sulfide and quartz-sulfide seams/veinlets, stringers, and boudinaged lenses, which are concordant with the bedding and foliation and trend along the shear zone. Much quartz vein material has been logged in the drill holes associated with the higher-grade gold sections. Most of these “veins” are probably derived from remobilization of siliceous exhalative layers in the hydrothermal process, perhaps related to basin dewatering during regional deformation and metamorphism. The higher-grade gold zones are parallel or sub-parallel the regional metamorphic foliation texture. In most cross-sections connecting of the higher-grade intervals shows relatively consistent dip angles of the mineralization zones ranging from 82 to 85 degrees in the Northeast Zone, and 87 to 89 degrees and dipping opposite in the Southwest Zone.



Three distinctive styles of mineralization are noted within the target stratigraphy: (i) in the upper third of the sequence, the mineralization is dominantly quartz rich with only minor sulfide seams; (ii) in the lower third of the sequence, the mineralization is dominantly of the sulfide seam type with only rare scattered quartz material; and (iii) in the middle of the sequence, the mineralization is an even mixture of the above two types.

The division between weathered and fresh material is an irregular surface ranging from 30 to 70 metres below ground level. This was defined by logging the point in each drill hole below which all the sulfides are fresh and above which most of the sulfides have been converted to rusty limonite. In most holes this is a very sharp, well-defined line. The sulfides above the interface have been converted to oxides.

The principal type of mineralization is native gold occurring directly with the sulfides in the seams and in association with the quartz “vein” material. Mineralogical work by SGS Lakefield in Canada on composite weathered (oxide) and fresh (sulfide) mineralization samples found 77 percent of the gold was free in the sulfide composite and 100 percent of the gold was free in the weathered sample. Pyrite and pyrrhotite are the most abundant sulfides with their total content generally ranging between 1 and 2 percent. It is believed that the pyrite is of supergene origin derived from original hypogene pyrrhotite, which would explain the commonly observed change with depth from pyrite to pyrrhotite and the mineralized zones. Trace amounts of arsenopyrite, chalcopyrite, sphalerite and galena have been reported.

The quartz vein and sulfide seam contacts are all knife sharp with no alteration selvage in the host rocks. The hydrothermal alterations of the host rocks are rather weak, with only chlorite and silica alterations noticed in the drill logs. The host sediments are moderately to strongly metamorphosed to phyllite and schist with abundant sericite. Andalusite crystals up to 3 centimetres in length are prominently developed in the schists. The andalusite schist interface is parallel to original bedding. Development of andalusite is likely to be related to original alumina content and regional metamorphism. In the Northeast Zone a major andalusite schist unit with intercalated slate-phyllite layers occurs in the footwall side, and about one-fourth of the gold mineralization hosted in this unit. In the Southwest Zone, about one-third of the gold mineralization is within the andalusite schist, which occurs in the hangingwall side only.

Surface work and diamond drilling has tested the mineralized zone and stratigraphy over a continuous strike length of 4.8 kilometres trending southwesterly across the CSH217 property with drilling to a maximum vertical depth of 260 metres. The mineralized sections are variable in width achieving a maximum width of 150 metres in the eastern part of the property.

### ***Exploration***

Jinshan has utilized data from exploration work conducted by previous Chinese operators, including geological mapping, trenching, drilling and test mining. Jinshan has supplemented this data with its own exploration programs. In 2002, the Company conducted its own geological mapping, trenching, magnetic and electro-magnetic surveys on the property, followed by a major drilling program. In addition, a 750 kilogram bulk sample from earlier core and surface trenches was sent to SGS Lakefield Research in Canada for preliminary metallurgical testwork.

In addition to drilling, between 2003 and 2005 Jinshan conducted further exploration work on the property. This work included a further one tonne sample that was shipped to SGS Lakefield in 2003 for leach testing. In 2004, a 310 metre decline with 101.8 metre cross-cut was driven to the centre of the Northeast Zone below the weathered/fresh interface for metallurgical sampling. As a pilot mining program, a total of 100,000 tonnes of oxide ore was mined from the Northeast Zone for heap-leach testing at the site. In 2005, the heap-leaching test at the site was completed.

In the summer of 2005 the CSH 217 Gold Project area was re-surveyed using the Beijing 54/Yellow Sea 58 system, to which all the drill hole collars were resurveyed with a total station tied to control points previously established with differential GPS system. The newly surveyed drill collar coordinates and elevation data are used in the current database.

### *Drilling*

In total, 121 holes have been drilled on the CSH 217 Gold Project, amounting to approximately 25,000 metres of drill core.

All of the drilling to date has been completed with the equivalent of HQ core equipment producing cores approximately 60 millimetres in diameter. Jinshan drilled all but 10 of the holes.

In 1999, Southwestern Gold drilled 10 holes to test the mineralized zone with diamond drilling to a vertical depth of 260 metres and along a strike for 3.7 kilometres. This drill program outlined a mineralized zone up to 150 metres wide in the Northeast Zone. This drilling program was hampered by problems due to the use of a conventional Chinese contractor using antiquated equipment with poor productivity, resulting in low core recovery (averaging about 80 percent) and numerous breakdowns.

From July to November 2002, Jinshan completed 23 diamond drill holes totalling 4,997 metres. The program was principally focused on testing a gold bearing shear zone in the Northeast Zone, and 20 holes were drilled on nominal 50 metre centres. One other hole was drilled to test an extension of mineralization on the Southwest Extension and two geophysical holes were drilled in another area with non-prospective results. Generally, the drill holes were drilled southerly at  $-45^{\circ}$  and  $-60^{\circ}$  to intersect the mineralized strata dipping at  $80^{\circ}$  to  $85^{\circ}$  to the north. Core recovery averaged over 98 percent, with very few holes lost due to bad ground conditions.

In 2003, Jinshan drilled an additional 33 diamond drill holes totalling 6,056 metres. Some of these holes in-filled the previous drilling in the Northeast Zone but most were drilled on sections at 200 metre intervals to test the structure along strike to the southwest. Additional holes were completed on 100 metre sections in the Southwest Zone.

In March 2004, Jinshan carried out a drilling campaign, comprising 35 holes of infill and confirmation drilling. These holes were largely drilled as 50 metre spaced in-fills in both the Northeast Zone and eastern part of the Southwest Zone.

Also in 2004, Jinshan undertook a 4,630 metre summer drilling campaign comprising 25 metre spaced in-fill holes in the Northeast Zone, 50 metre spaced in-fill holes in western part of the Southwest Zone, and step-out holes in the Southwest Zone.

The summer drilling campaign further confirmed the continuity of the gold mineralization. In addition, a western extension to Southwest Zone mineralization also has been indicated by three 50 metre spaced stepout holes, expanding the open-ended zone to the west beyond previously determined boundaries. Both the Northeast and Southwest Zones remain open at depth, and there is no indication that the gold grade decreases with depth.

Jinshan used two Chinese contractors for its drilling, using modern Longyear, Atlas Copco and Boyles Bros. equipment complete with wire line, mudding systems, and double and triple wall rods.

All drill holes were surveyed down-the-hole using a Sperry-Sun single-shot survey instrument providing a photographic record of the hole angle and direction at 50 metre intervals. The collars of the drill holes have been surveyed by a contractor from Yinchuan providing accurate collar co-ordinates with elevations to a tenth of a metre. The collar locations were surveyed using a laser total station and tied to survey control points established with differential GPS. The three-dimensional position accuracy of the boreholes for the 2004 and 2005 campaign is considered to be less than 0.20 metres.

### ***Sampling and Analysis***

All the cores were logged by geologists and sampled at the site. With the exception of Hole 57 which was drilled for metallurgical purposes, the entire drill core was meticulously logged by measuring core recovery and RQD (the cumulative length of core pieces greater than 10 centimetres) of each run, describing texture and mineralogy of the lithological units, and measuring angles of foliation and/or bedding to core axis in each unit, and estimating percentage of quartz veinlets and sulfide or oxide content, and identifying weathered rock and fresh rock interface. Sample intervals were then marked up by the geologist, and then one half of the core was cut using a diamond saw and sent to the laboratory for preparation, while the other half is stored in a secure warehouse in the mining camp

Being a bulk tonnage, low-grade deposit, sampling tended to be uniform with a nominal sample length of 2.0 metres unless obvious geological breaks dictated otherwise (maximum 3 metres, minimum 0.22 metre). The overall actual sample interval for all drilling campaigns averages 1.60 metres for the Northeast Zone and 1.68 metres for the Southwest Zone, considering only those drill holes used for resource estimation.

The large diameter core (63.5 millimetres) was drilled to provide adequate sample weights. The average weight of a half core sample for a 2 metre interval is 7.0 kilograms, and therefore is a very large weight that ensures sample representativity.

A written log or description is prepared for each sample and an appropriate identification number is assigned. The sample reference number is unique, and uses two part sample tags. The detachable part of the sample tag is enclosed in the sample bag, and the number is also written on the outside of the bag with indelible marker. Samples are packed and sealed in the field in plastic or cloth bags. Prior to shipment, the samples are stored in a safe locked area at the main base camp.

All of the samples are trucked directly to the Langfang Laboratory at the Institute of Geophysical and Geochemical Exploration located at the Langfang Research Centre, Hebei Province, about a one-hour drive south of Beijing. This laboratory is fully certified by the Chinese Government. To maintain the chain of custody of the samples, each leg of the route from the field to the laboratory uses itemized delivery notes and shipping waybills. Samples are delivered to the laboratory directly by Jinshan personnel. At no time during the shipping from the field to the laboratory are the samples out of the direct supervision of Jinshan personnel. In the 2005 drilling program, the sample preparation was done in the Baogang Laboratory, a Chinese Government certified laboratory located in Baotou. Jinshan personnel supervised the delivery and preparation processes.

The entire sample as received at laboratories is crushed to minus10 mesh and then rolled, quartered, and split to produce a 500 gram sample for shipment to Canada for assaying by ALS Chemex in North Vancouver. A Jones splitter is used at the Baogang Laboratory to split the samples to the 500 gram sized samples.

At ALS Chemex, the samples are ground and pulverized to minus100 mesh with the gold content being determined using the standard Chemex screened metallic fire assay techniques on one-assay tonne (30 gram) samples. Under this system, Chemex does three fire assays on each sample using an atomic absorption finish. One assay is carried out on the plus100 mesh material and two are completed on the minus100 mesh fraction. Taking the respective weights into account, the gold values are then back calculated to give the original gold content.

Standards and blanks are run consistently by ALS Chemex in-house to assure their quality control. Additionally, the numerous unmineralized lamprophyre intersections in the core served as blank checks and these consistently returned values less than 0.05 gram per tonne gold.

In addition to the other quality assurance and quality control procedures (“QA/QC”) described above, Jinshan initiated a duplicate sampling program with its 2005 drilling program. The 2005 QA/QC program consisted of a total of 152 blanks, or about 5 percent of the total samples sent for assaying; 230 pulp duplicate samples, or approximately 7.5 percent; and 225 reference materials of different known grades, which are commercial standards purchased by Jinshan, equivalent to about 7.3 percent of the total samples sent for assaying.

Blank sample material was collected from quartzite outcrop located southeast of the orebody. Five representative grab samples from the quartzite were analysed by ALS Chemex in Vancouver and returned less than 0.005 parts per million gold. Of the 152 blanks sent to the ALS Chemex laboratory, five returned values higher than the detection limit (DL, or 0.05 grams per tonne.). Of these, only one had significant grade, at 0.24 grams per tonne, which probably implies a bag or tag swap. The conclusion from these blanks is that there is the probability of cross contamination from one sample to the other, although it is considered a low risk factor.

There are some significant variations in the duplicate sample results. Statistical analysis of the QA/QC data from the 2003 and 2004 campaign indicated a confidence level for individual samples above 0.20 grams per tonne at plus or minus 25 percent, a result confirmed by the heterogeneity test completed in early 2005. In addition, the results from the 2005 campaign still suggest a relatively imprecise dataset, with poor precision. In the Technical Report it was stated that this poor precision has an impact on the expected accuracy of the individual estimated

grades on a block-by-block basis, but it is not considered significant when larger volumes are considered.

In the Technical Report, the authors estimated that about 20 percent of the data has an absolute relative error of 40 percent or more, which is considered high. The average of all the ARD data where the original sample is greater or equal to 0.20 grams per tonne is approximately 25 percent, similar to prior QA/QC campaigns.

The re-assaying of standards may indicate a conservative grade bias, particularly for samples that are higher grade. Checks using standards of known values indicate a smaller difference between the ALS Chemex laboratory and the known values for the low grade standards. Although this information has not been explicitly used in this resource estimate, some of the batches that contained the out-of-limits standard results were re-assayed at ALS Chemex.

### ***Metallurgical Testing and Mineral Processing***

Initial metallurgical testing of the ore was primarily performed for Jinshan by SGS Lakefield Research Limited between 2002 and 2004. This testing included composite preparation and head sample analysis, mineralogical examination, standard and CIL whole ore leach tests, gravity test work, cyanide destruction and environmental analysis. Jinshan also utilized metallurgical and mineral process data from prior owners, including Brigade 217.

SGS Lakefield received numerous drill core samples to test, and divided the testing between the weathered (oxide) ore and fresh (sulfide) ore. Through this process Jinshan was able to obtain detailed information about the mineralization on the property. Jinshan also conducted a pilot heap leach program in 2004 to test the ore in which approximately 50,000 tonnes of ore from the center of the deposit was extracted and placed on test pads. The results of this program confirmed prior metallurgical testing and formed the basis of mineral processing assumptions in the feasibility study. The first pilot heap was ROM material, while the second was sulfide ore that was crushed through 125 millimetres before being placed on the heap. In addition to processing the material on the heap, Jinshan extracted a 60 tonne representative sample of the crushed material, which was delivered in 2005 to METCON Research to formulate composites for large scale column testing at the Baogang Technical Institute in Baotou.

The results of the testing indicated that gold extraction from oxide composite will average approximately 85 percent. For sulfide ore, recovery rates were greatly affected by the size material. Using ROM processing sulfide recoveries are estimated at 40%. It was estimated that crushing the ore to a size distribution of 80 percent passing six millimetres would yield recoveries of approximately 70%. In the feasibility study, the authors applied a discount to recovery rates as a result of greater variance in performance that will occur in an industrial scale processing operation, instead of the controlled test operations used to determine the average recovery rates. The discount effectively assumed that recovery rates in the first year following processing on the heap would be lower than testing rates, at approximately 66% for weathered ROM ore, 71% for weathered crushed ore and 56% for sulfide crushed ore, and would gradually increase to the full extraction rate over a period of five years (being 80% for weathered ROM ore, 85% for weathered crushed ore and 70% for crushed sulfide ore).

### ***Mineral Resource and Mineral Reserve Estimates***

The database used to estimate the resources consists of a total of 119 inclined surface drill holes, covering the entire CSH 217 Gold Project deposit (Southwest and Northeast zones).

The average overall gold grade for the Northeast Zone (weighted by sample length and within the 0.20 grams per tonne envelope) is 0.62 grams per tonne, with a standard deviation of 0.77, and a coefficient of variation (“CV”) of 1.23. Approximately 75 percent of the assay data is below 0.81 grams per tonne, and 50 percent of the data is below 0.45 grams per tonne. There are few high-grade values, the maximum being 26.49 grams per tonne. The histogram and basic statistics of assays are available as backup information. The samples for the Southwest Zone show more variability, with an average grade of 0.56 grams per tonne, a standard deviation of 0.84, and a CV of 1.49. Approximately 75 percent of the assay data is below 0.70 grams per tonne, and 50 percent of the data is below 0.31 grams per tonne. The maximum grade is 13.82 grams per tonne.

The main controls used in grade estimation were the interpreted 0.20 grams per tonne and 0.40 grams per tonne grade envelopes; the first one defines the boundary between mineralized and un-mineralized zones, and the second one defines the higher-grade mineralization boundary.

Bulk density determinations were based on an initial set of 61 samples analyzed in 2003, supplemented by an additional 300 samples in 2005. All but 31 of the 2003 samples were sent to SGS Lakefield Research for their density determinations. The samples were tested using the hot wax coating method. The average density for the 81 weathered samples is 2.72 tonnes per cubic metre (“t/m<sup>3</sup>”) (2.65 t/m<sup>3</sup> previously, or 2.5 percent higher). For 280 sulfide samples the average is 2.79 t/m<sup>3</sup> (2.75 t/m<sup>3</sup> previously, or 1.5 percent higher). The weighted increase in average density (assuming a 15 percent overall volume of weathered material) is 1.65 percent. This increase in density has a direct impact on tonnages.

The grade estimation technique considers dilution into the estimated blocks. The grade estimation assumes partial blocks with mixtures of un-mineralized and mineralized material, while the full block is considered either mineralized or not. Several statistical analyses were carried out to describe the differences and similarities of the estimation domains, which included histograms and quantile-quantile (Q-Q) plots.

A three-dimensional solid weathered/fresh interface was created by wireframing the weathered/fresh interface lines from section to section, which define the lower limit of the oxidation solid and the upper limit of the sulfide solid. The weathered and fresh mineralization solids were then utilized to back-tag the drill hole assays and composites, thus coding the estimation database with the basic information required to match to the block model during the interpolation process. The lower limit of the fresh mineralization solid was then generally defined to be 30 metres below the intercepted mineralization in the deep holes and 60-80 metres below the intercepted mineralization in the shallow holes. In the Northeast Zone, the lower limit of sulfide solid is relatively flat in the central part since most holes reached over 200 metres below the surface. Compared to the Northeast Zone, most holes in the Southwest Zone are shallower with only four deep holes widely scattered along strike direction. As a result the lower limit in the Southwest Zone is much more undulating, even with the limit elevated to 80 metres

to the intercepted mineralization in the shallow holes. The lower limit of the fresh mineralization solid was the interpreted 0.20 grams per tonne envelope.

Unmineralized material is defined as material with less than 0.20 grams per tonne gold grade over a minimum 6 metre horizontal width (thickness of the steep dipping zones), which is considered a minimum mining width to selectively remove waste.

The mineralization zone boundaries were interpreted by Jinshan personnel for the purpose of bounding the modeling exercise and for use in the calculation of resources. The polygons were drawn on each section to outline the 0.20 grams per tonne gold mineralization envelopes. The basic criterion for defining the envelopes was based on assays being greater than 0.20 grams per tonne. However, if part of a drill hole within this envelope had an interval that was less than the minimum mining width (defined above), whose weighted average grade was less than 0.20 grams per tonne, that interval was included as internal dilution using its individual assay values.

The 0.20 grams per tonne gold mineralization envelopes can be traced from section to section as a consistent 70-160 metre wide zone in the Northeast Zone, and 50-80 metre wide zone in the Southwest Zone. Mineralized blocks have been defined outside of the hangingwall and footwall of this zone, under the condition that they had a thickness greater than the minimum mining width at a weighted average grade of 0.20 grams per tonne gold. Initially, it was anticipated that these splays would be fairly isolated; however these units appear to be continuous where they exist.

The 0.20 grams per tonne gold envelope polygons from section to section were wireframed to form the rough solids. At either end of the mineralization zones along strike, the polygons were copied and moved to extend 50 metres in the strike direction, and then wireframed. In some cases, the polygons on the 50 metre spaced drilling sections were copied and moved 25 metres, which is half the distance to its neighbour sections, for ease of wireframing. Then, 10 metre spaced plans were created from the rough gold envelope solids. The polygons were traced from the 10 metre spaced plans to smooth out the sharp turns and create the new polygons, and at the same time the drill holes were checked plan by plan to make sure the gold mineralization fell within the new polygons. The new rather smooth polygons were then wireframed to produce the gold mineralization solids for resource estimation.

The upper limit of the weathered surface was topography. To account for local differences between the topographic surface and the drill hole collars, the top of the 0.20 grams per tonne gold polygons were extended to the 1,700 metre level, which are about 40-70 metres above the surface. After wireframing the mineralization solids, a Boolean operation was carried out to remove any solid above the topography and below the lower fresh limit as defined above. The result is two continuous 3D solids spanning the length of the Northeast and Southwest Zones, respectively, with a few smaller solids representing the narrower mineralization zones in the hangingwall and footwall to the main mineralized zone.

In the Southwest Zone, the sectional polygons were projected well over the other side of the faults, and the polygons on 10 metre spaced plans were also stretched over the fault zones. Each faulted segment was wireframed separately, and then the stretched-over part was cut by the faults with the Boolean operation.

The 0.40 grams per tonne envelope follows the same general geometry of the 0.20 grams per tonne, but it is much smaller, with anywhere between 40 and 60 percent of the total volume defined by the lower-grade envelope, depending on the zone. The grade continuity for material within the zone is very good, and it can be considered that most of the material within is above the mineralized threshold.

Two-metre long composites were obtained from the original assay data, and coded using the modeled geology as inside or outside the 0.20 grams per tonne envelope. A two metre composite was accepted as the best compromise between the number of composites available for estimation, an adequate degree of dilution and regularization given the mining selectivity considerations and estimation quality, and the overall low variability of the gold distribution. All resulting composites less than one metre were discarded from the database.

The impact of high grades in the CSH 217 Gold Project is expected to be limited, since the high-grade population is small. An analysis was performed on the cumulative probability curve and a quantity of metal graph by gold cutoff grades.

Given the information presented, and also considering in addition to the mixing effect that occurs when compositing, it was decided to restrict the influence of gold composite grades higher than 6.0 grams per tonne at the time of resource estimation. This grade capping choice was applied in all cases (Northeast and Southwest Zones), but only for the second and third kriging passes.

As drilling has been done on mostly 25 metre and 50 metre spaced cross sections, it is not expected that spatial clustering (i.e. the effect of clustering drills and sampling around high-grade zones) is an issue. A cell-declustering technique was used to assess spatial clustering, with no evidence of this effect arising from the testing.

In preparation for the implementation of the grade estimation method chosen, variograms for gold grades were run using the 2 metre composites. The spatial continuity estimator chosen for this study was the correlogram. It was concluded that correlations for the 2 metre composites are 50 metres to 75 metres for the Northeast Zone and about 30 to 50 metres for the Southwest Zone, if considering ranges that correspond to about 60 to 80 percent of the total variance. Relative nuggets effects are 40 percent in both cases. As expected, there is much better continuity along strike and down dip than across strike. For both zones, the variogram ranges indicate that the correlation of the 0.20 grams per tonne envelope can average the equivalent of at least 3 to 6 25 metre spaced cross sections, between 100 and 150 metres, the lower number corresponding to the Southwest Zone. The down-the-hole correlograms show short ranges: about 15 metres for the Southwest Zone, and 64 metres for the Northeast Zone. This is in part a reflection of the poor across-strike continuity, since drilling is normal to strike, and also at a high angle with respect to the general dip of the mineralization.

For the CSH 217 Gold Project, the block size that represents the minimum volume that could be mined (the “Selective Mining Unit” or “SMU”) was established at 6 x 6 x 6 metres (216 cubic metres).

The Discrete Gaussian Method (“DG”) was used to identify dispersion variance. The method uses a Variance Correction Factor (“VCF”) to derive a predicted SMU distribution based on composites, therefore allowing construction of grade-tonnage curves using the corrected



distribution. Using the appropriate correlogram model, global corrected distributions were found for the assumed 6 x 6 x 6 metres SMU, which corresponds closely to the block model size, 6.25 x 6.25 x 6 metres. Variance reduction factors of 0.6 to 0.7 were observed.

When the 2 metre composites and the two SMU distributions considered are compared, it is seen that, at a gold cutoff of 0.50 grams per tonne, the expected internal dilution is 16 percent (relative) drop in grade and 3 percent relative gain in tonnage when comparing the 2 metre composites to the 6 x 6 x 6 metre SMU for the Northeast Zone. When comparing the two SMU's, there is an additional 2 percent relative loss in grade and a 1 percent relative gain in tonnage when using a 12.5 x 12.5 x 6 metres SMU. The expected dilution varies with cutoff, as expected, but does not necessarily increase with higher cutoffs. Slightly larger dilution values are found for the Southwest Zone.

The CSH 217 Gold Project resource block model was defined as a single large block model combining both mineralization zones (Northeast and Southwest). This was done to facilitate the handling of the resource model and later pit optimization and mine planning work.

The block size chosen was 6.25 x 6.25 x 6 metres, intended to reflect drill hole spacing available in the tighter areas, and also match the assumed SMU.

Not all blocks inside the 0.20 grams per tonne and the 0.40 grams per tonne envelopes have been estimated, and they are assumed to have a 0.0 grams per tonne grade. This is due to the limitation imposed by the search ellipsoids, which generally do not fill completely the volume defined by both envelopes. In the Northeast Zone this represents about 1 percent of the volume within the 0.40 grams per tonne, and 1.9 percent of the volume within the 0.20 grams per tonne. In the Southwest Zone, these numbers are 2 percent and 13 percent, respectively.

Ordinary kriging was used for grade estimation. Gold grade was estimated into blocks defined within the 0.20 grams per tonne and the 0.40 grams per tonne envelopes, by choosing data according to the grade cutoffs. Data from either side of the grade boundary was used to avoid creating an artificial boundary between the two envelopes.

Three estimation passes were used to estimate the resource model. Each pass is done using a varying degree of requirements before any given block can be estimated. A single pass was used to estimate the indicator variable, but three passes were used to estimate the grades. In all cases, block kriging was performed.

Determination of resource classification was based on the size of the ellipsoid based on spacing of drill holes and the number of composites within the ellipsoid. Measured resources required an ellipsoid that is 40 x 20 x 48 metres in the Northwest zone and 35 x 17.5 x 35 metres on the Southwest zone, with a minimum of five composites and with the additional restriction of two composites maximum per octant defined, indicated resources required a 100 x 50 x 120 metre ellipsoid, with a minimum of three composites, and maximum three composites per octant and inferred resources required a 175 x 87.5 x 210 metre ellipsoid with a minimum of two composites and a maximum of three composites per octant.

Resources were thus classified on a block-by-block basis, the basic criteria being the defined kriging passes, which were based on the overall correlation model and also represent a good measure of the quantity and quality of information used to estimate each block.

The amount of measured and indicated resources in the Northeast Zone is more significant than in the Southwest Zone. Measured resources tend to be more disjointed, since they can only be found in those areas where the blocks can be estimated with a search distance of 40 metres or better, mainly around the section lines. Indicated resources are much more continuous, particularly through the Northeast Zone, and enclosing measured resources. Overall inferred resources in the Southwest Zone are close to 50 percent of the total estimated tonnage.

Set forth below are tables summarizing the resource estimates:

Northeast Zone Resources <sup>(1)(2)</sup>										
Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>
0.3	37.3	0.80	53.5	0.73	90.8	0.76	2.20	13.1	0.68	0.28
0.4	36.4	0.81	49.2	0.76	85.6	0.78	2.16	10.8	0.75	0.26
0.5	33.8	0.84	44.4	0.80	78.3	0.81	2.05	9.0	0.81	0.23
0.6	27.9	0.90	35.8	0.86	63.7	0.87	1.79	7.2	0.88	0.20
0.7	21.0	0.98	26.2	0.93	47.2	0.95	1.44	5.6	0.94	0.17
0.8	14.8	1.07	17.7	1.02	32.5	1.04	1.09	4.0	1.01	0.13
0.9	10.2	1.17	11.5	1.11	21.7	1.14	0.80	2.5	1.12	0.09
1.0	7.0	1.28	7.6	1.20	14.6	1.24	0.58	1.6	1.20	0.06

Southwest Zone Resource <sup>(1)(2)</sup>										
Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>
0.3	9.0	0.88	28.6	0.76	37.6	0.79	0.95	11.1	0.69	0.25
0.4	8.6	0.90	27.3	0.78	35.9	0.81	0.93	10.9	0.70	0.25
0.5	8.2	0.92	23.6	0.83	31.8	0.86	0.87	9.3	0.74	0.22
0.6	6.9	0.99	19.4	0.89	26.3	0.92	0.78	7.17	0.80	0.18
0.7	5.6	1.07	14.6	0.98	20.1	1.00	0.65	4.9	0.87	0.14
0.8	4.4	1.16	10.2	1.08	14.6	1.10	0.51	2.5	1.00	0.08
0.9	3.3	1.25	6.9	1.18	10.3	1.21	0.40	1.4	1.11	0.05
1.0	2.5	1.35	5.0	1.28	7.5	1.30	0.31	0.9	1.22	0.03

Weathered Resources <sup>(1)(2)</sup>										
Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>
0.3	7.5	0.83	13.3	0.76	20.9	0.78	0.52	0.98	0.70	0.02
0.4	7.4	0.83	12.7	0.78	20.1	0.80	0.52	0.89	0.74	0.02
0.5	6.8	0.87	11.7	0.80	18.6	0.83	0.49	0.71	0.81	0.02
0.6	5.6	0.93	9.4	0.86	15.1	0.89	0.43	0.53	0.90	0.02
0.7	4.2	1.03	6.6	0.95	10.8	0.98	0.34	0.41	0.97	0.01

Weathered Resources <sup>(1)(2)</sup>										
Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>	MTons	Gold Grade (g/t)	Million Ounces Au <sup>(3)</sup>
0.8	3.0	1.15	4.5	1.05	7.5	1.09	0.26	0.30	1.06	0.01
0.9	2.1	1.26	3.0	1.15	5.2	1.20	0.20	0.23	1.12	0.01
1.0	1.5	1.39	2.06	1.25	3.6	1.31	0.15	0.15	1.21	0.01

Fresh Mineralization Resources <sup>(1)(2)</sup>										
Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	Million Ounces Gold <sup>(3)</sup>	MTons	Gold Grade (g/t)	Million Ounces Gold <sup>(3)</sup>
0.3	38.7	0.81	68.8	0.74	107.5	0.76	2.64	23.2	0.68	0.51
0.4	37.6	0.82	63.8	0.77	101.4	0.79	2.57	20.9	0.72	0.49
0.5	35.2	0.85	56.3	0.81	91.5	0.83	2.43	17.6	0.78	0.44
0.6	29.2	0.91	45.7	0.87	74.9	0.89	2.13	13.9	0.84	0.37
0.7	22.4	0.99	34.1	0.95	56.5	0.96	1.75	10.1	0.91	0.29
0.8	16.2	1.08	23.3	1.04	39.6	1.06	1.34	6.2	1.01	0.20
0.9	11.4	1.18	15.4	1.14	26.8	1.16	1.00	3.7	1.11	0.13
1.0	8.0	1.28	10.6	1.22	18.5	1.25	0.74	2.4	1.21	0.09

Total Resource <sup>(1)(2)</sup>										
Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	MTons	Gold Grade (g/t)	Million Ounces Gold <sup>(3)</sup>	MTons	Gold Grade (g/t)	Million Ounces Gold <sup>(3)</sup>
0.3	46.2	0.81	82.1	0.74	128.4	0.77	3.16	24.2	0.68	0.53
0.4	45.0	0.83	76.5	0.77	121.5	0.79	3.09	21.7	0.73	0.51
0.5	42.0	0.85	68.0	0.81	110.1	0.83	2.92	18.3	0.78	0.46
0.6	34.8	0.91	55.2	0.87	90.0	0.89	2.57	14.4	0.84	0.39
0.7	26.6	1.00	40.8	0.95	67.3	0.97	2.09	10.5	0.91	0.31
0.8	19.2	1.09	27.9	1.04	47.1	1.06	1.61	6.5	1.01	0.21
0.9	13.5	1.19	18.4	1.14	32.0	1.16	1.19	4.0	1.11	0.14
1.0	9.5	1.30	12.6	1.23	22.1	1.26	0.89	2.5	1.21	0.10

<sup>(1)</sup> Mineral resources are not mineral reserves until they have demonstrated economic viability based on a feasibility study or pre-feasibility study.

<sup>(2)</sup> Jinshan reports mineral resources inclusive of mineral reserves.

<sup>(3)</sup> Contained gold reported in this table has not been adjusted for metallurgical recoveries.

The estimated grades of the resources include some geologic dilution, but no operational or mining dilution or ore loss. The model can only be considered fully diluted (save for mining dilution) if the assumed SMU is actually achieved at the time of mining. Because the degree of selectivity is high, then an effective grade control should be put in place to be able to separate out the diluting material. If this is the case, considering the mining scenario envisaged, it is not necessary to add any further mining dilution or ore loss.

There are no known environmental, permitting, legal, title, taxation, socio-economic, marketing, and political or other relevant issues that may materially affect the resource estimates.

*Reserve Estimate*

In the Technical Report, the authors extracted from the resource estimate those resources that are included in the mine plan, and as a result of this analysis upgraded those resources to proven and probable reserves. These reserves are based on measured and indicated resources only.

Resources have been reported at a cutoff grade of 0.26 grams per tonne as scheduled in the mine plan. The gold price used for optimization was US\$425 per ounce, while refining and offsite costs were estimated at US\$3.10 per ounce. Metallurgical recovery inputs are described under “Metallurgical Testing and Mineral Processing”, while the rest of the mining input parameters used to prepare the reserve estimate are summarized in “Mine Development” below. In the chart below, references to “BCMS” means “bench cubic metres” and references to “SG” mean “specific gravity”.

<b>Mineable Reserves</b>						
<b>Weathered Material</b>						
		<b>CUTOFF GOLD g/t</b>	<b>INSITU ORE (BCMS)</b>	<b>ROM MINE (TONNES)</b>	<b>GOLD g/t</b>	<b>SG t/m<sup>3</sup></b>
Proven	>=	0.26	2,562,000	6,968,000	0.80	2.72
Probable	>=	0.26	3,069,000	8,347,000	0.69	2.72
Subtotal	>=	0.26	5,630,000	15,315,000	0.74	2.72
<b>Fresh Material</b>						
		<b>CUTOFF GOLD g/t</b>	<b>INSITU ORE (BCMS)</b>	<b>ROM MINE (TONNES)</b>	<b>GOLD g/t</b>	<b>SG t/m<sup>3</sup></b>
Proven	>=	0.26	9,829,000	27,422,000	0.79	2.79
Probable	>=	0.26	8,585,000	23,951,000	0.72	2.79
Subtotal	>=	0.26	18,413,000	51,373,000	0.76	2.79
<b>Summary</b>						
		<b>CUTOFF GOLD g/t</b>	<b>INSITU ORE (BCMS)</b>	<b>ROM MINE (TONNES)</b>	<b>GOLD g/t</b>	<b>SG t/m<sup>3</sup></b>
Proven	>=	0.26	12,390,000	34,390,000	0.79	2.78
Probable	>=	0.26	11,653,000	32,298,000	0.72	2.77
Subtotal	>=	0.26	24,044,000	66,688,000	0.75	2.77

### ***Mine Development***

In the Technical Report, the authors prepared a mine plan for an open pit mine with a heap leach facility at a processing rate of approximately 20,000 tonnes per day over a period of nine years, amounting to average production of approximately 117,000 ounces of gold per year. Additional, smaller rate production is also estimated for years 10 to 12 as mining operations cease and the remaining ore is processed, with production amounting to approximately 31,000 tonnes per year.

The development will consist of an open pit mine in the Northeast Zone, waste dump, heap leach facility, crusher and ancillary support infrastructure such as maintenance, fuel and administration facilities.

The mine plan was prepared to a feasibility study level and to match the anticipated maximum production entitlement provided in the Mining License. Inferred resources were not included in the mine schedule or project economic assessment, nor were resources from the Southwest Zone.

#### *Open Pit Mine Development*

A contractor will undertake mining and blasting of the open pit. Jinshan engineering staff will survey blastholes and crest advance in the open pit. They will also be responsible for grade control and mine design. The contractor will drill, blast, load and haul ore and waste to designated road construction sites, dumps, heap leach pads and/or crusher locations as specified by the engineering staff.

Pre-production development activities will include diversion ditching, culvert installation beneath main haul road to heap leach pad, access road construction, water supply installation for road and pit dust control and engineering office construction. Production drilling will be carried out on a 6 metre high mining bench. Drilling near final walls will be undertaken using wall control blasting methods to achieve maximum face angles as specified by Golder Associates. Multiple benches will be combined between catch berms. Drill holes will be sampled and assayed for grade control.

Wheel loaders and diesel excavators will be the loading units of choice. Ore and waste will be loaded to trucks and hauled from the mine to dumps and process sites. Walls will be scaled. End dump haulage trucks will be used to haul material from the open pit. They will also be used to haul product from the crushing plant to the heap leach pad. A hopper will be used to store crushed ore and deliver material to the haulage trucks.

Haulage roads will be built as required to reach dumps, heaps and the crusher. These roads will primarily be fill construction using waste material. They will be built as part of normal mine operations rather than as civil construction projects. Roads and dumps will be maintained by a grader, water truck and dozers as required.

In addition to the direct pit dewatering efforts, a diversion ditch will be located upstream of the open pit and a waste “plug” installed in the valley bottom to slow down any flash floods that could impact the pit operations.

Pit optimization was undertaken using Medsystemâ software. A complex wall slope Lerchs Grossman algorithm was used to develop un-smoothed ultimate pit limits. These limits were used as a guide to develop mine designs.

The deposit is open to surface and ore will be mined for processing almost immediately upon commencement of extraction operations. Mining operations will commence with development of a smaller internal pit focusing on the near surface ROM weathered material. This internal phase leaves a 90 to 100 metre wide pushback to the final pit limit.

The mining bench height will be 6 metres. Final walls were designed for triple benching between variable berm widths of 7.8 metres and 10.25 metres depending on design sector. The haul roads within the open pit have been designed at 10 percent maximum grade. The haul road width allowance is 22 metres, which will allow the Company to increase the scale of the haulage trucks

from the currently planned tandem axle trucks. Access to the main pit will be from the southwest.

A total of 71.3 million tonnes of waste will be mined in the current plan. There is no plan for long range low grade stockpile material. Waste dumps have been located southeast and northwest of the Northeast Pit. The waste dumps are relatively extensive laterally but are not considered high dumps. The dumps will typically reach a maximum height of 40 to 50 metres.

The mine production schedule has been developed for 20,000 tonnes per day ore to process. During the initial two years of the mine plan, weathered ore will be delivered ROM to the heap leach pad. Commencing in year three, fresh material will be delivered, which will need to be crushed before leaching. A phase-in period for start-up and commissioning of the crushing plant is anticipated but this does not impact the mine schedule. Overall mine production will average 17.9 million tonnes per annum during the first five years and then taper off as the lower benches of the Northeast Pit will be primarily ore.

### *Processing Operations*

Jinshan plans to process the ore by using a heap leach facility consisting of a multiple lift, single-use leach pad. During the life of the mine approximately 66.7 million tonnes of ore at an average grade of 0.75 grams per tonne gold will be placed upon the heap for processing. During the first two years, oxide ore will be processed by ROM heap leaching. In year three, a three stage crushing plant is envisaged in order to crush sulfide and remaining oxide ore.

The heap leach facility will be constructed about 3 kilometres south of the main ore deposit on relatively flat terrain. Two potential leach pad sites have been identified and are referred to as the North Pad and the South Pad. The South Pad will be large enough to contain the currently-identified economical ore reserve of 67 million tonnes. Accordingly, the North Pad will only be developed in the future should further pad capacity be required.

Ore will be hauled by truck and placed on the pad in approximately 10 metre lifts. Solution to leach the gold from the ore will be disturbed by a buried drip irrigation system. Following the leaching process, precious metal will be removed from the solution in a carbon adsorption unit operation. The loaded carbon will be stripped and the strip solution will be subject to electrowinning. The resulting cathode gold will be produced into doré bullion bars.

Capacity of the heap pad is based on an average stacked ore density of 1.7 tonnes per cubic metre and a maximum heap height of 85 metres. The heap leach pad will be lined with a synthetic liner to maximize solution recovery and minimize the potential for impacting groundwater. Phase 1 of the heap leach pad will be constructed with a lined surface area of about 406,000 square metres which will provide a capacity of 15 million tonnes for the first three 10-metre lifts. Subsequent phases of pad expansion will provide a total leach pad area of about 846,000 square metres.

Solution will be collected by a drainage system placed above the synthetic pad liner, which will in-turn direct pregnant solution flows to a pregnant pond located at the south end of the leach pad. The pregnant pond will be constructed within the pad as an “internal pond.” Ore placed

within the pond will serve to insulate pregnant solution during cold winter months to prevent freezing of the solution.

During upset conditions, such as a power or pump outage, or a severe storm event, solution can flow by gravity from the pregnant pond to an external lined “event pond” located south of the pad and pregnant pond. The event pond will be 6 metres deep in addition to a 0.6 metre freeboard allocation (6.6 metres total depth) and has been sized to have a capacity of about 80,000 cubic metres below the freeboard depth.

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

### *Capital Cost Estimates*

In the Technical Report, it is envisaged that capital infrastructure development for the CSH 217 Gold Project will evolve in two phases. The first phase will involve construction of the initial heap leach facility, processing plant and limited mining equipment, as these operations will be contracted to a third party. Phase two will occur in year three, and will involve installation of a crushing system, installation of a second heap leach pad and acquisition of mining equipment to commence mining operations internally.

Capital costs for the first phase are estimated at approximately US\$32.5 million. This includes approximately US\$9 million in infrastructure costs such as power, water and buildings, US\$9.4 million for the heap leach facility, US\$5 million for the processing facility and a 12% contingency, that amounts to approximately US\$4 million. The capital cost for phase two is estimated at an additional US\$28.8 million, including approximately US\$14.2 million for the crushing plant, US\$7 million for the second heap leach pad and a 12% contingency amounting to approximately US\$3.1 million. Accordingly, the aggregate capital costs for the entire project are estimated at approximately US\$61.1 million.

<b>TOTAL INITIAL AND FUTURE SUSTAINING PROJECT COSTS</b>			
<b>Item</b>	<b>Plant Equipment US\$</b>	<b>Contracts &amp; Material US\$</b>	<b>TOTAL US\$</b>
Total Initial Project Cost	<b>6,622,672</b>	<b>29,809,279</b>	<b>36,431,951</b>
Total Sustaining Project Cost	<b>9,182,656</b>	<b>19,585,393</b>	<b>28,768,049</b>
Sunk Costs			<b>(4,070,159)</b>
<b>TOTAL INITIAL AND FUTURE SUSTAINING PROJECT COSTS</b>			<b>61,129,841</b>

### *Operating Costs*

Operating costs were developed in RMB and converted to U.S.\$ basis using an exchange rate of 8.0 RMB/U.S.\$



Operating costs were divided into three components, general and administrative ("G&A") expenses, mining operating costs and processing operating costs. Annual costs for G&A are estimated at approximately US\$3.6 million per year, or US\$0.54 per tonne of ore. Process cost for ROM and crushed oxide ore was estimated to be U.S.\$0.79 and U.S.\$1.19 per tonne, respectively, while the process cost for ROM and crushed sulphide ore was estimated to be approximately U.S.\$0.90 and U.S.\$1.54 per tonne, respectively. The process cost for the project is estimated at U.S.\$1.42 per tonne of ore. Finally, annual operating costs for mining operations were estimated to amount to, including contingency, approximately U.S.\$2.29 per tonne of ore.

The overall average cash operating cost was estimated at approximately U.S.\$253 per ounce for the first nine years. In years 10 to 12 this cost drops to approximately U.S.\$164 per ounce.

### *Financial Analysis*

In the Technical Report, the authors state that the project will result in negative net cash flow as a measure of capital and operating costs against revenue for the first four years. Thereafter, the project results in net positive cash flow, with an approximately U.S.\$10 million to \$20 million increase in net cash flow each year until year ten, when net cash flow is maximized at U.S.\$120 million.

Using a base case gold price of U.S.\$425 per ounce, the 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 US\$71 million. The chart below lists NPV based on varying discount rates and the estimated internal rate of return ("IRR"):

<b>Pre-Income Tax Net Present Value US\$ 425 per Ounce</b>	
<b>Discount Rate %</b>	<b>NPV US\$ X 1000</b>
0	120,613.17
5	71,278.01
8	51,952.55
10	41,959.47
15	24,047.00
20	12,849.33
Calc IRR	31.6%

The authors analyzed the sensitivity of the economic results as against a variety of factors, including the price of gold, gold recovery, gold grade, operating costs and capital costs. It was determined that the project is very sensitive to gold price and gold recovery, and somewhat less sensitive to capital and operating costs. A 10% change in gold price or recovery from the base case will result in greater than a 50% change in NPV. A 10% change in operating costs from the base case will result in an approximately 17% to 20% change in NPV. The other factors measured had little impact on NPV. As an example, in the Technical Report the authors record

the increase in NPV that occurs from an increase in the prevailing gold price to US\$600 per ounce (the approximate price of gold on the date the Technical Report was prepared) as follows:

<b>Pre-Tax Net Present Value – US\$ 600 per Ounce</b>	
<b>Discount Rate %</b>	<b>NPV US\$ x 1000</b>
0	321,615
5	211,618
8	167,016
10	143,407
15	99,631
20	70,661
Calc IRR	86.7%

## **Other Projects**

### ***Dadiangou Project***

The Dadiangou Project consists of a licensed area of 15 square kilometres 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.

On October 5, 2005, Jinshan announced it had signed a joint venture agreement with the Nuclear Industry Northwest Economic and Technology Company (the “Chinese Partner”) for the Dadiangou gold property (“Dadiangou Property”) in Gansu Province, China. The Dadiangou Property is located in the Qinling Fold Belt, a prolific gold producing region that trends west to east through the provinces of Gansu and Shaanxi in central China.

The joint-venture agreement allows Jinshan to earn a 71% interest in the joint venture by incurring exploration expenditures of approximately U.S.\$3.3 million and by making payments to the Chinese Partner of approximately U.S.\$1.3 million. Jinshan can further increase its ownership in the property to a minimum of 80% by conducting additional property expenditures of approximately U.S.\$2.8 million, which include payments to the Chinese Partner of approximately U.S.\$0.3 million. The Chinese Partner can then choose to participate at a 20% level for all further development and capital expenditures, or be diluted. The joint venture agreement is based in Chinese RMB and a conversion rate of 8.2 RMB to one US dollar is assumed.

The Dadiangou Property covers an area of 15 square kilometres and hosts multiple gold-bearing shear zones up to 50 metres wide over a potential strike length of 3,000 metres. Gold mineralization occurs in vertical lenses within the shear zones associated with quartz and sulfides (mostly pyrite). Native gold is reported to represent 85% of the total gold. Preliminary metallurgical test work by the Chinese Partner indicates that the mineralization is non-refractive.

The Chinese Partner has tested the gold mineralization with three exploration adits, including cross-cuts 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 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 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. Jinshan 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 U.S.\$1.5 million and will consist of surface drilling during the first year of exploration. Preparations are being made for a 5,000-metre surface drilling program using two drill rigs. Drilling is expected to commence in July 2006, once a business license is received for the Gansu joint venture company. The drilling is designed to delineate an initial NI 43-101 compliant mineral resource on the project.

### ***Xinjiang Projects***

Jinshan has acquired four exploration permits covering 153 square kilometres in Eastern Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China. The permits are held under a Chinese-Foreign Joint Venture in which Jinshan holds a 99% share and the partner, Yunnan Geological and Mining Co. Ltd. holds a 1% share. The state Ministry of Lands and Resources in Beijing granted the permits.

Field programs commenced in early March 2006 and by the end of April 2006, Jinshan had completed an initial phase of geological mapping and prospecting, with or without stream sediment geochemical sampling, on each of the four permits. More than 600 rock chips samples were collected during the course of geological mapping and prospecting, and submitted to SGS Laboratories in Tianjin, China for gold fire assay and multi-element geochemical analyses. Initial sample results have been received for gold and for some of the multi-element analyses.

Prospective parts of some of the permits, based on initial gold fire assay and multi-element geochemical results, will be followed up with geophysical surveys to define potential favourable structures and sulfide concentrations, respectively, followed by trenching with the intent of defining targets for drill testing in the second half of 2006.

### **Human Resources**

At December 31, 2005, Jinshan had 57 employees and consultants working at various locations.

	<b>Total Employees December 2005</b>	<b>Total Employees December 2004</b>
Vancouver	<b>11</b>	<b>7</b>
China	<b>38</b>	<b>20</b>
Other Consultants	<b>8</b>	<b>7</b>

## DESCRIPTION OF CAPITAL STRUCTURE

Jinshan’s authorized capital consists of two classes of equity securities, an unlimited number of Common Shares without par value, and an unlimited number of preferred shares without par value. As of July 7, 2006 Jinshan had 129,318,023 Common Shares issued and outstanding. All the issued Common Shares are fully paid and are not subject to any future call or assessment. All the issued Common Shares rank equally as to voting rights, participation and a distribution of Jinshan’s assets on liquidation, dissolution or winding-up and the entitlement to dividends. Holders of Common Shares are entitled to receive notice of, attend and vote at all meetings of shareholders of Jinshan. Each Common Share carries one vote at such meetings. Holders of Common Shares are entitled to dividends if and when declared by the directors and, upon liquidation, to receive such portion of the assets of Jinshan as may be distributable to such holders. As of July 7, 2006, there were no preferred shares issued and outstanding.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table shows selected consolidated financial information related to the Company for the periods indicated:

Selected Annual Information  
(stated in U.S. dollars except per share information)

	<b>Year Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Revenues	-	-
Loss from continuing operations	6,214,400	5,452,264
Loss from continuing operations per share	(0.12)	(0.11)
Total assets	17,117,815	7,000,990
Long-term debt	-	-
Net Loss	6,214,400	5,452,264
Net loss per share	(0.12)	(0.11)

## DIVIDENDS

Jinshan has not, since its incorporation, paid any dividends on any of its common shares. Jinshan has no present intention to pay dividends, but Jinshan’s Board of Directors will determine any future dividend policy on the basis of earnings, financial requirements and other relevant factors. See “Narrative Description of the Business – Risk Factors”.

## MARKET FOR SECURITIES

The common shares of Jinshan are traded in Canada on the TSX Venture Exchange (“TSX-V”) under the symbol JIN. The closing price of Jinshan’s common shares on the TSX-V on July 7, 2006 was \$1.06.

The following chart sets forth the high and low market prices and the volume of the common shares traded on the TSX-V during the periods indicated:

(stated in Canadian dollars)

	<b>High</b>	<b>Low</b>	<b>Volume</b>
Month ended June 30, 2006	1.24	0.88	2,654,276
Month ended May 31, 2006	1.60	1.01	6,639,995
Month ended April 30, 2006	1.56	1.06	8,186,262
Month ended March 31, 2006	1.35	0.95	2,352,051
Month ended February 28, 2006	1.28	0.68	3,816,821
Month ended January 31, 2006	0.85	0.55	2,820,091
Month ended December 31, 2005	0.64	0.47	2,006,130
Month ended November 30, 2005	0.59	0.47	1,018,621
Month ended October 31, 2005	0.65	0.46	555,317
Month ended September 30, 2005	0.79	0.52	1,813,257
Month ended August 31, 2005	0.66	0.51	687,344
Month ended July 31, 2005	0.65	0.47	1,087,992
Month ended June 30, 2005	0.50	0.42	733,032
Month ended May 31, 2005	0.49	0.385	906,355
Month ended April 30, 2005	0.59	0.405	802,048
Month ended March 31, 2005	0.75	0.51	2,213,915
Month ended February 28, 2005	0.63	0.41	1,162,969
Month ended January 31, 2005	0.64	0.40	3,923,650

## DIRECTORS AND OFFICERS

The name, Province or State of residence and position with the Company of each director and executive officer of the Company, and the principal business or occupation in which each director or executive officer has been engaged during the immediately preceding five years is as follows:

<b>Name, Place of Residence and Position with Company<sup>(1)</sup></b>	<b>Present and Principal Occupation during the last five years</b>	<b>Date of Appointment as Director</b>
Jay Chmelauskas President and Director B.C., Canada	President of the Company (March 2004 to present); Project Manager of the Company (April 2003 to March 2004); Financial Analyst of Methanex Corp. (methanol production) (August 2000 to June 2002); Engineer at Placer Dome Asia Pacific (mining company) (March 1999 to May 2000)	March 11, 2004
Peter G. Meredith Director B.C., Canada	Chief Financial Officer of Ivanhoe Capital Corp (venture capital corporation) (June 1996 to present); Chief Financial Officer and Director of Ivanhoe (June 1999 to November 2001 and May 2004 to present)	May 20, 2004
Y.B. Ian He Director B.C., Canada <sup>(2)(3)(4)</sup>	President of Spur Ventures Inc. (phosphate mining and fertilizer production in China) (August 1995 to present)	May 31, 2000
R. Edward Flood Director Idaho, USA	Deputy Chairman of Ivanhoe (May 1999 to present); President of Ivanhoe (August 1995 to May 1999)	June 2, 2002
Pierre B. Lebel Director B.C., Canada <sup>(2)(3)(4)</sup>	Chairman of the Company (May 20, 2004 to present); Chairman of Imperial Metals Corporation (mining company) (January 2003 to present); President of Imperial Metals Corporation (December 2001 to January 2003); President of IEI Energy Inc. (formerly	August 4, 2003

<b>Name, Place of Residence and Position with Company<sup>(1)</sup></b>	<b>Present and Principal Occupation during the last five years</b>	<b>Date of Appointment as Director</b>
	Imperial Metals Corporation) (1986 to March 2002)	
Daniel J. Kunz Director Idaho, USA <sup>(2)(3)(4)</sup>	President of US Geothermal Inc. (geothermal power development) (December 2003 to present); President of the Company (from February 13, 2003 to March 8, 2004); President and Chief Operating Officer of Ivanhoe (from February 2001 to February 2003 ); Chief Operating Officer of Ivanhoe (1998 to February 2001)	February 17, 2003
William Lee Chief Financial Officer B.C., Canada	Chief Financial Officer of the Company (January 1, 2006 to present); Business Analyst of Ivanhoe Energy Inc. (oil and gas company) & Ivanhoe (July 2004 to December 31, 2005), Chief Financial Officer & Director of The Grosso Group (mineral exploration and development) (1996 to April 2004); Director of Halo Resources Ltd. (mineral exploration and development) (February 2004 to present); Director of Tinka Resources Ltd. (mineral exploration and development) (October 2002 to present); Director of Rochester Resources Ltd. (mineral exploration and development) (September 1995 to present)	N/A
X.D. Jiang Vice President, Business Development B.C., Canada	Vice President of Business Development of the Company (May 20, 2004 to present); China Project Manager of the Company (July 2002 to May 20, 2004); Senior Geologist of First Quantum Minerals Ltd. (mineral exploration and development) (2000 to 2002)	N/A
Calvin McKee Chief Operating Officer Washington, USA	Chief Operating Officer of the Company (June 2006 to present); General Manager of Ningxia (November 2005 to June 2006); Project Executive – Central Asia/Europe of Newmont Mining Corporation (mining company) (July 2004 to September 2005); General Manager of Zarafshan (a joint venture involving Newmont Mining Corporation in Uzbekistan) (November 2003 to July 2004); General Manager of Newmont Mining Corporation (November 2001 to September 2005)	N/A
Beverly Bartlett Corporate Secretary B.C., Canada	Corporate Secretary of the Company (May 8, 2003 to present); Vice President and Corporate Secretary of Ivanhoe (May 2006 to present); Corporate Secretary of Ivanhoe (June 2001 to present); Corporate Secretary of Ivanhoe Energy Inc. (oil and gas company) (May 2001 to present); Corporate Secretary of Asia Gold Corp. (mineral exploration and development) (August 2003 to present).	N/A

- (1) The information as to country of residence, and principal occupation has been furnished by the respective directors and officers individually.
- (2) Denotes member of the audit committee.
- (3) Denotes member of the compensation and benefits committee.
- (4) Denotes member of the nominating and corporate governance committee.

Each director's term of office expires at the next annual general meeting of Jinshan.

#### *Shareholdings of Directors and Senior Officers*

As at July 7, 2006, the directors and executive officers, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 125,000 common shares of Jinshan representing approximately 0.10% of the outstanding common shares of Jinshan.

#### *Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions*

Pierre B. Lebel was President and a Director of IEI Energy Inc. (formerly Imperial Metals Corporation) when it voluntarily reorganized its debt and equity under a plan of arrangement pursuant to the *Company Act* (British Columbia) and the *Companies' Creditors Arrangement Act* (Canada) in 2002. The plan of arrangement received IEI Energy Inc. creditor and shareholder approval on March 7, 2002, Supreme Court of British Columbia approval on March 8, 2002 and was implemented on March 9, 2002. The reorganization created two public corporations that are listed for trading on the Toronto Stock Exchange, the new Imperial Metals Corporation, and IEI Energy Inc. (now Rider Resources Ltd.) an oil and gas company.

Other than as disclosed above, no director, officer or promoter of Jinshan has, within the last ten years: (i) been a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied Jinshan access to any statutory exemption for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person; or (ii) been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion or management of a publicly traded issuer or theft or fraud.

No director, officer or promoter of Jinshan, or a shareholder holding sufficient securities of Jinshan to affect materially the control of Jinshan, or a personal holding company of any such persons, has, within the 10 years preceding the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

#### *Conflicts of Interest*

Directors and officers of Jinshan may, from time to time, be involved with the business and operations of other mining issuers, in which case a conflict may arise. See "Narrative Description of the Business – Risk Factors" and "Interests of Management and Others in Material Transactions" for more details.

### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Jinshan is unaware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of any informed person of Jinshan, or any associate or affiliate of any informed person, in any transaction since the commencement of Jinshan's most recently

completed financial year or in any proposed transaction which has materially affected or would materially affect Jinshan or any of its subsidiaries other than the following:

Jinshan and Ivanhoe were previously parties to a joint venture agreement whereby substantially all of Jinshan's mineral projects were co-owned by Jinshan and Ivanhoe through joint ventures between the parties, including in particular Jinshan's most significant project, the CSH 217 Gold Project in China, which was held as to 48.25% by each of Jinshan and Ivanhoe. On December 5, 2005, Jinshan and Ivanhoe completed a restructuring transaction that effectively replaced the provisions of the joint venture agreement. Pursuant to the restructuring transaction, Jinshan acquired Ivanhoe's 48.25% participating interest in the CSH 217 Gold Project, Ivanhoe's interests in all other joint venture arrangements that had existed between the parties and Ivanhoe's existing contractual rights to participate with Jinshan in future mineral exploration and development opportunities in China. Ivanhoe also paid to Jinshan U.S.\$3,392,293 and reimbursed Jinshan for exploration expenditures in the amount of U.S.\$610,195. As consideration for the forgoing, Jinshan issued to Ivanhoe 48,552,948 common shares. The definitive agreement governing the restructuring transaction also includes an agreement between the parties to establish, subject to certain conditions, an exclusion zone extending 25 kilometres from the outer perimeter of each party's existing Inner Mongolia, China mineral projects.

The transaction was approved at a special meeting of Jinshan's shareholders at which the minority shareholders voted 94% in favour of the transaction. As a result of the transaction, Ivanhoe ownership increased to approximately 69% of the issued and outstanding common shares of Jinshan, with such percentage being reduced to approximately 53% as at the date of this AIF primarily as a result of recent financing activities.

Certain administrative costs are paid to Global Mining Management ("GMM") for corporate secretarial, accounting, investor relations and administrative services performed on behalf of Jinshan. 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 that GMM provides are incurred on an as-used basis. Jinshan has used the services of GMM staff and office since April 1, 2003.

#### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for Jinshan is CIBC Mellon Trust Company, Vancouver, British Columbia, Canada.

#### **MATERIAL CONTRACTS**

Reference is made to the material contracts that Jinshan has filed with the Canadian securities regulatory authorities on the SEDAR website at [www.sedar.com](http://www.sedar.com).

Below are the particulars of each contract, other than those entered into in the ordinary course of business, that is material to Jinshan and was entered into between January 2005 and the date of this AIF or was entered into before that date but is still in effect. No disclosure is made regarding any contract that was entered into prior to January 1, 2002.



1. Co-Operative Joint Venture Contract between Brigade 217 and Pacific Gold Mining Inc. dated April 5, 2002 to establish Ningxia. This is the joint venture agreement that relates to the CSH 217 Gold Project. See “General Development of Business - History” for more details.
2. Assignment Agreement between Yunnan Platinum and Paladium Inc. and Yunnan Geology & Mineral Resources Company Limited dated March 21, 2005. Pursuant to this Agreement, Jinshan and Ivanhoe sold their interest in the JBS Joint Venture Company back to the Chinese partner for U.S.\$1.4 million. See “General Development of Business - History” for more details.
3. Co-Operative Joint Venture Contract between Nuclear Industry Northwest Economic and Technology Company and Gansu Mining Company Ltd. dated September 16, 2005 to establish Lanzhou Pacific Mining Company. This is a joint venture agreement that establishes Jinshan’s right to earn an interest in the Dadiangou Property.
4. 2005 Reorganization Agreement between Jinshan and Ivanhoe dated October 24, 2005. This agreement effected the Restructuring Transaction. See “General Development of Business - History” for more details.

## **INTERESTS OF EXPERTS**

The following table lists the names of experts who provided certified statements or reports to certain disclosure provided in this AIF, the subject matter of the certified statements or reports and the number of registered or beneficial interests, direct or indirect, in any securities held by the expert and, if applicable, its designated professionals, in the capital of Jinshan and its affiliates and associates, to the knowledge of the Company:

<b>Name</b>	<b>Qualified Person with respect to</b>	<b># of Securities held</b>
Mario Rossi GeoSystems International Inc.	Qualified person with respect to the Technical Report	0
Joseph M. Keane Principal, KD Engineering Inc.	Qualified person with respect to the Technical Report	0
John Nilsson NMS	Qualified person with respect to the Technical Report	0
Russell Brown Senior Project Associate Golder Associates	Qualified person with respect to the Technical Report	0
Deloitte & Touche LLP	Jinshan’s independent auditor	0

## **ADDITIONAL INFORMATION**

Additional information, including information related to directors’ and officers’ remuneration and indebtedness, principal holders of Jinshan’s securities, options to purchase securities, and interests of insiders in material transactions, is contained in Jinshan’s information circular for the 2006 Annual General Meeting of Shareholders held on May 25, 2006. Additional financial information is provided in Jinshan’s audited financial statements and MD&A for the fiscal period ended December 31, 2005. Copies of the information circular, financial statements and

MD&A can be obtained upon request from Jinshan at 654 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1 or on SEDAR at [www.sedar.com](http://www.sedar.com).

## **SCHEDULE A**

### **AUDIT COMMITTEE MATTERS**

#### **Mandate**

The mandate of the Audit Committee is to oversee Jinshan's financial reporting obligations, systems and disclosure, including monitoring the integrity of Jinshan's financial statements, monitoring the independence and performance of Jinshan's external auditors and acting as a liaison between the Board of Directors and Jinshan's auditors. The activities of the Audit Committee typically include reviewing interim financial statements and annual financial statements, ensuring that internal controls over accounting and financial systems are maintained and that accurate financial information is disseminated to shareholders, reviewing the results of internal and external audits and any change in accounting procedures or policies, and evaluating the performance of Jinshan's auditors. The Audit Committee communicates directly with Jinshan's external auditors in order to discuss audit and related matters whenever appropriate.

#### ***I. Audit Committee Charter***

##### **I. Purpose**

The primary objective of the Audit Committee (the "Committee") of Jinshan is to act as a liaison between Jinshan's board of directors (the "Board") and Jinshan's independent auditors (the "Auditors") and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by Jinshan to its shareholders, the public and others, (b) Jinshan's compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the Auditors and (d) Jinshan's risk management and internal financial and accounting controls, and management information systems.

Although the Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of Jinshan and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that Jinshan's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the Auditors.

The responsibilities of a member of the Committee are in addition to such member's duties as a member of the Board.

##### **II. Organization**

Members of the committee shall be directors and Committee membership shall satisfy the laws governing Jinshan and the independence, financial literacy, expertise and experience requirements under applicable securities laws, and stock exchange and any other regulatory requirements applicable to Jinshan.

The members of the Committee and the Chair of the Committee shall be appointed by the Board on the recommendation of the Nominating & Governance Committee. A majority of the members of the Committee shall constitute a quorum. A majority of the members of the Committee shall be empowered to act on behalf of the Committee. Matters decided by the Committee shall be decided by majority votes. The chair of the Committee shall have an ordinary vote.

Any member of the Committee may be removed or replaced at any time by the Board and shall cease to be a member of the Committee as soon as such member ceases to be a director.

The Committee may form and delegate authority to subcommittees when appropriate.

### **III. Meetings**

The Committee shall meet as frequently as circumstances require, but not less frequently than four times per year. The Committee shall meet at least quarterly with management, Jinshan's financial and accounting officer(s) and the Auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

The Chair of the Committee shall be an independent chair who is not Chair of the Board. In the absence of the appointed Chair of the Committee at any meeting, the members shall elect a chair from those in attendance at the meeting. The Chair, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each upcoming meeting.

The Committee will appoint a Secretary who will keep minutes of all meetings. The Secretary may also be the Chief Financial Officer, Jinshan's Corporate Secretary or another person who does not need to be a member of the Committee. The Secretary for the Committee can be changed by simple notice from the Chair. The Chair shall ensure that the agenda for each upcoming meeting of the Committee is circulated to each member of the Committee as well as the other directors in advance of the meeting.

The Committee may invite, from time to time, such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. Jinshan's accounting and financial officer(s) and the Auditors shall attend any meeting when requested to do so by the Chair of the Committee.

### **IV. Authority and Responsibilities**

The Board, after consideration of the recommendation of the Committee, shall nominate the Auditors for appointment by the shareholders of Jinshan in accordance with applicable law. The Auditors report directly to the Audit Committee. The Auditors are ultimately accountable to the Committee and the Board as representatives of the shareholders.

The Committee shall have the following responsibilities:

#### **(a) Auditors**

Recommend to the Board the independent auditors to be nominated for appointment as Auditors of Jinshan at Jinshan's annual meeting and the remuneration to be paid to the Auditors for services performed during the preceding year; approve all auditing services to be provided by the Auditors; be responsible for the oversight of the work of the Auditors, including the resolution of disagreements between management and the Auditors regarding financial reporting; and recommend to the Board and the shareholders the termination of the appointment of the Auditors, if and when advisable.

When there is to be a change of the Auditor, review all issues related to the change, including any notices required under applicable securities laws, and stock exchange or other regulatory requirements, and the planned steps for an orderly transition.

Review the Auditor's audit plan and discuss the Auditor's scope, staffing, materiality, and general audit approach.

Review on an annual basis the performance of the Auditors, including the lead audit partner.

Take reasonable steps to confirm the independence of the Auditors, which include:

(a) Ensuring receipt from the Auditors of a formal written statement in accordance with applicable regulatory requirements delineating all relationships between the Auditors and Jinshan;

(b) Considering and discussing with the Auditors any disclosed relationships or services, including non-audit services, that may impact the objectivity and independence of the Auditors;

(c) Approving in advance any non-audit related services provided by the Auditor to Jinshan, and the fees for such services, with a view to ensure independence of the Auditor, and in accordance with applicable regulatory standards, including applicable stock exchange requirements with respect to approval of non-audit related services performed by the Auditors; and

(d) As necessary, taking or recommending that the Board take appropriate action to oversee the independence of the Auditors.

Review and approve any disclosures required to be included in periodic reports under applicable securities laws, and stock exchange and other regulatory requirements with respect to non-audit services provided by the Auditors.

Confirm with the Auditors and receive written confirmation at least once per year as to (i) the Auditor's internal processes and quality control procedures; and (ii) disclosure of any material issues raised by the most recent internal quality control review, or per review within the preceding five years respecting an independent audit carried out by the Auditors or investigations or government or professional enquiries, reviews or investigations of the Auditors within the last five years.

Consider the tenure of the lead audit partner on the engagement in light of applicable securities laws, and stock exchange or applicable regulatory requirements.

Review all reports required to be submitted by the Auditors to the Committee under applicable securities laws, stock exchange or other regulatory requirements.

Receive all recommendations and explanations which the Auditors place before the Committee.

**(b) *Financial Statements and Financial Information***

Review and discuss with management, the financial and accounting officer(s) and the Auditors, Jinshan's annual audited financial statements, including disclosures made in management's discussion and analysis, prior to filing or distribution of such statements and recommend to the Board, if appropriate, that Jinshan's audited financial statements be included in Jinshan's annual reports distributed and filed under applicable laws and regulatory requirements.

Review and discuss with management, the financial and accounting officer(s) and the Auditors, Jinshan's interim financial statements, including management's discussion and analysis, and the Auditor's review of interim financial statements, prior to filing or distribution of such statements.

Review any earnings press releases of Jinshan before Jinshan publicly discloses this information.

Be satisfied that adequate procedures are in place for the review of Jinshan's disclosure of financial information and extracted or derived from Jinshan's financial statements and periodically assess the adequacy of these procedures.

Discuss with the Auditor the matters required to be discussed by applicable auditing standards requirements relating to the conduct of the audit including:

the adoption of, or changes to, Jinshan's significant auditing and accounting principles and practices;

the management letter provided by the Auditor and Jinshan's response to that letter; and

any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, or personnel and any significant disagreements with management.

16. Discuss with management and the Auditors major issues regarding accounting principles used in the preparation of Jinshan's financial statements, including any significant changes in Jinshan's selection or application of accounting principles. Review and discuss analyses prepared by management and/or the Auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative approaches under generally accepted accounting principles.

17. Review any report under applicable securities laws, and stock exchange or other regulatory requirements, including any reports required to be included in statutory filings, including in Jinshan's annual proxy statement.

**(c) *Ongoing Reviews and Discussions with Management and Others***

Obtain and review an annual report from management relating to the accounting principles used in the preparation of Jinshan's financial statements, including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof.

Periodically review separately with each of management, the financial and accounting officer(s) and the Auditors; (a) any significant disagreement between management and the Auditors in connection with the preparation of the financial statements, (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information and (c) management's response to each.

Periodically discuss with the Auditors, without management being present, (a) their judgments about the quality and appropriateness of Jinshan's accounting principles and financial disclosure practices as applied in its financial reporting and (b) the completeness and accuracy of Jinshan's financial statements.

Consider and approve, if appropriate, significant changes to Jinshan's accounting principles and financial disclosure practices as suggested by the Auditors or management and the resulting financial statement impact. Review with the Auditors or management the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.

Review and discuss with management, the Auditors and Jinshan's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on Jinshan's financial statements, including applicable changes in accounting standards or rules, or compliance with applicable laws and regulations, inquiries received from regulators or government agencies and any pending material litigation.

Enquire of Jinshan's financial and accounting officer(s) and the Auditors on any matters which should be brought to the attention of the Committee concerning accounting, financial and operating practices and controls and accounting practices of Jinshan.

Review the principal control risks to the business of Jinshan, its subsidiaries and joint ventures; and verify that effective control systems are in place to manage and mitigate these risks.

Review and discuss with management any earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as any financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e., discussion of the types of information to be disclosed and the types of presentations made).

Review and discuss with management any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of Jinshan with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses. Obtain explanations from management of all significant variances between comparative reporting periods.

Review and discuss with management Jinshan's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including Jinshan's risk assessment and risk management guidelines and policies.

**(d) Risk Management and Internal Controls**

Review, based upon the recommendation of the Auditors and management, the scope and plan of the work to be done by Jinshan's financial and accounting group and the responsibilities, budget and staffing needs of such group.

Ensure that management has designed and implemented effective systems of risk management and internal controls and, at least annually, review the effectiveness of the implementation of such systems.

Approve and recommend to the Board for adoption policies and procedures on risk oversight and management to establish an effective system for identifying, assessing, monitoring and managing risk.

In consultation with the Auditors and management, review the adequacy of Jinshan's internal control structure and procedures designed to insure compliance with laws and regulations, and discuss the responsibilities, budget and staffing needs of Jinshan's financial and accounting group.

Establish procedures for (a) the receipt, retention and treatment of complaints received by Jinshan regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of Jinshan of concerns regarding questionable accounting or auditing matters.

Review the internal control reports prepared by management, including management's assessment of the effectiveness of Jinshan's internal control structure and procedures for financial reporting and (ii) the Auditors' attestation, and report, on the assessment made by management.

Review the appointment of the chief financial officer and any key financial executives involved in the financial reporting process and recommend to the Board any changes in such appointment.

**(e) Other Responsibilities**

35. Create an agenda for the ensuing year.

36. Review and approve related-party transactions if required under applicable securities laws, and stock exchange or other regulatory requirements.

37. Review and approve (a) any change or waiver in Jinshan's code of ethics applicable to senior financial officers and (b) any disclosures made under applicable securities laws, and stock exchange or other regulatory requirements regarding such change or waiver.

38. Establish, review and approve policies for the hiring of employees or former employees of Jinshan's Auditors.



39. Review and reassess the duties and responsibilities set out in this Charter annually and recommend to the Nominating and Corporate Governance Committee and to the Board any changes deemed appropriate by the Committee.
40. Review its own performance annually, seeking input from management and the Board.
41. Perform any other activities consistent with this Charter, Jinshan's constating documents and governing law, as the Committee or the Board deems necessary or appropriate.

## **V. Reporting**

The Committee shall report regularly to the Board and shall submit the minutes of all meetings of the Audit Committee to the Board (which minutes shall ordinarily be included in the papers for the next full board meeting after the relevant meeting of the Committee). The Committee shall also report to the Board on the proceedings and deliberations of the Committee at such times and in such manner as the Board may require. The Committee shall review with the full Board any issues that have arisen with respect to the quality or integrity of Jinshan's financial statements, Jinshan's compliance with legal or regulatory requirements, the performance or independence of the Auditors or the performance of Jinshan's financial and accounting group.

## **VI. Resources and Access to Information**

The Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Committee.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities. The Committee has direct access to anyone in the organization and may request any officer or employee of Jinshan or Jinshan's outside counsel or the Auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee with or without the presence of management. In the performance of any of its duties and responsibilities, the Committee shall have access to any and all books and records of Jinshan necessary for the execution of the Committee's obligations.

The Committee shall consider the extent of funding necessary for payment of compensation to the Auditors for the purpose of rendering or issuing the annual audit report and recommend such compensation to the Board for approval. The Audit Committee shall determine the funding necessary for payment of compensation to any independent legal, accounting and other consultants retained to advise the Committee.

### **2. *Composition of the Audit Committee***

Jinshan's Committee consists of Messrs. Pierre Lebel, Daniel Kunz and Ian He. Mr. Kunz is the Chairman of the Committee. The Board of Directors has determined that all members of the Audit Committee are "independent" and all members are "financially literate" as defined in Multilateral Instrument 52-110.

### **3. Relevant Education and Experience**

Dan Kunz holds a Masters Degree in Business Administration and a diploma in accounting. Each of the members of the Audit Committee has had several years' experience as a senior executive and a member of the board of directors of significant business enterprises in which they have assumed substantial financial and operational responsibility. In the course of these duties, the members have gained expertise in analyzing and reviewing financial statements, understanding the basis upon which accounting principles are applied, the process of preparing financial statements and the nature of internal controls and procedures.

### **4. Audit Committee Oversight**

At no time since the commencement of Jinshan's most recently completed financial year has a recommendation of the Committee to nominate or compensate an external auditor not been adopted by the Board.

### **5. Reliance on Certain Exemptions**

Other than as otherwise disclosed herein, at no time since the commencement of Jinshan's most recently completed financial year has Jinshan relied on an exemption under section 2.4 (*De Minimus Non-audit Services*) of MI 52-110 or an exemption granted under Part 8 of MI 52-110.

### **6. Pre-Approval Policies and Procedures**

All services to be performed by Jinshan's independent auditor must be approved in advance by the Committee or the Designated Member.

The Committee has considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence and has adopted a policy governing the provision of these services. This policy requires the pre-approval by the Committee or the Designated Member of all audit and non-audit services provided by the external auditor, other than any *de minimus* non-audit services allowed by applicable law or regulation. The decision of the Designated Member to pre-approve a permitted service needs to be reported to the Committee at its regularly scheduled meetings.

Pre-approval from the Committee or the Designated Member can be sought for planned engagements based on budgeted or committed fees. No further approval is required to pay pre-approved fees. Additional pre-approval is required for any increase in scope or in final fees.

### **7. External Auditor Service Fees (By Category)**

Deloitte & Touche LLP, Chartered Accountants, has served as Jinshan's auditing firm since May 31, 2000. Fees billed by Deloitte & Touche LLP, Chartered Accountants, during 2005 and 2004 were Cdn \$100,482 and Cdn \$83,500 respectively. The aggregate fees billed by the auditors in fiscal 2005 and fiscal 2004 are detailed below.

<i>(Canadian \$ in 000)</i>	<u>2005</u>	<u>2004</u>
Audit Fees (a)	\$100	\$84

All Other Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
TOTAL	<u>\$100</u>	<u>\$84</u>

a) Fees for audit services billed relating to fiscal 2005 and fiscal 2004 consisted of:

audit of Jinshan's annual statutory financial statements

reviews of Jinshan's quarterly financial statements, comfort letters, consents, and other services related to Canadian securities regulatory authorities' matters

**8. Exemption**

Jinshan is relying on the exemption in section 6.1 of MI 52-110, which exempts TSX-V issuers from the requirements of Part 3 (*Composition of the Audit Committee*) and Part 5 (*Reporting Obligations*) of MI 52-110.