



Consolidated interim financial statements of

Jinshan Gold Mines Inc.

March 31, 2009
(Unaudited)

*Amended to reflect adjustments for the conversion to
International Financial Reporting Standards.*

*These consolidated interim financial statements have not been
reviewed by the Company's independent auditor,
Deloitte & Touche LLP*

Amended Unaudited Consolidated Financial Statements

These amended unaudited consolidated financial statements of Jinshan Gold Mines Inc. (the “Company”) for the three months ended March 31, 2009 reflect the Company’s adoption of International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Company’s Board of Directors originally approved the unaudited consolidated financial statements for the three months ended March 31, 2009 on May 5, 2009 and those financial statements were filed on May 5, 2009. Those financial statements were prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) in Canada. Except for changes related to the Company’s adoption of IFRS, these amended unaudited consolidated financial statements do not reflect events occurring after May 5, 2009. These amended unaudited consolidated financial statements supersede the Company’s original filing.

Jinshan Gold Mines Inc.

March 31, 2009

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Jinshan Gold Mines Inc.

Consolidated interim statements of comprehensive income three month periods ended March 31,

(Stated in U.S. dollars)

(Unaudited)

	Notes	Three months ended March 31,	
		2009	2008
		\$	\$
			(Note 21)
Revenues		7,685,989	-
Cost of sales			
Cost of sales excluding depreciation and depletion		4,047,818	-
Depreciation and depletion		1,241,386	-
		5,289,204	-
Mine operating earnings		2,396,785	-
Expenses			
General and administrative		970,151	1,784,235
Exploration and evaluation expenditure		326,646	1,298,520
		1,296,797	3,082,755
Income (loss) from operations		1,099,988	(3,082,755)
Other income (expenses)			
Foreign exchange gain		2,784,365	1,244,891
Interest income		2,053	95,781
Fair value change on warrant liabilities	14	(271,612)	5,329,906
Finance costs	6	(1,273,050)	(138,505)
		1,241,756	6,532,073
Net income and comprehensive income for the period		2,341,744	3,449,318
Attributable to			
Non-controlling interest		73,289	-
Owners of the Company		2,268,455	3,449,318
		2,341,744	3,449,318
Basic earnings per share	7	0.01	0.02
Diluted earnings (loss) per share	7	0.01	0.02
Basic weighted average number of common shares outstanding	7	163,889,159	158,681,013
Diluted weighted average number of common shares outstanding	7	163,896,786	158,681,013

Jinshan Gold Mines Inc.

Consolidated interim statements of financial position

(Stated in U.S. dollars)

(Unaudited)

	Notes	March 31, 2009	December 31, 2008
		\$	\$
			(Note 21)
Current assets			
Cash and cash equivalents		5,106,524	12,142,739
Restricted cash	8	-	5,215,704
Accounts receivable		77,311	148,771
Prepaid expenses and deposits	9	6,518,224	7,176,502
Amount due from a shareholder		97,453	-
Inventory	10	30,472,034	27,644,767
		42,271,546	52,328,483
Non-current assets			
Property, plant and equipment	11	82,192,493	66,982,216
Total assets		124,464,039	119,310,699
Current liabilities			
Accounts payable and accrued expenses		23,361,569	18,932,644
Customer advances		16,812,865	-
Borrowings	12	22,642,640	41,603,514
		62,817,074	60,536,158
Non-current liabilities			
Borrowings	12	14,703,299	14,929,121
Warrant liabilities	14	546,119	274,507
Environmental rehabilitation	13	4,490,891	4,131,735
		19,740,310	19,335,363
Total liabilities		82,557,384	79,871,521
Owners' equity			
Share capital	14	90,384,469	90,384,469
Equity reserve		5,010,533	4,884,800
Deficit		(53,857,367)	(56,125,822)
		41,537,635	39,143,447
Non-controlling interest		369,020	295,731
Total owners' equity		41,906,655	39,439,178
Total liabilities and owners' equity		124,464,039	119,310,699

Approved and authorized for issue by the Board on March 23, 2010

"Xin Song"

Director

"Zhanming Wu"

Director

Jinshan Gold Mines Inc.

Consolidated interim statements of changes in equity

(Stated in U.S. dollars)

(Unaudited)

	Notes	Number of shares	Share capital \$	Equity reserve \$	Deficit \$	Subtotal \$	Non- controlling interest \$	Total owners' equity (deficit) \$
Balance, December 31, 2007		156,561,424	76,281,053	4,271,321	(70,706,334)	9,846,040	-	9,846,040
Shares issued for								
Exercise of warrants	14	5,407,167	11,661,776	-	-	11,661,776	-	11,661,776
Exercise of stock options	14	1,920,568	2,441,640	(1,027,931)	-	1,413,709	-	1,413,709
Stock-based compensation		-	-	1,641,410	-	1,641,410	-	1,641,410
Net income and comprehensive income		-	-	-	14,580,512	14,580,512	295,731	14,876,243
Balance, December 31, 2008		163,889,159	90,384,469	4,884,800	(56,125,822)	39,143,447	295,731	39,439,178
Shares issued for								
Stock-based compensation		-	-	125,733	-	125,733	-	125,733
Net income and comprehensive income		-	-	-	2,268,455	2,268,455	73,289	2,341,744
Balance, March 31, 2009		163,889,159	90,384,469	5,010,533	(53,857,367)	41,537,635	369,020	41,906,655
Balance, December 31, 2007		156,561,424	76,281,053	4,271,321	(70,706,334)	9,846,040	-	9,846,040
Shares issued for								
Exercise of warrants		3,457,167	5,616,105	-	-	5,616,105	-	5,616,105
Exercise of stock options		490,668	702,594	(310,839)	-	391,755	-	391,755
Stock-based compensation		-	-	640,842	-	640,842	-	640,842
Net income and comprehensive income		-	-	-	3,449,318	3,449,318	-	3,449,318
Balance, March 31, 2008		160,509,259	82,599,752	4,601,324	(67,257,016)	19,944,060	-	19,944,060

Consolidated interim statements of cash flows
three month periods ended March 31,

(Stated in U.S. dollars)

(Unaudited)

	Notes	2009	2008
		\$	\$
			(Note 21)
Operating activities			
Net income and comprehensive income for the period		2,341,744	3,449,318
Items not requiring use of cash and cash equivalents			
Depreciation		1,247,045	3,913
Fair value change on warrant liabilities		271,612	(5,329,905)
Finance costs		1,273,050	138,505
Stock-based compensation		125,733	640,842
Unrealized foreign exchange gain		(1,286,041)	(1,131,419)
Change in non-cash operating working capital items			
Accounts receivable		(52,354)	(105,555)
Prepaid expenses and deposits		658,278	(812,898)
Amount due from a shareholder		(97,453)	-
Inventory		(2,886,299)	(187,047)
Accounts payable and accrued liabilities		461,903	(4,286,720)
		2,057,219	(7,620,966)
Cash generated from operations			
Interest paid		(1,699,376)	(2,977,351)
Net cash flows from operating activities		357,842	(10,598,317)
Investing activities			
Property, plant and equipment additions		(10,486,349)	(7,966,004)
Proceeds from sale of pre-commercial gold production		-	10,927,703
Restricted cash deposits paid	8	-	(14,001,645)
Restricted cash deposits received	8	5,215,704	-
Net cash flows from investing activities		(5,270,645)	(11,039,946)
Financing activities			
Issuance of common shares		-	5,517,143
Customer advances		16,812,865	-
Short-term loan repayment		(18,909,916)	-
Net cash flows from financing activities		(2,097,051)	5,517,143
Effect of foreign exchange rate changes on cash and cash equivalents		(26,361)	(398,106)
Net decrease in cash and cash equivalents		(7,036,215)	(16,519,227)
Cash and cash equivalents, beginning of period		12,142,739	26,952,425
Cash and cash equivalents, end of period		5,106,524	10,433,198
Cash and cash equivalents are comprised of			
Cash in bank		5,106,524	10,394,040
Bank short-term deposits		-	39,158
		5,106,524	10,433,198

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

1. General business description

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

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

The Financial Information is presented in United States Dollars ("\$") which is the functional currency of the principal subsidiaries.

2. Basis of preparation

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

These are the Company's first IFRS consolidated interim financial statements for part of the period covered by the Company's first IFRS consolidated annual financial statements for the year ending December 31, 2009. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The interim financial statements were prepared on a going concern basis, under the historical cost convention. The Company has net current liabilities of \$20,545,529 and has an accumulated deficit of \$53,857,367 as at March 31, 2009. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from the Chang Shan Hao Gold Mine ("CSH Gold Mine"). The Company is monitoring cash flows generated from operations at the CSH Gold Mine against cash requirements for its operating costs, to fund other ongoing expenses, for capital expansion plans and for future business opportunities. The Company is also reviewing this in the context of loans that have been secured to finance the development and operations of the CSH Gold Mine as of March 31, 2009. At March 31, 2009, these loans include \$37,345,939 (Cdn\$50,000,000) (see Note 12 principal amount of senior unsecured promissory notes), of which \$ 22,642,640 (Cdn\$30,000,000) principal amount falls due in December 2009 and \$14,703,299 (Cdn\$20,000,000) principal amount falls due in June 2010, and trade credit extension by the Company's substantial shareholder, CNG, of \$16,812,865 (see Note 15).

Even in the context of increased financial performance at the CSH Gold Mine, the Company does not expect that cash flow from the CSH Gold Mine will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. If current market conditions and tightening credit markets persist for an extended time, they could negatively affect the Company's ability to obtain equity financing or external debt financing. There can be no assurance that additional funding will be available to the Company or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may be required to delay or reduce the scope of any or all of its development projects.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

3. Adoption of new and revised International Financial Reporting Standards

The International Accounting Standards Board (“IASB”) has issued a number of new and revised International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and related Interpretations (“IFRICs”) (hereinafter collectively referred to as the “new IFRSs”) which are effective for the Company’s financial year beginning on January 1, 2009 except for IFRIC 18 Transfer of Assets from Customers which is only effective for transfers on or after July 1, 2009. For the purpose of preparing and presenting consolidated interim financial statements, the Company has consistently early adopted all these new IFRSs for the periods presented.

At the date of authorization of these financial statements, the IASB has issued the following new and revised standards, amendment and interpretations which are not yet effective during the Relevant Periods.

- IFRSs (Amendments) (Revised) Improvements to IFRS 5 as part of Improvements to IFRSs 2008⁽ⁱ⁾
- IFRSs (Amendments) (Revised) Improvements to IFRSs issued in 2009⁽ⁱⁱ⁾
- IAS 24 (Revised) Related Party Disclosures⁽ⁱⁱⁱ⁾
- IAS 27 (January 2008) (Revised) Consolidated and Separate Financial Statements⁽ⁱ⁾
- IAS 32 (Amendment) Classification of Rights Issues^(iv)
- IAS 39 (Amendment) Eligible Hedged Items⁽ⁱ⁾
- IFRS 2 (Amendment) Group Cash-settled Share-based Payment Transactions^(v)
- IFRS 3 Business Combinations⁽ⁱ⁾
- IFRS 9 Financial Instruments^(vi)
- IFRIC 14 (Amendment) Prepayments of a Minimum Funding Requirement⁽ⁱⁱⁱ⁾
- IFRIC 17 Distributions of Non-cash Assets to Owners⁽ⁱ⁾
- IFRIC 18 Transfers of Assets from Customers^(vii)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments^(viii)

⁽ⁱ⁾ Effective for annual periods beginning on or after July 1, 2009

⁽ⁱⁱ⁾ Amendments that are effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, as appropriate

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

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

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

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

^(vii) Effective for transfers on or after July 1, 2009

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

The Company anticipates that the application of these standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Company.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies

The consolidated interim financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

(a) *Basis of consolidation*

These consolidated interim financial statements include the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interest in the net assets of consolidated subsidiaries is identified separately from the Company's equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of their interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

(b) *Foreign currencies*

The Company's presentation currency and the functional currency of all of its operations is the U.S. dollar as this is the principal currency of the economic environment in which they operate.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(c) *Revenue recognition*

Revenue from the sale of gold is recognized when there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Company, the quantity and quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured. This is generally when title passes and the goods have been delivered to a contractually agreed location.

Revenue is commonly subject to adjustment based on an inspection of the product by the customer. In such cases, revenue is initially recognized on a provisional basis using the Company's best estimate of contained metal and adjusted subsequently.

Revenue is not reduced for other taxes payable from the Company's production.

Interest income is recognized in the consolidated interim statement of comprehensive income as it accrues, using the effective interest method.

(d) *Share-based payments*

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The board of directors grants such options for periods of up to six years, with vesting periods determined at its sole discretion and at prices equal to the weighted average price of the common shares for the five days on which they were funded immediately preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Where the terms of a stock option is modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the stock-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

(e) *Borrowing costs*

Borrowing costs are generally expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use.

Borrowing costs are capitalized up to the date where the asset is ready for its intended use. The amount of borrowing costs capitalized (before the effects of income tax) for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capitalized expenditure for the qualifying assets during the period.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(f) *Income taxes*

The tax expense represents the sum of the current tax charge and the movement in deferred tax.

The tax currently payable is based on taxable income for the period. Taxable income differs from net income as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither the tax profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investment in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is adjusted to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credit directly to other comprehensive income, in which case the deferred tax is also taken directly to other comprehensive income.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(g) *Earnings (loss) per share*

Basic earnings (loss) per share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of shares outstanding during the reporting period.

Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that (i) net earnings (loss) attributable to common shareholders are adjusted for fair value gains or losses of warrants (if dilutive) and (ii) the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants (if dilutive).

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(g) *Earnings (loss) per share (continued)*

The number of additional shares is calculated by assuming that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common stock at the average market price during the reporting periods.

(h) *Business combinations*

The acquisitions of businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss after re-assessment.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

(i) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

(j) *Inventory*

Gold in process inventory consists of gold contained in the ore on leach pads and in-circuit material within processing operations. Gold doré is gold awaiting refinement. Gold inventories are valued at the lower of average production cost or net realizable value.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(j) *Inventory (continued)*

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimated selling price per ounce of gold is determined by the average of predicted future gold prices over the next twelve months. The estimated costs of completion are refining costs which are determined based on current refining costs per ounce of gold charged by its customers. Consequently, there are no additional selling costs.

(i) Gold in process inventory

Production costs are capitalized and included in gold in process inventory based on the current mining and processing cost incurred up to the point prior to the refining process including the cost of raw materials and direct labour; mine-site overhead expenses; and allocated indirect costs, including depreciation and depletion of mining interests, and removed at the average production cost per recoverable ounce of gold.

(ii) Gold doré inventory

The recovery of gold from ore is achieved through a heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution which dissolves the gold contained in the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. For accounting purposes, costs are added to ore on leach pads using current mining and leaching costs, including applicable depreciation and depletion relating to mining interests. Costs are removed from ore on leach pads as ounces of gold are recovered based on the average cost per recoverable ounce on the leach pad. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured in tonnes added to the leach pads), the grade of the ore placed on the leach pads (based on assay data), and a recovery percentage (based on ore type).

Consumables used in operations, such as fuel, chemicals, and reagents and spare parts inventory are valued at the lower of cost or net realizable value.

(k) *Property, plant and equipment*

(i) General

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(k) *Property, plant and equipment (continued)*

(i) General (continued)

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment at the end of each financial reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

All direct costs related to the acquisition of mineral property interests are capitalized, at their cost at the date of acquisition, by property.

(ii) Exploration and evaluation expenditure

Drilling and related costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are exploration and evaluation expenditures and are expensed as incurred to the date of establishing that costs incurred are economically recoverable. Further exploration and evaluation expenditures, subsequent to the establishment of economic recoverability, are capitalized and included in the carrying amount of the mineral assets.

Management evaluates the following criteria in its assessments of economic recoverability and probability of future economic benefit:

- **Geology** - whether or not there is sufficient geologic and economic certainty of being able to convert a residual mineral deposit into a proven and probable reserve at a development stage or production stage mine, based on the known geology and metallurgy. A history of conversion of resources to reserves at operating mines to support the likelihood of conversion.
- **Scoping** - there is a scoping study or preliminary feasibility study that demonstrates the additional resources will generate a positive commercial outcome. Known metallurgy provides a basis for concluding there is a significant likelihood of being able to recoup the incremental costs of extraction and production.
- **Accessible facilities** - mining property can be processed economically at accessible mining and processing facilities where applicable.
- **Life of mine plans** - an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing orebody.
- **Authorizations** - operating permits and feasible environmental programs exist or are obtainable.

Jinshan Gold Mines Inc.

Notes to the consolidated interim financial statements

March 31, 2009

(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(k) *Property, plant and equipment (continued)*

(ii) Exploration and evaluation expenditure (continued)

Therefore prior to capitalizing exploration drilling and related costs, management determines that the following conditions have been met that will contribute to future cash flows:

- There is a probable future benefit that will contribute to future cash inflows;
- The Company can obtain the benefit and controls access to it;
- The transaction or event giving rise to the future benefit has already occurred; and
- Costs incurred can be measured reliably.

(iii) Development expenditure

Drilling and related costs incurred to define and delineate a mineral deposit at a development stage or production stage mine are capitalized as part of mineral assets in the period incurred, when management determines that there is sufficient evidence that the expenditure will result in a probable future economic benefit to the Company.

(iv) Production expenditure

Capitalization of costs incurred ceases when the related mining property has reached production levels intended by management. Incidental operations are considered necessary to bring mineral assets to the condition necessary for it to be capable of operating in the manner intended by management. Therefore costs incurred prior to reaching production levels intended by management are capitalized and the proceeds from sales prior to commissioning are offset against costs capitalized.

Mine development costs incurred to maintain current production are included in profit or loss. The distinction between mining expenditures incurred to develop new orebodies and to develop mine areas in advance of current production is mainly the production timeframe of the mining area. For those areas being developed which will be mined in future periods, the costs incurred are capitalized and depleted when the related mining area is mined as compared to current production areas where development costs are expensed as incurred.

Jinshan Gold Mines Inc.

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(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(k) *Property, plant and equipment (continued)*

(iv) Production expenditure (continued)

For open-pit operations the removal of overburden or waste ore is required to obtain access to the orebody. To the extent that the actual waste material removed per tonne of ore mined (known as the stripping ratio) is higher than the average stripping ratio in the early years of a mine's production phase, the costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. This reflects the fact that waste removal is necessary to gain access to the orebody and therefore realize future economic benefit. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of mine, per tonne of ore mined. The average life of mine cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The cost of stripping in any period will therefore be reflective of the average stripping rates for the orebody as a whole. However, where the pit profile is such that the actual stripping ratio is below the average in the early years no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead this position is monitored and when the cumulative calculation reflects a debit balance deferral commences. The average life of mine stripping ratio and the average life of mine cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the life of mine stripping ratio are accounted for prospectively as a change in estimate.

(v) Depreciation

Mineral assets are depreciated using the unit-of-production method based on the estimated total recoverable ounces contained in proven and probable reserves at the related mine when the production level intended by management has been reached.

The production level intended by management is considered to be reached when operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and there are indicators that these operating results will be sustained. Other factors include one or more of the following:

- A significant utilization rate of plant capacity has been achieved;
- A significant portion of available funding is directed towards operating activities;
- A pre-determined, reasonable period of time of stable operation has passed; and
- A development project significant to the primary business objective of the Company has been completed and significant milestones have been achieved.

Management reviews the estimated total recoverable ounces contained in proven and probable reserves at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable ounces contained in proven and probable reserves are accounted for prospectively.

Effective on July 1, 2008, the Company determined that the CSH Gold Mine had reached the production level intended by management.

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(Unaudited)

4. Summary of significant accounting policies (continued)

(k) *Property, plant and equipment (continued)*

(v) Depreciation (continued)

Plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. The significant classes of plant and equipment and their estimated useful lives are as follows:

Buildings	10 years
Furniture and office equipment	2 to 5 years
Machinery and equipment	3 to 10 years
Motor vehicles	5 years

Assets under construction are depreciated when they are substantially complete and available for their intended use, over their estimated useful lives.

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

(vi) Impairment

The Company's tangible and intangible assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

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(Unaudited)

4. Summary of significant accounting policies (continued)

(l) Financial assets

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designed as effective hedges.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value, with changes recognized in profit or loss. Transaction costs are expensed.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include "accounts receivable", "cash and cash equivalents" and "restricted cash".

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

(iv) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Jinshan Gold Mines Inc.

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4. Summary of significant accounting policies (continued)

(l) *Financial assets*

(iv) Impairment of financial assets (continued)

The carrying amount of all financial assets, excluding accounts receivable, is directly reduced by the impairment loss. The carrying amount of trade receivable is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(v) Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

(m) *Financial liabilities and equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing in the near future; or
- It is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

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(Stated in U.S. dollars)

(Unaudited)

4. Summary of significant accounting policies (continued)

(m) Financial liabilities and equity (continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(i) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

(ii) Warrant liabilities

The Company has issued share purchase warrants with Canadian dollar exercise prices (Note 14 (c)). As a result of having exercise prices denominated in other than the Company's functional currency, being the U.S. dollar, these warrants meet the definition of derivatives and were therefore classified as held for trading and measured at FVTPL prior to their exercise and expiry dates.

(iii) Other financial liabilities

The Company has classified accounts payable, net customer advances and borrowings as other financial liabilities.

(iv) Derecognition of financial liabilities

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Jinshan Gold Mines Inc.

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4. Summary of significant accounting policies (continued)

(n) *Environmental rehabilitation*

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized as part of the related property, plant and equipment at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognized in profit or loss over the life of the operation, through the depreciation of the asset. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognized in profit or loss as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, including the effects of inflation and movements in foreign exchange rates, revisions to estimated reserves, resources and lives of operations, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the period it occurred. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy set out in Note 4 (k)(vi).

(o) *Leases*

Rentals payable under operating leases are expensed on a straight-line basis over the term of the relevant lease. Incentives received upon entry into an operating lease are recognized on a straight-line basis over the lease term.

(p) *Provisions*

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(q) *Related party transactions*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

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5. Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, which are described in Note 4, the directors of the Company have identified the following judgment and key sources of estimation uncertainty that have significant effect on the amounts recognized in the financial information. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are discussed below.

(a) *Inventories*

The Company records the cost of mining ore placed on its leach pads and in process at its mine as gold-in-process inventory, and values gold-in-process inventory at the lower of cost and estimated net realizable value. These costs are charged to earnings and included in cost of sales on the basis of ounces of gold recovered. The assumptions used in the valuation of gold-in-process inventories include estimates of gold contained in the ore placed on leach pads, assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads, and the amount of gold in the process plant and an assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove inaccurate, the Company could be required to write down the recorded value of its gold-in-process inventories.

Although the quantities of recoverable gold placed on the leach pad are reconciled by comparing the grades of ore placed on the leach pad to the quantities actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The actual recovery of gold from the leach pad is not known until the leaching process has concluded at the end of the mine life.

(b) *Property, plant and equipment*

The Company's property, plant and equipment is depreciated and amortized on either a unit-of-production basis or straight-line method over their estimated useful lives. Under the unit-of-production method, the calculation of depreciation of property, plant and equipment is based on the amount of reserves expected to be recovered from the mine. If these estimates of reserves prove to be inaccurate, or if the Company revises its mining plan, due to reductions in the metal price forecasts or otherwise, to reduce the amount of reserves expected to be recovered, the Company could be required to write down the recorded value of its property, plant and equipment, or to increase the amount of future depreciation and depletion expense.

In addition, IFRS requires the Company to consider at the end of each reporting period whether there has been an impairment indicator of its property, plant and equipment. If the Company determines there has been an impairment because its prior estimates of future net cash flows have proven to be inaccurate, due to reductions in the metal price forecasts, increases in the costs of production, reductions in the amount of reserves expected to be recovered or otherwise, or because the Company has determined that the deferred costs of non-producing properties may not be recovered based on current economics or permitting considerations, the Company would be required to write down the recorded value of its property, plant and equipment.

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5. Significant accounting judgements and estimates (continued)

(c) *Environmental rehabilitation*

Environmental rehabilitation costs have been estimated based on the Company's interpretation of current regulatory requirements and have been measured at the net present value of expected future cash expenditures upon reclamation and closure. Environmental rehabilitation costs are capitalized as mineral assets costs and depreciated over the life of the mine. Because the fair value measurement requires the input of subjective assumptions, including the environmental rehabilitation costs, changes in subjective input assumptions can materially affect the estimate of the obligation.

(d) *Warrants issued with Canadian dollar exercise prices*

The fair value of warrants issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

6. Finance costs

The finance costs for the Company are broken down as follows:

	Three month period ended March 31,	
	2009	2008
	\$	\$
Effective interest	2,452,811	1,997,789
Accretion on environmental rehabilitation	101,055	87,442
	2,553,866	2,085,231
Less: Amount capitalized	(1,280,816)	(1,946,727)
Total finance costs	1,273,050	138,505

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

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Notes to the consolidated interim financial statements

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7. Earnings (loss) per share

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

	Three month period ended March 31,	
	2009	2008
	\$	\$
Income attributable to owners of the Company for the purpose of basic earnings(loss) per share	2,268,455	3,449,318
Effect of dilutive potential ordinary shares:		
Fair value change on warrant liabilities	271,612	(5,329,906)
Income attributable to owners of the Company for Effect of dilutive potential ordinary shares:		
Fair value change on warrant liabilities	2,540,067	(1,880,588)
Weighted average number of shares, basic	163,889,159	158,681,013
Dilutive securities		
Options	7,627	-
Warrants	-	-
Weighted average number of shares, basic	163,896,786	158,681,013
Basic earnings per share	1.38 cents	2.17 cents
Diluted earnings (loss) per share	1.55 cents	(1.19) cents

Due to a net loss for the purpose of diluted earnings (loss) per share for the three month periods ended March 31, 2008, all stock options and warrants (disclosed in Notes 14 (b) and (c)) were excluded from the diluted EPS Computation because their effect would have been anti-dilutive.

8. Restricted cash

In December 2008, the Company's subsidiary in China, Inner Mongolia Pacific Mining Co. Ltd. ("Inner Mongolia Pacific"), received \$1,326,358 (RMB 9,000,000) from the local Chinese tax authority. These funds were temporarily held on behalf of the local Chinese tax authority and therefore, not available for use by the Company and were returned to the local Chinese tax authority in January 2009.

The Company signed a contract with an equipment manufacturer to purchase crusher equipment for \$15,557,383 to be delivered in early 2009. The Company established a \$15,000,000 letter of credit facility with its bank and opened a \$14,001,645 standby letter of credit for the purchase of the equipment. As security for the standby letter of credit, which expired on January 15, 2009, the Company placed \$14,001,645 as restricted cash with its bank. The Company has reduced its standby letter of credit to \$3,889,346 after making progress payments of \$10,112,299 and the security placed with its bank reduced to \$3,889,346 as of December 2008. The standby letter of credit expired on January 15, 2009 and the security was released in full. On February 19, 2009, the Company paid \$3,889,346 to the equipment supplier.

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9. Prepaid expenses and deposits

	March 31, 2009	December 31, 2008
	\$	\$
Refundable CSH Gold Mine construction deposits	4,710,036	3,975,699
Rent deposits	319,361	358,875
Permit advance	292,544	315,863
Deposits for spare parts	40,229	634,789
Insurance	215,131	304,757
Prepaid resources taxes	771,961	1,476,319
Other	168,962	110,200
Total prepaid expenses and deposits	6,518,224	7,176,502

10. Inventory

	March 31, 2009	December 31, 2008
	\$	\$
Gold in process	28,448,364	25,136,984
Gold doré bars	1,380,119	1,013,325
Consumables	565,281	1,328,923
Spare parts	78,270	165,535
Total inventory	30,472,034	27,644,767

Inventory totalling \$5,289,204 and \$20,499,517 for the three month periods ended March 31, 2009 and the year ended December 31, 2008, respectively, was recognized in cost of sales after commercial production began. As at March 31, 2009, the Company anticipates the entire gold in process and gold doré bar balance of approximate \$17,120,000 and \$1,380,119 to be realized within one year.

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11. Property, plant and equipment

	Motor vehicles	Furniture and office equipment	Machinery and equipment	Buildings	Mineral assets	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>							
As at December 31, 2007	1,090,237	625,544	24,974,179	4,058,146	26,108,626	41,316	56,898,048
Additions	223,732	171,533	-	217,655	6,250,322	28,685,801	35,549,043
Disposals	(129,833)	(74,105)	(51,357)	-	-	-	(255,295)
Transfer to inventory	-	-	-	-	(20,401,790)	-	(20,401,790)
As at December 31, 2008	1,184,136	722,972	24,922,822	4,275,801	11,957,158	28,727,117	71,790,006
Additions	-	3,522	721,742	-	5,584,213	10,154,440	16,463,917
As at March 31, 2009	1,184,136	726,494	25,644,564	4,275,801	17,541,371	38,881,557	88,253,923
<i>Accumulated depreciation</i>							
As at December 31, 2007	(193,385)	(279,723)	(798,767)	(114,103)	-	-	(1,385,978)
Charge for the year	(236,557)	(149,452)	(2,216,229)	(375,875)	(579,372)	-	(3,557,485)
Eliminated on disposals	65,471	70,202	-	-	-	-	135,673
As at December 31, 2008	(364,471)	(358,973)	(3,014,996)	(489,978)	(579,372)	-	(4,807,790)
Charge for the year	(52,739)	(65,728)	(604,878)	(96,468)	(433,827)	-	(1,253,640)
Eliminated on disposals	-	-	-	-	-	-	-
As at March 31, 2009	(417,210)	(424,701)	(3,619,874)	(586,446)	(1,013,199)	-	(6,061,430)
<i>Carrying value</i>							
As at December 31, 2007	896,852	345,821	24,175,412	3,944,043	26,108,626	41,316	55,512,070
As at December 31, 2008	819,665	363,999	21,907,826	3,785,823	11,377,786	28,727,117	66,982,216
As at March 31, 2009	766,926	301,793	22,024,690	3,689,355	16,528,172	38,881,557	82,192,493

Included in the cost above is \$1,280,816 and \$11,121,750 as at March 31, 2009 and December 31, 2008 related to finance costs which has been capitalized as construction in progress and mineral assets during the period.

Construction in progress as at March 31, 2009 and December 31, 2008 consisted of the crusher construction for the CSH Gold Mine and a building under construction as at December 31, 2007.

Mineral assets consist of development costs capitalized for the CSH Gold Mine commencing on May 1, 2006, when the Company determined by way of a feasibility study that the CSH Gold Mine had economically recoverable reserves. Capitalization of development costs, as part of mineral assets, stopped when the CSH Gold Mine entered into commercial production on July 1, 2008. Deferred development costs included mine operating costs net of proceeds received from the sale of pre-commercial gold production and accordingly, the measurement and valuation of gold inventory at July 1, 2008 resulted in the reclassification of \$20,401,790 to inventory from mineral assets.

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11. Property, plant and equipment (continued)

Mineral property interests

(a) *CSH Gold Mine*

The CSH Gold Mine consists of a licensed area of 36 square kilometers ("km²") in the western part of Inner Mongolia, northern China. It is centrally positioned within the east-west-trending Tian Shan Gold Belt. The site is approximately 650 kilometers ("km") northwest of Beijing.

In April 2002, the Company entered into a joint venture agreement with a Chinese partner, the Brigade 217 of the Northwest Geological Bureau ("the Brigade"), to acquire up to a 96.5% interest in the CSH Gold Mine. In April 2005, the Company completed its earn-in obligations and acquired the 96.5% interest. The Chinese partner was also entitled to receive from the Company two \$1,000,000 payments, the first of which was paid in May 2007, and the second was paid in February 2008.

	December 31, 2007	Incurred during the year	December 31, 2008	Incurred during the period	March 31, 2009
	\$	\$	\$	\$	\$
Exploration expenditure CSH					
charged to profit or loss	7,029,874	1,806,489	8,836,363	-	8,836,363
Mineral assets	26,108,626	(14,151,468)	11,957,158	5,584,213	17,541,371
Construction in progress	41,316	28,685,801	28,727,117	10,154,440	38,881,557

(b) *Dadiangou Gold Project*

The Dadiangou project consists of a licensed area of 15 km² in Gansu Province, China. The project is located in the Qinling Fold Belt, a gold producing region that trends west to east through the provinces of Gansu and Shaanxi in central China.

In September 2005, the Company entered into a joint venture agreement with its Chinese partner, Nuclear Industry Northwest Economic and Technology Company ("NINETC"), to acquire a majority interest in the Dadiangou project. Under the terms of the agreement, the Company can earn a 71% interest by incurring exploration expenditures of approximately \$3,700,000 over the first three years of exploration commencing on September 19, 2006 and making payments to NINETC of approximately \$1,494,080 (of which \$125,000 has been paid). The Company can increase its interest to 80% by incurring additional exploration expenditures of approximately \$3,200,000 and by making additional payments of approximately \$360,000 to NINETC. NINETC can then choose to participate at a 20% level for all future expenditures, or have their ownership interest diluted. Up to March 31, 2009, the Company had not incurred the required exploration expenditure and its interest in this project remained as 71% as at March 31, 2009 and 2008.

	December 31, 2007	Incurred during the year	December 31, 2008	Incurred during the period	March 31, 2009
	\$	\$	\$	\$	\$
Exploration expenditure DDG					
charged to profit or loss	3,825,906	1,601,996	5,427,902	162,226	5,590,128

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11. Property, plant and equipment (continued)

Mineral property interests (continued)

(c) *Xinjiang Projects*

The Company held two exploration permits covering 96 km² in the Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China. The permits were held under a Chinese-Foreign Joint Venture in which the Company held a 99% interest and the partner, Yunnan Geological and Mining Co. Ltd., held a 1% interest. The permits were granted in June 2006 and expired on June 30, 2009. The Company had not renewed the permits and ceased further development in this site subsequent to June 30, 2009.

12. Borrowings

	Effective interest rate	Maturity	March 31, 2009	December 31, 2008
	%		\$	\$
Current				
Short-term loan (i)	6.21	March 26, 2009	-	18,672,730
Notes payable (ii)	19.54	December 14, 2009	22,642,640	22,930,784
			22,642,640	41,603,514
Non-current				
Notes payable (ii)	19.48	June 26, 2010	14,703,299	14,929,121
			14,703,299	14,929,121
			37,345,939	56,532,635

(i) Short-term loan

The Company received \$18,909,916 (RMB 130,000,000) of the bridge loan proceeds from the Industrial and Commercial Bank of China in September 2008, to support operations at the CSH Gold Mine during the construction and installation of crushers. The bridge loan was unsecured, denominated in RMB at an annual interest rate of 6.21%. Interest was payable monthly and the principal amount was repayable in instalments of \$4,421,192 (RMB 30,000,000) in January 2009, \$7,368,654 (RMB 50,000,000) in February 2009, and \$7,368,654 (RMB 50,000,000) in March 2009. The principal amount was fully repaid by March 26, 2009. Principal repayments of \$14,600,000 (RMB 100,000,000) were funded by an advance from CNG as prepayment of future gold sales to CNG. The bridge loan was guaranteed by the Company's substantial shareholder, CNG.

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12. Borrowings (continued)

(i) Short-term loan (continued)

As a condition of its promissory note holders consenting to the unsecured bridge loan, the Company has extended to December 14, 2010 the expiry date of 3,860,000 common share purchase warrants to purchase 3,860,000 common shares issued in connection with a note offering that closed in December 2006 (Note A), and has extended to June 26, 2011 the expiry date of 2,450,000 warrants to purchase 2,450,000 common shares in connection with a note offering that closed in June 2007 (Note B and C). The holders of the warrants may exercise the warrants at the original exercise price of Cdn\$1.60 per common share in the case of the warrants issued in connection with the December 2006 note offering and Cdn\$2.50 in the case of the warrants issued in connection with the June 2007 note offering, until the new expiry date. No other terms of the warrants were changed. As a result of the warrant expiry date extensions, the Company determined the additional value of the warrants taking into account the expiry date extensions and recorded the incremental value of \$1,294,238 as a cost of obtaining the bridge loan. The effective interest rate of the bridge loan is 19.91%.

The fair values of the warrants after expiry dates extension totaling \$1,383,080 were measured using the Black-Scholes option pricing model and were based on risk free annual interest rates ranging from 2.9% to 3.0%, expected lives ranging from 2.21 to 2.74 years, an expected volatility of 62%, and a dividend yield rate of nil. The fair values of the warrants are included in warrant liability in the Company's consolidated statement of financial position.

Effective interest recognized for the bridge loan, until its repayment on March 26, 2009, was \$709,772 for the three month period ended March 31, 2009.

(ii) Notes payable

	Note A	Note B	Note C	Total
	\$	\$	\$	\$
Balances of notes payable,				
December 31, 2007	26,708,698	10,819,046	6,739,279	44,267,023
Unrealized foreign exchange gain	(5,429,323)	(2,191,334)	(1,349,697)	(8,970,354)
Effective interest	4,906,233	1,978,923	1,112,604	7,997,760
Interest paid	(3,254,824)	(1,359,657)	(820,043)	(5,434,524)
Balances of notes payable,				
December 31, 2008	22,930,784	9,246,978	5,682,143	37,859,905
Unrealized foreign exchange loss	(652,085)	(262,827)	(161,258)	(1,076,170)
Effective interest	1,078,794	433,432	241,399	1,753,626
Interest paid	(714,853)	(297,855)	(178,713)	(1,191,422)
Balances of notes payable,				
March 31, 2009	22,642,640	9,119,728	5,583,571	37,345,939

(a) Note A

On December 14, 2006, the Company completed a \$25,935,546 (Cdn\$30,000,000) ("Note A") private placement offering consisting of senior unsecured promissory notes ("Notes") and 6,000,000 warrants for financing the development of the CSH Gold mine. The Notes mature on December 14, 2009, are repayable in Canadian dollars, and carry an annual interest rate of 12%. Interest on the Notes is payable on a calendar quarterly basis commencing on March 31, 2007. The Company can elect to prepay the Notes anytime after 18 months from the issue date with no prepayment penalty. The effective interest rate is 19.54%.

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12. Borrowings (continued)

(ii) Notes payable (continued)

(a) *Note A (continued)*

The Company has allocated the \$25,935,546 face value of the private placement offering to the Notes and warrants based on the fair value of the warrants and the Notes. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 3.9%, an expected life of two years, an expected volatility of 79%, and a dividend yield rate of Nil. Each warrant entitles the holder to acquire one common share at Cdn\$1.60 each and expires on December 14, 2008 (see Note 14 (c)). The expiry date has been extended to December 14, 2010 (see Note 12 (i)).

The Company has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of Cdn\$2.75 for 20 consecutive trading days.

(b) *Notes B and C*

On June 26, 2007, the Company concluded an \$18,668,907 (Cdn\$20,000,000) private placement offering consisting of senior unsecured promissory notes ("June 07 Notes") and 4,000,000 warrants. Ivanhoe Mines Ltd. ("Ivanhoe Mines"), a substantial shareholder of the Company at that time, purchased \$7,000,840 (Cdn\$7,500,000) ("Note C") of the June 07 Notes and \$11,668,067 (Cdn\$12,500,000) ("Note B") was purchased by third parties. The June 07 Notes mature on June 26, 2010, are repayable in Canadian dollars and carry an annual interest rate of 12%. Interest on the June 07 Notes is payable on a calendar quarterly basis commencing on September 30, 2007. The Company can elect to prepay Note B anytime after 18 months from the issue date with no prepayment penalty and Note C after six months from the issue date with no prepayment penalty. Note B ranks pari passu with the notes issued in December 2006 ("Note A") while Note C is subordinate to Notes A and B. The effective interest rate of Note B and Note C is 19.48% and 17.66% respectively.

The Company has allocated the \$18,668,907 face value of the private placement offering to the June 07 Notes and warrants based on the fair value of the warrants and the June 07 Notes. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 4.6%, an expected life of two years, an expected volatility of 72%, and a dividend yield rate of Nil. Each warrant entitles the holder to acquire one common share at Cdn\$2.50 and expires on June 26, 2009 (see Note 14 (c)). The expiry date has been extended to June 26, 2011 (see Note 12 (i)).

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

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13. Environmental rehabilitation

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and determined based on the net present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized as mine development costs (under mineral assets), and amortized over the life of the mine on a unit-of-production basis.

The environmental rehabilitation relates to reclamation and closure costs relating to the Company's mine operations at the CSH Gold Mine. The environmental rehabilitation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total \$7,897,000, discounted at 10.7% and 12.1% per annum at March 31, 2009 and December 31, 2008, respectively. The settlement of the obligations will occur through to 2017. No assets have been legally restricted for the purposes of settling the environmental rehabilitation.

The following is an analysis of the environmental rehabilitation:

	March 31, 2009	December 31, 2008
	\$	\$
Balance, beginning of period	4,131,735	2,244,633
Additions to site reclamation during the period	269,623	1,224,696
Accretion incurred in the current period	101,055	405,314
Foreign exchange (gain) loss	(11,522)	257,092
	4,490,891	4,131,735

14. Share capital

(a) Common shares

Authorized - Unlimited common shares without par value

Issued and outstanding - 163,889,159 common shares

(b) Stock options

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

The stock options have a life of up to six years from grant date. The fair market value of the exercise price is the weighted average price of the common shares for the five days on which they were traded immediately preceding the date of approval by the Board of Directors. The Compensation and Benefits Committee makes recommendations to the Board of Directors as to the recipients of, and nature and size of, share compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The Company is authorized to issue options to a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. At March 31, 2009 and December 31, 2008, there were 11,281,616 and 10,601,616 options available for future grants.

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14. Share capital (continued)

(b) Stock options (continued)

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

	March 31,		December 31,	
	2009		2008	
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise		exercise
		price		price
		Cdn\$		Cdn\$
Balance, beginning of period	5,787,300	1.75	9,026,535	1.50
Options granted	-	-	50,000	2.45
Options exercised	-	-	(1,920,568)	0.64
Options forfeited	-	-	(1,083,000)	2.90
Options expired	(680,000)	1.66	(285,667)	1.31
Balance, end of period	5,107,300	1.76	5,787,300	1.75

During the three month period ended March 31, 2009, the Company had not granted any stock options. The compensation costs of outstanding options in the net amount of \$125,733 were expensed/recognized in the three month period ended March 31, 2009.

During the year ended December 31, 2008, the Company granted 50,000 stock options to an employee at an exercise price of Cdn\$2.45 with the expiry date of May 1, 2014. The grant-date fair value and compensation costs of \$76,062 will be expensed/recognized over the vesting periods of the options, of which \$19,187 was included in the net amount of \$1,641,410 expensed/recognized in the year ended December 31, 2008.

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

Expiring in	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2009	Remaining contractual life (years)	Weighted average exercise price Cdn\$	Number exercisable at March 31, 2009	Weighted average exercise price Cdn\$
2009	331,300	0.03 to 0.67	1.27	331,300	1.27
2010	50,000	1.27	0.50	50,000	0.50
2011	1,596,000	1.88 to 2.59	1.11	1,035,600	1.10
2012	310,000	2.79 to 2.95	1.85	310,000	1.85
2013	2,770,000	4.31	2.20	554,000	2.20
2014	50,000	5.09	2.45	-	-
	5,107,300		1.76	2,280,900	1.48

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14. Share capital (continued)

(b) Stock options (continued)

The fair value of options granted was determined using the Black-Scholes option pricing model, and the following weighted average assumptions:

	Three month periods ended March 31,	
	2009	2008
Risk free interest rate	N/A	3.34%
Expected life (years)	N/A	6.0
Expected volatility	N/A	55%
Expected dividend per share	N/A	\$Nil
Expected annual forfeitures	N/A	-
Fair value per option granted	N/A	\$1.36

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

(c) Warrants

The following is a summary of number of warrants outstanding:

	March 31,	December 31,
	2009	2008
Balance, beginning of period	6,310,000	11,717,167
Issued	-	-
Exercised	-	(5,407,167)
Expired	-	-
Balance, end of period	6,310,000	6,310,000

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14. Share capital (continued)

(c) Warrants (continued)

The following is a summary of warrants amounts outstanding:

	<u>March 31,</u> <u>2009</u>	December 31, 2008
Balance, beginning of period	6,310,000	11,717,167
Issued	-	-
Exercised	-	(5,407,167)
Expired	-	-
Balance, end of period	6,310,000	6,310,000

Warrants issued with Canadian dollar exercise prices

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

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

	<u>Three month periods ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Risk free interest rate	1.05%	2.56%
Expected life (years)	1.91	0.96
Expected volatility	88.56%	52.80%
Expected dividend per share	Nil	Nil

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

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14. Share capital (continued)

(c) Warrants (continued)

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

Number of warrants	Exercise price Cdn\$	Expiry date
3,860,000 (i)	1.60	December 14, 2010
2,450,000 (i)	2.50	June 26, 2011
6,310,000		

(i) As mentioned in Note 12 (i), the expiry dates of 3,860,000 warrants and 2,450,000 warrants were extended to December 14, 2010 and June 26, 2011, respectively, in September 2008.

15. Related party transactions

CNG and Ivanhoe Mines Ltd. ("Ivanhoe") owned the following percentages of outstanding common shares of the Company:

	March 31, 2009	December 31, 2008
	%	%
CNG	41.2	41.2
Ivanhoe	-	-

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

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

	Three month periods ended March 31,	
	2009	2008
	\$	\$
Gold sales	7,685,989	-
Silver sales (netted in cost of sales)	37,310	-
Prepayment of future gold sales from CNG	16,812,865	-

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15. Related party transactions (continued)

The Company incurred the following expenses with Ivanhoe, CNG and Global Mining Management ("GMM"), all of these companies are related to the Company by way of directors or shareholders in common. Ivanhoe was the substantial shareholder of the Company and GMM was a subsidiary of Ivanhoe and a related party of the Company up to May 2008. After the sale of the equity interest in the Company by Ivanhoe to CNG in May 2008, CNG then became a substantial shareholder of the Company. Both Ivanhoe and GMM ceased to be related parties of the Company after May 2008.

	Three month period ended March 31,	
	2009	2008
	\$	\$
Corporate administration	-	193,052
Salaries and benefits	-	309,329
Interest	241,399	218,893
Total related party expenses	630,421	721,274

The corporate administration and salaries have been recorded on a cost recovery basis and the interest expense has been recorded on the effective interest method.

The breakdown of the expenses between the different related parties is as follows:

	Three month period ended March 31,	
	2009	2008
	\$	\$
CNG	241,399	-
Ivanhoe	-	218,893
GMM	-	502,381
Total related party expenses	630,421	721,274

Related party balances

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

	March 31,	December 31,
	2009	2008
	\$	\$
Assets		
Prepaid expenses to GMM	-	227,749
Total related party assets	227,749	227,749

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15. Related party transactions (continued)

Related party balances (continued)

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

	<u>March 31,</u>	<u>December 31,</u>
	<u>2009</u>	<u>2008</u>
	\$	\$
Liabilities		
Accounts payable to GMM	-	240,328
Accounts payable to CNG's subsidiaries	16,812,865	76,190
Total related party liabilities	16,872,326	316,518

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

Key management personnel

	<u>Three month periods ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
	\$	\$
Salary cost		
Salaries and other benefits	166,449	379,331
Post employment benefits	7,404	13,627
Stock-based payments	-	-
	173,853	392,958

16. Segment information

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

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

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

The executive directors review the Company's consolidated financial statements prepared under Canadian generally accepted accounting principles ("Canadian GAAP") for the purposes of resources allocation and performance evaluation. Hence, the Company's segment (loss) income for the year/period is \$7,685,989 and \$0 during the three month periods ended March 31, 2009 and 2008, respectively, which is the same as the (loss) income of the Company for the year/period under Canadian GAAP as disclosed in Note 21. The principal differences between Canadian GAAP and IFRS are disclosed in Note 21.

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16. Segment information (continued)

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

The Company began to generate revenue in 2008. During the three month period ended March 31, 2009, the total segment revenue comprises revenue from one customer. The Company sells 100% of its gold to one creditworthy customer, CNG who is also the Company's substantial shareholder, for the three month period ended March 31, 2009. The sales to CNG do not constitute economic dependence for the Company as there are other customers in China to whom gold can be sold.

17. Supplemental cash flow information

Non-cash investing and financing activities

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

	Three month periods ended March 31,	
	2009	2008
	\$	\$
Value of warrants transferred to share capital upon exercise	-	490,718
Transfer of share option reserve upon exercise of options	-	310,839

18. Capital risk management

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

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

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

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18. Capital risk management (continued)

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

The Company will need additional capital resources to complete or carry out its exploration and development plans and operations for the next 12 months (see Note 2). The Company has complied with all covenants included in its short-term loan and the indenture for its notes payable.

19. Financial instruments

		Carrying amount	
Financial instrument classification		March 31, 2009	December 31, 2008
		\$	\$
<i>Financial assets</i>			
Cash and cash equivalents			
	Loans and receivables	5,106,524	12,142,739
Restricted cash	Loans and receivables	-	5,215,704
Accounts receivable	Loans and receivables	77,311	148,771
Amount due from a shareholder	Loans and receivables	97,453	-
<i>Financial liabilities</i>			
Accounts payable and accrued expenses	Other financial liabilities	23,361,569	18,799,865
Construction payable	Other financial liabilities	-	132,779
Customer advances	Other financial liabilities	16,812,865	-
Short-term loan	Other financial liabilities	-	18,672,730
Notes payable	Other financial liabilities	37,345,940	37,859,905
Warrant liabilities	FVTPL	546,119	274,507

The fair values of the Company's cash and cash equivalents, restricted cash, accounts receivable, amount due from a shareholder, accounts payable and accrued expenses, and the short-term loan approximate their carrying values due to their short term nature.

The carrying amounts of the notes payable and warrant liabilities measured at amortized cost in the Company's and the Company's financial statements approximate their fair values.

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19. Financial instruments (continued)

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

(a) Currency risk

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

The Company is exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and RMB:

Canadian dollar monetary assets and liabilities

	March 31,	December 31,
	2009	2008
	US\$	US\$
Cash and cash equivalents	1,335,021	649,888
Accounts receivable	16,512	35,211
Accounts payable and accrued expenses	(536,247)	(829,882)
Borrowings	(37,345,940)	(37,859,905)
Warrant liabilities	(546,119)	(274,507)
	<u>(37,076,773)</u>	<u>(38,279,195)</u>

Based on the above net exposures, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase in the Company's income before tax/decrease in income before tax of approximately \$3,708,000 for the three month period ended March 31, 2009, and a decrease in the Company's loss before income tax/increase in loss before income tax of approximately \$3,828,000 for the year ended December 31, 2008.

RMB monetary assets and liabilities

	March 31,	December 31,
	2009	2008
	US\$	US\$
Cash and cash equivalents	1,192,586	5,538,082
Restricted cash	-	1,326,358
Accounts receivable	158,252	113,560
Amount due from a shareholder	97,453	-
Accounts payable and accrued expenses	(22,688,660)	(18,031,985)
Customer advances	(16,812,865)	-
Borrowings	-	(18,672,730)
	<u>(38,053,235)</u>	<u>(29,726,715)</u>

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19. Financial instruments (continued)

(a) Currency risk (continued)

Based on the above net exposures, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in an increase in the Company's income before tax/decrease in income before tax of approximately \$3,805,000 for the three month period ended March 31, 2009 and a decrease in the Company's loss before income tax/increase in loss before income tax of approximately \$2,973,000 for the year ended December 31, 2008.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Company sells 100% of its gold to one creditworthy customer, CNG, who is also the Company's substantial shareholder, for the three month period ended March 31, 2009 and exposes the Company to concentration of credit risk. The failure of this customer to make required payments could have a negative impact on the Company's results. The Company manages this risk by demanding upfront payment from this customer. The Company's cash and short-term bank deposits are held in large Chinese and Canadian banks. These investments mature at various dates within 3 months. The Company does not have any asset backed commercial paper in its short-term bank deposits. The Company's accounts receivable consists primarily of goods and services tax refund due from the Federal Government of Canada, all of which are not outstanding for more than 180 days.

The Company had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in PRC or Canada during the Relevant Periods.

Maximum exposure to credit risk is as follows:

	March 31,	December 31,
	2009	2008
	\$	\$
Bank balances	5,106,524	12,140,045
Bank short-term deposits	-	2,694
Restricted cash	-	5,215,704
Accounts receivable	174,764	148,771
Amount due from a shareholder	97,453	-
	<u>5,378,741</u>	<u>17,507,214</u>

The Company had concentration of credit risk exposure on the amounts due from subsidiaries and the risk of default payment depends on the gold production activities carried out by its subsidiaries. The Company monitors the gold production activities of the subsidiaries and the level of credit risk exposures to ensure that appropriate follow up actions are taken when required.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due (see Note 2). The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 18. The Company secured additional financing as set out in Note 22.

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19. Financial instruments (continued)

(c) Liquidity risk (continued)

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

	Weighted average interest rate	Within 1 year	1-2 years	2-5 years	Total undiscounted cash flow	Carrying Amount
	%	\$	\$	\$	\$	\$
As at March 31, 2009						
Accounts payable and accrued expenses	-	23,459,022	-	-	23,459,022	23,459,022
Customers advances		16,812,865			16,812,865	16,812,865
Note payables (Note 12 (ii)(a))	12.00	25,798,561	-	-	25,798,561	22,642,640
Note payables (Note 12 (ii)(b))	12.00	11,499,639	6,116,325		17,615,965	14,703,299
		77,570,088	6,116,325	-	83,686,413	77,617,826
As at December 31, 2008						
Accounts payable and accrued expenses	-	18,932,644	-	-	18,932,644	18,932,644
Short-term loan (Note 12 (i))	6.21	19,248,137	-	-	19,248,137	18,672,730
Note payables (Note 12 (ii)(a))	12.00	27,318,024	-	-	27,318,024	22,930,784
Note payables (Note 12 (ii)(b))	12.00	1,960,783	17,297,421	-	19,258,204	14,929,121
		67,459,588	17,297,421	-	84,757,009	75,465,279

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's short term bank deposits, notes payables and short-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations but changes to exchange rates could affect interest payable (see Note 12) and is subject to fair value interest rate risk. The risk that the Company will realize a loss as a result of a decline in the interest rates relates to its variable rate bank balances and a 100 basis point higher/lower in the interest rate of its variable rate bank balances would result in an increase in the Company's income before tax/decrease in income before tax of \$51,000 for the three month period ended March 31, 2009 and a decrease in the Company's loss before income tax/increase in loss before income tax of approximately \$121,000 for the year ended December 31, 2008.

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

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19. Financial instruments (continued)

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

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

The Company's financial liabilities at FVTPL include warrant liabilities and are categorized into Level 2. There has been no transfer between Level 1 and Level 2 of the financial instruments at FVTPL throughout the Relevant Periods and the details are as follows:

		<u>March 31,</u>	December 31,
		2009	2008
		\$	\$
<i>Financial liabilities at FVTPL</i>			
Warrant liabilities	Level 2	546,119	274,507

(f) *Price risk*

The Company is exposed to price risk of the Company's shares through its financial liabilities at FVTPL - warrant liabilities (as disclosed in Note 14 (c)). Therefore, the Company is exposed to price risk because of changes in market prices of its shares.

Price sensitivity analysis

The sensitivity analysis has been determined based on the exposure to price risks for warrant liabilities fluctuating in the TSX stock market at the Relevant Period.

If the Company's share price had been 50% higher/lower at the end of each reporting period and all other variables were held constant, the Company's income before tax would decrease/increase by \$667,000 for the three month period ended March 31, 2009, and the Company's loss before tax would be increased/decreased by approximately \$2,287,000 for the year ended December 31, 2008 as a result of the changes in market price of the Company's shares.

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20. Commitments and contingencies

Operating leases commitments

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

	March 31, 2009	December 31, 2008
	\$	US\$
Within one year	31,405	53,289
Between two and five years	20,725	21,615
	<u>52,130</u>	<u>74,904</u>

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

Capital commitments

	March 31, 2009	December 31, 2008
	US\$	US\$
Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for	19,636,148	25,030,987
Capital commitment in respect of payments to the CSH Gold Mine project and Dadiangou Gold project joint venture partner	-	1,729,080
	<u>19,636,148</u>	<u>26,760,067</u>

Other commitments and contingencies existed at March 31, 2009

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

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

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21. First time adoption of IFRS

(a) Transition to IFRS

The Company's consolidated financial statements for the year ending December 31, 2009 are the first annual financial statements that comply with IFRS and were prepared as described in Note 4, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2006 (the "Transition Date"). IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

Below is the Company's consolidated statement of financial position as at the transition date of January 1, 2006 under IFRS.

	January 1, 2006
	\$
Current assets	
Cash and cash equivalents	15,414,581
Accounts receivable	569,409
Prepaid expenses and deposits	215,125
	<u>16,199,115</u>
Non-current assets	
Property, plant and equipment	918,700
Total assets	<u>17,117,815</u>
Current liabilities	
Accounts payable and accrued expenses	1,206,076
Share purchase warrants	2,263,489
Total liabilities	<u>3,469,565</u>
Owners' equity	
Share capital	35,433,993
Equity reserve	2,449,090
Deficit	(24,234,833)
Total owners' equity	<u>13,648,250</u>
Total liabilities and owners' equity	<u>17,117,815</u>

(b) Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

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21. First time adoption of IFRS (continued)

(b) *Initial elections upon adoption (continued)*

(i) IFRS exemption options

(1) Business combinations

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated. Further, the Company will not early adopt IFRS 3 Revised and instead will adopt that standard upon its effective date which, for the Company, will be January 1, 2010.

(2) Currency translation differences

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a subsidiary or equity method investee was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at transition date. The Company elected to reset all cumulative translation gains and losses to zero in opening retained earnings at its Transition Date.

(3) Share-based payments

IFRS 2, *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date. As a result of the transition method elected, the Company reversed the historical Canadian GAAP share-based compensation charges impacting shareholders' equity from retained earnings to capital.

(ii) IFRS mandatory exceptions

Estimates

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

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21. First time adoption of IFRS (continued)

(b) *Initial elections upon adoption (continued)*

IFRS employs a conceptual framework that is similar to Canadian GAAP. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in significant changes to the reported financial position and results of operations of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP.

<i>Total assets</i>	December 31, 2006	December 31, 2007	December 31, 2008	March 31, 2009
Total assets under Cdn GAAP before restatement	50,873,318	87,465,388	120,542,330	124,638,515
<i>Adjustments:</i>				
Inventory	-	-	-	(1,384,415)
Property, plant and equipment	-	-	-	2,167,813
Total assets under Cdn GAAP after restatement	50,873,318	87,465,388	120,542,330	125,421,913
<i>Adjustment for environmental</i>				
Inventory	-	(2,215,390)	(616,511)	(957,874)
Property, plant and equipment			(615,120)	
Total assets under IFRS	50,873,318	85,249,998	119,310,699	124,464,039
<i>Total liabilities</i>	December 31, 2006	December 31, 2007	December 31, 2008	March 31, 2009
Total liabilities under Cdn GAAP before restatement	24,199,255	63,793,531	80,828,645	82,969,140
<i>Reclassifications:</i>				
Current portion of asset retirement obligation	-	-	(590,035)	(671,098)
Asset retirement obligation	-	-	590,035	671,098
Total liabilities under Cdn GAAP after restatement	24,199,255	63,793,531	80,828,645	82,969,140
<i>Adjustment for environmental rehabilitation (i):</i>				
Environmental rehabilitation	-	(2,215,390)	(1,231,631)	(957,874)
<i>Adjustment for share purchase warrants (iii):</i>				
Warrant liabilities	9,347,834	13,825,817	274,507	546,119
Total liabilities under IFRS	33,547,089	75,403,958	79,871,521	82,557,385

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21. First time adoption of IFRS (continued)

(b) Initial elections upon adoption (continued)

Total equity and reconciliation of equity

	December 31, 2006	December 31, 2007	December 31, 2008	March 31, 2009
Total equity under Cdn GAAP before restatement	26,674,063	23,671,857	39,417,954	41,300,355
<i>Change in expenses for the year/period after restatement</i>	-	-	-	783,398
Total equity under Cdn GAAP after restatement	26,674,063	23,671,857	39,417,954	42,083,753
Non-controlling interest	-	-	295,731	369,020
Total equity and non-controlling interest under Canadian GAAP	26,674,063	23,671,857	39,713,685	42,452,773
<i>Reclassifications:</i>				
Cumulative translation adjustme	(460,850)	(460,850)	(460,850)	(460,850)
Deficit	460,850	460,850	460,850	460,850
<i>Adjustments for share purchase warrants (iii):</i>				
Share capital	5,339,902	16,472,028	16,218,369	16,218,369
Equity reserve	(4,426,420)	(6,278,735)	(5,639,160)	(5,639,160)
Deficit	(2,263,489)	(9,745,004)	(23,646,647)	(10,853,716)
<i>Adjustment for share-based compensation (ii):</i>				
Equity reserve	(516,312)	(372,463)	135,451	40,489
<i>Adjustment to (loss) income for share purchase warrants (iii):</i>				
Deficit	(7,997,827)	(14,274,106)	12,792,931	(271,612)
<i>Adjustment to (loss) income for share-based compensation (ii):</i>				
Deficit	516,312	372,463	(135,451)	(40,489)
Total equity and non-controlling interest under IFRS	17,326,229	9,846,040	39,439,178	41,906,654
Total liabilities and equity and non-controlling interest under IFRS	50,873,318	85,249,998	119,310,699	124,464,039
<i>Reconciliation of Owners' Equity:</i>				
Share capital	54,409,384	76,281,053	90,384,469	90,384,469
Equity reserve	3,190,272	4,271,321	4,884,800	5,010,533
Deficit	(40,273,427)	(70,706,334)	(56,125,822)	(53,857,368)
	17,326,229	9,846,040	39,143,447	41,537,634
Non-controlling interest	-	-	295,731	369,020
Total equity and non-controlling interest	17,326,229	9,846,040	39,439,178	41,906,654

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21. Transition to IFRS (continued)

(b) *Initial elections upon adoption (continued)*

<i>Net income (loss)</i>	Year ended December 31,			Three month periods ended March 31,	
	2006	2007	2008	2009	2008
(Loss) income for the year/period under Cdn GAAP before restatement	(8,557,079)	(16,531,264)	1,923,032	1,797,157	(1,842,905)
<i>Reclassifications :</i>					
Cost of sales excluding depreciation, amortization and depletion	-	-	-	-	-
Depreciation, amortization and depletion	-	-	-	-	-
<i>Additional Adjustments :</i>					
Cost of sales excluding depreciation, amortization and depletion	-	-	-	212,282	-
Interest on notes payable	-	-	-	571,116	-
Non-controlling interest	-	-	-	-	-
<i>Change in expenses for the year/period after restatement</i>	-	-	-	783,398	-
(Loss) income for the year/period under Canadian GAAP after restatement	(8,557,079)	(16,531,264)	1,923,032	2,580,555	(1,842,905)
Non-controlling interest	-	-	295,731	73,289	-
(Loss) income for the year/period and non-controlling interest under Cdn GAAP	(8,557,079)	(16,531,264)	2,218,763	2,653,844	(1,842,905)
<i>Adjustments for share purchase</i>					
Fair value change on warrant liabilities	(7,997,827)	(14,274,106)	12,792,931	(271,612)	5,329,905
<i>Adjustment for share-based</i>					
General and administrative	516,312	372,463	(135,451)	(40,489)	(37,682)
Total adjustments to (loss) income	(7,481,515)	(13,901,643)	12,657,480	(312,101)	5,292,223
(Loss) income for the year/period and non-controlling interest under IFRS	(16,038,594)	(30,432,907)	14,876,243	2,341,743	3,449,318

The adoption of IFRS has had no impact on the net cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statements of comprehensive income have resulted in reclassifications of various amounts on the consolidated statements of cash flows, however as there have been no changes to the net cash flows, no reconciliations have been presented.

(i) *Environmental rehabilitation*

Under IFRS

Under IAS 37, provisions, Contingent Liabilities and Contingent Assets, a change in the current market based discount rate will result in the re-measurement of the provision. As a result, the asset retirement obligation liability has been re-measured

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using the discount rate in effect at year end and an adjustment has been recorded to the corresponding asset.

21. Transition to IFRS (continued)

(b) Initial elections upon adoption (continued)

(i) Environmental rehabilitation (continued)

Under Canadian GAAP

The provision for environmental rehabilitation is not adjusted for changes in the discount rate.

(ii) Share-based compensation

Under IFRS

Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods.

Under Canadian GAAP

The fair value of stock-based awards with graded vesting are calculated as one grant and the resulting fair value is recognized on a straight-line basis over the vesting period. Forfeitures of awards are recognized as they occur.

Consultants are treated as non-employees and the fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement.

Management has determined that all of the grants awarded to their consultants are considered as employees as the services rendered by their consultants are similar to those rendered by employees. Hence, adjustments are made accordingly under IFRS.

(iii) Share purchase warrants

Under IFRS

As a result of having exercise prices denominated in other than the Company's functional currency, being the U.S. dollar, the share purchase warrants meet the definition of derivatives and are measured at FVTPL. The fair value of the share purchase warrants was determined using the Black-Scholes option pricing model at grant date and the end of each reporting period.

Under Canadian GAAP

The share purchase warrants are measured at fair value at initial recognition using the Black-Scholes option pricing model, and recorded in equity reserve with no subsequent remeasurement.

22. Subsequent events up to May 8, 2009

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From April 1, 2009 to May 8, 2009, 100,000 stock options were expired and 600,000 stock options were cancelled.