

Consolidated financial statements of

**Jinshan Gold Mines Inc.**

December 31, 2009 and 2008

# **Jinshan Gold Mines Inc.**

December 31, 2009 and 2008

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## **Auditors' Report**

To the Shareholders of  
Jinshan Gold Mines Inc.

We have audited the consolidated statements of financial position of Jinshan Gold Mines Inc. as at December 31, 2009 and 2008 and the consolidated statements of comprehensive (loss) income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
March 31, 2010

# Jinshan Gold Mines Inc.

## Consolidated statements of comprehensive (loss) income

(Stated in U.S. dollars)

	Notes	Years ended December 31,	
		2009	2008
		\$	\$
			(Note 27)
<b>Revenues</b>		81,047,414	29,371,411
Cost of sales			
Cost of sales excluding depreciation and depletion		50,480,646	18,109,057
Depreciation and depletion		5,697,758	2,390,460
		56,178,404	20,499,517
Mine operating earnings		24,869,010	8,871,894
Expenses			
General and administrative	6	3,714,554	6,141,235
Exploration and evaluation expenditure	7	1,909,015	5,287,610
		5,623,569	11,428,845
Income (loss) from operations		19,245,441	(2,556,951)
Other (expenses) income			
Foreign exchange (loss) gain		(5,887,144)	8,058,114
Interest income		5,537	174,620
Listing expenses		(2,147,906)	-
Finance costs	8	(6,308,158)	(3,592,471)
Fair value change on warrant liabilities	20	(7,186,721)	12,792,931
		(21,524,392)	17,433,194
(Loss) income before income tax		(2,278,951)	14,876,243
Income tax expense	9	6,091,949	-
<b>Net (loss) income and comprehensive (loss) income for the year</b>		<b>(8,370,900)</b>	<b>14,876,243</b>
Attributable to			
Non-controlling interest		976,481	295,731
Owners of the Company		(9,347,381)	14,580,512
		(8,370,900)	14,876,243
Basic (loss) earnings per share	10	(0.06)	0.09
Diluted (loss) earnings per share	10	(0.06)	0.01
Basic weighted average number of common shares outstanding	10	167,629,459	162,059,379
Diluted weighted average number of common shares outstanding	10	167,629,459	164,780,867

# Jinshan Gold Mines Inc.

## Consolidated statements of financial position

(Stated in U.S. dollars)

	Notes	December 31,		
		2009	2008	2007
		\$	\$	\$
			(Note 27)	(Note 27)
<b>Current assets</b>				
Cash and cash equivalents	11	23,984,660	12,142,739	26,952,425
Restricted cash	12	-	5,215,704	-
Accounts receivable	13	1,681,880	148,771	348,914
Prepaid expenses and deposits	14	1,734,181	7,176,502	2,001,980
Inventory	15	10,166,429	27,644,767	434,609
		37,567,150	52,328,483	29,737,928
Assets classified as held for sale	16	188,971	-	-
		37,756,121	52,328,483	29,737,928
<b>Non-current assets</b>				
Inventory	15	18,852,686	-	-
Property, plant and equipment	16	117,918,672	66,982,216	55,512,070
Long-term receivable		49,689	-	-
		136,821,047	66,982,216	55,512,070
<b>Total assets</b>		174,577,168	119,310,699	85,249,998
<b>Current liabilities</b>				
Accounts payable and accrued expenses	17	35,072,604	18,932,644	15,066,485
Borrowings	18	12,092,005	41,603,514	-
		47,164,609	60,536,158	15,066,485
Liabilities classified as held for sale	16	41,252	-	-
		47,205,861	60,536,158	15,066,485
<b>Non-current liabilities</b>				
Deferred lease inducement		193,758	-	-
Borrowings	18	80,841,331	14,929,121	44,267,023
Warrant liabilities	20	5,286,123	274,507	13,825,817
Deferred tax liabilities		1,339,601	-	-
Environmental rehabilitation	19	1,599,120	4,131,735	2,244,633
		89,259,933	19,335,363	60,337,473
<b>Total liabilities</b>		136,465,794	79,871,521	75,403,958
<b>Owners' equity</b>				
Share capital		99,186,918	90,384,469	76,281,053
Equity reserve		3,125,447	4,884,800	4,271,321
Deficit		(65,473,203)	(56,125,822)	(70,706,334)
		36,839,162	39,143,447	9,846,040
Non-controlling interest		1,272,212	295,731	-
Total owners' equity		38,111,374	39,439,178	9,846,040
<b>Total liabilities and owners' equity</b>		174,577,168	119,310,699	85,249,998

Approved and authorized for issue by the Board on March 31, 2010

**(Signed) Zhanming Wu**

Zhanming Wu, Director

**(Signed) Bing Liu**

Bing Liu, Director

**Jinshan Gold Mines Inc.**  
Consolidated statements of changes in equity  
(Stated in U.S. dollars)

	Notes	Number of shares	Share capital \$	Equity reserve \$	Deficit \$	Subtotal \$	Non- controlling interest \$	Total owners' equity (deficit) \$
<b>Balance, December 31, 2006</b>		145,358,949	54,409,384	3,190,272	(40,273,427)	17,326,229	-	17,326,229
Shares issued for								
Exercise of warrants	20	9,495,373	20,047,993	-	-	20,047,993	-	20,047,993
Exercise of stock options	20	1,707,102	1,823,676	(673,498)	-	1,150,178	-	1,150,178
Stock-based compensation		-	-	1,754,547	-	1,754,547	-	1,754,547
Net loss and comprehensive loss		-	-	-	(30,432,907)	(30,432,907)	-	(30,432,907)
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	20	5,407,167	11,661,776	-	-	11,661,776	-	11,661,776
Exercise of stock options	20	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								
Exercise of warrants	20	2,250,000	5,597,821	-	-	5,597,821	-	5,597,821
Exercise of stock options	20	1,490,300	3,204,628	(1,297,570)	-	1,907,058	-	1,907,058
Stock-based compensation		-	-	(461,783)	-	(461,783)	-	(461,783)
Net (loss) income and comprehensive (loss) income		-	-	-	(9,347,381)	(9,347,381)	976,481	(8,370,900)
<b>Balance, December 31, 2009</b>		167,629,459	99,186,918	3,125,447	(65,473,203)	36,839,162	1,272,212	38,111,374

Note: Amounts representing equity reserve arise from stock-based compensation provided to employees during the periods presented.

# Jinshan Gold Mines Inc.

## Consolidated statements of cash flows

(Stated in U.S. dollars)

	Notes	Years ended December 31,	
		2009	2008
		\$	\$
			(Note 27)
<b>Operating activities</b>			
(Loss) income before tax for the year		(2,278,951)	14,876,243
Items not requiring use of cash and cash equivalents			
Depreciation and depletion		5,764,505	2,410,382
Fair value change on warrant liabilities		7,186,721	(12,792,931)
Finance costs		6,308,158	3,592,471
Stock-based compensation		(461,783)	1,641,410
Unrealized foreign exchange (gain) loss		2,172,413	(7,941,666)
Change in non-cash operating working capital items			
Accounts receivable		(1,384,502)	295,864
Prepaid expenses and deposits		5,442,321	(5,174,522)
Inventory		(1,374,348)	(27,825,973)
Accounts payable and accrued liabilities		817,754	3,733,380
		22,192,288	(27,185,342)
Cash generated from operations			
Interest paid		(6,681,899)	(5,863,517)
Income taxes paid		(4,752,349)	-
<b>Net cash flows from operating activities</b>		<b>10,758,040</b>	<b>(33,048,859)</b>
<b>Investing activities</b>			
Property, plant and equipment additions, net of construction payables		(36,581,179)	(26,839,782)
Proceeds from sale of pre-commercial gold production		-	20,906,313
Restricted cash deposits paid	12	-	(15,328,003)
Restricted cash deposits received	12	5,215,704	10,112,299
<b>Net cash flows from investing activities</b>		<b>(31,365,475)</b>	<b>(11,149,173)</b>
<b>Financing activities</b>			
Issuance of common shares		5,329,774	11,022,868
Proceeds from borrowings	18	94,010,923	18,909,916
Repayments of borrowings		(66,965,645)	-
<b>Net cash flows from financing activities</b>		<b>32,375,052</b>	<b>29,932,784</b>
Effect of foreign exchange rate changes on cash and cash equivalents		74,304	(544,438)
Net increase (decrease) in cash and cash equivalents		11,841,921	(14,809,686)
Cash and cash equivalents, beginning of year		12,142,739	26,952,425
<b>Cash and cash equivalents, end of year</b>		<b>23,984,660</b>	<b>12,142,739</b>
Cash and cash equivalents are comprised of			
Cash in bank		23,984,660	12,140,045
Bank short-term deposits		-	2,694
		23,984,660	12,142,739

Supplemental cash flow information

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# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 1. General business description

Jinshan Gold Mines Inc., formerly known as Pacific Minerals Inc., (the "Company") is a publicly listed company incorporated in British Columbia on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange. The Company together with its subsidiaries 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 Suite 1030, One Bentall Centre, 505 Burrard Street, Vancouver, BC, Canada, V7X 1M5.

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

### 2. Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention. The Company has an accumulated deficit of \$(65,473,203) as at December 31, 2009. The Company's ability to continue as a going concern is dependent upon the ability of the Company to continue to 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 December 31, 2009.

The Company's substantial shareholder, CNG, funded the repayment of loans due December 14, 2009 of \$28,320,589 (CAD30,000,000) and a portion of the notes payable due June 26, 2010 of \$8,024,167 (CAD8,500,000) through a \$40,000,000 unsecured two years term loan. At December 31, 2009, the remaining notes payable include \$10,633,386 (CAD11,500,000) (see Note 18 principal amount of senior unsecured promissory notes), of which \$3,678,592 (CAD4,000,000) principal amount and \$6,954,794 (CAD7,500,000) principal amount both fall due in June 2010.

During the year ended December 31, 2009, CNG extended trade credit of \$20,488,504 and a non-revolving credit facility of \$30,732,757 (RMB 210,000,000) (Note 18) to the Company's subsidiary, Inner Mongolia Pacific Mining Co. Ltd. ("IMP"). By December 31, 2009, the Company had repaid the total advances under trade credit extension and non-revolving credit facility from CNG. This repayment was funded through a \$42,299,950 (RMB 290,000,000) unsecured term loan to IMP secured from the Agricultural Bank of China in September 2009 (Note 18 (iii)).

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 3. Adoption of new and revised International Financial Reporting Standards

The Company has retroactively applied International Financial Reporting Standards (“IFRS”) and related Interpretations (“IFRICs”) as issued by the International Accounting Standards Board (“IASB”) and effective for the year ended December 31, 2009 to all annual periods since January 1, 2006 (see Note 27). As Note 27 presents the effect of applying IFRS to statements of financial position for dates prior to January 1, 2008, the IAS 1 requirement to present a statement at that date is met by providing the December 31, 2007 statement of financial position.

As part of Improvements to IFRSs issued in 2009, IAS 1 *Presentation of Financial Statements* has been amended in relation to the classification of liabilities. The amendments will be effective from January 1, 2010, with earlier application permitted. The amendment to IAS 1 in 2009 is to clarify the settlement of a derivative liability that results in the issue of an equity instrument does not affect the current or non-current classification of a convertible instrument. The Company has early adopted the amendments to IAS 1 and all warrant liabilities of the Company which will ultimately be converted into equity instruments have been classified as non-current liabilities.

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 year ended December 31, 2009.

- |                         |   |
|-------------------------|---|
| • IFRSs (Amendments)    | Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008 <sup>(i)</sup>            |
| • IFRSs (Amendments)    | Improvements to IFRSs issued in 2009 <sup>(iii)</sup> (except IAS 1)                          |
| • IAS 24 (Revised)      | Related Party Disclosures <sup>(iii)</sup>  |
| • IAS 27 (January 2008) | Consolidated and Separate Financial Statements <sup>(i)</sup>                                 |
| • IAS 32 (Amendment)    | Classification of Rights Issues <sup>(iv)</sup>   |
| • IAS 39 (Amendment)    | Eligible Hedged Items <sup>(i)</sup>  |
| • IFRS 1 (Amendment)    | Additional Exemptions for First Time Adopters <sup>(v)</sup>                                  |
| • IFRS 1 (Amendment)    | Limited Exemption for Comparative IFRS 7 Disclosure for First Time Adopters <sup>(viii)</sup> |
| • IFRS 2 (Amendment)    | Company Cash-settled Share-based Payment Transactions <sup>(v)</sup>                          |
| • IFRS 3 (Revised)      | Business Combinations <sup>(i)</sup>  |
| • IFRS 9                | Financial Instruments <sup>(vi)</sup>   |
| • IFRIC 14 (Amendment)  | Prepayments of a Minimum Funding Requirement <sup>(iii)</sup>                                 |
| • IFRIC 17              | Distributions of Non-cash Assets to Owners <sup>(i)</sup>                                     |
| • IFRIC 18              | Transfers of Assets from Customers <sup>(vii)</sup>   |
| • IFRIC 19              | Extinguishing Financial Liabilities with Equity Instruments <sup>(viii)</sup>                 |

<sup>(i)</sup> Effective for annual periods beginning on or after July 1, 2009

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

<sup>(iii)</sup> Effective for annual periods beginning on or after January 1, 2011

<sup>(iv)</sup> Effective for annual periods beginning on or after February 1, 2010

<sup>(v)</sup> Effective for annual periods beginning on or after January 1, 2010

<sup>(vi)</sup> Effective for annual periods beginning on or after January 1, 2013

<sup>(vii)</sup> Effective for transfers on or after July 1, 2009

<sup>(viii)</sup> 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 financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with the IFRS issued by IASB and IFRIC, effective for the Company's reporting for the year ended December 31, 2009.

Previously, the Company presented for Canadian regulatory purposes its consolidated annual and consolidated interim financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The 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 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 financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

#### (c) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes. Revenue is not reduced for other taxes payable from the Company's production.

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.

Interest income is recognized in the consolidated 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 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 financial statements

(Stated in U.S. dollars)

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### 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 on the carryforward of tax losses and tax credits 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.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary difference, and they are expected to 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 financial statements

(Stated in U.S. dollars)

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### 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.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

(j) *Inventory (continued)*

(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.

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment at the end of each 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

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

(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.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

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

(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.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

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

(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.

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
Leasehold improvement	5.5 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 and leasehold improvements 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

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

(vi) Impairment (continued)

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.

(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 as incurred.

(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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

#### (l) *Financial assets (continued)*

##### (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.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

#### (m) *Financial liabilities and equity (continued)*

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.

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 20 (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 financial liabilities and measured at FVTPL prior to their exercise and expiry dates.

#### (iii) Other financial liabilities

The Company has classified accounts payable and accrued expenses, and borrowings as other financial liabilities.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

(m) *Financial liabilities and equity (continued)*

(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.

(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*

Assets held under finance leases are recognized as assets of the Company at the lower of the fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 4. Summary of significant accounting policies (continued)

#### (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.

### 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 judgement and key sources of estimation uncertainty that have significant effect on the amounts recognized in the financial statements.

The significant estimates and judgements used in the preparation of these consolidated financial statements include, amongst other things, the recoverability of accounts receivable, the quantities of recoverable gold on leach pads and in circuit, the proven and probable ore reserves and resources and the related depletion and amortization, the estimated tonnes of waste material to be mined and the estimated recoverable tonnes of ore from each mine area, the estimated net realizable value of inventory, the expected economic lives of and the estimated future operating results and net cash flows from mineral properties, plant and equipment, the anticipated costs of environmental rehabilitation including the reclamation of mine sites, the commencement of commercial production, the provision for income taxes and composition of deferred income tax assets and liabilities, the computation of stock-based compensation, the computation of warrants issued with a Canadian dollar exercise price and the determination of functional currency.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 5. Significant accounting judgements and estimates (continued)

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.

During the year ended December 31, 2009, impairment of inventory of \$3,030,461 was recognized in the profit or loss in respect of the Company's gold process inventory, details of which are disclosed in Note 15.

#### (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.

#### (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 expenditure 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 5. Significant accounting judgements and estimates (continued)

(c) *Environmental rehabilitation (continued)*

As at December 31, 2009, reductions of \$3,145,917 were made from changes in the estimated timing and amount of cash flows on the environmental rehabilitations, details of which are disclosed in Note 19.

(d) *Warrants issued with Canadian dollar exercise prices and stock options*

The fair value of warrants issued with Canadian dollar exercise prices and stock options 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. General and administrative

The general and administrative expenses for the Company are broken down as follows:

	Years ended December 31,	
	2009	2008
	\$	\$
Administration and office	1,509,368	1,171,211
Depreciation	45,246	19,922
Investor relations	186,054	552,001
Professional fees	1,148,062	854,250
Salaries and benefits <sup>(1)</sup>	588,267	2,767,193
Shareholder information, transfer agent and filing fees	165,293	201,301
Travel	72,264	575,357
<b>Total general and administrative</b>	<b>3,714,554</b>	<b>6,141,235</b>

<sup>(1)</sup> Stock-based compensation (a non-cash item) of \$(475,575), and \$1,289,056 has been included in salaries and benefits for the years ended December 31, 2009 and 2008, respectively. The negative stock-based compensation in 2009 is due to forfeitures.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 7. Exploration and evaluation expenditure

	Years ended December 31,	
	2009	2008
	\$	\$
CSH Gold Mine (Note 16 (a))	267,299	1,824,263
Dadiangou Gold Project (Note 16 (b))	431,467	1,655,319
Xinjiang Projects (Note 16 (c))	795,206	920,268
Generative exploration	415,043	887,760
<b>Total exploration and evaluation expenditure <sup>(1) (2)</sup></b>	<b>1,909,015</b>	<b>5,287,610</b>

<sup>(1)</sup> Stock-based compensation (a non-cash item) of \$96,775 and \$177,742 has been included within exploration and evaluation expenditures for the years ended December 31, 2009 and 2008, respectively.

<sup>(2)</sup> Salaries and benefits of \$413,356 and \$1,479,885 have been included in exploration and evaluation expenditures for the years ended December 31, 2009 and 2008, respectively.

### 8. Finance costs

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

	Years ended December 31,	
	2009	2008
	\$	\$
Effective interest	9,868,566	9,097,733
Accretion on environmental rehabilitation	392,277	405,314
	10,260,843	9,503,047
Less: Amount capitalized	(3,952,685)	(5,910,576)
<b>Total finance costs</b>	<b>6,308,158</b>	<b>3,592,471</b>

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.

	Years ended December 31,	
	2009	2008
	%	%
Capitalization rate	16.51	19.24

### 9. Income tax expense

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which are calculated at 30.00% and 31.00% of the estimated assessable profit for the years ended December 31, 2009 and 2008, respectively. The Company and its subsidiaries in Canada had no assessable profit for the reporting periods.

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

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 9. Income tax expense (continued)

For the years ended December 31, 2009 and 2008, the Company's subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% of taxable income.

On March 16, 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the tax rate from 33% to 25% for the Company's PRC subsidiaries from January 1, 2008 onwards.

The New Law imposes withholding tax of 10% upon the distribution of the profits earned by the Company's PRC subsidiaries on or after January 1, 2008 to non-resident shareholders.

Deferred taxation has not been provided for temporary differences amounting to \$6,865,032 and \$17,872,588 in the financial statements in respect of undistributed retained profits earned by the subsidiaries established in the PRC during the year ended December 31, 2009 and 2008, respectively, as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Taxation for other relevant jurisdictions is calculated at the rates prevailing in each of those jurisdictions respectively.

Tax expense comprises:

	Years ended December 31,	
	2009	2008
	\$	\$
Current tax expense	4,752,348	-
Deferred tax expense relating to the origination of and reversal of temporary differences	1,339,601	-
	<u>6,091,949</u>	<u>-</u>

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 9. Income tax expense (continued)

The tax expense for the Company can be reconciled to the (loss) income before income tax for the year per the consolidated statements of comprehensive income as follows:

	Years ended December 31,	
	2009	2008
	\$	\$
(Loss) income before income tax	(2,278,951)	14,876,243
Statutory tax rate	30.00%	31.00%
Tax based on combined Canadian federal and provincial statutory rates	(683,685)	4,611,635
Deduct:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,115,200)	(153,085)
Tax effect of losses not recognized	906,505	2,385,444
Tax effect of deductible temporary differences not recognized	1,332,787	(1,250,211)
Tax effect of non-deductible expenses/non-taxable income	4,915,682	(5,768,894)
Effect of change in future tax rates	735,860	175,111
	6,091,949	-

For the purpose of consolidated statements of financial position presentation, certain deferred tax assets have been recognized to the extent of the deferred tax liabilities relating to taxable temporary differences. The following is the analysis of the deferred tax balances for financial reporting purposes:

	December 31,	
	2009	2008
	\$	\$
Deferred income tax assets		
Property, plant and equipment	2,563,002	2,130,354
Prepaid expenses	1,757,309	-
	4,320,311	2,130,354
Deferred income tax liabilities		
Inventory	(4,989,052)	-
Other	(670,860)	(2,130,354)
	(5,659,912)	(2,130,354)
Net deferred income tax liabilities	(1,339,601)	-

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 9. Income tax expense (continued)

The Company's unrecognized deferred income tax assets are as follows:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Deferred income tax assets			
Tax loss carryforwards	8,159,149	7,252,644	4,867,200
Tax deductible temporary differences	4,246,647	2,913,860	4,164,071
<b>Total deferred income tax assets</b>	<b>12,405,796</b>	<b>10,166,504</b>	<b>9,031,271</b>

No net deferred tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable.

The Company and its subsidiaries have unrecognized non-capital losses for income tax purposes that may be used to offset future taxable income as follows:

	December 31, 2009		
	Local currency	U.S. dollar equivalent	Expiry date
	\$	\$	
Non-capital losses			
Canadian	\$ 34,268,100	32,636,597	2013-2029

### 10. (Loss) earnings per share

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

	Years ended December 31,	
	2009	2008
	\$	\$
(Loss) income attributable to owners of the Company for the purpose of basic (loss) earnings per share	(9,347,381)	14,580,512
Effect of dilutive potential ordinary shares:		
Fair value change on warrant liabilities	-	(12,792,931)
(Loss) income attributable to owners of the Company for the purpose of diluted (loss) earnings per share	(9,347,381)	1,787,581
Weighted average number of shares, basic	167,629,459	162,059,379
Dilutive securities		
Options	-	1,707,012
Warrants	-	1,014,476
<b>Weighted average number of shares, diluted</b>	<b>167,629,459</b>	<b>164,780,867</b>
Basic (loss) earnings per share	(0.06)	0.09
Diluted (loss) earnings per share	(0.06)	0.01

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 11. Cash and cash equivalents

Cash and cash equivalents of the Company are comprised of bank balances and bank deposits with an original maturity of three months or less. The Company's bank balances and cash equivalents are denominated in the following currencies:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Denominated in			
Canadian dollars	5,812,185	649,888	21,795,824
Chinese Renminbi	16,361,908	5,538,082	3,755,368
U.S. dollars	1,810,567	5,954,769	1,401,233
<b>Total cash and cash equivalents</b>	<b>23,984,660</b>	<b>12,142,739</b>	<b>26,952,425</b>

### 12. 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.

### 13. Accounts receivable

The Company's accounts receivable arise the following sources: interest receivables, listing expense receivable and goods and services tax ("GST") receivable due from various government taxation authorities. These are broken down as follows:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Listing expense receivable	1,184,911	-	-
Amounts due from shareholder (Note 21)	346,437	-	-
Other receivables	85,365	113,609	49,583
GST receivable	65,167	35,162	258,292
Interest receivables	-	-	41,039
<b>Total accounts receivable</b>	<b>1,681,880</b>	<b>148,771</b>	<b>348,914</b>

Listing expense receivable is due from Skyland Mining Limited ("Skyland"), a subsidiary of CNG, based on a cost sharing agreement between the Company and Skyland entered into in September 2009 (Note 21). The Company and Skyland agreed to share equally costs related to the proposed listing of the Company on an Asian Stock Exchange and the Company has recorded this as a cost recovery against the listing expenses in the consolidated statements of comprehensive income.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 13. Accounts receivable (continued)

Below is an aged analysis presented based on invoice date at the end of the reporting period of the Company's accounts receivables:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Less than 1 month	65,167	35,211	301,380
1 to 3 months	1,270,276	-	-
Over 6 months	346,437	113,560	47,534
<b>Total accounts receivable</b>	<b>1,681,880</b>	<b>148,771</b>	<b>348,914</b>

Of the Company's accounts receivable balance, the following were past due but not impaired:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Over 6 months	-	113,560	47,534

Management considers that the Company's accounts receivable that are neither past due nor impaired have good credit quality at the end of each reporting period with reference to past settlement history.

At December 31, 2009, all of the GST receivable was outstanding less than 1 month. The Company anticipates full recovery of these amounts and, therefore, no impairment has been recorded against these receivables. The credit risk on the GST receivable has been further discussed in Note 25 (b).

The Company's other receivables mostly represented employees' travel advances as at December 31, 2009, 2008 and 2007. The other receivables are unsecured, interest free and repayable upon written notice from the Company.

The Company holds no collateral for any receivable amounts outstanding as at December 31, 2009, 2008 and 2007.

### 14. Prepaid expenses and deposits

	December 31,		
	2009	2008	2007
	\$	\$	\$
Refundable CSH Gold Mine construction deposits	192,876	3,975,699	1,228,902
Deposits for mine supplies and services	705,420	-	-
Rent deposits	246,846	358,875	264,385
Permit advance	-	315,863	-
Deposits for spare parts	133,036	634,789	-
Insurance	286,787	304,757	402,091
Prepaid resources taxes	-	1,476,319	-
Other	169,216	110,200	106,602
<b>Total prepaid expenses and deposits</b>	<b>1,734,181</b>	<b>7,176,502</b>	<b>2,001,980</b>

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 15. Inventory

	December 31,		
	2009	2008	2007
	\$	\$	\$
Gold in process	27,076,254	25,136,984	-
Gold doré bars	1,069,014	1,013,325	-
Consumables	344,231	1,328,923	429,277
Spare parts	529,616	165,535	5,332
<b>Total inventory</b>	<b>29,019,115</b>	<b>27,644,767</b>	<b>434,609</b>

	December 31,		
	2009	2008	2007
	\$	\$	\$
Amounts expected to be recovered within 12 months	10,166,429	27,644,767	434,609
Amounts expected to be recovered after 12 months	18,852,686	-	-
<b>Total inventory</b>	<b>29,019,115</b>	<b>27,644,767</b>	<b>434,609</b>

Inventory totaling \$56,178,404 and \$20,499,517 for the years ended December 31, 2009 and 2008, respectively, was recognized in cost of sales after commercial production began.

The actual gold recovery rate of 43% from the uncrushed ore realized up to December 2009 is 8% lower than the predicted recovery rate of 51% used in the Company's inventory model and as such the Company has recorded an impairment of \$3,030,461 during the year ended December 31, 2009. Impairment of inventory is included in cost of sales during the year ended December 31, 2009.

	December 31,		
	2009	2008	2007
	\$	\$	\$
Gold in process	30,106,715	25,136,984	-
Impairment of inventory	(3,030,461)	-	-
<b>Total gold in process</b>	<b>27,076,254</b>	<b>25,136,984</b>	<b>-</b>

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 16. Property, plant and equipment

	Motor vehicles	Furniture and office equipment	Machinery and equipment	Buildings	Leasehold improvements	Mineral assets	Construction in progress ("CIP")	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>								
As at January 1, 2007	274,330	441,908	165,502	56,308	-	5,327,531	14,749,310	21,014,889
Additions	824,217	237,637	180,045	59,222	-	20,781,095	13,864,491	35,946,707
Disposals	(8,310)	(55,238)	-	-	-	-	-	(63,548)
Transfer from CIP	-	1,237	24,628,632	3,942,616	-	-	(28,572,485)	-
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	68,990	216,697	895,270	578,491	-	9,949,133	48,256,412	59,964,993
Disposals	(93,773)	(6,966)	-	-	-	-	-	(100,739)
Reclassified as assets held for sale	(37,422)	(48,633)	(10,036)	(76,321)	-	-	-	(172,412)
Transfer from CIP	-	-	900,126	-	100,458	-	(1,000,584)	-
Environmental rehabilitation adjustment (Note 19)	-	-	-	-	-	(3,145,917)	-	(3,145,917)
As at December 31, 2009	1,121,931	884,070	26,708,182	4,777,971	100,458	18,760,374	75,982,945	128,335,931
<i>Accumulated depreciation</i>								
As at January 1, 2007	(83,981)	(200,143)	(46,213)	(704)	-	-	-	(331,041)
Charge for the year	(116,883)	(132,306)	(751,783)	(113,399)	-	-	-	(1,114,371)
Eliminated on disposals	7,479	52,726	(771)	-	-	-	-	59,434
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	(216,772)	(175,290)	(2,141,625)	(393,584)	(4,566)	(2,832,668)	-	(5,764,505)
Eliminated on disposals	67,879	6,966	-	-	-	-	-	74,845
Reclassified as assets held for sale	33,679	23,430	4,333	18,749	-	-	-	80,191
As at December 31, 2009	(479,685)	(503,867)	(5,152,288)	(864,813)	(4,566)	(3,412,040)	-	(10,417,259)
<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 December 31, 2009	642,246	380,203	21,555,894	3,913,158	95,892	15,348,334	75,982,945	117,918,672

Included in the cost above is \$15,074,435, \$11,121,750 and \$5,211,174 as at December 31, 2009, 2008 and 2007 related to finance costs which have been capitalized as construction in progress and mineral assets.

Construction in progress as at 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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

#### Mineral property interests

##### (a) CSH Gold Mine

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

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	Transfer <sup>(1)</sup>	December 31, 2008	Incurred during the year	December 31, 2009
	\$	\$	\$	\$	\$	\$
Exploration expenditure charged						
to profit or loss	7,079,614	1,824,263	-	8,903,877	267,299	9,171,176
Mineral assets <sup>(2)</sup>	26,108,626	6,250,322	(20,401,790)	11,957,158	6,803,215	18,760,373
Construction in progress <sup>(3)</sup>	41,316	28,685,801	-	28,727,117	47,255,828	75,982,945

<sup>(1)</sup> Amounts were transferred to inventory upon entering into commercial production effective July 1, 2008.

<sup>(2)</sup> During the year ended December 31, 2009, there was an adjustment to the Company's estimate for environmental rehabilitation of \$3,145,917 (Note 19).

<sup>(3)</sup> During the year ended December 31, 2009, \$1,000,584 was transferred out of construction in progress.

##### (b) Dadiangou Gold Project

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

In 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 December 31, 2009, the Company had not incurred the required exploration expenditure and its interest in this project remained as 71% as at December 31, 2009 and 2008.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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

#### Mineral property interests (continued)

#### (b) Dadiangou Gold Project (continued)

	December 31, 2007	Incurred during the year	December 31, 2008	Incurred during the year	December 31, 2009
	\$	\$	\$	\$	\$
Exploration	3,975,125	1,655,319	5,630,444	431,467	6,061,911

The Company considered that the Dadiangou Gold Project carried out by Gansu Pacific Mining Company Ltd. ("Gansu") is not a sizeable mine site and decided not to further develop this project. The Company has decided to sell its interest in Gansu in 2009 and in December 2009, the Company entered into a letter of intent with a potential purchaser in relation to the disposal of its entire interest in Gansu. The consideration will be determined after the completion of due diligence procedures. The transaction has not yet been completed as of the date of this report. As a result, the Company has recorded the assets and liabilities of Gansu at December 31, 2009 as assets classified as held for sale and liabilities classified as held for sale. Assets classified as held for sale and liabilities classified as held for sale are broken down as follows:

#### Assets classified as held for sale

	December 31, 2009
	\$
Cash	81,186
Accounts receivable	1,047
Property, plant and equipment	75,071
	157,304

#### Liabilities classified as held for sale

	December 31, 2009
	\$
Accounts payable	17,054

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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

#### Mineral property interests (continued)

##### (c) Xinjiang Projects

The Company held two exploration permits covering 96 km<sup>2</sup> in the Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China. The permits were held under Yunnan Xindian Mining Co. Ltd. ("Yunnan Xindian"), 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.

	December 31, 2007	Incurred during the year	December 31, 2008	Incurred during the year	December 31, 2009
	\$	\$	\$	\$	\$
Exploration	3,360,685	920,268	4,280,953	795,206	5,076,159

As the project did not find any resources with commercial values, the Company has decided to sell its interest in the Xinjiang Projects and as a result, has recorded the assets and liabilities of Yunnan Xindian at December 31, 2009 as assets classified as held for sale and liabilities classified as held for sale. Negotiations with interested parties to dispose of its entire interest in Yunnan Xindian have taken place in 2009. Assets classified as held for sale and liabilities classified as held for sale are broken down as follows:

#### Assets classified as held for sale

	December 31, 2009
	\$
Cash	8,382
Accounts receivable	4,920
Prepaid expenses - rent deposits	1,215
Property, plant and equipment	17,150
	<u>31,667</u>

#### Liabilities classified as held for sale

	December 31, 2009
	\$
Accounts payable	<u>24,198</u>

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 17. Accounts payable and accrued expenses

Accounts payable and accrued expenses of the Company are principally comprised of amounts outstanding for trade purchases relating to gold production activities. The average credit period taken for trade purchases is between 120 to 150 days.

The following is an aged analysis of the accounts payable and accrued expenses:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Less than 1 month	24,526,308	13,979,217	13,391,117
1 to 3 months	1,444,774	1,485,099	527,804
3 to 6 months	2,525,308	3,235,841	38,167
Over 6 months	6,576,214	232,487	1,109,397
<b>Total accounts payable and accrued expenses</b>	<b>35,072,604</b>	<b>18,932,644</b>	<b>15,066,485</b>

Included within accounts payable and accrued expenses are crusher construction costs payable of \$15,454,985 (2008 - \$132,779).

### 18. Borrowings

	Effective interest rate	Maturity	December 31,		
			2009	2008	2007
	%		\$	\$	\$
<b>Current</b>					
Short-term loan (i)	6.210	March 26, 2009	-	18,672,730	-
Current portion of long-term loan (iii)	5.184	September 2010 to September 9, 2014	1,458,619	-	-
Notes payable (ii)	19.540	December 14, 2009	-	22,930,784	-
Notes payable (ii)	19.480	June 26, 2010	10,633,386	-	-
			<b>12,092,005</b>	<b>41,603,514</b>	<b>-</b>
<b>Non-current</b>					
Long-term loan - ABC (iii)	5.184	September 2010 to September 9, 2014	40,841,331	-	-
Long-term loan - CNG (iii)	6.000	December 6, 2011	40,000,000	-	-
Notes payable (ii)	19.540	December 14, 2009	-	-	26,708,698
Notes payable (ii)	19.480	June 26, 2010	-	14,929,121	17,558,325
			<b>80,841,331</b>	<b>14,929,121</b>	<b>44,267,023</b>
			<b>92,933,336</b>	<b>56,532,635</b>	<b>44,267,023</b>

#### (i) Short-term loan

In June 2009, IMP secured a non-revolving credit facility for \$30,732,757 (RMB 210,000,000) from CNG. The credit facility is unsecured and bears interest payable monthly at 5.31% per annum. The credit facility matures on and is repayable in full by September 30, 2009, but may be extended upon agreement of IMP and CNG. IMP drew down the credit facility by a total of \$11,710,973 (RMB 80,000,000) which was repaid by December 31, 2009.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 18. Borrowings (continued)

#### (i) Short-term loan (continued)

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 and denominated in RMB at an annual interest rate of 6.21%. Interest was payable monthly and the principal amount was repayable in installments 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.

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 CAD1.60 per common share in the case of the warrants issued in connection with the December 2006 note offering and CAD2.50 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 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 \$1,099,973 for the year ended December 31, 2008 and \$709,772 for the year ended December 31, 2009.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 18. Borrowings (continued)

(ii) Notes payable	Note A	Note B	Note C	Total
	\$	\$	\$	\$
Balances of notes payable,				
December 31, 2006	21,604,895	-	-	21,604,895
Total proceeds	-	11,668,067	7,000,840	18,668,907
Less: Fair value of warrants	-	(1,500,777)	(900,466)	(2,401,243)
Fair value of the notes payable	21,604,895	10,167,290	6,100,374	37,872,559
Less: Transaction costs for the				
notes payable	-	(462,252)	(17,170)	(479,422)
Unrealized foreign exchange loss	3,771,705	831,956	520,987	5,124,648
Effective interest	4,770,372	1,058,098	600,509	6,428,979
Interest paid	(3,438,274)	(776,046)	(465,421)	(4,679,741)
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	3,693,230	1,243,176	960,770	5,897,176
Effective interest	4,721,339	2,235,146	1,107,779	8,064,264
Interest paid	(3,024,764)	(1,291,349)	(795,898)	(5,112,011)
Principal payments	(28,320,589)	-	-	(28,320,589)
Principal repurchase	-	(7,755,359)	-	(7,755,359)
Balances of notes payable,				
December 31, 2009	-	3,678,592	6,954,794	10,633,386

#### (a) Note A

On December 14, 2006, the Company completed a \$25,935,546 (CAD30,000,000) ("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%.

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 CAD1.60 each and expires on December 14, 2008 (see Note 20 (c)). The expiry date has been extended to December 14, 2010 (see Note 18 (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 CAD2.75 for 20 consecutive trading days.

On December 14, 2009, Note A was repaid in full.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 18. Borrowings (continued)

#### (ii) Notes payable (continued)

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

On June 26, 2007, the Company concluded an \$18,668,907 (CAD20,000,000) 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 (CAD7,500,000) ("Note C") of the June 07 Notes and \$11,668,067 (CAD12,500,000) ("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 CAD2.50 and expires on June 26, 2009 (see Note 20 (c)). The expiry date has been extended to June 26, 2011 (see Note 18 (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 CAD4.25 for 20 consecutive trading days.

On December 14, 2009, CAD8,500,000 of Note B were repurchased from the market at a consideration of \$8,024,167. The loss on repurchase was \$268,808. The balance of CAD4,000,000 was repurchased on January 11, 2010.

#### (iii) Long-term loans

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

On December 3, 2009, the Company secured a two year term loan in the amount of US\$40,000,000 from its largest shareholder, CNG. The purpose of the term loan was to redeem the CAD30,000,000 of the 12% promissory notes due to mature on December 14, 2009. The funds were also used for the early redemption of the CAD12,500,000 of the 12% promissory notes, due to mature on June 26, 2010 and on January 11, 2010. The loan is unsecured with interest at 6% per annum payable quarterly. Subject to prior repayment, the loan will become due and payable in December 2011.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 19. 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 \$9,495,000, discounted at 10% per annum at December 31, 2009. 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:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Balance, beginning of year	4,131,735	2,244,633	-
Additions to site reclamation during the year	244,066	1,224,696	1,833,169
Accretion incurred in the current year	392,277	405,314	323,250
Foreign exchange (gain) loss	(23,041)	257,092	88,214
Reductions as at year end from changes in the estimated timing and amount of cash flows	(3,145,917)	-	-
<b>Total environmental rehabilitation</b>	<b>1,599,120</b>	<b>4,131,735</b>	<b>2,244,633</b>

### 20. Share capital

#### (a) Common shares

##### (i) Authorized

Unlimited common shares without par value

##### (ii) Issued and outstanding

167,629,459 common shares (2008 - 163,889,159 common shares; 2007 - 156,561,424 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 and 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 20. Share capital (continued)

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

The stock options have a life of up to six years from grant date. 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 December 31, 2009, there were 15,215,946 options available for future grants.

The following is a summary of option transactions under the Company's stock option plan for the periods ended December 31, 2009:

	2009		2008		December 31, 2007	
	Number of options	Weighted average exercise price Cdn\$	Number of options	Weighted average exercise price Cdn\$	Number of options	Weighted average exercise price Cdn\$
Balance, beginning of year	5,787,300	1.75	9,026,535	1.50	7,412,140	1.21
Options granted	-	-	50,000	2.45	3,593,000	2.18
Options exercised	(1,490,300)	1.36	(1,920,568)	0.64	(1,707,102)	0.78
Options forfeited	(2,625,000)	1.06	(1,083,000)	2.90	(271,503)	1.22
Options expired	(125,000)	1.74	(285,667)	1.31	-	-
Balance, end of year	1,547,000	2.04	5,787,300	1.75	9,026,535	1.50

Due to forfeitures of stock options by employees before the vesting date, the Company re-estimated the number of options that will ultimately vest in the future and recognized a reversal of compensation cost of \$461,783 during the year ended December 31, 2009.

During the year ended December 31, 2008, the Company granted 50,000 stock options to an employee at an exercise price of CAD2.45 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.

During the year ended December 31, 2007, the Company granted 3,593,000 stock options to certain employees and consultants at exercise prices ranging from CAD1.62 to CAD2.20 with expiry dates ranging from January 12, 2012 to July 20, 2013. The grant-date fair value and compensation costs of \$4,979,230 will be expensed/recognized over the vesting periods of the options, of which \$1,031,171 was included in the net amount of \$1,754,547 expensed/recognized in the year ended December 31, 2007.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 20. Share capital (continued)

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

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

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

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

	Years ended December 31,	
	2008	2007
	\$	\$
Risk free interest rate	3.34%	4.00%
Expected life (years)	6.0	4.6
Expected volatility	55%	73%
Expected dividend per share	\$Nil	\$Nil
Expected annual forfeitures	-	-
Fair value per option granted	\$1.36	\$1.35

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:

	December 31,		
	2009	2008	2007
Balance, beginning of year	6,310,000	11,717,167	17,212,540
Issued	-	-	4,000,000
Exercised	(2,250,000)	(5,407,167)	(9,495,373)
Balance, end of year	4,060,000	6,310,000	11,717,167

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 20. Share capital (continued)

#### (c) Warrants (continued)

The following is a summary of warrants amounts outstanding:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Balance, beginning of year	274,507	13,825,817	9,347,834
Issued	-	-	2,401,243
Extension of warrants	-	1,294,238	-
Exercised	(2,175,105)	(2,052,617)	(12,197,366)
Fair value change on warrant liabilities	7,186,721	(12,792,931)	14,274,106
<b>Balance, end of year</b>	<b>5,286,123</b>	<b>274,507</b>	<b>13,825,817</b>

#### *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 derivative liabilities measured at fair value. The fair values of the warrants was determined using the Black-Scholes option pricing model at the end of each reporting period. Upon exercise into common shares, the fair value 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:

	Years ended December 31,		
	2009	2008	2007
	\$	\$	\$
Risk free interest rate	0.68%	1.30%	3.92%
Expected life (years)	0.31	2.16	0.93
Expected volatility	96.93%	81.75%	58.19%
Expected dividend per share	\$Nil	\$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.

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

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

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 20. Share capital (continued)

#### (c) Warrants (continued)

- (i) As mentioned in Note 18 (i), the expiry dates of 1,610,000 warrants and 2,450,000 warrants were extended to December 14, 2010 and June 26, 2011, respectively, in September 2008.
- (ii) Subsequent to December 31, 2009, the Company exercised its right to accelerate the expiry date of these warrants (Note 18 (ii)(a)). The expiry date of these warrants is now April 22, 2010.

### 21. Related party transactions

The financial statements include the financial statements of Jinshan Gold Mines Inc. and its subsidiaries listed in the following table:

Name of subsidiary	Place of incorporation	Equity interest attributable to the Company		
		December 31,		
		2009	2008	2007
		%	%	%
Pacific PGM Inc.	British Virgin Islands	100.0	100.0	100.0
Pacific PGM (Barbados) Inc.	Barbados	100.0	100.0	100.0
Inner Mongolia Pacific Mining Co., Ltd. (formerly known as Ningxia Pacific Mining Co. Ltd.)	Ningxia, China	96.5	96.5	96.5
Gansu Mining Company (Barbados) Ltd.	Barbados	100.0	100.0	100.0
Gansu Pacific Mining Company Ltd.	Gansu, China	71.0	71.0	71.0
Yunnan Southern Copper (Barbados) Inc.	Barbados	100.0	100.0	100.0
Yunnan Xindian Mining Co., Ltd.	Yunnan, China	99.0	99.0	99.0
Yunnan Southern Copper Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Guizhou Copper-Silver Mining Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Yunnan Xinzhaio Copper Mining Co. Ltd.	Yunnan, China	N/A <sup>(1)</sup>	70.0	70.0
Yunnan Copper-Silver Mining Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Pacific Gold Mining Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Pacific Northern Gold Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
China Platinum & Palladium Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Yunnan Platinum & Palladium Inc.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Genghis Holding Company Ltd.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0
Guizhou Qian Tong Mining Co. Ltd.	Guizhou Province, China	N/A <sup>(1)</sup>	75.0	75.0
Gansu Mining Company Ltd.	British Virgin Islands	N/A <sup>(1)</sup>	100.0	100.0

<sup>(1)</sup> These subsidiaries were dissolved during the year ended December 31, 2009.

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

	December 31,	
	2009	2008
	%	%
CNG	40.3	41.2

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 21. Related party transactions (continued)

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:

	Years ended December 31,	
	2009	2008
	\$	\$
Gold sales	77,723,334	14,011,969
Silver sales (netted in cost of sales)	166,214	60,531

The Company's gold doré and silver sales was sold to CNG at market price under relevant agreement.

The Company incurred the following expenses with Ivanhoe Mines Ltd. ("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.

	Years ended December 31,	
	2009	2008
	\$	\$
Corporate administration	-	596,916
Financial services agreement	409,770	-
Salaries	-	333,069
Interest	1,384,193	835,602
<b>Total related party expenses</b>	<b>1,793,963</b>	<b>1,765,587</b>

During the year ended December 31, 2008, Ivanhoe and GMM incurred corporate administration and salaries on behalf of the Company and these corporate administration and salaries have been recorded on a cost recovery basis. The interest expense has been recorded on the effective interest method.

The financial services agreement was entered into by the Company and CNG whereby CNG would provide the Company with assistance with respect to obtaining additional financial support, including, but not limited to negotiations with respect to non-revolving credit facilities, assistance with respect to application and provision of a guarantee for bank loans to be used for the construction of the crusher and other financing options.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 21. Related party transactions (continued)

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

	Years ended December 31,	
	2009	2008
	\$	\$
CNG	1,793,963	395,818
Ivanhoe	-	439,784
GMM	-	929,985
<b>Total related party expenses</b>	<b>1,793,963</b>	<b>1,765,587</b>

During the year ended December 31, 2009, CNG extended trade credit of \$20,488,504 and a non-revolving credit facility of \$30,732,757 (RMB 210,000,000) (Note 18) to the Company's subsidiary, IMP. By December 31, 2009, the Company had repaid the total advances under trade credit extension and non-revolving credit facility from CNG.

During the year ended December 31, 2009, the Company entered into a letter of intent with a subsidiary of CNG to dispose of its entire interest in Gansu. The transaction has not yet been completed as of the date of this report.

#### *Related party balances*

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

	December 31,		
	2009	2008	2007
	\$	\$	\$
<b>Assets</b>			
Listing expense receivable from CNG's subsidiary	1,184,911	-	-
Accounts receivable from CNG	346,437	-	-
Prepaid expenses to GMM	-	-	227,749
Prepaid expenses to CNG	283,451	-	-
<b>Total related party assets</b>	<b>1,814,799</b>	<b>-</b>	<b>227,749</b>

Accounts receivable from CNG arose from sale of gold to CNG. There is no credit period. The balance of \$346,437 at December 31, 2009 is aged within 8 months. The full amount has not yet been settled.

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

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 21. Related party transactions (continued)

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

	December 31,		
	2009	2008	2007
	\$	\$	\$
Liabilities			
Accounts payable to GMM	-	-	375,409
Accounts payable to CNG (i)	109,391	76,190	-
<b>Total related party liabilities</b>	<b>109,391</b>	<b>76,190</b>	<b>375,409</b>

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

#### *Key management personnel compensation*

	Years ended December 31,	
	2009	2008
	\$	\$
Salary cost		
Salaries and other benefits	822,960	1,391,025
Post employment benefits	11,382	15,380
	<b>834,342</b>	<b>1,406,405</b>

### 22. 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 GAAP for the purposes of resources allocation and performance evaluation for 2007 and 2008 and under IFRS for 2009. The Company's segment income is \$2,218,763 during the year ended December 31, 2008, which is the same as the income of the Company for the year under Canadian GAAP as disclosed in Note 27. The principal differences between Canadian GAAP and IFRS are disclosed in Note 27.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 22. Segment information (continued)

The Company began to generate revenue in 2008. During the years ended December 31, 2009 and 2008, the total segment revenue comprises revenue from two and three customers, respectively. The Company sells approximately 95.9% (2008 - 47.4%) of its gold to one creditworthy customer, CNG who is also the Company's substantial shareholder for the year ended December 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.

### 23. Supplemental cash flow information

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

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

	Years ended December 31,	
	2009	2008
	\$	\$
Value of warrants transferred to share capital upon exercise	2,175,105	2,052,617
Transfer of share option reserve upon exercise of options	1,297,570	1,027,931

### 24. 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.

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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 25. Financial instruments

The following table does not include financial assets and financial liabilities carried at amortized cost and classified as held for sale as at December 31, 2009 (see Note 16 (b) and (c)).

	Financial instrument classification	Carrying amount		
		2009	2008	December 31, 2007
		\$	\$	\$
<i>Financial assets</i>				
Cash and cash equivalents	Loans and receivables	23,984,660	12,142,739	26,952,425
Restricted cash	Loans and receivables	-	5,215,704	-
Accounts receivable	Loans and receivables	1,681,880	148,771	348,914
Long-term receivable	Loans and receivables	49,689	-	-
<i>Financial liabilities</i>				
Accounts payable and accrued expenses	Other financial liabilities	35,072,604	18,932,644	15,066,485
Short-term loan	Other financial liabilities	-	18,672,730	-
Notes payable	Other financial liabilities	10,633,386	37,859,905	44,267,023
Long-term loans	Other financial liabilities	82,299,950	-	-
Warrant liabilities	FVTPL	5,286,123	274,507	13,825,817

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

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

The Company's financial instruments are exposed to certain financial risks including currency risk, credit risk, liquidity risk and interest risk. The following disclosure does not include the effect of financial assets and liabilities classified as held for sale as at December 31, 2009 as the amounts involved and the risk exposure are considered insignificant.

#### (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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 25. Financial instruments (continued)

#### (a) Currency risk (continued)

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

	December 31,		
	2009	2008	2007
	\$	\$	\$
Cash and cash equivalents	5,812,185	649,888	21,795,824
Accounts receivable	99,839	35,211	260,341
Accounts payable and accrued expenses	(1,487,292)	(829,882)	(2,470,306)
Borrowings	(10,633,386)	(37,859,905)	(44,267,023)
Warrant liabilities	(5,286,123)	(274,507)	(13,825,817)
	<u>(11,494,777)</u>	<u>(38,279,195)</u>	<u>(38,506,981)</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 a decrease in the Company's loss before tax/increase in loss before tax of approximately \$1,149,000 for the year ended December 31, 2009, and an increase in the Company's income before tax/decrease in income before tax of approximately \$3,828,000 for the year ended December 31, 2008.

#### RMB monetary assets and liabilities

	December 31,		
	2009	2008	2007
	\$	\$	\$
Cash and cash equivalents	16,361,908	5,538,082	3,755,368
Restricted cash	-	1,326,358	-
Accounts receivable	397,130	113,560	47,534
Accounts payable and accrued expenses	(32,347,188)	(18,031,985)	(12,474,754)
Borrowings	(42,299,950)	(18,672,730)	-
	<u>(57,888,100)</u>	<u>(29,726,715)</u>	<u>(8,671,852)</u>

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 a decrease in the Company's loss before tax/increase in loss before tax of approximately \$5,788,000 for the year ended December 31, 2009 and an increase in the Company's income before tax/decrease in income before tax of approximately \$2,973,000 for the year ended December 31, 2008.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 25. Financial instruments (continued)

#### (b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Company sells approximately 95.9% (2008 - 47.4%) of its gold to one creditworthy customer, CNG, who is also the Company's substantial shareholder for the year ended December 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 respective periods.

Maximum exposure to credit risk is as follows:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Bank balances	23,984,660	12,140,045	9,896,230
Bank short-term deposits	-	2,694	17,056,195
Restricted cash	-	5,215,704	-
Accounts receivable	1,681,880	148,771	348,914
	<u>25,666,540</u>	<u>17,507,214</u>	<u>27,301,339</u>

#### (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 24.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 25. 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 (see Note 26 for other commitments). 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 December 31, 2009						
Accounts payable and accrued expenses	-	35,072,604	-	-	35,072,604	35,072,604
Current portion of long-term loan - ABC (Note 18 (iii))	5.18	3,660,480	-	-	3,660,480	1,458,619
Long-term loan - ABC (Note 18 (iii))	5.18	-	3,583,815	42,946,690	46,530,505	40,841,331
Long-term loan - CNG (Note 18 (iii))	6.00	2,433,333	42,433,333	-	44,866,666	40,000,000
Note payables (Note 18 (ii)(b))	12.00	11,373,917	-	-	11,373,917	10,633,386
		52,540,334	46,017,148	42,946,690	141,504,172	128,005,940
As at December 31, 2008						
Accounts payable and accrued expenses	-	18,932,644	-	-	18,932,644	18,932,644
Notes payable (Note 18 (i))	6.21	19,248,137	-	-	19,248,137	18,672,730
Notes payable (Note 18 (ii)(a))	12.00	27,318,024	-	-	27,318,024	22,930,784
Notes payable (Note 18 (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
As at December 31, 2007						
Accounts payable and accrued expenses	-	15,066,485	-	-	15,066,485	15,066,485
Notes payable (Note 18 (ii)(a))	12.00	3,643,344	33,839,865	-	37,483,209	26,708,698
Notes payable (Note 18 (ii)(b))	12.00	2,428,896	2,428,896	21,426,966	26,284,758	17,558,325
		21,138,725	36,268,761	21,426,966	78,834,452	59,333,508

#### (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 18) 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 \$239,847 for the year ended December 31, 2009 and an increase in the Company's income before tax/decrease in income before tax of \$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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 25. Financial instruments (continued)

#### (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.
- 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 3. There has been no transfer between Level 1 and Level 2 of the financial instruments at FVTPL throughout the respective periods and the details are as follows:

	December 31,		
	2009	2008	2007
	\$	\$	\$
Financial liabilities at FVTPL			
Warrant liabilities (Level 3)	5,286,123	274,507	13,825,817

#### (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 20 (c)). Therefore, the Company are exposed to price risk because of changes in market prices of its shares.

#### Price sensitivity analysis

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

If the Company's share price had been 50% lower at the end of December 31, 2009 and all other variables were held constant, the Company's income before tax would increase by approximately \$1,744,000 for the year ended December 31, 2009.

If the Company's share price had been 50% higher/lower at the end of December 31, 2008 and all other variables were held constant, the Company's income before tax would decrease by approximately \$369,000/increase by approximately \$49,000 for the year ended December 31, 2008.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 26. Commitments and contingencies

#### *Operating leases commitments*

At December 31, 2009, the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	December 31, 2009
	\$
Within one year	95,482
Between two and five years	391,307
	<u>486,789</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*

	December 31, 2009
	\$
Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for	10,465,453

#### *Other commitments and contingencies existed at December 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 27. First time adoption of IFRS

#### (a) Transition to IFRS

The Company's consolidated financial statements for the year ending December 31, 2006 are the first annual financial statements that comply with IFRS, 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
	\$
<b>Current assets</b>	
Cash and cash equivalents	15,414,581
Accounts receivable	569,409
Prepaid expenses and deposits	215,125
	<hr/> 16,199,115
<b>Non-current assets</b>	
Property, plant and equipment	918,700
<b>Total assets</b>	<hr/> <b>17,117,815</b>
<b>Current liabilities</b>	
Accounts payable and accrued expenses	1,206,076
<b>Non-current liabilities</b>	
Share purchase warrants	2,263,489
<b>Total liabilities</b>	<hr/> <b>3,469,565</b>
<b>Owners' equity</b>	
Share capital	35,433,993
Equity reserve	2,449,090
Deficit	(24,234,833)
<b>Total owners' equity</b>	<hr/> <b>13,648,250</b>
<b>Total liabilities and owners' equity</b>	<hr/> <b>17,117,815</b>

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 27. First time adoption of IFRS (continued)

#### (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.

#### IFRS exemption options

##### (i) 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.

##### (ii) 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.

##### (iii) 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.

#### (c) 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.

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 27. First time adoption of IFRS (continued)

#### (d) Reconciliations

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,			January 1,
	2008	2007	2006	2006
	\$	\$	\$	\$
Total assets under Canadian GAAP	120,542,330	87,465,388	50,873,318	17,117,815
Adjustments for different accounting treatments:				
Environmental rehabilitation (i)	(1,231,631)	(2,215,390)	-	-
<b>Total assets under IFRS</b>	<b>119,310,699</b>	<b>85,249,998</b>	<b>50,873,318</b>	<b>17,117,815</b>
<i>Total liabilities</i>	December 31,			January 1,
	2008	2007	2006	2006
	\$	\$	\$	\$
Total liabilities under Canadian GAAP	80,828,645	63,793,531	24,199,255	1,206,076
Adjustments for different accounting treatments:				
Environmental rehabilitation (i)	(1,231,631)	(2,215,390)	-	-
Share purchase warrants (iii)	274,507	13,825,817	9,347,834	2,263,489
<b>Total liabilities under IFRS</b>	<b>79,871,521</b>	<b>75,403,958</b>	<b>33,547,089</b>	<b>3,469,565</b>
<i>Total equity</i>	December 31,			January 1,
	2008	2007	2006	2006
	\$	\$	\$	\$
Total equity under Canadian GAAP	39,417,954	23,671,857	26,674,063	15,911,739
Adjustments for different accounting treatments:				
Reclassification of non-controlling interest	295,731	-	-	-
Share purchase warrants (iii)	(274,507)	(13,825,817)	(9,347,834)	(2,263,489)
<b>Total equity under IFRS</b>	<b>39,439,178</b>	<b>9,846,040</b>	<b>17,326,229</b>	<b>13,648,250</b>
<b>Total liabilities and owners' equity under IFRS</b>	<b>119,310,699</b>	<b>85,249,998</b>	<b>50,873,318</b>	<b>17,117,815</b>

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

### 27. First time adoption of IFRS (continued)

#### (d) Reconciliations (continued)

##### Net income (loss)

	December 31,		
	2008	2007	2006
	\$	\$	\$
Net income (loss) for the year under Canadian GAAP	2,218,763	(16,531,264)	(8,557,079)
Adjustments for different accounting treatments:			
Stock-based compensation (ii)	(135,451)	372,463	516,312
Share purchase warrants (iii)	12,792,931	(14,274,106)	(7,997,827)
Net income (loss) for the year under IFRS	14,876,243	(30,432,907)	(16,038,594)
Basic and diluted earnings (loss) per share under Canadian GAAP	0.01	(0.11)	(0.06)
Basic earnings (loss) per share under IFRS	0.09	(0.20)	(0.12)
Diluted earnings (loss) per share under IFRS	0.01	(0.20)	(0.12)

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 a change in the measurement of the provision. As a result, the asset retirement obligation liability has been re-measured using the discount rate in effect at year end and an adjustment has been recorded to the corresponding asset.

##### *Under Canadian GAAP*

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

# Jinshan Gold Mines Inc.

## Notes to the consolidated financial statements

(Stated in U.S. dollars)

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### 27. First time adoption of IFRS (continued)

(d) *Reconciliations (continued)*

(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.

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.

*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.

(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 values 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.

### 28. Jiamia Property ("Jiamia")

On September 23, 2009, the Company announced that it executed a memorandum of understanding with CNG and another partner to acquire a 100% interest in the Jiamia property. The Jiamia property is a significant polymetallic deposit consisting of copper, molybdenum, gold, silver and other minerals. The parties have commenced the negotiation and preparation of definitive agreements regarding the purchase and sale of the property. As the acquisition will be a related party transaction under Canadian securities laws, the Company has established a special committee of independent directors to review the transaction. A review process is in progress to conform to related party transaction requirements, and upon completion of this process, the terms of any potential acquisition will be determined by negotiation between CNG and its partner on the one hand and a special committee of independent directors on the other.