

Part A. Unaudited Interim Financial Statements of the Group

The information set out below is the unaudited interim financial information of the Group for the period ended September 30, 2010 and does not form part of the Accountants' Report prepared by the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as set out in Appendix I-A, and is included herein for information purposes only.

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

To the Board of Directors of China Gold International Resources Corp. Ltd.

Introduction

We have reviewed the interim financial information set out on pages I-D-A-2 to I-D-A-30, which comprises the condensed consolidated statement of financial position of China Gold International Resources Corp. Ltd. (the "Company") and its subsidiaries (together, the "Group") as at September 30, 2010 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the nine months then ended and certain explanatory notes. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

November 12, 2010

China Gold International Resources Corp. Ltd.

Condensed consolidated statement of comprehensive income
(Stated in U.S. dollars)
(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2010 \$	2009 \$	2010 \$	2009 \$
Revenues		46,631,430	21,048,168	84,311,336	47,038,521
Cost of sales	10	23,179,415	14,160,124	41,817,849	32,598,815
Mine operating earnings		23,452,015	6,888,044	42,493,487	14,439,706
Expenses					
General and administrative		1,396,422	1,340,391	3,512,715	3,177,546
Exploration and evaluation expenditure		68,727	395,567	162,204	1,001,840
		1,465,149	1,735,958	3,674,919	4,179,386
Income from operations		21,986,866	5,152,086	38,818,568	10,260,320
Other (expenses) income					
Gain on disposal of subsidiaries	10	—	—	20,000	—
Foreign exchange loss		(631,287)	(3,310,667)	(884,593)	(5,439,771)
Interest income		13,653	292	15,538	3,732
Listing expenses		(514,299)	(925,991)	(2,058,857)	(925,991)
Fair value change on warrant liabilities	15	—	(1,816,820)	(7,155,807)	(2,981,228)
Finance costs	5	(1,449,810)	(1,642,879)	(3,677,977)	(3,932,322)
		(2,581,743)	(7,696,065)	(13,741,696)	(13,275,580)
Income (loss) before income tax		19,405,123	(2,543,979)	25,076,872	(3,015,260)
Income tax expense	6	5,580,524	936,877	10,467,536	1,899,098
Net income (loss) and comprehensive income (loss) for the period		13,824,599	(3,480,856)	14,609,336	(4,914,358)
Attributable to					
Non-controlling interest		581,480	272,389	905,182	505,390
Owners of the Company		13,243,119	(3,753,245)	13,704,154	(5,419,748)
		13,824,599	(3,480,856)	14,609,336	(4,914,358)
Basic earnings (loss) per share	7	0.08	(0.02)	0.08	(0.03)
Diluted earnings (loss) per share	7	0.08	(0.02)	0.08	(0.03)
Basic weighted average number of common shares outstanding	7	171,836,191	164,183,461	170,309,466	163,981,604
Diluted weighted average number of common shares outstanding	7	172,119,834	164,183,461	170,591,228	163,981,604

See accompanying notes to the condensed consolidated financial statements.

China Gold International Resources Corp. Ltd.

Condensed consolidated statement of financial position
(Stated in U.S. dollars)
(Unaudited)

	Notes	September 30, 2010	December 31, 2009
		\$	\$
Current assets			
Cash and cash equivalents		27,100,016	23,984,660
Restricted cash	10(b)	8,687,838	—
Accounts receivable		6,208,829	1,681,880
Prepaid expenses and deposits	8	3,061,714	1,734,181
Inventory	9	29,163,830	10,166,429
		74,222,227	37,567,150
Assets classified as held for sale	10	63,058	188,971
		74,285,285	37,756,121
Non-current assets			
Inventory	9	15,961,826	18,852,686
Property, plant and equipment	10	122,565,043	117,918,672
Prepaid expenses and deposits	8	810,819	—
Long-term receivable		11,483	49,689
		139,349,171	136,821,047
Total assets		213,634,456	174,577,168
Current liabilities			
Accounts payable and accrued expenses	11	44,417,640	35,072,604
Borrowings	12	8,784,270	12,092,005
		53,201,910	47,164,609
Liabilities classified as held for sale	10	17,671	41,252
		53,219,581	47,205,861
Non-current liabilities			
Deferred lease inducement		157,252	193,758
Borrowings	12	80,382,286	80,841,331
Deferred income	13	260,652	—
Deferred tax liabilities	6	3,455,682	1,339,601
Environmental rehabilitation	14	1,786,360	1,599,120
Warrant liabilities	15	—	5,286,123
		86,042,232	89,259,933
Total liabilities		139,261,813	136,465,794
Owners' equity			
Share capital	15	121,015,239	99,186,918
Equity reserve		2,949,059	3,125,447
Deficit		(51,769,049)	(65,473,203)
		72,195,249	36,839,162
Non-controlling interest		2,177,394	1,272,212
Total owners' equity		74,372,643	38,111,374
Total liabilities and owners' equity		213,634,456	174,577,168

Approved and authorized for issue by the Board on November 12, 2010

(SIGNED) ZHANMING WU

Zhanming Wu, Director

(SIGNED) BING LIU

Bing Liu, Director

See accompanying notes to the condensed consolidated financial statements.

China Gold International Resources Corp. Ltd.

Condensed consolidated statement of changes in equity
(Stated in U.S. dollars)
(Unaudited)

	Notes	Number of shares	Share capital	Equity reserve	Deficit	Subtotal	Non- controlling interest	Total owners' equity
			\$	\$	\$	\$	\$	\$
Balance, January 1, 2009 ...		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 ...	15	2,250,000	5,597,821	—	—	5,597,821	—	5,597,821
Exercise of stock options	15	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 and comprehensive loss		—	—	—	(9,347,381)	(9,347,381)	976,481	(8,370,900)
Balance, December 31, 2009		<u>167,629,459</u>	<u>99,186,918</u>	<u>3,125,447</u>	<u>(65,473,203)</u>	<u>36,839,162</u>	<u>1,272,212</u>	<u>38,111,374</u>
Shares issued for								
Exercise of warrants ...	15	4,060,000	21,008,571	—	—	21,008,571	—	21,008,571
Exercise of stock options	15	330,000	819,750	(298,361)	—	521,389	—	521,389
Stock-based compensation		—	—	121,973	—	121,973	—	121,973
Net income and comprehensive income ...		—	—	—	13,704,154	13,704,154	905,182	14,609,336
Balance, September 30, 2010		<u>172,019,459</u>	<u>121,015,239</u>	<u>2,949,059</u>	<u>(51,769,049)</u>	<u>72,195,249</u>	<u>2,177,394</u>	<u>74,372,643</u>
Balance January 1, 2009 ...		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 stock options		501,300	843,364	(417,394)	—	425,970	—	425,970
Stock-based compensation		—	—	138,748	—	138,748	—	138,748
Net income (loss) and comprehensive income (loss)		—	—	—	(5,419,748)	(5,419,748)	505,390	(4,914,358)
Balance, September 30, 2009		<u>164,390,459</u>	<u>91,227,833</u>	<u>4,606,154</u>	<u>(61,545,570)</u>	<u>34,288,417</u>	<u>801,121</u>	<u>35,089,538</u>

See accompanying notes to the condensed consolidated financial statements.

China Gold International Resources Corp. Ltd.

Condensed consolidated statement of cash flows

(Stated in U.S. dollars)

(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2010	2009	2010	2009
Operating activities					
Income (loss) before income tax for the period		19,405,123	(2,543,979)	25,076,872	(3,015,260)
Items not requiring use of cash and cash equivalents					
Depreciation and depletion		2,726,318	1,633,589	6,584,054	4,164,708
Fair value change on warrant liabilities	15	—	1,816,820	7,155,807	2,981,228
Finance costs	5	1,449,810	1,642,879	3,677,977	3,932,322
Stock-based compensation		84,058	(27,702)	121,973	138,748
Unrealized foreign exchange		631,287	3,310,667	884,593	5,439,771
Gain on disposal of subsidiary		—	—	(20,000)	—
Change in non-cash operating working capital items					
Accounts receivable		(4,138,631)	(1,308,034)	(4,526,949)	(1,233,383)
Prepaid expenses and deposits		(1,543,605)	3,301,581	(2,138,352)	6,525,548
Amount due from a shareholder		—	1,433,577	—	—
Inventory		744,838	(8,455,541)	(16,106,541)	(8,820,467)
Accounts payable and accrued liabilities		9,172,768	23,808,408	(1,315,338)	26,033,137
Cash generated from operations		28,531,966	24,612,265	19,394,096	36,146,352
Interest paid		(1,393,507)	(2,711,947)	(4,043,489)	(5,448,974)
Income taxes paid		(5,452,906)	(936,877)	(7,920,472)	(1,899,098)
Net cash flows from operating activities		21,685,553	20,963,441	7,430,135	28,798,280
Investing activities					
Property, plant and equipment additions		(7,685,706)	(16,906,514)	(16,980,074)	(43,677,310)
Disposal of subsidiaries		—	—	20,000	—
Restricted cash deposits paid	10	(2,068,865)	—	(2,068,865)	—
Restricted cash deposits placed	10	—	—	10,756,703	5,215,704
Government grant received	13	275,044	—	275,044	—
Net cash flows (used in) from investing activities		(9,479,527)	(16,906,514)	(7,997,192)	(38,461,606)
Financing activities					
Issuance of common shares		258,380	425,970	9,088,030	425,970
Net customer advances		—	(17,143,615)	—	3,344,889
Proceeds from borrowings		—	42,855,789	—	42,855,789
Repayments of borrowings	12	(1,495,640)	(19,028,035)	(5,426,666)	(30,620,889)
Net cash flows from financing activities		(1,237,260)	7,110,109	3,661,364	16,005,759
Effect of foreign exchange rate changes on cash and cash equivalents		(200,002)	(20,979)	21,049	(25,326)
Net increase in cash and cash equivalents		10,768,764	11,146,057	3,115,356	6,317,107
Cash and cash equivalents, beginning of period		16,331,252	7,313,789	23,984,660	12,142,739
Cash and cash equivalents, end of period		27,100,016	18,459,846	27,100,016	18,459,846
Cash and cash equivalents are comprised of					
Cash in bank		27,100,016	18,459,846	27,100,016	18,459,846

See accompanying notes to the condensed consolidated financial statements.

China Gold International Resources Corp. Ltd.**Notes to the condensed consolidated financial statements****September 30, 2010****(Stated in U.S. dollars)****(Unaudited)****1. General business description**

China Gold International Resources Corp. Ltd., formerly known as Jinshan Gold Mines 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 shares listed on the Toronto Stock Exchange. The Company together with its subsidiaries (collectively referred to as the “Group”) is principally engaged in the acquisition, exploration, development and mining of mineral properties in the People’s Republic of China (“PRC”). The Group’s substantial shareholder is China National Gold Group Corporation (“CNG”), a company registered in Beijing, China.

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

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

2. Basis of preparation

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

3. Accounting Policies and new International Financial Reporting Standards (“IFRS”)

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies used in the condensed consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended December 31, 2009.

In the current interim period, the Group has, for the first time, adopted an accounting policy on government grants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

The Group has also applied the following new and revised standards, amendments and interpretations issued by the IASB which are effective for the Group's financial year beginning January 1, 2010.

- | | |
|---|--|
| <ul style="list-style-type: none"> • IFRSs (Amendments) • IFRSs (Amendments) • IAS 27 (January 2008) • IAS 39 (Amendment) • IFRS 2 (Amendment) • IFRS 3 (Revised) • IFRIC 17 | <ul style="list-style-type: none"> Amendment to IFRS 5 as part of Improvements to IFRSs issued in May 2008 Improvements to IFRSs issued in April 2009 (except for amendment to IAS 1) Consolidated and Separate Financial Statements Eligible Hedged Items Group Cash-settled Share-based Payment Transactions Business Combinations Distributions of Non-cash Assets to Owners |
|---|--|

The adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied the following new and revised standards, amendments, or interpretations that have been issued but not yet effective:

- | | |
|--|--|
| <ul style="list-style-type: none"> • IFRSs (Amendments) • IAS 24 (Revised) • IAS 32 (Amendment) • IFRS 1 (Amendment) • IFRS 7 (Amendment) • IFRS 9 • IFRIC 14 (Amendment) • IFRIC 19 | <ul style="list-style-type: none"> Improvements to IFRSs issued in May 2010⁽ⁱ⁾ Related Party Disclosures⁽ⁱⁱ⁾ Classification of Rights Issues⁽ⁱⁱⁱ⁾ Limited Exemption for Comparative IFRS 7 Disclosure for First Time Adopters^(v) Disclosures — Transfers of Financial Assets^(vi) Financial Instruments^(iv) Prepayments of a Minimum Funding Requirement⁽ⁱⁱ⁾ Extinguishing Financial Liabilities with Equity Instruments^(v) |
|--|--|

(i) Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate

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

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

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

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

(vi) Effective for annual periods beginning on or after July 1, 2011

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the condensed consolidated financial statements.

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

The directors of the Company anticipate that the application of the new and revised standards, amendments and interpretations would have no material impact on the condensed consolidated financial statements of the Group.

4. Significant accounting judgements and estimates

In the current interim period, the Group's has the following changes in significant accounting judgments and estimates:

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. A change in the estimated life of the mine from 10 years to 24 years as a result of the technical report released in March 2010 has resulted in management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and as a result, management has increased the life of the buildings from 10 years to 24 years effective January 1, 2010. The depreciation of buildings was reduced by \$65,602 and \$193,803 for the three and nine months ended September 30, 2010, respectively due to the change of useful life of the buildings as mentioned above.

The assumptions used in the valuation of gold-in-process inventories particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads has been reconsidered by management. As a result, management has reduced the recovery rate used in its inventory model from 43% to 38.6% for the three months ended March 31, 2010. For the three months ended June 30, 2010 and September 30, 2010, management has returned to use the rate of 43%.

5. Finance costs

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

	Three months period ended September 30,		Nine months period ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Effective interest	1,413,669	2,556,516	4,466,054	7,002,987
Accretion on environmental rehabilitation	36,141	96,889	121,408	298,996
	1,449,810	2,653,405	4,587,462	7,301,983
Less: Amount capitalized	—	(1,010,526)	(909,485)	(3,369,661)
Total finance costs	1,449,810	1,642,879	3,677,977	3,932,322

Loss on the repurchase of promissory notes of Nil and \$121,502 has been included in finance costs for the three and nine months ended September 30, 2010 (Nil for the three and nine months ended September 2009), respectively.

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

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 of 6.08% and 6.38% for the three and nine months ended September 30, 2010 (17.03% and 16.51% for the three and nine months ended September 30, 2009), respectively, which represents the average interest rate on such borrowings.

6. Income tax expense

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which is calculated at 28.5% of the estimated assessable profit for the three and nine months ended September 30, 2010 (30% for the three and nine months ended September 30, 2009). The Company and its subsidiaries in Canada had no assessable profit for the three and nine months ended September 30, 2010 (Nil for the three and nine months ended September 30, 2009).

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.

For the three and nine months ended September 30, 2010, the Company's subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% (25% for the three and nine months ended September 30, 2009) of taxable income. Income tax expense for the three and nine months ended September 30, 2010 represents PRC Enterprise Income Tax of \$5,650,889 and \$8,351,455 (\$936,877 and \$1,899,098 for the three and nine months ended September 30, 2009), respectively and deferred tax credit of \$70,365 and deferred tax expense of \$2,116,081 respectively (Nil for the three and nine months ended September 30, 2009).

7. Earnings (loss) per share

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

	Three months period ended September 30,		Nine months period ended September 30,	
	2010	2009	2010	2009
Income (loss) attributable to owners of the Company for the purpose of basic and diluted earnings (loss) per share	\$ 13,243,119	\$ (3,753,245)	\$ 13,704,154	\$ (5,419,748)
Weighted average number of shares, basic	171,836,191	164,183,461	170,309,466	163,981,604
Dilutive securities				
Options	283,643	—	281,762	—
Weighted average number of shares, diluted . . .	172,119,834	164,183,461	170,591,228	163,981,604
Basic earnings (loss) per share	\$ 0.08	\$ (0.02)	\$ 0.08	\$ (0.03)
Diluted earnings (loss) per share	\$ 0.08	\$ (0.02)	\$ 0.08	\$ (0.03)

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

For the three and nine months ended September 30, 2010, the warrants were excluded from the diluted EPS computation because their effect would have been anti-dilutive. Due to a net loss for the three and nine months ended September 30, 2009, all stock options and warrants (disclosed in Note 15 (b) and 15 (c)) were excluded from the diluted EPS computation because their effect would have been anti-dilutive.

8. Prepaid expenses and deposits

	September 30, 2010	December 31, 2009
	\$	\$
Deposit for environmental protection	810,819	—
Refundable CSH Gold Mine construction deposits	161,724	192,876
Deposits for mine supplies and services	1,842,488	705,420
Rent deposits	19,207	246,846
Deposits for spare parts	523,924	133,036
Insurance	267,594	286,787
Other	246,777	169,216
Total prepaid expenses and deposits	<u>3,872,533</u>	1,734,181
Less: Amounts that are utilized within one year shown under current assets	<u>(3,061,714)</u>	<u>(1,734,181)</u>
Amounts that are utilized for more than one year shown under non-current assets ...	<u>810,819</u>	—

At September 30, 2010, the amounts of \$810,819 (Nil at December 31, 2009) represents deposits for environmental protection that are expected to be utilized after one year and are therefore classified as non-current assets.

9. Inventory

	September 30, 2010	December 31, 2009
	\$	\$
Gold in process	39,292,949	27,076,254
Gold doré bars	4,345,768	1,069,014
Consumables	1,279,219	344,231
Spare parts	207,720	529,616
Total inventory	<u>45,125,656</u>	<u>29,019,115</u>

Inventory totalling \$23,179,415 and \$41,817,849 for the three and nine months ended September 30, 2010 (\$14,160,124 and \$32,598,815 for the three and nine months ended September 30, 2009), respectively, was recognized in cost of sales after commercial production began.

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

Management has allocated inventory that is expected to be recovered more than twelve months after the reporting period to take into consideration the longer term process involved in recovering gold from a heap leaching system.

	September 30, 2010	December 31, 2009
	\$	\$
Amounts expected to be recovered within 12 months	29,163,830	10,166,429
Amounts expected to be recovered after 12 months	15,961,826	18,852,686
Total inventory	<u>45,125,656</u>	<u>29,019,115</u>

10. Property, plant and equipment

	Motor vehicles	Furniture and office equipment	Crusher	Machinery and equipment	Buildings	Leasehold improvements	Mineral assets	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Cost</i>									
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
As at September 30, 2010	<u>1,183,912</u>	<u>919,553</u>	<u>72,838,318</u>	<u>26,063,309</u>	<u>4,982,926</u>	<u>100,458</u>	<u>24,215,532</u>	<u>9,262,348</u>	<u>139,566,356</u>
<i>Accumulated depreciation</i>									
As at December 31, 2009	(479,685)	(503,867)	—	(5,152,288)	(864,813)	(4,566)	(3,412,040)	—	(10,417,259)
As at September 30, 2010	<u>(627,820)</u>	<u>(620,063)</u>	<u>(2,968,100)</u>	<u>(6,847,722)</u>	<u>(995,916)</u>	<u>(18,265)</u>	<u>(4,923,427)</u>	<u>—</u>	<u>(17,001,313)</u>
<i>Carrying value</i>									
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
As at September 30, 2010	<u>556,092</u>	<u>299,490</u>	<u>69,870,218</u>	<u>19,215,587</u>	<u>3,987,010</u>	<u>82,193</u>	<u>19,292,105</u>	<u>9,262,348</u>	<u>122,565,043</u>

Included in the cost above is \$15,983,920 as at September 30, 2010 (at December 31, 2009: \$15,074,435) related to finance costs which have been capitalized as construction in progress, mineral assets and crusher.

During the nine months ended September 30, 2010, costs for the construction of the crushing facility for the CSH Gold Mine amounted to \$70,993,484 (Nil for the nine months ended September 30, 2009) were transferred to the crusher from construction in progress, cost of crusher related machinery amounted to \$1,103,785 (Nil for the nine months ended September 30, 2009) were transferred to the crusher from machinery and equipment, and other crusher related cost of \$741,049 (Nil for the nine months ended September 30, 2009) were transferred from mineral assets to crusher. As at September 30, 2010, total crusher cost amounted to \$72,838,318 (Nil as at December 31, 2009). The life of the crushing facility has been estimated to be 14 years.

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During the nine months ended September 30, 2010, the Group spent \$16,980,074 (\$43,677,310 for the nine months ended September 30, 2009) on additions of property, plant and equipment.

Depreciation and depletion expenses amounted to \$2,726,318 and \$6,584,054 for the three and nine months ended September 30, 2010 (\$1,633,589 and \$4,164,708 for the three and nine months ended September 30, 2009), and \$2,702,206 and \$6,515,334 was included in cost of sales for the three and nine months ended September 30, 2010 (\$1,627,053 and \$4,146,854 for the three and nine months ended September 30, 2009), respectively.

*Mineral property interests**(a) CSH Gold Mine*

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

	January 1, 2009	Increase during the year	December 31, 2009	Increase/decrease during the period	September 30, 2010
	\$	\$	\$	\$	\$
Exploration expenditure charged to profit or loss	8,903,877	267,299	9,171,176	118,664	9,289,840
Mineral assets ⁽¹⁾	11,957,158	6,803,216	18,760,374	5,455,158	24,215,532
Construction in progress ⁽²⁾	<u>28,727,117</u>	<u>47,255,828</u>	<u>75,982,945</u>	<u>(66,720,597)</u>	<u>9,262,348</u>

(1) During the nine months ended September 30, 2010, additions to mineral assets were \$6,171,975 (\$12,019,281 for the nine months ended September 30, 2009) and additions in mineral assets resulting from changes in the provision for environmental rehabilitation were \$24,232 (Nil for the nine months ended September 30, 2009).

(2) During the nine months ended September 30, 2010, additions to construction in progress were \$9,992,874 (\$42,039,018 for the nine months ended September 30, 2009), and \$70,993,484 was transferred out of construction in progress to crusher (Nil for the nine months ended September 30, 2009), and the Group reversed \$5,719,987 accruals on construction in progress upon the completion of the crushing facility construction (Nil for the nine months ended September 30, 2009).

*Assets classified as held for sale and liabilities classified as held for sale**(b) Dadiangou Gold Project*

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

In 2009, the Group decided to sell its interest in Gansu Pacific Mining Company Ltd. (“Gansu Pacific”) and in December 2009, the Group entered into a letter of intent with a potential purchaser in relation to the disposal of its entire interest in Gansu Pacific. The consideration will be determined after the completion of due diligence procedures. As a result, the Group has recorded the assets and liabilities of Gansu Pacific at December 31, 2009 and September 30, 2010 as assets classified as held for sale and liabilities classified as held for sale.

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On April 28, 2010, the Company's subsidiary, Gansu Pacific, and its joint venture partner, Nuclear Industry Northwest Economic and Technology Co, have entered into an agreement to sell the Dadiangou Gold Project in Gansu Province, China. The parties are selling the project to Gansu Zhongjin Gold Mining Co. Ltd., a subsidiary of Zhongjin Gold Corporation Limited, a company listed on the Shanghai Stock Exchange and a subsidiary of CNG. The purchase price is Renminbi ("RMB") 88 million (approximately \$13.1 million), of which the Group will be entitled to 53% or RMB46.6 million (approximately \$7 million). The transaction has not yet been completed as of the date of this report. At June 30, 2010, the Group had received deposit from the purchaser of \$10,756,703, of which \$2,068,865 was paid to the joint venture partner in August 2010. At September 30, 2010, the deposit from purchaser of \$8,687,838 cannot be used until the completion of the disposal transaction. Hence, the amount has been included as restricted cash and accounts payable and accrued expenses at September 30, 2010.

Assets classified as held for sale and liabilities classified as held for sale are broken down as follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
	\$	\$
Cash	2,829	81,186
Accounts receivable	1,822	1,047
Property, plant and equipment	58,407	75,071
	<u>63,058</u>	<u>157,304</u>

Liabilities classified as held for sale

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
	\$	\$
Accounts payable	17,671	17,054
	<u>17,671</u>	<u>17,054</u>

(c) Xinjiang Projects

The Group held two exploration permits covering 96 km² 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 Group 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 Group had not renewed the permits and has ceased further development in this site subsequent to June 30, 2009.

As the project did not find any resources with commercial values, the Group 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 equity interest in Yunnan Xindian have taken place in 2009 and 2010.

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Assets classified as held for sale and liabilities classified as held for sale at December 31, 2009 were broken down as follows:

Assets classified as held for sale

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

Liabilities classified as held for sale

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

On April 26, 2010, the Company's subsidiary, Pacific PGM Inc., entered into an agreement with an independent third party to dispose of all equity interests in Yunnan Southern Copper (Barbados) Inc. which in turn held a 99% interests in Yunnan Xindian for a total consideration of US\$20,000.

In May 2010, the transaction was completed and the Group disposed of its entire interest in Yunnan Southern Copper (Barbados) Inc. for a total consideration of \$20,000. The net assets at the date of disposal were as follows:

	<u>\$</u>
Net assets disposed of	—
Gain on disposal	<u>20,000</u>
Total consideration	<u>20,000</u>
Satisfied by:	
Cash	<u>20,000</u>
Net cash inflow arising on disposal	<u>20,000</u>

11. Accounts payable and accrued expenses

Accounts payable and accrued expenses of the Group are principally comprised of amounts outstanding for construction activities and trade purchases relating to gold production activities.

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Included within accounts payable and accrued expenses at September 30, 2010 are construction costs payable and deposit received from sales of Dadiangou Gold Project of \$10,666,224 and \$8,687,838 (\$15,454,985 and nil at December 31, 2009), respectively.

12. Borrowings

	Effective interest rate	Maturity	September 30, 2010	December 31, 2009
	%		\$	\$
Current				
Current portion of long-term loan				
— Agricultural Bank of China		September 2010 to		
("ABC") (ii)	5.18	September 9, 2014	1,495,640	1,458,619
Notes payable (i)	12.00	June 26, 2011	<u>7,288,630</u>	<u>10,633,386</u>
			<u>8,784,270</u>	<u>12,092,005</u>
Non-current				
Long-term loan — ABC (ii)	5.18	September 2010 to	40,382,286	40,841,331
Long-term loan — CNG (ii)	6.00	September 9, 2014	40,000,000	40,000,000
		December 6, 2011	<u>80,382,286</u>	<u>80,841,331</u>
			<u>89,166,556</u>	<u>92,933,336</u>

(i) Notes payable

	Note A	Note B	Note C	Total
	\$	\$	\$	\$
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
Unrealized foreign exchange loss	—	1,468	150,735	152,203
Effective interest	—	143,241	839,404	982,645
Interest paid	—	(13,777)	(656,303)	(670,080)
Principal repurchase	—	(3,809,524)	—	(3,809,524)
Balances of notes payable, September 30, 2010	<u>—</u>	<u>—</u>	<u>7,288,630</u>	<u>7,288,630</u>

China Gold International Resources Corp. Ltd.**Notes to the condensed consolidated financial statements — (Continued)****September 30, 2010****(Stated in U.S. dollars)****(Unaudited)***(a) Note A*

On December 14, 2006, the Group 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 matured and were repaid in full on December 14, 2009 in Canadian dollars. The effective interest rate was 19.54%.

The Group has allocated a \$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 entitled the holder to acquire one common share at CAD1.60 each which expired on December 14, 2008. The expiry date has been extended to December 14, 2010.

The Group has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Group’s common shares traded at or above a volume weighted average share price of CAD2.75 for 20 consecutive trading days. The expiry date was accelerated by the Group on March 18, 2010. On December 14, 2009, Note A was repaid in full. By April 17, 2010, all the warrants had been exercised (see Note 15 (c)(i)).

(b) Notes B and C

On June 26, 2007, the Group 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 Group 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 Group 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 Group 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. The expiry date has been extended to June 26, 2011.

On December 14, 2009, CAD8,500,000 of Note B was repurchased from the market at a consideration of \$8,024,167. The loss on the repurchase was \$268,808 and included in finance cost.

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The balance of CAD4,000,000 was repurchased on January 11, 2010 at a consideration of \$3,931,026 and the loss on the purchase was \$121,502 and included in finance cost. On June 1, 2010, the maturity date for Note C has been extended from June 26, 2010 to June 26, 2011. The effective interest rate is revised from 17.66% to 12%.

The Group has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Group's common shares trade at or above a volume weighted average share price of CAD4.25 for 20 consecutive trading days.

On April 16, 2010, the expiry date of the warrants with an exercise price of CAD2.50 was accelerated by the Group. By May 17, 2010, all the warrants at CAD2.50 had been exercised (see Note 15 (c)(ii)).

(ii) Long-term loans

On September 14, 2009, the Company's subsidiary, Inner Mongolia Pacific Mining Co., Ltd. ("IMP"), secured a five-year RMB290,000,000 (\$42,603,828) 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 RMB10,000,000 (US\$1,495,640) due in each of September 2010 and 2011 and further instalments of RMB30,000,000 (US\$4,407,293) 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 Group secured a two years 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. 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.

13. Deferred income

Pursuant to the approval notice issued by Ministry of Finance Department of the PRC in July 2010, the Group received government grants in relation to the construction of property, plant and equipment of the Group amounting to approximately RMB1,839,000 (equivalent to approximately US\$275,000) during the three and nine months ended September 30, 2010. The grants are recorded as deferred income in the condensed consolidated statement of financial position and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets. During the three and nine months ended September 30, 2010, deferred income of approximately \$14,000 (Nil for the three and nine months ended September 30, 2009) has been credited to profit or loss.

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14. Environmental rehabilitation

The environmental rehabilitation relates to reclamation and closure costs relating to the Group'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 \$9,740,000 (at December 31, 2009: \$9,495,000), discounted at 9.9% (at December 31, 2009: 10.0%) per annum at September 30, 2010. The settlement of the obligations will occur through to 2030. No assets have been legally restricted for the purposes of settling the environmental rehabilitation.

The following is an analysis of the environmental rehabilitation:

	January 1 to September 30, 2010	January 1 to December 31, 2009
	\$	\$
Balance, beginning of period	1,599,120	4,131,735
Additions to site reclamation and additions resulted from changes in discount rate during the period	24,232	244,066
Expenses incurred in the current period	(1,795)	—
Accretion incurred in the current period	121,408	392,277
Foreign exchange loss (gain)	43,395	(23,041)
Reductions resulted from changes in the estimated timing and amount of cash flows	—	(3,145,917)
	<u>1,786,360</u>	<u>1,599,120</u>

15. Share capital, options and warrants**(a) Common shares**

Authorized — Unlimited common shares without par value

Issued and outstanding — 172,019,459 common shares at September 30, 2010

Issued and outstanding — 167,629,459 common shares at December 31, 2009

(b) Stock options

The Group has a stock option plan which permits the Board of Directors of the Company to grant options to directors, employees and non-employees to acquire common shares of the Group 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 the grant date.

The stock options have a life of up to six years from the grant date. The fair market value of the exercise price is the weighted average price of the common shares for the five days on which they were

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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 Group is authorized to issue options to a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. At September 30, 2010 and December 31, 2009, there were 16,226,946 and 15,215,946 options available for future grants, respectively.

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

	January 1, 2010 to September 30, 2010		January 1, 2009 to December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		CAD		CAD
Balance, beginning of period	1,547,000	2.04	5,787,300	1.75
Options granted	400,000	5.21	—	—
Options exercised	(330,000)	1.53	(1,490,300)	1.36
Options forfeited	(642,000)	2.16	(2,625,000)	1.06
Options expired	—	—	(125,000)	1.74
Balance, end of period	<u>975,000</u>	<u>3.05</u>	<u>1,547,000</u>	<u>2.04</u>

Due to forfeitures of stock options by employees before the vesting date, the Group re-estimated the number of options that will ultimately vest in the future and recognized a compensation cost of \$84,058 and \$121,973 for the three and nine months ended September 30, 2010, respectively (reversal of compensation cost of \$27,702 for the three months ended September 30, 2009 and compensation cost of \$138,748 for the nine months ended September 30, 2009, respectively).

Nil and 400,000 stock options were granted during the three and nine months ended September 30, 2010 (Nil for the three and nine months ended September 30, 2009). The options were granted on June 1, 2010 and expire on June 1, 2015. The exercise price was CAD4.35 per share from June 1, 2010 until June 1, 2011, CAD4.78 per share from June 2, 2011 until June 1, 2012, CAD5.21 per share from June 2, 2012 until June 1, 2013, CAD5.64 per share from June 2, 2013 until June 1, 2014, and CAD 6.09 per share from June 2, 2014 until June 1, 2015 or such later termination date as may apply. 20% of the shares are vested immediately, an additional 20% of the shares are vested on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014, respectively. The fair value of these options at date of grant was approximately \$860,000, of which approximately \$24,039 and \$228,039 has been charged to the profit and loss for the three and nine months ended September 30, 2010.

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The fair value of the options granted was determined using the Black-Scholes option pricing model. The inputs into the model were as follows:

	<u>2010</u>
Risk free interest rate	1.44%
Expected life (years)	2.5
Expected volatility	94.57%
Expected dividend per share	Nil

The following table summarizes information about stock options outstanding and exercisable at September 30, 2010.

Expiring in	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2010	Remaining contractual life (years)	Weighted average exercise price	Number exercisable at September 30, 2010	Weighted average exercise price
			CAD		CAD
2011	25,000	0.75	1.05	25,000	1.05
2013	550,000	2.80	2.20	310,000	2.20
2015	400,000	4.67	5.21	80,000	5.21
	<u>975,000</u>		<u>3.41</u>	<u>415,000</u>	<u>2.71</u>

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

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

(c) Warrants

The following is a summary of number of warrants outstanding:

	<u>January 1 to September 30, 2010</u>	<u>January 1 to December 31, 2009</u>
Balance, beginning of period	4,060,000	6,310,000
Exercised	<u>(4,060,000)</u>	<u>(2,250,000)</u>
Balance, end of period	<u>—</u>	<u>4,060,000</u>

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The following is a summary of warrants amounts outstanding:

	January 1 to September 30, 2010	January 1 to December 31, 2009
	\$	\$
Balance, beginning of period	5,286,123	274,507
Exercised	(12,441,930)	(2,175,105)
Fair value change on warrant liabilities	7,155,807	7,186,721
Balance, end of period	<u>—</u>	<u>5,286,123</u>

Warrants issued with Canadian dollar exercise prices

As a result of having exercise prices denominated in other than the Group's functional currency, being the U.S. dollar, these warrants meet the definition of derivatives and are therefore classified as held for trading and recorded as derivative liabilities measured at fair value. The fair value 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 values of warrants included in derivative liabilities were reclassified to equity.

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

	September 30, 2010	December 31, 2009
Risk free interest rate	N/A	0.68%
Expected life (years)	N/A	0.31
Expected volatility	N/A	96.93%
Expected dividend per share	N/A	Nil

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

No warrants were outstanding at September 30, 2010.

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

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

(i) As mentioned in Note 12(i), the Group exercised its right to accelerate the expiry date of the CAD1.60 per share warrants. The expiry date of these warrants was April 22, 2010. These warrants were fully exercised by April 17, 2010.

(ii) On April 16, 2010, the Group exercised the right to accelerate the expiry date of these warrants, which had expired on May 17, 2010. All these warrants were exercised.

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16. Related party transactions

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

	September 30, 2010	December 31, 2009
	%	%
CNG	39.3	40.3

The breakdown of the sales transactions to CNG is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Gold sales to CNG	45,460,925	21,048,168	79,966,718	47,038,521
Silver sales (netted in cost of sales) to CNG	—	—	401,759	135,058

The Group incurred the following interest expenses with CNG. Interest expense has been recorded on the effective interest method.

	Three months period ended September 30,		Nine months period ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest	<u>831,736</u>	<u>177,862</u>	<u>2,316,466</u>	<u>185,877</u>

During the nine months ended September 30, 2010, the Group entered into an agreement, with Gansu Zhongjin Gold Mining Co. Ltd., a subsidiary of CNG, to dispose of its entire interest in Gansu Pacific. The transaction has not yet been completed as of the date of this report (see Note 10(b)).

Related party balances

The assets of the Group include the following amounts due from related parties:

	September 30, 2010	December 31, 2009
	\$	\$
Assets		
Restricted cash received from CNG's subsidiary for sales of Dadiangou Gold Project	8,687,838	—
Listing expense receivable from CNG's subsidiary	1,270,251	1,184,911
Accounts receivable from CNG	4,760,733	346,437
Prepaid expenses to CNG's subsidiary	—	283,451
Total related party assets	<u>14,718,822</u>	<u>1,814,799</u>

The accounts receivable from CNG arose from sales of gold to CNG. There is no credit period.

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

Listing expense receivable is from Skyland Mining Limited (“Skyland”), CNG’s subsidiary and accounts receivable from CNG are included in accounts receivable and prepaid expenses to CNG’s subsidiary are included in prepaid expenses and deposits in the condensed consolidated statement of financial position.

The liabilities of the Group include the following amounts due to related parties:

	September 30, 2010	December 31, 2009
	\$	\$
Liabilities		
Accounts payable to CNG’s subsidiaries	15,298	109,391
Interest payable to CNG	—	166,667
Other payable to CNG’s subsidiary for deposit from sales of Dadiangou Gold Project	8,687,838	—
Total related party liabilities	<u>8,703,136</u>	<u>276,058</u>

Key management personnel

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Salary cost				
Salaries and other benefits	165,568	209,666	443,607	553,753
Post employment benefits	1,684	3,531	5,840	14,466
	<u>167,252</u>	<u>213,197</u>	<u>449,447</u>	<u>568,219</u>

The salaries and benefits above are a summation of the amounts paid to management of the Company.

17. Segment information

IFRS 8 *Operating Segments* (“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 Group derives its revenue primarily from mining, extraction, production, and selling of gold.

The executive directors review the Group’s consolidated financial statements prepared under IFRS for the purposes of resource allocation and performance evaluation. The Group’s segment income is \$13,824,599 and \$14,609,336 during the three and nine months ended September 30, 2010

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

(segment loss of \$3,480,856 and \$4,914,358 for the three and nine months ended September 30, 2009) which is the same as the net income (loss) and comprehensive income (loss) for the period as disclosed in the condensed consolidated statement of comprehensive income.

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

The CSH Gold Mine has been generating revenue since 2008. The total segment revenue comprises revenue from two customers for the nine months ended September 30, 2010 (one for the nine months ended September 30, 2009). The Group sells 95% (100% for the nine months ended September 30, 2009) of its gold to one creditworthy customer, CNG who is also the Company's substantial shareholder for the nine months ended September 30, 2010. The sales to CNG do not constitute economic dependence for the Group as there are other customers in China to whom gold can be sold.

18. Supplemental cash flow information*Non-cash investing and financing activities*

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

	Three months periods ended September 30,		Nine months periods ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Value of warrants transferred to share capital upon exercise	—	—	12,441,930	—
Transfer of share option reserve upon exercise of options	179,508	—	298,361	—

19. Capital risk management

The Group manages its common shares, stock options, and warrants as capital. The Group's objectives when managing capital are to safeguard the Group'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 Group 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 Group 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.

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

In order to facilitate the management of its capital requirements, the Group 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 Group does not pay out dividends. The Group'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.

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the internally generated positive cash flows from the CSH Gold Mine. The Group has complied with all covenants included in its long-term loan and the indenture for its notes payable.

20. Financial instruments

		Carrying amount	
		September 30, 2010	December 31, 2009
<u>Financial instrument classification</u>		\$	\$
<i>Financial assets</i>			
Cash and cash equivalents	Loans and receivables	27,100,016	23,984,660
Restricted cash	Loans and receivables	8,687,838	—
Accounts receivable	Loans and receivables	6,208,829	1,681,880
Long-term receivable	Loans and receivables	11,483	49,689
<i>Financial liabilities</i>			
Accounts payable and accrued expenses	Other financial liabilities	35,729,802	35,072,604
Notes payable	Other financial liabilities	7,288,630	10,633,386
Long-term loans	Other financial liabilities	81,877,926	82,299,950
Warrant liabilities	Fair value through profit or loss ("FVTPL")	—	5,286,123

The fair values of the Group's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximate their carrying values due to their short term nature. The carrying amounts of long-term receivable, notes payable and long-term loan measured at amortized cost in the Group's financial statements approximate their fair values.

The Group's financial instruments are exposed to certain financial risks including currency risk, credit risk, price 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 and September 30, 2010 as the amounts involved and the risk exposure are considered insignificant.

China Gold International Resources Corp. Ltd.**Notes to the condensed consolidated financial statements — (Continued)****September 30, 2010
(Stated in U.S. dollars)
(Unaudited)*****(a) Currency risk***

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Group operates in China and Canada and its functional currency is the 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 Group's results of operations, financial position or cash flows. The Group has not hedged its exposure to currency fluctuations.

The Group is exposed to currency risk through the assets and liabilities denominated in Canadian dollars and RMB.

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in an increase in the Group's income before tax/decrease in income before tax of approximately \$588,000 for the nine months ended September 30, 2010 (decrease in the Group's loss before tax/increase in loss before tax of approximately \$4,928,000 for the nine months ended September 30, 2009).

Assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in an increase in the Group's income before tax/decrease in income before tax of approximately \$3,942,000 for the nine months ended September 30, 2010 (decrease in the Group's loss before tax/increase in loss before tax of approximately \$6,641,000 for the nine months ended September 30, 2009).

(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 Group sells 95% of its gold to one creditworthy customer, CNG, who is also the Company's substantial shareholder and exposes the Group to concentration of credit risk. The failure of this customer to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from this customer, if necessary. The Group's cash and short-term bank deposits are held in large Chinese and Canadian banks. These deposits mature at various dates within 3 months. The Group does not have any asset backed commercial paper in its short-term bank deposits. The Group's accounts receivable consists primarily of harmonized sales tax refunds due from the Federal Government of Canada and listing expense receivable from Skyland, all of which are not outstanding for more than 180 days.

The Group has concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in PRC or Canada during the period.

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

Maximum exposure to credit risk is as follows:

	September 30, 2010	December 31, 2009
	\$	\$
Cash and cash equivalents	27,100,016	23,984,660
Restricted cash	8,687,838	—
Accounts receivable	6,208,829	1,681,880
Long-term receivable	11,483	49,689
	<u>42,008,166</u>	<u>25,716,229</u>

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 19. The Group has secured financing as set out in Note 12(ii).

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities. The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group 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 September 30, 2010						
Accounts payable and accrued expenses	—	35,729,802	—	—	35,729,802	35,729,802
Long-term loan — ABC	5.18	3,694,375	6,608,121	37,957,769	48,260,265	41,877,926
Long-term loan — CNG	6.00	2,433,333	40,446,667	—	42,880,000	40,000,000
Note payables	12.00	7,934,423	—	—	7,934,423	7,288,630
		<u>49,791,933</u>	<u>47,054,788</u>	<u>37,957,769</u>	<u>134,804,490</u>	<u>124,896,358</u>
As at December 31, 2009						
Accounts payable and accrued expenses	—	35,072,604	—	—	35,072,604	35,072,604
Long-term loan — ABC	5.18	3,660,480	3,583,815	42,946,690	50,190,985	42,299,950
Long-term loan — CNG	6.00	2,433,333	42,433,333	—	44,866,666	40,000,000
Note payables	12.00	11,373,917	—	—	11,373,917	10,633,386
		<u>52,540,334</u>	<u>46,017,148</u>	<u>42,946,690</u>	<u>141,504,172</u>	<u>128,005,940</u>

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

(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 Group's short term bank deposits, notes payables and long-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations but changes to exchange rates could affect interest payable (see Note 12) which is subject to fair value interest rate risk. The risk that the Group will realize a decrease in profit as a result of a decline in the interest rates relates to its variable rate bank balances and a 30 basis point higher/lower in the interest rate of its variable rate bank balances would result in an increase in the Group's income before tax/decrease in income before tax of \$61,000 for the nine months ended September 30, 2010 (decrease in the Group's loss before tax/increase in loss before tax of \$42,000 for the nine months ended September 30, 2009).

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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 Group's financial liabilities at FVTPL include warrant liabilities and are categorized into Level 3. The amount of fair value change on warrant liabilities charged to profit or loss amounted to Nil and \$7,155,807 for the three and nine months ended September 30, 2010 (\$1,816,820 and \$2,981,228 for the three and nine months ended September 30, 2009), respectively. The total amounts at December 31, 2009 were transferred out of level 3 during the nine months ended September 30, 2010 and all the warrants were exercised.

	September 30, 2010	December 31, 2009
	\$	\$
Level 3	—	5,286,123

China Gold International Resources Corp. Ltd.

Notes to the condensed consolidated financial statements — (Continued)

September 30, 2010
(Stated in U.S. dollars)
(Unaudited)

(f) Price risk

The Group is exposed to price risk of the Group's shares through its financial liabilities at FVTPL — warrant liabilities. Therefore, the Group is exposed to price risk because of changes in market prices of its shares.

Price sensitivity analysis

The sensitivity analysis has been determined based on the exposure to price risks for warrant liabilities fluctuating in the Toronto Stock Exchange stock market. If the Group's share price had been 50% higher/lower at September 30, 2009 and all other variables were held constant, the Group's loss before income tax would be increased/decreased by approximately \$3.0 million/\$2.3 million for the nine months ended September 30, 2009. No sensitivity analysis is presented for the nine months ended September 30, 2010 as the warrants have been fully exercised.

21. Commitments and contingencies*Operating leases commitments*

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

	September 30, 2010	December 31, 2009
	\$	\$
Within one year	97,524	95,482
Between two and five years	351,782	391,307
	<u>449,306</u>	<u>486,789</u>

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

Capital commitments

	September 30, 2010	December 31, 2009
	\$	\$
Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for	<u>1,536,356</u>	<u>10,465,453</u>

Other commitments and contingencies existed at September 30, 2010

In October 2006, the Group 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.

China Gold International Resources Corp. Ltd.**Notes to the condensed consolidated financial statements — (Continued)****September 30, 2010****(Stated in U.S. dollars)****(Unaudited)**

The Group is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Group 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 Group.

22. Subsequent events

The Company signed a definitive purchase agreement (the “Purchase Agreement”) with China National Gold Group Hong Kong Limited (“China National Gold Hong Kong”), a wholly owned subsidiary of CNG, the Company’s substantial shareholder, and Rapid Result Investments Limited (“Rapid” and together with China National Gold Hong Kong, the “Vendors”) on August 30, 2010, pursuant to which it will purchase 100% of Skyland from the Vendors. The chief asset of Skyland is its 100% interest in the Jiama property (the “Jiama Property”), a copper polymetallic metal mining property located in Metrorokongka County, Tibet.

The Purchase Agreement provides that the Company will purchase all of the issued and outstanding shares of Skyland from the Vendors and assume shareholder loans made by each of China National Gold Hong Kong and Rapid to Skyland in the aggregate amount of approximately US\$42.3 million in exchange for US\$742,300,000 (subject to adjustment), with such consideration payable by the Company through the issuance of 170,252,294 common shares of the Company at a deemed price of Canadian \$4.36 per share.

The terms of the transaction were approved by a special committee of independent directors, with the support of a valuation and fairness opinion by Haywood Securities Inc (“Haywood”).

Completion of the transaction is subject to a number of conditions, including but not limited to receipt of shareholder approval from the Company’s disinterested shareholders, the completion of the Company’s listing on the Stock Exchange of Hong Kong Limited and receipt of applicable regulatory approvals, including Toronto Stock Exchange approval and approval of the China Securities and Regulatory Commission (“CSRC”). The approval from CSRC was obtained in September 2010. Further, a special meeting of shareholders (in which the substantial shareholder had refrained from voting) was held on October 14, 2010, at which disinterested shareholders approved the acquisition transaction. The transaction is expected to close in November, 2010. An information circular detailing the transaction was filed in September 2010. The information circular included the formal valuation of the Jiama Property received from Haywood.

Part B. Management's Discussion and Analysis



**China Gold International
Resources Corp. Ltd.**

(Formerly known as JINSHAN GOLD MINES INC.)

**Management's Discussion and Analysis of Financial
Condition and Results of Operations
September 30, 2010**
(Stated in U.S. dollars, except as otherwise noted)

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The following Management Discussion and Analysis of financial condition and results of operations (“MD&A”) was prepared as of November 12, 2010. It should be read in conjunction with the condensed consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (“China Gold International” or the “Company”) for the nine months ended September 30, 2010, the annual audited consolidated financial statements for the year ended December 31, 2009 and the accompanying MD&A. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries on a consolidated basis are collectively known as the “Group”.

The following discussion contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties previously outlined in our annual MD&A and further outlined in our Annual Information Form dated March 31, 2010 and in our Information Circular dated September 13, 2010. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of our Company, please refer to the section entitled “Forward Looking Statements”. China Gold International’s business, financial condition or results of operations could be materially and adversely affected by any of these risks.

OVERVIEW

China Gold International Resources Corp. Ltd. (“China Gold International”), previously known as Jinshan Gold Mines Inc., is a mining company based in Vancouver, Canada and its principal property is the Chang Shan Hao Gold Mine (“CSH Gold Mine” or “CSH Mine”), which is located in Inner Mongolia, China. China Gold International holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture partner holds the remaining 3.5% interest. China Gold International started up gold production at the CSH Gold Mine in July 2007 and commenced commercial production on July 1, 2008.

China Gold International is a reporting issuer in British Columbia, Alberta and Ontario, and the Company’s shares trade under the symbol CGG (formerly JIN) on the Toronto Stock Exchange (“TSX”). Additional information relating to the Company, including the Company’s Annual Information Form, is available on SEDAR at www.sedar.com.

Highlights

- The Company entered into a Purchase Agreement dated August 30, 2010 by which China Gold International has agreed to purchase all of the issued and outstanding shares of Skyland Mining Limited (the owner of Jiama Mineral Property) and assume the shareholder loans in exchange for common shares in the Company at an aggregate purchase price of \$742 million, subject to adjustment. The Company has received overwhelming approval on October 14, 2010 from its disinterested shareholders to acquire 100% of the Jiama Property.

- The Company significantly increased net income in the third quarter, supported by gold production of over 39,000 ounces, and almost 38,000 ounces of gold sold at an average price of \$1,228 per ounce with net income for the Company amounting to approximately \$13.8 million.
- Behre Dolbear Asia Inc. (“BD”) updated the Independent Technical Report (“ITR”) for the CSH Mine as of June 30, 2010 with new forecasts of total gold production in 2010 and 2011 to be approximately 115,000 ounces and 146,570 ounces, respectively.
- A number of operational improvements were successfully implemented in preparation for the upcoming winter months, designed to moderate the decrease in production experienced during prior winters at the CSH Mine. These measures included the addition of new carbon tanks. The mine was also able to secure sufficient water supply from local sources to meet the demands of the mining operation at a sustainable rate which will allow for the capacity from the existing sources to be recharged.
- China Gold International’s subsidiary, Gansu Pacific Mining Co. Ltd (Gansu) and its joint venture partner, Nuclear Industry Northwest Economic and Technology Co., entered into an agreement to sell the Dadiangou gold project in Gansu Province, China, to a related party. The purchase price is RMB 88 million (\$13.1 million) of which the Company will be entitled to 53% or RMB 46.6 million (\$7.0 million). Funds advanced by the buyer are being held under restricted cash. The sale is still subject to conditions and is anticipated to complete before year end.
- The last of the 12% promissory notes issued in 2006 and 2007, Note C for CDN\$7.5 million, due to be repaid on June 26, 2010, was renegotiated with the same terms and is now due to be repaid on June 26, 2011. The Note is being held by the Company’s controlling shareholder, China National Gold Group Corporation (“CNG”). In addition, the Company paid its first principal repayment of \$1.5 million on its RMB290 million (\$42.6 million) loan from the Agricultural Bank of China in September 2010.
- The Company announced and has undertaken a new drill program at the CSH Mine which will consist of 4500 meters of diamond drilling and 2000 cubic meters of surface trenching with a budget of RMB 4.86 million (\$712,000).
- Construction on the extension of the heap leach pad was completed by the end of July 2010.
- The Company changed its name effective July 19, 2010 from Jinshan Gold Mines Inc. to China Gold International Resources Corp Ltd. to demonstrate the full commitment and support of the Company’s controlling shareholder, CNG to the Company to serve as its international vehicle.

	<u>Three months ended September 30, 2010</u>	<u>Nine months ended September 30, 2010</u>	<u>From commencement to September 30, 2010</u>
Commercial gold production (ounces)	39,520	75,707	192,948
Pre-commercial gold production (ounces)	—	—	45,833
Total gold production (ounces)	39,520	75,707	238,781

APPENDIX I-D
**UNAUDITED INTERIM FINANCIAL
INFORMATION OF OUR GROUP**

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income (loss)	\$13.8 Million	\$(3.5) Million	\$14.6 Million	\$(4.9) Million
Basic income (loss) per share	\$ 0.08	\$ (0.02)	\$ 0.08	\$ (0.03)
Net cash flows from (used in) operations	\$21.7 Million	\$ 21.0 Million	\$ 7.4 Million	\$ 28.8 Million
Property, plant and equipment cash expenditures	\$ 7.7 Million	\$ 16.9 Million	\$17.0 Million	\$ 43.7 Million
		<u>Balance, September 30, 2010</u>	<u>Balance, September 30, 2009</u>	
Cash and cash equivalents		\$27.1 Million	\$ 18.5 Million	
Working capital (deficiency)*		\$21.1 Million	\$(31.9) Million	

*Working capital consists of current assets less current liabilities

Outlook

- Gold production for the year from the CSH Mine is expected to increase by about 35% – 40% from last year to between 114,000 and 116,000 ounces.
- We anticipate that the Jiama acquisition will complete in the next quarter with the Company expecting to list on the Hong Kong Stock Exchange. Completion of the transaction is currently estimated for late November or early December.
- The Company will continue to work with CNG to identify potential projects that can be readily and quickly brought into production. These efforts will be supported by the grant by CNG to the Company of a non-competition covenant for non-PRC mineral projects that is contemplated as part of the completion of the Jiama Transaction and related listing on the Hong Kong Stock Exchange. The Company's objective is to identify projects that may also include the potential for further exploration to increase upon the existing resource base of the project.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Except as identified below, the significant accounting judgments and estimates that are applicable to the nine month period ended September 30, 2010 are consistent with those identified in Note 5 of the Company's annual audited consolidated financial statements.

Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets. A change in the estimated life of the mine from 10 years to 24 years as a result of the recent technical report released in March 2010 has resulted in Management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and as a result, Management has increased the life of the buildings from 10 years to 24 years effective January 1, 2010. The depreciation of buildings was then reduced by \$65,602 and \$193,803 for the three and nine months ended September 30, 2010, respectively.

The assumptions used in the valuation of gold-in-process inventories particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads were reconsidered by Management. During the year ended December 31, 2009, the recovery rate assumption of 51% less the impairment taken of \$3 million resulted in a rate used of approximately 43%. For the three month period ended September 30, 2010, Management has continued to use the original rate of 43%.

FORWARD LOOKING STATEMENTS

Certain statements made herein, other than statements of historical fact relating to the Company, represent forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as “may”, “will”, “expect”, “anticipate”, “contemplates”, “aim”, “estimate”, “intend”, “plan”, “believe”, “potential”, “continue”, “is/are likely to”, “should” or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward looking information includes, among other things; completion of the Jiama Transaction and listing on the Hong Kong Stock Exchange; projected revenues and cash flows from gold production at the CSH Gold Project; performance of the crusher and recovery rates from the processing facility; obtaining regulatory confirmations and updated and expanded permits for the CSH Gold Project to cover all resources and reserves and the entire contemplated mine life; anticipated operating costs; the potential acquisition of other mineral property assets; completion of the proposed sale of the Dadiangou Gold Project; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of China Gold International and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material adverse change in China Gold International’s operations or in foreign exchange rates, the prevailing price of gold, effective tax rates and other assumptions underlying the financial performance of the CSH Gold Project as listed in the CSH Technical Report; China Gold International’s ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labour relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, litigation or arbitration and adverse changes in government regulation; the availability and accessibility to China Gold International of financing; and the performance by counterparties of the terms and conditions of all contracts to which China Gold International and its subsidiaries are a party. The forward-looking information is also based on the assumption that none of the risk factors identified in this MD&A that could cause actual results to differ materially from the forward-looking information actually occurs.

Forward-looking information contained herein are based on the opinions, estimates and assumptions of management. There are a number of important risk, uncertainties and other factors that could cause actual actions, events or results to differ materially from those described as forward-looking information. In particular, important factors that could cause actual results to differ from this forward-looking information include those described under the heading “Risk Factors” in this MD&A. China Gold International disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates, opinions or assumptions, future events or results or otherwise except to the extent required by law. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking information in this MD&A is expressly qualified by this cautionary statement. The reader is cautioned not to place undue reliance on forward-looking information.

HISTORICAL FINANCIAL INFORMATION

The condensed consolidated financial statements of the Company include the condensed consolidated financial statements of China Gold International and our controlled subsidiaries

(including our operating subsidiary, namely, the CSH CJV). The assets and liabilities of the Dadiangou CJV have been segregated and held for sale. Our financial statements are presented in U.S. dollars.

Principal Income Statement Components

Revenue is derived from the principal product produced at the CSH Mine which is the gold dore bar. The sales price of gold dore bars is primarily determined based on prevailing gold prices in the market, with reference to prices on the Shanghai Gold Exchange, which in turn have historically correlated with international gold prices.

The following table sets forth the monthly weighted average sales price for the gold produced at the CSH Mine since the commencement of commercial production in July 2008:

	<u>Weighted average sales price (US\$ per ounce)</u>		<u>Weighted average sales price (US\$ per ounce)</u>
July 2008	940.0	September 2009	992.3
August 2008	852.6	October 2009	1027.0
September 2008	823.4	November 2009	1098.2
October 2008	789.7	December 2009	1063.0
November 2008	818.9	January 2010	1090.6
December 2008	828.8	February 2010	1115.9
January 2009	856.0	March 2010	1108.4
February 2009	948.0	April 2010	1097.9
March 2009	912.0	May 2010	1178.6
April 2009	870.4	June 2010	1215.5
May 2009	951.1	July 2010	1156.9
June 2009	937.4	August 2010	1224.3
July 2009	931.7	September 2010	1277.0

Historically, the market prices for these metals have fluctuated significantly. The prices may be influenced by numerous factors beyond our control such as world supply and demand, selling and purchase activities by central banks and other macro-economic factors such as expectations regarding inflation rates, interest rates, currency exchange rates, as well as general global economic conditions and political trends. We do not currently employ any financial instruments to hedge market fluctuations. Fluctuations in market prices will lead to fluctuations in our financial results.

Revenue represents proceeds from the sale of gold produced at the CSH Mine to customers after the commencement of commercial production on July 1, 2008. The Company's revenue was generated from the sale of gold to China National Gold and two independent third-party refineries in China. Proceeds from the sale of gold at the CSH Mine to customers prior to the commencement of commercial production were netted off against costs and were capitalized and included in mineral assets under property, plant and equipment. The measurement and valuation of gold inventory at July 1, 2008 resulted in the reclassification from mineral assets of \$20,401,790 of these deferred development costs to inventory.

Our production volume is primarily determined by the reserves at our mines, our production capacity and our recovery rate with respect to the CSH Mine. We commenced pre-commercial production at the CSH Mine in July 2007 and commercial production in July 2008. The average monthly commercial production volume at the CSH Mine for three months ended September 30, 2010 and 2009 was approximately 13,173 ounces and 9,514 ounces respectively while the average monthly

commercial production volume at the CSH Mine for nine months ended September 30, 2010 and 2009 was approximately 8,412 ounces and 6,424 ounces respectively. For the years ended December 31, 2009 and 2008, the average monthly commercial production volume was approximately 6,964 ounces and 5,612 ounces respectively.

Our **cost of sales** primarily consists of mining costs (which primarily include fees paid to third-party contractors), ore processing costs (which primarily include costs of raw materials used in the production process (such as chemicals and grinding balls), labour costs and utilities costs), other mine operating costs (primarily operating expenses of the CSH CJV, such as administrative and management staff salaries and benefits and office expenses), taxes, and depreciation and depletion. Historically, mining costs have been the largest component of our cost of production at the CSH Mine. Additional capital expenditures increase our depreciation and depletion which will in turn increase our cost of sales. With respect to the CSH Mine, we are subject to the “PRC” resource tax at RMB3 per tonne of ore processed as well as a resource compensation fee at a rate of 2.8% of the revenue of the CSH CJV. The rates of this tax and fee are subject to adjustment by relevant PRC government authorities from time to time. Cost of sales is netted against sales of the silver by-product because the amount of proceeds from silver sales is insignificant. Fees paid to third-party contractors are primarily for the provision of mine construction work and mining services.

Depreciation and depletion primarily consist of (i) depreciation of property, plant and equipment; and (ii) depletion of exploration expenditures incurred on sites within an existing mine or in areas within the boundary of a known mineral deposit which contain proved and probable reserves, provided that such exploration costs are economically recoverable and commercial production has already commenced at such sites. For the accounting treatment of exploration expenditure incurred at other stages, see “Exploration and evaluation expenditures” below.

General and administrative expenses primarily consists of administrative and management staff salaries, benefits and travel expenses of administrative and management staff of our head office in Canada, office expenses, investor relations expenses, professional fees, and other miscellaneous expenses relating to general administration of our head office in Canada.

Exploration and evaluation expenditures primarily consist of fees paid to third-party contractors for exploration activities such as drilling on sites other than the operating mine and on areas outside the boundary of a known mineral deposit which contains proved and probable reserves and preparing drilling reports, fees paid to obtain exploration permits, and in-house exploration staff costs.

Exploration and evaluation expenditures are charged to the consolidated statement of comprehensive income in the period incurred until such time when our management has determined that a mineral property has economically recoverable reserves. For the criteria our management uses when making assessment of economic recoverability, see note 4(k) in our annual audited consolidated financial statements. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and included in the carrying amount of mineral assets under property, plant and equipment.

Our long-term growth depends on our ability to grow resources at CSH organically and to acquire economic and accretive reserves. The Company is working to continue to add resources at CSH. A drilling program was implemented for the warmer months in 2010. The Company is also

reviewing a number of projects with both proven and probable resources as defined under NI 43-101 and with additional exploration potential for acquisition.

Foreign exchange gain (loss) primarily consists of foreign exchange differences arising from the conversion of the balances of Canadian-dollar denominated promissory notes to U.S. dollars and the conversion of foreign subsidiaries denominated in RMB to U.S. dollars.

Our reporting currency and the functional currency of our operations is the U.S. dollar. Transactions in currencies other than the U.S. dollar are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a currency other than the U.S. dollar 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 our consolidated statements of comprehensive income.

During 2006 and 2007, we issued promissory notes denominated in Canadian dollars. In recent years, the exchange rate between the U.S. dollar and Canadian dollar has fluctuated significantly, leading to relatively substantial amounts of foreign exchange gains or losses recorded by us, which in turn had an impact on our net profit or loss.

For the nine month periods ended September 30, 2010 and 2009, we had foreign exchange losses of \$0.9 million and \$5.4 million respectively. Both were largely attributable to the Canadian dollar denominated promissory notes and the volatility or lack thereof between the CDN and US dollar. After redeeming the majority of the promissory notes to date, Series A Notes for CDN\$30.0 million on December 14, 2009 and Series B Notes for CDN\$12.5 million on January 11, 2010, the Series C Note for CDN\$7.5 million still remains outstanding until it is redeemed no later than June 26, 2011.

Interest income primarily consists of interest on bank deposits.

Finance costs consist of effective interest accrued on our borrowings and accretion on environmental rehabilitation liabilities, net of capitalized interest. Interest expenses are capitalized if the borrowings underlying the interest expenses are for a specific project or mine development purposes.

Historically, our working capital and capital expenditure needs have been primarily funded with proceeds from the issuances of promissory notes and loans from commercial banks and CNG. Effective interest consists of interest expenses and interest accretion on our borrowings. Effective interest expense on such indebtedness has been significant. It includes both the actual interest charged based on the interest rate as well as additional amounts either expensed or capitalized that relate to the original indebtedness. An example would be the promissory notes and the cost of the additional warrants issued as a result of the promissory notes. For the nine month periods ended September 30, 2010 and 2009, our effective interest (including the amount capitalized) was \$4.5 million and \$7.0 million, respectively. For the years ended December 31, 2009 and 2008, our effective interest expense (including the amount capitalized) was \$9.9 million and \$9.1 million, respectively. Finance costs, as an item on our income statement, which excludes capitalized interest, have been significantly less than our effective interest. For the nine month periods ended September 30, 2010 and 2009, our finance

costs totaled \$3.7 million and \$3.9 million, respectively. For the years ended December 31, 2009 and 2008, our finance costs totaled \$6.3 million and \$3.6 million, respectively.

In the future, we expect our working capital and capital expenditure needs to continue to be partially met with bank loans like the Agricultural Bank of China Loan we presently have. Accordingly, we expect finance costs to continue to affect our results of operations. Fluctuations in interest rates will affect our finance costs, which may in turn affect our results of operations.

Fair value change on warrant liabilities records the change between two consecutive reporting periods in the fair value of warrants that were granted and outstanding as of the end of the previous reporting period. Fair value of warrants is determined using the Black-Scholes option pricing model and requires the input of various subjective assumptions such as the expected volatility of our share price and the expected per share dividend.

In December 2006 and July 2007, we issued warrants as part of a series of issuances of promissory notes. In December 2006, as part of our issuance of the Series A Notes, we issued 6,000,000 warrants with an exercise price of CDN\$1.60 per Share. In June 2007, as part of our issuance of the Series B and Series C Notes, we issued 4,000,000 warrants with an exercise price of CDN\$2.50 per Share. The fair value change on our warrant liabilities has been significant since the issuance of these warrants. For the nine month periods ended September 30, 2010 and 2009, we had fair value losses on our warrant liabilities of \$7.2 million and \$3.0 million, respectively while in the years ended 2009 and 2008, we had fair value losses of \$7.2 million and a fair value gain of \$12.8 million, respectively, on our warrant liabilities. The fair values of our warrants were determined by applying the Black-Scholes option pricing model, based on a number of assumptions which are subject to change. The significant change in fair value on our warrant liabilities has been attributable to a number of factors including a higher share price, a decrease in exchange rate between Canadian and U.S. dollars, a lower interest rate, and a shorter expected life of the warrants. As a result of our rising stock price, we were able to exercise the accelerated expiry right for the CDN\$1.60 per Share warrants on March 18, 2010, resulting in all CDN\$1.60 per Share warrants subsequently exercised by April 22, 2010. We were also able to exercise the accelerated expiry right for the CDN\$4.25 per Share warrants on April 16, 2010 with all such warrants now expiring by May 17, 2010. At September 30, 2010, all warrants have been exercised.

Income tax for the Company is subject to Canadian federal and provincial tax rates of 28.5% and 30.0% for the nine month period ended September 30, 2010 and 2009, respectively. During the same periods, our operating PRC subsidiaries, namely the CSH CJV and Dadiangou CJV, were all subject to PRC enterprise income tax at a rate of 25% and 25%.

For the three and nine months ended September 30, 2010, we recognized a deferred tax credit of \$70,000 and deferred tax expense of \$2.1 million respectively and current income tax expense of \$5.7 million and \$8.4 million respectively, for total tax expense of \$5.6 million and \$10.5 million respectively. For the three and nine months ended September 30, 2009, there was no deferred tax but current tax was recognized of \$937,000 and \$1,899,000, respectively.

RESULTS OF OPERATIONS OF OUR COMPANY

Selected Quarterly Data

QUARTER ENDED	2010			2009			2008	
	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec
Revenues (\$ in thousands)	\$46,631	\$27,181	\$10,499	\$34,009	\$21,048	\$18,304	\$7,686	\$16,275
Ore mined (thousand tonnes)	3,140	3,842	2,948	3,063	3,492	1,514	1,665	1,715
Average grade of ore (grams per tonne)	0.745	0.682	0.747	0.602	0.535	0.586	0.681	0.792
Gold produced (ounces)	39,520	23,716	12,484	25,758	28,543	19,899	9,328	15,593
Gold sold (ounces)	37,976	23,235	9,464	33,073	21,739	19,959	8,605	20,411
Total cost of gold sold per ounce	610	574	561	713	651	659	615	607
Cash cost per ounce (Non-IFRS measure)	539	468	416	568	576	595	470	518
Net income (loss)	13,825	4,970	(4,185)	(3,457)	(3,480)	(3,775)	2,341	5,665
Basic earnings (loss) per share	0.08	0.03	(0.03)	(0.02)	(0.02)	(0.02)	0.01	0.03
Diluted earnings (loss) per share	0.08	0.03	(0.03)	(0.02)	(0.02)	(0.02)	0.01	0.03

The following table provides selected financial data for the CSH Gold Mine for three and nine month periods ended September 30, 2010 and 2009:

	Three months ended September 30, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2009
Revenue	<u>\$46,631,430</u>	<u>\$84,311,336</u>	<u>\$21,048,168</u>	<u>\$47,038,521</u>
Cost of sales	<u>23,179,415</u>	<u>41,817,849</u>	<u>14,160,124</u>	<u>32,598,815</u>
Mine operating earnings	<u>\$23,452,015</u>	<u>\$42,493,487</u>	<u>\$ 6,888,044</u>	<u>\$14,439,706</u>
Gold produced (ounces)	39,520	75,707	28,543	42,980
Gold sold (ounces)	37,976	70,675	21,739	50,303
Total cost of gold sold per ounce	\$ 610	\$ 592	\$ 651	\$ 648
Cash cost per ounce (Non-GAAP measure)	\$ 539	\$ 499	\$ 576	\$ 566

Revenue increased by 71.6%, or \$19.5 million, from \$27.2 million for the three month period ended June 30, 2010, to \$46.6 million for the three month period ended September 30, 2010. This was over double the revenue compared to the same three month period ended September 30, 2009 of \$21.0 million. The increase quarter over quarter was due to an increase in the ounces of gold sold at the CSH Mine as well as a per ounce increase in the weighted average price of gold. For the three month period ended September 30, 2010, the CSH Mine produced a total of 39,520 ounces of gold and sold 37,976 ounces of gold at a weighted average price of \$1,228 per ounce. For the three month period ended June 30, 2010, the CSH Mine produced a total of 23,716 ounces of gold and sold 23,235 ounces of gold at a weighted average price of \$1,170 per ounce. For the three month period ended September 30, 2009, the CSH Mine produced a total of 28,543 ounces of gold and sold 21,739 ounces of gold at a weighted average price of \$968 per ounce. The reason for the increase in production was due to the increasingly warmer weather during the three months ended September 30, 2010 in comparison to the earlier three months ended June 30 2010 which allowed more gold to leach resulting in higher gold production.

Cost of sales increased by 73.9% or \$9.8 million, from \$13.3 million for the three month period ended June 30, 2010 to \$23.2 million, for the three month period ended September 30, 2010. This compares to \$14.0 million cost of sales for the comparable Q3 in 2009. The increase of cost of sales was primarily due to an increase in the production and sale of gold resulting in higher cost of sales compared to the second quarter. Cost of sales as a percentage of revenue remained constant at 49.0%

for the three month period ended June 30 2010 compared to 49.7% for the three month period ended September 30, 2010 while it was a large improvement over the cost of sales as a percentage of revenue for the three month comparable period ended September 30, 2009 of 67.3%.

As a result of the foregoing, **mine operating earnings** more than doubled from \$13.9 million for the three month period ended June 30, 2010 to \$23.5 million for the three month period ended September 30, 2010. This was a large improvement over mine operating earnings of \$6.9 million for the comparable Q3 in 2009. Mine operating earnings as a percentage of revenue remained constant at 51.0% for the three month period ended June 30 2010 compared to the three month period ended September 30, 2010 at 50.3% and a large improvement from the 32.7% for the three months ended September 30, 2009.

General and administrative expenses increased by 19.3%, or \$226,000, from \$1,171,000 for the three month period ended June 30, 2010 to \$1,396,000 for the three month period ended September 30, 2010 while general and administrative expenses were only slightly up by 4.2% or \$56,000 from the same period in 2009. The increase quarter over quarter was primarily attributable to an increase of \$447,000 in professional fees, which was partially offset by a decrease of \$94,000 in salaries and benefits, a decrease of \$58,000 in travel, and \$42,000 in administration and office expenses. The 2010 three month increase over 2009 was primarily attributable to an increase of \$533,000 in professional fees, an increase in investor relations of \$47,000 and an increase of \$45,000 in travel which was partially offset by decrease of \$190,000 in administration and office expenses and a decrease of \$400,000 in shareholder information, transfer agent and filing fees. The increase in professional fees was primarily attributable to an accrual for the year-end audit fees and the third quarter review while the decrease in administration and office expenses related to the overhead allocation charged by Global Mining Management, our shared services provider, in 2009 which was not incurred in 2010.

Exploration and evaluation expenditures remained relatively constant at \$69,000 for the three month period ended September 30, 2010 compared to \$70,000 for the three month period ended June 30, 2010. These amounts related primarily to the implementation of a new drilling program at the CSH Mine in Q2.

As a result of the foregoing, **income from operations** increased by 74.4%, or \$9.4 million, from income of \$12.6 million for the three month period ended June 30, 2010 to income of \$22.0 million for the three month period ended September 30, 2010.

Listing expenses decreased by 56.9%, or \$679,000, from \$1.2 million for the three month period ended June 30, 2010 to \$514,000 for the three month period ended September 30, 2010. This decrease was primarily due to a decrease in professional services related to the proposed listing on the Hong Kong Stock Exchange.

Finance costs decreased by 2.6%, or \$39,000, from \$1.5 million for the three month period ended June 30, 2010 to \$1.4 million for the three month period ended September 30, 2010, primarily attributable to decrease in effective interest of \$35,000. As of June 26, 2010, the cost of the warrants issued to the promissory note holders has all been expensed. As a result, the effective interest rate on the remaining CDN\$7.5 million promissory note, extended to June 26, 2011 under the original terms, decreased to its annual interest rate of 12%. The decrease in the capitalized interest is due to the Crusher being put into use requiring the interest to be expensed instead.

The **fair value change of warrant liabilities** decreased by 100.0%, or \$873,000, from \$873,000 for the three month period ended June 30, 2010 to \$nil for the three month period ended September 30, 2010. The decrease represents the fair value change on a small amount of the remaining warrants which are now all exercised.

Foreign exchange changed by \$240,000 from a loss of \$872,000 for the three month period ended June 30, 2010 to a loss of \$631,000 for the three month period ended September 30, 2010. The reason for the loss in the second quarter and in the third quarter relates to the conversion of foreign subsidiaries denominated in RMB to the US dollar functional currency.

Interest income increased by \$12,000 from \$2,000 for the three month period ended June 30, 2010 to \$14,000 for the three month period ended September 30, 2010. This increase was primarily due to an increase in bank deposits as a result of the exercise of all the outstanding warrants as our stock price rose as well as an increase in operating income resulting in more cash in the bank.

Income tax expense increased by 72.5%, or \$2.3 million, from \$3.2 million for the three months period ended June 30, 2010 to \$5.6 million for the three month period ended September 30, 2010 due to an increase in taxable income during the period.

As a result of the foregoing, **net income and comprehensive income** attributable to owners of the Company increased by \$8.4 million from income of \$4.8 million for the three month period ended June 30, 2010 to income of \$13.2 million for the three months ended September 30, 2010.

Nine Month Comparative

Revenue increased by 79.2%, or \$37.3 million, from \$47.0 million for the nine month period ended September 30, 2009, to \$84.3 million for the nine month period ended September 30, 2010. The increase was due to an increase in the ounces of gold sold at the CSH Mine as well as a \$257.8 per ounce increase in the weighted average price of gold. For the nine month period ended September 30, 2010, the CSH Mine produced a total of 75,707 ounces of gold and sold 70,675 ounces of gold at a weighted average price of \$1,193 per ounce. For the nine month period ended September 30, 2009, the CSH Mine produced a total of 42,980 ounces of gold and sold 50,303 ounces of gold at a weighted average price of \$935 per ounce. The reason for the increase in production was primarily due to the addition of the Crushing facility which greatly reduced the ore size added to the leach pad during the nine months ended September 30, 2010 in comparison to the nine months ended September 30, 2009 which allows more gold to leach resulting in higher gold production.

Cost of sales increased by 28.3% or \$9.2 million, from \$32.6 million for the nine month period ended September 30, 2009 to \$41.8 million, for the nine month period ended September 30, 2010. Cost of sales as a percentage of revenue decreased from 69.3% for the nine month period ended September 30, 2009 to 49.6% for the nine month period ended September 30, 2010. A concentrated effort has been made to continue to reduce the cost of sales by fine tuning processes, reducing costs of suppliers, finding and retaining the right management and employees, continually improving productivity, and building operating experience amongst other things.

As a result of the foregoing, **mine operating earnings** almost tripled from \$14.4 million for the nine month period ended September 30, 2009 to \$42.5 million for the nine month period ended September 30, 2010. Mine operating earnings as a percentage of revenue rose from 30.7% to 50.4% due to reduced cost of sales and an increase in the weighted average sale price of gold for the nine month period ended September 30, 2010 compared to the prior quarter.

General and administrative expenses increased by 10.5%, or \$335,000, from \$3.2 million for the nine month period ended September 30, 2009 to \$3.5 million for the nine month period ended September 30, 2010. This increase was primarily attributable to an increase of \$635,000 in professional fees, an increase of \$116,000 in travel, an increase of \$92,000 in investor relations, and increases of \$51,000 in both depreciation and salaries and benefits which was partially offset by a decrease of \$400,000 in shareholder information, transfer agent and filing fees and a decrease of \$210,000 in administration and office expenses.

Exploration and evaluation expenditure decreased by 83.8%, or \$840,000, from \$1 million for the nine month period ended September 30, 2009 to \$162,000 for the nine month period ended September 30, 2010. Although a drilling program has been planned and carried out this year at the CSH Mine site, the amount expended on exploration has decreased considerably compared with the prior year.

As a result of the foregoing, **income from operations** increased by 278.3%, or \$28.6 million, from income of \$10.3 million for the nine month period ended September 30, 2009 to income of \$38.8 million for the nine month period ended September 30, 2010.

Listing expenses were \$2.1 million for the nine month period ended September 30, 2010 compared to \$0.9 million for the nine month period ended September 30, 2009. The increase was primarily due to an increase in professional fees related to our listing on the Hong Kong Stock Exchange.

Finance costs decreased by 6.5%, or \$254,000, from \$3.9 million for the nine month period ended September 30, 2009 to \$3.7 million for the nine month period ended September 30, 2010. Although effective interest decreased by \$2.5 million, it was offset by a decrease in capitalized interest expense of \$2.5 million. As of June 26, 2010, the cost of the warrants issued to the promissory note holders has all been expensed. As a result, the effective interest rate on the remaining CDN\$7.5 million promissory note, extended to June 26, 2011 under the original terms, decreased to its annual interest rate of 12%. The decrease in the capitalized interest is due to the Crusher being put into use requiring the interest to be expensed instead.

The **fair value change of warrant liabilities** increased by 140.0%, or \$4.2 million, from \$3.0 million for the nine month period ended September 30, 2009 to \$7.2 million for the nine month period ended September 30, 2010. The increase represents the fair value change on the warrants as a result of our rising stock price during 2010. All warrants have now been exercised.

Foreign exchange decreased by 83.7% or \$4.6 million from a loss of \$5.4 million for the nine month period ended September 30, 2009 to a loss of \$885,000 for the nine month period ended September 30, 2010. The greater stability between the CDN and US dollar as well as only one remaining CDN\$7.5 million promissory note accounts for the decrease in 2010.

Interest income increased by 316.3%, or \$12,000, from \$3,700 for the nine month period ended September 30, 2009 to \$15,500 for the nine month period ended September 30, 2010. This increase was primarily due to an increase in bank deposits as a result of the exercise of all the outstanding warrants as our stock price rose and an increase in operating profits resulting in increased cash.

Income tax expense increased by 451.2%, or \$8.6 million, from \$1.9 million for the nine month period ended September 30, 2009 to \$10.5 million for the nine month period ended September 30, 2010 due to an increase in taxable income during the period.

As a result of the foregoing, **net income and comprehensive income** attributable to the owners of the Company increased \$19.1 million from a loss of \$5.4 million for the nine month period ended September 30, 2009 to income of \$13.7 million for the nine months ended September 30, 2010.

Non-IFRS Measures

The following table provides cost information to determine the cash cost of production per ounce (non-IFRS) for three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2009
	\$	\$	\$	\$
Mining cost (Oxide ore)	3,928,354	12,262,323	6,746,795	11,871,699
Waste cost	5,940,807	14,015,472	6,830,043	9,895,344
Other mining costs	1,051,145	3,427,765	509,898	1,315,168
Total mining costs	<u>10,920,306</u>	<u>29,705,560</u>	<u>14,086,737</u>	<u>23,082,211</u>
Reagents cost	3,745,567	8,367,792	3,041,499	6,689,682
Other process costs	2,201,685	4,791,779	1,511,199	3,260,347
Total process cost	<u>5,947,253</u>	<u>13,159,571</u>	<u>4,552,697</u>	<u>9,950,029</u>

The following table provides certain unit costs for the CSH Gold Mine for three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2009
Cost of mining per tonne of ore	\$1.25	\$1.21	\$1.93	\$1.78
Cost of mining waste per tonne of ore . . .	\$1.89	\$1.38	\$1.96	\$1.48
Other mining costs per tonne of ore	\$0.33	\$0.34	\$0.15	\$0.20
Total mining costs per tonne of ore	<u>\$3.47</u>	<u>\$2.93</u>	<u>\$4.04</u>	<u>\$3.46</u>
Cost of reagents per tonne of ore	\$1.19	\$0.82	\$0.87	\$1.00
Other processing costs per tonne of ore . . .	\$0.70	\$0.47	\$0.43	\$0.49
Total processing cost per tonne of ore . . .	<u>\$1.89</u>	<u>\$1.29</u>	<u>\$1.30</u>	<u>\$1.49</u>

The cash cost of production is a measure that is not in accordance with International Financial Reporting Standards ("IFRS").

The Company has included cash cost per gold ounce data to supplement its financial statements, which are presented in accordance with IFRS. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance, operating results or financial condition prepared in accordance with IFRS. The Company has included cash cost per ounce data because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flow. The measure is not necessarily indicative of

operating results, cash flow from operations, or financial condition as determined under IFRS. Cash costs are determined in accordance with the Gold Institute's Production Cost Standard. The following table provides a reconciliation of cost of sales to the cash costs of production in total dollars and in dollars per gold ounce:

	Three months ended September 30, 2010		Nine months ended September 30, 2010		Three months ended September 30, 2009		Nine months ended September 30, 2009	
		Per gold oz.		Per gold oz.		Per gold oz.		Per gold oz.
Cost of sales	\$23,179,415	\$610	\$41,817,849	\$592	\$14,160,124	\$651	\$32,598,815	\$648
Adjustments:								
Depreciation and depletion	(2,702,206)	(71)	(6,515,334)	(92)	(1,627,053)	(75)	(4,146,854)	(82)
Selling costs	(951)	(0)	(4,057)	(0)	(853)	(0)	(2,397)	(0)
Total cash costs	<u>\$20,476,258</u>	<u>\$539</u>	<u>\$35,298,458</u>	<u>\$499</u>	<u>\$12,532,218</u>	<u>\$576</u>	<u>\$28,449,564</u>	<u>\$566</u>

The total cash costs per gold oz. above differ from the unit cash costs disclosed in the BD ITR for the CSH Mine for two reasons. First, the BD ITR is prepared on a cash basis while the calculation above is prepared on an accrual basis. The cost of sales above includes an allocation of costs experienced over time while the BD ITR does not. Second, the BD ITR is prepared based on the units produced while the calculations above are based on the units sold.

Mineral Property

The CSH Mine

The CSH Gold Project is located in Inner Mongolia Autonomous Region of Northern China (Inner Mongolia). The property hosts two low-grade, near surface gold deposits, along with other mineralized prospects. The main deposit is called the Northeast Zone (the "Northeast Zone"), while the second, smaller deposit is called the Southwest Zone (the "Southwest Zone").

The CSH Gold Project is operated and owned by Inner Mongolia Pacific Mining Co., a CJV in which China Gold International holds a 96.5% interest and Brigade 217 holds the remaining 3.5%.

The following table shows the cumulative expenditures made as of September 30, 2010:

	December 31, 2008	Increase During the Period	December 31, 2009	Increase/ (Decrease) During the Period	September 30, 2010
	\$	\$	\$	\$	\$
Exploration expenditure charged to profit or loss	8,903,877	267,299	9,171,176	118,664	9,289,840
Mineral assets ⁽¹⁾	11,957,158	6,803,216	18,760,374	5,455,158	24,215,532
Construction in progress ⁽²⁾	28,727,117	47,255,828	75,982,945	(66,720,597)	9,262,348

(1) During the nine months ended September 30, 2010, additions to mineral assets were \$6,171,975 (\$12,019,281 for the nine months ended September 30, 2009) and additions in mineral assets resulting from changes in the provision for environmental rehabilitation were \$24,232 (Nil for the nine months ended September 30, 2009).

(2) During the nine months ended September 30, 2010, additions to construction in progress were \$9,992,874 (\$42,039,018 for the nine months ended September 30, 2009), and \$70,993,484 was transferred out of construction in progress to crusher (Nil for the nine months ended September 30, 2009), and the Group reversed \$5,719,987 accruals on construction in progress upon the completion of the crushing facility construction (Nil for the nine months ended September 30, 2009).

Mineral Resources and Ore Reserves

An updated mine plan for the CSH Gold Project was developed and reported in the BD ITR dated March 30, 2010. This plan has been prepared for heap leaching with a crushing plant throughput rate of 30,000 tonnes per day which was reached as planned by the end of the first quarter of 2010.

Mineral reserves have been reported for the final pit designs at a positive net value cutoff that corresponds to a gold grade cutoff of approximately 0.3 grams per tonne gold as scheduled in the mine plan. The proven and probable reserves at CSH mine as of December 31, 2009 stand at approximately 138 million tonnes of ore with an average grade of 0.67 g/t gold, representing approximately 3.0 million ounces of contained gold.

The reserves are summarized in the table below:

CSH Mine Reserves by category, Northeast and Southwest pits combined December 2009

<u>Classification</u>	<u>Cutoff Au (g/t)</u>	<u>Ore (M tonnes)</u>	<u>Grade Au (g/t)</u>	<u>Contained Au (kOz)</u>	<u>Contained Au (kgs)</u>
Proven	0.30	83.6	0.70	1,868	58,100
Probable	0.30	55.2	0.64	1,133	35,240
Total	0.30	<u>138.8</u>	<u>0.67</u>	<u>3,001</u>	<u>93,340</u>

Resource Estimate

The latest CSH mine resource estimate was reported in the BD ITR dated March 30, 2010. The 2008 drilling campaign added significant tonnages above cutoff and also improved the grade compared to prior resource estimates, partly due to the confirmation of grades and upgrade in resource classification down-dip and laterally. The CSH deposit in the Southwest (SW) area is now well delineated, and still significant potential exists for down-dip extensions to the mineralization. Mineralization at depth in the Northeast (NE) has been confirmed, with increases in both tonnages and confidence.

At the end of December 2009, the project's Measured and Indicated Gold Resources, using 0.3 grams per tonne ("g/t") Au cut-off grade, stand at 243 million tonnes averaging 0.64 (g/t) gold. This translates into 4.99 million ounces of contained gold (inclusive of reserves) in the deposit. In the previous March 2008 ITR, 183 million tonnes of Measured and Indicated resources averaging 0.69 g/t gold were reported at the same 0.30 g/t gold cut-off grade.

Details of the new resources are summarized in the following table:

Table 2: CSH Mine Resources by category, Northeast and Southwest Zones (inclusive of reserves).

**Resources by category below pit surface to December 31st, 2009,
CSH Mine Project, 2009 Resource Model**

Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	M Tonnes	Au Grade (g/t)	M Tonnes	Au Grade (g/t)	M Tonnes	Au Grade (g/t)	Million Ounces Au	M Tonnes	Au Grade (g/t)	Million Ounces Au
0.3	105.8	0.68	137.6	0.61	243.4	0.64	4,993	0.53	0.43	0.007
0.35	96.1	0.71	120.8	0.65	216.9	0.68	4,716	0.35	0.49	0.005
0.4	86.5	0.75	104.1	0.69	190.6	0.72	4,400	0.24	0.54	0.004
0.45	77.2	0.79	89.1	0.74	166.3	0.76	4,068	0.18	0.57	0.003
0.5	68.0	0.83	76.2	0.78	144.2	0.80	3,732	0.12	0.62	0.002

Production Update

Since March, 2010, mine production has consisted almost entirely of crushed ore, and the crusher facility has consistently reached its design capacity of 30,000-tpd. According to the most recent column leach test done by Metcon Research of KDE, once the ore is crushed, the gold recovery will greatly improved to approximately 70% to 80% depending on the gold grades. The higher the gold grade, the better the recovery will be. Based on the BD ITR dated March 30, 2010, the mining budget for 2010 was set at 10.65 million tonnes and gold production was estimated to be 132,210 ounces. However, BD updated the ITR as of June 30, 2010 with a new forecast for total gold production for 2010 to be approximately 115,000 ounces.

	Three months ended September 30, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2009
Ore mined and placed on pad (tonnes)	3,140,660	10,160,367	3,492,274	6,671,056
Average grade of ore (grams per tonne)	0.745	0.684	0.535	0.622
Recoverable gold at 43% recovery rate (ounces)	27,390	86,349	33,947	67,165
Ending gold inventory (ounces)	72,179	72,170	57,914	57,914
Waste rock mined (tonnes)	4,380,180	12,689,670	3,981,765	4,737,068

For the first nine month period ended September 30, 2010, the total amount of ore put on the leach pad was 10,160,367 tonnes, while the total amount of gold put on the leach pad was 6,950,637 grams (223,468 oz). Both of these amounts were higher than expected mainly due to improved ore grade.

The amount of gold poured for the nine month period ended September 30, 2010 was lower than expected. This was mainly due to a harsh and long winter and some frozen drip meters that were not buried causing the sharp production shortfall experienced in the first half of 2010. In addition, most of the ore was placed on top (3rd to 4th) lifts or farther away from the process plant, which will take a longer time for the solution to circulate. Although leaching was slow up until the end of May, following the thaw from last year's extremely harsh winter and completion of the leach pad extension at the end of July, the daily production began to rise considerably. The Company poured 13,897 and 14,307 ounces of gold in August and September respectively. At that time, the Company believed that

it was still likely to achieve aggregate gold production estimates for 2010 as outlined in the CSH Technical Report. However, from mid-August 2010, the PH levels of the leaching solution exceeded normal levels and stayed high for over two months, which has reduced the gold leaching rate and moderated gold production starting in October (approximately 13,400 ounces). Accordingly, the Company has not been able to fully compensate for the lower than expected production in the first half of the year. The Company now expects aggregate production for 2010 to amount to between approximately 114,000 and 116,000 ounces. The PH levels have now returned to a more normal state and there have been no changes to medium and long-term gold production estimates.

Inventory began to stabilize in August and September with small decreases in the amount of gold inventory still in the circuit. The Company will continue to monitor the impact of inventory on the financial statements.

Project Economics

According to the latest mine plan, the CSH mine life was extended from 2018 to 2023 with four more years of leaching afterwards. By the end of 2009 and prior to the use of the crusher, approximately 20 million tonnes of ROM ore were put under leach. The observed recovery from this uncrushed ROM material based on gold poured has been 37.3%. It is estimated that the ultimate recovery rate for the uncrushed ROM ore already on pad will be over 53%. With the new crushers now at the design capacity of 30,000 tpd, it is expected that the gold recovery will be greatly improved. According to the column test done by Metcon Research of KDE in 2009, the recovery rate for the crushed ore is a function of the ore grade. The higher the ore grade the higher the recovery rate, which ranges from the lowest of 62.1% in the SW pit to the highest of 80.9% in the NE pit. According to the updated BD ITR as of June 30, 2010 and the new mine production plan, approximately 2.35 million ounces of gold will be produced in the next 15 years starting with annual production of approximately 115,873 ounces in 2010, and gradually increasing to over 150,000 ounces in 2015 and then to over 200,000 ounces in 2022.

In the BD ITR dated March 30, 2010, gold prices ranging from \$1,033 per ounce to \$849 per ounce over the next 5 years were used to estimate the Pre-Income Tax NPV as of the end of December 2009 at \$517 million at a 9% discount at the exchange rate of one US dollar to RMB 6.83. Please refer to the BD ITR dated March 30, 2010 for more information. Gold prices and the recovery rate are still the two most sensitive factors for the project economics.

Exploration

From 2003 through to 2005, China Gold International undertook annual drill campaigns that allowed China Gold International to complete resource estimates and quantify the size and scope of both the Northeast and Southwest Zones. This was followed by further drilling campaigns in 2007 through to 2008 to increase confidence levels in resource estimates and test extensions of mineralization. In 2007, 41 holes at approximately 11,500 metres were drilled, while in 2008, 23 holes at approximately 5,000 m were drilled.

Exploration and drilling is scheduled to continue at the CSH gold mine during the 2010 field season within the company's 25 square kilometer licensed area immediately adjoining the mining permit and mineralization at depths below the current mining permit. Priorities for exploration have been given to trenching and drilling on several gold anomalies along the prospective stratigraphy that was defined by grid rock sampling during the previous field seasons with deeper drill holes planned to explore for higher grades down dip.

Fire assay results have been received from 4 diamond drill holes from the mining permit area and 6 trenches on the surface with a total 1,418 meters in length from the exploration permit area. Highlights include intercepts of 144.50 meters grading 0.92 grams per tonne (g/t) gold in hole DDH101-1 and 134.30 meters grading 0.68 grams per tonne (g/t) gold in hole DDH9950-00, and 14 meters grading 4.14 grams per tonne (g/t) gold in trench TC4 and 28 meters grading 0.33 grams per tonne (g/t) in trench TC2. Assay results from 2 extra holes from the mining permit area have not been received yet. In addition, our drill contractor, Sinorex Drilling (Beijing) Co. Ltd., is currently drilling 2 holes at the exploration permit area to confirm the gold mineralization extension at deep depth which has been verified from the surface trenching.

Processing Plant Upgrade

The upgrading construction for the additional processing capacity of 2000 m³ PLS solution per hour started in March, 2010, and was completed by the end of July 2010. Five new CIC columns were built each with a volume of 353.25 cubic meters (7.5 meter diameter and 8 meter tall). A new 4,192 m³ PLS pond and a 1,551 m³ BLS pond were built with 3 extra PLS pumps and 3 extra BLS pumps and all the necessary piping installed. The following is an update of the current major processing equipment list.

CSH Mine Major Carbon Adsorption & Stripping Equipment List

CIC Columns		# of Columns	Volume of Each Column	Total Volume	Designed Processing Capacity	# of PLS Pumps	Pumping Capacity	# of BLS Pumps	Pumping Capacity
			m ³	m ³	m ³ /hr		m ³ /hr		m ³ /hr
Existing CIC Columns	Series 1	6	33	206	800	3	1,800	4	1,600
	Series 2	6	41	238	800				
New Addition	Series 3	5	353	1,765	2,000	3	2,250	3	2,400
A New 5 tonne Carbon Stripping Circuit is added to the processing plant, the total carbon stripping capacity is at 10 tonnes at a time.									

Additional water has been pumped into the system since early July. By the end of September 2010, the PLS processing rate has increased to 2,942 m³ per hour.

Environmental and Community Considerations

The Company is committed to observe and dedicated to comply with Chinese and global environmental and social responsibility standards.

In 2006, an Environmental Impact Study (“EIS”) was submitted to the Inner Mongolian Environment Protection Bureau (“EPB”) to comply with local (Chinese) requirements, including industrial policies and regional economic development plans, and an Environmental and Social Impact Assessment for the CSH Mine was conducted by internationally recognized consultants Environmental Resources Management (“ERM”) utilizing both Chinese EIA requirements as well as World Bank Group Environmental and Social Guidelines. A key aspect of this ERM assessment concerned minimization of community impact as a result of water use by the mine, and it has also been used to provide the basis for an Environmental Management Plan for the site. Various social issues were addressed in the study. This has contributed towards protection of local social heritage and culture,

employment of local people (currently approximately 30% of the workforce), employment of women (currently approximately 10% of the workforce) as well as contributions towards local education, medical equipment, various community activities and support of poor families with food and coal (which collectively have been cost at approximately RMB1.6 million to date) having been implemented by the Company.

In November 2007, the CSH Gold Project received its environmental approval from the Inner Mongolian EPB following review of the documents and a site inspection by an expert panel. Environmental Approval, which requires approval of both the EIS and a Soil and Water Conservation Plan, is required to obtain a Mining Permit, thereby enabling the mining operation to commence production.

Due to the semi-desert conditions and scarce water supply in the area, the project is being developed as a zero discharge site, hence it only requires a Water Supply (and not a Discharge) Permit, to be issued by the regulatory authorities. A comprehensive Water Resource Estimation by the Baogang Engineering Investigation and Survey Institute in Baotou was followed by a similar independent study by international experts Golder Associates, and a further hydrogeology and water resources study was conducted by the Baogang Institute. The objective of the mine project in securing its water supply was to balance the extraction of water from local sources with the capacity for recharge of these sources. The collective studies have determined that a sustainable water extraction rate would be 4,000 m³/day in an average year and 3,000 m³/day in a dry year, which is sufficient to meet the demand of the mining operation. The current Water Permit allows water to be pumped from the Molen River and Xinhure alluvial aquifer as well as the Hushaogou bedrock aquifer, at a rate of up to approximately 1 Mm³/year.

Environment protection measures for the mine site include programs for water management, solid waste, rock dust mitigation, noise control, rehabilitation and seismic and flood risk.

The Jiama Mine

The Company has entered into an agreement to acquire the Jiama Mineral Property (“Jiama”) which is a significant copper-polymetallic mining project consisting of copper, gold, silver, molybdenum, and other minerals located in the Gandise metallogenic belt in Tibet, China.

The deposit is being developed into a combined open-pit and underground mining operation. The development includes two open pits, being the smaller Tongqianshan pit and larger Niumatang Pit, as well as an underground operation that will be accessed through two shafts having an initial 355m depth and extending to a final depth of 600m. The project is currently at the end of its first phase of development, which primarily involves the development of open-pit infrastructure at the Tongqianshan open pit, ore processing facilities and underground ore transportation system. Skyland recently commenced mining from the Tongqianshan pit and processing operations.

Mineral Resources and Ore Reserves

In September 2010, Behre Dolbear Asia Inc. (“BD”) completed a technical review and, as part of its engagement, produced an NI 43-101 technical report on the Jiama Property as at June 30, 2010. Set forth below are the mineral resource and reserve estimates for the property. Further information can be found in the technical report filed on SEDAR at www.sedar.com.

The following skarn-type resources and reserves have been identified at the Jiama Property, as at June 30, 2010. The skarn-type resources are reported at a cut-off grade of 0.3% copper, 0.03% molybdenum, or 1% lead, or 1% zinc. Resources are inclusive of reserves.

Skarn-Type JORC Mineral Resource Category⁽¹⁾

Kt	Grade						Contained Metals					
	Cu %	Mo %	Au g/t	Ag g/t	Pb %	Zn %	Cu kt	Mo kt	Au t	Ag t	Pb kt	Zn kt
Measured Resource												
82,928	0.83	0.042	0.30	16.0	0.06	0.05	686.9	34.42	25.11	1,326	51.9	38.7
Indicated Resource												
102,187	0.68	0.041	0.22	13.7	0.10	0.05	691.6	42.07	22.33	1,396	100.6	55.4
Measured + Indicated Resource												
185,116	0.74	0.041	0.26	14.7	0.08	0.05	1,378.5	76.49	47.44	2,722	152.5	94.1
Inferred Resource												
165,763	0.64	0.053	0.21	13.1	0.14	0.06	1,068.0	88.57	35.42	2,179	239.0	106.9

(1) Mineral resources that are not mineral reserves do not have demonstrated economic viability.

The estimate was prepared using Minesight computer mining software, based on a database of 210 diamond drill holes with a total drilled length of 69,029 meters, and 10 surface trenches with a total length of 349 meters. The database contains 26,606 assay intervals.

Skarn-type ore reserve estimates were summarized based on the block/stope unit economic values calculated for the resource blocks within the final Tongqianshan pit and Niumatang pit designs and for stopes within the planned underground mining areas.

The cutoff unit economic values used to separate ore and waste are listed below:

Cutoff Unit Economic Value for Reserve Estimation of the Jiama Project

Area	Cutoff Unit Economic Value	Total Unit Ore Operating Cost In Project Financial analysis
Tongqianshan Pit	RMB276.5/t (\$40.78/t)	RMB133.2/t (\$19.65/t)
Niumatang Pit	RMB249.0/t (\$36.73/t)	RMB128.9/t (\$19.01/t)
Underground (+4,600 m) Sublevel Stopping	RMB276.5/t (\$40.78/t)	RMB201.0/t (\$29.65/t)
Underground (-4,600 m) Panel Sublevel Stopping	RMB249.0/t (\$36.73/t)	RMB201.0/t (\$29.65/t)

Below are the estimated skarn-type ore reserves for the Jiama Property as at June 30, 2010.

Skarn-Type JORC Ore Reserve Category

Kt	Grade						Contained Metals					
	Cu %	Mo %	Au g/t	Ag g/t	Pb %	Zn %	Cu kt	Mo kt	Au t	Ag t	Pb kt	Zn kt
	Total Reserve: Proved											
53,541	0.83	0.038	0.32	16.3	0.06	0.04	442.8	20.31	17.1	874	29.6	21.3
	Total Reserve: Probable											
52,358	0.85	0.040	0.29	16.5	0.11	0.05	442.8	20.96	15.2	864	55.4	27.2
	Total											
105,899	0.84	0.039	0.31	16.4	0.08	0.05	885.6	41.27	32.3	1,728	85.0	48.6

Mining and Production

Open pit mining will be conducted using hydraulic excavators loading onto 45t and 20t trucks. Underground mining will include open stope mining, with flatter, thick zones backfilled and steeply dipping zones not backfilled. These two mining methods will account for around 90% of the ore reserves. For zones where open stoping methods are not appropriate, room and pillar or shrinkage stoping mining methods are planned.

Skyland is developing the mining facilities in phases. Open pit operation at a rate of 3,000 tpd at Tongqianshan commenced in late July 2010, while open pit mining at an additional 6,000 tpd is scheduled to commence at Niumatang in early 2011. Underground mining is scheduled to commence, at an initial rate of 3,000 tpd, in 2012. The mine design contemplates installation of two 6,000 tpd processing plants. An initial plant has been installed, and is in operation, while a second plant is scheduled for installation in 2011 with full operation in late 2011 or possibly early 2012. Once both plants are fully operational, production is scheduled to amount to 12,000 tpd (3.6 million tpa).

Production will consist of copper concentrate, molybdenum concentrate and lead concentrate. Gold and silver will be separated and smelted in downstream processing.

According to review, the currently defined skarn-type reserves of the Jiama Mine are expected to support approximately 30 years of mine production based on an assumed production rate of 12,000 tpd (3.6 million tpa).

Operating and Capital Costs

BD calculated an overall unit cost for mine operations at \$24.82 to \$34.57 with a life of mine average at \$29.60 and unit production cost (which includes total unit cost for mine operations, unit depreciation and amortization costs) of \$31.99 to \$50.04 per tonne of processed ore with a life of mine average at \$35.28 per tonne of processed ore. BD also calculated a copper equivalent production in concentrate for the project based on metal in annual concentrate sales prices (excluding VAT). This calculation resulted in estimates of CuEq in annual concentrate production amounting to between approximately 28,000 to 50,000 tonnes, CuEq operating costs ranging from approximately \$2,000 to \$4,000 per tonne, and CuEq production costs ranging from approximately \$2,500 to \$4,500 per tonne.

Total capital costs are estimated at approximately \$400,000,000 to bring the project to 12,000 tpd of production. To date, approximately 56% of the capital costs have been expended, with an additional approximately \$170,000,000 to be expended in the balance of 2010 through to 2012. The mine plan estimates further sustaining capital expenditures will be required through the life of mine amounting to approximately \$230,000,000

Economic Analysis

BD completed an economic analysis of the mining operation based on its reserves. BD used copper, molybdenum, and lead prices that represent the actual average metal market prices for the last 3 to 5 years in China. Gold and silver prices are slightly higher than the past 3-year actual averages, but they represent the expectation for the long-term prices for these two metals. In addition to the metal prices, a copper concentrate transportation credit of RMB200/t (\$29.50/t) of copper metal contained in the copper concentrate was applied based on the preliminary current sales contract with a copper concentrate buyer.

Metal Prices Used for Base Case Economic Analysis for the Jiama Project

Metal	Metal with VAT Price⁽¹⁾		Metal in Concentrate with VAT Price		Metal in Concentrate without VAT Price	
	RMB	\$	RMB	\$	RMB	\$
Copper	55,000/t	8,112.09/t	49,275/t	7,267.70/t	41,115.39/t	6,211.71/t
Molybdenum . .			300,000/t	44,247.79/t	256,410.26/t	37,818.62/t
Gold	200/g	917.51/oz	166/g	761.53/oz	166/g	761.53/oz
Silver	3,500/kg	16.06/oz	2,712.5/kg	12.44/oz	2,318.38/kg	10.64/oz
Lead			12,500/t	1,843.66/t	10,683.76/t	1,575.78/t

Note: (1) VAT is 17% for all metals except gold; gold sales are not subject to VAT.

Under the base case analysis, revenue from metal sales amounts to between \$200 million to \$300 million per year once full phase 2 production is achieved, with after tax cash flow amounting to approximately \$100 million per year for most years, and with negative after tax cash flow recorded in 2010 when substantial capital programs are contemplated.

BD adopted a discount rate of 9% for the net present value calculation. Based on these assumptions, BD calculated the after tax net present value of the discounted cash flow at \$777.2 million. Payback of capital costs was estimated at 5.2 years starting from January 1, 2010.

Sensitivity analyses indicate that the NPV of the Jiama Project is very sensitive to variations in the metal prices and processing metal recoveries, moderately sensitive to variations in operating costs, and less sensitive to variations in capital costs.

Hornfels-type Resource Estimate

In addition to the skarn-type resource and reserve estimates reported above, B D Asia conducted an analysis of a large, lower grade hornfels-type copper-polymetallic deposit located above the skarn-type deposit at the Jiama property. Results of geological modeling show that the hornfels-type mineralization is likely to consist of a large, massive mineralized body over 1,500 m long, up to 1,000 m wide and up to 820 m thick. In general, the upper portion of the mineralized body is copper rich, and the lower portion of the body is molybdenum rich. A total of 3,434 assay intervals with a total length of 6,017 m are located inside the defined hornfels-type mineralized envelopes for the Jiama Project. Therefore, the average assay interval length inside the hornfels-type mineralized envelopes is 1.75 m.

BD estimated hornfels-type inferred resources of 655 million tonnes with average grades of 0.23% Cu, 0.045% Mo, 0.02 g/t Au and 1.17g/t Ag and contained metal of 1,500,000 tonnes of Cu, 290,000 tonnes of Mo, 13 tonnes of Au and 770 tonnes of Ag. The cutoff grades used are 0.3% copper, or 0.03% molybdenum, or 1% lead, or 1% zinc. The resource estimate was identified by BD as being at an early stage, and the Company cautions that mineral resources that are not mineral reserves do not have demonstrated economic viability.

Assay Results from New Diamond Drill Holes

On September 28, 2010, the assay results from 28 new diamond drill holes were released. These assay results and other completed or undergoing drilling holes confirm the skarn-type copper polymetallic zone at the Jiama Project which continues for 3,000-metres along strike and 2,000-metres along dip, while the overlying hornfels-type copper polymetallic mineralized body reaches over 1,000-metres along strike and 800-metres along dip. Both zones remain open along strike and dip. Scientific and technical information included in the news release on the assay results is filed on SEDAR at www.sedar.com.

LIQUIDITY AND CAPITAL RESOURCES

We operate in a capital intensive industry. Our liquidity requirements arose principally from the need for working capital to finance development of our mining and processing operations, exploration activities and acquisition of exploration and mining rights. Our principal sources of funds have been proceeds from the issuance of promissory notes, borrowing from PRC Commercial banks and China National Gold, equity financings, and cash generated from operations. Our liquidity will primarily depend on our ability to generate cash flow from operations and obtain external financing to meet our debt obligations as they become due as well as our future operating and capital expenditure requirements.

At September 30, 2010, the Company had an accumulated deficit of \$51,769,049 and working capital of \$21,065,704. China Gold International's cash balance at September 30, 2010 was \$27.1 million. The Company's last promissory note, Note C, for CDN\$7.5 million was extended from June 26, 2010 to June 26, 2011. The first principal installment of \$1.5 million, on the Company's RMB 290 million term loan from the Agricultural Bank of China ("ABC") was paid in September 2010. Quarterly interest on Promissory Note C of CDN\$225,000 per quarter totaling CDN\$900,000 for the year was due and paid September 30, 2010. Monthly interest payments of approximately \$175,000 were paid monthly on the ABC loan for an approximate total of \$1,575,000 for the year. Finally, quarterly interest payments of \$0.6 million have been paid quarterly on the \$40.0 million CNG term loan.

Management believes that its forecasted operating cash flows from the CSH Mine are sufficient to cover the next twelve months of CSH mine operations factoring in its planned capital expenditures and current debt repayments. Revenue and related expenses should increase as production increases. Some of the proceeds from the Hong Kong IPO will be used to repay the existing loan and promissory note owing to CNG.

Proceeds from the Hong Kong IPO will also be used to fund the increase in capital expenditures planned for Phase 2 of Jiama's development plan.

Cash flows

The following table sets out selected cash flow data from our consolidated cash flow statements for the three and nine months ended September 30, 2010 and 2009:

	Notes	Three month periods ended September 30,		Nine month periods ended September 30,	
		2010	2009	2010	2009
Net cash flows from operating activities		21,685,553	20,963,441	7,430,135	28,798,280
Net cash flows used in investing activities		(9,479,527)	(16,906,514)	(7,997,192)	(38,461,606)
Net cash flows (used in) from financing activities		(1,237,260)	7,110,109	3,661,364	16,005,759
Effect of foreign exchange rate changes on cash and cash equivalents		(200,002)	(20,979)	21,049	(25,326)
Net increase in cash and cash equivalents		10,768,764	11,146,057	3,115,356	6,317,107
Cash and cash equivalents, beginning of period		16,331,252	7,313,789	23,984,660	12,142,739
Cash and cash equivalents, end of period		<u>27,100,016</u>	<u>18,459,846</u>	<u>27,100,016</u>	<u>18,459,846</u>

For the three and nine months ended September 30, 2010***Operating cash flow***

For the three months ended September 30, 2010, net cash from operating activities was \$21.7 million, which was primarily attributable to net income of \$19.4 million with (i) an increase in accounts payable and accrued liabilities of \$9.2 million, (ii) the add back of depreciation and depletion of \$2.7 million, (iii) finance costs of \$1.4 million partially offset by (i) a decrease in accounts receivable of \$4.1 million, and (ii) income taxes paid of \$5.5 million.

For the nine months ended September 30, 2010, net cash from operating activities was \$7.4 million, which was primarily attributable to net income of \$25.1 million, with (i) the add back of depreciation and depletion of \$6.6 million, (ii) fair value change on warrant liabilities of \$7.2 million, (iii) finance costs of \$3.7 million partially offset by (i) a decrease in inventory of \$16.1 million, (ii) income tax paid of \$7.9 million, (iii) a decrease in accounts receivable of \$4.5 million, and (iv) interest paid of \$4.0 million.

Investing cash flow

For the three months ended September 30, 2010, net cash used in investing activities was \$9.5 million, which was attributable to (i) purchases of property, plant and equipment of \$7.7 million and (ii) restricted cash paid to our joint partner on the pending sale of the Gansu project of \$2.1 million partially offset by proceeds from a government subsidy of \$0.3 million.

For the nine months ended September 30, 2010, net cash used in investing activities was \$8.0 million, which was attributable to (i) purchases of property, plant and equipment of \$17.0 million and (ii) restricted cash paid to our joint partner on the pending the sale of the Gansu project of \$2.1 million partially offset by (i) restricted deposits received of \$10.8 million and (ii) proceeds from a government subsidy of \$0.3 million.

Financing cash flow

For the three months ended September 30, 2010, net cash used in financing activities was \$1.2 million, which was attributable to the repayment of borrowings of \$1.5 million partially offset by the exercise of stock options resulting in the issuance of shares of \$0.3 million

For the nine months ended September 30, 2010, net cash from financing activities was \$3.7 million, which was attributable to \$5.4 million of borrowings repaid on the CDN\$4 million balance of Note B in January of this year partially offset by the exercise of warrants and stock options during the period for \$9.1 million shares.

SELECTED BALANCE SHEET ITEMS

Accounts receivable primarily represents gold sales in advance of payment, interest receivables, goods and services tax refund from relevant government authorities, listing expense receivable, and other receivables such as employee travel advances. Normally, CNG pays an estimate sale price within two days before delivery. The estimate sale price is calculated on the basis of the estimated weight of gold and silver contained in the gold dore bars we sell. The final sale price is settled when the parties finalize the weight of gold and silver contained in the gold dore bars in accordance with the weighing and sampling procedures specified in the sale agreement.

Accounts receivable increased by \$4.5 million from \$1.7 million as of December 31, 2009 to \$6.2 million as of September 30, 2010, primarily due to an increase in the amount due from a shareholder of \$4.4 million and an increase of listing expense receivable of \$85,000, based on a cost sharing agreement with the owners of the Jiama property. The amount due from a shareholder relates to the sale of gold to CNG on September 30, in advance of payment, as the gold price was high and the Company did not want to risk a price drop if they waited until after the seven day Chinese National Holiday. The listing expenses include professional expenses incurred for the proposed Hong Kong Stock Exchange listing.

The following table sets forth an aging analysis of our accounts receivable as of the dates indicated:

	September 30, 2010	December 31, 2009
	\$	\$
GST receivable	109,791	65,167
Listing expense receivable	1,270,251	1,184,911
Amounts due from shareholder	4,760,733	346,437
Other receivables	68,054	85,365
Total accounts receivable	<u>6,208,829</u>	<u>1,681,880</u>

Our trade receivable turnover days for the nine month period ended September 30, 2010 and for the year ended December 31, 2009 were 15.5 days and nil days respectively. The receivable from CNG at the end of September 30, 2010 arose out of special circumstances outlined above and normally because of the two day advance payment terms, we do not have trade receivables relating to sales of our gold to CNG.

Prepaid expenses and deposits primarily consist of CSH Mine construction deposits paid to third-party contractors, deposits for supplies and services for mining operations at the CSH Mine, deposits for environmental protection, rent deposits for our corporate offices, deposits to suppliers for purchase of spare parts, insurance premium for future periods and resource tax prepaid to relevant PRC government.

As of September 30, 2010 and December 31, 2009, prepaid expenses and deposits were \$3.9 million and \$1.7 million, respectively. The increase of \$2.2 million in prepaid expenses and deposits

was primarily due (i) an increase of \$1.1 million in deposits for mine supplies and services, (ii) an increase of \$391,000 for spare parts, and (iii) an increase in deposits paid for environmental protection of \$811,000 offset by (i) a decrease in rent deposits of \$228,000, (ii) a decrease in refundable construction deposits of \$31,000, and (iii) a decrease of \$19,000 of insurance.

Inventory consists of gold-in-process (comprising gold contained in the ore placed on the leach pad and in-circuit material within processing operations), gold dore bars, auxiliary materials and spare parts.

Costs capitalized and included in mineral assets were mine operating costs netted off against proceeds received from sales of products prior to the commencement of commercial production on July 1, 2008. Costs of \$20.4 million that were capitalized and included in mineral assets (as part of property, plant and equipment) upon commencement of commercial production in July were reclassified as and transferred to inventory.

Our inventory increased from \$29.0 million as of December 31, 2009 to \$45.1 million as of September 30, 2010. The extremely harsh winter slowed the leaching process down resulting in lower than normal recovery rates in the first quarter but warmed up in the second quarter. We increased the recovery rate used from 38.6% in the first quarter back to 43.0% in the second quarter. Approximately 10.2 million tonnes of ore was mined and placed on the leach pad in the first nine month period of 2010, up from 6.7 million tonnes in the same nine month period ended September 30, 2009. With the Crusher in place, the ore was crushed to a size smaller than 9 millimeters which is much smaller than the uncrushed ore placed in the same period to September 2009. Inventory turnover days for the nine months ended September 30, 2010 and for the year ended December 31, 2009 were 295.4 days and 188.5 days, respectively. These inventory turnover periods were primarily attributable to the amount of gold-in-process we had which was in turn primarily attributable to the nature of the heap leaching method we use at the CSH Mine. It generally requires a significant period of time (several years) from the time when ore is placed on leach pads to the time when gold is poured. A five year leaching kinetics has been developed by KD Engineering.

As of September 30, 2010 and December 31 2009, inventory primarily consists of gold-in-process.

Accounts payable and accrued expenses primarily consists of amounts outstanding for trade purchases relating to gold production activities (such as purchases of auxiliary materials) and construction activities and fees payables to third-party contractors.

Accounts payable and accrued expenses increased from \$35.1 million as of December 31, 2009 to \$44.4 million as of September 30, 2010.

	September 30, 2010	December 31, 2009
	\$	\$
Less than 1 month	31,423,381	24,526,308
1 to 3 months	1,707,158	1,444,774
3 to 6 months	3,945,089	2,525,308
Over 6 months	7,342,013	6,576,214
Total	<u>44,417,640</u>	<u>35,072,604</u>

The accounts payable turnover days for the nine months ended September 30, 2010 and the year ended December 31, 2009 are calculated based on accounts payable and accrued expenses as of the period end divided by the cost of sales for the period. The accounts payable turnover days for the nine months ended September 30, 2010 and the year ended December 31, 2009 was 290.8 days and 227.9 days. The accounts payable turnover days were relatively long primarily attributable to third-party mining contractors at the CSH mine, third-party vendors providing listing services due at designated milestones as outlined by their contracts, and the payable of the sale proceeds of Dadiangou project.

Warrant liabilities represented the fair value of the warrants that were outstanding as of the end of each reporting period. Warrants were granted primarily in connection with the promissory notes issued in December 2006 and June 2007, respectively, and a private placement of common shares in August 2006. For further information on the promissory notes, the private placement of common shares in August 2006 and the warrants granted in relation thereto, see note 18 of the annual audited consolidated financial statements.

Total warrant liabilities decreased from \$5.3 million as of December 31, 2009 to \$nil as of September 30, 2010, primarily attributable to the fact that all the warrant liabilities have been exercised.

Environmental rehabilitation primarily represents reclamation and closure costs relating to our operations at the CSH Mine. We have estimated reclamation and closure costs based on our interpretation of current regulatory requirements and the recorded amount is the net present value of estimated future cash expenditures on reclamation and closure in connection with the areas estimated to be disturbed. Reclamation and closure costs were capitalized as mine development costs (under mineral assets as part of property, plant and equipment) since the commencement of pre-commercial production and depreciated over the life of the mine on a unit-of-production basis. At the same time, we started to recognize environmental rehabilitation liabilities since the commencement of pre-commercial production with the same amount of net present value of estimated future cash expenditures on reclamation and closure and accrete the balance of the environmental rehabilitation liabilities for each reporting period through to 2030. Such accretion is recorded as part of the finance costs.

The environmental rehabilitation was calculated as the net present value of estimated future net cash outflows of the reclamation and closure costs in a total amount of approximately \$9.7 million and \$9.5 million discounted at 9.9% and 10.0% as of September 30, 2010 and December 31, 2009, respectively. The accretion incurred in connection with the environment rehabilitation represented interest expense calculated based on the foregoing discount rates and therefore it was recorded as part of the finance costs. Our environmental rehabilitation liabilities increased from \$1.6 million as of December 31, 2009 to \$1.8 million as of September 30, 2010, primarily attributable to accretion.

We had **net current assets** of \$21.1 million as of September 30, 2010 and net current liabilities of \$9.5 million as of December 31, 2009, respectively.

RELATED PARTY TRANSACTIONS

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

	September 30, 2010	December 31, 2009
	%	%
CNG	<u>39.25</u>	<u>40.30</u>

The breakdown of the sales transactions of CNG is as follows:

	Three month period ended September 30,		Nine month period ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Gold sales	45,460,925	21,048,168	79,966,718	47,038,521
Silver sales (netted in cost of sales)	—	—	<u>401,759</u>	<u>135,058</u>

The Group incurred the following interest expense with CNG. Interest expense has been recorded on the effective interest method. The interest relates to the term loan and the promissory note extension. Please refer to the following section on “Indebtedness” for more information.

	Three month period ended September 30,		Nine month period ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Interest	<u>831,736</u>	<u>177,862</u>	<u>2,316,466</u>	<u>185,877</u>

During the year ended December 31, 2009, the Group entered into a letter of intent with Zhongjin Gold Corporation Limited, a subsidiary of CNG to dispose of its entire interest in Gansu Pacific, the subsidiary that holds Dadiangou project. In May, an agreement was signed. The transaction has not yet been completed.

The assets of the Group include the following amounts due from related parties:

	September 30, 2010	December 31, 2009
	\$	\$
Assets		
Restricted cash received from CNG’s subsidiary from sales of Dadiangou Gold Project	8,687,838	—
Amount receivable from CNG	4,760,733	346,437
Listing expense receivable from CNG’s subsidiary	1,270,251	1,184,911
Prepaid expenses to CNG’s subsidiary	—	<u>283,451</u>
Total related party assets	<u>14,718,822</u>	<u>1,814,799</u>

The accounts receivable from CNG arose from sales of gold to CNG. There is no credit period.

Listing expense receivable is from Skyland Mining Limited (“Skyland”), CNG’s subsidiary and accounts receivable from CNG are included in accounts receivable and prepaid expenses to CNG’s subsidiary are included in prepaid expenses and deposits in the condensed consolidated statement of financial position.

The liabilities of the Group include the following amounts due to related parties:

	September 30, 2010	December 31, 2009
	\$	\$
Liabilities		
Accounts payable to CNG's subsidiaries	15,298	109,391
Interest payable to CNG	—	166,667
Other payable to CNG's subsidiary for deposit from sales of Dadiangou Gold Project	8,687,838	—
Total related party liabilities	<u>8,703,136</u>	<u>276,058</u>

Key management personnel

	Three month period ended September 30,		Nine month period ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Salary cost				
Salaries and other benefits	165,568	209,666	443,607	553,753
Post employment benefits	1,684	3,531	5,840	14,466
	<u>167,252</u>	<u>213,197</u>	<u>449,447</u>	<u>568,219</u>

The salaries and benefits above are a summation of the amounts paid to Management of the Company.

INDEBTEDNESS

Our borrowings are denominated in RMB, US dollars and Canadian dollars. As of September 30, 2010 and December 31, 2009, we had the following outstanding borrowings:

	Effective Interest Rate	Maturity	September 30, 2010	December 31, 2009
	%		\$	\$
Current				
Current portion of long-term loan — ABC (ii)	5.184	September 9, 2014	1,495,640	1,458,619
Notes payable (i)	12.00	June 26, 2011	7,288,630	10,633,386
			<u>8,784,270</u>	<u>12,092,005</u>
Non-current				
Long-term loan — ABC (ii)	5.184	September 9, 2014	40,382,286	40,841,331
Long-term loan — CNG (ii)	6.00	December 6, 2011	40,000,000	40,000,000
			<u>80,382,286</u>	<u>80,841,331</u>
			<u>89,166,556</u>	<u>92,933,336</u>

Our indebtedness comprised the following:

(i) Notes A, B, and C (Notes A and B fully repaid)

On December 14, 2006 and June 26, 2007 private placement offerings were completed of senior unsecured promissory notes in the principal amount of CDN\$30.0 million (\$25.9 million) (Note

A) and CDN\$12.5 million (\$18.7 million) (Note B) and CDN\$7.5 million (Note C) with interest at 12% per annum payable quarterly along with 6,000,000 and 4,000,000 warrants which entitled the holder to purchase one Share at an exercise price of CDN\$1.60 per Share and CDN\$2.50 per Share, respectively. We fully repaid Note A on December 14, 2009 and redeemed Note B January 11, 2010 in Canadian dollars. We exercised on early expiry dates for the warrants on March 18, 2010 and April 16, 2010, respectively. Note C, originally due June 26, 2010, was extended to June 26, 2011 under the same terms. The effective interest rate on Notes A and B was 19.5%. The effective interest rate on Note C was originally 17.7%. The effective interest rate on the extension of Note C is now the same as its annual rate of 12% with interest of CDN\$225,000 payable quarterly.

(ii) Loan from the Agricultural Bank of China

In September 2009, the CSH CJV received an unsecured bank loan in the principal amount of RMB290.0 million (\$42.6 million) from the Agricultural Bank of China. China National Gold provided a guarantee for the loan. The loan is repayable within five years from the date of the first draw-down. The annual interest rate for the term loan is currently 5.184% with interest of approximately \$175,000 payable monthly.

(iii) Shareholder's loan from China National Gold

In December 2009, we received an unsecured non-revolving shareholder's loan from China National Gold Hong Kong in the principal amount of \$40 million. The loan bears interest (payable on a quarterly basis) at an annual rate of 6% and matures in December 2011. The proceeds of the loan have partially been used to redeem Series A Notes due on December 14, 2009. We used the remaining amount of the proceeds to prepay Series B Notes in their entirety on January 11, 2010. The annual interest rate for the term loan is 6% with interest of \$600,000 payable quarterly.

Restrictive covenants

We are subject to various customary conditions and covenants under the terms of our financing agreements. For example, under the indenture for the outstanding Series C Notes held by CNG, we are required to obtain note holder's consents prior to carrying out certain activities and entering into certain transactions, including but not limited to (i) incurring additional debt; (ii) creating additional charges on our assets; (iii) making guarantee in favor of any third party; (iv) dispose of material assets other than to an arm's length third party on arm's length commercial terms; (v) entering into commercial arrangements with any non-arm's length third party unless the arrangements are entered into in good faith and on arm's length commercial terms; (vi) changing the character of our main business; and (v) distributing dividends. We intend to repay the Series C Notes in full on June 26, 2011.

Under the loan agreement between CSH CJV and Agricultural Bank of China, the CSH CJV is prohibited from distributing dividends before repaying amounts due under the loan agreement in the same fiscal year. In addition, the CSH CJV is required to obtain the lender's consent prior to carrying out certain activities or entering into certain transactions such as reduction of registered capital, disposal of assets, mergers and acquisitions and provision of guaranty or creating charges over its material assets in favor of third-parties.

COMMITMENTS AND CONTINGENCIES

Operating leases

We have leased certain properties in China and Canada. All the leases are under operating lease arrangements and the leases are negotiated for an average term of three to five years. We are generally required to prepay certain amount of rental/ leasing fees under the terms of these leases.

The following table sets forth our material future aggregate minimum operating lease payments under these operating leases:

	September 30, 2010	December 31, 2009
	\$	\$
Within one year	97,524	95,482
Between two and five years	351,782	391,307
	<u>449,306</u>	<u>486,789</u>

Capital commitments

Our capital commitments related primarily to payments for purchase of equipment and machinery for the CSH Mine, the payments to Brigade 217, our joint venture partners for the CSH Joint Venture (“JV”), and payments to third-party contractors for provision of mining and exploration engineering work and mine construction work for the CSH Mine. We have entered into contracts that prescribed such capital commitments, but have not included them in our condensed consolidated financial statements.

The following table sets forth our capital commitments in respect of acquisition of property, plant and equipment for the CSH Mine and payments to our joint venture partners as of the dates indicated:

	September 30, 2010	December 31, 2009
	\$	\$
Capital expenditure in respect of acquisition of property, plant and equipment for the CSH Gold Mine contracted but not provided for	<u>1,536,356</u>	<u>10,465,453</u>

In addition to the table set forth above, we entered into service agreements with third-party contractors such as China Railway and China Metallurgical for the provision of mining and exploration engineering work and mine construction work for the CSH Mine. The amount of fees for such work performed and to be performed each year varies depending on the amount of work performed.

The following table details the Company’s contractual obligations as of September 30, 2010:

	Payments Due By Year						
	Total	2010	2011	2012	2013	2014	Thereafter
Principal repayment on notes payable	\$ 7,288,630	\$ —	\$ 7,288,630	\$ —	\$ —	\$ —	\$ —
Principal repayment on CNG term loan	40,000,000	—	40,000,000	—	—	—	—
Principal repayment on ABC term loan	41,877,926	—	1,494,456	1,494,456	8,966,733	17,933,467	11,988,814
Operating leases (a)	449,306	24,362	97,448	100,058	100,928	100,928	25,582
Capital commitments (b)	1,536,356	1,536,356	—	—	—	—	—
Total	<u>\$91,152,218</u>	<u>\$1,560,718</u>	<u>\$48,880,534</u>	<u>\$1,594,514</u>	<u>\$9,067,661</u>	<u>\$18,034,395</u>	<u>\$12,014,396</u>

- (a) Operating leases are primarily for premises.
- (b) Capital commitments relate to contracts signed for the construction of and equipment supply for the leach pad and plant expansion for the CSH Gold Mine.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2010, we had not entered into any material off-balance sheet arrangements.

DIVIDEND AND DIVIDEND POLICY

We have not paid any dividends since our incorporation. We do not currently have a fixed dividend policy. Our Directors will determine any future dividend policy on the basis of, among others, our results of operations, cash flows and financial conditions, operating and capital requirements, the amount of distributable profits and all other relevant factors.

Subject to the BCBCA, the Directors may from time to time declare and authorize payment of such dividends as they may deem advisable, including the amount thereof and time and method of payment provided that the record date for the purpose of determining Shareholders entitled to receive payment of the dividend must not precede the date on which the dividend is to be paid by more than two months.

A dividend may be paid wholly or partly by the distribution of cash, specific assets or of fully paid Shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways. No dividend may be declared or paid in money or assets if there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

In addition, we are subject to various customary conditions and covenants under the terms of our financing agreements, including those restricting our ability to declare and distribute dividends. Under the indenture for the outstanding Series C Notes held by China National Gold, we are required to obtain China National Gold's consent prior to distributing dividends. Therefore, prior to the repayment of the promissory notes in full, we will not be able to declare and distribute any dividends without the prior consent of China National Gold. We intend to repay such promissory notes in full.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's DC&P and ICFR as of September 30, 2010 and, in accordance with the requirements established under National Instrument 52-109 — Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of September 30, 2010 and have concluded that these controls and procedures have been designed to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls can provide absolute assurance that all control issues and instances of fraud will be detected. During the nine month period ended September 30, 2010, there were no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As of September 30, 2010, 172,019,459 common shares were issued and outstanding and 975,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 172,994,459 common shares were outstanding.

As of November 12, 2010, 172,019,459 common shares were issued and outstanding and 975,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 172,994,459 common shares were outstanding.

QUALIFIED PERSON

Dr. Qingping Deng, a qualified person as defined by National Instrument 43-101 supervised the preparation of the technical and scientific information relating to both the CSH Gold Mine and the Jiama Mine in this MD&A.

November 12, 2010