You should read this section in conjunction with consolidated financial information of our Group and the Skyland Group, including the notes thereto, as set forth in the accountants' reports in Appendix I-A and Appendix I-B to this prospectus. The audited consolidated financial statements were preferred in accordance with IFRS, and audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

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. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of our Group, please refer to the section entitled "Risk Factors" and to discussions elsewhere in this prospectus.

OVERVIEW

We are the only overseas listing vehicle of China National Gold, the largest gold producer in China in 2009 by gold output*, according to the China Gold Association (中國黃金協會). Incorporated in British Columbia, Canada, we are listed on the Toronto Stock Exchange and are seeking a dual primary listing on the Stock Exchange. Our principal business is to explore, develop, mine and process gold and other non-ferrous metals. We currently own and operate the CSH Mine, which is one of the largest gold mines in China in terms of mineral resources under the JORC Code. In addition, concurrently with the completion of the Global Offering, we will acquire the Jiama Mine, which, according to the Jiama Technical Report, will become one of the largest copper-polymetallic mining operations in China in terms of ore production rate, total metal production and mineral resources under the JORC Code.

As of June 30, 2010, according to the CSH Technical Report, the CSH Mine's gold resources (inclusive of reserves) and reserves, using a gold cutoff grade of 0.30 g/t, are as follows:

JORC Mineral Resource Category(1)(2)	Tonnage	Grade	Gold Content
	(million tonnes)	(g/t)	(Moz)
Measured	100.8	0.68	2.196
Indicated	135.9	0.61	2.663
Total Measured and Indicated	**236.7**	**0.64**	**4.858**
Inferred	**0.5**	**0.43**	**0.007**

JORC Ore Reserve Category(1)(3)	Tonnage	Grade	Gold Content
	(mt)	Au (g/t)	Au (koz)
Proved	79.7	0.70	1,784
Probable	52.2	0.63	1,059
Total	**131.9**	**0.67**	**2,843**

(1) JORC resources and reserves set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the CSH Technical Report for further details.

(2) The procedures and parameters used for resource modelling are set out in Item 17.1 of the CSH Technical Report.

(3) The procedures and parameters used for reserve modelling are set out in Item 17.2 of the CSH Technical Report.

The CSH Mine commenced commercial production in July 2008 with a design processing capacity of 20,000 tonnes of ore per day. For the year ended December 31, 2009 and the nine months ended September 30, 2010, the total gold production was approximately 83,570 ounces and 75,707

* Gold output is calculated based on total output of finished gold produced from mines and from gold smelters.

ounces, respectively. In September 2010, monthly production volume reached 14,307 ounces. We have recently completed a series of steps to achieve additional production growth. In particular, we have installed a new ore crushing facility which ramped up to the design processing capacity of 30,000 tonnes of ore per day in March 2010. According to the CSH Technical Report, the total gold production is forecast to be approximately 116,000 ounces and 146,570 ounces in 2010 and 2011, respectively.

The Jiama Mine is a large copper-polymetallic deposit and will be developed into a combined open-pit and underground mining operation. The mine consists of skarn-type and hornfels-type mineralization.

As of June 30, 2010, according to the Jiama Technical Report, the Jiama Mine's resources (inclusive of reserves) and reserves of copper, molybdenum, gold, silver, lead and zinc are as follows:

JORC Mineral Resource Category(1)(2)	Tonnage	Grades						Contained Metals					
	(Kt)	Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Skarn-Type(3)													
Measured	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	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
Total Measured and Indicated	**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	**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**
Hornfels-Type(4)													
Inferred	655,000	0.23	0.045	0.02	1.17	0.00	0.01	1,500	290	13	770	—	—

JORC Ore Reserve Category(1)(2)(5)	Tonnage	Grades						Contained Metals					
	(Kt)	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
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**	**1,738**	**85.0**	**48.6**

(1) JORC resources and reserves set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the Jiama Technical Report for further details.

(2) Cutoff grade for the estimate is 0.3% copper, 0.03% molybdenum, 1% lead or 1% zinc.

(3) The procedures and parameters used for the skarn-type resource modelling are set out in Item 17.1.2 of the Jiama Technical Report.

(4) The procedures and parameters used for the hornfels-type resource modelling are set out in Item 17.1.3 of the Jiama Technical Report.

(5) Please refer to Item 17.2.5 of the Jiama Technical Report for a description of the cutoff unit economic values for the reserve estimate.

Following the completion of its first phase of development, which primarily involves the Tongqianshan open-pit infrastructure, ore processing facilities and underground ore transportation system, the Jiama Mine commenced commercial production in September 2010. The second phase of development, which primarily involves the Niumatang open-pit infrastructure, development and equipping of underground mine and expansion of ore processing facilities, is expected to commence at the end of 2010. We expect to ramp up the processing capacity at the Jiama Mine to 3.6 million tonnes of ore per annum (or 12,000 tonne per day) at the beginning of 2012 after completion of the whole second phase development of the Jiama Mine.

Under the terms of the non-competition undertaking provided by our Controlling Shareholder, China National Gold, to us, we will have a mandate from China National Gold to focus on

International Mining Businesses and to grow into a leading international mining company. See "Relationship with Controlling Shareholder — Non-competition Undertaking from China National Gold to Our Company." To this end, we intend to exploit our existing mines, ramp up production, identify new resources through our exploration efforts and selectively acquire additional large-scale International Mining Businesses with a particular focus on gold. However, notwithstanding China National Gold's non-competition undertaking to us and our efforts to seek and acquire attractive International Mining Businesses, we will own and focus on operating the CSH Mine and the Jiama Mine located in China immediately after the Global Offering which we believe have the potential to generate significant future growth through production ramp-up and exploration of resources upside potential. We are still in the process of identifying any mines or projects as potential acquisition targets outside of China and we may not be able to acquire and operate any gold or other non-ferrous mine outside of China in the future.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in the section entitled "Risk Factors" in this prospectus and those set out below.

Prices of Products

Our principal product from the CSH Mine is gold dore bar. The sales prices of gold dore bars are 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. See "Business — Sales and Customers".

The following table sets forth the monthly weighted average sales price for the gold produced at the CSH Mine during the relevant period:

	Weighted average sales price (US$ per ounce)
July 2008	940.0
August 2008	852.6
September 2008	823.4
October 2008	789.7
November 2008	818.8
December 2008	828.8
January 2009	856.0
February 2009	948.0
March 2009	912.0
April 2009	870.4
May 2009	951.1
June 2009	937.4
July 2009	931.7
August 2009	952.9
September 2009	992.3
October 2009	1,027.0
November 2009	1,098.2
December 2009	1,063.0
January 2010	1,090.6
February 2010	1,115.9
March 2010	1,108.4
April 2010	1,097.9
May 2010	1,178.6
June 2010	1,215.5
July 2010	1,156.9
August 2010	1,224.3
September 2010	1,277.0

The products of the Jiama Mine consist of copper concentrate, molybdenum concentrate and lead concentrate. Gold and silver contained in our concentrates can be separated and smelted in downstream processing. The sales prices of those concentrates are determined primarily based on the market prices.

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. See "Industry Overview" for further information.

Production Volume

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 production volume at the CSH Mine for the six months ended December 31, 2007, the years ended December 31, 2008 and 2009, and the nine months ended September 30, 2010 was approximately 3,188.5 ounces, 5,612.0 ounces, 6,964.0 ounces and 8,412 ounces, respectively. For the nine months ended September 30, 2010, the total gold production was approximately 75,707 ounces, and in September 2010, monthly production volume of the CSH Mine reached 14,307 ounces.

For our reserves at the CSH Mine and the Jiama Mine, see "Business — Mineral Properties — CSH Mine — Mineral resources and ore reserves" and "Business — Mineral Properties — The Jiama Mine — Mineral resources and ore reserves".

The CSH Mine commenced commercial production in July 2008 with a design processing capacity of 20,000 tonnes of ore per day. Since then, we have installed a new ore crushing facility which ramped up to the design processing capacity of 30,000 tonnes of ore per day in March 2010. Following the completion of its first phase of development, which primarily involves the Tongqianshan open-pit infrastructure, ore processing facilities and underground ore transportation system, the Jiama Mine commenced commercial production in September 2010. The second phase of development, which primarily involves the Niumatang open-pit infrastructure, development and equipping of underground mine and expansion of ore processing facilities, is expected to commence at the end of 2010. We expect to ramp up the processing capacity at the Jiama Mine to 3.6 million tonnes of ore per annum (or 12,000 tonnes per day) at the beginning of 2012 after completion of the whole second phase development of the Jiama Mine.

The gold recovery rate from raw ore at the CSH Mine is primarily determined by the efficiency of the leaching process, which is affected by various factors including the grade and size of ore placed on the leach pad and the weather condition. We have installed a new crushing facility at the CSH Mine to process the extracted ore to a size where 80% of the ore passes through nine millimeter screens before being loaded onto the leach pad. Reduced ore particle size is expected to increase the gold recovery rate. The total recovery rate as of December 31, 2009 for the ROM (non-crushed ore) is approximately 42.3%; however, gold will continue to be leached out from the ROM material during 2010 and future years. From 2010 onwards, most of the ore mined is fresh and crushed with only small amounts of obviously well oxidized fined sized ore being hauled directly to the leach pad. For the crushed ore, the recovery rates range from 60% to 80%, depending on the gold grade as indicated by the recent column leach testing. We have experienced, and expect to continue to experience, lower production in the winter months, because the cold weather slows the leach solution flow and its reactive properties. The gold recovery rate generally increases significantly during the warmer months of the year.

Cost of Production

Our cost of production primarily includes mining costs, ore processing costs, other mine operating costs, relevant taxes, and depreciation and depletion.

Historically, mining costs have been the largest component of our cost of production at the CSH Mine. Mining costs are primarily affected by the amount of fees paid to third-party contractors. Ore processing costs are primarily affected by the prices of auxiliary materials (such as chemical products and grinding balls) and utilities and production staff costs. Additional capital expenditure will increase our depreciation and depletion, which will in turn increase our cost of production.

Finance Costs

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 China National Gold. Effective interest expense on such indebtedness has been significant during the Track Record Period. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our effective interest expense (including the amount capitalized) was US$6.4 million, US$9.1 million, US$9.9 million and US$3.1 million, respectively. Finance costs, as an item on our income statement, which excludes capitalized interest, has been significantly less than our effective interest. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our finance costs totaled US$1.7 million, US$3.6 million, US$6.3 million and US$2.2 million, respectively. See “Financial Information of Our Group — Indebtedness” for further information.

During 2008 and 2009, Skyland Group had borrowed loans from Bank of China, Rapid Result, China National Gold and China National Gold Hong Kong. The loan from China National Gold was fully repaid in April 2009. Subsequent to December 31, 2009, Skyland Group has borrowed additional loans, including a borrowing from Bank of China and a loan from China National Gold. See “Financial Information of Skyland Group — Indebtedness” for further information. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, Skyland Group’s effective interest expense (including amounts capitalized) was nil, US$1.4 million, US$5.1 million and US$4.1 million, respectively.

In the future, we expect our working capital and capital expenditure needs to continue to be partially met with bank loans and other borrowings. Although we intend to repay the outstanding promissory notes in principal amount of CAD7.5 million as of June 30, 2010 and our term loan of US$40 million as of June 30, 2010 from China National Gold with a portion of the proceeds of the Global Offering, the RMB290 million loan granted to the CSH CJV by the Agricultural Bank of China is expected to remain outstanding until it matures in September 2014. In addition, after we acquire Skyland Group, we will assume its outstanding loans, including, for example, the outstanding loans under the RMB750 million syndicate loan facility agreement with Bank of China and two other PRC banks, the last installment of which is due and is expected to be repaid in June 2016. 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. For interest rate sensitivity analysis, see “Financial Information of Our Group — Quantitative and Qualitative Disclosures about Market Risks — Interest rate risk” and note 28 of the Accountants’ Report for Skyland Group in Appendix I-B to this prospectus.

Exchange Rate Fluctuations

Our functional currency is the U.S. dollar. During the Track Record Period, we had outstanding 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.

The following table sets forth the noon buying rate for US$ in the City of New York for cable transfers in CAD as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	Period End	Average(1)	High	Low
	(CAD per US$1.00)			
2007	0.9881	1.0742	1.1852	0.9168
2008	1.224	1.0660	1.2971	0.9717
2009	1.0532	1.1405	1.3012	1.0236
2010				
January	1.0693	1.0429	1.0469	1.0396
February	1.0525	1.0568	1.0610	1.0520
March	1.0153	1.0229	1.0421	1.0110
April	1.0179	1.0052	1.0199	0.9960
May	1.0445	1.0403	1.0776	1.0134
June	1.0639	1.0376	1.0606	1.0197
July	1.0297	1.0422	1.0647	1.0281
August	1.0656	1.0384	1.0640	1.0154
September	1.0293	1.0330	1.0520	1.0219
October	1.0199	1.0187	1.0321	1.0028

(1) Annual averages are calculated using the average of month-end rates of the relevant year, and monthly averages are calculated using the average of the applicable daily rates of the relevant month.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we had US$3.3 million of foreign exchange loss, US$8.1 million of foreign exchange gain, US$5.9 million of foreign exchange loss and US$0.3 million of foreign exchange loss, respectively, largely attributable to the Canadian dollar denominated promissory notes. After redeeming Series A Note on December 14, 2009 and Series B Note on January 11, 2010, Series C Note for CAD7.5 million remains outstanding until it is redeemed on or prior to the new maturity date of June 26, 2011 as the original maturity date of June 26, 2010 was extended to the new maturity date under the same terms. Accordingly, we expect fluctuations in exchange rate between the U.S. dollar and Canadian dollar to continue to affect our results of operations but not to the degree they have in the past.

Fair Value Change on Warrant Liabilities

During the Track Record Period, we had outstanding warrants issued 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 CAD1.60 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 CAD2.50 per Share. As of March 31, 2010, 910,000 of warrants with an exercise price of CAD1.60 per Share and 2,150,000 warrants with an exercise price of CAD2.50 per Share were outstanding. The fair value change on our warrant liabilities has been significant during the Track Record Period. In 2007, 2008, 2009 and the first half of 2010, we had a fair value loss of US$14.3 million, a gain of US$12.8 million, a fair value loss of US$7.2 million and a fair value loss of US$7.2 million, respectively, on our warrant liabilities. The fair values of our warrants were determined by applying the Black-Scholes option pricing model, which are based on a number of assumptions subject to change. The significant change in fair value change on our warrant liabilities from a loss in 2007 to a gain in 2008 was attributable to a number of factors affecting the fair value of the warrants, including lower share price, depreciation of Canadian dollar relative to U.S. dollar, lower interest rate, longer expected life of the warrants and high anticipated volatility in 2008 as compared to 2007. The losses on fair value change on warrant liabilities in 2009 and the first half of 2010 were primarily due to the higher share price, appreciation of Canadian dollar relative to U.S. dollar, 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 right for warrants with the exercise price of CAD1.60 per share on March 18, 2010 and all of these warrants had been exercised by April 22, 2010. Similarly, we were also able to exercise the accelerated expiry right for the warrants with the exercise price of CAD2.50 per share on April 16, 2010 and all such outstanding warrants were exercised prior to the expiry date by May 17, 2010.

Exploration Success

Our long-term success depends to a significant extent on our ability to locate and expand economically recoverable reserves at the CSH Mine, the Jiama Mine and any new mineral properties. Mineral exploration and development involves substantial expense and a high degree of risk, which may not be sufficiently mitigated through any combination of experience, knowledge and careful evaluation. In addition, exploration expenses are not capitalized until the mineral property is determined to contain economically recoverable reserves. Unsuccessful exploration activities will increase our operation costs and negatively affect our profitability.

HISTORICAL FINANCIAL INFORMATION OF OUR GROUP

Basis of Presentation of Our Group

The consolidated financial statements of our Group have consolidated the financial statements of our Company and our controlled subsidiaries (including our operating subsidiaries during the relevant periods, namely, the CSH CJV, the Dadiangou CJV and the Xinjiang CJV). Our financial statements are presented in U.S. dollars.

Critical Accounting Policies, Estimates and Judgments

The discussion and analysis of our operating results and financial condition are based on our audited consolidated financial information, which has been prepared in accordance with IFRS. Our operating results and financial condition are sensitive to accounting methods, assumptions and estimates. The assumptions and estimates are based on our industry experience and various factors including management's expectations of future events which they believe to be reasonable. Actual results may differ from these estimates and assumptions.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of other policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our consolidated financial information. Our significant accounting policies are summarized in note 4 in "Appendix I-A — Accountants' Report" in this prospectus. We believe that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the consolidated financial statements.

Fair value of inventories

We record the cost of mining ore placed on our leach pads and in process at our mine as gold-in-process inventory, and value gold-in-process inventory at the lower of cost and estimated net realizable value. These costs are charged to earnings and included in cost of sales on the basis of ounces of gold recovered. The assumptions used in the valuation of gold-in-process inventories include estimates of gold contained in the ore placed on leach pads, assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads and the amount of gold in the process plant and an assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove inaccurate, we could be required to write down the recorded value of our gold-in-process inventories. Although the quantities of recoverable gold placed on the leach pad are reconciled by comparing the grades of ore placed on the leach pad to the quantities recovered, the nature of the leaching process inherently limits our ability to precisely monitor inventory levels. The actual recovery of gold from the leach pad is not known until the leaching process has concluded at the end of the mine life.

Property, plant and equipment

A significant portion of our property, plant and equipment is depreciated and amortized on either a unit-of-production basis or straight-line method over their estimated useful lives. Under the unit-of-production method, the calculation of depreciation of property, plant and equipment is based on the amount of reserves expected to be recovered from the mine. If the estimate of the reserves proves to be inaccurate, or if we revise our mining plan, due to reductions in the metal price forecasts or otherwise, to reduce the amount of reserves expected to be recovered, we could be required to write down the recorded value of our property, plant and equipment, or to increase the amount of future depreciation and depletion expense.

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

Fair value of environmental rehabilitation

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

Fair value of warrant liabilities

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

Principal Income Statement Components

Revenue

Revenue represents proceeds from the sales of gold dore bars produced at the CSH Mine to customers after the commencement of commercial production on July 1, 2008. During the Track Record Period, revenue was generated from the sales of gold dore bars to China National Gold and two independent third-party refineries in China. Proceeds from the sales of gold dore bars 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. For information on the capitalization of costs, see notes 4(k) and 19 of the Accountants' Report in Appendix I-A to this prospectus.

Revenue from sales of gold dore bars is recognized when all significant risks and rewards of ownership pass to the customers, no further work or processing is required by us, the quantity and quality of the products has been determined with reasonable accuracy, the price is fixed or determinable, and collectability is reasonably assured. When sales are subject to adjustment based on an inspection of products by the customers, revenue is initially recognized on a provisional basis using our best estimate of contained metal and adjusted subsequently. As a result, we generally recognize revenue from the sales of gold dore bars on a provisional basis when gold dore bars are stowed into China National Gold's transporting vehicle and title to our gold dore bars passes. The initially recognized revenue is subject to subsequent adjustment at the time of settlement. The sale price of our gold is generally equal to the market price of gold with reference to the published gold prices on the Shanghai Gold Exchange, net of refining charges. Our sales of the silver by-product are used to offset cost of sales instead of being included in revenue.

Cost of sales

During the Track Record Period, cost of sales primarily consisted of mining costs (which primarily include fees paid to third-party contractors), ore processing costs (which primarily include costs of auxiliary materials used in the production process (such as chemical products), production staff 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. With respect to the CSH Mine, for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, we were subject to PRC resource tax at RMB3 per tonne of ore processed and resource compensation fee at a rate of 2.8% of the revenue of CSH CJV. The rates of these 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.

During the Track Record Period, depreciation and depletion primarily consisted of (i) depreciation of property, plant and equipment; and (ii) exploration expenditure incurred on sites within an existing mine or on areas within the boundary of a known mineral deposit which contains 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 expenditure" below.

General and administrative expenses

During the Track Record Period, general and administrative expenses primarily consisted 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 expenditure

During the Track Record Period, exploration and evaluation expenditure primarily consisted of fees paid to third-party contractors for exploration activities such as drilling on sites other than an 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 expenditure is 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 "Appendix I-A — Accountants' Report". Following the establishment of economic recoverability, exploration and evaluation expenditure is capitalized and included in the carrying amount of mineral assets under property, plant and equipment.

Foreign exchange (loss) gain

Our reporting currency and the functional currency of our operations is U.S. dollar. Transactions in currencies other than U.S. dollars are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in currencies other than U.S. dollars 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 of 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 the Track Record Period, foreign exchange (loss) gain primarily consisted of foreign exchange differences arising from the conversion of the balances of Canadian-dollar denominated promissory notes and bank deposit to U.S. dollars.

Interest income

During the Track Record Period, interest income primarily consisted of interest on bank deposits.

Finance costs

During the Track Record Period, finance costs consisted 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.

Effective interest consisted of interest expenses and interest accretion on our borrowings. For information on accretion on environmental liabilities, see "— Selected Balance Sheet Items — Environmental rehabilitation".

Fair value change on warrant liabilities

During the Track Record Period, value change on warrant liabilities recorded 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. For further information on the warrants issued by us, see note 25(c) in "Appendix I-A — Accountants' Report" to this prospectus.

Income tax expense

Our Company was subject to Canadian federal and provincial tax at a rate of 34.1%, 31.0%, 30.0% and 28.5% for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. During the same periods, our operating PRC subsidiaries, namely the CSH CJV, Dadiangou CJV and Xinjiang CJV, were all subject to PRC enterprise income tax at a rate of 33%, 25%, 25% and 25%.

As of December 31, 2009, we had net unrecognized deferred tax assets of US$12.4 million. The deferred tax assets were not recognized in the consolidated financial statements because the amount of future taxable profits that will be available to realize such deferred tax assets is unpredictable. As of December 31, 2009, we recognized our deferred tax assets and netted them against deferred tax liabilities. This resulted in deferred income tax of US$1.3 million which we recognized, along with our current tax expense of US$4.8 million, for a total tax expense of US$6.1 million for the year ended December 31, 2009.

For the six months ended June 30, 2010, we recognized US$2.2 million of deferred tax expenses. We also recognized current income tax expenses of approximately US$2.7 million, resulting in a total current tax expense of US$4.9 million for the six months ended June 30, 2010.

Results of Operations of Our Group

The following table sets forth selected financial information for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2007	2008	2009	2009	2010
	US$	US$	US$	US$	US$
Revenue	**—**	**29,371,411**	**81,047,414**	**25,990,353**	**37,679,906**
Cost of sales	—	20,499,517	56,178,404	18,438,691	18,638,434
Mine operating earnings	—	8,871,894	24,869,010	7,551,662	19,041,472
Expenses					
General and administrative	4,974,556	6,141,235	3,714,554	1,837,155	2,116,293
Exploration and evaluation expenditure	6,604,015	5,287,610	1,909,015	606,273	93,477
	11,578,571	11,428,845	5,623,569	2,443,428	2,209,770
(Loss) income from operations	(11,578,571)	(2,556,951)	19,245,441	5,108,234	16,831,702
Other (expenses) income					
Gain on disposal of subsidiaries	—	—	—	—	20,000
Foreign exchange (loss) gain	(3,319,847)	8,058,114	(5,887,144)	(2,129,104)	(253,306)
Interest income	439,032	174,620	5,537	3,440	1,885
Listing expenses	—	—	(2,147,906)	—	(1,544,558)
Finance costs	(1,699,415)	(3,592,471)	(6,308,158)	(2,289,443)	(2,228,167)
Fair value change on warrant liabilities	(14,274,106)	12,792,931	(7,186,721)	(1,164,408)	(7,155,807)
	(18,854,336)	17,433,194	(21,524,392)	(5,579,515)	(11,159,953)
(Loss) income before income tax	(30,432,907)	14,876,243	(2,278,951)	(471,281)	5,671,749
Income tax expense	—	—	6,091,949	962,221	4,887,012
Net (loss) income and comprehensive (loss) income for the year/period	**(30,432,907)**	**14,876,243**	**(8,370,900)**	**(1,433,502)**	**784,737**
Attributable to					
Non-controlling interest	—	295,731	976,481	233,001	323,702
Owners of the Company	(30,432,907)	14,580,512	(9,347,381)	(1,666,503)	461,035
	(30,432,907)	14,876,243	(8,370,900)	(1,433,502)	784,737

Six months ended June 30, 2010 compared to six months ended June 30, 2009

Revenue

Revenue increased by 45.0%, or US$11.7 million, from US$26.0 million for the six months ended June 30, 2009, to US$37.7 million for the six months ended June 30, 2010. The increase was due to an increase in the ounces of gold sold at the CSH Mine and an increase in the sales price of gold. For the six months ended June 30, 2010, the CSH Mine produced a total of 36,187 ounces of gold and sold 32,699 ounces of gold at a weighted average price of US$1,152 per ounce, while for the six months ended June 30, 2009, the CSH Mine produced a total of 29,269 ounces of gold and sold 28,564 ounces of gold at a weighted average price of US$910 per ounce. The reason for the increase in production was primarily due to the addition of the crushing facility greatly reducing the ore size added to the leach pad during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 which allows more gold to leach resulting in higher gold production.

Cost of sales

Cost of sales increased by 1.1%, or US$0.2 million, from US$18.4 million for the six months ended June 30, 2009 to US$18.6 million, for the six months ended June 30, 2010. Cost of sales as a percentage of revenue decreased from 70.9% for the six months ended June 30, 2009 to 49.5% for the six months ended June 30, 2010, primarily due to our efforts in cost control and the increase in the sales price of gold at the CSH Mine. Depreciation and depletion increased by 51.3%, or US$1.3 million, from US$2.5 million for the six months ended June 30, 2009 to US$3.8 million for the six months ended June 30, 2010, primarily due to the increased capital expenditure in mine development and continued mining, ore processing and exploration activities at the CSH Mine. Depreciation would have increased more with the increase in capital expenditure since the first half of 2009, but the estimated useful life of the buildings at the site of the CSH Mine was extended from 10 years to 24 years due to the extension of the mine life, resulting in reduced depreciation for the relevant buildings for the first half of 2010.

Mine operating earnings

As a result of the foregoing, mine operating earnings more than doubled from US$7.6 million for the six months ended June 30, 2009 to US$19.0 million for the six months ended June 30, 2010.

General and administrative expenses

General and administrative expenses increased by 15.2 %, or US$0.3 million, from US$1.8 million for the six months ended June 30, 2009 to US$2.1 million for the six months ended June 30, 2010. This increase was primarily attributable to an increase of US$0.1 million in professional fees, an increase of US$75,000 in travel expenses, an increase of US$46,000 in investor relations related expenses, an increase of US$57,000 in salaries and benefits.

Exploration and evaluation expenditure

Exploration and evaluation expenditure decreased by 84.6%, or US$0.5 million, from US$0.6 million for the six months ended June 30, 2009 to US$93,000 for the six months ended June 30, 2010. This decrease was primarily due to our focus on the implementation and ramping up of the crushing facility during the first half of the year. We started a drilling program at the CSH Mine in June 2010; therefore, our exploration and evaluation expenditures are expected to increase in subsequent months.

Income from operations

As a result of the foregoing, income from operations increased by 229.5%, or US$11.7 million, from US$5.1 million for the six months ended June 30, 2009 to US$16.8 million for the six months ended June 30, 2010.

Gain on disposal of subsidiaries

We recognized gain on disposal of subsidiaries of US$20,000 for the six months ended June 30, 2010 as we disposed of our entire interests in the Xinjiang CJV at a consideration of US$20,000 in May 2010. See "Business — Other Projects — Xinjiang Project".

Foreign exchange loss

Foreign exchange loss decreased by 88.1%, or US$1.9 million, from a loss of US$2.1 million for the six months ended June 30, 2009 to a loss of US$0.3 million for the six months ended June 30, 2010. The decrease was primarily attributable to the greater stability of the exchange rates between Canadian dollar and US dollar and the decrease in the amount of Canadian dollar-denominated promissory notes with only the CAD7.5 million promissory note remaining outstanding in 2010. See "— Factors Affecting Our Results of Operations — Exchange Rate Fluctuations".

Interest income

Interest income decreased by 45.2%, or US$1,600, from US$3,400 for the six months ended June 30, 2009 to US$1,900 for the six months ended June 30, 2010. This decrease was primarily due to an increase in bank deposits mainly as a result of the exercise of all the outstanding warrants as our stock price rose. See "Factors Affecting Our Results of Operations — Fair Value Change on Warrant Liabilities".

Listing expenses

Listing expenses were US$1.5 million for the six months ended June 30, 2010 as compared to nil for the six months ended June 30, 2009. The listing expenses were incurred in the first half of 2010 primarily for the professional services related to the Global Offering and the Listing while there was no such expenses in the first half 2009 as the preparation for such offering and listing was not yet underway by the end of June 2009.

Fair value change on warrant liabilities

The fair value change of warrant liabilities increased by 514.5%, or US$6.0 million, from US$1.2 million for the six months ended June 30, 2009 to US$7.2 million for the six months ended June 30, 2010. The increase represented the fair value change on the warrants as a result of our rising stock price during 2010. All warrants have now been exercised.

Finance costs

Finance costs decreased by 2.7%, or US$61,000, from US$2.3 million for the six months ended June 30, 2009 to US$2.2 million for the six months ended June 30, 2010. Although effective interest decreased by US$1.4 million for the six months ended June 30, 2010, it was offset by a decrease in capitalized interest expense of US$1.4 million during the same period. As of June 26, 2010, the cost of the warrants issued to the promissory note holders had all been expensed. As a result, the effective interest rate on the remaining CAD7.5 million promissory note (with its maturity extended to June 26, 2011 from June 26, 2010 under the original terms) decreased to its annual interest rate of 12%. The decrease in the capitalized interest is due to the crushing facility being put into use, thus requiring the interest to be expensed instead.

Income tax expense

Income tax expense increased by 407.9%, or US$3.9 million, from US$1.0 million for the six months ended June 30, 2009 to US$4.9 million for the six months ended June 30, 2010 primarily due to an increase in taxable income during the period.

Net/comprehensive income (loss) attributable to owners of the Company

As a result of the foregoing, net income (loss) and comprehensive income (loss) attributable to owners of the Company increased from a loss of US$1.7 million for the six months ended June 30, 2009 to income of US$0.5 million for the six months ended June 30, 2010.

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue

Revenue increased by 175.9%, or US$51.7 million, from US$29.4 million for the year ended December 31, 2008 to US$81.0 million for the year ended December 31, 2009. The increase was primarily due to the increased sales of gold at the CSH Mine. The CSH Mine commenced commercial production in July 1, 2008. From the commencement of commercial production in July 2008 to December 31, 2008, the CSH Mine produced a total of 33,671 ounces of gold and sold 35,841 ounces of gold at a weighted average price of US$819 per ounce, while for the year ended December 31, 2009, the CSH Mine produced a total of 83,570 ounces of gold and sold 83,376 of gold at a weighted average price of US$972 per ounce.

Cost of sales

Cost of sales increased by 174.1%, or US$35.7 million, from US$20.5 million for the year ended December 31, 2008 to US$56.2 million for the year ended December 31, 2009. This increase was generally in line with the increased sales of gold in 2009. Cost of sales for the year ended December 31, 2009 included the impairment of gold-in-process inventory of US$3.0 million as the actual gold recovery rate from the uncrushed ore realized up to December 31, 2009 was lower than the predicted recovery rate. Cost of sales as a percentage of revenue decreased from 69.8% for the year ended December 31, 2008 to 69.3% for the year ended December 31, 2009 primarily due to a reduction in processing costs. Depreciation and depletion increased by 138.3%, or US$3.3 million, from US$2.4 million for the year ended December 31, 2008 to US$5.7 million for the year ended December 31, 2009, primarily as a result of our continued mining, ore processing and exploration activities at the CSH Mine since it commenced commercial production in July 2008.

Mine operating earnings

As a result of the foregoing, mine operating earnings increased from US$8.9 million for the year ended December 31, 2008 to US$24.9 million for the year ended December 31, 2009.

General and administrative expenses

General and administrative expenses decreased by 39.5%, or US$2.4 million, from US$6.1 million for the year ended December 31, 2008 to US$3.7 million for the year ended December 31, 2009. This decrease was primarily attributable to a decrease of US$2.2 million in salaries and benefits and a decrease of US$0.4 million in investor relations expenses, partially offset by an increase of US$0.3 million in professional fees and an increase of US$0.3 million in administration and office expenses. The decrease in salaries and benefits was primarily attributable to (i) a decrease of US$1.7 million in stock-based compensation and (ii) a decrease in the number of our management personnel mainly as a result of our efforts to streamline the senior management. Stock-based compensation decreased as we reversed certain expenses recorded in prior year due to the increased expiry period and cancellation of some of the stock options granted. The decrease in travel expenses was primarily due to fewer trips taken by staff at our corporate head office. Investor relations expenses decreased primarily due to our decreased participations in investor conferences. Professional fees increased as we obtained additional external services for various accounting and legal matters. Administration and office expenses increased primarily due to the payment of US$0.4 million to China National Gold for financial services, partially offset by decreased insurance costs of US$0.2 million.

Exploration and evaluation expenditure

Exploration and evaluation expenditure decreased by 63.9%, or US$3.4 million, from US$5.3 million for the year ended December 31, 2008 to US$1.9 million for the year ended December 31, 2009. This decrease was primarily due to a decrease of US$1.6 million and US$1.2 million in exploration expenses in respect of the CSH Mine and the Dadiangou Project, respectively, as a result of a decreased level of drilling activities. The drilling activities in respect of the CSH Mine decreased as we focused on the construction of the crushing facilities and ramping up the production. The drilling activities in respect of the Dadiangou Project decreased primarily because the exploration was completed and the project was put up for sale. No exploration and evaluation expenditure was incurred for the Xinjiang Project as we and our CJV partner decided to sell the project.

Loss (income) from operations

As a result of the foregoing, we had income from operations of US$19.2 million for the year ended December 31, 2009 as compared to a loss from operations of US$2.6 million for the year ended December 31, 2008.

Foreign exchange (loss) gain

A foreign exchange gain of US$8.1 million was recorded for the year ended December 31, 2008 while we had a foreign exchange loss of US$5.9 million for the year ended December 31, 2009. The difference primarily related to the fluctuation in the value of our outstanding promissory notes in U.S. dollar term. These promissory notes are denominated in Canadian dollars which depreciated in value against the U.S. dollar for the year ended December 31, 2008, but appreciated in value against the U.S. dollar for the year ended December 31, 2009.

Interest income

Interest income decreased from US$0.2 million for the year ended December 31, 2008 to US$5,537 for the year ended December 31, 2009. This decrease was primarily due to a decrease in bank deposits as a result of increasing capital and operating expenditures as the CSH Mine improved production and completed the construction of the crushing facilities.

Listing expenses

We recorded listing expenses of US$2.1 million for the year ended December 31, 2009 while we had no such expenses for the year ended December 31, 2008. The listing expenses were incurred primarily for professional services related to the Global Offering and the Listing.

Fair value change on warrant liabilities

We recorded an increase of US$12.8 million in the fair value of warrant liabilities for the year ended December 31, 2008 as compared to a decrease of US$7.2 million in the fair value of warrant liabilities for the year ended December 31, 2009. See "— Historical Financial Information of Our Group — Principal Income Statement Component — Fair Value Change in Warrant Liabilities."

Finance costs

Finance costs increased by US$2.7 million from US$3.6 million for the year ended December 31, 2008 to US$6.3 million for the year ended December 31, 2009, primarily attributable to a decrease in capitalized interest of US$2.0 million and an increase in effective interest expense of US$0.8 million. Capitalized interest decreased for the year ended December 31, 2009 primarily because the interest on the CAD30 million promissory notes issued in December 2006 was no longer capitalized as deferred development cost since July 1, 2008. The increase in effective interest expense was primarily attributable to the interest expenses incurred on the term loan from the Agricultural Bank of China in September 2009 and the credit facilities from China National Gold. See "— Historical Financial Information of Our Group — Selected Balance Sheet Items—Indebtedness."

Income tax expense

We incurred current income tax expenses of US$4.8 million and recognized deferred income tax expenses of US$1.3 million for the year ended December 31, 2009. No income tax accrued for the year ended December 31, 2008 as we had no taxable profit during that year.

Net/comprehensive income (loss) attributable to owners of the Company

As a result of the foregoing, we had net/comprehensive loss attributable to owners of the Company of US$9.3 million for the year ended December 31, 2009 and net/comprehensive income attributable to owners of the Company of US$14.6 million for the year ended December 31, 2008.

Notwithstanding the significant increases in revenue and mine operating earnings in 2009, we recorded a net loss of US$8.4 million in 2009 as compared to net income of approximately US$14.9 million in 2008, primarily because, as discussed above, we had a gain of US$12.8 million in the fair value of warrant liabilities and foreign exchange gain of US$8.1 million in 2008 while we incurred a loss of US$7.2 million in the fair value of warrant liabilities and a foreign exchange loss of US$5.9 million in 2009.

Year ended December 31, 2008 compared to year ended December 31, 2007

Revenue

We did not generate revenue for the year ended December 31, 2007 as the CSH Mine commenced commercial production in July 2008. Our revenue was US$29.4 million for the year ended December 31, 2008, primarily derived from the sale of gold from commercial production at the CSH Mine. From the commencement of commercial production in July 2008 to December 31, 2008, the CSH Mine produced a total of 33,671 ounces of gold and sold 35,841 ounces of gold at a weighted average price of US$819 per ounce.

Cost of sales

No cost of sales was recorded for the year ended December 31, 2007 as the CSH Mine commenced commercial production in July 2008. For the year ended December 31, 2008, cost of sales was US$20.5 million. No depreciation or depletion was recorded for the year ended December 31, 2007 as the CSH Mine commenced commercial production in July 2008. For the year ended December 31, 2008, depreciation and depletion was US$2.4 million, which primarily reflected our mining, ore processing and exploration activities at the CSH Mine.

Mine operating earnings

As a result of the foregoing, mine operating earnings were nil and US$8.9 million for the years ended December 31, 2007 and 2008, respectively.

General and administrative expenses

General and administrative expenses increased by 23.5%, or US$1.2 million, from US$5.0 million for the year ended December 31, 2007 to US$6.1 million for the year ended December 31, 2008. This increase was primarily attributable to an increase of US$0.4 million in salaries and benefits, an increase of US$0.2 million in investor relations expenses and an increase of US$0.2 million in professional fees. The increase in salaries and benefits was primarily attributable to (i) an increase in severance payments in connection with a decrease in the size of management of our Company as a result of our efforts to streamline the senior management upon the acquisition of our Company by China National Gold in 2008; and (ii) the overall increase in salaries and benefits due to an increase in employee headcount of our head office in Canada as we commenced commercial production at the CSH Mine. Professional fees increased as we obtained additional external services for various accounting and legal matters. Investor relations fees increased due to increased participation in investor conferences, donations and trade shows as we sought to raise awareness after the purchase by China National Gold of its interests in our Company.

Exploration and evaluation expenditure

Exploration and evaluation expenditure decreased by 19.9%, or US$1.3 million, from US$6.6 million for the year ended December 31, 2007 to US$5.3 million for the year ended December 31, 2008. This decrease was primarily due to a US$2.4 million decrease in exploration expenses in respect of the Dadiangou Project and the Xinjiang Project as a result of a decreased level of drilling activities, partially offset by an increase of US$0.6 million in exploration expenses in respect of the CSH Mine reflecting the changes in the level of our drilling activities.

Loss from operations

As a result of the foregoing, loss from operations decreased by 77.9%, or US$9.0 million, from US$11.6 million for the year ended December 31, 2007 to US$2.6 million for the year ended December 31, 2008.

Foreign exchange (loss) gain

A foreign exchange loss of US$3.3 million was recorded for the year ended December 31, 2007 while a foreign exchange gain of US$8.1 million was recorded for the year ended December 31, 2008. The difference primarily related to the outstanding amount of our promissory notes issued in 2006 and 2007. These promissory notes are denominated in Canadian dollars which appreciated in value against the U.S. dollar for the year ended December 31, 2007, but depreciated in value against the U.S. dollar for the year ended December 31, 2008.

Interest income

Interest income decreased by 60.2%, or US$0.3 million, from US$0.4 million for the year ended December 31, 2007 to US$0.2 million for the year ended December 31, 2008. This decrease was primarily due to a decrease in bank deposits as a result of increasing capital and operating expenditures as CSH Mine commenced commercial production in July 2008.

Fair value change on warrant liabilities

We recorded a decrease of US$14.3 million in the fair value of warrant liabilities for the year ended December 31, 2007 and an increase of US$12.8 million in the fair value of warrant liabilities for the year ended December 31, 2008.

Finance costs

Finance costs increased by US$1.9 million from US$1.7 million for the year ended December 31, 2007 to US$3.6 million for the year ended December 31, 2008, primarily attributable to an increase in effective interest expense of US$2.7 million, offset by an increase in capitalized interest of US$0.9 million. The increase in effective interest expense was primarily attributable to the interests paid on promissory notes issued in June 2007. The increase in capitalized interest was primarily attributable to an increase in capitalized interests paid on the promissory notes issued in June 2007. For information on the promissory notes issued in June 2007, see "— Indebtedness" and note 23(ii) in Appendix I-A to this prospectus.

Income tax expense

No income tax accrued for the years ended December 31, 2007 and 2008 as we had no taxable profit during those periods.

Net/comprehensive income (loss) attributable to owners of the Company

As a result of the foregoing, we had net/comprehensive loss attributable to owners of the Company of US$30.4 million for the year ended December 31, 2007 and net/comprehensive income attributable to owners of the Company of US$14.6 million for the year ended December 31, 2008.

Liquidity and Capital Resources

We operate in a capital intensive industry. During the Track Record Period, 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. During the Track Record Period, our principal sources of funds have been proceeds from the issuance of promissory notes, borrowing from PRC commercial banks and China National Gold 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.

Cash flows

The following table sets out selected cash flow data from our consolidated cash flow statements for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010:

	For the year ended December 31,			For the six months ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
	US$	**US$**	**US$**	**US$**	**US$**
Net cash flows (used in) from operating activities	(7,657,563)	(33,048,859)	10,758,040	7,834,839	(14,255,418)
Net cash flows (used in) from investing activities	(22,541,564)	(11,149,173)	(31,365,475)	(21,555,092)	1,482,335
Net cash flows from financing activities	27,190,288	29,932,784	32,375,052	8,895,650	4,898,624
Effect of foreign exchange rate changes on cash and cash equivalents	2,084,761	(544,438)	74,304	(4,347)	221,051
Net (decrease) increase in cash and cash equivalents	(924,078)	(14,809,686)	11,841,921	(4,828,950)	(7,653,408)
Cash and cash equivalents, beginning of the year/period	27,876,503	26,952,425	12,142,739	12,142,739	23,984,660
Cash and cash equivalents, end of year/period	**26,952,425**	**12,142,739**	**23,984,660**	**7,313,789**	**16,331,252**

Operating cash flow

For the six months ended June 30, 2010, net cash used in operating activities was US$14.3 million, which was primarily attributable to (i) an increase in inventory of US$16.9 million mainly due to the increase in our gold-in-process as the extended extremely harsh weather slowed down the leaching process in the first quarter of 2010 and also because we increased the mining activities at the CSH Mine in the first half of 2010, (ii) an increase in accounts payable and accrued liabilities of US$10.5 million mainly due to increased amounts payable to third-party contractors for the leach pad extension at the CSH Mine, (iii) interest paid of US$2.6 million, (iv) income taxes paid of US$2.5 million, and (v) an increase in prepaid expenses of US$0.6 million, partially offset by (i) an increase in fair value of warrant liabilities of US$7.2 million, (ii) depreciation and depletion of US$3.9 million, and (iii) finance costs of US$2.2 million.

For the year ended December 31, 2009, net cash from operating activities was US$10.8 million, which was primarily attributable to: (i) a decrease in prepaid expenses and deposits of US$5.4 million primarily due to decreases in refundable deposits for the CSH Mine and resources tax prepayments made to the relevant local PRC government, (ii) a loss of US$7.2 million on change in fair value of warrant liabilities, (iii) finance costs of US$6.3 million, (iv) depreciation and depletion of US$5.8 million and (v) US$4.8 million of income tax paid.

For the year ended December 31, 2008, net cash used in operating activities was US$33.0 million, which was primarily attributable to (i) an increase in inventory of US$27.8 million primarily reflecting an increase in the inventory of gold-in-process after the commencement of commercial production in July 2008, (ii) an increase in prepaid expenses and deposits of US$5.2 million primarily due to an increase in refundable deposits for the CSH Mine construction and a resource tax prepayment of US$1.5 million made to local PRC government, (iii) a decrease in fair value of warrant liabilities of

US$12.8 million, (iv) interest paid of US$5.9 million primarily on the promissory notes and (v) an unrealized foreign exchange gain of US$7.9 million, partially offset by (i) finance costs of US$3.6 million and (ii) an increase in accounts payable and accrued liabilities of US$3.7 million primarily attributable to the amounts payable to third-party contractors for the installation of the crushing facility at the CSH Mine. For further information on the increase in the inventory after the commencement of commercial production in July 2008, see "— Selected Balance Sheet Items — Inventory".

For the year ended December 31, 2007, net cash used in operating activities was US$7.7 million, which was primarily attributable to net loss of US$30.4 million and interest paid of US$4.7 million primarily on the promissory notes, partially offset by (i) an increase in fair value of warrant liabilities of US$14.3 million, (ii) an unrealized foreign exchange loss of US$3.2 million, and (iii) an increase in accounts payable and accrued liabilities of US$7.0 million primarily attributable to an increase in amounts payable to third-party contractors for mine construction work and mining services provided in connection with the commencement of pre-commercial production.

Investing cash flow

For the six months ended June 30, 2010, net cash from investing activities was US$1.5 million, which was primarily attributable to US$10.8 million of restricted cash received pending the sale of the Dadiangou Project, partially offset by purchases of property, plant and equipment of US$9.3 million mainly in relation to the expansion of processing facilities at the CSH Mine.

For the year ended December 31, 2009, net cash used in investing activities was US$31.4 million, which was primarily attributable to purchases of property, plant and equipment of US$36.6 million, net of construction payables. This increase in purchases was primarily in relation to the construction and installation of the crushing facilities and expansion of processing facilities at the CSH Mine, which was partially offset by US$5.2 million of restricted cash deposits received primarily as a result of the return by a bank of cash deposited to secure a stand-by credit facility.

For the year ended December 31, 2008, net cash used in investing activities was US$11.1 million, which was primarily attributable to: (i) purchases of property, plant and equipment of US$26.8 million primarily in relation to the installation of the crushing facility and expansion of processing facilities at the CSH Mine and (ii) restricted cash deposits of US$15.3 million comprising a US$14.0 million security deposit for a standby letter of credit for the purchase of ore crushing equipment and US$1.3 million held on behalf of local PRC tax authorities, partially offset by proceeds from sales of products from pre-commercial production of US$20.9 million.

For the year ended December 31, 2007, net cash used in investing activities was US$22.5 million, which was primarily attributable to purchases of property, plant and equipment of US$37.6 million mainly in relation to the construction of the mining and processing facilities at the CSH Mine of, partially offset by proceeds from sales of gold produced before commencement of commercial production of US$15.1 million.

Financing cash flow

For the six months ended June 30, 2010, net cash from financing activities was US$4.9 million, which was primarily attributable to the proceeds of US$8.8 million mainly as a result of the exercise of warrants and stock options during the period, partially offset by the repayment of Series B Notes in an amount of US$3.9 million in January of the year.

For the year ended December 31, 2009, net cash from financing activities was US$32.4 million, which was attributable to the aggregate proceeds of US$82.3 million from the term loan from Agriculture Bank of China to CSH CJV and the term loan we borrowed from CNG, partially offset by: (i) the repayment of Series A Notes and Series B Notes in an aggregate amount of approximately US$36.3 million and (ii) the repayment of the bridge loan of approximately US$18.9 million from the Industrial and Commercial Bank of China. See "— Historical Financial Information of Our Group — Selected Balance Sheet Items — Indebtedness."

For the year ended December 31, 2008, net cash from financing activities was US$30.0 million, which was attributable to the proceeds of US$11.0 million from issuance of common shares in connection with the exercise of warrants and stock options during the same year and proceeds of US$18.9 million from the bridge loan we received from the Industrial and Commercial Bank of China in September 2008.

For the year ended December 31, 2007, net cash from financing activities was US$27.2 million, which was attributable to (i) proceeds of US$18.1 million from the private offering of the 12% senior unsecured promissory notes and share purchase warrants in June 2007, and (ii) proceeds of US$9.1 million from the issuance of common shares as a result of exercise of warrants and stock options.

Selected Balance Sheet Items

Accounts receivable

During the Track Record Period, accounts receivable primarily represented interest receivables, goods and services tax refund from relevant government authorities, listing expense receivable and other receivables such as employee travel advances. We did not record any trade receivable from the sale of our gold dore bars to China National Gold as China National Gold 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. We did not record any accounts receivable from the sale of our gold dore bars to the independent third-party refinery because we started and stopped selling our products to them in July 2008 and October 2008, respectively. Therefore, as of December 31, 2008, all amounts receivable from this refinery, if any, had been settled.

Accounts receivable decreased from US$0.3 million as of December 31, 2007 to US$0.1 million as of December 31, 2008, primarily due to a decrease of US$0.2 million in goods and services tax refund. This was due to a change in our filing practice. Prior to 2008, we filed goods and services tax on a yearly basis and received tax refund once a year. In 2008, as a result of changes in relevant Canadian government rules and regulations, we filed these taxes and received refund on a quarterly basis.

Accounts receivable increased from US$0.1 million as of December 31, 2008 to US$1.7 million as of December 31, 2009, primarily due to the listing expense receivable of US$1.2 million, which was the portion of the professional fees and expenses incurred for the global offering and the Listing that the current shareholders of Skyland Group has agreed to pay.

Accounts receivable increased from US$1.7 million as of December 31, 2009 to US$2.1 million as of June 30, 2010, primarily due to an increase of listing expense receivable of US$0.6 million based on a cost sharing agreement with the ultimate owners of the Jiama Mine, and a decrease in the repayment of an amount due from shareholder of US$0.2 million. The listing expenses included professional expenses incurred for the proposed Global Offering and Listing.

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

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
Less than 1 month	301,380	35,211	65,167	102,973
1-3 months	—	—	85,365	218,469
Over 6 months	47,534	113,560	346,437	—
Listing expense receivable	—	—	1,184,911	1,748,756
Total	**348,914**	**148,771**	**1,681,880**	**2,070,198**

Our trade receivable turnover days for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010 were zero, 2 and zero days, respectively, because we did not have trade receivable relating to sales of our gold in 2008 or the first half of 2010, and the trade receivable for sales of gold to China National Gold was US$0.3 million in 2009.

As of September 30, 2010, 69.8% of our accounts receivables as of June 30, 2010 had been settled.

Prepaid expenses and deposits

During the Track Record Period, prepaid expenses and deposits primarily consisted of CSH Mine construction deposits paid to third-party contractors, deposits for supplies and services for mining operations at the CSH Mine, 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 December 31, 2007, 2008 and 2009 and June 30, 2010, prepaid expenses and deposits were US$2.0 million, US$7.2 million, US$1.7 million and US$1.6 million, respectively. The increase of US$5.2 million in prepaid expenses and deposits from US$2.0 million as of December 31, 2007 to US$7.2 million as of December 31, 2008 was primarily due to (i) an increase of US$2.7 million in refundable CSH Mine construction deposits paid to third-party contractors due to the increased level of mine construction work at the CSH Mine; (ii) a prepayment of resource tax of US$1.5 million to local PRC government as of December 31, 2008; and (iii) deposits paid to suppliers for purchase of spare parts of US$0.6 million as of December 31, 2008.

The decrease of US$5.4 million in prepaid expenses and deposits from US$7.2 million as of December 31, 2008 to US$1.7 million as of December 31, 2009 was primarily due to (i) a decrease of US$3.8 million in refundable CSH Mine construction deposits paid to third-party contractors due to the decreased level of mine construction work at the CSH Mine as we focused on the construction and installation of the crushing facilities at the mine and (ii) US$0.7 million of deposits for mine supplies and services in relation to increased mine production, partially offset by a decrease in prepaid resources compensation tax. We had no prepaid resources compensation taxes as of December 31, 2009 as compared to the US$1.5 million prepayment of resources compensation tax outstanding as of

December 31, 2008, because the resources compensation tax is required to be prepaid every second year pursuant to the relevant government requirements.

The decrease of US$0.2 million in prepaid expenses and deposits from US$1.7 million as of December 31, 2009 to US$1.6 million as of June 30, 2010 was primarily due to (i) a decrease in refundable construction deposits of US$0.2 million, (ii) a decrease of US$92,000 in insurance, and (iii) a decrease of US$28,000 in deposits in spare parts, partially offset by an increase of US$0.1 million in deposits for mine supplies and services.

Inventory

During the Track Record Period, inventory consisted 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.

Our inventory increased from US$0.4 million as of December 31, 2007 to US$27.6 million as of December 31, 2008, primarily attributable to the increase in our gold-in-process of US$25.1 million which was in turn primarily due to the reclassification as and transfer to inventory of US$20.5 million of costs that were capitalized and included in mineral assets (as part of property, plant and equipment) upon commencement of commercial production in July 2008. 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.

Our inventory increased from US$27.6 million as of December 31, 2008 to US$29.0 million as of December 31, 2009, primarily attributable to the increase in our gold-in-process from US$25.1 million as of December 31, 2008 to US$27.1 million as of December 31, 2009. The amount of gold-in-process inventory we had was primarily attributable to the nature of the heap leaching method we use at the CSH Mine.

Our inventory increased from US$29.0 million as of December 31, 2009 to US$45.9 million as of June 30, 2010 primarily attributable to the increase in our gold-in-process from US$27.1 million as of December 31, 2009 to US$41.3 million as of June 30, 2010, as the extremely harsh winter slowed down the leaching process, resulting in lower than normal recovery rates in the first quarter, but warmed up in the second quarter and also because we increased the mining activities at the CSH Mine in the first half of 2010. We increased the recovery rate from 38.6% in the first quarter to 43.0% in the second quarter. Approximately 6.9 million tonnes of ore was mined and placed on the leach pad in the first half of 2010, up from 3.2 million tonnes in the first half of 2009. With the crushing facility in place, the ore was crushed to a size smaller than 9 millimeters which is much smaller than the uncrushed ore placed in the first half of 2009.

As of December 31, 2008 and 2009 and June 30, 2010, inventory primarily consisted of gold-in-process.

As we commenced commercial production on July 1, 2008, our cost of sales for 2008 represented cost of sales for the six months ended December 31, 2008. Inventory turnover days for the six months ended December 31, 2008, the year ended December 31, 2009 and the six months ended June 30, 2010 are calculated based on inventory as of the period end divided by cost of sales for that period and multiplied by 183 days, 365 days and 183 days, respectively. Inventory turnover days for the six months ended December 31, 2008, the year ended December 31, 2009 and the six months ended June 30, 2010 were 246.8 days, 188.5 days and 449.0 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 (sometimes several years) from the time when ore is placed on leach pads to the time when gold is poured. The significant increase in the inventory turnover days for the first half of 2010 as compared to 2009 was primarily due to the increase in our gold-in-process as of June 30, 2010 as compared to December 31, 2009 mainly as a result of (i) the adverse impact of the extremely harsh winter on the leaching process and (ii) the increased mining activities at the CSH Mine in the first half of 2010 as discussed above.

As of September 30, 2010, 100% of our gold dore bar inventory as of June 30, 2010 had been sold.

Accounts payable and accrued expenses

During the Track Record Period, accounts payable and accrued expenses primarily consisted 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 US$15.1 million as of December 31, 2007 to US$18.9 million as of December 31, 2008 and further to US$35.1 million as of December 31, 2009, primarily due to increased amounts payable to third-party contractors for the installation of the crushing facility at the CSH Mine. Accounts payable and accrued expenses increased from US$35.1 million as of December 31, 2009 to US$39.8 million as of June 30, 2010 primarily due to increased amounts payable to third-party contractors for the leach pad extension at the CSH Mine.

The following table sets forth an aging analysis of our accounts payable and accrued expenses and construction payable as of the dates indicated:

	As of December 31,			As of June 30, 2010
	2007	2008	2009	
	US$	US$	US$	
0-30 days	13,391,117	13,979,217	24,526,308	27,712,634
31-90 days	527,804	1,485,099	1,444,774	4,190,226
91-180 days	38,167	3,235,841	2,525,308	1,262,983
Over 180 days	1,109,397	232,487	6,576,214	6,602,502
Total	**15,066,485**	**18,932,644**	**35,072,604**	**39,768,345**

The credit period for trade purchases is typically between 120 to 150 days. Accounts payable and accrued expenses due for 30 days or less increased from US$14.0 million as of December 31, 2008 to US$24.5 million as of December 31, 2009 primarily attributable to increased production and the increased construction activities related to the crushing facilities. Such accounts payable and accrued expenses further increased to US$27.7 million as of June 30, 2010 primarily attributable to amounts payable to third-party contractors for construction services at the CSH Mine.

Accounts payable and accrued expenses due for more than 30 days but no more than 90 days increased from US$0.5 million as of December 31, 2007 to US$1.5 million as of December 31, 2008 and US$1.4 million as of December 31, 2009, primarily due to increased payment terms for certain construction contracts related to the construction and installation of the crushing facilities. Such accounts payable and accrued expenses further increased to US$4.2 million as of June 30, 2010 primarily attributable to increased amounts payable to suppliers for materials and equipment.

Accounts payable and accrued expenses due for more than 90 day but no more than 180 days increased from approximately US$38,000 as of December 31, 2007 to US$3.2 million as of December 31, 2008 primarily attributable to amounts payable to third-party contractors for the installation of the crushing facility and mining services provided at the CSH Mine. Accounts payable and accrued expenses due for more than 90 days but no more than 180 days decreased from US$3.2 million as of December 31, 2008 to US$2.5 million as of December 31, 2009 primarily attributable to amounts payable to third-party contractors for the installation of the crushing facilities and mining services provided at the CSH Mine.

Accounts payable and accrued expenses as of December 31, 2007, 2008 and 2009 and June 30, 2010 due for over 180 days primarily represented retention money payables to third-party contractors for mine infrastructure construction work performed that were retained by us for quality assurance purposes. Pursuant to the agreements we entered into with our third-party contractors for mine construction work, we typically retain, on a monthly basis, around 5% to 10% of the payments to third-party contractors and release these amounts retained in a certain period of time after the construction work is substantially completed.

As we commenced commercial production on July 1, 2008, our cost of sales for 2008 represented cost of sales for the six months ended December 31, 2008. Accounts payable turnover days for the six months ended December 31, 2008, the year ended December 31, 2009 and the six months ended June 30, 2010 are calculated based on accounts payable and accrued expenses as of the period end divided by cost of sales for that period and multiplied by 183 days, 365 days and 183 days, respectively. Accounts payable turnover days for the six months ended December 31, 2008, the year ended December 31, 2009 and the six months ended June 30, 2010 were 169 days, 228 days and 389 days, respectively. Accounts payable turnover days for the six months ended December 31, 2008 were relatively long primarily attributable to the amount of accounts payables and accrued expenses as of December 31, 2008 which was in turn primarily attributable to the amounts payable to third-party contractors for mining services provided and the installation of the crushing facility at the CSH Mine as well as retention money payables to third-party contractors for construction work that were retained by us for quality assurance purposes. The relatively long accounts payment turnover days for the year ended December 31, 2009 were primarily attributable to the increase in unpaid amounts to (i) the relevant PRC governmental authorities, which were due in one to 12 months after the period end, (ii) third-party mining contractors at the CSH Mine and (iii) third party service providers for professional and other services relating to the Global Offering and the Listing. The accounts payable turnover days for the year ended December 31, 2009 were further extended primarily attributable to an increase in the amount payable to the third-party contractors for the continued construction and development of the CSH Mine and the increased procurement of supplies as a result of the expansion in production. The significant increase in accounts payable turnover dates for the six months ended June 30, 2010 as compared to the year ended December 31, 2009 and the six months ended December 31, 2008 was primarily attributable to (i) the significant amounts payable to third-party contractors for mine infrastructure construction work and retention money payable to third-party contractors for construction work that were retained by us for quality assurance purposes and (ii) the low amount of cost of sales for the period primarily due to the reduced production activities at the CSH Mine during the winter months.

As of September 30, 2010, 48.0% of our accounts payables as of June 30, 2010 had been settled.

Warrant liabilities

During the Track Record Period, warrant liabilities represented the fair value of the warrants that were outstanding as of the end of each reporting period. Warrants outstanding during the Track Record Period were granted primarily in connection with the promissory notes 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 grated in relation thereto, see notes 23(ii) and 25(a) in "Appendix I-A — Accountants' Report".

As of December 31, 2007, 2008 and 2009 and June 30, 2010, total warrant liabilities were US$13.8 million, US$0.3 million, US$5.3 million and nil, respectively.

Total warrant liabilities decreased from US$13.8 million as of December 31, 2007 to US$0.3 million as of December 31, 2008, primarily attributable to a decrease in fair value of warrant liabilities as of December 31, 2008 of US$12.8 million which was in turn primarily due to the decrease in our share price from December 31, 2007 to December 31, 2008. Total warrant liabilities increased from US$0.3 million as of December 31, 2008 to US$5.3 million as of December 31, 2009, primarily attributable to an increase in fair value of warrant liabilities as of December 31, 2009 of US$7.2 million which was in turn primarily due to the appreciation of Canadian dollar relative to U.S. dollar and higher share price. Total warrant liabilities decreased from US$5.3 million as of December 31, 2009 to nil as of June 30, 2010 as all of the warrants had been exercised by the end of June 2010. For further information on warrants, see note 25 in "Appendix I-A — Accountants' Report".

Environmental rehabilitation

During the Track Record Period, environmental rehabilitation primarily represented 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 2017. Such accretion is recorded as part of the finance costs.

The environment 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 US$7.9 million, US$7.9 million, US$9.5 million and US$9.6 million discounted at 17.6%, 12.1%, 10.0% and 9.0% as of December 31, 2007, 2008 and 2009 and June 30, 2010, respectively. The accretion incurred in connection with the environment rehabilitation represented interest expenses calculated based on the foregoing discount rates and therefore it was recorded as part of the finance costs. The discount rates used for environmental rehabilitation were determined based on the weighted average cost of capital

(“WACC”) and country-specific risk (“CSR”). The decreasing trend was mainly due to the change in WACC for each reporting period, as the market value of our Company’s debt and equity as of each reporting period end fluctuated during the Track Record Period. CSR remained relatively stable during the Track Record Period. The CSR was calculated by comparing the long term Canadian government bond yield and long term Chinese government bond yield. Our environmental rehabilitation liabilities increased from US$2.2 million as of December 31, 2007 to US$4.1 million as of December 31, 2008, primarily attributable to an increase in the area to be disturbed as we developed our mining and processing operations at the CSH Mine. Our environmental rehabilitation liabilities decreased from US$4.1 million as of December 31, 2008 to US$1.6 million as of December 31, 2009, primarily attributable to the extended timing of cash outflows and the anticipated distribution close to the end of the relevant discounting period. This was partially offset by the decrease in the discount rate from 12.1 % to 10.0% and the increase in estimated undiscounted cash flows, which amounted to US$9.5 million. Our environmental rehabilitation liabilities increased from US$1.6 million as of December 31, 2009 to US$2.0 million as of June 30, 2010, primarily attributable to the decrease of the discount rate from 10.0% to 9.0%.

Net current assets / Net current liabilities

We had net current assets of US$14.7 million as of December 31, 2007, net current liabilities of US$8.2 million and US$9.4 million as of December 31, 2008 and 2009, respectively, and net current assets of US$12.9 million as of June 30, 2010. See “Risk Factors — Risks relating to Our Business and Industry — We and Skyland Group had net current liabilities and significant net cash outflows from operating and investing activities during the Track Record Period”.

As of September 30, 2010, we had net current assets of approximately US$21.1 million. See “— Working Capital and Capital Expenditure — Working Capital” for further details on our working capital condition and our ability to meet with our future working capital requirements.

The following table sets forth the breakdown information on our net current assets as of September 30, 2010.

	As of September 30, 2010
	(US$)
Current Assets	
Cash and cash equivalents	27,100,016
Restricted cash	8,687,838
Accounts receivable	6,208,829
Prepaid expenses and deposits	3,061,714
Inventory	29,163,830
Assets classified as held for sale	63,058
	74,285,285
Current Liabilities	
Accounts payable and accrued expenses	44,417,640
Borrowings	8,784,270
Liabilities classified as held for sale	17,671
	53,219,581
Net Current Assets	21,065,704

Indebtedness

Our borrowings are denominated in RMB and Canadian dollar. As of December 31, 2007, 2008 and 2009, June 30, 2010 and September 30, 2010, we had the following outstanding borrowings:

	As of December 31,			As of June 30,	As of September 30,
	2007	2008	2009	2010	2010
	US$	US$	US$	US$	US$
Current					
Short-term loans	—	18,672,730	—	—	—
Current portion of long-term loans	—	—	1,458,619	1,469,098	1,495,640
Promissory notes payable	—	22,930,784	10,633,386	7,044,900	7,288,630
Non-current					
Long-term loan	—	—	80,841,331	81,134,730	80,382,286
Promissory notes payable	44,267,023	14,929,121	—	—	—
Total borrowings	**44,267,023**	**56,532,635**	**92,933,336**	**89,648,728**	**89,166,556**

Our indebtedness during the Track Record Period comprised the following:

Series A Notes (fully repaid)

On December 14, 2006, we completed a private placement offering of senior unsecured promissory notes in the principal amount of CAD30.0 million (US$25.9 million) ("Series A Notes") and 6,000,000 warrants. Series A Notes matured on December 14, 2009 and are repayable in Canadian dollars. Interest on Series A Notes is 12% per annum and is payable on a calendar quarterly basis commencing on March 31, 2007. We are entitled to prepay Series A Notes after June 14, 2008 with no prepayment penalty. Series A Notes were fully repaid in December 2009. Each warrant entitles the holder to purchase one Share at an exercise price of CAD1.60 per Share ("Series A Warrants"). We have a right to accelerate the expiry date of the warrants after June 14, 2008 if our Shares trade at or above a volume weighted average share price of CAD2.75 for 20 consecutive trading days.

We extended the expiry date of 3,860,000 Series A Warrants from December 14, 2008 to December 14, 2010 in order to secure approval of noteholders for a bridge loan from the Industrial and Commercial Bank of China. See "— Bridge Loan from the Industrial and Commercial Bank of China" in this prospectus. As a result of our rising stock price, we were able to exercise the accelerated right for these warrants on March 18, 2010 and all of these warrants had been exercised by April 22, 2010. See "— Factors Affecting Our Results of Operations — Fair Value Change on Warrant Liabilities".

The effective interest rate of Series A Notes was 19.5%.

Series B Notes (fully repaid) and Series C Notes

On June 26, 2007, we completed another private placement offering of senior unsecured promissory notes in the principal amount of CAD20.0 million (US$18.7 million) and 4,000,000 warrants. Each warrant entitles the holder to purchase one Share at an exercise price of CAD2.50 per Share. Ivanhoe, a then significant shareholder of our Company, purchased CAD7.5 million (US$7.0 million) principal amount of the notes ("Series C Notes") and 1,500,000 warrants. The remaining principal amount of the promissory notes of CAD12.5 million (US$11.7 million) ("Series B Notes") and the remaining 2,500,000 warrants were purchased by third parties. In May 2008, China National Gold Hong Kong assumed Series C Notes in their entirety from Ivanhoe as part of the consideration for its acquisition from Ivanhoe of all shares then owned by Ivanhoe in our Company.

Both Series B and Series C Notes have the original maturity date of June 26, 2010 and are repayable in Canadian dollars. Interest on both Series B and Series C Notes is 12% per annum and is payable on a quarterly basis commencing on September 30, 2007. We are entitled to prepay Series B Notes after December 27, 2008 and Series C Notes after December 27, 2007, in each case with no prepayment penalty. Series B Notes rank pari passu with Series A Notes issued while Series C Notes are subordinated to Series A and Series B Notes. In December 2009, we elected to prepay Series B Notes in their entirety (including the principal amount and any interests outstanding at the time of the prepayment) by issuing notices to relevant noteholders. The prepayment took place on January 11, 2010. With respect to the Series C Notes, the maturity date has been extended from the original date of June 26, 2010 to June 26, 2011 under the same terms. We intend to repay the Series C Notes in full with part of the net proceeds from the Global Offering. See "Future Plans and Use of Proceeds — Use of Proceeds".

We have a right to accelerate the expiry date of the warrants after 18 months from the issue date, if our Shares trade at or above a volume weighted average share price of CAD4.25 for 20 consecutive trading days. The warrants issued under Series B and Series C Notes originally had an expiry date of June 26, 2010. We subsequently extended the expiry date of 2,450,000 of the warrants issued under Series B Notes to June 26, 2011 in order to secure the bridge loan from the Industrial and Commercial Bank of China. See "— Bridge Loan from the Industrial and Commercial Bank of China" in this prospectus. As a result of our rising stock price, we were able to exercise the accelerated right for these warrants on April 16, 2010 and these warrants were exercised prior to the expiry date on May 17, 2010. See "— Factors Affecting Our Results of Operations — Fair Value Change on Warrant Liabilities".

The effective interest rate of Series B was 19.5%. The effective interest rate of Series C Notes was originally 17.7% and, upon the extension of the maturity date of the Series C Note as described above, its effective interest rate has become the same as its annual rate of 12%.

Bridge loan from the Industrial and Commercial Bank of China (fully repaid)

The CSH CJV received a bridge loan in the principal amount of RMB130.0 million (US$18.9 million) from the Industrial and Commercial Bank of China in September 2008, to support operations at the CSH Mine during the construction and installation of the crushing facility. The bridge loan was unsecured, denominated in RMB and bore interest at an annual rate of 6.21%. China National Gold provided a guaranty for the bridge loan. Interest on the bridge loan was payable on a monthly basis and the principal was repayable in installments of RMB30.0 million (US$4.4 million) in January 2009, RMB50.0 million (US$7.4 million) in February 2009, and RMB50.0 million (US$7.4 million) in March 2009. The principal amount had been fully repaid in March 2009. Principal repayment of RMB100.0 million (US$14.6 million) was funded by an advance from China National Gold which will be set off against our future gold sales to CNG.

As a condition for the holders of Series A, Series B and Series C Notes to consent to the bridge loan, we extended the expiry date of 3,860,000 Series A Warrants to December 14, 2010, and the expiry date of 2,450,000 warrants issued in connection with the Series B to June 26, 2011. As a result of the extensions of the warrant expiry dates, we determined the warrants had an incremental value of US$1.3 million and recorded such amount as a cost of obtaining the bridge loan.

The effective interest rate of the bridge loan is 19.9%.

Non-revolving credit facility from China National Gold (fully repaid)

In June 2009, the CSH CJV secured a non-revolving credit facility for RMB210.0 million (US$30.7 million) from China National Gold. The credit facility is unsecured and bears interests (payable on a monthly basis) at a rate of 5.31% per annum. The credit facility matured on September 30, 2009. As of December 31, 2009, we had fully paid RMB80 million (US$11.7 million), being the aggregate amount we had drawn down under this credit facility.

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 (US$42.3 million) from the Agricultural Bank of China. China National Gold provided a guaranty 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% and interest is payable monthly. The interest rate is set at 10% below the floating rate set by The People's Bank of China. In case of adjustment in the floating rate set by The People's Bank of China, the interest rate for the loan will be reset accordingly and take effect starting the month following the month in which the floating rate is adjusted. This loan was fully drawn down in September 2009.

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 US$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.

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 China National Gold, we are required to obtain noteholder'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 (vii) distributing dividends. We intend to repay the Series C Notes in full with part of the proceeds of the Global Offering. See "Future Plans and Use of Proceeds — Use of Proceeds".

Under the loan agreement between CSH CJV and Agricultural Bank of China, 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.

The following table sets forth the maturity profiles for our outstanding borrowings as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
Within 1 year	—	41,603,514	12,092,005	8,513,998
1-5 years	44,267,023	14,929,121	80,841,331	81,134,730
Over 5 years	—	—	—	—
Total outstanding borrowings	**44,267,023**	**56,532,635**	**92,933,336**	**89,648,728**

Save as disclosed in this section headed "Financial Information — Historical Financial Information of Our Group — Indebtedness", our Directors have confirmed that there has been no material change to our indebtedness since September 30, 2010 up to and including the Latest Practicable Date.

Except as described herein, as at September 30, 2010, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, pledges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Contractual Obligations and Capital Commitments

The following table sets forth the scheduled maturities of our material contractual obligations as of June 30, 2010:

	Payments due			
	Within 1 year	Between 1 and 5 years	Later than 5 years	Total
	US$	US$	US$	US$
Material contractual obligations				
Borrowings	8,513,998	81,134,730	—	89,648,728
Capital commitments[1]	1,291,654	—	—	1,291,654
Operating lease commitments	94,263	363,584	—	457,847
Total	**9,899,915**	**81,498,314**	**—**	**91,398,229**

(1) The amounts represented capital commitments in respect of acquisition of property, plant and equipment for the CSH Mine and payments to our joint venture partners. For information on capital commitments relating to other matters, see "— Capital commitments" below.

Capital commitments

During the Track Record Period, our capital commitments related primarily to payments for purchase of equipment and machinery for the CSH Mine, the payments to Brigade 217 and NINETC, our joint venture partners for the CSH JV and the Dadiangou 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 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:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
In respect of acquisition of property, plant and equipment for the CSH Mine	—	25,030,987	10,465,453	1,291,654
In respect of payments to Brigade 217 and NINETC	1,643,160	1,729,080	—	—
Total	**1,643,160**	**26,760,067**	**10,465,453**	**1,291,654**

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. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, aggregate fees paid to third-party contractors amounted to approximately US$11.3 million, US$42.1 million, US$42.3 million and US$21.3 million, respectively. For further information on arrangements with third-party contractors, see "Business — Third-Party Contractors".

Operating leases

We have leased certain properties in China and Canada. See "Business — Real Properties" for further information. 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 as of the dates indicated:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
Within one year	101,329	53,289	95,482	94,263
Later than one year and no later than five years	70,393	21,615	391,307	363,584
Later than five years	—	—	—	—
Total	**171,722**	**74,904**	**486,789**	**457,847**

Quantitative and Qualitative Disclosures about Market Risks

Currency risk

We are exposed to the risk of the fluctuation of foreign exchange rates. We operate in China and Canada and our functional currency is the U.S. dollar. A significant change in the currency exchange rates between the RMB or Canadian dollar relative to the U.S. dollar could have a significant effect on our results of operations, financial position or cash flows. We have not hedged our exposure to currency fluctuations.

We are exposed to currency risk through the following assets and liabilities denominated in Canadian dollars and RMB:

Canadian dollar monetary assets and liabilities

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
Cash and cash equivalents	21,795,824	649,888	5,812,185	5,473,273
Accounts receivable	260,341	35,211	99,839	88,267
Accounts payable and accrued expenses	(2,470,306)	(829,882)	(1,487,292)	(1,370,351)
Borrowings	(44,267,023)	(37,859,905)	(10,633,386)	(7,044,900)
Warrant liabilities	(13,825,817)	(274,507)	(5,286,123)	—
Total	**(38,506,981)**	**(38,279,195)**	**(11,494,777)**	**(2,853,711)**

Based on the above net exposures and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the U.S. dollar would result in a decrease or increase in our loss before income tax of approximately US$3.9 million and US$1.1 million for the years ended December 31, 2007 and 2009, respectively, and an increase or decrease in our income before tax of approximately US$3.8 million and US$0.3 million for the year ended December 31, 2008 and the six months ended June 30, 2010, respectively.

RMB monetary assets and liabilities

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
Cash and cash equivalents	3,755,368	5,538,082	16,361,908	10,048,746
Restricted cash	—	1,326,358	—	10,756,703
Accounts receivable	47,534	113,560	397,130	1,400,185
Accounts payable and accrued expenses	(12,474,754)	(18,031,985)	(32,347,188)	(37,417,778)
Borrowings	—	(18,672,730)	(42,299,950)	(42,603,828)
Total	**(8,671,852)**	**(29,726,715)**	**(57,888,100)**	**(57,815,972)**

Based on the above net exposures and assuming that all other variables remain constant, a 10% depreciation or appreciation of the RMB against the U.S. dollar would result in a decrease or increase in our loss before income tax of approximately US$0.9 million, US$5.8 million for the years ended December 31, 2007 and 2009, respectively, and an increase or decrease in income before tax of approximately US$3.0 million and US$5.8 million for the year ended December 31, 2008 and the six months ended June 30, 2010, respectively.

Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. For the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, we sold approximately 47.7%, 95.9% and 92.0%, respectively, of our gold to China National Gold, who we believe is creditworthy. The failure of China National Gold to make required payments could have a material adverse effect on our results of operations. We manage this risk by requiring China National Gold to make prepayment for an estimate price of the gold dore bars at the time of delivery.

Our cash and short-term bank deposits are deposited in large Chinese and Canadian banks. These investments mature at various dates within three months. We do not have any asset backed commercial paper in our short-term bank deposits. Our accounts receivables consists primarily of goods and services tax refund due from the Federal Government of Canada, all of which are outstanding for 180 days or less. We had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in the PRC or Canada during the Track Record Period.

Our maximum exposure to credit risk is as follows:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US$	US$	US$	US$
Bank balances	9,896,230	12,140,045	23,984,660	16,331,252
Bank short-term deposits	17,056,195	2,694	—	—
Restricted cash	—	5,215,704	—	10,756,703
Accounts receivable	348,914	148,771	1,681,880	2,070,198
Long-term receivable	—	—	49,689	24,252
Total	**27,301,339**	**17,507,214**	**25,716,229**	**29,182,405**

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk through the management of our capital structure and financial leverage. For the contractual maturities for our non-derivative financial liabilities comprising accounts payable and accrued expenses, note payables, customer advances and short-term loan, see note 31(c) in "Appendix I-A — Accountants' Report" to this prospectus.

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 risk that we will realize a loss as a result of a decline in the interest rates relates to our variable rate bank balances, and the risk is limited because these balances are not material. Our short term bank deposits, notes payables and short-term loan have fixed interest rates and therefore, are not subject to interest rate fluctuations. The risk that we will realize loss as a result of a decline in the interest rate relates to our variable interest rate bank balances. A 30 basis point higher or lower in the interest rate of our variable rate bank balances would result in a decrease in our loss before income tax or an increase in loss before income tax of approximately US$81,000 and US$72,000 for the years ended December 31, 2007 and 2009, respectively, and an increase in our income before tax or a decrease in income before tax of US$36,000 and US$24,000 for the year ended December 31, 2008 and the six months ended June 30, 2010, respectively. We monitor interest rate exposure and will consider hedging significant interest rate explore should the need arises.

Share price risk

We are exposed to price risk of our Shares due to our warrant liabilities as determined by the fair value of warrants, which in turn is affected by our Share price.

If our Share price had been 50% higher or lower as of December 31, 2007 and all other variables remained constant, our loss before income tax would increase by approximately US$14.8 million or decrease by US$11.7 million for the year ended December 31, 2007.

If our Share price had been 50% higher or lower as of December 31, 2008 and all other variables remained constant, our income before income tax would decrease by approximately US$0.4 million or increase by approximately US$0.2 million for the year ended December 31, 2008.

If our Share price had been 50% higher or lower as of December 31, 2009 and all other variables remained constant, our loss before income tax would increase/decrease by approximately US$4.8 million/US$3.5 million for the year ended December 31, 2009.

No exposure to price risk of our Shares for the six months ended June 30, 2010 as the warrants have been fully exercised.

SUMMARY HISTORICAL FINANCIAL INFORMATION OF SKYLAND GROUP

Basis of Presentation of Skyland Group

Skyland, an exempted company incorporated in the Cayman Island with limited liability, is an investment holding company that holds 100% interest in Jia Ertong. Jia Ertong holds 100% interest in Huatailong. The core asset of Huatailong is the Jiama Mine. Skyland, Jia Ertong and Huatailong collectively constitute the Skyland Group. In addition, Huatailong holds 51% interest in Jiama Industry and Trade, a company that Huatailong jointly established with an independent third party on December 1, 2009 to engage in mining transport and logistic business. See "— Summary of Historical Financial Information of Skyland Group — Contractual Obligations and Capital Commitments — Capital commitments".

The consolidated financial statements of Skyland consolidate the financial results and financial position of Skyland and its subsidiaries, Jia Ertong and Huitailong, from the latest of the beginning of the Track Record Period, the date of incorporation or the effective date of its acquisition by Skyland. Jia Ertong was acquired by Skyland prior to the beginning of the Track Record Period. Therefore, Jia Ertong's financial results and financial position have been consolidated for the entire Track Record Period. Huatailong was established in January 2007 and acquired by Jia Ertong in May 2008, and therefore its financial results and financial position have been consolidated since May 2008. Jiama Industry and Trade was established on December 1, 2009, therefore its financial results and financial position have been consolidated since December 2009.

Summary Discussion of Results of Operations of Skyland Group

The following table sets forth selected financial information of Skyland for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2007	2008	2009	2009	2010
	US$	US$	US$	US$ (unaudited)	US$
Revenue	—	—	—	—	917,250
Cost of sales	—	—	—	—	(710,348)
	—	—	—	—	206,902
Other income	231,933	330,046	142,853	62,845	183,590
Exploration and evaluation expenditure	—	(13,171,016)	—	—	—
Administrative expenses	(3,848)	(2,953,143)	(4,802,128)	(2,046,878)	(2,213,672)
Other expenses	—	(299,183)	(6,811,176)	(1,057,153)	(4,745,850)
Finance costs	—	(790,762)	(1,510,485)	(602,011)	(1,935,580)
Income (loss) before income tax	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,504,610)
Income tax	—	—	—	—	(24,113)
Income (loss) for the year/period	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,528,723)
Other comprehensive income (loss), representing exchange difference arising on translation	(70,385)	(285,183)	18,574	10,340	49,760
Total comprehensive income (loss) for the year/period	157,700	(17,169,241)	(12,962,362)	(3,632,857)	(8,478,963)
Income (loss) for the year/period attributable to:					
Owners of Skyland	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,562,886)
Non-controlling interests	—	—	—	—	34,163
	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,528,723)
Total comprehensive income (loss) for the year/period attributable to:					
Owners of Skyland	157,700	(17,169,241)	(12,962,362)	(3,632,857)	(8,515,247)
Non-controlling interests	—	—	—	—	36,284
	157,700	(17,169,241)	(12,962,362)	(3,632,857)	(8,478,963)

Revenue

Skyland Group did not generate any revenue during the three year period ended December 31, 2009. It recorded revenue of US$0.9 million for the six months ended June 30, 2010 which was generated primarily from provision of mining transport and logistic services by Jiama Industry and Trade. Jia Ertong conducted limited exploration activities before it acquired Huatailong in May 2008. After the acquisition of Huatailong, Jia Ertong has functioned as a holding company and Huatailong has been engaged in exploration and mine development at the Jiama Mine. Jiama Mine commenced commercial production in September 2010.

Cost of sales

Cost of sales amounted to US$0.7 million for the six months ended June 30, 2010 primarily attributable to employee salaries and other compensation, fuel costs, vehicle maintenance expenses and depreciation that Jiama Industry and Trade incurred in connection with its provision of mining transport and logistic services.

Exploration and evaluation expenditure

During the Track Record Period, exploration and evaluation expenditure primarily consisted of consideration and fees paid for exploration permits and exploration expenses, including primarily fees paid to third-party contractors for exploration and related work performed and mine infrastructure construction costs.

Following the acquisition of Huatailong by Jia Ertong in 2008, Huatailong has been actively engaged in exploration activities, which led to a significant increase in exploration and evaluation expenditure.

Skyland did not incur exploration and evaluation expenditure in the first half of 2009 and 2010 as Skyland did not engage in exploration and evaluation activities during such periods.

Skyland spent approximately US$5.4 million on exploration and evaluation activities in 2009, which primarily consisted of (i) approximately US$2.5 million paid to the third-party contractors for the drilling work conducted at the Jiama Mine; (ii) approximately US$1.3 million for construction of highway infrastructure at the Jiama Mine; and (iii) ore sample testing fee of approximately US$0.4 million. This amount was all capitalized as Skyland's mining assets and, as a result, Skyland's exploration and evaluation was nil in 2009.

Skyland's exploration and evaluation expenditure in 2008 was approximately US$13.2 million, primarily consisting of (i) US$2.2 million paid by Huatailong for the acquisition of the exploration permit covering an area of 66.41 square kilometers at the Jiama Mine; (ii) US$6.3 million paid to third-party contractors for the drilling work conducted at the Jiama Mine; (iii) ore sample testing fee of US$0.9 million; and (iv) approximately US$0.7 million for construction of water supply infrastructure at the Jiama Mine.

No exploration and evaluation expenditure was recorded for the year ended December 31, 2007 because Jia Ertong did not conduct exploration activities in 2007.

Administrative expenses

During the Track Record Period, administrative expenses primarily consisted of salaries and retirement benefits costs of Skyland Group's administrative and management personnel, office overhead and travel expenses. Most of Skyland Group's administrative expenses were incurred by Huatailong, the operating company of the Skyland Group.

Administrative expenses increased by 8.1%, or US$0.2 million, from US$2.0 million for the six months ended June 30, 2009 to US$2.2 million for the six months ended June 30, 2010, primarily attributable to the increased salaries and benefits costs as Skyland Group hired additional personnel in preparation for the commencement of commercial production at the Jiama Mine.

Administrative expenses increased by 62.6%, or US$1.9 million, from US$3.0 million for the year ended December 31, 2008 to US$4.8 million for the year ended December 31, 2009, primarily attributable to an increase in administrative expenses related to Huatailong as shortly after

Huatailong's acquisition by Jia Ertong in May 2008, it commenced the first phase construction of the Jiama Mine in June 2008 and such construction continued throughout 2009.

Administrative expenses increased from approximately US$4,000 for the year ended December 31, 2007 to US$3.0 million for the year ended December 31, 2008, primarily attributable to an increase in administrative expenses related to Huatailong which was acquired by Jia Ertong in May 2008.

Total comprehensive (loss) income for the year/period

A total comprehensive income of US$0.2 million was recorded for the year ended December 31, 2007, while a total comprehensive loss of US$17.2 million and US$13.0 million was recorded for the years ended December 31, 2008 and 2009, respectively.

For the six months ended June 30, 2009 and 2010, we recorded a total comprehensive loss of US$3.6 million and US$8.5 million, respectively.

Liquidity, Capital Resources and Cash Flows

During the Track Record Period, Skyland Group's liquidity requirements arose principally from the need for working capital to finance its operations and capital expenditure to acquire exploration and mining rights and to finance exploration and mine development, primarily at the Jiama Mine. During the Track Record Period, Skyland Group financed its working capital and capital expenditure through borrowings from related parties and bank loans.

The following table sets out selected cash flow data from Skyland's Group consolidated cash flow statements for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2007	2008	2009	2009	2010
	US$	US$	US$	US$ (unaudited)	US$
Net cash flow (used in) from operating activities	(16,194)	(10,263,091)	(2,049,375)	(5,523,624)	21,395,963
Net cash flows from (used in) investing activities	171,348	(36,471,428)	(91,780,840)	(43,328,893)	(32,080,043)
Net cash flows (used in) from financing activities	(156,782)	51,627,852	94,493,994	69,760,334	41,895,201
Net (decrease)/increase in cash and cash equivalents	(1,628)	4,893,333	663,779	20,907,817	31,211,121
Effect of foreign exchange rate changes on cash and cash equivalents	(162)	39	26,583	1,934	(7,004)
Cash and cash equivalents at the beginning of the year/period	2,353	563	4,893,935	4,893,935	5,584,297
Cash and cash equivalents at the end of year/period	**563**	**4,893,935**	**5,584,297**	**25,803,686**	**36,788,414**

Skyland Group's cash flows were not significant in 2007. Accordingly, set out below is a summary discussion of its cash flows for 2008, 2009 and the first half of 2010.

Operating cash flow

For the six months ended June 30, 2010, net cash from operating activities was US$21.4 million, which was primarily attributable to (i) an advance of approximately US$36.8 million from Jinchuan Group Ltd. for purchase of copper concentrates from Huatailong and (ii) an increase in accounts payable and accrued expenses of US$7.8 million, which was in turn primarily attributable to an increase in accounts payable to third-party contractors in relation to mine construction and other work.

For the year ended December 31, 2009, net cash used in operating activities was US$2.0 million, which was primarily attributable to loss before income tax of US$13.0 million, partially offset by an increase in accounts payables and accrued expenses of US$7.4 million, which was in turn primarily attributable to an increase in payments due to third party contractors for the exploration and mine construction work they performed in respect of the Jiama Mine.

For the year ended December 31, 2008, net cash used in operating activities was US$10.3 million, which was primarily attributable to loss before income tax of US$16.9 million, partially offset by an increase in accounts payables and accrued expenses of US$6.3 million which was in turn primarily attributable to an increase in payments due to third-party contractors for the exploration and mine construction work they performed in respect of the Jiama Mine.

Investing cash flow

For the six months ended June 30, 2010, net cash used in investing activities was US$32.1 million, which was primarily attributable to (i) an investment in property, plant and equipment of US$31.0 million in line with the development of the Jiama Mine and (ii) deposits paid for acquisition of property, plant and equipment of US$4.3 million, partially offset by US$3.5 million of government grants received from local governments in Tibet in relation to the construction of property, plant and equipment by Skyland.

For the year ended December 31, 2009, net cash used in investing activities was US$91.8 million, which was primarily attributable to (i) an investment in property, plant and equipment of US$75.0 million in line with the development of the Jiama Mine; (ii) deposits paid for acquisition of property, plant and equipment of US$12.6 million and (iii) an advance payment of US$3.8 million to local government authorities for leasing a parcel land for ore storage and other related purposes.

For the year ended December 31, 2008, net cash used in investing activities was US$36.5 million, which was primarily attributable to (i) an investment in property, plant and equipment of US$16.0 million in line with the development of the Jiama Mine; (ii) intangible asset additions of US$37.6 million primarily comprising the exploration permits Huatailong already held at the time of its acquisition by Jia Ertong; (iii) deposits paid for acquisition of property, plant and equipment of US$8.4 million; and (iv) repayment from an ex-shareholder of Huatailong of US$25.5 million.

Financing cash flow

For the six months ended June 30, 2010, net cash from financing activities was US$41.9 million, which was primarily attributable to (i) advance from related parties of US$31.2 million comprising the proceeds of the loan extended to Huatailong by China National Gold and the shareholder loan from China National Gold Hong Kong and Rapid Results and (ii) the net proceeds of the loan from Bank of China to Huatailong in the amount of US$36.1 million, partially offset by repayment to related companies of US$23.5 million and interest paid of US$2.0 million.

For the year ended December 31, 2009, net cash from financing activities was US$94.5 million, which was primarily attributable to the net proceeds of the loan from Bank of China in the amount of US$95.1 million and advance from related companies of US$47.9 million, partially offset by repayment to related companies of US$44.1 million and interest paid of US$4.5 million.

For the year ended December 31, 2008, net cash from financing activities was US$51.6 million, which was primarily attributable to the net proceeds from the issue of shares of Skyland to Rapid Result and China National Gold Hong Kong in the amount of US$46.4 million and advance from related companies of US$7.3 million comprising primarily the net proceeds of loans from China National Gold and Rapid Result.

Net Current Liabilities

Skyland had net current liabilities of US$0.9 million, US$25.4 million, US$19.5 million and US$36.9 million as of December 31, 2007, 2008 and 2009 and June 30, 2010. See "Risk Factors — Risks relating to Our Business and Industry — We and Skyland Group had net current liabilities and significant net cash outflows from operating and investing activities during the Track Record Period".

As of September 30, 2010, Skyland had net current liabilities of approximately US$42.5 million. The following table sets forth the breakdown information on Skyland's net current liabilities as of September 30, 2010.

	As of September 30, 2010
	(US$)
Current Assets	
Cash and cash equivalents	25,209,505
Trade receivables, other receivable and prepayments	2,379,117
Prepaid lease payments	74,573
Inventories	597,138
	28,260,333
Current Liabilities	
Accounts payable and accrued expenses	27,217,870
Advanced received from a customer	30,839,154
Amounts due to related companies	12,690,050
Tax payable	45,060
	70,792,134
Net Current liabilities	(42,531,801)

Indebtedness

The following table sets forth a summary of Skyland Group's indebtedness as of the dates indicated:

	As of December 31,			As of June 30, 2010	As of September 30, 2010
	2007	2008	2009		
	US$	US$	US$	US$	US$
Bank loan	—	—	95,193,462	131,860,284	153,250,959
Amounts due to related companies	—	40,854,904	45,021,723	54,622,040[1]	47,387,476
Total borrowings	**—**	**40,854,904**	**140,215,185**	**186,482,324**	**200,638,435**
Represented by:					
Current liabilities	—	24,760,326	10,746,976	19,805,386	11,524,091
Non-current liabilities	—	16,094,578	129,468,209	166,676,938	189,114,344
Total Borrowings	**—**	**40,854,904**	**140,215,185**	**186,482,324**	**200,638,435**

(1) These amounts consisted of (i) outstanding loans to China National Gold, China National Gold Hong Kong and Rapid Results and related interest payable and (ii) payable due to us for a portion of the expenses incurred in connection with the Global Offering. See Note 22 to Accountants Report of Skyland in Appendix I-B to this prospectus and disclosure in this subsection below. We confirm that all such amounts due to related parties will be fully settled before, upon or immediately following the Listing and will cease being outstanding thereafter.

Skyland Group's borrowings during the Track Record Period included loans extended by a PRC commercial bank and related companies as follows:

Skyland Group's borrowings in 2008 included only loans extended by related companies, consisting of a US$16.1 million loan from Rapid Result to Skyland and loans of US$23.9 million from China National Gold to Huatailong, all of which are denominated in RMB and are unsecured. The loans from China National Gold were fully repaid in April 2009. The loan from Rapid Result is due in September 2010, bearing interest at a rate of 7.56% per annum.

In March 2009, Huatailong borrowed a loan of RMB650.0 million (US$95.1 million) from the Bank of China. The loan is guaranteed by China National Gold and bears a floating interest rate based on the People's Bank of China base rate. The interest rate at the date of the inception of the loan is 3.96% per annum. The loan is repayable in four installments, and RMB200.0 million, RMB200.0 million, RMB150.0 million and RMB100.0 million will be repayable on December 28, 2011, December 28, 2012, December 28, 2013 and December 28, 2014, respectively.

On July 27, 2009, Skyland borrowed a loan of RMB60 million (US$8.8 million) from China National Gold Hong Kong. This loan bears interest at 7.56% per annum and is due on July 26, 2011.

On October 23, 2009, Jia Ertong borrowed a revolving loan of RMB160.0 million (US$23.4 million) from China National Gold. This loan bears interest at a rate of 5.40% per annum and is due on October 22, 2011. This loan was fully repaid in April 2010.

In November 2009, Skyland borrowed a loan of US$2.0 million from China National Gold and Rapid Results. This loan is interest free and is due in November 2011.

More recently, Skyland Group incurred additional borrowings, consisting of (i) a loan of RMB50 million (approximately US$7.3 million) extended to Huatailong by China National Gold on January 14, 2010, which bears interest at 4.86% per annum. This loan is due in July 2010 and has been repaid; and (ii) a borrowing of RMB50.0 million (approximately US$7.3 million) by Huatailong from

Bank of China on January 27, 2010 under a loan facility, which is guaranteed by China National Gold, bears a floating interest based on the People's Bank of China base rate (with an initial interest at 3.96% per annum) and is due on December 28, 2011.

In March and April 2010, Skyland borrowed a shareholder loan from China National Gold Hong Kong and Rapid Results respectively. On March 16, 2010, Skyland borrowed approximately US$12.0 million from China National Gold Hong Kong. It bears interest at a rate of 5.40% per annum and is due on March 15, 2012. On April 13, 2010, Skyland borrowed approximately US$11.5 million from Rapid Results. It bears interest at a rate of 5.40% per annum and is due on April 12, 2012. Skyland has used the proceeds of these two shareholder loans to repay the RMB160.0 million revolving loan extended to Jia Ertong by China National Gold.

On June 4, 2010, Huatailong entered into a syndicated loan facility agreement with various banks with a total amount of RMB750 million (approximately US$110.4 million), which is available for drawdown up to June 4, 2013. The loan is guaranteed by China National Gold, and its proceeds will be used for the Qianshan mining construction project and the upgrading of the tailings storage facilities a the Jiama Mine. A loan of approximately RMB327.0 million (approximately US$49.0 million) was drawn down by September 30, 2010. The loans under the syndicated loan facility will bear interest at a floating rate based on the PBOC base rate (which was 3.96% per annum at the date of the inception of the loan) and will be repaid in four annual installments starting from 2013, with RMB100 million, RMB150 million, RMB200 million and RMB300 million repayable in June 2013, June 2014, June 2015 and June 2016, respectively.

Skyland Group is subject to various conditions and covenants under the terms of some of its financing agreements. Under the loan facility agreement with Bank of China, Huatailong is required to obtain lenders' consents prior to carrying out certain activities and entering into certain transactions such as mergers, acquisitions, joint ventures, reorganization, dissolution, reduction of registered capital, disposal of material assets or incurrence of material additional debt. In addition, Huatailong is prohibited from (i) declaring and distributing dividends before repaying amounts due (including principal and interest) in the same fiscal year and (ii) repaying any shareholder's loan before fulfilling its principal repayment obligation for the first year after taking out the loan unless it has increased its registered capital in an amount equal to the principal obligation. Also, under the RMB750 million syndicate loan facility agreement, Huatailong may be required to repay the relevant loan borrowed under the facility agreement if its debt and equity ratio increases by 10% after the drawdown of the loan. The prior consents of the lenders may also be required if Huatailong (i) creates encumbrances on its assets; (ii) sells, leases, transfers or otherwise dispose of any assets of RMB5 million or more in one or a series of transactions; (iii) conducts any merger, dissolution, sale of shares, external investments, incurrence of material debts or outsourcing of operations to third parties; or (iv) reduces its registered capital. Huatailong has undertaken not to provide guarantees in excess of 50% of its net assets. During the term of the syndicate loan facility agreement, Huatailong is prohibited from distributing any dividends for any year if it does not have any post-tax income or incurs a loss for the year, its post-tax income is insufficient to cover the accumulated deficit, or its income before tax for the year is insufficient to pay the principal, interest and other fees that are due to the lenders during the year or payable in the next due date subsequent to the end of the year. Moreover, the banks may cease lending additional amounts or require the repayment of outstanding borrowings if (i) the Qianshan mining construction project is not completed or the upgraded tailings storage facility has not started pre-commercial trial operations by June 2011 or (ii) Huatailong fails to have internal cash resources of approximately RMB1,886.9 million and (a) did not invest internal cash resources of RMB286.9 million in the later phase of the Qianshan mining construction project and the upgrading project for the tailings storage facility by December 2010 or (b) did not invest the required internal cash resources to commence the transportation system construction and the second phase of the processing facility at the Jiama Mine by December 2011.

Save as disclosed in this section headed "Financial Information — Summary Historical Financial Information of Skyland Group — Indebtedness", our Directors have confirmed that there has been no material change to our indebtedness since September 30, 2010 up to and including the Latest Practicable Date.

Except as described herein, as at September 30, 2010, being the latest practicable date for determining our indebtedness, the Skyland Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, pledges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Non-controlling Interests

As of December 31, 2009 and June 30, 2010, Skyland Group recorded non-controlling interests of approximately US$0.4 million as part of owners' equity while there were no non-controlling interests as of December 31, 2007 and 2008. The US$0.4 million non-controlling interests as of December 31, 2009 represented the capital contribution from the Jiama Economic Cooperative of Metrorkongka County (墨竹工卡縣甲瑪經濟合作社) to Metrorkongka County Jiama Industry and Trade Co., Ltd. (墨竹工卡縣甲瑪工貿有限公司) ("Jiama Industry and Trade"), a joint venture between Huatailong and the Jiama Economic Cooperative of Metrorkongka County. See "— Contractual Obligations and Capital Commitments — Capital commitments".

Contractual Obligations and Capital Commitments

The following table sets forth the scheduled maturities of Skyland's material contractual obligations as of June 30, 2010:

Material contractual obligations	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
	US$	US$	US$	US$
Borrowings	19,805,386	166,676,938	—	186,482,324
Capital commitments	58,200,580	—	—	58,200,580
Operating lease commitments	130,051	209,311	361,808	701,170
Total	**78,136,017**	**166,886,249**	**361,808**	**245,384,074**

Capital commitments

Skyland Group's capital commitments related primarily to capital expenditures in respect of purchases of equipment for the ore processing facility and construction work at the Jiama Mine.

In October 2009, Huatailong entered into agreements with the Land Administration Bureau of Metrorkongka County (墨竹工卡縣土管局) to acquire land use rights for five parcels of land located in Tibet for the construction of processing plant and related facilities. The land use rights certificates were issued in October and November 2009. The total consideration paid by Huatailong was approximately RMB25.0 million (approximately US$3.7 million).

On November 11, 2009, Huatailong entered into an agreement with the Jiama Economic Cooperative of Metrorkongka County (墨竹工卡縣甲瑪經濟合作社), an independent third party to Huatailong, to establish a joint venture Jiama Industry and Trade in Tibet, with registered capital of RMB5.0 million, to engage in mining transport and logistics business. Jiama Industry and Trade was subsequently incorporated on December 1, 2009. Huatailong holds 51% equity interest in Jiama Industry and Trade. The total investment (including the RMB5.0 million registered capital) amounting to RMB19.0 million will be contributed by the two parties according to the percentage of their equity interests in Jiama Industry and Trade. Under the relevant joint venture agreement, Huatailong agreed to provide an unsecured and interest free loan to the Jiama Economic Cooperative of Metrorkongka County to pay for its contribution of RMB9.3 million and the Jiama Economic Cooperative of Metrokongka County will repay the loan with dividends distributed to it by Jiama Industry and Trade.

Skyland Group's capital commitment as of June 30, 2010 amounted to US$58.2 million.

Operating leases

Skyland Group leases certain office premises and lands in the PRC under operating lease arrangements, with leases negotiated for terms ranging from three to twenty years. Skyland Group did not have any outstanding commitments payable as of December 31, 2007. As of December 31, 2008 and 2009 and June 30, 2010, it had outstanding commitments payable under non-cancellable operating leases in respect of rented office premises and parcels of land in the PRC which fall due as follows:

	As of December 31,		As of June 30,
	2008	2009	2010
	US$	US$	US$
Within one year	50,859	130,664	130,051
Between two to five years	158,897	251,399	209,311
More than five years	359,494	391,904	361,808
Total	**569,250**	**773,967**	**701,170**

The increase in operating lease commitments of Skyland Group as of December 31, 2009 as compared to those as of December 31, 2008 was primarily due to the leasing of a land parcel for ore storage and related production purposes for a five year terms. The decrease in operating lease commitments of Skyland Group as of June 30, 2010 as compared to those as of December 31, 2009 was primarily due to the reduction of rent for certain land and buildings.

WORKING CAPITAL AND CAPITAL EXPENDITURES

Working Capital

As of December 31, 2009, we had net current liabilities of US$9.4 million as compared to net current liabilities of US$8.2 million as of December 31, 2008, in part because we classified a significant portion of our gold-in-process inventory as non-current assets. As of December 31, 2009, we had cash and cash equivalents of US$24.0 million which was a net increase of US$11.8 million from our cash and cash equivalents of US$12.1 million as of December 31, 2008. We had net cash inflows from operating activities for the year ended December 31, 2009 while we incurred significant net cash outflows from operating activities for the year ended December 31, 2008. In addition, we had a 175.9% increase in revenue from US$29.4 million for the year ended December 31, 2008 to US$81.0 million for the year ended December 31, 2009. As of June 30, 2010, we had net current assets of US$12.9 million. As for Skyland Group, its net current liabilities decreased from US$25.4 million as of December 31, 2008 to US$19.5 million as of December 31, 2009. As of June 30, 2010, Skyland Group had net current liabilities of US$36.9 million, which was primarily attributable to the payments due to third-party contractors and other parties in relation to the increased construction activities at the Jiama Mine. Pursuant to the copper concentrate purchase and sale contract entered into between Huatailong and Jinchuan Group Ltd. in February 2010, Jinchuan Group Ltd. paid the sum of RMB250 million as advance payment. China National Gold has provided guarantee for the performance and fulfillment of Haitailong's obligations under the sales and purchase contract. However, in the case of the renewal of the sales and purchase contract with Jinchuan Group upon its expiration on January 15, 2011, we will not seek any guarantee from China National Gold in relation to such renewed sales and purchase contract. See "Business — Sales and Customers". Also, Huatailong received a RMB50 million working capital loan from Bank of China on January 27, 2010. Furthermore, the Skyland Group obtained syndicated loan facilities amounting to RMB750 million in June 2010. In addition, we intend to use a portion of the net proceeds from the Global Offering to fund the working capital requirements of the Enlarged Group after the completion of the Global Offering. See "Future Plans and Use of Proceeds." As the CSH Mine has been ramping up its production since the installation of a new crushing facility in August 2009 and the Jiama Mine commenced commercial production in September 2010, we expect the working capital position of our Company and Skyland to continue to improve.

We expect to finance the working capital requirements of the Enlarged Group through cash in hand and to be generated from operations, available banking facilities, shareholder loans and the net proceeds from the Global Offering. Taking into account the following cash resources and other relevant factors, the Directors believe that the Enlarged Group has available sufficient working capital for 125% of its present requirements for at least the next 12 months from the date of this prospectus:

- the estimated net proceeds from the Global Offering;
- the cash flows from operating activities;
- the interest and loan repayments;
- the cash flows for costs on exploration and development;
- the forecast balance of cash and cash equivalent at each month end; and
- the net cash inflows/outflows of operating activities and financing activities expected to be incurred in each relevant month.

Capital Expenditures

During the Track Record Period, our capital expenditures primarily related to the acquisition of exploration licenses and land use rights, construction of mining infrastructure and ore processing facilities and purchases of processing machinery and equipment for the CSH Mine. Skyland Group's capital expenditures primarily related to acquisition of exploration licenses and land use rights, construction of open-pit mining infrastructure and processing facilities and purchases of relevant machinery and equipment for the Jiama Mine.

Following the Global Offering, we will continue to incur capital expenditures to grow our business. Our planned future capital expenditures in the foreseeable future primarily relates to the expansion of the leach pad and the construction of an ore stacking conveyor system at the CSH Mine, further construction of the open-pit and underground mine infrastructure and further expansion of the ore processing facilities at the Jiama Mine. Our current plans with respect to future capital expenditures are subject to changes depending on a variety of factors, including the progress of our capital expenditure projects, the evolution of our business plan, future acquisitions, the then prevailing economic and market conditions and other financial considerations.

The following table sets forth capital expenditures for the CSH Mine during the Track Record Period as well as the current estimate of our capital expenditures for the CSH Mine for the years ending December 31, 2010, 2011 and 2012:

	For the year ended/ending December 31,					
	2007	2008	2009	2010E	2011E	2012E
	US$	US$	US$	US$	US$	US$
Pre-stripping	20,781,095	6,250,322	9,949,133	—	—	—
Leach pad	4,590,395	—	4,532,347	4,141,670	—	—
Processing	4,958,096	432,124	1,555,939	—	—	—
Crushing and related	—	28,045,590	43,531,392	5,254,031	—	—
Exploration	4,555,267	425,742	110,494	—	—	—
Others	1,061,854	395,265	285,688	—	—	—
Total	**35,946,707**	**35,549,043**	**59,964,993**	**9,395,701**	**—**	**—**

The following table sets forth Skyland Group's capital expenditures during the Track Record Period as well as the current estimate of the capital expenditures for the years ending December 31, 2010, 2011 and 2012:

	For the year ended/ending December 31,					
	2007	2008	2009	2010E	2011E	2012E
	US$	US$	US$	US$	US$	US$
Property, plant and equipment	—	17,972,590	80,970,625	91,947,000	81,574,000	43,923,865
Land acquisition	—	—	3,657,545	2,928,258	—	—
Acquisition of exploration licenses	—	42,090,297	—	—	—	—
Others	—	22,451	60,531	6,149,341	8,931,186	9,370,425
Total	**—**	**60,085,338**	**84,688,701**	**101,024,599**	**90,505,186**	**53,294,290**

RECENT DEVELOPMENTS

As a listed company on the TSX in Canada, we are required to publish quarterly unaudited interim financial information prepared in accordance with IFRS in compliance with applicable Canadian securities regulatory requirements. Because we released certain interim financial statements regarding the third quarter of 2010 and related management's discussion and analysis prior to the date of this prospectus, we have included these interim condensed consolidated financial statements and related management's discussion and analysis as Appendix I-D to this prospectus. The quarterly condensed consolidated financial statements included in "Appendix I-D — Unaudited Interim Financial Information of Our Group" to this prospectus were prepared in accordance with IFRS and have been reviewed by our reporting accountants in accordance with International Standards on Review Engagements 2410 "Review of the Interim Financial Information Performed by the Independent Auditor of the Entity". Other than as disclosed in note 3 of our unaudited interim financial information in Part A of Appendix I-D to the prospectus, the accounting policies used in our unaudited interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended December 31, 2009. These quarterly condensed consolidated financial statements and related management's discussion and analysis have been included in our report published on SEDAR.

Results of Operations

The following table sets forth selected condensed consolidated statement of comprehensive income information of our Group for the three months ended September 30, 2009 and 2010. This selected information is derived from the unaudited condensed consolidated statement of comprehensive income included in Appendix I-D to this prospectus. You should read the following summary information in conjunction with the unaudited condensed consolidated financial statements and related management's discussion and analysis included in Appendix I-D to this prospectus.

	Three months ended September 30,	
	2009	2010
	US$	US$
	(unaudited)	
Revenues	**21,048,168**	**46,631,430**
Cost of sales	14,160,124	23,179,415
Mine operating earnings	6,888,044	23,452,015
Expenses		
General and administrative	1,340,391	1,396,422
Exploration and evaluation expenditure	395,567	68,727
	1,735,958	1,465,149
Income from operations	5,152,086	21,986,866
Other (expenses) income		
Foreign exchange loss	(3,310,667)	(631,287)
Interest income	292	13,653
Listing expenses	(925,991)	(514,299)
Finance costs	(1,642,879)	(1,449,810)
Fair value change on warrant liabilities	(1,816,820)	—
	(7,696,065)	(2,581,743)
(Loss) income before income tax	(2,543,979)	19,405,123
Income tax expense	936,877	5,580,524
Net (loss) income and comprehensive (loss) income for the period	**(3,480,856)**	**13,824,599**
Attributable to		
Non-controlling interest	272,389	581,480
Owners of the Company	(3,753,245)	13,243,119
	(3,480,856)	13,824,599

Revenue. Revenue increased by US$25.6 million, from US$21.0 million for the three months ended September 30, 2009 to US$46.6 million for the three months ended September 30, 2010. The increase was due to an increase in the ounces of gold sold by the CSH Mine and an increase in the sales price of gold. For the three months 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 US$1,228 per ounce while for the three months 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 US$968 per ounce.

Production increased primarily due to the utilization of the crushing facility which was installed in August 2009. The crushing facility greatly reduced the ore size placed on the leach pad so as to allow more gold to be leached, resulting in higher gold production for the three months ended September 30, 2010 as compared to the three months ended September 30, 2009.

Cost of sales. Cost of sales increased by 63.7%, or US$9.0 million, from US$14.2 million for the three months ended September 30, 2009 to US$23.2 million for the three months ended September 30, 2010. Cost of sales as a percentage of revenue decreased from 67.3% for the three months ended September 30, 2009 to 49.7% for the three months ended September 30, 2010, primarily due to the increase in the sales price of gold at the CSH Mine and our efforts in cost control. Depreciation and depletion increased by 66.1%, or US$1.1 million, from US$1.6 million for the three months ended September 30, 2009 to US$2.7 million for the three months ended September 30, 2010 primarily because the crushing facility commenced commercial production in late March 2010.

Mine operating earnings. As a result of the foregoing, mine operating earnings increased from US$6.9 million for the three months ended September 30, 2009 to US$23.5 million for the three months ended September 30, 2010.

Expenses. Expenses decreased by 15.6% from US$1.7 million for the three months ended September 30, 2009 to US$1.5 million for the three months ended September 30, 2010.

- *General and administrative expenses*: general and administrative expenses increased from US$1.3 million for the three months ended September 30, 2009 to US$1.4 million for the three months ended September 30, 2010.
- *Exploration and evaluation expenditure:* exploration and evaluation expenditure decreased from US$0.3 million for the three months ended September 30, 2009 to US$69,000 for the three months ended September 30, 2010 as our overall drilling activities at the CSH Mine decreased in the third quarter of 2010 as compared to the third quarter of 2009.

Income from operation. As a result of the foregoing, income from operations increased by US$16.8 million, from US$5.2 million for the three months ended September 30, 2009 to US$22.0 million for the three months ended September 30, 2010.

Other (expenses) income. We incurred other expenses of US$2.6 million for the three months ended September 30, 2010 as compared to the other expenses of US$7.7 million for the three months ended September 30, 2009.

- *Foreign exchange loss:* Foreign exchange loss decreased by 80.9%, or US$2.7 million, from a loss of US$3.3 million for the three months ended September 30, 2009 to a loss of US$0.6 million for the three months ended September 30, 2010. The decrease was primarily attributable to the greater stability of the exchange rates between Canadian dollar and US dollar coupled with the decrease in the amount of Canadian dollar-denominated promissory notes outstanding.
- *Fair value change on warrant liabilities.* We had a loss of US$1.8 million in fair value of warrant liabilities for the three months ended September 30, 2009 as compared to nil in fair value change on warrant liabilities for the three months ended September 30, 2010 as all the outstanding warrants were exercised by May 17, 2010.
- *Finance costs:* Finance costs decreased by 11.8%, or US$0.2 million, from US$1.6 million for the three months ended September 30, 2009 to US$1.4 million for the three months

ended September 30, 2010 due to a decrease in effective interest, partially offset by a decrease in capitalized interest expense. Effective interest decreased from US$2.7 million in the third quarter of 2009 to US$1.4 million in the third quarter of 2010. As of June 26, 2010, the cost of the warrants issued to the promissory note holders had all been expensed. As a result, the effective interest rate on the remaining CAD7.5 million promissory note (with its maturity extended to June 26, 2011 from June 26, 2010 under the original terms) decreased to its annual interest rate of 12%. Of effective interest, nil was capitalized in the third quarter of 2010 as compared to the capitalized interest of US$1.0 million in the third quarter of 2009. Capitalized interest decreased primarily because the crushing facility was fully in operation during the third quarter of 2010, thus requiring the related interest to be expensed rather than capitalized.

Income tax expense. Income tax expense increased from US$0.9 million for the three months ended September 30, 2009 to US$5.6 million for the three months ended September 30, 2010 primarily due to an increase in taxable income during the period.

Net income (loss) and/comprehensive income (loss) attributable to the owners of the Company: Net income (loss) and comprehensive income (loss) attributable to the owners of the Company increased from a loss of US$3.8 million for the three months ended September 30, 2009 to income of US$13.2 million for the three months ended September 30, 2010.

Selected Condensed Consolidated Statement of Financial Position Items

Accounts receivables. Accounts receivable increased from US$2.1 million as of June 30, 2010 to US$6.2 million as of September 30, 2010 primarily due to an increase in the amount due from China National Gold, reflecting the increased volume of gold delivered to China National Gold at the end of September 2010 in order to take advantage of the then high gold price and avoid risking a decrease in gold prices if we waited to deliver the gold after the seven-day long Chinese National Day Holiday starting on October 1, 2010.

Prepaid expenses and deposits. Prepaid expenses and deposits increased from US$2.4 million as of June 30, 2010 to US$3.9 million as of September 30, 2010 primarily due to the increased deposits for mine supplies and services.

Inventory. Inventory amounted to US$45.1 million as of September 30, 2010 as compared to US$45.9 million as of June 30, 2010. As of September 30, 2010, inventory primarily consisted of gold-in-process.

Accounts payable and accrued expenses. Accounts payable and accrued expenses increased from US$39.8 million as of June 30, 2010 to US$44.4 million as of September 30, 2010 primarily due to the increase in production activities in the third quarter of 2010.

Publication of Quarterly Financial Information

We are required to publish quarterly unaudited interim financial information in accordance with applicable Canadian securities regulatory requirements. Upon our Listing on the Stock Exchange, we will publish quarterly unaudited interim financial information at the same time in Hong Kong in accordance with the Listing Rules.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we and the Skyland Group did not have material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any material off-balance sheet arrangements.

DISTRIBUTABLE RESERVES

As of the Latest Practicable Date, we had no reserve available for distribution to the shareholders of our Company.

DISCLOSURE UNDER RULES 13.11 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, save as disclosed in the prospectus, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

DIVIDEND AND DIVIDEND POLICY

We have not paid any dividend 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, fully paid Shares, 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 and the Skyland Group are subject to various customary conditions and covenants under the terms of our financing agreements, including those restricting our and the Skyland Group's ability to declare and distribute dividends. Such financing agreements include:

- Under the indenture for the outstanding promissory notes held by China National Gold, we are required to obtain China National Gold's consents prior to distributing dividends. See "Financial Information — Historical financial information of our Group — Indebtedness — Restrictive covenants".

- Under the RMB700 million loan facility agreement with Bank of China, Huatailong is prohibited from declaring and distributing dividends before repaying amounts due (including principal and interest) in the same fiscal year.

- The RMB750 million syndicate loan facility agreement with Bank of China and two other PRC banks contains restrictive covenants that prohibit Huatailong from distributing any dividends for any year if (i) it does not have any post-tax income or incurs a loss for the year, (ii) its post-tax income is insufficient to cover the accumulated deficit, or (iii) its income before tax for the year is insufficient to pay the principal, interest and other fees that are due to the lenders during the year or payable in the next due date subsequent to the end of the year. See "Financial Information — Summary historical financial information of Skyland Group — Indebtedness".

Therefore, prior to the repayment of the promissory notes in full, we will not be able to declare or distribute any dividends without the prior consent of China National Gold. We intend to repay such promissory notes in full with a portion of the net proceeds from the Global Offering. See "Future Plans and Use of Proceeds — Use of Proceeds". Similarly, in the event of a continuing payment default under the loan agreement with Bank of China, or, in the event that Huatailong fails to meet the requirements under the abovementioned restrictive covenants of the syndicate loan facility agreement, Huatailong will not be able to declare or distribute dividends in the relevant fiscal year, which in turn could materially and adversely affect our cash flow position and significantly limit our ability to make any dividend or other distributions to our shareholders. Huatailong's RMB700 million loan facility agreement with Bank of China has been completely drawn down and the total borrowings of RMB700 million remained outstanding as of September 30, 2010. The terms of loans range from two years to 69 months and the repayment of the last installment is due and currently expected to be made on December 28, 2014. The total amount of outstanding borrowings of Huatailong under the RMB750 million syndicate loan facility agreement with Bank of China and two other PRC banks was approximately RMB327.0 million as of September 30, 2010. The term of the loan was six years and the repayment of the last installment is due and currently expected to be made in June 2016.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group and the Skyland Group, since June 30, 2010 (being the date to which the latest audited financial statements of each of our Group and the Skyland Group were made up).

DISCLAIMER

Save as otherwise disclosed in this prospectus and apart from intra-group liabilities, if any, we and the Skyland Group did not have any mortgages or charges outstanding as of the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Skyland Acquisition and the Global Offering as if they had been taken place on June 30, 2010 and based on the unaudited pro forma consolidated net assets of the Group as of June 30, 2010 as shown in the Unaudited Pro Forma Financial Information of the Group, the text of which is set out in Appendix I-C to the Prospectus, and adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group after the completion of the Skyland Acquisition and the Global Offering or at any future dates.

	Unaudited pro forma consolidated net tangible assets attributable to owners of the Company as of June 30, 2010(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share(3)
	US$	US$	US$	US$
Based on an Offer Price of HK$37.21 per Offer Share	808,260,845	245,766,000	1,054,026,845	2.66
Based on an Offer Price of HK$44.96 per Offer Share	808,260,845	297,481,000	1,105,741,845	2.79

Notes:

(1) The unaudited pro forma consolidated net tangible assets attributable to the owners of the Company as of June 30, 2010 has been extracted from the Appendix I-C to the Prospectus, representing unaudited pro forma consolidated net assets attributable to owners of the Company as at June 30, 2010 of US$851,487,905 after deducting intangible assets of US$43,227,060.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$37.21 and HK$44.96 per Share, being the lower end and higher end of the stated offer price range, after deduction of the underwriting fees and other related expenses payable by the Group as described in the section headed “Underwriting” in the Prospectus (assuming the Over-allotment Option is not exercised). The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into US$ at an exchange rate of HK$1.00 to US$0.13 prevailing on November 10, 2010. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to US$, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is arrived after adjustments referred to in the preceding paragraphs and on the basis of 395,931,753 Shares (representing an aggregate of 172,019,459 Shares in issue as of September 30, 2010, 170,252,294 Shares to be issued for Skyland Acquisition and 53,660,000 Shares to be issued for Global Offering) expected to be in issue immediately after the completion of the Skyland Acquisition and the Global Offering in the future, (assuming the Over-allotment Option is not exercised). During the period from July 1, 2010 to September 30, 2010, 195,000 Shares were issued and the impact on the unaudited pro forma adjusted consolidated net tangible assets per Share is minimal.

(4) By comparing the valuation of the property interests of the Group as set out in Appendix IV to the Prospectus after taking into account a reference value of RMB130,750,000 (equivalent to US$19,568,000) for certain properties without obtaining proper title certificates and the unaudited net book value of these properties as of September 30, 2010, the valuation surplus was approximately US$3,932,000. The valuation surplus of the property interests will not be incorporated in the Group’s consolidated financial statements in the future. If the valuation surplus was to be included in the consolidated financial statements, an additional depreciation charge of approximately US$163,800 per annum would be incurred.

PROFIT FORECAST OF THE ENLARGED GROUP FOR THE YEAR ENDING DECEMBER 31, 2010

We forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the net profit attributable to the shareholders of the Enlarged Group for the year ending December 31, 2010 is expected to be not less than US$23.4 million in accordance with IFRS.

The forecast is presented on a basis consistent in all material respects with the accounting policies currently adopted by us as set out in the "Accountants' Report" in Appendix I-A and "Accountants' Report of Skyland" in Appendix I-B to this prospectus. The forecast is derived on the basis that we will wholly own the Skyland Group upon completion of the Global Offering and Skyland Acquisition (which will be completed concurrently), which is currently expected to occur by the end of November 2010. Therefore, the operating results of Skyland Group for December 2010 are consolidated into the forecast of the Enlarged Group for the year ending December 31, 2010.

The unaudited pro forma forecast basic earnings per Share for the year ending December 31, 2010 is expected to be not less than US$0.10, which has been calculated based on the forecast net profit attributable to the shareholders of the Company for the year ending December 31, 2010 divided by 239,277,424 Share assuming that the Global Offering had been completed since January 1, 2010 and no outstanding share option will be exercised during the period from the date of this Prospectus to December 31, 2010, without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and Pre-IPO Share Options.

PROPERTY VALUATION

Jones Lang LaSalle Sallmanns has valued our property interests as of September 30, 2010. Particulars of the property interests are set out in Appendix IV to this prospectus. As required under Rule 5.07 of the Listing Rules, the table below sets forth the reconciliation of the fair value as stated in the property valuation report in Appendix IV to this prospectus and the net book value of our property interests contained in the Accountants' Report in Appendix I-A to this prospectus as of June 30, 2010:

The Group

	RMB in millions
Net book value of property interest as of June 30, 2010 (audited) (1)	323.8
Movements for the period ended from July 1, 2010 to September 30, 2010	
— Add: Additions during the period from July 1, 2010 to September 30, 2010 (unaudited)	6.4
— Less: Depreciation during the period from July 1, 2010 to September 30, 2010 (unaudited)	(5.1)
Net book value of property interest as of September 30, 2010 (unaudited)	325.1
Valuation surplus as of September 30, 2010	26.3
Valuation as of September 30, 2010 as per Appendix IV to this document(2)	351.4

(1) This amount is presented in RMB in this table using an exchange rate of US$1.00:RMB6.7909; and

(2) For the purpose of this reconciliation, the value of RMB130,750,000 of the properties without title certificates is included.

The Skyland Group

	RMB in millions
Net book value of property interest as of June 30, 2010 (audited) [(1)]	252.8
Movements for the period ended from July 1, 2010 to September 30, 2010	
— Add: Additions during the period from July 1, 2010 to September 30, 2010 (unaudited)	43.3
— Less: Depreciation during the period from July 1, 2010 to September 30, 2010 (unaudited)	(0.7)
Net book value of property interest as of September 30, 2010 (unaudited)	295.4
Valuation surplus as of September 30, 2010	9
Valuation as of September 30, 2010 as per Appendix IV to this document[(2)]	304.4

(1) This amount is presented in RMB in this table using an exchange rate of US$1.00:RMB6.7909; and

(2) For the purpose of this reconciliation, the value of RMB164,606,000 of the properties without title certificates is included.