中國黃金國際資源有限公司

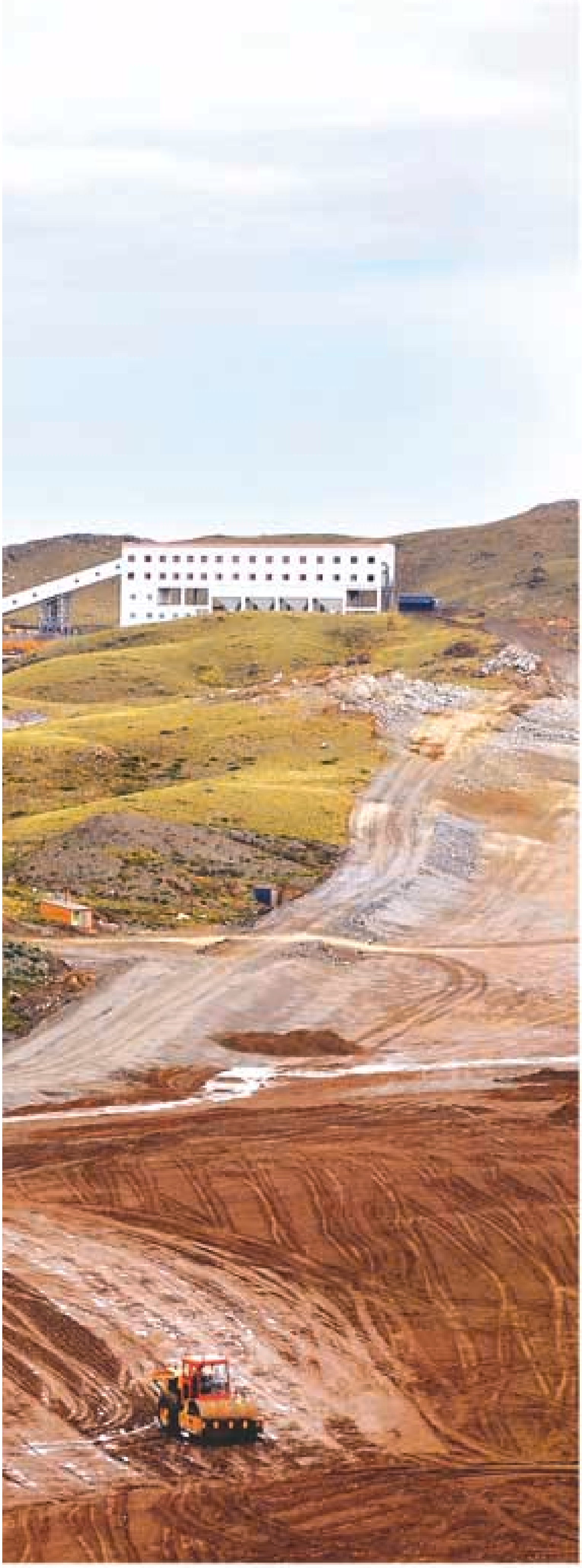
China Gold International Resources Corp. Ltd.

(a company continued under the laws of British Columbia, Canada with limited liability)
(根據加拿大英屬哥倫比亞法例存續的有限公司)

HK Stock Exchange Stock Code 香港聯交所 股份代號：2099
Toronto Stock Exchange 多倫多聯交所：CGG

China Gold International Resources

年報
Annual Report 2010



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COMPANY HIGHLIGHTS

THE COMPANY

China Gold International Resources Corp. Ltd. (the "Company") is a mineral development company focused on acquisitions, exploration, development, mining and processing of gold and other non-ferrous metals. The Company is listed on the Toronto Stock Exchange (TSX: CGG) and the Main Board of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (HKEx: 2099).

The Company operates two producing mines in China, the Chang Shan Hao gold mine (the "CSH Gold Mine") in Inner Mongolia and the Jiama copper-gold polymetallic mine (the "Jiama Mine") in Tibet. The CSH Gold Mine commenced commercial production in July 2008 at 20,000 tonnes of ore per day and by March 2010 through capital expansion its processing capacity increased to 30,000 tonnes of ore per day. The Jiama Mine is a newly developed property that was acquired by the Company on December 1, 2010. Phase I of a development program was recently completed and one of the Company's key objectives for 2011 is to continue to expand its production capacity and resource base at the Jiama Mine.

The Company has adopted a growth strategy focused on strategic acquisitions sourced from the international project pipeline of its principal shareholder and the largest gold producer in China, China National Gold Group Corporation ("China National Gold") and developing potential partnerships with other senior and junior mining companies. The Company also contemplates expanding resources and reserves at its existing properties through exploration programs.

MAJOR ACHIEVEMENTS

The Company's major achievements since January 1, 2010 include:

- The Company sold 103,673 ounces of gold from the CSH Gold Mine in 2010 at an average sale price of US$1,238.80 per ounce.
- On December 1, 2010, the Company acquired the Jiama Mine, one of the largest copper-gold polymetallic mines in China and its second producing mine.
- The Company was designated as the overseas flagship vehicle of China National Gold and, in connection with this, China National Gold executed a non-competition undertaking in favour of the Company for all international mining opportunities sourced by China National Gold outside of China while the Company executed a non-competition undertaking in favour of China National Gold in which it agreed to restrictions on the acquisition of further mining opportunities in China.
- On December 1, 2010, the Company completed a global equity offering through the Hong Kong Stock Exchange for gross proceeds of approximately US$309 million and completed its dual primary listing on the Hong Kong Stock Exchange.
- The Company repaid outstanding shareholder loans totaling US$47.5 million before their due date.
- The Company changed its name effective July 9, 2010 from Jinshan Gold Mines Inc. to China Gold International Resources Corp. Ltd.

RESERVES AND RESOURCES

Based on the positive results of drilling programs conducted at the CSH Gold Mine and the Jiama Mine in 2010, aggressive drilling programs are scheduled for 2011. The results of an updated independent technical report on the Jiama Mine are expected to be available in the second quarter of 2011.

Behre Dolbear Asia, Inc. issued independent technical reports for the CSH Gold Mine and the Jiama Mine dated as of November 17, 2010. Below is a summary of the Company's updated reserves and resources volume based on those reports and in compliance with the JORC Code, as adjusted for estimated mining depletion through to year end:

CSH GOLD MINE

Proven and Probable Ore Reserves:

CSH Gold Mine Total Reserves as of December 31, 2010

Classification	Cutoff Au (g/t)	Ore Million Tonnes	Grade Au (g/t)	Contained Au (Kg)	Contained Au Million Ounces
Proven	0.3	74.6	0.70	52,227	1.679
Probable	0.3	51.2	0.65	33,264	1.069
Total	0.30	125.9	0.68	85,491	2.749

Resources:

Resource estimates of the CSH Gold Mine as of December 31, 2010

Cutoff (g/t)	Measured		Indicated		Measured+Indicated			Inferred		
	Million Tonnes	Au Grade (g/t)	Million Tonnes	Au Grade (g/t)	Million Tonnes	Au Grade (g/t)	Au Million Ounces	Million Tonnes	Au Grade (g/t)	Au Million Ounces
0.30	96.7	0.68	133.6	0.61	230.3	0.64	4.736	0.52	0.43	0.007
0.40	78.8	0.75	101.7	0.69	180.5	0.72	4.176	0.24	0.54	0.004
0.50	61.7	0.84	74.7	0.78	136.5	0.81	3.542	0.12	0.62	0.002

Note: "Resources are inclusive of Reserves"

JIAMA MINE

Proven and Probable Ore Reserves:

Ore Reserve Estimates for the Jiama Project as of December 31, 2010

Type	Kt	Grade						Contained Metals					
		Cu %	Mo %	Au g/t	Ag g/t	Pb %	Zn %	Cu Kt	Mo Kt	Au t	Ag t	Pb Kt	Zn Kt
Proven	53,444	0.83	0.038	0.32	16.3	0.06	0.04	441.4	29.95	17.0	872	29.6	21.4
Probable	51,837	0.85	0.040	0.29	16.5	0.11	0.05	438.7	20.90	15.11	857	52.6	26.8
Total	105,281	0.84	0.039	0.31	16.4	0.08	0.05	879.1	40.85	32.11	1,729	82.2	48.2

Resources:

Skarn Zone Resource Estimate as of December 31, 2010

Kt	Grade						Metal					
	Copper ("Cu") %	Molyb-denum ("Mo") %	Gold ("Au") g/t	Silver ("Ag") g/t	Lead ("Pb") %	Zinc ("Zn") %	Cu Kt	Mo Kt	Au t	Ag t	Pb Kt	Zn Kt
Measured Resource												
82,814	0.83	0.042	0.30	16.0	0.06	0.05	6,824	34.22	24.84	1,325	49.6	38.2
Indicated Resource												
101,641	0.68	0.041	0.22	13.7	0.10	0.05	691.1	41.67	22.21	1,392	81.3	50.8
Measured + Indicated Resource												
184,455	0.74	0.041	0.26	14.7	0.08	0.05	1,373.5	75.89	46.05	2,717	130.9	89.0
Inferred Resource												
164,916	0.64	0.053	0.21	13.1	0.14	0.06	1,055.4	87.43	34.63	2,160	230.8	98.9

Note: "Resources are inclusive of Reserves"

Hornfels Zone Inferred Mineral Resource Estimate as of June 30, 2010

Kt	Grade						Metal					
	Cu %	Mo %	Au g/t	Ag g/t	Pb %	Zn %	Cu Kt	Mo Kt	Au t	Ag t	Pb Kt	Zn Kt
655,000	0.23	0.045	0.02	1.17	0.00	0.01	1,500	290	13	770	–	–

MESSAGE FROM THE CHAIRMAN

Mr. Zhaoxue Sun, Chairman

2010 was a transformational year for our company. We achieved several key milestones in the ongoing development of our business including the completion of a capital expansion program at the CSH Gold Mine and an ensuing increase in gold production over 2009; the acquisition of the Jiama Mine, which added a second producing mine to our mineral portfolio; and the completion of a global offering and listing on the Hong Kong Stock Exchange. These achievements, along with other developments in the year, position us as a well capitalized and stronger company.

Production improved significantly at our CSH Gold Mine in 2010. Our 30,000 tonnes per day crushing facility reached its design capacity by March 2010, which increased the overall gold leaching recovery rate. Meanwhile, we worked diligently throughout the year to reduce cash costs. Monthly production volume reached a record 14,307 ounces in September 2010 and total annual gold production reached 111,289 ounces at December 31, 2010. These factors, combined with higher gold prices during the year resulted in much higher operating cash margins at the CSH Gold Mine in 2010.

We acquired the Jiama Mine on December 1, 2010. The Jiama Mine hosts a large scale polymetallic deposit consisting of copper, gold, molybdenum, silver, lead and zinc and is in the early stages of production. We are currently conducting mine plan and resource and reserve estimates at the Jiama Mine with a view to increasing the size and scope of mining operations and to upgrade a significant portion of Jiama's inferred mineral resources to the measured and indicated categories. We anticipate completing an updated feasibility study in the second quarter of 2011.

Concurrent with our acquisition of the Jiama Mine, we completed a public offering through the Hong Kong Stock Exchange for gross proceeds of US$309 million. The proceeds from the offering strengthened our balance sheet, including the repayment of outstanding shareholder loans totaling US$47.5 million before their due date. The proceeds from the offering are mainly intended to support the next phase of development for the Jiama Mine and the pursuit of our growth strategy.

With our acquisition of the Jiama Mine and the completion of our public offering through the Hong Kong Stock Exchange, we were given a mandate as the only overseas listing vehicle and flagship company of China National Gold. The full support from China National Gold is a key factor to drive our devlopment and growth. This mandate represents the most significant development for the long-term growth of our Company and we intend to pursue an aggressive growth strategy to meet this mandate. We will seek to acquire gold and other non-ferrous projects by: exploiting the international project pipeline of China National Gold, developing potential partnerships with other senior and junior mining companies, looking at various types of acquisition structures and selectively acquiring additional large scale mineral assets in various regions while expanding and upgrading resources at both our CSH Gold Mine and our Jiama Mine. We believe our strategy to acquire additional resources, to add to our significant resource base and to establish ourselves as a leading international mining company, will continue to increase shareholder value. In addition, we will continue to draw upon China National Gold's technical and operating experience in China, to improve operations, optimize production and reduce cash costs at our CSH Gold Mine and Jiama Mine.

Looking forward, we will continue to make contributions towards the local social heritage, culture, education, employment and community activities in the areas in which our mine sites operate. At our CSH Gold Mine, approximatley 30% of our work force is hired locally and at least 10% of these local employees are female. At our Jiama Mine a significant number of the work force is hired locally. We believe strongly in supporting the local communities within which we operate.

Our achievements this year would not have been possible without the hard work and dedication of the Company's Board of Directors, employees and contractors. I would like to thank all of our employees and contractors, many of whom I had the privilege of meeting in my travels over the past year. I would also like to thank the Board of Directors who have helped to turn in a year of outstanding performance.

I would finally like to thank our shareholders for investing in our Company. I look forward to working with our Board of Directors to build upon our successes this year to ensure another year of significant accomplishments.

Zhaoxue Sun
Chairman of the Board

Our Company has significant competitive strengths which distinguish us from our competitors.

Our objective in 2010 was to achieve major improvements in all areas of our operations and to grow our Company. We undertook a prudent and disciplined approach to exploration, resource and reserve estimation and mine plan development. With our listing on the Hong Kong Stock Exchange and our acquisition of the Jiama Mine, one of the largest copper-gold polymetallic deposits in China and our second producing mine, our Company has emerged as a significant international mining company.

Our Company has significant competitive strengths which distinguish us from our competitors. Our two producing mines are strategically located in China and China National Gold, our principal shareholder, is a Chinese state owned enterprise. Full support and commitment from China National Gold has provided us with access to our principal shareholder's technical and operating experience in China while China National Gold's purchasing power with suppliers helped the CSH Gold Mine to reduce costs, increase production and improve overall net income this year.

MINING AND EXPLORATION

Operational enhancements at the CSH Gold Mine this year included our leach pad extension, new carbon in columns, buried drip meters and securing additional water for our processing plant. Our 30,000 tonnes per day crushing facility reached its design capacity by March 2010, which increased the overall gold leaching recovery rate and gold production increased from 83,570 ounces in 2009 to 111,289 ounces in 2010. Net income increased significantly in the latter half of 2010 and the CSH Gold Mine is now able to sustain its activities with the net income it generates.

Commerical production began at the Jiama Mine in September 2010 and Phase I of Jiama's development is now complete. This development includes an open pit infrastructure, ore processing facility and underground ore transportation system. The Jiama Mine is producing 6,000 tonnes of ore per day as planned for Phase I of its development.

Promising results from our 2010 drilling programs at the CSH Gold Mine and Jiama Mine have indicated that our present resources will grow. The results of an updated independent technical report on the Jiama Mine are expected to be available in the second quarter of 2011.

FINANCING AND CAPITAL MARKETS

At the close of the year, we completed a global equity offering through the Hong Kong Stock Exchange for gross proceeds of approximately US$309 million which left our Company with significant financial resources to carry out our plans for 2011. Our balance sheet and current ratio are stronger with the repayment of our previous shareholder loans, while cash flow from operations at our CSH Gold Mine also helped to improve the financial situation of our Company.

Additional financial resources will be required for 2011 as we implement Phase II of Jiama's development plan and pursue our global acquisition strategy. The strength of our financial position, support and commitment from China National Gold, experienced Management and Board of Directors and our Company's acquisition experience to-date will help us to secure additional capital financing in the future.

SAFETY AND THE ENVIRONMENT

We delivered on our objectives for the year without any major safety or environmental incidents to report. Environmental programs for water management, solid waste, rock dust mitigation, noise control, rehabilitation, and seismic and flood risk were implemented at our mine sites. After a number of comprehensive studies, we were able to secure a sustainable water supply in semi-desert conditions sufficient to meet the demands of our mining operations at CSH while balancing the environment's capacity to recharge the water source. Our Company is committed to observing best international environmental and safety practices.

STRATEGIES FOR 2011

Looking forward, we will continue to grow our business by pursuing the following strategies:

We will expand production at our mines. We intend to enhance operations at our CSH Gold Mine to lower cash costs and to increase production during the colder winter months. We have undertaken a cold weather program that we expect will result in increased production during the winter months. Compared with 2010 production, the CSH Gold Mine is expected to improve gold output significantly in 2011.

We will focus on Phase II development at the Jiama Mine, which will include the development of another open pit and an underground mining operation. The results of an updated independent technical report on the Jiama Mine are expected to be available in the second quarter of 2011.

We will upgrade and expand mineral resources in our mines. We plan to undertake an aggressive exploration program at our CSH Gold Mine, to evaluate the potential of a new northwest zone of gold mineralization.

We plan to undertake an aggressive three year exploration program at our Jiama Mine with the potential to identify a high grade, standalone, bulk tonnage gold deposit. Additional drilling targets have been prioritized for 2011.

We will continue to draw upon China National Gold's technical and operational experience in China, to improve operations, optimize production and reduce cash costs at our CSH Gold Mine and Jiama Mine.

We will acquire high-quality mineral resources. We will work with China National Gold to identify advanced mining or exploration projects with high growth prospects and mines at operating stages to advance our global acquisition strategy.

We will continue to undertake best international environmental, safety and cultural practices.

Our Company has the right people, projects, and strategy for long term success and I am confident that we will build upon our successes this year to ensure another year of significant accomplishments.

Xin Song
Chief Executive Officer and Director

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Zhaoxue Sun

Chairman Of The Board, Executive Director

Mr. Sun, 48, joined the Company on May 12, 2008 as Chairman of the Board and an executive director and is responsible for overseeing the Company's strategic planning and business development. Mr. Sun serves as President of China National Gold, the Company's principal shareholder and the largest gold producer in China, since October 2006. Mr. Sun has over 27 years of experience in the mining industry and served as the Company's Chief Executive Officer from September 8, 2008 to October 9, 2009. Mr. Sun serves as a director of Zhongjin Gold Corporation, a public company listed on the Shanghai Stock Exchange, since March 2007. Prior to joining China National Gold, Mr. Sun spent 23 years with the Aluminum Corporation of China Limited, also known as Chinalco, as Vice President in charge of strategy, planning, financing and mergers and acquisitions. Chinalco is the only producer of alumina and the largest producer of primary aluminum in China.

Mr. Sun is a senior engineer and holds a Ph.D. doctorate degree in resources economics from the China University of Geosciences. He serves as Chairman of the Chinese Gold Association and has completed professional courses in law and economics from the Party School of the Central Committee of the Communist Party of China.

Xin Song

Chief Executive Officer, Executive Director

Mr. Song, 48, joined the Company on October 9, 2009 as Chief Executive Officer and an executive director and is responsible for the Company's strategic planning and business operations. Mr. Song serves as Vice President of China National Gold, the Company's principal shareholder and the largest gold producer in China, since 2003, where he is responsible for resources development and technology. Mr. Song serves as Chairman of the Board of Skyland Mining Limited, since December 2007, Chairman of the Board of Tibet Jia Ertong Minerals Exploration Ltd., since April 2008 and Chairman of the Board of Tibet Huatailong Mining Development Co., Ltd. since April 2008, which subsidiaries hold the Company's Jiama Mine. Mr. Song serves as a director of Zhongjin Gold Corporation, a public company listed on the Shanghai Stock Exchange, since March 2007, for which he served as Chairman of the Board from September 2003 to March 2007.

Mr. Song holds a Ph.D. doctorate degree in resources economics and management from the University of Science and Technology Beijing, China, a master's degree in business administration from the China Europe International Business School, a master's degree in mining engineering from the University of Science and Technology in Beijing and a bachelor's degree in mineral processing engineering from the Central-South Institute of Mining and Metallurgy.

Bing Liu

Non-executive Director

Mr. Liu, 48, joined the Company on May 12, 2008 as a non-executive director and is responsible for the supervision of finance related matters and the Company's overall strategic planning. Mr. Liu serves as Vice President and Chief Accountant of China National Gold, the Company's principal shareholder and the largest gold producer in China, since November 1999. Mr. Liu has extensive experience in mine financing, construction and development and serves as a director of Zhongjin Gold Corporation, a public company listed on the Shanghai Stock Exchange, since March 2007. Prior to joining China National Gold, Mr. Liu served as Senior Secretary of the China National Economy and Trade Commission from April 1992 to October 1997 and March 1998 to November 1999 and as Senior Secretary of the China Textile General Association from October 1997 to March 1998. He also served as a Senior Accountant of China Automobile Industry Corporation from July 1987 to April 1992.

Mr. Liu holds a master's degree in currency and banking from the Department of Business Administration, Asia International Open University in Macau and holds a bachelor's degree in finance from the Department of Finance and Trade Economics, Chinese Academy of Social Science.

Zhanming Wu

Vice President Of Business Development, Executive Director

Mr. Wu, 35, joined the Company on May 12, 2008 as an executive director and was appointed as Vice President of Business Development on March 11, 2010. Mr. Wu is responsible for overseeing the Company's corporate finance and investment matters. Mr. Wu serves as head of the Overseas Operation Department of China National Gold, the Company's principal shareholder and the largest gold producer in China, since September 2007 and serves as President of China National Gold Group Hong Kong Limited, since September 2007. Mr. Wu serves as a director of Skyland Mining Limited, since April 2008 and as a director of Tibet Jia Ertong Minerals Exploration Ltd., since April 2008, which subsidiaries hold the Company's Jiama Mine. Prior to joining China National Gold, Mr. Wu was an investment banker at Deutsche Bank Hong Kong, from May 2001 to January 2004.

Mr. Wu holds a master's degree in management science and engineering from Tsinghua University and a bachelor's degree in information management and systems from Tsinghua University.

Xiangdong Jiang

Vice President Of Production, Executive Director

Mr. Jiang, 52, was elected as an executive director of the Company on June 17, 2010 and serves as the Company's Vice President of Production, since March 24, 2009. Mr. Jiang joined the Company in July 2002 as a manager in charge of projects in China and was responsible for the supervision of all exploration projects including the establishment of the gold exploration and drilling program at the CSH Gold Mine. Mr. Jiang served as Vice President of Business Development of the Company from May 20, 2004 to September 8, 2008 and was, during this time, primarily responsible for undertaking property review and evaluation and exploring business opportunities for the Company. Mr. Jiang served as Vice President of Production and Technology from September 8, 2008 to March 23, 2009 and was promoted to Vice President of Production on March 24, 2009. Mr. Jiang serves as a director of Inner Mongolia Pacific Mining Co. Ltd., since September 2008, which operates the Company's CSH Gold Mine and as General Manager of the CSH Gold Mine since August 2007. Mr. Jiang has over 24 years of experience in the mining industry. Prior to joining the Company, Mr. Jiang worked on projects ranging from grass roots to bankable feasibility studies for global mining companies including Cyprus Amax Minerals, Placer Dome, Barrick Resources and First Quantum Minerals.

Mr. Jiang holds a bachelor's degree in Geology and Mineral Exploration from Changchun College of Geology.

Ian He

Independent Non-executive Director

Mr. He, 49, joined the Company on May 31, 2000 as a non-executive director and serves as an independent director. Mr. He has approximately 27 years of experience in the mining industry. Mr. He serves as President and a director of Tri-River Ventures Inc., a public company listed on the TSX Venture Exchange since October 2006, as a director of Jiulian Resources Inc., a public company listed on the TSX Venture Exchange, since October 2006 and as a director of Shandong Zhongrun Investment Holding Group Co. Ltd., a public company listed on the Shenzhen Stock Exchange, since December 2010. From August 1995 to June 2006, Mr. He served as President and a director of Spur Ventures Inc., a public company listed on the Toronto Stock Exchange with phosphate mining and fertilizer operations in China.

Mr. He holds a Ph.D. doctorate degree from the Department of Mining Engineering of the University of British Columbia, a master's degree in applied science from the University of British Columbia and a bachelor's degree in coal preparation from the Heilongjiang Mining Institute in Jixi, China.

Yunfei Chen

Independent Non-executive Director

Mr. Chen, 39, joined the Company on May 12, 2008 as a non-executive director and serves as an independent director. Mr. Chen is based in Hong Kong where he provides independent advisory services. Mr. Chen serves as the Chairman and executive director of Asia Coal Limited, a public company listed on the main board of the Hong Kong Stock Exchange, since October 18, 2010. Mr. Chen was previously a managing director of Deutsche Bank Hong Kong where he was in charge of mining and investment banking for Asia, from July 2001 to August 2007. Prior to joining Deutsche Bank, Mr. Chen was as an attorney with Sullivan & Cromwell based in New York and Hong Kong, from March 1997 to July 2001.

Mr. Chen graduated from Southern Illinois University, Carbondale, with a juris doctor degree and is qualified to practice law in New York. Mr. Chen obtained his bachelor of law degree in China.

Gregory Hall

Independent Non-executive Director

Mr. Hall, 61, joined the Company in October 9, 2009 as a non-executive director and serves as an independent director. Mr. Hall is a seasoned geologist with over 35 years of experience in the mining industry and extensive experience working with global mining companies. In his career, Mr. Hall has been involved in the discoveries of Barrick's Granny Smith and Keringal gold mines and Rio Tinto's Yandi iron ore mine in Western Australia. Mr. Hall serves as a director of Colossus Minerals Inc., a public company listed on the Toronto Stock Exchange since March 2008, as a director of Laurentian Goldfields Ltd., a public company listed on the TSX Venture Exchange since May 2008, as a director of Triton Gold Limited, a public company listed on the Australian Securities Exchange since August 2009 and as a director of Montero Mining and Exploration Limited, a public company listed on the TSX Venture Exchange since January 2010. Mr. Hall serves as a director of four private companies including Oryx Mining and Exploration Limited, Golden Phoenix Resources Ltd., Golden Phoenix International Pty. Ltd. and Zeus Uranium Limited. From 2000 to 2006, Mr. Hall served as Chief Geologist of the Placer Dome Group.

Mr. Hall holds a Bachelor of Science degree in applied geology from the University of New South Wales, Australia.

John King Burns

Independent Non-executive Director

Mr. Burns, 60, joined the Company on October 27, 2009 as a non-executive director and serves as an independent director. Mr. Burns has extensive experience in the global resource sector and is currently the managing director of NuCoal Energy Corp. a private Saskatoon based energy company. Mr. Burns serves as a director of NovaDx Ventures Corp., a public company listed on the TSX Venture Exchange, since March 2006 and as a director of Simba Energy Inc., a public company listed on the TSX Venture Exchange, since September 2009. Mr. Burns serves as a director of Hunter Energy LLC, a private oil and gas exploration company in Centennial, Colorado, since February 2001. In his career, Mr. Burns has served as Vice President and Chief Financial Officer of the Drexel Burnham Lambert Commodity Group in New York, London and Chicago, managing director and global head of the Derivative Trading and Finance Group of Barclays Metals Group, Barclays Bank PLC in London and managing director of Frontier Risk Management LLC in Chicago and has served as lead director and an audit committee member for many public companies.

Mr. Burns holds a Bachelor of Arts degree in economics from the University of Pennsylvania.

SENIOR MANAGEMENT

Jerry Xie

Executive Vice President And Corporate Secretary

Mr. Xie, 50, joined the Company on March 24, 2009 and serves as Executive Vice President and Corporate Secretary. Mr. Xie is responsible for overseeing corporate secretarial matters and daily operations at the Company's Vancouver office under the supervision of the Chief Executive Officer. Mr. Xie served as Vice President and Secretary to the Board of the Company from March 24, 2009 to October 9, 2009 at which time he was promoted to Executive Vice President and Corporate Secretary. Mr. Xie has 25 years of experience in the petro-chemical and oil-sand industry. Prior to joining the Company, Mr. Xie worked as a senior piping stress analyst for WorleyParsons MEG (a division of WorleyParsons Canada Ltd.), a resource and energy engineering company in Canada from February 2006 to March 2009.

Mr. Xie holds a master's degree in engineering from the University of Calgary, a master's degree in engineering from the Beijing University of Science & Technology and a diploma from the Mechanical Department of Shanghai Institute of Chemical Industry.

Derrick Zhang

Interim Chief Financial Officer

Mr. Zhang, 42, was appointed as interim Chief Financial Officer on February 28, 2011 and is responsible for the planning and management of the Company's accounting and financial reporting. Mr. Zhang joined the Company on January 4, 2010 as Controller. Mr. Zhang has over 18 years of experience in financial reporting and engineering for public and private companies including experience leading financial reporting for mergers and acquisitions. Mr. Zhang was a financial and accounting supervisor and cost accountant for E-One Moli Energy (Canada) Ltd., an operating subsidiary of China Synthetic Rubber Corporation, a public company listed on the Taiwan Stock Exchange, from May 2008 to December 2009 and September 2006 to November 2007, respectively. Mr. Zhang was a Financial Analyst for Teleflex (Canada) Ltd., an operating subsidiary of Teleflex Incorporated, a public company listed on the New York Stock Exchange, from November 2007 to April 2008. Mr. Zhang was an accountant with Docuport Inc., a private technology company, from May 2005 to May 2006. From 1991 to 2001, Mr. Zhang worked as a mining and construction cost engineer in China and Singapore.

Mr. Zhang is a Certified General Accountant in Canada and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Zhang holds a Bachelor of Commerce degree with a major in Accountancy from Concordia University in Montreal, Quebec, Canada and a Bachelor of Engineering degree in Geology from Southwest University of Science and Technology in China.

Heather King

Vice President Of Finance

Ms. King, 48, joined the Company in January 2009 and has served as Vice President of Finance since November 12, 2009. Ms. King has over 22 years of experience in public and private corporations and government and is responsible for managing the Company's accounting and financial reporting. Ms. King has a diverse background which includes business and financial management, tax and auditing and has held senior accounting and finance positions in mining, contract manufacturing, telecommunications, property management, retail and wholesale distribution, high tech and service industries.

Ms. King is a Chartered Accountant with the Institute of Chartered Accountants of British Columbia since 1990. Ms. King holds a Bachelor's of Commerce degree from the University of Alberta, Canada.

DIRECTORS' REPORT

The Board of Directors (the "Board") of the Company is pleased to present their report together with the audited consolidated financial statements (the "Financial Statements") of the Company together with its subsidiaries for the financial year ended December 31, 2010 (the "Financial Year").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company include the acquisition, exploration, development and production of gold and other non-ferrous metals properties. The Company's principal subsidiaries are set out in Note 34 of the Financial Statements and the activities of the Company's principal subsidiaries at December 31, 2010 are set out below:

Name of subsidiary	Country of incorporation	Issued and fully paid share capital	Principal activities
Pacific PGM Inc.	British Virgin Islands	US$100	Holding company
Pacific PGM (Barbados) Inc.	Barbados	US$80,000	Holding company
Inner Mongolia Pacific Mining Co., Ltd.	People's Republic of China	US$37,500,000	Exploration, development and mining of properties in China
Gansu Mining Company (Barbados) Ltd.	Barbados	US$69,000	Holding company
Gansu Pacific Mining Company Ltd.	People's Republic of China	RMB30,365,345	Exploration and development of mining properties in China
Skyland Mining Limited	Cayman Islands	US$47,380,700	Holding company
Tibet Jia Ertong Minerals Exploration Ltd.	People's Republic of China	US$55,000,000	Exploration, development and mining of properties in China and investment holding
Tibet Huatailong Mining Development Co. Ltd.	People's Republic of China	RMB371,800,000	Exploration, development and mining of properties in China
Jiama Industry and Trade Co., Ltd.	People's Republic of China	RMB5,000,000	Mining transport and logistics
Skyland Mining (BVI) Limited	British Virgin Islands	Nil	Holding company

RESULTS

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 75 of the Financial Statements.

DIVIDENDS

The Board has not recommended, declared or paid any dividends for the Financial Year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement of the property, plant and equipment of the Company during the Financial Year are set out in Note 20 of the Financial Statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the Financial Year are set out in Note 26 of the Financial Statements.

RESERVES

Details of the reserves available for distribution to the shareholders as at December 31, 2010 are set out in the Consolidated Statement of Changes in Equity on page 78 of the Financial Statements.

DIRECTORS

The directors during the Financial Year and up to the date of this report are as follows:

Executive Directors

Zhaoxue Sun *(Chairman)*
Xin Song
Zhanming Wu
Xiangdong Jiang

Non-Executive Director

Bing Liu

Independent Non-Executive Directors

Ian He
Yunfei Chen
Gregory Hall
John King Burns

In accordance with article 14.1 of the Company's articles, each of the directors are subject to retirement and re-election annually and the term of office for each of the directors will end immediately before the election of directors at the Company's upcoming annual general meeting.

Each of the directors offers himself for re-election at the Company's upcoming annual general meeting scheduled for June 14, 2011.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), and considers that all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the Company's upcoming annual general meeting have a service contract with the Company for their services as a director, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at December 31, 2010 or at any time during the Financial Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

To the best knowledge of the directors, during the Financial Year and up to the date of this report, save for the directorships and management roles of our directors in other gold mining companies, none of our directors had any interests in businesses that compete or are likely to compete, either directly or indirectly with the Company. Please refer to the biographies of our directors set out under the section of this report headed "Board of Directors and Senior Management" for details of such circumstances.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND STOCK OPTIONS

As of December 31, 2010, the interests of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code"), were as follows:

SHARES

Name	Position	Company	Number of shares held	Nature of interest	Approximate percentage of interest in the Company
Ian He	Director	China Gold International Resources Corp. Ltd.	10,000	Personal	0.0025%
Xiangdong Jiang	Director and Vice President of Production	China Gold International Resources Corp. Ltd.	13,500	Personal	0.0034%

STOCK OPTIONS

Name	Position	Company	Number of options held
Ian He	Director	China Gold International Resources Corp. Ltd.	250,000
Yunfei Chen	Director	China Gold International Resources Corp. Ltd.	100,000
Gregory Hall	Director	China Gold International Resources Corp. Ltd.	100,000
John King Burns	Director	China Gold International Resources Corp. Ltd.	100,000
Xiangdong Jiang	Director and Vice President of Production	China Gold International Resources Corp. Ltd.	80,000

Other than the holdings disclosed in the table above, none of the directors, chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as at December 31, 2010.

CONNECTED TRANSACTIONS

On October 24, 2008, China National Gold and Inner Mongolia Pacific Mining Co. Ltd., which subsidiary operates the Company's CSH Gold Mine, entered into a non-exclusive contract for the purchase and sale of dore (the "Contract") pursuant to which Inner Mongolia Pacific Mining Co. Ltd. shall sell gold dore bars to China National Gold from time to time through to December 31, 2011, with pricing referenced to the daily average price of Au9995 gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of No. 2 silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period, pursuant to the terms and conditions of the Contract.

Payments made by China National Gold pursuant to the Contract were approximately RMB782,909,471 at December 31, 2010 which accounted for 86.2% of the Company's total sales for the Financial Year.

The Company's independent non-executive directors have confirmed that the continuing connected transaction described above has been entered into:

(a) in the ordinary course and usual of the Company's business;

(b) on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Hong Kong Listing Rules, the Board engaged Deloitte Touche Tohmatsu, the auditors of the Company to perform certain factual finding procedures on the continuing connected transaction described above on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu has reported their factual findings on the selected samples based on the agreed procedures to the Board.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the Company were entered into or existed during the Financial Year.

STOCK OPTION PLAN

2006 Stock Option Plan

The Company adopted an incentive stock option plan with approval from its shareholders and pursuant to the policies of the Toronto Stock Exchange dated May 25, 2006 (the "2006 Stock Option Plan"). The 2006 Stock Option Plan was adopted to provide the Company's directors, officers, employees and consultants with an opportunity to acquire a proprietary interest in the Company thereby incentivizing the Company's directors, officers, employees and consultants in order to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Company. As of the end of the Financial Year, an aggregate of 25,000 common shares were issuable upon the exercise of outstanding stock options granted under the 2006 Stock Option Plan, representing approximately 0.006% of the Company's outstanding common shares.

The principal terms of the 2006 Stock Option Plan are as follows:

(a) the exercise price per share under the 2006 Stock Option Plan shall be subject to the restrictions imposed by Toronto Stock Exchange Listing Policies;

(b) the total number of shares which may be issued upon the exercise of stock options granted under the 2006 Stock Option Plan is 10% of the issued shares of the Company;

(c) the stock options granted to former directors, senior management and employees expire (i) 90 calendar days after the date of termination of such individual's employment with the Company or (ii) another date approved by the Board; and

(d) the stock options granted are valid for a term to be determined by the Board which shall, so long as the Company remains a Tier 1 issuer on the Toronto Stock Exchange, not be later than 10 years from the date of grant of the stock options and if the Company becomes a Tier 2 issuer on the Toronto Stock Exchange, not later than five years from the date of grant of the stock options, or such longer period as may be prescribed by the Toronto Stock Exchange.

2007 Stock Option Plan

The Company adopted an incentive stock option plan with approval from its shareholders and pursuant to the policies of the Toronto Stock Exchange dated May 9, 2007 (the "2007 Stock Option Plan"). The 2007 Stock Option Plan was adopted to provide the Company's directors, officers, employees and consultants with an opportunity to acquire a proprietary interest in the Company thereby incentivizing the Company's directors, officers, employees and consultants in order to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Company. As of the end of the Financial Year, an aggregate of 755,000 common shares were issuable upon the exercise of outstanding stock options granted under the 2007 Stock Option Plan, representing approximately 0.19% of the Company's outstanding common shares.

The principal terms of the 2007 Stock Option Plan are as follows:

(a) the exercise price per share under the 2007 Stock Option Plan cannot be less than 100% of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant;

(b) the total number of shares which may be issued upon the exercise of the stock options granted under the 2007 Stock Option Plan is 10% of the issued shares of the Company;

(c) the stock options granted to former directors, senior management and employees expire (i) 12 months after the date of termination of such individual's employment with the Company or (ii) another date approved by the Board;

(d) the stock options granted are valid for five years commencing from the date of grant of such options or such greater or lesser duration as the Board may determine; and

(e) the stock options may be exercised as determined from time to time by the Board or (i) at any time during the first year from the grant date for up to 20% of the total number of shares reserved for issuance pursuant to the stock options, and (ii) at any time during each additional year an additional 20% of the total number of shares reserved for the issuance pursuant to the stock options plus any shares not purchased in accordance with (i) until, the fifth year from the grant date, at which time 100% of the stock options will be exercisable.

The following table discloses movements in the Company's stock options for the Financial Year:

Name	Position	Options outstanding at beginning of the year	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options expired during the year	Options outstanding at end of the year
Ian He	Director	200,000	100,000	(50,000)	Nil	Nil	250,000[(1)]
Yunfei Chen	Director	Nil	100,000	Nil	Nil	Nil	100,000[(2)]
Gregory Hall	Director	Nil	100,000	Nil	Nil	Nil	100,000[(2)]
John King Burns	Director	Nil	100,000	Nil	Nil	Nil	100,000[(2)]
Xiangdong Jiang	Director and Vice President of Production	340,000	Nil	(260,000)	Nil	Nil	80,000[(3)]
Total for directors and senior executives		540,000	400,000	(310,000)	Nil	Nil	630,000
Total for other option holders		1,007,000	Nil	(215,000)	(642,000)	Nil	150,000[(4)]
TOTAL		1,547,000	400,000	(525,000)	(642,000)	Nil	780,000

Notes:

1. Consists of 150,000 of 200,000 stock options granted on July 20, 2007 pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at an exercise price of CAD$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter and 100,000 stock options granted on June 1, 2010 pursuant to the 2007 Stock Option Plan and expiring on June 1, 2015 at an exercise price of CAD$4.35 from June 1, 2010 until June 1, 2011; CAD$4.78 from June 2, 2011 until June 1, 2012; CAD$5.21 from June 2, 2012 until June 1, 2013; CAD$5.64 from June 2, 2013 until June 1, 2014 and CAD$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.

2. Consists of 100,000 stock options granted on June 1, 2010 pursuant to the 2007 Stock Option Plan and expiring on June 1, 2015 at an exercise price of CAD$4.35 from June 1, 2010 until June 1, 2011; CAD$4.78 from June 2, 2011 until June 1, 2012; CAD$5.21 from June 2, 2012 until June 1, 2013; CAD$5.64 from June 2, 2013 until June 1, 2014 and CAD$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.

3. Consists of 80,000 of 200,000 stock options granted on July 20, 2007 pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at exercise price of CAD$2.20 with vesting as to 20% on first anniversary of the date of grant and 20% each anniversary thereafter.

4. Consists of 25,000 stock options granted on June 29, 2006 to a consultant of the Company pursuant to the 2006 Stock Option Plan and expiring on June 29, 2011 at an exercise price of CAD$1.05 with vesting as to 30% on the first anniversary of the date of grant, 30% on the second anniversary of the date of grant and 40% on the third anniversary of the date of grant and 125,000 of 3,283,000 stock options granted on July 20, 2007 to various employees of the Company pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at an exercise price of $2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter.

DIRECTORS' RIGHT TO PURCHASE SHARES

Save as disclosed in the paragraph headed "directors' and chief executive's interests in shares and stock options" in this report, at no time during the year ended December 31, 2010 or the period following December 31, 2010 up to the date of this report, was the Company or any of its subsidiaries or its holding companies or any of the subsidiaries of the Company's holding companies a party to any arrangement to enable the directors or the chief executive of the Company or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions of the Company shows that as at December 31, 2010, the Company has been notified of the following interests in shares representing 10% or more of the Company's issued share capital:

Name	Nature of interest	Shares held	Approximate percentage of issued shares
China National Gold Group Corporation [(1)]	Indirect	154,348,730	38.96%
China National Gold Group Hong Kong Limited	Registered Owner	154,348,730	38.96%
Rapid Result Investments Limited [(2)]	Registered Owner	83,423,624	21.06%

Notes:

1. China National Gold Group Corporation directly and wholly owns China National Gold Group Hong Kong Limited therefore the interest attributable to China National Gold Group Corporation represents its indirect interest in the Company's shares through its equity interest in China National Gold Group Hong Kong Limited.

2. Rapid Result Investments Limited is beneficially owned by various individuals and a family trust, each of whom is an independent third party and no such individual or family trust holds one-third or more of the equity interest of Rapid Result Investments Limited and therefore none of the individuals or family trust are deemed to be interested in the shares held by Rapid Result Investments Limited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended December 31, 2010, neither the Company, nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities.

EMOLUMENT POLICY

The Company's executive emolument policy and compensation program is administered by the Compensation and Benefits Committee which consists solely of independent directors. The Compensation and Benefits Committee reviews levels of cash compensation as needed and at least annually, and makes recommendations to the Board to adjust cash compensation in light of merit, qualifications and competence. The Compensation and Benefits Committee also reviews the corporate goals and objectives relevant to the compensation of the senior executive officers as needed and at least annually and based on recommendations from the Chief Executive Officer and other members of the management team. The Compensation and Benefits Committee makes its determinations as to overall compensation levels on the basis of both available third party data regarding comparable compensation at similar size companies as well as their own industry experience and the Company's hiring and retention needs. Decisions relating to executive compensation are reported by the Compensation and Benefits Committee to the Board for approval.

The Company's director emolument policy is administered by the Compensation and Benefits Committee with regard to comparable market statistics. Decisions relating to the compensation of directors are reported by the Compensation and Benefits Committee to the Board for approval.

The emolument policy for the Company's employees is determined on a department by department basis with the Chief Executive Officer determining the emoluments for employees and managers based on merit, qualifications and the Company's hiring and retention needs.

The Company has also adopted stock option plans to incentivize its directors, officers and eligible employees. The details of the Company's stock option plan are set out in Note 26(b) of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles or under the laws of Canada which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Hong Kong Listing Rules require that at least 25% of the Company's outstanding shares be at all times held by the public to ensure the sufficiency of the Company's public float. As at December 31, 2010 the Company had 396,126,753 shares outstanding of which 158,330,889 shares were included in the public float, representing 39.97% of the Company's outstanding common shares.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Company's transactions with its major suppliers and customers during the Financial Year are set out below:

CUSTOMERS

The largest customer accounted for 86.2% of the Company's sales.

The five largest customers accounted for 100% of the Company's sales.

The Company's principal shareholder, China National Gold, purchases gold dore bars from the CSH Gold Mine at prevailing market prices pursuant to a contract for the purchase and sale of dore dated October 24, 2008. Please refer to the section of this report headed "Connected Transactions" for further details. Mr. Sun, Mr. Song, Mr. Liu and Mr. Wu are executive officers of China National Gold.

Save as disclosed above, at no time during the Financial Year did a director, an associate of a director or any other shareholder (which to the knowledge of the Company's directors owns more than 5% of the Company's issued share capital) hold an interest in the Company's five largest customers.

SUPPLIERS

The largest supplier accounted for 46.9% of the Company's purchases.

The five largest suppliers accounted for 69% of the Company's purchases.

At no time during the Financial Year did a director, an associate of a director or any other shareholder (which to the knowledge of the Company's directors owns more than 5% of the Company's issued share capital) hold an interest in the Company's five largest suppliers.

CHARITABLE DONATIONS

The Company made charitable donations during the Financial Year amounting to HKD1,000,000.

EVENTS AFTER REPORTING PERIOD

There are no significant events occurring after December 31, 2010.

INDEPENDENT AUDITORS

A resolution will be submitted at the Company's upcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu of Hong Kong as the Company's auditors.

On behalf of the Board,
Zhaoxue Sun
Chairman of the Board
March 30, 2011

CORPORATE GOVERNANCE REPORT

The Board considers good corporate governance practices to be an important factor in the continued and long term success of the Company by helping to maximize shareholder value over time.

To further this philosophy and to ensure that the Company follows good governance practices the Board has taken the following steps:

- approved and adopted a mandate for the Board;
- appointed an Audit Committee, a Nominating and Corporate Governance Committee and a Compensation and Benefits Committee consisting solely of independent directors;
- established a Health, Safety and Environmental Committee consisting solely of independent directors;
- approved charters for all of the Board committees to formalize the mandates of those committees;
- established a Disclosure Committee with a mandate to oversee the Company's disclosure practices including the establishment of a sub-committee charged with overseeing the Company's technical disclosure;
- adopted a formal Corporate Disclosure, Confidentiality and Securities Trading Policy and formalized the Company's disclosure controls and procedures;
- adopted a formal Code of Business Conduct and Ethics that governs the behavior of directors, officers and employees and which is also distributed to consultants;
- adopted formal written position descriptions for the Chief Executive Officer and Chief Financial Officer, clearly defining their roles and responsibilities;
- adopted a whistleblower policy administered by an independent third party;
- formalized a process for assessing the effectiveness of the Board as a whole, the Board committees and the contribution of individual directors on a regular basis;
- reviewing and approving the Company's incentive compensation plans; and
- providing continuing education opportunities for all directors.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the Financial Year, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards. The Company's current practices are reviewed and updated regularly to ensure that the latest developments in corporate governance are followed and observed.

BOARD COMPOSITION

Corporate governance guidelines adopted by the Canadian Securities Administrators ("CSA") recommend that a majority of the directors of a corporation be independent directors. Under the CSA corporate governance guidelines, an "independent director" is a director who has no direct or indirect material relationship with the Company, including as a partner, shareholder or officer of an organization that has a relationship with the Company. A "material relationship" is one that would, or in the view of the Board could be reasonably expected to, interfere with the exercise of a director's independent judgment. As at December 31, 2010 and as at the date of this report, the Board has determined that it consists of four "independent directors" and five non-independent directors under the CSA corporate governance guidelines. The Board believes that its current size and composition and the composition of the Board committees consisting solely of independent directors, results in balanced representation.

As at the date of this report, the Board has determined that it consists of four independent directors and five non-independent directors as follows:

Independent Directors	Non-independent Directors
Ian He	Zhaoxue Sun *(Chairman)* (1)
Yunfei Chen	Xin Song *(Chief Executive Officer)* (2)
Gregory Hall	Bing Liu (3)
John King Burns	Zhanming Wu *(Vice President of Business Development)* (4)
	Xiangdong Jiang *(Vice President of Production)* (5)

Notes:

1. Mr. Sun is a non-independent director in his capacity as an executive officer of China National Gold which has a material relationship with the Company and in his capacity as a former senior officer of the Company within the previous three years.

2. Mr. Song is a non-independent director in his capacity as a senior officer of the Company and in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

3. Mr. Liu is a non-independent director in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

4. Mr. Wu is a non-independent director in his capacity as a senior officer of the Company and in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

5. Mr. Jiang is a non-independent director in his capacity as a senior officer of the Company.

As at the date of this report, China National Gold holds approximately 38.96% of the Company's outstanding common shares.

The Board has determined that five of its nine directors being Mr. He, Mr. Chen, Mr. Hall, Mr. Burns and Mr. Jiang are independent of China National Gold, which the Board believes fairly reflects the investment in the Company by shareholders other than the Company's principal shareholder. The Board has further determined that four of its nine directors do not have an interest in the Company or relationship with the Company's principal shareholder and satisfy all independence requirements under the applicable corporate governance rules and guidelines.

The directors are satisfied that the size and composition of the Board results in a balanced representation on the Board among management and non-management directors and the Company's principal shareholder. While the Board believes that it functions effectively given the Company's stage of development and the size and complexity of its business, the Company, through its Nominating and Corporate Governance Committee, may in the future seek to add qualified candidates to augment its experience and expertise and to enhance the Company's ability to develop its business interests.

Mr. Sun serves as the Chairman of the Board and served as the Company's Chief Executive Officer from September 8, 2008 to October 9, 2009. Mr. Song has served as the Company's Chief Executive Officer since October 9, 2009. At present, the Chairman of the Board committees acts as the de facto lead independent director and liaises with management and the directors regarding relevant matters. The Board is of the view that appropriate structures and procedures are in place to allow the Board to function independently of management while continuing to provide the Company with the benefit of having a Chairman with extensive experience in the mining industry.

The Company has received from each of its independent directors, their confirmation of independence pursuant to listing rules in all applicable jurisdictions.

To the best knowledge of the Company none of the directors of the Company are related. Relationships include financial, business or family relationships. The Company's directors are free to exercise their independent judgment.

MANDATE OF THE BOARD

Under the British Columbia Business Corporations Act (the "Business Corporations Act"), the directors of the Company are required to manage the Company's business and affairs, and in doing so, to act honestly and in good faith with a view to furthering the best interests of the Company. In addition, each director must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board is responsible for supervising the conduct of the Company's affairs and the management of its business. The Board's mandate includes setting long term goals and objectives for the Company, formulating the plans and strategies necessary to achieve those objectives and supervising senior management in their implementation. Although the Board delegates the responsibility for managing the day-to-day affairs of the Company to senior management, the Board retains a supervisory role in respect of, and ultimate responsibility for, all matters relating to the Company and its business.

The Board's mandate requires that the Board be satisfied that the Company's senior management will manage the affairs of the Company in the best interest of the shareholders, in accordance with the Company's principles, and that the arrangements made for the management of the Company's business and affairs are consistent with their duties described above. The Board is responsible for protecting shareholder interests and ensuring that the incentives of the shareholders and of management are aligned. The obligation of the Board must be performed continuously, and not merely from time to time, and in times of crisis or emergency the Board may have to assume a more direct role in managing the affairs of the Company.

In discharging this responsibility, the Board's mandate provides that the Board oversees and monitors significant corporate plans and strategic initiatives. The Board's strategic planning process includes annual budget reviews and approvals and discussions with management relating to strategic and budgetary issues.

As part of its ongoing review of business operations, the Board periodically reviews the principal risks inherent in the Company's business, including financial risks, and assesses the systems established to manage those risks. Directly and through the Audit Committee, the Board also assesses the integrity of internal control over financial reporting and management information systems.

In addition to those matters that must, by law, be approved by the Board, the Board is required under its mandate to approve annual operating and capital budgets, any material dispositions, acquisitions and investments outside of the ordinary course of business or not provided for in the approved budgets, long-term strategy, organizational development plans and the appointment of senior executive officers. Management is authorized to act, without Board approval on all ordinary course matters relating to the Company's business.

The Board's mandate provides that the Board expects management to provide the directors, on a timely basis, with information concerning the business and affairs of the Company, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively. The Board expects management to efficiently implement its strategic plans for the Company, to keep the Board fully apprised of its progress in doing so and to be fully accountable to the Board in respect to all matters for which it has been assigned responsibility.

The Board has instructed management to maintain procedures to monitor and promptly address shareholder concerns and has directed and will continue to direct management to apprise the Board of any major concerns expressed by shareholders.

Each Board committee is empowered to engage external advisors as it sees fit. Any individual director is entitled to engage an outside advisor at the expense of the Company provided such director has obtained the approval of the Nominating and Corporate Governance Committee to do so. In conjunction with its review of operations, the Board considers risk issues when appropriate and approves corporate policies addressing the management of the risk of the Company's business.

The Board takes ultimate responsibility for the appointment and monitoring of the Company's senior management. The Board approves the appointment of senior management and reviews their performance on an ongoing basis.

The Company has a corporate disclosure policy addressing, among other things, how the Company interacts with analysts and the public, and contains measures for the Company to avoid selective disclosure. The Company has a Disclosure Committee responsible for overseeing the Company's disclosure practices. The Disclosure Committee consists of the Company's Executive Vice President and Corporate Secretary, Chief Executive Officer, Chief Financial Officer and the Company's senior communications and investor relations officers, or those individuals who act in equivalent positions for the Company, and receives advice from the Company's external legal counsels. The Disclosure Committee assesses materiality and determines when developments justify public disclosure. The Disclosure Committee reviews the corporate disclosure policy annually and as otherwise needed to ensure compliance with regulatory requirements and reviews all documents which are reviewed by the Board and Audit Committee. The Board reviews and approves the Company's material disclosure documents, including its annual report, annual information form and management proxy circular. The Company's annual and quarterly financial statements, management's discussion and analysis and other financial disclosure is reviewed by the Audit Committee and recommended to the Board for approval, prior to its release.

COMMITTEES OF THE BOARD

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that the Company has an effective internal control framework. This includes internal controls to manage both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Company's Audit Committee consists of Mr. He, Mr. Chen, Mr. Burns and Mr. Hall. Mr. He serves as Chairman of the Audit Committee.

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

Although the Audit Committee has the powers and responsibilities set forth in its charter, the role of the Audit Committee is oversight. The members of the Audit Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with International Financial Reporting Standards ("IFRS"). These are the responsibilities of management and the auditors.

All services to be performed by the auditors of the Company must be approved in advance by the Audit Committee.

The Audit Committee held six meetings during the Financial Year. In performing its duties in accordance with its charter, the Audit Committee has:

- overseen the Company's relationship with the auditors;
- reviewed the Company's interim and annual financial statements;
- reviewed and assessed the effectiveness of systems of risk management and internal controls; and
- reported to the Board on the proceedings and deliberations of the Audit Committee.

Nominating and Corporate Governance Committee

The Board has established a Nominating and Corporate Governance Committee, which operates under a charter approved by the Board. The primary objective of the Nominating and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities by (a) identifying individuals qualified to become Board and Board committee members and recommending that the Board select director nominees for appointment or election to the Board; and (b) developing and recommending to the Board corporate governance guidelines for the Company and making recommendations to the Board with respect to corporate governance practices. The Nominating and Corporate Governance Committee monitors the disclosure of conflicts of interest to the Board and ensures that no director will vote in respect of a matter in which such director has a material interest. The members of the Nominating and Corporate Governance Committee are Mr. He, Mr. Chen, Mr. Hall and Mr. Burns. Mr. He serves as Chairman of the Nominating and Corporate Governance Committee.

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee, which operates under a charter approved by the Board. The primary objective of the Compensation and Benefits Committee is to discharge the Board's responsibilities relating to the compensation and benefits for senior executives and directors of the Company. This role includes reviewing the adequacy and form of compensation for senior executives and the directors, determining the recipients of and the nature and size of share compensation awards granted from time to time and determining any bonuses to be awarded. The members of the Compensation and Benefits Committee are Mr. He, Mr. Chen, Mr. Hall and Mr. Burns. Mr. He is the Chairman of the Compensation and Benefits Committee.

Health, Safety and Environmental Committee

The Board has recently established a Health, Safety and Environmental Committee, which operates under a charter approved by the Board. The primary objective of the Health, Safety and Environmental Committee is to discharge the Board's responsibilities relating to compliance with applicable health, safety and environmental rules and regulations. This role includes assisting the Board in its oversight of the development, implementation and evaluation by management of the Company's health, safety and environmental objectives and for monitoring the Company's compliance with applicable health, safety and environmental laws and regulations. The Board completed the establishment and organization of the Health, Safety and Environmental Committee during 2010, including selection of committee members and adoption of a charter. The members of the Health, Safety and Environmental Committee are Mr. He, Mr. Chen, Mr. Hall and Mr. Burns. Mr. He is the Chairman of the Health, Safety and Environmental Committee.

Ad Hoc and Special Committees

In appropriate circumstances, the Board will establish a special committee to review a matter in which several directors or management may have a conflict of interest.

MEETINGS OF THE BOARD AND BOARD COMMITTEES

The Board holds regular quarterly meetings by means of telephone conferencing facilities and meets as required between quarterly meetings to update the directors on corporate developments. During regular quarterly meetings, the non-management directors have an opportunity to meet separate from management. Management also communicates informally with the Board on a regular basis, and solicits the advice of the Board members on matters falling within their special knowledge or experience.

During the Financial Year, seven Board meetings, six Audit Committee meetings, four Nominating and Corporate Governance Committee meetings and two Compensation and Benefits Committee meetings were held. The Health Safety and Environmental Committee was recently established and plans to hold its first meeting this year. Attendance by the directors at the Board and Board committee meetings for the Financial Year was as follows:

Attendance record for the Board and Board Committee meetings during the Financial Year	**Board meetings**	**Audit Committee meetings**	**Nominating and Corporate Governance Committee meetings**	**Compensation and Benefits Committee meetings**	**Health, Safety and Environmental Committee meetings**
		Number of Attendances/Number of Meetings			
Executive Directors					
Zhaoxue Sun *(Chairman)*	7/7	N/A	N/A	N/A	N/A
Xin Song	6/7	N/A	N/A	N/A	N/A
Zhanming Wu	7/7	N/A	N/A	N/A	N/A
Xiangdong Jiang	4/7[(1)]	N/A	N/A	N/A	N/A
Non-Executive Directors					
Bing Liu	7/7	N/A	N/A	N/A	N/A
Independent Non-Executive Directors					
Ian He	7/7	6/6	4/4	2/2	0/0
Yunfei Chen	6/7	5/6	4/4	2/2	0/0
Gregory Hall	7/7	4/6	4/4	2/2	0/0
John King Burns	7/7	5/6	4/4	2/2	0/0

Note:

1. Xiangdong Jiang was elected as a director on June 17, 2010.

CODE OF BUSINESS CONDUCT AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics applicable to all employees, consultants, executive officers and directors regardless of their position in the Company, at all times and everywhere the Company does business. The Code of Business Conduct and Ethics provides that the Company's employees, consultants, executive officers and directors will uphold its commitment to a culture of honesty, integrity and accountability and the Company requires the highest standards of professional and ethical conduct from its employees, consultants, executive officers and directors.

The Company's employees, executive officers and directors are required to confirm, on an annual basis, that they have reviewed the Company's Code of Business Conduct and Ethics and if they are aware of any actual or potential conflicts of interest.

The Company's Nominating and Corporate Governance Committee monitors compliance with the Code of Business Conduct and Ethics and the disclosure of conflicts of interest by directors with a view to ensuring that no director votes on a matter in respect of which he has a material interest.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board determines, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it should seek in new directors in order to add value to the Company. Based on this framework, the Nominating and Corporate Governance Committee developed a skills matrix outlining the Company's desired complement of competencies, skills and characteristics. The specific make-up of the matrix includes technical, geological and engineering knowledge, financial literacy, mining industry experience, public company experience and legal knowledge. The Nominating and Corporate Governance Committee assesses the competencies and characteristics represented on the Board annually and utilizes the matrix to determine the Board's strengths and to identify areas for improvement. This analysis assists the Nominating and Governance Committee in discharging its responsibility for approaching and proposing new nominees to the Board and for assessing directors on an ongoing basis.

Unless a director dies, resigns or is removed from office in accordance with the Business Corporations Act, the term of office of each of the Company's directors ends at the conclusion of the next annual general meeting following his or her most recent election or appointment.

At every annual general meeting the shareholders entitled to vote at the annual general meeting for the election of directors are entitled to elect a board consisting of the number of directors for the time being set under the Company's articles and all the directors cease to hold office immediately before such election but are eligible for re-election. If the Company fails to hold an annual general meeting on or before the date by which the annual general meeting is required to be held under the Business Corporations Act or the shareholders fail, at the annual general meeting, to elect or appoint any directors then each director then in office continues to hold office until the earlier of the date on which his or her successor is elected or appointed, or the date on which he or she otherwise ceases to hold office under the Business Corporations Act or the Company's articles.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities Trading Policy that has terms which are no less exacting than those set out in Appendix 10 of the Hong Kong Listing Rules.

Furthermore, if a director (a) enters into a transaction involving a security of the Company or, for any other reason, the direct or indirect beneficial ownership of, or control or direction over, securities of the Company changes from that shown or required to be shown in the latest insider report filed by the director, or (b) the director enters into a transaction involving a related financial instrument, the director must, within the prescribed period, file an insider report in the required form on the System for Electronic Disclosure by Insiders website at www.sedi.ca.

A "related financial instrument" is defined as: (a) an instrument, agreement, security or exchange contract the value, market price or payment obligations of which are derived from, referenced to or based on the value, market price or payment obligations of a security, or (b) any other instrument, agreement or understanding that affects, directly or indirectly, a person's economic interest in respect of a security or an exchange contract.

REMUNERATION OF DIRECTORS

The Company's director emolument policy is administered by the Compensation and Benefits Committee with regard to comparable market statistics. Decisions relating to the compensation of directors are reported by the Compensation and Benefits Committee to the Board for approval.

The Company pays its independent directors a cash retainer of CAD$1,000 per month for acting as independent directors and for their roles on various Board committees. The Company pays the defacto lead independent director and Chairman of the Board committees a cash retainer of CAD$1,500 per month. On June 1, 2010, the Company granted 100,000 stock options to each of its independent directors pursuant to the 2007 Stock Option Plan, with such stock options having a five-year term and vesting as to 20% immediately with an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 at the following exercise prices: from June 1, 2010 until June 1, 2011, CAD$4.35 per share; from June 2, 2011 until June 1, 2012, CAD$4.78 per share; from June 2, 2012 until June 1, 2013, CAD$5.21 per share; from June 2, 2013 until June 1, 2014, CAD$5.64 per share; and from June 2, 2014 until June 1, 2015, CAD$6.09 per share.

Currently no other fixed compensation is paid to the directors of the Company for acting as directors, although the directors have been granted and will continue to receive stock options from time to time. The directors are reimbursed for actual expenses reasonably incurred in connection with the performance of their duties as directors.

For the Financial Year, the Company's independent directors received additional cash compensation for their work on a special committee of the Board in connection with the acquisition of the Jiama Mine. The Company paid to its independent directors and special committee members a one-time cash allowance of CAD$15,000 and paid to the Chairman of the special committee a one-time cash allowance of CAD$17,000.

Details regarding the remuneration of directors of the Company are set out in Note 10 of the Financial Statements.

INTERNAL CONTROLS

The Board is responsible for overseeing the internal controls of the Company. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, to safeguard the investment of shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and to help the Board identify and mitigate, but not eliminate, risk exposure.

The Audit Committee and the Board are of the view that the Company's current internal control system is effective in safeguarding the investment of shareholders and assets of the Company.

AUDITORS

Effective April 1, 2010, Deloitte & Touche LLP of Canada resigned as the auditors of the Company and Deloitte Touche Tohmatsu of Hong Kong were appointed as auditors for the Company. The appointment of Deloitte Touche Tohmatsu was approved by ordinary resolution of the shareholders at the Company's annual and special meeting held on June 17, 2010. Deloitte Touche Tohmatsu will be nominated for re-appointment as auditors of the Company for the fiscal year 2011 at the Company's upcoming annual general meeting, at a remuneration to be fixed by the Board.

Deloitte Touche Tohmatsu is independent of the Company in accordance with Section 290 "Independence - Assurance Engagements" of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants. The financial reporting responsibilities and audit report of Deloitte Touche Tohmatsu are set out on page 74.

The fees paid/payable to Deloitte Touche Tohmatsu and Deloitte & Touche LLP, in respect of audit and non-audit services provided during the Financial Year were as follows:

Nature of services rendered	**Fees paid/payable (US$)**
Audit fees [(1)]	$456,000
Non-audit fees [(2)]	$979,864
Total	$1,435,864

Notes:

1. Fees for audit services consisted of fees paid to Deloitte Touche Tohmatsu (US$456,000) in connection with the audit of the Company's annual financial statements, review of the Company's interim financial statements and preparation of comfort letters, consents and other services related to securities regulatory matters.

2. Fees for non-audit services consisted of fees paid to Deloitte Touche Tohmatsu (US$820,000) in connection with the Company's application for listing on the Hong Kong Stock Exchange, fees paid to Deloitte & Touche LLP (US$159,864) in connection with tax planning and advice relating to transactions and proposed transactions of the Company and its subsidiaries and corporate tax return and income tax matters.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility in overseeing the preparation of financial statements that provide a true and fair view of the financial affairs of the Company. With the assistance of the Company's management, the directors ensure that the financial statements are being prepared and published in a timely manner in accordance with the applicable accounting standards and statutory requirements.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhaoxue Sun *(Chairman)*
Xin Song
Zhanming Wu
Xiangdong Jiang

Non-Executive Directors

Bing Liu

Independent Non-Executive Directors

Ian He
Yunfei Chen
Gregory Hall
John King Burns

AUDIT COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

COMPENSATION AND BENEFITS COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

CORPORATE SECRETARY (CANADA)

Jerry Xie

CORPORATE SECRETARY (HONG KONG)

Sau Kuen Gloria Ma

REGISTERED OFFICE

One Bentall Centre
Suite 1030, 505 Burrard Street
Vancouver, British Columbia
Canada V7X 1M5

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANK (CANADA)

BMO Bank of Montreal

PRINCIPAL BANKS (HONG KONG)

Bank of China
Agricultural Bank of China

PRINCIPAL SHARE REGISTER

CIBC Mellon Trust Company
Suite 1600-1066 West Hastings Street
Vancouver, British Columbia
Canada V6E 3X1

HONG KONG SHARE REGISTER

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

INDEPENDENT AUDITOR

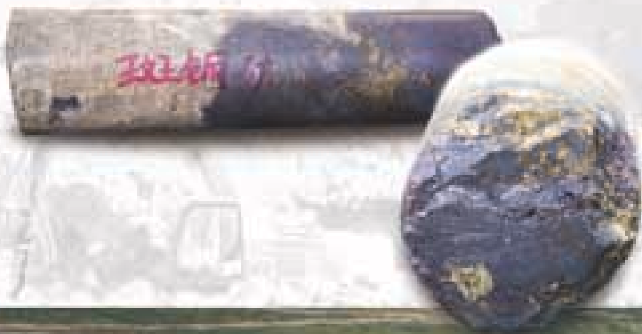
Deloitte Touche Tohmatsu
Certified Public Accountants
One Pacific Place
35th Floor, 88 Queensway
Hong Kong

WEBSITE ADDRESS

www.chinagoldintl.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations December 31, 2010
(Stated in U.S. dollars, except as otherwise noted)



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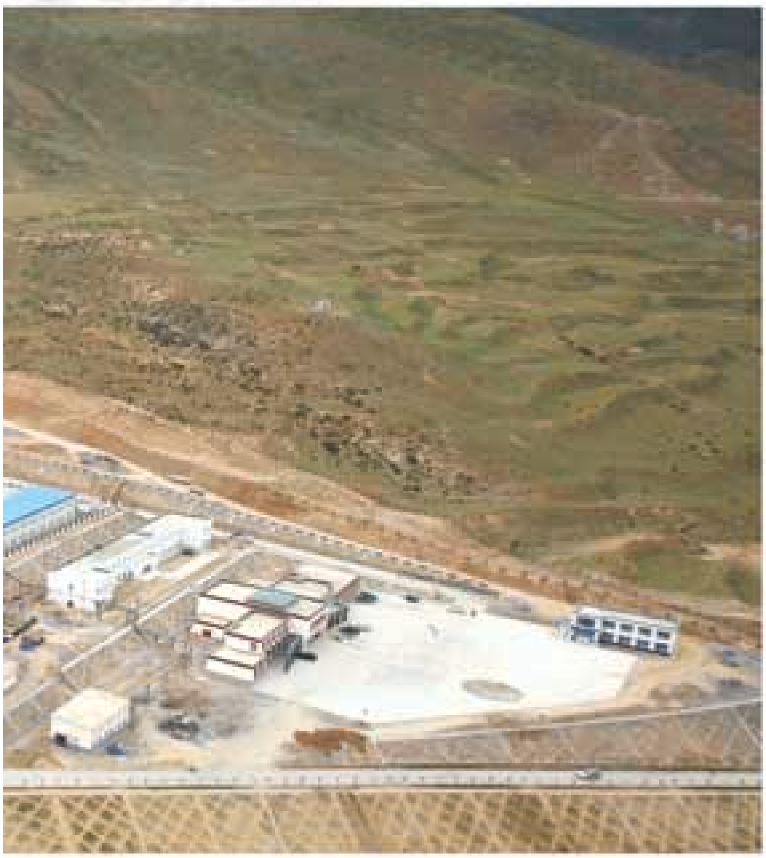


The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") was prepared as of March 30, 2011. It should be read in conjunction with the annual audited consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. ("China Gold International" or the "Company") for the year ended December 31, 2010 and 2009. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to our plans, objectives, expectations and intentions, which are based on our current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in our Annual Information Form dated March 30, 2011. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of our Company, please refer to the sections entitled "Forward Looking Statements" and "Risk Factors' and to discussions elsewhere within this MD&A. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks.

THE COMPANY

Overview

China Gold International Resources Corp. Ltd. ("China Gold International"), previously known as Jinshan Gold Mines Inc., is a mineral development company based in Vancouver, Canada. China Gold International is focused on acquisition, exploration, development, mining and processing of gold and other nonferrous metals.

The Company's principal properties are the Chang Shan Hao Gold Mine ("CSH Gold Mine" or "CSH Mine"), located in Inner Mongolia, China and the Jiama Copper-Gold Polymetallic Mine ("Jiama Mine" or "Jiama"), located in Tibet, China. China Gold International holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture partner holds the remaining 3.5% interest. China Gold International commenced gold production at the CSH Gold Mine in July 2007 and commenced commercial production on July 1, 2008.

The Company acquired 100% of Jiama on December 1, 2010. The Jiama Mine is a large scale copper-gold polymetallic deposit consisting of copper, molybdenum, gold, silver, lead and zinc. The mine commenced commercial production in September, 2010.

China Gold International's common shares are listed on the Toronto Stock Exchange ("TSX") and the Stock Exchange of Hong Kong Limited ("HKSE") under the symbol CGG (formerly JIN) and the stock code 2099, respectively. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com as well as Hong Kong Exchange News at www.hkexnews.hk.

Highlights

- The Company acquired Skyland Mining Limited, the owner of the Jiama mine, on December 1, 2010 by issuing 170,252,294 common shares of the Company. The terms of the transaction were settled by a special committee of independent directors with the support of a valuation and fairness opinion by an independent securities firm. The terms of the transaction included a post-closing adjustment mechanism based on net working capital of Skyland as at December 1, 2010 which could adjust the total consideration paid. The working capital adjustment will be recorded in the second quarter of 2011 when the calculation and negotiations are finalized.
- On December 1, 2010, the Company completed a global equity offering of 53,660,000 common shares of the Company at a price of HK$44.68 (US$5.76) per common share. The Company realized gross proceeds of approximately HK$2.4 billion (approximately US$309 million).
- The Company also completed a dual primary listing of common shares on the HKSE and the Company's shares began trading on December 1, 2010 at the HKSE.
- During December, the Company repaid its largest shareholder, CNG, the US$40 million term loan and accrued interest due to mature in December 2011 as well as the promissory note for CAD$7.5 million due to mature on June 26, 2011.
- Gold production from the CSH Mine increased by 33% from 83,570 ounces in 2009 to 111,289 ounces in 2010.
- The Company significantly increased net income in the second half of 2010, supported by gold production of 75,102 ounces, and almost 70,954 ounces of gold sold at an average price of US$1,296.4 per ounce with net income for the Company amounting to approximately US$26.2 million.
- Operations were enhanced at the CSH Mine during 2010. The Construction on the heap leach pad extension was completed by the end of July. Five new carbon in columns were added, drip meters were buried and additional water needed for processing was secured.

(Stated in U.S. dollars, except as otherwise noted)

- Jiama began production in September 2010. By December, the Jiama Mine was producing 6,000 tonnes of ore per day. Construction of Phase I of the mine development plan was completed.
- The Company successfully completed its diamond drilling plan on eight holes (4,187.57 meters) at its CSH Mine, intercepting mineralization at depth for six holes and discovering anomalous gold values in the two holes and drilled to test for the surface trenching intercepts.
- The Company successfully completed its planned 50,000 meter drilling program from ninety-five holes at its Jiama Mine. Drilling results will be included in an updated resource estimate expected to be completed by second quarter. The high drilling success rate of 95% confirmed that the high-grade skarn type mineralization is continuous in the licensed area and should result in an expanded resource estimate of skarn and hornfels type mineralization. A new standalone high grade quartz diorite porphyry type gold mineralization zone was also identified which may add a significant amount of gold resources to the project.
- The Company changed its name effective on July 9, 2010 from Jinshan Gold Mines Inc. to China Gold International Resources Corp Ltd. and received from CNG a non-compete undertaking in its favour for gold and non-ferrous projects outside of China, which is intended to support the Company's mandate as CNG's international vehicle.

	Year ended December 31, 2010	Year ended December 31, 2009
Commercial gold production (ounces) -CSH	**111,289**	83,570
Commercial gold production (ounces) - Jiama	**145**	—
Total gold production (ounces)	**111,434**	83,570
Total copper production (tonnes)	**225.91**	—

	Year ended December 31, 2010	Year ended December 31, 2009
Net income (loss)	**$ 27.1 Million**	($ 8.4) Million
Basic income (loss) per share	**$0.14**	($0.06)
Net cash flows from operations	**$ 10.9 Million**	$ 10.8 Million
Property, plant and equipment capital expenditures	**$ 13.2 Million**	$ 36.6 Million

	Balance, December 31, 2010	Balance, December 31, 2009
Cash and cash equivalents	**$ 301.6 Million**	$ 24.0 Million
Working capital(deficiency)*	**$ 224.8 Million**	($ 9.4) Million

* Working capital consists of current assets less current liabilities

Outlook

- For 2011, the Company has budgeted annual production of approximately 125,000 ounces of gold for the CSH Mine.
- For 2011, the Company has budgeted annual processing of 1.5 million tonnes of copper for the Jiama Mine. As the expansion of Phase II of the development plan expected in an upcoming feasibility study is not yet complete, Management is unable to provide any estimate of the additional production expected with the expansion of Phase II.
- A three year exploration program for the CSH Mine has been planned to fully evaluate its potential for gold mineralization.
- The Company is now conducting a mine plan and reserve analysis for the Jiama Mine with the view to increase the size and scope of the Phase II expansion of its mining operations at the Jiama Mine. This process is expected to culminate in an updated feasibility study, which is expected to be completed in the second quarter of 2011.
- An aggressive three year exploration program is also planned for the Jiama Mine with updated drilling targets in 2011, with a particular focus on upgrading and increasing resources.
- The Company will continue to leverage upon CNG's technical and operating experience in China to improve operations at the CSH Gold Mine and the Jiama Mine. In addition, the Company will continue to focus its efforts on increasing and optimizing production while minimizing costs.
- To fulfill its growth strategy, the Company is continually working with CNG to identify potential international mining opportunities, namely projects outside China, that can be readily and quickly brought into production for further expansion through exploration. The Company is seeking projects outside of China in reliance on the non-compete undertaking executed by CNG in favour of the Company by which CNG undertook to not compete with the Company for international projects and in return, the Company undertook not pursue any mining projects in China.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Company's accounting policies, the directors of the Company have identified accounting judgments and key sources of estimation uncertainty that have significant effect on the amounts recognized in the consolidated financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are outlined in Note 4 of our annual audited Consolidated Financial Statements.

CHANGE IN ACCOUNTING POLICIES

A summary of the new and revised IFRS standards and interpretations are outlined in Note 2 of our annual audited Consolidated Financial Statements.

FORWARD LOOKING STATEMENTS

Certain statements made herein, other than statements of historical fact relating to the Company, represent forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as "may", "will", "expect", "anticipate", "contemplates", "aim", "estimate", "intend", "plan", "believe", "potential", "continue", "is/are likely to", "should" or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward looking information includes, among other things; China Gold International's production estimates, business strategies and capital expenditure plans; the development and expansion plans and schedules for the CSH Gold Project and the Jiama Project; China Gold International's financial condition; the regulatory environment as well as the general industry outlook; general economic trends in China; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

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

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

HISTORICAL FINANCIAL INFORMATION

The condensed consolidated financial statements of the Company include the condensed consolidated financial statements of China Gold International and our controlled subsidiaries (including our operating subsidiaries, namely, the CSH Chinese Joint Venture ("CJV") and newly acquired Jiama). The assets and liabilities of the Dadiangou CJV have been segregated and held for sale. Our financial statements are presented in U.S. dollars.

Principal Income Statement Components

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

The following table sets forth the monthly weighted average sales price for the gold produced at the CSH Mine for 2009 and 2010:

	Weighted average sales price ($ per ounce)		**Weighted average sales price ($ per ounce)**
January 2009	856.0	**January 2010**	**1,090.6**
February 2009	948.0	**February 2010**	**1,115.9**
March 2009	912.0	**March 2010**	**1,108.4**
April 2009	870.4	**April 2010**	**1,097.9**
May 2009	951.1	**May 2010**	**1,178.6**
June 2009	937.4	**June 2010**	**1,215.5**
July 2009	931.7	**July 2010**	**1,156.9**
August 2009	952.9	**August 2010**	**1,224.3**
September 2009	992.3	**September 2010**	**1,277.0**
October 2009	1,027.0	**October 2010**	**1,297.9**
November 2009	1,098.2	**November 2010**	**1,343.2**
December 2009	1,063.0	**December 2010**	**1,248.1**

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.

The Company produced limited amounts of copper and molybdenum concentrate from the Jiama Mine from the date of acquisition on December 1, 2010 until year-end. Production at the Jiama Mine commenced in September 2010 and the facility is still going through the commissioning stage when revenues will be highly variable. However, production of copper and molybdenum concentrate is expected to represent a substantial portion of revenue of the Company in future financial periods.

Our production volume is primarily determined by the reserves, our production capacity and our recovery rate with respect to the CSH Mine. The average monthly commercial production volume at the CSH Mine for the three months ended December 31, 2010 and 2009 was approximately 11,860 ounces and 8,412 ounces respectively while the average monthly commercial production volume at the CSH Mine for year ended December 31, 2010 and 2009 was approximately 9,274 ounces and 6,964 ounces respectively.

Our **cost of sales** primarily consists of mining costs (which primarily include fees paid to third-party contractors), ore processing costs (for the CSH Mine primarily includes costs of raw materials used in the production process such as chemicals and drip meters, labor costs and utilities costs), other mine operating costs (primarily operating expenses, such as administrative and management staff salaries and benefits and office expenses), taxes, and depreciation and depletion. Historically, mining costs have been the largest component of our cost of production at the CSH Mine. Additional capital expenditures increase our depreciation and depletion which will in turn increase our cost of sales. With respect to the CSH Mine, we are subject to the People's Republic of China ("PRC") resource tax at RMB3 per tonne of ore processed as well as a resource compensation fee at a rate of 2.8% of the revenue from the CSH CJV. With respect to the Jiama Mine, we are subject to the PRC resource tax at RMB15 per tonne of ore processed as well as a resource compensation fee at a rate of 2% of the revenue from the Jiama Mine. The rates of this tax and fee are subject to adjustment by relevant PRC government authorities from time to time. Cost of sales is netted against sales of the silver by-product from the CSH Mine because the amount of proceeds from silver sales is small. Fees paid to third-party contractors are primarily for the provision of mine construction work and mining services.

Depreciation and depletion primarily consist of (i) depreciation of property, plant and equipment; and (ii) depletion of exploration expenditures incurred on sites within an existing mine or in areas within the boundary of a known mineral deposit which contain proven 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 expenses" below.

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

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

Exploration and evaluation expenditures are charged to the consolidated statement of comprehensive income in the period incurred until such time when our management has determined that a mineral property has economically recoverable reserves. For the criteria our management uses when making assessment of economic recoverability, see note 3 in our annual audited Consolidated Financial Statements. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and included in the carrying amount of mineral assets under property, plant and equipment.

Foreign exchange gain (loss) primarily consists of foreign exchange differences arising from the conversion of the balances of RMB denominated term loans or the syndicated loan to U.S. dollars and the conversion of foreign subsidiaries denominated in RMB to U.S. dollars.

With the exception of the newly acquired subsidiaries in the Skyland Group, our reporting currency and the functional currency of our operations is the U.S. dollar. Transactions in currencies other than the U.S. dollar are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are retranslated at the functional currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a currency other than the U.S. dollar are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. All gains and losses on translation of these foreign currency transactions are included in our consolidated statements of comprehensive income.

For the year ended December 31, 2010 and 2009, we had foreign exchange losses of US$1.5 million and US$5.9 million, respectively. Both were largely attributable to the Canadian dollar denominated promissory notes and the volatility or lack thereof between the CAD and U.S. dollar. With the balance of Series B Notes repaid in January 2010 and the repayment of the Series C Note for CAD$7.5 million to CNG in December 2010, no more promissory notes remain outstanding.

Interest income primarily consists of interest on bank deposits. With the proceeds of the IPO deposited, interest income has increased.

Finance costs consist of effective interest accrued on our borrowings and accretion on environmental rehabilitation liabilities, net of capitalized interest. Interest expenses are capitalized if the borrowings underlying the interest expenses are for the construction or development of qualifying assets.

Effective interest consists of interest expense and interest accretion on our borrowings. For the years ended December 31, 2010 and 2009, our effective interest expense (including the amount capitalized) was US$6.6 million and US$9.5 million, respectively. Finance costs, as an item on our income statement, which excludes capitalized interest, have been significantly less than our effective interest. For the years ended December 31, 2010 and 2009, our finance costs totaled US$5.8 million and US$6.3 million, respectively.

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

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

In December 2006 and July 2007, we issued warrants as part of a series of issuances of promissory notes. In December 2006, as part of our issuance of the Series A Notes, we issued 6 million warrants with an exercise price of CAD$1.60 per Share. In June 2007, as part of our issuance of the Series B and Series C Notes, we issued 4 million warrants with an exercise price of CAD$2.50 per Share. The fair value change on our warrant liabilities has been significant since the issuance of these warrants. For the years ended December 31, 2010 and 2009, we had fair value losses of US$7.2 million and US$7.2 million, respectively, on our warrant liabilities. The significant change in fair value on our warrant liabilities has been attributable to a number of factors including a higher share price, a decrease in exchange rate between Canadian and U.S. dollars, a lower interest rate, and a shorter expected life of the warrants. As a result of our rising stock price, we were able to exercise the accelerated expiry right for the CAD$1.60 per Share warrants on March 18, 2010, resulting in all CAD$1.60 per Share warrants subsequently exercised by April 17, 2010. We also exercised the accelerated expiry right for the CAD$4.25 per Share warrants on April 16, 2010, resulting in all CAD$4.25 warrants subsequently exercised by May 13, 2010.

Income tax for the Company is subject to Canadian federal and provincial tax rates of 28.5% and 30.0% for the years ended December 31, 2010 and 2009, respectively. The Company and its subsidiaries incorporated in Canada however have had no assessable profit since incorporation. During the same periods, our CSH Chinese Joint Venture was subject to the PRC enterprise income tax at a rate of 25% and 25%, respectively for the year ended December 31, 2010 and 2009. Subsequent to completion of the acquisition, our newly acquired subsidiary, "Jiama Industry and Trade, established in the westward area of the PRC, was subject to a preferential enterprise income tax of 15% due to its location in Tibet.

For the years ended December 31, 2010 and 2009, we recognized a deferred tax expense of US$1.4 million and US$1.3 million respectively and current income tax expense of US$13.5 million and US$4.8 million respectively, for total tax expense of US$14.9 million and US$6.1 million, respectively.

RESULTS OF OPERATIONS

Summarized Annual Financial Results

CONSOLIDATED (US$ in thousands, except per share information)	Years ended December 31 2010	2009	2008
Revenue	**133,198**	81,047	29,371
Exploration expenses	**721**	1,909	5,287
Net income (loss)	**27,140**	(8,371)	14,876
Basic income (loss) per share	**0.14**	(0.06)	0.09
Cash and cash equivalents	**301,609**	23,985	12,143
Property, plant and equipment	**297,902**	117,919	66,982
Inventory	**51,993**	29,019	27,645
Intangible assets	**975,283**	—	—
Total assets	**1,655,623**	174,577	119,311
Total long-term liabilities	**321,840**	89,260	19,335

Revenue for the Company has increased significantly year over year from 2008 until 2010. The increase in revenue is attributed to the increase in the amount of gold produced and sold from the CSH Mine, as well as an increase in the weighted average price of gold. As commercial production began in July 2008, there is only six months of revenue included in 2008 with amounts sold prior to the commercial production stage offset against cost of sales.

Exploration expense has continued to decline as the CSH Mine site concentrated on the ramp up of the crusher and developing more efficient production.

The increase in net income and basic income per share are a direct result of the profitable operations of the CSH Mine operations.

The sharp increase in cash and cash equivalents is due to the proceeds of the Global Offering just completed in December 2010 while the increase in property, plant and equipment, intangible assets, inventory, total assets and total long-term liabilities largely resulted from the acquisition of the Skyland and the Jiama Mine.

Selected Quarterly Data

QUARTER ENDED	2010				2009			
(US$ in thousands except per share)	**31-Dec**	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues ($ in thousands)	**48,886**	46,631	27,181	10,499	34,009	21,048	18,304	7,686
Cost of Sales	**26,824**	23,179	13,330	5,308	23,580	13,973	13,150	5,289
Mine operating earnings	**22,063**	23,452	13,850	5,191	10,429	7,075	5,155	23,967
General and administrative expenses	**1,928**	1,396	1,171	846	537	1,340	867	970
Exploration and evaluation expenses	**559**	69	70	23	907	396	280	327
Income from operations	**19,675**	21,987	12,610	4,222	8,985	5,339	4,008	1,100
Foreign exchange loss (gain)	**595**	631	872	618	447	3,311	4,913	(2,784)
Finance costs	**2,164**	1,450	1,489	740	2,376	1,830	1,016	1,273
Profit(loss) before income tax	**16,923**	19,405	8,205	(2,533)	7,363	(2,544)	(2,813)	2,341
Income tax expense	**4,392**	5,581	3,235	1,652	4,193	937	962	—
Net income (loss)	**12,530**	13,825	4,970	(4,185)	(3,457)	(3,480)	(3,775)	2,341
Basic earnings (loss) per share (US$)	**0.06**	0.08	0.03	(0.03)	(0.02)	(0.02)	(0.02)	0.01
Diluted earnings (loss) per share	**0.06**	0.08	0.03	(0.03)	(0.02)	(0.02)	(0.02)	0.01

Review of Quarterly Data

Revenue increased by 4.9%, or US$2.3 million, from US$46.6 million for the three month period ended September 30, 2010, to US$48.9 million for the three month period ended December 31, 2010 due to the addition of Jiama's revenue of $4.8 million. The revenue earned in the last quarter of 2010 increased by 43% over the US$34.0 million earned in the same three month period ended December 31, 2009 due to the sale of more gold and an increase in the weighted average price of gold. For the three month period ended December 31, 2010, the CSH Mine produced a total of 35,582 ounces of gold and sold 32,998 ounces of gold at a weighted average price of US$1,336 per ounce. For the three month period ended December 31, 2009, the CSH Mine produced a total of 25,758 ounces of gold and sold 33,073 ounces of gold at a weighted average price of US$1,028 per ounce. Although a problem with the PH levels in September and October slowed the leaching of gold resulting in lower than expected gold production in Q3, all the improvements of the year resulted in a stronger Q4 than the usual seasonal production slowdown experienced in past years.

Cost of sales increased by 16.0% or US$3.6 million, from US$23.2 million for the three month period ended September 30, 2010 to US$26.8 million, for the three month period ended December 31, 2010. This compares to US$23.6 million cost of sales for Q4 in 2009. The increase in cost of sales was primarily due to the addition of Jiama's cost of sales of US$4.2 million. The cost of sales at the CSH Mine actually went down in Q4 by approximately US$0.5 million. Cost of sales as a percentage of revenue were higher for the Company at 52.6% and without Jiama at 51.4% for the three month period ended December 31, 2010 compared to 49.0% for the three month period ended September 30, 2010. 2010's results were a large improvement over the cost of sales as a percentage of revenue of 69.4% for Q4 2009.

Mine operating earnings for the Company dropped from US$23.5 million for the three month period ended September 30, 2010 to US$22.1 million for the three month period ended December 31, 2010. Mine operating earnings as a percentage of revenue also dropped to 45.1% for the three month period ended December 31, 2010 compared to the three month period ended September 30, 2010 at 50.3%, but remained still a great improvement from 30.6% experienced in Q4 2009.

General and administrative expenses increased by 38.1%, or US$0.4 million, from US$1.4 million for the three month period ended September 30, 2010 to US$1.9 million for the three month period ended December 31, 2010. While general and administrative expenses increased by 259.0% or US$1.3 million compared to Q4 in 2009. The increase quarter over quarter and Q4 2010 to Q4 2009 was primarily attributable to the addition of the expenses of Jiama of US$1.5 million.

Exploration and evaluation expenditures increased by 710.3% or US$490,000 to US$559,000 for the three month period ended December 31, 2010 compared to US$69,000 for the three month period ended September 30, 2010. These same expenditures decreased by 38.4% or US$348,000 compared to US$907,000 incurred in Q4 2009 as more attention was paid to the ramp up of the crusher and improving production.

Income from operations for Q4 dropped by 10.9%, or US$2.3 million, from income of US$22.0 million for the three month period ended September 30, 2010 to income of US$19.7 million for the three month period ended December 31, 2010. Income from operations improved by US$10.7 million over Q4 of 2009.

Listing expenses decreased by 91.7%, or US$557,000, from US$514,000 for the three month period ended September 30, 2010 to US$43,000 for the three month period ended December 31, 2010. This was a decrease of 96.5% or US$1.2 million from Q4's expense of US$2.4 million in 2009.This decrease was primarily due to a decrease in professional services related to the proposed listing on the Hong Kong Stock Exchange.

(Stated in U.S. dollars, except as otherwise noted)

Finance costs increased by 49.2%, or US$714,000 from US$1.5 million for the three month period ended September 30, 2010 to US$2.2 million for the three month period ended December 31, 2010, primarily attributable to the addition of Jiama's finance costs of $855,000. This was a decrease of US$212,000 over the finance costs paid in Q3 of 2009 and without Jiama effectively a drop of over $1 million from the prior year. As the cost of the warrants issued to the promissory note holders were all expensed and the effective interest rate on the remaining CAD$7.5 million promissory note decreased to its annual interest rate of 12% due to the Crusher being put into use, the interest was now required to be expensed instead of being capitalized.

There was no **fair value change of warrant liabilities** for the three month period ended September 30, 2010 or for the three month period ended December 31, 2010 as all the warrants were exercised earlier in the year.

Foreign exchange changed by US$36,000 from a loss of US$631,000 for the three month period ended September 30, 2010 to a loss of US$595,000 for the three month period ended December 31, 2010.

Interest and other income increased by US$38,000 from US$14,000 for the three month period ended September 30, 2010 to US$51,000 for the three month period ended December 31, 2010. This increase was primarily due to the addition of transportation income from Jiama Industry and Trade subsidiary of the Skyland Group.

Income tax expense decreased by 21.9%, or US$1.2 million, from US$5.6 million for the three months period ended September 30, 2010 to US$4.4 million for the three month period ended December 31, 2010 due to a decrease in taxable income during the period. This was an increase of 4.8% or US$200,000 over Q4 2009.

Net income (loss) attributable to owners of the Company decreased by US$1.3 million from income of US$13.8 million for the three month period ended September 30, 2010 to income of US$12.5 million for the three months ended December 31, 2010. Compared to Q4 2009, net income rose by 462.5% from a net loss of US$3.5 million.

Review of Annual Data

	CSH MINE		**CSH AND JIANMA**	CSH MINE		**JIAMA MINE**
	Three months ended December 31, 2010 US$	**Year ended December 31, 2010 US$**	**Year ended December 31, 2010 US$**	Three months ended December 31, 2009 US$	Year ended December 31, 2009 US$	**One month ended December 31, 2010 US$**
Revenue	**44,094,212**	**128,405,548**	**133,197,660**	34,008,893	81,047,414	**4,792,112**
Cost of sales	**22,702,727**	**64,520,577**	**68,641,323**	23,579,589	56,178,404	**4,120,746**
Mine operating earnings	**21,391,485**	**63,884,971**	**64,556,337**	10,429,304	24,869,010	**671,366**
Gold produced (ounces)	**35,582**	**111,289**	**111,434**	25,758	83,570	**145**
Gold sold (ounces)	**32,998**	**103,673**	**104,296**	33,073	83,376	**623**
Copper produced (tonnes)	**—**	**—**	**225.91**	—	—	**225.91**
Copper sold (tonnes)	**—**	**—**	**519.46**	—	—	**519.46**
Total cost of gold sold per ounce	**688**	**633**	**633**	713	674	**—**
Total cost of ore sold per tonne	**—**	**—**	**5,842**	—	—	**5,842**
Cash cost* per ounce of gold	**609**	**542**	**542**	666	605	**—**
Cash cost* per tonne of ore	**—**	**—**	**4,805**	—	—	**4,805**

* *Non-IFRS measure*

Revenue increased by 64.3%, or US$52.2 million, from US$81.0 million for the year ended December 31, 2009, to US$133.2 million for the year ended December 31, 2010. The increase was due to an increase in the ounces of gold sold at the CSH Mine as well as a US$266.90 per ounce increase in the weighted average price of gold. For the year ended December 31, 2010, the CSH Mine produced a total of 111,289 ounces of gold and sold 103,645 ounces of gold at a weighted average price of US$1,239 per ounce. For the year ended December 31, 2009, the CSH Mine produced a total of 83,570 ounces of gold and sold 83,376 ounces of gold at a weighted average price of US$972 per ounce. The reason for the increase in gold production this year compared to 2009 was primarily due to the addition of the crushing facility at the CSH Mine and its continued operation at 30,000 tonnes per day which greatly reduced the ore size added to the leach pad allowing more gold to leach resulting in higher gold production.

Cost of sales increased by 22.2% or US$12.5 million, from US$56.2 million for the year ended December 31, 2009 to US$68.6 million, for the year ended December 31, 2010. Cost of sales as a percentage of revenue decreased from 69.3% for the year ended December 31, 2009 to 51.5% for the year ended December 31, 2010. A concentrated effort to reduce the cost of sales at the CSH Mine by fine tuning processes, reducing costs of suppliers, finding and retaining the right management and employees, continually improving productivity, and building operating experience amongst other things has certainly cut costs.

As a result of the foregoing, **mine operating earnings** more than doubled from US$24.9 million for the year ended December 31, 2009 to US$64.6 million for the year ended December 31, 2010. Mine operating earnings as a percentage of revenue rose from 30.7% to 48.5% due to reduced cost of sales and an increase in the weighted average sale price of gold for the year ended December 31, 2010 compared to the prior year.

General and administrative expenses increased by 43.8%, or US$1.6 million, from US$3.7 million for the year ended December 31, 2009 to US$5.3 million for the year ended December 31, 2010. This increase was primarily attributable to addition of Jiama for US$1.5 million.

Exploration and evaluation expenditure decreased by 62.2%, or US$1.2 million, from US$1.9 million for the year ended December 31, 2009 to US$721,000 for the year ended December 31, 2010. Although a drilling program had been carried out at the CSH Mine during 2010, the amount expended on exploration has decreased considerably compared with the prior year as more attention was paid to the ramp up of the crusher and improving production.

As a result of the foregoing, **income from operations** increased by 203.9%, or US$39.2 million, from income of US$19.2 million for the year ended December 31, 2009 to income of US$58.5 million for the year ended December 31, 2010.

Listing expenses remained constant from 2009 to 2010 at US$2.1 million.

Finance costs decreased by 7.4%, or US$465,000, from US$6.3 million for the year ended December 31, 2009 to US$5.8 million for the year ended December 31, 2010. Although effective interest decreased by US$2.9 million, it was offset by a decrease in capitalized interest expense of US$3.1 million. The decrease in the capitalized interest is due to the crusher being put into use requiring any loan interest to be expensed instead.

The **fair value change of warrant liabilities** remained fairly constant at about US$7.2 million from 2009 to 2010. All warrants have now been exercised.

Foreign exchange decreased by 74.9% or US$4.4 million from a loss of US$5.9 million for the year ended December 31, 2009 to a loss of US$1.5 million for the year ended December 31, 2010. The greater stability between the CAD and US dollar as well as only one remaining CAD$7.5 million promissory note up until December accounts for the decrease in 2010.

(Stated in U.S. dollars, except as otherwise noted)

Interest and other income increased by US$61,000, from US$5,500 for the year ended December 31, 2009 to US$67,000 for the year ended December 31, 2010. This increase was primarily due to the addition of other income from the Jiama Industry and Trade and the increase in bank deposits as a result of the increase in funds from the Global Offering that closed on December 1st.

Income tax expense increased by 143.9%, or US$8.8 million, from US$6.1 million for the year ended December 31, 2009 to US$14.9 million for the year ended December 31, 2010 due to an increase in taxable income during the period.

As a result of the foregoing, **net income (loss)** attributable to the owners of the Company increased US$35.5 million from a loss of US$8.4 million for the year ended December 31, 2009 to income of US$27.1 million for the year ended December 31, 2010.

NON-IFRS MEASURES

The following table provides certain unit costs information to determine the cash cost of production per ounce (non-IFRS) for the CSH Gold Mine for three-month period s and years ended December 31, 2010 and 2009:

	Three months ended December 31, 2010 US$	**Year ended December 31, 2010 US$**	Three months ended December 31, 2009 US$	Year ended December 31, 2009 US$
Cost of mining per tonne of ore	**1.25**	**1.24**	3.71	1.69
Cost of mining waste per tonne of ore	**3.04**	**1.74**	1.56	1.44
Other mining costs per tonne of ore	**0.53**	**0.38**	0.10	0.22
Total mining costs per tonne of ore	**4.82**	**3.36**	5.37	3.35

The cash cost of production is a measure that is not in accordance IFRS.

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

	CSH Mine								**Jiama Mine**	
	Three months ended December 31, 2010		**Year ended December 31, 2010**		Three months ended December 31, 2009		Year ended December 31, 2009		**One month ended December 31, 2010**	
	US$	**US$ per gold ounce**	**US$**	**US$ per gold ounce**	US$	US$ per gold ounce	US$	US$ per gold ounce	**US$**	**US$ per copper tonne**
Cost of sales	**22,702,707**	**688**	**64,520,576**	**633**	23,579,589	713	56,178,404	674	**4,120,747**	**5,842**
Adjustments	**(2,592,229)**	**(79)**	**(8,945,174)**	**(91)**	(1,553,301)	(47)	(5,703,338)	(68)	**(1,829,820)**	**(1,037)**
Total cash costs	**20,110,498**	**609**	**55,575,402**	**542**	22,026,288	666	50,475,066	605	**2,290,927**	**4,805**

(Stated in U.S. dollars, except as otherwise noted)

The adjustments above include depreciation, depletion, amortization and selling expenses included in the cost of sales. The total cash costs per gold ounce. above differ from the unit cash costs disclosed in the Behre Dolbear ITR for the CSH Mine for two reasons. First, the Behre Dolbear ITR is prepared on a cash basis while the calculation above is prepared on an accrual basis. The cost of sales above includes an allocation of costs experienced over time while the Behre Dolbear ITR does not. Second, the Behre Dolbear ITR is prepared based on the units produced while the calculations above are based on the units sold.

MINERAL PROPERTIES

The CSH Mine

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

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

The following table shows the cumulative expenditures on exploration and development from 2008 to December 31, 2010:

	December 31, 2008 US$	Increased/ Decreased during the period US$	December 31, 2009 US$	Increased/ Decreased during the period[3] US$	**December 31, 2010 US$**
Exploration expenditure charged to profit or loss	8,903,877	267,299	9,171,176	594,453	**9,765,629**
Mineral assets [1]	11,957,158	6,803,216	18,760,374	9,137,168	**27,897,542**
Construction in progress [2][3]	28,727,117	47,255,828	75,982,945	(73,550,642)	**2,432,303**

(1) During the year ended December 31, 2010, an addition of US$56,000 was made from changes in the discount rate (2009: a reduction of US$3.1 million from changes in estimated timing and amount of cash flows) for environmental rehabilitation.

(2) During the year ended December 31, 2009, US$1.0 million was transferred out from construction in progress to the crusher in property, plant and equipment.

(3) During the year ended December 31, 2010, US$71.7 million was transferred out from construction in progress to the crusher in property, plant and equipment and the Company reversed US$5.7 million in accruals on construction in progress upon the completion of crushing facility construction.

Mineral Resources and Ore Reserves

An updated mine plan for the CSH Gold Project was developed and reported as at June 30, 2010 in the Behre Dolbear ITR dated November 17, 2010. This plan was prepared for heap leaching with a crushing plant throughput rate of 30,000 tonnes per day which was reached as planned by the end of the first quarter of 2010. Further information can be found in the technical report filed at www.sedar.com and www.hkexnews.hk.

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

The reserves are summarized in the table below:

	CSH Gold Mine Total Reserves at December 31, 2010				
Classification	**Cutoff Au** (g/t)	**Ore** (M tonnes)	**Grade Au** (g/t)	**Contained Au** (kg)	**Contained Au** (Million oz)
Proven	≥+ 0.3	74.6	0.70	52,227	1.679
Probable	>= 0.3	51.2	0.65	33,264	1.069
Total	**>= 0.30**	**125.9**	**0.68**	**85,491**	**2.749**

Resource Estimate

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

At the end of December 2010, the project's Measured and Indicated Gold Resources, using 0.3 grams per tonne ("g/t") Au cut-off grade, stand at 230 million tonnes averaging 0.64 (g/t) gold. This translates into 4.74 million ounces of contained gold (inclusive of reserves) in the deposit. In the previous March 2008 ITR, 183 million tonnes of Measured and Indicated resources averaging 0.69 g/t gold were reported at the same 0.30 g/t gold cut-off grade.

Details of the new resources update based on the Behre Dolbear ITR dated June 30, 2010 after depletion in the balance of 2010 are summarized in the following table:

	Resources estimates for the CSH Mine at December 31, 2010									
	Measured		**Indicated**		**Measured+Indicated**			**Inferred**		
Cutoff (g/t)	**Million Tonnes**	**Au Grade (g/t)**	**Million Tonnes**	**Au Grade (g/t)**	**Million Tonnes**	**Au Grade (g/t)**	**Au Million Ounces**	**Million Tonnes**	**Au Grade (g/t)**	**Au Million Ounces**
0.30	**96.7**	**0.68**	**133.6**	**0.61**	**230.3**	**0.64**	**4.736**	**0.52**	**0.43**	**0.007**
0.40	78.8	0.75	101.7	0.69	180.5	0.72	4.176	0.24	0.54	0.004
0.50	61.7	0.84	74.7	0.78	136.5	0.81	3.542	0.12	0.62	0.002

(Stated in U.S. dollars, except as otherwise noted)

Production Update

Since March, 2010, mine production has consisted almost entirely of crushed ore, and the crusher facility has consistently reached its design capacity of 30,000 tpd. According to the most recent column leach test done by Metcon Research of KDE, once the ore is crushed, the gold recovery will greatly improve to approximately 70% to 80% depending on the gold grades. The higher the gold grade, the better the recovery will be. The Behre Dolbear ITR updated as of June 30, 2010 forecasted total gold production for 2010 and 2011 to be approximately 115,000 ounces and 146,570 ounces, respectively.

	Three months ended December 31, 2010 US$	**Year ended December 31, 2010 US$**	Three months ended December 31, 2009 US$	Year ended December 31, 2009 US$
Ore mined and placed on pad (tonnes)	**2,489,654**	**12,421,839**	3,063,135	9,698,571
Average grade of ore (grams per tonne)	**0.594**	**0.668**	0.602	0.630
Recoverable gold at 43% recovery rate (ounces)	**20,371**	**111,552**	30,391	98,865
Ending ore inventory (ounces)	**58,944**	**58,944**	55,610	55,610
Waste rock mined (tonnes)	**8,129,131**	**22,417,577**	3,201,852	9,621,554

For the year ended December 31, 2010, the total amount of ore put on the leach pad was 12,421,839 tonnes, while the total amount of gold put on the leach pad was 8,299,094 grams (266,822oz). The amount of gold put on pad was higher due to the increased mining amount.

The amount of gold poured for the year ended December 31, 2010 was lower than targeted. This was mainly due to a harsh and long winter and some frozen drip meters which were not buried, causing the sharp production shortfall experienced in the first half of 2010. In addition, most of the ore was placed on top (3rd to 4th) lifts, farther away from the process plant, which requires more time for the solution to circulate. Although leaching was slow until the end of May, following the thaw from last year's extremely harsh winter and the completion of the leach pad extension at the end of July, the daily production began to rise as expected. The Company poured 13,897 and 14,307 ounces of gold in August and September respectively. At that time, the Company believed that it was still likely to achieve aggregate gold production estimates for 2010 as outlined in the June CSH Technical Report. However, from mid-August 2010, the PH levels of the leaching solution exceeded normal levels and remained high for over two months, which reduced the gold leaching rate and moderated gold production starting in October (approximately 13,400 ounces). Accordingly, the Company was not able to fully compensate for the lower than targeted production in the first half of the year. PH levels have now returned to a more normal state and gold production is realizing its targets.

Gold inventory stabilized in August and September with small decreases in the amount of gold inventory still in the circuit. The amount of gold in the circuit has continued to stabilize through to the year end. The Company continues to carefully monitor the behavior of gold inventory in the circuit.

Project Economics

According to the latest mine plan, the CSH Mine life was extended from 2018 to 2023 with four more years of leaching afterwards. By the end of 2009 and prior to the use of the crusher, approximately 20 million tonnes of ROM ore were put under leach. The observed recovery from this uncrushed ROM material based on gold poured has been 37.3%. It is estimated that the ultimate recovery rate for the uncrushed ROM ore already on pad will be over 53%. With the new crusher now at the design capacity of 30,000 tpd, it is expected that the gold recovery will continue to stabilize. According to the column test done by Metcon Research of KDE in 2009, the recovery rate for the crushed ore is a function of the ore grade. The higher the ore grade the higher the recovery rate, which ranges from the lowest of 62.1% in the SW pit to the highest of 80.9% in the NE pit. According to the updated Behre Dolbear ITR as of June 30, 2010 and the new mine production plan, approximately 2.35 million ounces of gold will be produced in the next 15 years starting with annual production of approximately 146,570 ounces in 2011, gradually increasing to over 150,000 ounces in 2015 and then to over 200,000 ounces in 2022.

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

Most of the development work at the CSH Gold Project has been completed. The heap leach pad Phase II extension was completed in July 2010. Further capital expenditures for the project include a conveyor system from the crusher to the leach pad and future leach pad III to VI extension. The total capital cost is estimated at approximately US$29 million.

Exploration

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

The Company successfully completed its diamond drilling plan on eight holes (4,187.57 meters) at its CSH Mine, confirming continued mineralization at depth for six holes and the discovery of anomalous gold values for the two holes drilled to test for surface trenching intercepts. An aggressive three year exploration program has been planned for the CSH Mine starting 2011 to fully evaluate the mineralization at depth and the potential of a new northwest zone of gold mineralization.

Processing Plant Upgrade

The upgrading construction for the additional processing capacity of 2000 $m^{3\ PLS}$ solution per hour started in March, 2010, and was completed by the end of July 2010. Five new carbon in columns ("CIC") were built each with a volume of 353.25 cubic meters (7.5 meter diameter and 8 meter tall). A new 4192 $m^{3\ PLS}$ pond and a 1551 $m^{3\ PLS}$ pond were built with 3 extra PLS pumps and 3 extra BLS pumps and all the necessary piping installed.

The following is an update of the current major processing equipment list:

CSH Mine Major Carbon Adsorption & Stripping Equipment List:

CIC Columns		# of Columns	Volume of Each Column m^3	Total Volume m^3	Designed Processing Capacity m^3/hr	# of PLS Pumps	Pumping Capacity m^3/hr	# of BLS Pumps	Pumping Capacity m^3/hr
Existing CIC Columns	Series 1	6	33	206	800	3	1,800	4	1,600
	Series 2	6	41	238	800				
New Addition	Series 3	5	353	1,765	2,000	3	2,250	3	2,400

A New 5 tonne Carbon Stripping Circuit is added to the processing plant, the total carbon stripping capacity is at 10 tonnes at a time.

Two water supply wells at the river were renovated with more, longer, coarser radiating perforated water collection pipes buried below the alluvial sandy bed, which allowed additional water to be pumped into the system since early July. By the end of September 2010, the PLS processing rate had been increased to 2942 m3 per hour and stabilized at that level.

Environmental and Community Considerations

The Company is committed and dedicated to observing and complying with Chinese and global environmental and social responsibility standards.

Various social issues were addressed in a series of studies which focused on the protection of local social heritage and culture, the employment of local people (currently approximately 30% of the workforce), employment of women (currently approximately 10% of the workforce). The Company makes contributions towards local education, medical equipment, various community activities and support of poor families with food and coal (collectively at a cost of approximately RMB1.6 million to date) having been implemented by the Company.

Several studies were completed since 2006 concerning the lack of water at the CSH Mine. The objective of the mine project in securing its water supply was to balance the extraction of water from local sources with the capacity for recharge of these sources. The collective studies have determined that a sustainable water extraction rate would be 4,000 m3/day in an average year and 3,000 m3/day in a dry year, which is sufficient to meet the demand of the mining operation. The current Water Permit allows water to be pumped from the Molen River and Xinhure alluvial aquifer as well as the Hushaogou bedrock aquifer, at a rate of up to approximately 1 Mm3/year.

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

(Stated in U.S. dollars, except as otherwise noted)

The Jiama Mine

The Company acquired the Jiama Mineral Property ("Jiama") on December 1, 2010. Jiama is a significant copper-gold polymetallic deposit consisting of copper, gold, silver, molybdenum, and other minerals located in the Gandise metallogenic belt in Tibet, China.

The deposit is presently being mined as a combined open-pit and underground mining operation. The development includes two open pits, being the smaller Tongqianshan pit and larger Niumatang Pit, as well as an underground operation that will be accessed through two shafts having an initial 355m depth and extending to a final depth of 600m. The first phase of development which primarily involved the development of an open-pit infrastructure at the Tongqianshan open pit, ore processing facilities and an underground ore transportation system is now complete. Skyland commenced mining from the Tongqianshan pit and processing operations in the latter half of 2010 with production reaching the planned 6,000 tonnes per day ("tpd") as planned for Phase I. The Company has retained a consultant to create a conceptual mine model using additional drilling results that may cause the mine plan to change to support expanded operations in the future.

	December 1, 2010 $	Increased during the period $	**December 31, 2010 $**
Exploration expenditure charged to profit or loss	—	39,112	**39,112**
Mineral assets	—	584,913	**584,913**
Construction in progress	40,041,466	3,970,958	**44,012,424**

(Stated in U.S. dollars, except as otherwise noted)

Mineral Resources and Ore Reserves

In September 2010, Behre Dolbear completed a technical review and, as part of its engagement, produced an NI 43-101 technical report on the Jiama Property as at June 30, 2010 dated November 17, 2010. Set forth below are the mineral resource and reserve estimates for the property. Further information can be found in the technical report filed at www.sedar.com and www.hkexnews.hk.

The following skarn-type resources and reserves have been identified at the Jiama Property, as at December 31, 2010. The skarn-type resources are reported at a cut-off grade of 0.3% copper, 0.03% molybdenum, or 1% lead, or 1% zinc. Resources are inclusive of reserves.

Skarn Zone Resource Estimate (December 31, 2010)

	Grade						Metals					
Kt	Copper ("Cu") %	Molybdenum ("Mo") %	Gold ("Au") g/t	Silver ("Ag") g/t	Lead ("Pb") %	Zinc ("Zn") %	Cu Kt	Mo Kt	Au t	Ag t	Pb Kt	Zn Kt
Measured Resource												
82,814	0.83	0.042	0.30	16.0	0.06	0.05	6,824	34.22	24.84	1,325	49.6	38.2
Indicated Resource												
101,641	0.68	0.041	0.22	13.7	0.10	0.05	691.1	41.67	22.21	1,392	81.3	50.8
Measured + Indicated Resource												
184,455	**0.74**	**0.041**	**0.26**	**14.7**	**0.08**	**0.05**	**1,373.5**	**75.89**	**46.05**	**2,717**	**130.9**	**89.0**
Inferred Resource												
164,916	0.64	0.053	0.21	13.1	0.14	0.06	1,055.4	87.43	34.63	2,160	230.8	98.9

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

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

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

Cutoff Unit Economic Value for Reserve Estimation of the Jiama Project

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

(Stated in U.S. dollars, except as otherwise noted)

Mining and Production Operations

The following table shows the reserves remaining as of the end of 2010 with the same parameters:

Ore Reserve Estimates for the Jiama Project (December 31, 2010)

		Grade						Contained Metals					
		Cu	Mo	Au	Ag	Pb	Zn	Cu	Mo	Au	Ag	Pb	Zn
Type	**Kt**	**%**	**%**	**g/t**	**g/t**	**%**	**%**	**Kt**	**Kt**	**t**	**t**	**Kt**	**Kt**
Tongqianshan Pit													
Proved	1,208	0.64	0.15	0.20	10.0	0.21	0.05	7.7	0.18	0.24	12	2.5	0.6
Probable	2,004	0.77	0.012	0.24	13.4	0.51	0.09	15.4	0.24	0.48	27	10.2	1.8
Subtotal	3,212	0.73	0.013	0.23	12.3	0.41	0.08	23.1	0.41	0.72	39	12.7	2.4
Waste	20,826												
Strip Ratio	5.58												
Niumatang Pit													
Proved	14,376	1.04	0.039	0.45	21.6	0.03	0.03	149.5	5.60	6.46	310	4.2	3.9
Probable	5,423	1.06	0.035	0.49	21.7	0.03	0.03	57.7	1.89	2.63	118	1.8	1.8
Subtotal	19,799	1.05	0.038	0.46	21.6	0.03	0.03	208.6	7.55	9.19	430	6.0	5.6
Waste	146,224												
Strip Ratio	7.35												
Total Open Pits													
Proved	**15,584**	**1.01**	**0.037**	**0.43**	**20.7**	**0.04**	**0.03**	**157.2**	**5.47**	**6.70**	**322**	**6.7**	**4.5**
Probable	**7.427**	**0.97**	**0.027**	**0.41**	**19.1**	**0.19**	**0.05**	**73.1**	**2.13**	**3.11**	**145**	**12.0**	**3.6**
Subtotal	**23,011**	**1.00**	**0.034**	**0.42**	**20.1**	**0.09**	**0.04**	**230.3**	**7.6**	**9.81**	**467**	**18.7**	**8.1**
Waste	**167,050**												
Strip Ratio	**7.07**												
Underground Reserve													
Proved	**37,860**	**0.75**	**0.038**	**0.27**	**14.5**	**0.06**	**0.04**	**284.2**	**14.48**	**10.3**	**550**	**22.9**	**16.9**
Probable	**44,410**	**0.82**	**0.042**	**0.27**	**16.0**	**0.09**	**0.05**	**365.6**	**18.77**	**12.0**	**712**	**40.6**	**23.2**
Subtotal	**82,269**	**0.79**	**0.040**	**0.27**	**15.3**	**0.08**	**0.05**	**649.8**	**33.25**	**22.3**	**1,262**	**63.5**	**40.1**
Total Reserves													
Proved	**53,444**	**0.83**	**0.038**	**0.32**	**16.3**	**0.06**	**0.04**	**441.4**	**29.95**	**17.0**	**872**	**29.6**	**21.4**
Probable	**51,837**	**0.85**	**0.040**	**0.29**	**16.5**	**0.11**	**0.05**	**438.7**	**20.90**	**15.11**	**857**	**52.6**	**26.8**
Total	**105,281**	**0.84**	**0.039**	**0.31**	**16.4**	**0.08**	**0.05**	**879.1**	**40.85**	**32.11**	**1,729**	**82.2**	**48.2**

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

The Company is developing the mining facilities in phases. According to the Behre Dolbear ITR, the Jiama Project is to be developed as a combined open-pit and underground mining operation at a production rate of 3.6 million tpa (12,000 tpd) based on 300 working days per annum over a mine life of approximately 31 years. At December 31, 2010, Phase I was complete with production at 6,000 tpd from the Tongqianshan open pit. Open-pit mining at the Niumatang pit to increase the total open-pit mining production; underground mining to increase total mine production and finally, underground mining to ramp up production after the Tongqianshan pit is depleted were all part of the original Phase II plan. The Company is now conducting a mine plan and reserve analysis with the view to increase the size and scope of the phase II expansion of its mining operations. This process is expected to culminate in an updated feasibility study, currently anticipated to be completed in the second or third quarter of 2011.

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

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

Operating and Capital Costs

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

In the Behre Dolbear Report, the original mine development plan estimated total capital costs at approximately US$400 million to bring the project to 12,000 tpd of production. To date, approximately 56% of the capital costs have been expended, with an additional approximately US$170 million to be expended in the balance of 2010 through to 2012. The original mine development plan estimated further sustaining capital expenditures required through the life of the mine of approximately US$230 million. These amounts will change with the updated mine development plan expected to be completed in the second quarter.

(Stated in U.S. dollars, except as otherwise noted)

Economic Analysis

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

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

Metal	Metal with VAT Price (1)		Metal in Concentrate with VAT Price		Metal in Concentrate without VAT Price	
	RMB	US$	RMB	US$	RMB	US$
Copper	55,000/t	8,112.09/t	49,275/t	7,267.70/t	42,115.39/t	6,362.80/t
Molybdenum			300,000/t	44,247.79/t	256,410.26/t	37,818.62/t
Gold	200/g	917.51/oz	166/g	761.53/oz	166/g	761.53/oz
Silver	3,500/kg	16.06/oz	2,712.5/kg	12.44/oz	2,318.38/kg	10.64/oz
Lead			12,500/t	1,843.66/t	10,683.76/t	1,575.78/t

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

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

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

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

Hornfels-type Resource Estimate

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

(Stated in U.S. dollars, except as otherwise noted)

The hornfels-type mineral resources, estimated as of June 30, 2010 by Behre Dolbear for the Jiama Project, are summarized in the table below. The cutoff grade used for the hornfels-type resource summary is 0.3% copper, or 0.03% molybdenum, or 1% lead, or 1% zinc. Only inferred resources were estimated for the hornfels-type mineralization.

Hornfels Zone Inferred Mineral Resource Estimate
(June 30, 2010)

Kt	Grade						Contained Metal					
	Cu %	Mo %	Au g/t	Ag g/t	Pb %	Zn %	Cu Kt	Mo Kt	Au t	Ag t	Pb Kt	Zn Kt
655,000	0.23	0.045	0.02	1.17	0.00	0.01	1,500	290	13	770	—	—

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

Environment and Community Considerations

Environment protection measures for the mine site are comprised of water management, solid waste, dust and air quality mitigation, noise control, rehabilitation, and tailings storage.

The Jiama Project has a policy of social responsibility towards the local community, with a focus on providing assistance and contributing towards social development, through financially supporting local economic development, education, employment, training initiatives, local transport, communications, drinking water supply, and other social initiatives such as assisting poor families and rectifying both contamination issues and outstanding debts due to the community that were generated by previous mining operations on the Jiama Project site.

The community has welcomed the opportunity for employment in the area and has participated in ongoing dialogue with both Huatailong and the local government through the "Jiama Project Coordination and Development Management Committee" concerning the development and operation of the mine, potential environmental impacts and their management, and the scope and nature of community benefits to be generated by the development. Over RMB50 million (US$7.3 million) has been expended to date by Huatailong through the implementation of its community development plan.

Huatailong employs approximately 125 local Tibetan mine workers, is providing training and around thirty tertiary education scholarships to local people, has already employed approximately 26,000 days of contracted local labour and is ensuring that non-Tibetan staff are learning the local language.

Actual Commissioning and Production during the Commissioning Process

The Jiama Mine went into commissioning for commercial production in September 2010 and by December; the mine was processing 6,000 tonnes of ore per day. The mine is presently producing copper, gold and silver. Because the Jiama Mine is situated in a remote location in China, the mine experienced interruptions or shortages in its electricity supply from December 12th. According to the Jiama Technical Report, the Company was warned that the Jiama Project may experience power shortages until the central power grid of Tibet is connected to China's national power grid and shortage in electricity supply for mine and processing production during a winter dry season may affect the ability of the Jiama Project in meeting production targets. Production is now back on track and the connection to the central power grid is planned for by the end of 2012.

Assay Results from New Diamond Drill Holes

The Company successfully completed its planned 50,000 meter drilling program from ninety-five holes at its Jiama Copper-Gold Polymetallic Mine. Drilling results will be included in an updated resource estimate expected to be completed by the second quarter. The high drilling success rate of ninety-five percent confirmed the high-grade skarn type mineralization is continuous in the licensed area. Further, a new standalone quartz diorite porphyrite dyke type gold mineralization zone was identified which may add a significant amount of high grade gold resources to the project. In addition, an aggressive three year exploration program has been started around the Jiama project area to further define the extent of the mineralized system supporting the now known deposit.

Jiama presents a world class copper/gold exploration target that has only now started to be fully explored and understood.

(Stated in U.S. dollars, except as otherwise noted)

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2010, the Company had an accumulated deficit of US$39.2 million and working capital of US$224.8 million. China Gold International's cash balance at December 31, 2010 was US$301.6 million. On December 1, 2010, the Company completed a Global Equity Offering of 53,660,000 common shares of the Company at a price of HK$44.68 (US$5.76) per common share. The Company realized gross proceeds of approximately HK$2.4 billion (approximately US$309 million).With the proceeds from the public offering, the Company repaid the US$40.0 million term loan and its last promissory note, Note C, for CAD$7.5 million both to CNG in December along with accrued interest owing. The first principal installment of US$1.5 million, on the Company's RMB290 million term loan from the Agricultural Bank of China ("ABC"), was paid in September 2010 with the same payment due September 2011. Interest payments of approximately US$175,000 were paid monthly on the ABC loan for an approximate total of US$1,575,000 for the year and will continue to be paid next year in 2011.

Two bank loan facilities were acquired with the purchase of Skyland and the Jiama Mine. One was a bank loan for RMB700 million (US$105,697,102) acquired from the Bank of China ("BOC"). The first repayment of the loan for RMB200 million (US$30,343,949) is due December 28, 2011. The other is a syndicated loan facility with various banks for RMB750 million with the first payment of RMB100 million due in June 2013. Of the total funds available, approximately RMB427.0 million (approximately US$64.5 million) has been drawn down to date.

Management believes that its forecasted operating cash flows from the CSH Mine are sufficient to cover the next twelve months of CSH Mine operations factoring in its planned capital expenditures and current debt repayments. Revenue and related expenses should increase as production increases. Forecasted operating cash flows from the Jiama Mine should be sufficient to cover the next twelve months as long as unexpected situations like the loss of power do not continue to dampen production.

Proceeds from the Hong Kong IPO are being used to fund the capital expenditures being planned for Phase II of Jiama as well as the due diligence in analyzing potential project acquisitions.

Cash flows

The following table sets out selected cash flow data from our consolidated cash flow statements for the year ended December 31, 2010 and 2009:

	Years ended December 31,	
	2010	2009
	US$	US$
Net cash flows from operating activities	**10,908,799**	10,751,457
Net cash flows from (used in) investing activities	**6,858,877**	(31,358,892)
Net cash flows from financing activities	**259,854,092**	32,375,052
Effect of foreign exchange rate changes on cash and cash equivalents	**2,289**	74,304
Net increase in cash and cash equivalents	**277,624,057**	11,841,921
Cash and cash equivalents, beginning of period	**23,984,660**	12,142,739
Cash and cash equivalents, end of period	**301,608,717**	23,984,660

For the three month period and year ended December 31, 2010

Operating cash flow

For the year ended December 31, 2010, net cash from operating activities was US$10.9 million which was primarily attributable to (i) net income of US$42.0 million, and (ii) depreciation and depletion of $9.6 million, (iii) the fair value change on warrant liabilities of US$7.2 million, and (iv) finance costs of US$5.8 million, offset by (i) an increase in inventory of US$18.2 million, (ii) interest paid of US$6.0 million, (iii)income taxes paid of US$5.9 million, and (iv) a decrease of US$26.7 million in accounts payable to trades as well as related parties.

For the year ended December 31, 2009, net cash from operating activities was US$11.8 million, which was primarily attributable to (i) an increase in construction payable of US$15.3 million primarily due to completing the crusher facilities, (ii) a decrease in prepaid expenses and deposits of US$5.4 million primarily due to a decrease in refundable deposits for the CSH Mine construction and resource tax prepayments made to the local PRC government, (iii) a loss of US$7.2 million on the fair value of warrant liabilities, (iv) finance costs of US$6.3 million, (v) depreciation of US$5.7 million, and (vi) income taxes paid of US$4.7 million.

Investing cash flow

For the year ended December 31, 2010, net cash from investing activities was US$6.9 million, which was primarily attributable to (i) the acquisition of property, plant and equipment of US$13.2 million, (ii) deposits paid to joint venture partner of the Dadianguo project of US$5.2 million, offset by (i) the cash of US$13.6 million from the acquisition of Jiama, and (ii) the deposits of US$11.6 million from the disposal of the Dadiangou Gold project.

For the year ended December 31, 2009, net cash used in investing activities was US$32.4 million, which was primarily attributable to purchases of property, plant and equipment of US$37.6 million, net of construction payables. This increase in purchases was primarily in relation to the construction and installation of the crushing facility and expansion of processing facilities at the CSH Mine. This was partially offset by restricted cash deposits of US$5.2 million primarily as a result of the return by a bank of cash deposited to secure a stand-by credit facility.

Financing cash flow

For the year ended December 31, 2010, net cash from financing activities was US$259.9 million which was primarily attributable to the proceeds of US$305.0 million from the issuance of common shares following the Global Offering and exercise of warrants and stock options as well as on the proceeds from borrowings of US$7.5 million. This was partially offset by (i) the repayment of term loan from CNG of US$40.0 million and (ii) repayment of borrowings of US$12.7 million.

For the year ended December 31, 2009, net cash from financing activities was US$32.4 million, which was primarily attributable to the aggregate proceeds of US$82.3 million from the term loan from the Agricultural 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.

(Stated in U.S. dollars, except as otherwise noted)

SELECTED BALANCE SHEET ITEMS

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

Accounts receivable increased by US$7.4 million from US$1.7 million as of December 31, 2009 to US$9.1 million as of December 31, 2010, primarily due to amounts due from shareholders of US$5.3 million based on a cost sharing agreement with the previous owners of Jiama and US$2.1 million of value added tax receivables.

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

	December 31, 2010 US$	December 31, 2009 US$
Trade receivables, net	**702,603**	346,437
Listing expense receivable	**–**	1,184,911
VAT receivables	**2,085,831**	–
Other receivables	**825,213**	85,365
GST receivable	**72,427**	65,167
Amounts due from shareholder	**5,364,416**	–
Total accounts receivable	**9,050,490**	1,681,880

Our trade receivable turnover days for the year ended December 31, 2010 and for the year ended December 31, 2009 were 15.5 days and nil days respectively.

Prepaid lease payments consist of US$6.7 million prepaid for medium term lease leasehold land located in the PRC. The prepaid lease payments are amortized over the remaining lease term of 48 years.

Prepaid expenses and deposits primarily consist of deposits for supplies and services for mining operations at the CSH Mine, deposits for environmental protection, deposits to suppliers for purchase of spare parts, insurance premium for future periods, and rent deposits for our corporate offices.

As of December 31, 2010 and 2009, prepaid expenses and deposits were US$5.8 million and US$1.7 million, respectively. The increase of US$4.1 million in prepaid expenses and deposits was primarily due to (i) an increase in deposits paid for environmental protection of US$1.6 million, (ii) an increase of US$1.3 million for mine supplies and services, (iii) an increase of US$748,000 for spare parts, and (iv) a prepayment of land use rights in Tibet of US$755,000.

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

(Stated in U.S. dollars, except as otherwise noted)

Our inventory at the CSH Mine increased by US$22.9 million from US$29.0 million as of December 31, 2009 to US$52.0 million as of December 31, 2010. The increase includes US$8.0 million in gold dore bars and US$7.3 million in gold in process. The extremely harsh winter slowed the leaching process down resulting in lower than normal recovery rates in the first quarter but warmed up in the second quarter. We increased the recovery rate used from 38.6% in the first quarter back to 43.0% in the second quarter. Approximately 12.4 million tonnes of ore was mined and placed on the leach pad in the year ended December 31, 2010, up from 2.7 million tonnes in the year ended December 31, 2009. With the crusher in place, the ore was crushed to a size smaller than 9 millimeters which is much smaller than the uncrushed ore place in the same period to December 2009. Inventory turnover days for the year ended December 31, 2010 and for the year ended December 31, 2009 were 276.5 days and 188.5 days, respectively. These inventory turnover periods were primarily attributable to the amount of gold-in-process we had which was in turn primarily attributable to the nature of the heap leaching method we use at the CSH Mine. It generally requires a significant period of time (several years) from the time when ore is placed on leach pads to the time when gold is poured. A five year leaching kinetics has been developed by KD Engineering.

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

Inventory from the Jiama Mine at December 31, 2010 was split between amounts held in copper and amounts related to mining consumables.

Intangible assets arose from the purchase of the Jiama Mine and relate mainly to the independent valuation made of the fair value of the mining rights acquired. The mining rights are equivalent to the recoverable amount from the production of Phase I based on a value in use calculation covering a 9 year period and a discount rate of 9%. The mining rights will expire in 2013 and in the opinion of the directors of the Company; the Company will be able to renew the mining rights with the relevant government authority, continuously. The mining rights are amortized on a unit of production method based on the actual production volume over the estimated total proven and probable reserves of the mines.

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

Accounts payable and accrued expenses increased by US$55.7 million from US$35.1 million as of December 31, 2009 to US$90.8 million as of December 31, 2010. The majority of the increase relates to the addition of US$40.3 million in accounts payable from the operation of Jiama as well as the US$13.8 million in advances owing to a customer.

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

	December 31, 2010 US$	December 31, 2009 US$
Less than 1 month	**16,212,997**	9,049,090
1 to 3 months	**11,991,558**	1,165,793
3 to 6 months	**13,875,510**	2,431,233
Over 6 months	**7,833,615**	6,570,674
Total	**49,913,680**	19,216,790

The accounts payable turnover days for the year ended December 31, 2010 and 2009 are calculated based on accounts payable and accrued expenses as of the period end divided by the cost of sales for the year. The accounts payable turnover days for the year ended December 31, 2010 and the year ended December 31, 2009 was 483.0 days and 227.9 days. The accounts payable turnover days are relatively long primarily attributable to third-party mining contractors, third-party vendors providing listing services due at designated milestones as outlined by their contracts, and the deposit received for the sale of the Dadiangou project.

Warrant liabilities represented the fair value of the warrants that were outstanding as of the end of each reporting period. Warrants were granted primarily in connection with the promissory notes issued in December 2006 and June 2007, respectively, and a private placement of common shares in August 2006.

Total warrant liabilities decreased from US$5.3 million as of December 31, 2009 to US$nil as of December 31, 2010, primarily attributable to the fact that all the warrant liabilities have been exercised during the year ended December 31, 2010.

Deferred tax liabilities amounted to US$138.3 million and primarily relate to the fair value adjustment on intangible assets and property, plant and equipment that arose on the acquisition of Jiama.

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

The environmental rehabilitation was calculated as the net present value of estimated future net cash outflows of the reclamation and closure costs in a total amount of approximately US$9.9 million and US$9.5 million discounted at 9.8% and 10.0% as of December 31, 2010 and 2009, respectively. The accretion incurred in connection with the environment rehabilitation represented interest expense calculated based on the foregoing discount rates and therefore it was recorded as part of the finance costs. Our environmental rehabilitation liabilities increased from US$1.6 million as of December 31, 2009 to US$1.9 million as of December 31, 2010 primarily attributable to accretion.

We had net current assets of US$224.8 million as of December 31, 2010 and net current liabilities of US$9.4 million as of December 31, 2009.

(Stated in U.S. dollars, except as otherwise noted)

RELATED PARTY TRANSACTIONS

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

	December 31, 2010 %	December 31, 2009 %
CNG	**39.0**	40.3

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

	December 31, 2010 US$	December 31, 2009 US$
Gold dore sales	**115,703,757**	77,723,334
Silver sales (netted in cost of sales)	**1,056,118**	166,214

The Company incurred the following interest expense with CNG. Interest expense has been recorded on the effective interest method. The interest relates to the term loan and the promissory note extension.

	December 31, 2010 US$	December 31, 2009 US$
Financial services agreement	**–**	409,770
Interest	**3,019,636**	1,384,193
Total related party expenses	**3,019,636**	1,793,963

On December 1, 2010, the Company acquired Skyland Mining Limited, the owner of the Jiama Mine, from China National Gold Group Hong Kong Limited ("CNGHK") and a third party, Rapid Result. The Company issued an aggregate 170,252,294 common shares, of which 86,828,670 common shares were issued to CNGHK. The terms of the transaction were settled by a special committee of independent directors with the support of a valuation and fairness opinion by Haywood, an independent securities firm. The Skyland Purchase Agreement includes a post-closing adjustment mechanism based on the net working capital of Skyland as at December 1, 2010 which could adjust the total consideration paid. The Company and the Skyland vendors are currently in discussions about the final calculation of the working capital adjustment amount, and the actual working capital adjustment is expected to be recorded in the second quarter of 2011 when these discussions are expected to be complete.

With the purchase of Skyland, the Company acquired an existing bank loan from the Bank of China and the syndicated loans both guaranteed by CNG.

In April 2010, the Company's wholly owned subsidiary, Gansu Pacific Mining Co. Ltd., and its joint venture partner, NINETC, agreed to sell the Company's Dadiangou gold project to Gansu Zhongjin Gold Mining Co. Ltd for a purchase price of US$13.1 million, of which the Company is entitled to 53%, or approximately US$7 million. In November 2010, the Dadiangou exploration right transaction application between Gansu Zhongjin Gold Mining Co. Ltd and NINETC was approved by the Gansu Provincial Government. The transaction procedure is now pending in the Land and Mineral Resource Bureau of Gansu Province.

(Stated in U.S. dollars, except as otherwise noted)

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

	December 31, 2010 US$	December 31, 2009 US$
Assets		
Restricted cash received from CNG's subsidiary from sales of Dadiangou Gold Project	**6,725,129**	–
Prepaid expenses to CNG's subsidiaries	**–**	283,451
Listing expense receivable from CNG's subsidiary	**2,735,852**	1,184,911
Listing expense receivable from Rapid Result	**2,628,564**	–
Trade receivable from CNG	**53,135**	346,437
Amount due from a non-controlling shareholder	**419,768**	–
Total related party assets	**12,562,448**	1,814,799

The accounts receivable from CNG arose from sales of gold to CNG. There is no credit period. Amounts receivable from CNG and the Skyland shareholder are included in accounts receivable in the condensed consolidated statement of financial position.

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

	December 31, 2010 US$	December 31, 2009 US$
Liabilities		
Interest payable to CNG	**–**	166,667
Other payable to CNG's subsidiary for deposit from sales of Dadiangou Gold Project	**6,725,129**	–
Accounts payable to CNG	**30,199**	–
Accounts payable to CNG's subsidiaries	**117,569**	109,391
Total related party liabilities	**6,872,897**	276,058

Key management compensation (other than directors):

	December 31, 2010 US$	December 31, 2009 US$
Salary cost		
Salaries and other benefits	**434,464**	822,960
Post employment benefits	**4,247**	–
Stock-based payments	**–**	11,382
	438,711	834,342

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

INDEBTEDNESS

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

	Effective interest rate 2010 %	2009 %	Maturity	December 31, 2010 US$	December 31, 2009 US$
Current					
Notes payable (i)	–	17.66/19.48	June 26, 2011	–	10,633,386
Current portion of long-term loan – Agricultural Bank of China ("ABC") (ii)	5.18	5.18	September 9, 2011	1,517,197	1,458,619
Current portion of long-term loan – Bank of China ("BOC") (iii)	3.96	–	September 28, 2011	30,343,949	–
				31,861,146	12,092,005
Non-current					
Long-term loan - ABC (ii)	5.18	5.18	September 9, 2012 to September 9, 2014	40,964,331	40,841,331
Long-term loan - CNG (v)	–	6.00	December 6, 2011	–	40,000,000
Long-term loan - BOC (iii)	3.96	–	December 28, 2012 to December 28, 2014	75,353,123	–
Syndicated loans (iv)	3.96	–	June 4, 2013 to June 4, 2016	64,467,664	–
				180,785,118	80,841,331
				212,646,264	92,933,336

Our indebtedness comprised the following:

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

On December 14, 2006 and June 26, 2007 private placement offerings were completed of senior unsecured promissory notes in the principal amount of CAD$30.0 million (US$25.9 million)(Note A) and CAD$12.5 million (US$18.7 million) (Note B) and CAD$7.5 million (Note C) with interest at 12% per annum payable quarterly along with 6,000,000 and 4,000,000 warrants which entitled the holder to purchase one Share at an exercise price of CAD$1.60 per Share and CAD$2.50 per Share, respectively. We fully repaid Note A on December 14, 2009 and redeemed Note B January 11, 2010 in Canadian dollars. We exercised on early expiry dates for the warrants on March 18, 2010 and April 16, 2010, respectively. Note C, originally due June 26, 2010, was extended to June 26, 2011 under the same terms. The effective interest rate on Notes A and B was 19.5%. The effective interest rate on Note C was originally 17.7%. The effective interest rate on the extension of Note C was the same as its annual rate of 12% with interest of CAD$225,000 payable quarterly. With the proceeds from the public offering, Note C was repaid with accrued interest. As of December 31, 2010, no more promissory notes remain.

(ii) Loan from the Agricultural Bank of China

In September 2009, the CSH CJV received an unsecured bank loan in the principal amount of RMB290.0 million (US$42.6 million) from the Agricultural Bank of China. China National Gold provided a guarantee for the loan. The loan is repayable within five years from the date of the first draw-down. The annual interest rate for the term loan is currently 5.598% with interest of approximately US$175,000 payable monthly.

(iii) Loan from the Bank of China

A bank loan facility from the Bank of China was acquired with the purchase of Skyland and the Jiama Mine. The bank loan of RMB700 million (US$105,697,072) carries interest at a floating rate based on the People's Bank of China base rate (the interest rate at date of inception of the loan agreement and at the end of reporting period was 3.96% per annum) and is repayable in four annual installments starting from December 28, 2011. RMB200 million (US$30,199,163), RMB200 million (US$30,199,163), RMB150 million (US$22,649,373) and RMB150 million (US$22,649,373) will be repayable on December 28, 2011, December 28, 2012, December 28, 2013 and December 28, 2014 respectively. The loan is guaranteed by CNG.

(iv) Syndicated loans

A syndicated loan facility agreement for RMB750 million with various banks was acquired with the purchase of Skyland and the Jiama Mine. The syndicated loans carry interest at a floating rate based on the People's Bank of China base rate (the interest rate at date of inception of the loan agreement and at the end of reporting period was 3.96% per annum) and is repayable in four annual installments starting from 2013. RMB100 million, RMB150 million, and RMB176,950,000 will be repayable on June 2013, June 2014 and June 2015, respectively. Total facility drawn down to date is RMB426,950,000 (US$64,467,664). The loans are guaranteed by CNG.

(v) 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$40.0 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 were partially used to redeem Series A Notes due on December 14, 2009. We used the remaining amount of the proceeds to prepay Series B Notes in their entirety on January 11, 2010. The annual interest rate for the term loan is 6% with interest of US$600,000 payable quarterly. With the proceeds from the public offering, the US$40.0 million term loan was fully repaid with accrued interest in December 2010.

Restrictive covenants

We are subject to various customary conditions and covenants under the terms of our financing agreements.

The restrictive covenants with regards to Note C have been removed with its repayment.

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

(Stated in U.S. dollars, except as otherwise noted)

COMMITMENTS AND CONTINGENCIES

Operating leases

We have leased certain properties in China and Canada. All the leases are under operating lease arrangements and the leases are negotiated for an average term of three to seventeen years. We are required to pay a fixed rental amount under the terms of these leases.

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

	December 31, 2010 US$	December 31, 2009 US$
Within one year	**230,476**	95,482
Between second and fifth years inclusive	**679,583**	391,307
Over five years	**740,485**	–
	1,650,544	486,789

Capital commitments

Our capital commitments related primarily to payments for purchase of equipment and machinery for both mines and payments to third-party contractors for provision of mining and exploration engineering work and mine construction work for both mines. We have entered into contracts that prescribed such capital commitments, but have not included them in our condensed consolidated financial statements.

The following table sets forth our capital commitments in respect to acquisition of property, plant and equipment and construction for both mines as of the dates indicated:

		Payments Due By Year					
	Total US$	**2011 US$**	**2012 US$**	**2013 US$**	**2014 US$**	**2015 US$**	**Thereafter US$**
Principal repayment on ABC term loan	**42,481,528**	1,517,197	9,103,185	18,206,370	13,654,776	–	–
Principal repayment on BOC loan (RMB700,000,000)	**105,697,072**	30,199,163	30,199,163	22,649,373	22,649,373	–	–
Principal repayment on Syndicated loan (RMB426,950,000)	**64,467,664**	–	–	15,099,582	22,649,373	26,718,709	–
Operating leases Vancouver(a)	**437,248**	100,352	103,040	103,936	103,936	25,984	–
Operating leases Jiama(a)	**1,213,296**	130,124	85,672	85,672	85,672	85,671	740,485
Capital commitments of CSH Mine(b)	**1,570,118**	1,570,118	–	–	–	–	–
Capital commitments of the Jiama Mine(b)	**36,982,553**	36,982,553	–	–	–	–	–
Total	**252,849,479**	70,499,507	39,491,060	56,144,933	59,143,130	26,830,364	740,485

(a) Operating leases are primarily for premises.

(b) Capital commitments relate to contracts signed for the construction of and equipment supply.

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.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2010, we had not entered into any material off-balance sheet arrangements.

DIVIDEND AND DIVIDEND POLICY

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Interim Chief Financial Officer have each evaluated the design of the Company's DC&P and ICFR as of December 31, 2010 and, in accordance with the requirements established under National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Interim Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of December 31, 2010 and have concluded that these controls and procedures have been designed to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management of the Company was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the year ended December 31, 2010, there were no changes in the Corporation's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond the Company's control. Aside from risks relating to business and industry, the Company's principal operations are located within the PRC and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties described below and outlined further in our Annual Information Form dated March 30 2011. China Gold International's business, financial condition, or results of operations could be materially and adversely affected by any of these risks.

The Company's production estimates are subject to operating risks.

China Gold International generates all of its cash flow from the production of minerals at its two operating mines, the CSH Gold Mine and the Jiama Project. The Company's production estimates from these mines are based on numerous assumptions including, among other things, reserve estimates, assumptions regarding ground conditions and physical characteristics of ores (such as hardness and presence or absence of certain metallurgical characteristics), estimated recovery rates and estimated rates and costs of production. By its nature, the business of mining and processing contains elements of significant risk and hazards which can affect these assumptions and thereby modify production. Actual production may vary from estimates for a variety of reasons, including risks and hazards set out below:

- actual ore mined varying from estimates in grade, tonnage, and metallurgical and other characteristics;
- lower than estimated recovery rate;
- mining dilution;
- pit wall failures or cave-ins;
- industrial accidents;
- natural phenomena such as inclement weather conditions, floods, blizzards, droughts, rock slides and earthquakes;
- encountering of unusual or unexpected geological conditions;
- changes in power costs and potential power shortages;
- shortages of principal supplies needed for operation, including explosives, fuels, equipment parts and lubricating oil;
- litigation; and
- restrictions imposed by government authorities.

The Company's mining operations may also be disrupted by environmental hazards, industrial accidents (including but not limited to mishandling of dangerous articles), technical or mechanical failures, processing deficiencies, labour disputes, community protests or civil unrest, discharge of toxic chemicals, fire, explosions, and other delays. China Gold International's mines are also subject to equipment failures and technical risks in that the Company's infrastructure may not perform as designed.

Such occurrences could result in damage to mineral properties, interruptions in production, increased production costs, monetary losses, injury or death to persons, damage to the Company's property or the property of others. If the Company does not realize the estimated recovery rate, the Company's future growth prospects and results of operations may be materially and adversely affected. The Company's failure to achieve its production estimates could have a material and adverse effect on the Company's future cash flow, results of operations and financial condition.

Development Risk at the Jiama Project

The Jiama Project is operating at an initial stage of production, but the Company contemplates undertaking a substantive development program on the property. The Company has recently determined to amend its mine plan for the Jiama Project to adopt a higher processing rate than that set forth in the Jiama Technical Report. There is no guarantee that this analysis will result in identification of a feasible mine plan. Moreover, to the extent that the Company completes an updated feasibility study and mine plan, there are numerous risks in the development of mining properties, including failure to obtain the necessary regulatory approvals or sufficient funding, construction difficulties, technical difficulties, and manpower or other resource constraints. In particular, recent disruptions, uncertainty or volatility in the capital and credit markets may limit the Company's ability to obtain financing to meet its funding requirements. Any delay in completion of the schedule for mine and processing facility construction and expansion will delay realization of anticipated revenues from the Jiama Project. As a consequence of any delay in completing the Company's capital expenditure projects, cost overruns, changes in market circumstances or other factors, the Company may not derive the expected economic benefits from capital expansion at the Jiama Project, and the Company's business and results of operations may be materially and adversely affected. Finally, new mining operations frequently experience unexpected problems during the initial development phase. Delays often can occur in the commencement of production. Estimates of production from properties not yet in production are subject to numerous risks of variance from actual estimates.

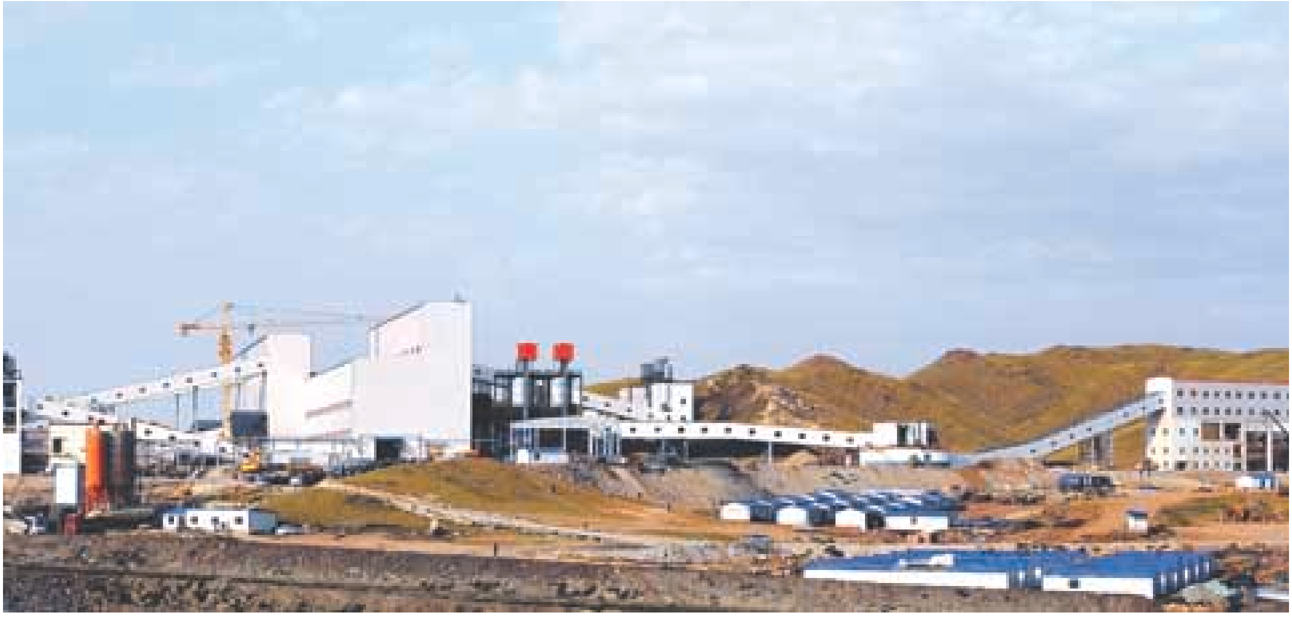
The Skyland Acquisition may not yield the anticipated benefits, which could materially and adversely affect the China Gold International's business and results of operations.

China Gold International expects to benefit from substantial synergies from the acquisition of Skyland by building on the joint management experience in the mining industry and the combined research and development capacities. The Company also believes that its increased mineral resources and enlarged production scale resulting from the acquisition of Skyland will present further growth opportunities in a broader spectrum of market sectors and allow for the reduction of the Company's overall exposures to volatility within any single mineral market.

However, the Company may encounter difficulties in integrating acquired operations, services, corporate culture and personnel into its existing business and operations. Further, China Gold International may discover previously unidentified liabilities or other issues that it did not discover in its pre-acquisition due diligence investigations. These activities may divert significant management attention from existing business operations, which may harm the Company's business. In addition, the Skyland Acquisition will require the Company's management to develop expertise in new areas, manage new business relationships and attract new types of customers. Failure to generate the synergies anticipated from the combination of the Company's current operations at the CSH Gold Project and Jiama Project could materially and adversely affect China Gold International's business and results of operations.

The Company may not be able to maintain an adequate and timely supply of electricity, water, auxiliary materials, equipment, spare parts and other critical supplies at reasonable prices or at all.

Cost effective operations of the Company's mines depend, among other things, on the adequate and timely supply of electricity, water and auxiliary materials. Major auxiliary materials used in the Company's production include forged steel grinding balls, chemical products, explosives, lubricating oil, electric wires and cables, rubber products and fuel. The Company sources its auxiliary materials from domestic suppliers and its equipment from suppliers in the PRC and other countries. If the Company's supplies of auxiliary materials, equipment or spare parts are interrupted or their prices increase, or the Company's existing suppliers cease to supply the Company on acceptable terms, the Company's business, financial condition and results of operations could be materially and adversely affected.



Electricity and water are the main utilities used in the Company's exploration and mining. Because the Company's mines are situated in remote locations in China, the Company faces a relatively higher risk of an interruption or shortage in the Company's electricity supply, which could materially and adversely affect the Company's production and production safety by disrupting operations such as water pumping and ventilation. For example, according to the Jiama Technical Report, the Jiama Project may experience power shortage until the central power grid of Tibet is connected to China's national power grid. Shortage in the electricity supply for mine and processing production during the winter dry season may also affect the ability of the Jiama Project in meeting production targets. Such a power outage occurred in mid December 2010. Any increase in the prices of electricity or water could also materially and adversely affect the Company's financial condition and results of operations.

Reserve and resource estimates are based on assumptions which may prove to be inaccurate.

The figures for mineral reserves and mineral resources contained in this Annual Information Form are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realized or that mineral reserves could be mined or processed profitably. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any reserve or resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold, silver or copper recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Fluctuation in gold, copper and other metal prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral reserves and mineral resources, or of the Company's ability to extract these mineral reserves, could have a material adverse effect on the Company's results of operations and financial condition.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value. As of December 31, 2010, 396,126,753 common shares were issued and outstanding and 780,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 396,906,753 common shares were outstanding.

As of March 30 2011, 396,138,753 common shares were issued and outstanding and 760,000 stock purchase options had been granted and were outstanding. All common share purchase warrants have been exercised. On a fully diluted basis, 396,898,753 common shares were outstanding.

QUALIFIED PERSON

Disclosure of a scientific or technical nature in this MD&A in respect of CSH Gold Mine and the Jiama Mine were prepared by or under the supervision of Dr. Yingting Tony Guo, P. Geo, a qualified person for the purposes of National Instrument 43-101.

Further information can be found in the technical reports dated November 17, 2010 for the CSH Mine and the Jiama Mine filed at www.sedar.com and www.hkexnews.hk.

March 30, 2011

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.
(FORMERLY KNOWN AS JINSHAN GOLD MINES INC.)
(incorporated in British Columbia, Canada with limited liability)

We have audited the consolidated financial statements of China Gold International Resources Corp. Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 75 to 147, which comprise the consolidated statement of financial position as at December 31, 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 30, 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	Notes	2010 US$	2009 US$
Revenues	29	**133,197,660**	81,047,414
Cost of sales		**(68,641,323)**	(56,178,404)
Mine operating earnings		**64,556,337**	24,869,010
Expenses			
General and administrative	5	**5,341,038**	3,714,554
Exploration and evaluation expenditure	6	**721,296**	1,909,015
		6,062,334	5,623,569
Income from operations		**58,494,003**	19,245,441
Other (expenses) income			
Gain on disposal of a subsidiary	20(d)	**20,000**	—
Foreign exchange loss		**(1,479,520)**	(5,887,144)
Interest income		**66,852**	5,537
Listing expenses		**(2,101,820)**	(2,147,906)
Finance costs	7	**(5,843,484)**	(6,308,158)
Fair value change on warrant liabilities	26(c)	**(7,155,807)**	(7,186,721)
		(16,493,779)	(21,524,392)
Profit (loss) before income tax		**42,000,224**	(2,278,951)
Income tax expense	8	**14,860,225**	6,091,949
Profit (loss) for the year	9	**27,139,999**	(8,370,900)
Other comprehensive income for the year			
Exchange difference arising on translation		**237,244**	—
Total comprehensive income (expense) for the year		**27,377,243**	(8,370,900)
Profit (loss) for the year attributable to			
Non-controlling interests		**913,296**	976,481
Owners of the Company		**26,226,703**	(9,347,381)
		27,139,999	(8,370,900)
Total comprehensive income (expense) for the year attributable to			
Non-controlling interests		**913,296**	976,481
Owners of the Company		**26,463,947**	(9,347,381)
		27,377,243	(8,370,900)
Basic earnings (loss) per share	12	**13.82 cents**	(5.58) cents
Diluted earnings (loss) per share	12	**13.76 cents**	(5.58) cents
Basic weighted average number of common shares outstanding	12	**189,770,654**	167,629,459
Diluted weighted average number of common shares outstanding	12	**190,669,565**	167,629,459

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2010

	Notes	2010 US$	2009 US$
Current assets			
Cash and cash equivalents	13	**301,608,717**	23,984,660
Restricted cash	14	**6,725,129**	—
Accounts receivable	15	**9,050,490**	1,681,880
Prepaid expenses and deposits	16	**3,418,499**	1,734,181
Prepaid lease payments	17	**137,808**	—
Inventory	18	**34,154,278**	10,166,429
		355,094,921	37,567,150
Assets classified as held for sale	20	**54,696**	188,971
		355,149,617	37,756,121
Non-current assets			
Prepaid expense and deposits	16	**2,395,882**	—
Prepaid lease payments	17	**6,634,081**	—
Amount due from a non-controlling shareholder	19	**419,768**	—
Long-term receivable		**—**	49,689
Inventory	18	**17,838,819**	18,852,686
Property, plant and equipment	20	**297,901,855**	117,918,672
Intangible assets	21	**975,282,711**	—
		1,300,473,116	136,821,047
Total assets		**1,655,622,733**	174,577,168
Current liabilities			
Accounts payable and accrued expenses	22	**90,836,277**	35,072,604
Borrowings	23	**31,861,146**	12,092,005
Tax liabilities		**7,631,847**	—
		130,329,270	47,164,609
Liabilities classified as held for sale	20	**24,189**	41,252
		130,353,459	47,205,861

	Notes	2010 US$	2009 US$
Non-current liabilities			
Deferred lease inducement		**143,213**	193,758
Borrowings	23	**180,785,118**	80,841,331
Warrant liabilities	26	**—**	5,286,123
Deferred tax liabilities	8	**138,310,971**	1,339,601
Deferred income	24	**712,610**	—
Environmental rehabilitation	25	**1,887,923**	1,599,120
		321,839,835	89,259,933
Total liabilities		**452,193,294**	136,465,794
Net current assets (liabilities)		**224,796,158**	(9,449,740)
Total assets less current liabilities		**1,525,269,274**	127,371,307
Owners' equity			
Share capital		**1,228,098,150**	99,186,918
Reserves		**11,397,030**	3,125,447
Deficits		**(39,246,500)**	(65,473,203)
		1,200,248,680	36,839,162
Non-controlling interests		**3,180,759**	1,272,212
Total owners' equity		**1,203,429,439**	38,111,374
Total liabilities and owners' equity		**1,655,622,733**	174,577,168

The consolidated financial statements on pages 75 to 147 were approved and authorized for issue by the Board of Directors on March 30, 2011 and are signed on its behalf by:

(signed) Zhanming Wu	**(signed) Bing Liu**
Zhanming Wu	**Bing Liu**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

	Notes	Number of shares	Share capital US$	Equity reserve US$	Exchange reserve US$	Deficits US$	Subtotal US$	Non-controlling interests US$	Total owners' equity US$
At January 1, 2009		163,889,159	90,384,469	4,884,800	—	(56,125,822)	39,143,447	295,731	39,439,178
(Loss) profit and total comprehensive (expenses) income		—	—	—	—	(9,347,381)	(9,347,381)	976,481	(8,370,900)
Shares issued for									
Exercise of warrants	26	2,250,000	5,597,821	—	—	—	5,597,821	—	5,597,821
Exercise of stock options (note a)	26	1,490,300	3,204,628	(1,297,570)	—	—	1,907,058	—	1,907,058
Stock-based compensation (note a)		—	—	(461,783)	—	—	(461,783)	—	(461,783)
At December 31, 2009		167,629,459	99,186,918	3,125,447	—	(65,473,203)	36,839,162	1,272,212	38,111,374
Profit for the year		—	—	—	—	26,226,703	26,226,703	913,296	27,139,999
Exchange difference arising on translation		—	—	—	237,244	—	237,244	—	237,244
Total comprehensive income for the year		—	—	—	237,244	26,226,703	26,463,947	913,296	27,377,243
Shares issued for:									
Cash		53,660,000	309,081,600	—	—	—	309,081,600	—	309,081,600
Acquisition of subsidiaries (Note 27)		170,252,294	810,926,039	—	—	—	810,926,039	995,251	811,921,290
Deemed contribution from shareholders (note b)		—	—	8,383,914	—	—	8,383,914	—	8,383,914
Transaction costs attributable to issue of shares		—	(13,606,903)	—	—	—	(13,606,903)	—	(13,606,903)
Exercise of warrants	26	4,060,000	21,008,571	—	—	—	21,008,571	—	21,008,571
Exercise of stock options (note a)	26	525,000	1,501,925	(554,814)	—	—	947,111	—	947,111
Stock-based compensation (note a)		—	—	205,239	—	—	205,239	—	205,239
At December 31, 2010		**396,126,753**	**1,228,098,150**	**11,159,786**	**237,244**	**(39,246,500)**	**1,200,248,680**	**3,180,759**	**1,203,429,439**

Notes:

(a) Amounts represent equity reserve arising from stock-based compensation provided to employees during the years ended December 31, 2010 and 2009.

(b) In December 2010, the shareholders of the Company, also the former shareholders of Skyland Mining Limited ("Skyland") and its subsidiaries (hereinafter collectively referred to as the "Skyland Group"), agreed to bear the payment obligation of Skyland of US$8,383,914, being the listing expense payable to the Company by Skyland prior to the completion of the acquisition set out in Note 27. Such amount was recorded in equity reserve as deemed contribution from shareholders.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Notes	2010 US$	2009 US$
Operating activities			
Profit (loss) before income tax for the year		42,000,224	(2,278,951)
Items not requiring use of cash and cash equivalents:			
Depreciation		9,635,023	5,764,505
Amortization of intangible assets		1,182,643	—
Release of prepaid lease payment		7,447	—
Release of deferred lease inducement		(50,545)	—
Fair value change on warrant liabilities		7,155,807	7,186,721
Finance costs		5,843,484	6,308,158
Gain on disposal of a subsidiary		(20,000)	—
Gain on disposal of property, plant and equipment		(15,777)	(6,583)
Stock-based compensation		205,239	(461,783)
Foreign exchange loss		1,054,859	2,172,413
Change in non-cash operating working capital items:			
Accounts receivable		2,484,407	(1,384,502)
Prepaid expenses and deposits		(2,478,053)	5,442,321
Inventory		(18,211,328)	(1,374,348)
Deferred income		712,610	—
Accounts payable and accrued liabilities		(26,690,220)	817,754
Cash generated from operations		22,815,820	22,185,705
Interest paid		(6,040,060)	(6,681,899)
Income taxes paid		(5,866,961)	(4,752,349)
Net cash from operating activities		10,908,799	10,751,457
Investing activities			
Payment for acquisition of property, plant and equipment		(13,230,847)	(36,607,073)
Proceeds from disposal of property, plant and equipment		39,760	32,477
Acquisition of subsidiaries	27	13,614,522	
Disposal of a subsidiary	20(d)	20,000	—
Deposits from disposal of Dadiangou Gold Project	14	11,597,414	5,215,704
Deposits paid to joint venture counterparty	14	(5,181,972)	—
Net cash used in investing activities		6,858,877	(31,358,892)

	Notes	2010 US$	2009 US$
Financing activities			
Issuance of common shares		**304,988,449**	5,329,774
Advance from customers		**—**	20,488,504
Repayments of advance from customers		**—**	(20,488,504)
Proceeds from borrowings		**7,549,791**	54,010,923
Proceeds of term loan from CNG		**—**	40,000,000
Repayment of term loan from CNG		**(40,000,000)**	—
Repayments of borrowings		**(12,684,148)**	(66,965,645)
Net cash from financing activities		**259,854,092**	32,375,052
Effect of foreign exchange rate changes on cash and cash equivalents		**2,289**	74,304
Net increase in cash and cash equivalents		**277,624,057**	11,841,921
Cash and cash equivalents, beginning of year		**23,984,660**	12,142,739
Cash and cash equivalents, end of year		**301,608,717**	23,984,660
Cash and cash equivalents are comprised of Cash in bank		**301,608,717**	23,984,660
Supplemental cash flow information	30		

See accompanying notes to the consolidated financial statements.

1. GENERAL

China Gold International Resources Corp. Ltd., formerly known as Jinshan Gold Mines Inc., (the "Company") is a publicly listed company incorporated in British Columbia on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange ("TSX") and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company together with its subsidiaries (collectively referred to as the "Group") is principally engaged in the acquisition, exploration, development and mining of mineral properties in the People's Republic of China ("PRC"). Particulars of the subsidiaries of the Company are set out in Note 34. The Company's substantial shareholder is China National Gold Group Corporation ("CNG"), a company registered in Beijing, PRC.

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

The consolidated financial statements are presented in United States Dollars ("US$") which is the functional currency of the principal subsidiaries, except for those subsidiaries newly acquired as disclosed in Note 27.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and revised Standards applied in the current year

In the current year, the Group has applied the following new and revised Standards issued by the International Accounting Standards Board ("IASB").

IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements

HKFRS 3 (as revised in 2008) - Business Combinations

HKFRS 3(as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010. Its application has affected the accounting for business combinations in the current year set out in Note 27.

— HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of Skyland Group, the Group has elected to measure the non-controlling interests at the non-controlling interest's proportionate share of the net fair value of the assets and liabilities of the acquiree at the date of acquisition.

— HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

— HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

New and revised Standards and Interpretations applied in the current year (Cont'd)

HKFRS 3 (as revised in 2008) - Business Combinations (Cont'd)

— HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The application of the new and revised Standards in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

New and revised Standards and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.
2 Effective for annual periods beginning on or after July 1, 2010.
3 Effective for annual periods beginning on or after July 1, 2011.
4 Effective for annual periods beginning on or after January 1, 2013.
5 Effective for annual periods beginning on or after January 1, 2012.
6 Effective for annual periods beginning on or after January 1, 2011.
7 Effective for annual periods beginning on or after February 1, 2010.

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Cont'd)

New and revised Standards and Interpretations issued but not yet effective (Cont'd)

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The directors of the Company anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the financial year ending December 31, 2013 and that the application of the new Standard will not have material effect on the classification and measurement of the Groups' financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform to IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group and its controlled subsidiaries. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combination

Business combinations prior to January 1, 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognized at their fair values at the acquisition date.

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

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

Business combinations on or after January 1, 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognized at their fair values, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Business combination (Cont'd)

Business combinations on or after January 1, 2010 (Cont'd)

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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

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

Interest income is recognized in profit or loss as it accrues, using the effective interest method.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in foreign currencies are initially recorded in the entity's functional currency at the exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (the translation reserve).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payments

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

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

Borrowing costs

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

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

Taxation

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

The tax currently payable is based on taxable income for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credit directly to other comprehensive income, in which case the deferred tax is also taken directly to other comprehensive income.

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

Earnings (loss) per share

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

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

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

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments made to state-managed retirement benefit scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Prepaid lease payments

Prepaid lease payments representing land use rights in the PRC are stated at cost and amortized on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Inventory

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

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

Gold in process inventory

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

Gold doré inventory

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

General

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

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

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

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

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

Exploration and evaluation expenditure

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Exploration and evaluation expenditure (Cont'd)

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

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

Development expenditure

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

Production expenditure

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Depreciation

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

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

- A significant utilization rate of plant capacity has been achieved;
- A pre-determined, reasonable period of time of stable operation has passed; and

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

Assets under construction are not depreciated until they are substantially complete and available for their intended use.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets acquired in a business combination

Mining rights acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, mining rights with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization is provided using the unit of production method based on the actual production volume over the estimated total proven and probable reserves of the ore mines.

Impairment of tangible and intangible assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

The Group's financial assets and liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities of fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

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

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities (Cont'd)

Impairment of financial assets

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

Objective evidence of impairment could include the following:

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

Trade receivables assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments

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

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

Financial liabilities are classified as either financial liabilities at fair value through profit or loss ("FVTPL") or other financial liabilities.

Effective interest method

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

Financial liabilities

Financial liabilities at FVTPL

Warrant liabilities, with exercise prices denominated in other than the Company's functional currency, are derivatives and classified as financial liabilities and measured at FVTPL prior to their exercise and expiry date.

Other financial liabilities

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

Derecognition of financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Environmental rehabilitation

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

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

Leases

Lease are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

Related party transactions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, which are described in Note 3, the directors of the Company have identified the following judgements and key sources of estimation uncertainty that have significant effect on the amounts recognized in the consolidated financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are discussed below.

(a) Inventories

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

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

During the year ended December 31, 2009, the management re-assessed the recovery rate used in the inventory model based on latest available information. Impairment of inventory of US$3,030,461 was recognized in the profit or loss in respect of the Group's gold in process inventory, details of which are disclosed in Note 18. No impairment for inventory has been recognized for the year ended December 31, 2010.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

(b) Property, plant and equipment

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

A technical report released in March 2010 has resulted in the management reviewing the estimated useful life of its assets, particularly the buildings located on the mine site. A change of estimate is accounted for prospectively and as a result, the management has increased the life of the buildings from 10 years to 24 years effective from January 1, 2010. The depreciation of buildings was reduced by US$259,951 for the year ended December 31, 2010 due to the change of useful lives of buildings.

Following to the Independent Technical Report ("ITR") for the CSH Gold Mine released in November 2010, the total proven and probable reserves at CSH Gold Mine were increased to 138.8 million tones ("Mt") from 105.0Mt effective from January 1, 2010. The change of estimate is accounted for prospectively and as a result, the depreciation of mining assets was reduced by approximately US$584,900 for the year ended December 31, 2010 due to the change of estimated total recoverable ounces contained in proven and probable reserves.

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

(c) Mining rights

The Group's intangible assets, being mining rights in the Jiama polymetallic mineral property ("Jiama Mine"), are amortized on a unit-of-production basis over their estimated useful lives. Under the unit-of-production method, the calculation of amortization of intangible assets is based on the amount of reserves expected to be recovered from the Jiama Mine. If these estimates of reserves prove to be inaccurate, or if the Group revises its mining plan, due to reductions in the future prices of copper, lead and silver, or otherwise, to reduce the amount of reserves expected to be recovered, the Group could be required to write down the recorded value of its intangible assets, or to increase the amount of future amortization expense.

IFRS requires the Group to consider whether there has been an impairment indicator of its intangible assets at the end of each reporting period. If the Group determines there has been an impairment because its prior estimates of future net cash flows have proven to be inaccurate, due to reductions in the metal price forecasts, increases in the costs of production, reductions in the amount of reserves expected to be recovered or otherwise, or because the Group has determined the carrying amount may not be recovered based on current economics or permitting considerations, the Group would be required to write down the recorded value of its intangible assets. Details of the Group's mining rights are set out in Note 21.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

(d) Environmental rehabilitation

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

During the year ended December 31, 2010, addition of US$55,528 were made due to changes in discount rate (2009: reductions of US$3,145,917 were made due to changes in the estimated timing and amount of cash flows) on the environmental rehabilitations, details of which are disclosed in Note 25.

5. GENERAL AND ADMINISTRATIVE

	2010 US$	2009 US$
Administration and office	1,366,027	1,509,368
Depreciation	199,583	45,246
Investor relations	290,157	186,054
Professional fees	716,682	1,148,062
Salaries and benefits(1)	1,984,132	588,267
Shareholder information, transfer agent and filing fees	381,892	165,293
Travel	402,565	72,264
Total general and administrative	5,341,038	3,714,554

(1) Stock-based compensation (a non-cash item) of US$397,825 (2009: credit of US$475,575) has been included in salaries and benefits for the year ended December 31, 2010. The negative stock-based compensation in 2009 is due to forfeitures.

6. EXPLORATION AND EVALUATION EXPENDITURE

	2010 US$	2009 US$
CSH Gold Mine (Note 20(a))	594,453	267,299
Jiama Mine (Note 20(b))	39,111	—
Dadiangou Gold Project (Note 20(c))	73,167	431,467
Xinjiang Projects (Note 20(d))	—	795,206
Generative exploration	14,565	415,043
Total exploration and evaluation expenditure(1) (2)	721,296	1,909,015

(1) Stock-based compensation (a non-cash item) of a credit of US$93,752 (2009: US$96,775) has been included in exploration and evaluation expenditures for the year ended December 31, 2010.

(2) Salaries and benefits of US$101,546 (2009: US$413,356) has been included in exploration and evaluation expenditures for the year ended December 31, 2010.

7. FINANCE COSTS

	2010 US$	2009 US$
Effective interests on borrowings:		
– wholly repayable within 5 years	**6,045,310**	9,458,796
– repayable after 5 years	**543,565**	—
	6,588,875	9,458,796
Financing services agreement (Note 28)	**—**	409,770
Accretion on environmental rehabilitation (Note 25)	**164,096**	392,277
	6,752,971	10,260,843
Less: Amount capitalized	**(909,487)**	(3,952,685)
Total finance costs	**5,843,484**	6,308,158

Loss on repurchase of promissory note of US$121,500 (2009: US$268,808) has been included in finance costs for the year ended December 31, 2010 (Note 23(i)(b)).

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

	2010 %	2009 %
Capitalization rate	**6.39**	16.51

8. INCOME TAX EXPENSE

The Company and its subsidiaries incorporated in Canada are subject to Canadian federal and provincial tax which are calculated at 28.50% (2009: 30.00%) of the estimated assessable profit for the year ended December 31, 2010. The Company and its subsidiaries incorporated in Canada had no assessable profit subject to Canadian federal and provincial tax since incorporation.

PRC Enterprise Income Tax is calculated at the prevailing tax rate of 25% on the taxable income of the group entities in the PRC for the years ended December 31, 2010 (2009: 25%) except as described below.

墨竹工卡縣甲瑪工貿有限公司 ("Jiama Industry and Trade"), a subsidiary acquired in December 2010 (Note 27), was established in the westward development area of the PRC and subject to preferential tax rate of 15% for 2010.

Under relevant PRC Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately US$67,300,000 and US$20,788,000 at December 31, 2010 and 2009, respectively, as the Company is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

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

Tax expense comprises:

	2010 **US$**	2009 US$
Current tax expense	**13,498,808**	4,752,348
Deferred tax expense	**1,361,417**	1,339,601
	14,860,225	6,091,949

8. INCOME TAX EXPENSE (Cont'd)

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

	2010 US$	2009 US$
Income (loss) before income tax	**42,000,224**	(2,278,951)
Canadian federal and provincial tax rates	**28.50%**	30.00%
Tax at the combined Canadian federal and provincial tax rates	**11,970,064**	(683,685)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,238,225)**	(1,115,200)
Tax effect of tax losses not recognized	**3,685,985**	906,505
Tax effect of deductible temporary differences not recognized	**250,178**	1,332,787
Tax effect of non-deductible expenses and non-taxable income	**1,829,924**	4,915,682
Effect of change in future tax rates	**362,299**	735,860
	14,860,225	6,091,949

Certain deferred tax assets have been recognized to the extent of the deferred tax liabilities relating to taxable temporary differences recognized for the relevant entities. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010 US$	2009 US$
Deferred income tax assets		
Property, plant and equipment	**8,876,932**	2,563,002
Prepaid expenses	**—**	1,357,529
Environmental rehabilitation	**471,980**	399,780
	9,348,912	4,320,311
Deferred income tax liabilities		
Intangible assets	**(139,473,353)**	—
Inventory	**(6,886,439)**	(4,989,052)
Prepaid lease payment	**(102,100)**	—
Capital gain and other	**(1,197,991)**	(670,860)
	(147,659,883)	(5,659,912)
Net deferred income tax liabilities	**(138,310,971)**	(1,339,601)

8. INCOME TAX EXPENSE (Cont'd)

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

	2010 US$	2009 US$
Deferred income tax assets		
Tax loss carryforwards	**12,061,989**	8,159,149
Other tax deductible temporary differences	**4,496,825**	4,246,647
Total unrecognized deferred income tax assets	**16,558,814**	12,405,796

Other deductible temporary differences primarily comprise of share issue costs, cumulative eligible capital expenditures and unrealized foreign exchange loss arising from inter-company loans that were incurred by the Company which are tax deductible according to relevant tax law in Canada. No deferred tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable and not probable.

The Group has unrecognized non-capital losses for income tax purposes that may be used to offset future taxable income as follows:

	December 31, 2010		
	Local currency	**US$ equivalent US$**	**Expiry date**
Non-capital losses			
CAD	**46,541,043**	**46,793,729**	**2013-2030**
Chinese Renminbi ("RMB")	**15,926,467**	**2,423,714**	**2015**

	December 31, 2009		
	Local currency	US$ equivalent US$	Expiry date
Non-capital losses			
CAD	34,268,100	32,636,597	2013-2029

9. NET PROFIT (LOSS) FOR THE YEAR

	2010 US$	2009 US$
Auditor's remuneration	451,028	496,740
Depreciation included in cost of sales	9,431,256	5,719,259
Depreciation included in administrative expenses (Note 5)	199,583	45,246
Total depreciation	9,630,839	5,764,505
Release of prepaid lease payment (included in cost of sales)	7,447	—
Amortization of intangible assets (included in cost of sales)	1,182,643	—
Gain on disposal of property, plant and equipment	(15,777)	(6,583)
Staff costs		
Directors' emoluments (Note 10)	742,885	85,917
Retirement benefit contributions	52,500	34,998
Stock-based compensation	—	(527,113)
Other staff costs	1,188,747	994,465
Total salaries and benefits included in administrative expenses (Note 5)	1,984,132	588,267
Stock-based compensation	(93,752)	96,775
Other staff costs	101,546	413,356
Total salaries and benefits included in exploration and evaluation expenditure (Note 6)	7,794	510,131
Staff costs included in cost of sales	4,385,583	2,849,856
Total staff costs	6,377,509	3,948,254
Operating lease payment	131,629	52,668

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments of the directors on a name basis are as follows:

	For the year ended December 31, 2010				
	Fees US$	Salaries and other benefits US$	Retirement benefit contributions US$	Stock-based compensation US$	Total US$
Xiangdong Jiang* (appointed on June 17, 2010)	—	226,944	2,101	24,706	253,751
Yunfei Chen	26,228	—	—	87,103	113,331
Ian He	35,092	—	1,394	111,810	148,296
Gregory Hall	26,917	—	—	87,103	114,020
John King Burns	26,384	—	—	87,103	113,487
	114,621	226,944	3,495	397,825	742,885

	For the year ended December 31, 2009				
	Fees US$	Salaries and other benefits US$	Retirement benefit contributions US$	Stock-based compensation US$	Total US$
Yunfei Chen	10,512	—	369	—	10,881
Ian He	11,389	—	445	66,725	78,559
Gregory Hall	1,752	—	—	—	1,752
John King Burns	1,752	—	—	—	1,752
Daniel Kunz (resigned on October 15, 2009)	7,884	—	276	(15,187)	(7,027)
	33,289	—	1,090	51,538	85,917

* Executive director

None of the directors of the Company has waived any emoluments during the years ended December 31, 2010 and 2009.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

The five highest paid individuals included two (2009: Nil) directors for the year ended December 31, 2010. The emoluments of the remaining three (2009: five) individuals for the year ended December 31, 2010, are as follows:

	2010 US$	2009 US$
Employees		
Salaries and other benefits	446,909	660,665
Retirement benefit contributions	4,202	10,342
Stock-based compensation	—	227,106
	451,111	898,113

Their emoluments were within the following bands:

	No. of individuals 2010	2009
HK$Nil to HK$1,000,000 (equivalent to approximately US$Nil to US$128,205)	1	1
HK$1,000,001 to HK$1,500,000 (equivalent to approximately US$128,206 to US$192,307)	2	1
HK$1,500,001 to HK$2,000,000 (equivalent to approximately US$192,308 to US$256,410)	—	3

During the years ended December 31, 2010 and 2009, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDEND

No dividends have been paid or declared by the Company during the years ended December 31, 2010 and 2009.

12. EARNINGS (LOSS) PER SHARE

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

	2010 US$	2009 US$
Income (loss) attributable to owners of the Company for the purpose of basic earnings (loss) per share	**26,226,703**	(9,347,381)
Weighted average number of shares, basic	**189,770,654**	167,629,459
Dilutive securities		
– Options	**405,983**	—
– Warrants	**492,928**	—
Weighted average number of shares, diluted	**190,669,565**	167,629,459
Basic earnings (loss) per share	**13.82 cents**	(5.58) cents
Diluted earnings (loss) per share	**13.76 cents**	(5.58) cents

Due to a net loss for the year ended December 31, 2009, all stock options and warrants (disclosed in Notes 26 (b) and (c)) were excluded from the diluted EPS computation because their effect would have been anti-dilutive.

All warrants have been exercised during the year ended December 31, 2010.

For the year ended December 31, 2010, the weighted average number of common shares has accounted for 53,660,000 shares issued in the global offering (Note 26) and 170,252,294 shares issued to China National Gold (HK) Ltd. ("CNGHK") and Rapid Result Investment Ltd. ("Rapid Result") for acquisition of 100% interest in Skyland (Note 27).

13. CASH AND CASH EQUIVALENTS

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

	2010 US$	2009 US$
Denominated in:		
CAD	**1,123,829**	5,812,185
RMB	**49,058,855**	16,361,908
US$	**544,009**	1,810,567
Hong Kong dollars ("HK$")	**250,882,024**	—
Total cash and cash equivalents	**301,608,717**	23,984,660

The bank balances carry interest rates ranging from 0.001% to 0.95% per annum for the year ended December 31, 2010 (2009: 0.001% to 0.25%).

14. RESTRICTED CASH

During the year ended December 31, 2010, the Group received deposit of RMB79,200,000 (approximately US$11,597,414) from the purchaser in respect of its sales of the Dadiangou Gold Project, of which RMB34,874,000 (approximately US$5,181,972) was paid to a joint venture counterparty subsequently. The balance of RMB44,326,000 (approximately US$6,725,129) retained by the Company cannot be used until the completion of the disposal transaction. Hence, the amount has been included as restricted cash at December 31, 2010 (Note 20(c)) carrying interest at 0.36% (2009: Nil).

15. ACCOUNTS RECEIVABLE

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

	2010 US$	2009 US$
Trade receivables (Note 28(c))	744,193	346,437
Less: allowance for doubtful debts	(41,590)	—
	702,603	346,437
Listing expense receivable (Note 28)	—	1,184,911
VAT receivables	2,085,831	—
Other receivables	825,213	85,365
GST receivable	72,427	65,167
Amounts due from shareholders (Note 28)	5,364,416	—
Total accounts receivable	9,050,490	1,681,880

Listing expense receivable at December 31, 2009 was due from Skyland, a subsidiary of CNG at that time, based on a cost sharing agreement between the Group and Skyland entered into in September 2009 (Note 28). The Group and Skyland agreed to share equally costs related to the proposed listing of the Company on the Stock Exchange and the Group has recorded this as a cost recovery against the listing expenses in the consolidated statement of comprehensive income. In December 2010, the shareholders of Company, CNGHK and Rapid Result, agreed to pay the outstanding listing expense payable to the Company on behalf of Skyland based on their percentage of shareholding in Skyland before the acquisition as set out in Note 27, i.e. 51% and 49%, respectively. Accordingly, the balance of outstanding listing expense was reclassified to amounts due from shareholders at December 31, 2010.

The Group allows an average credit period of 180 days to its trade customers for copper sales whereas there is no credit period for gold sales.

15. ACCOUNTS RECEIVABLE (Cont'd)

Below is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period:

	2010 US$	2009 US$
Less than 30 days	103,988	—
31 to 90 days	169,870	—
91 to 180 days	184,275	—
181 to 365 days	244,470	346,437
	702,603	346,437

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of US$244,470 and US$346,437 at 31 December 2010 and 2009, respectively, which are past due over six months for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience.

Movement in the allowance for doubtful debts:

	2010 US$	2009 US$
At January 1	—	—
Addition	41,590	—
At December 31	41,590	—

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

At December 31, 2010, all of the GST and VAT receivable was outstanding less than 1 month. The Group anticipates full recovery of these amounts and, therefore, no impairment has been recorded against these receivables. The credit risk on the GST and VAT receivable has been further discussed in Note 32(d).

The Group's other receivables mostly represented employees' cash and travel advances as at December 31, 2010 and 2009. The other receivables are unsecured, interest free and repayable upon written notice from the Group.

The Group holds no collateral for any receivable amounts outstanding as at December 31, 2010 and 2009.

16. PREPAID EXPENSES AND DEPOSITS

	2010 US$	2009 US$
Deposits for mine supplies and services	**2,006,484**	705,420
Deposits for environmental protection (note a)	**1,640,902**	—
Deposits for spare parts	**881,343**	133,036
Prepayment for the land use rights (note b)	**754,979**	—
Insurance	**331,621**	286,787
Rent deposits	**19,272**	246,846
Refundable CSH Gold Mine construction deposits	**—**	192,876
Other	**179,780**	169,216
Total prepaid expenses and deposits	**5,814,381**	1,734,181
Less: Amounts that are utilized within one year shown under current assets	**(3,418,499)**	(1,734,181)
Amounts that are utilized for more than one year shown under non-current assets	**2,395,882**	—

Notes:

a. The amount represents deposits paid to the PRC local land administration bureau for undertaking the restoration of land to its present condition when the lease term is expired that are expected to be utilized after one year and therefore shown as a non-current asset.

b. The amount represents advances to PRC local land administration bureau for acquisition of properties in Tibet, the PRC. The Group is still negotiating the terms with the PRC local land administration bureau as of the date of issue of the financial statements. The amount is shown as non-current asset.

17. PREPAID LEASE PAYMENT

	US$
At January 1, 2009, December 31, 2009 and January 1, 2010	—
Acquired on acquisition of subsidiaries (Note 27)	6,730,498
Release to profit or loss	(7,447)
Exchange realignment	48,838
At December 31, 2010	6,771,889

	2010 US$	2009 US$
Analyzed for reporting purpose:		
Current portion	137,808	—
Non-current portion	6,634,081	—
	6,771,889	—

Prepaid lease payments represent payments for medium-term leasehold land of 50 years located in the PRC. The prepaid lease payments are released to profit or loss over the remaining lease terms.

The Group is in the process of obtaining the land use right certificate of a parcel of land included in prepaid lease payment with carrying amount of approximately US$2,407,000 at December 31, 2010.

18. INVENTORY

	2010 US$	2009 US$
Gold in process	34,391,977	27,076,254
Gold doré bars	9,044,958	1,069,014
Consumables	3,616,043	344,231
Copper	2,608,811	—
Spare parts	2,331,308	529,616
Total inventory	51,993,097	29,019,115
Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets)	(17,838,819)	(18,852,686)
Amounts shown under current assets	34,154,278	10,166,429

Note:

Management has allocated inventory, specifically, the gold in process, that are expected to be recovered more than twelve months after the end of the reporting period to take into consideration the long-term process involved in recovering gold from a heap leaching system.

18. INVENTORY (Cont'd)

Inventory totaling US$67,555,131 (2009: US$56,178,404) for the years ended December 31, 2010 was recognized in cost of sales.

The actual gold recovery rate of 43% from the uncrushed ore realized up to December 2009 was 8% lower than the predicted recovery rate of 51% used in the Group's inventory model and as such the Group has recorded an impairment of US$3,030,461 during the year ended December 31, 2009. Impairment of inventory was included in cost of sales during the year ended December 31, 2009. At December 31, 2010, estimated gold recovery rate of 43% was used which was the same as of December 31, 2009.

19. AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER

The amount represented the amount due from墨竹工卡縣甲瑪經濟合作社(「甲瑪合作社」)a non-controlling shareholder of a 51% owned subsidiary, Jiama Industry and Trade. Tibet Huatailong Mining Development Co., Ltd. ("Huatailong"), a wholly owned subsidiary of the Company, paid RMB2,450,000 (equivalent to approximately US$419,768) on behalf of甲瑪合作社 as the 49% capital contribution to Jiama Industry and Trade.

The amount is unsecured, interest-free and repayable on demand. As agreed between Skyland and甲瑪合作社，甲瑪合作社can use future distribution of dividend by Jiama Industry and Trade to settle the amount. The directors consider that the amount due from 甲瑪合作社 will not be repayable within one year; therefore, it is classified as non-current asset.

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$	Crusher US$	Furniture and office equipment US$	Machinery and equipment US$	Motor vehicles US$	Leasehold improvements US$	Mineral assets US$	Construction in progress ("CIP") US$	Total US$
COST									
At January 1, 2009	4,275,801	—	722,972	24,922,822	1,184,136	—	11,957,158	28,727,117	71,790,006
Additions	578,491	—	216,697	895,270	68,990	—	9,949,133	48,256,412	59,964,993
Disposals	—	—	(6,966)	—	(93,773)	—	—	—	(100,739)
Reclassified as assets held for sale	(76,321)	—	(48,633)	(10,036)	(37,422)	—	—	—	(172,412)
Transfer from CIP	—	—	—	900,126	—	100,458	—	(1,000,584)	—
Environmental rehabilitation adjustment (Note 25)	—	—	—	—	—	—	(3,145,917)	—	(3,145,917)
At December 31, 2009	4,777,971	—	884,070	26,708,182	1,121,931	100,458	18,760,374	75,982,945	128,335,931
Reversal of accrual	—	—	—	—	—	—	—	(5,719,987)	(5,719,987)
Acquired on acquisition of subsidiaries (Note 27)	85,786,377	—	360,702	34,905,838	3,364,803	—	—	40,041,466	164,459,186
Additions	204,955	741,049	66,053	1,593,634	168,895	—	9,624,366	16,345,573	28,744,525
Disposals	—	—	(19,070)	—	(53,894)	—	—	—	(72,964)
Transfer from CIP	—	71,738,433	—	9,328,998	—	—	—	(81,067,431)	—
Environmental rehabilitation adjustment (Note 25)	—	—	—	—	—	—	55,528	—	55,528
Exchange realignment	701,758	—	5,596	312,029	30,863	—	213,343	862,161	2,125,750
At December 31, 2010	91,471,061	72,479,482	1,297,351	72,848,681	4,632,598	100,458	28,653,611	46,444,727	317,927,969
ACCUMULATED DEPRECIATION									
As at January 1, 2009	(489,978)	—	(358,973)	(3,014,996)	(364,471)	—	(579,372)	—	(4,807,790)
Provided for the year	(393,584)	—	(175,290)	(2,141,625)	(216,772)	(4,566)	(2,832,668)	—	(5,764,505)
Eliminated on disposals	—	—	6,966	—	67,879	—	—	—	74,845
Reclassified as assets held for sale	18,749	—	23,430	4,333	33,679	—	—	—	80,191
At December 31, 2009	(864,813)	—	(503,867)	(5,152,288)	(479,685)	(4,566)	(3,412,040)	—	(10,417,259)
Provided for the year	(383,518)	(4,147,287)	(161,369)	(2,835,042)	(272,513)	(18,265)	(1,812,845)	—	(9,630,839)
Eliminated on disposals	—	—	19,070	—	29,911	—	—	—	48,981
Reclassified	—	(196,538)	—	196,538	—	—	—	—	—
Exchange realignment	(9,591)	—	(1,067)	(11,913)	(3,837)	—	(589)	—	(26,997)
At December 31, 2010	(1,257,922)	(4,343,825)	(647,233)	(7,802,705)	(726,124)	(22,831)	(5,225,474)	—	(20,026,114)
CARRYING VALUE									
At December 31, 2010	90,213,139	68,135,657	650,118	65,045,976	3,906,474	77,627	23,428,139	46,444,727	297,901,855
At December 31, 2009	3,913,158	—	380,203	21,555,894	642,246	95,892	15,348,334	75,982,945	117,918,672

Included in the cost above is US$15,983,922 (2009: US$15,074,435) as at December 31, 2010 in relation to finance costs which have been capitalized as construction in progress and mineral assets.

20. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, except for mineral assets, are depreciated using the straight-line method over the estimated useful lives of the related assets are as follows:

Buildings	Over the shorter of the term of lease, or 10 to 24 years
Crusher	14 years
Furniture and office equipment	2 to 5 years
Machinery and equipment	2 to 10 years
Motor vehicles	5 to 10 years
Leasehold improvements	5.5 years

Mineral property interests

(a) CSH Gold Mine

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

	January 1, 2009 US$	Increased during the year US$	December 31, 2009 US$	Increased (decreased) during the year US$	**December 31, 2010 US$**
Exploration expenditure charged to profit or loss	8,903,877	267,299	9,171,176	594,453	**9,765,629**
Mineral assets	11,957,158	6,803,216[1]	18,760,374	9,137,168[1]	**27,897,542**
Construction in progress	28,727,117	47,255,828[2]	75,982,945	(73,550,642)[3]	**2,432,303**

[1] During the year ended December 31, 2010, an addition of US$55,528 (Note 25) was made from changes in the discount rate (2009: a reduction of US$3,145,917 from changes in the estimated timing and amount of cash flows) for environmental rehabilitation.

[2] During the year ended December 31, 2009, US$1,000,584 was transferred out from construction in progress.

[3] During the year ended December 31, 2010, US$71,738,433 was transferred out from construction in progress to crusher and the Group reversed US$5,719,987 accruals on construction in progress upon the completion of crushing facility construction.

20. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Mineral property interests (Cont'd)

(b) Jiama Mine

Jiama Mine, a large copper-gold polymetallic deposit consisting of skarn-type and hornfels-type mineralization located in Metrorkongka County in Tibet, in which the Group holds 100% interest through its wholly-owned subsidiary, Skyland. The Group acquired Skyland on December 1, 2010 (Note 27). Jiama Mine holds two exploration permits covering an area of approximately 76.9 km^2 and 66.4 km^2, respectively.

	Acquired on acquisition of subsidiaries (Note 27) US$	Increased during the year US$	**December 31, 2010 US$**
Exploration expenditure charged to profit or loss	—	39,111	**39,111**
Mineral assets	—	584,913	**584,913**
Construction in progress	40,041,466	3,970,958	**44,012,424**

(c) Dadiangou Gold Project

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

In September 2005, the Group entered into a joint venture agreement with its Chinese partner, Nuclear Industry Northwest Economic and Technology Company ("NINETC"), to acquire a majority interest in the Dadiangou project. Under the terms of the agreement, the Group can earn a 71% interest by incurring exploration expenditures of approximately US$3,700,000 over the first three years of exploration commencing on September 19, 2006 and making payments to NINETC of approximately US$1,494,080 (of which US$125,000 has been paid). The Group can increase its interest to 80% by incurring additional exploration expenditures of approximately US$3,200,000 and by making additional payments of approximately US$360,000 to NINETC. NINETC can then choose to participate at a 20% level for all future expenditures, or have their ownership interest diluted. Up to December 31, 2010, the Group had not incurred the required exploration expenditure and its interest in this project remained as 71% as at December 31, 2010 (2009: 71%).

	January 1, 2009 US$	Increased during the year US$	December 31, 2009 US$	Increased during the year US$	**December 31, 2010 US$**
Exploration expenditure charged to profit or loss	5,630,444	431,467	6,061,911	73,167	**6,135,078**

20. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Mineral property interests (Cont'd)

(c) Dadiangou Gold Project (Cont'd)

The Group considered that the Dadiangou Gold Project carried out by Gansu Pacific Mining Company Ltd. ("Gansu Pacific") is not a sizeable mine site and decided not to further develop this project. The Group has decided to sell its interest in Gansu Pacific in 2009 and in December 2009, the Group entered into a letter of intent with a potential purchaser which is a subsidiary of Zhongjin Gold Corporation Limited and a subsidiary of CNG in relation to the disposal of its entire interest in Gansu Pacific. The consideration will be determined after the completion of due diligence procedures. As a result, the Group has recorded the assets and liabilities of Gansu Pacific at December 31, 2009 as assets classified as held for sale and liabilities classified as held for sale. On April 28, 2010, the Company's subsidiary, Gansu Pacific, and NINETC have entered into an agreement to sell the Dadiangou Gold Project to Gansu Zhongjin Gold Mining Co. Ltd., a subsidiary of Zhongjin Gold Corporation Limited, a company listed on the Shanghai Stock Exchange and a subsidiary of CNG. The price is RMB88 million (approximately US$13.1 million), of which the Group will be entitled to 53%, or RMB46.6 million (approximately US$7 million). The transaction has not yet been completed as of the date of issue of the financial statements. At December 31, 2010, the Group had received deposit from the purchaser of US$6,725,129, and such amounts cannot be used until the completion of the disposal transaction. Hence, the amount has been included as restricted cash at December 31, 2010 (Note 14).

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

Assets classified as held for sale

	2010 US$	2009 US$
Cash	**2,289**	81,186
Accounts receivable	**1,704**	1,047
Property, plant and equipment	**50,703**	75,071
	54,696	157,304

Liabilities classified as held for sale

	2010 US$	2009 US$
Accounts payable	**24,189**	17,054

20. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Mineral property interests (Cont'd)

(d) Xinjiang Projects

The Group held two exploration permits covering 96 km^2 in the Xinjiang Uygur Autonomous Region ("Xinjiang") of Northwest China. The permits were held under Yunnan Xindian Copper Mining Co., Ltd. ("Yunnan Xindian"), a Chinese-foreign joint venture in which the Group held 99% interest, and the partner, Yunnan Geological and Mining Co. Ltd., held 1% interest. The permits were granted in June 2006 and expired on June 30, 2009. The Group had not renewed the permits and ceased further development in this site subsequent to June 30, 2009.

As the project did not find any resources with commercial values, the Group has decided to sell its interest in the Xinjang Projects and as a result, has recorded the assets and liabilities of Yunnan Xindian at December 31, 2009 as assets classified as held for sale and liabilities classified as held for sale. Negotiations with interested parties to dispose of its entire equity interest in Yunnan Xindian had taken place in 2009 and the disposal was completed in May 2010.

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

Assets classified as held for sale

	2009 US$
Cash	8,382
Accounts receivable	4,920
Prepaid expenses - rent deposits	1,215
Property, plant and equipment	17,150
	31,667

Liabilities classified as held for sale

	2009 US$
Accounts payable	24,198

20. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Mineral property interests (Cont'd)

(d) Xinjiang Projects (Cont'd)

On April 26, 2010, the Company's subsidiary, Pacific PGM Inc., entered into an agreement with an independent third party to dispose of all equity interests in Yunnan Southern Copper (Barbados) Inc. which in turn held 99% interests in Yunnan Xindian for a total consideration of US$20,000. In May 2010, the transaction was completed and the Group disposed of its entire interest in Yunnan Southern Copper (Barbados) Inc. for a cash consideration of $20,000. The net assets at the date of disposal were as follows:

	US$
Net assets disposed of	—
Gain on disposal	20,000
Total consideration	20,000
Satisfied by:	
Cash	20,000
Net cash inflow arising on disposal	20,000

21. INTANGIBLE ASSETS

	Mining rights US$
COST	
At January 1, 2009, December 31, 2009 and January 1, 2010	—
Acquired on acquisition of subsidiaries (Note 27)	976,092,004
Exchange realignment	374,486
At December 31, 2010	976,466,490
ACCUMULATED AMORTIZATION	
At January 1, 2009, December 31, 2009 and January 1, 2010	—
Additions	(1,182,643)
Exchange realignment	(1,136)
At December 31, 2010	(1,183,779)
CARRYING VALUE	
At December 31, 2010	975,282,711
At December 31, 2009	—

21. INTANGIBLE ASSETS (Cont'd)

Mining rights represent mining rights in Jiama Mine acquired through acquisition of Skyland Group. The mining rights will expire in 2013 and in the opinion of the directors of the Company, the Group will be able to renew the mining rights with the relevant government authority continuously at insignificant cost.

Amortization on mining rights acquired is provided to write off the cost of the mining rights using the unit-of-production method based on the actual production volume over the estimated total proven and probable reserves of the mines.

22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Accounts payables and accrued expenses comprise the following:

	2010 **US$**	2009 US$
Accounts payable	**49,913,680**	19,216,790
Advances from customers	**13,779,971**	—
Deposit from sale of Dadiangou Gold Project (Note 20(c))	**6,725,129**	—
Payroll and benefit payables	**3,185,045**	7,733
Other accruals	**10,090,922**	10,265,886
Other tax payable	**3,592,975**	5,210,640
Other payables	**3,548,555**	371,555
	90,836,277	35,072,604

The following is an aged analysis of the accounts payable:

	2010 **US$**	2009 US$
Less than 30 days	**16,212,997**	9,049,090
31 to 90 days	**11,991,558**	1,165,793
91 to 180 days	**13,875,510**	2,431,233
Over 180 days	**7,833,615**	6,570,674
Total accounts payable	**49,913,680**	19,216,790

Included within the Group's accounts payable and accrued expenses are construction costs payable of US$30,012,657 (2009: US$15,454,985).

23. BORROWINGS

	Effective interest rate 2010 %	Effective interest rate 2009 %	Maturity	2010 US$	2009 US$
Current					
Notes payable (i)	—	17.66/19.48	June 26, 2010	—	10,633,386
Current portion of long-term loan - ABC (ii)	5.18	5.18	September 9, 2011	1,517,197	1,458,619
Current portion of long-term loan - Bank of China ("BOC") (ii)	3.96	—	December 28, 2011	30,343,949	—
				31,861,146	12,092,005
Non-current					
Long-term loan - ABC (ii)	5.18	5.18	September 9, 2012 to September 9, 2014	40,964,331	40,841,331
Long-term loan - CNG (ii)	—	6.00	December 6, 2011	—	40,000,000
Long-term loan - BOC (ii)	3.96	—	December 28, 2012 to December 28, 2014	75,353,123	—
Syndicated loan (ii)	3.96	—	June 4, 2013 to June 4, 2016	64,467,664	—
				180,785,118	80,841,331
				212,646,264	92,933,336

(i) Notes payable

	Note A US$	Note B US$	Note C US$	Total US$
At January 1, 2009	22,930,784	9,246,978	5,682,143	37,859,905
Foreign exchange loss	3,693,230	1,243,176	960,770	5,897,176
Effective interest	4,721,339	2,235,146	1,107,779	8,064,264
Interest paid	(3,024,764)	(1,291,349)	(795,898)	(5,112,011)
Principal payments	(28,320,589)	—	—	(28,320,589)
Principal repurchase	—	(7,755,359)	—	(7,755,359)
At December 31, 2009	—	3,678,592	6,954,794	10,633,386
Foreign exchange loss	—	1,468	241,089	242,557
Effective interest	—	143,241	1,035,907	1,179,148
Interest paid	—	(13,777)	(852,806)	(866,583)
Principal repurchase	—	(3,809,524)	(7,378,984)	(11,188,508)
At December 31, 2010	—	—	—	—

23. BORROWINGS (Cont'd)

(i) Notes payable (Cont'd)

(a) Note A

On December 14, 2006, the Company completed a US$25,935,546 (CAD30,000,000) ("Note A") private placement offering consisting of senior unsecured promissory notes ("Notes") and 6,000,000 warrants for financing the development of the CSH Gold mine. The Notes carrying an annual interest rate of 12% and effective interest rate of 19.54% were fully repaid on December 14, 2009.

The Group has allocated the US$25,935,546 face value of the private placement offering to the Notes and warrants based on the fair value of warrants and the Notes. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 3.9%, an expected life of two years, an expected volatility of 79%, and a dividend yield rate of Nil. Each warrant entitles the holder to acquire one common share at CAD1.60 each with expiry date of December 14, 2010 after extension (see Note 26(c)).

The Group has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of CAD2.75 for 20 consecutive trading days. The expiry date was accelerated to April 22, 2010 by the Company on March 18, 2010 and the warrants were fully exercised by April 17, 2010.

(b) Notes B and C

On June 26, 2007, the Group concluded an US$18,668,907 (CAD20,000,000) private placement offering consisting of senior unsecured promissory notes ("June 07 Notes") and 4,000,000 warrants. Ivanhoe Mines Ltd. ("Ivanhoe Mines"), a substantial shareholder of the Company at that time, purchased US$7,000,840 (CAD7,500,000) ("Note C") of the June 07 Notes and US$11,668,067 (CAD12,500,000) ("Note B") was purchased by third parties. The June 07 Notes mature on June 26, 2010, are repayable in Canadian dollars and carry an annual interest rate of 12%. Interest on the June 07 Notes is payable on a calendar quarterly basis commencing on September 30, 2007. The Group can elect to prepay Note B anytime after 18 months from the issue date with no prepayment penalty and Note C after six months from the issue date with no prepayment penalty. Note B ranks pari passu with Note A while Note C is subordinate to Notes A and B.

The Group has allocated the US$18,668,907 face value of the private placement offering to the June 07 Notes and warrants based on the fair value of the warrants and the June 07 Notes. The fair value of the warrants was measured using the Black-Scholes option pricing model and was based on a risk free annual interest rate of 4.6%, an expected life of two years, an expected volatility of 72%, and a dividend yield rate of Nil. Each warrant entitles the holder to acquire one common share at CAD2.50 with expiry date of June 26, 2011 after extension (see Note 26 (c)).

The Note B was fully repurchased on January 11, 2010 at a consideration of US$3,931,026 (2009: US$8,024,167) and the loss of US$121,500 (2009: US$268,808) arising on repurchase was included in finance cost. On June 1, 2010, the maturity date for Note C was extended from June 26, 2010 to June 26, 2011. The effective interest rate is revised from 17.66% to 12%.

23. BORROWINGS (Cont'd)

(i) Notes payable (Cont'd)

(b) Notes B and C (Cont'd)

The Group has the right to accelerate the expiry date of the warrants anytime after 18 months from the issue date, if the Company's common shares trade at or above a volume weighted average share price of CAD4.25 for 20 consecutive trading days. On April 16, 2010, the expiry date of the warrants with exercise price of CAD2.50 was accelerated to May 17, 2010 by the Company and the warrants were fully exercised by May 13, 2010.

On December 20, 2010, Note C was fully repurchased at a consideration of US$7,378,984 without gain or loss.

(ii) Long-term loans

(a) ABC Loan

On September 14, 2009, the Group's subsidiary, Inner Mongolia Pacific Mining Co., Ltd. ("IMP"), secured a five-year RMB290,000,000 (US$42,299,950) long-term loan ("Term Loan") from the Agricultural Bank of China ("ABC"). The purpose of the Term Loan is to satisfy the outstanding funding requirements for the capital expansion loan provided by CNG in June 2009. The Term Loan is supported by a guarantee from CNG. The annual interest rate for the Term Loan is 5.18% and interest is payable monthly. The Term Loan principal is repayable through periodic instalments with RMB10,000,000 due in each of September 2010 and 2011 and further instalments of RMB 30,000,000 due in successive three-month intervals starting in September 2012 through to September 2014, when the remaining outstanding balance is scheduled to be repaid in full.

(b) CNG Loan

On December 3, 2009, the Group secured a two years term loan in the amount of US$40,000,000 from its substantial shareholder, CNG. The purpose of the term loan was to redeem Note A due to mature on December 14, 2009. The funds were also used for the early redemption of Note B due to mature on June 26, 2010 and on January 11, 2010. The loan was unsecured with interest at 6% per annum payable quarterly. On December 15, 2010, the Group fully repaid the loan of US$40,000,000.

(c) BOC Loan

The loan was acquired through acquisition of Skyland as detailed in Note 27. Skyland raised the loan from BOC in December 2009 and the loan carries interest at floating rate based on the People's Bank of China base rate (the interest rate at date of inception of loan agreement and at the end of reporting period is 3.96% per annum) and is repayable in four annual installments starting from December 28, 2011. RMB200,000,000, RMB200,000,000, RMB150,000,000 and RMB150,000,000 will be repayable on December 28, 2011, December 28, 2012, December 28, 2013 and December 28, 2014, respectively.

23. BORROWINGS (Cont'd)

(ii) Long-term loans (Cont'd)

(d) Syndicated Loan

Similar to BOC Loan, Skyland entered into a syndicated loan facility agreement with various banks on June 4, 2010 for a loan facility amounting to RMB750,000,000 (equivalent to approximately US$113,247,000) which is available for Skyland to draw on up to June 4, 2013. The syndicated loan of RMB426,950,000 (equivalent to approximately US$64,468,000) was drawn on in 2010. The loan carries interest at floating rate based on the People's Bank of China base rate (the interest rate at date of inception of the loan agreement and at the end of reporting period is 3.96% per annum) and is repayable in three annual installments starting from 2013. RMB100,000,000, RMB150,000,000 and RMB176,950,000 will be repayable in June 2013, June 2014, and June 2015, respectively.

The BOC and Syndicated loans are guaranteed by CNG.

24. DEFERRED INCOME

Pursuant to the approval notices issued by Ministry of Finance Department of the PRC in July 2010 and by local Finance Bureau in Inner Mongolia of the PRC in December 2010, IMP received government grants in relation to the construction of property, plant and equipment of the Group amounting to approximately RMB4,839,000 (equivalent to approximately US$715,000) during the year ended December 31, 2010. The grants are recorded as deferred income in the consolidated statement of financial position and will be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets. During the year ended December 31, 2010, deferred income of approximately US$2,000 (2009: Nil) has been credited to profit or loss.

25. ENVIRONMENTAL REHABILITATION

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

The environmental rehabilitation relates to reclamation and closure costs relating to the Group's mine operations at the CSH Gold Mine. The environmental rehabilitation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total US$9,905,000 (2009: US$9,495,000), discounted at 9.8% (2009: 10%) per annum at December 31, 2010. The settlement of the obligations will occur through to 2030. No assets have been legally restricted for the purposes of settling the environmental rehabilitation.

25. ENVIRONMENTAL REHABILITATION (Cont'd)

The following is an analysis of the environmental rehabilitation:

	2010 US$	2009 US$
At January 1	1,599,120	4,131,735
Additions to site reclamation and additions resulted from changes in discount rate during the year	55,528	244,066
Accretion incurred in the current year	164,096	392,277
Foreign exchange loss (gain)	69,179	(23,041)
Reductions resulted from changes in the estimated timing and amount of cash flows	—	(3,145,917)
At December 31	1,887,923	1,599,120

26. SHARE CAPITAL, OPTIONS AND WARRANTS

(a) Common shares

(i) Authorized

Unlimited common shares without par value

(ii) Issued and outstanding

	Number of shares	Amount US$'000
Issued & fully paid:		
At January 1, 2009	163,889,159	90,384,469
Exercise of warrant	2,250,000	5,597,821
Exercise of stock option	1,490,300	3,204,628
At December 31, 2009	167,629,459	99,186,918
Exercise of warrant	4,060,000	21,008,571
Exercise of stock option	525,000	1,501,925
Global offering (note a)	53,660,000	309,081,600
Shares issued for acquisition of subsidiaries (note b)	170,252,294	810,926,039
Transaction costs attributable to issue of shares	—	(13,606,903)
At December 31, 2010	396,126,753	1,228,098,150

26. SHARE CAPITAL, OPTIONS AND WARRANTS (Cont'd)

(a) Common shares (Cont'd)

(ii) Issued and outstanding (Cont'd)

Notes:

(a) On December 1, 2010, the Company issued 53,660,000 shares without par value at a price of US$5.76 per share by way of a global offering to Hong Kong and overseas investors.

(b) On August 30, 2010, the Company signed a definitive purchase agreement (the "Purchase Agreement") with CNGHK and Rapid Result, (collectively referred to the "Vendors"), to acquire 100% of Skyland from the Vendors. The Purchase Agreement provides that the Company will purchase all of the issued and outstanding shares of Skyland from the Vendors and assume shareholder loans from the Vendors through the issuance of 170,252,294 common shares of the Company (subject to adjustment). The acquisition was completed on December 1, 2010 as more fully described in Note 27.

(b) Stock options

The Group has a stock option plan which permits the board of directors of the Company to grant options to directors and employees to acquire common shares of the Company at the fair market value on the date of approval by the board of directors. A portion of the stock options vests immediately on the grant date and the balance vests over a period of up to five years from grant date. The stock options have a life of up to six years from grant date. The fair market value of the exercise price is the weighted average price of the common shares for the five days on which they were traded immediately preceding the date of approval by the board of directors. The Compensation and Benefits Committee makes recommendations to the board of directors as to the recipients of, and nature and size of, share compensation awards in compliance with applicable securities law, stock exchange and other regulatory requirements. The Group is authorized to issue options to a maximum of 10% of the issued and outstanding common shares pursuant to the stock option plan. At December 31, 2010, there were 38,832,675 (2009: 15,215,946) options available for future grants.

The following is a summary of option transactions under the Group's stock option plan during the year:

	2010		2009	
	Number of options	**Weighted average exercise price CAD**	Number of options	Weighted average exercise price CAD
Balance at January 1	**1,547,000**	**2.04**	5,787,300	1.75
Options granted	**400,000**	**5.12**	—	—
Options exercised	**(525,000)**	**1.76**	(1,490,300)	1.36
Options forfeited	**(642,000)**	**2.16**	(2,625,000)	1.06
Options expired	**—**	**—**	(125,000)	1.74
Balance at December 31	**780,000**	**3.71**	1,547,000	2.04

26. SHARE CAPITAL, OPTIONS AND WARRANTS (Cont'd)

(b) Stock options (Cont'd)

400,000 stock options were granted during the year ended December 31, 2010. The options were granted on June 1, 2010 and expire on June 1, 2015. The exercise price was CAD4.35 per share from June 1, 2010 until June 1, 2011, CAD4.78 per share from June 2, 2011 until June 1, 2012, CAD5.21 per share from June 2, 2012 until June 1, 2013, CAD5.64 per share from June 2, 2013 until June 1, 2014, and CAD6.09 per share from June 2, 2014 until June 1, 2015 or such later termination date as may apply. 20% of the shares are vested immediately, an additional 20% of the shares are vested on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014, respectively. The fair value of these options at date of grant was approximately US$860,000, of which approximately US$348,000 has been charged to the profit or loss for the year ended December 31, 2010.

No stock options were granted during the year ended December 31, 2009.

Due to forfeitures of stock options by employees before the vesting date, the Group re-estimated the number of options that will ultimately vest in the future and recognized a compensation cost of US$205,239 (2009: reversal of compensation of US$461,783) during the year ended December 31, 2010.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2010:

	Options outstanding			Options exercisable	
Expiring in	Number of stock options	Remaining contractual life (years)	Weighted average exercise price CAD	Number of stock options	Weighted average exercise price CAD
2011	**25,000**	**0.50**	**1.05**	**25,000**	**1.05**
2013	**355,000**	**2.56**	**2.20**	**111,500**	2.20
2015	**400,000**	**4.42**	**5.21**	**80,000**	**4.35**
	780,000		**3.71**	**216,500**	**2.16**

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

	Options outstanding			Options exercisable	
Expiring in	Number of stock options	Remaining contractual life (years)	Weighted average exercise price CAD	Number of stock options	Weighted average exercise price CAD
2011	210,000	1.50	1.05	210,000	1.05
2013	1,337,000	3.56	2.20	350,000	2.20
	1,547,000		2.04	560,000	1.77

26. SHARE CAPITAL, OPTIONS AND WARRANTS (Cont'd)

(b) Stock options (Cont'd)

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

	Years ended December 31,	
	2010	2009
Risk free interest rate	**1.44%**	N/A
Expected life (years)	**2.5**	N/A
Expected volatility	**94.57%**	N/A
Expected dividend per share	**$Nil**	N/A
Fair value per option granted	**$2.15**	N/A

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

(c) Warrants

The following is a summary of number of warrants outstanding:

	2010	2009
	US$	US$
Balance at January 1	**4,060,000**	6,310,000
Exercised	**(4,060,000)**	(2,250,000)
Balance at December 31	**—**	4,060,000

The following is a summary of warrants amounts outstanding:

	2010	2009
	US$	US$
Balance at January 1	**5,286,123**	274,507
Exercised	**(12,441,930)**	(2,175,105)
Fair value change on warrant liabilities	**7,155,807**	7,186,721
Balance at December 31	**—**	5,286,123

26. SHARE CAPITAL, OPTIONS AND WARRANTS (Cont'd)

(c) Warrants (Cont'd)

Warrants issued with Canadian dollar exercise prices

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

The fair value of warrants exercised during the year was determined using the Black-Scholes option pricing model, using the following assumptions:

	2010	2009
Risk free interest rate	**0.12%**	0.57%
Expected life (years)	**0.07**	1.07
Expected volatility	**92.94%**	91.67%

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

	2010	2009
Risk free interest rate	**N/A**	0.68%
Expected life (years)	**N/A**	0.31
Expected volatility	**N/A**	96.93%
Expected dividend per share	**N/A**	Nil

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

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

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

26. SHARE CAPITAL, OPTIONS AND WARRANTS (Cont'd)

(c) Warrants (Cont'd)

Warrants issued with Canadian dollar exercise prices (Cont'd)

(i) As mentioned in Note 23(i)(a) & (b), the expiry dates of 1,610,000 warrants and 2,450,000 warrants were extended to December 14, 2010 and June 26, 2011, respectively, in September 2008.

(ii) Subsequent to December 31, 2009, the Company exercised its right to accelerate the expiry date of the CAD1.60 share warrants (Note 23(i)(a)) to April 22, 2010. These warrants were fully exercised by April 17, 2010.

(iii) On April 16, 2010, the Company exercised its right to accelerate the expiry date of the CAD2.50 warrants (Note 23(i)(b)) to May 17, 2010. These warrants were fully exercised by May 13, 2010.

No warrants were outstanding at December 31, 2010.

27. ACQUISITION OF SUBSIDIARIES

On August 30, 2010, the Company entered into the Purchase Agreement with the Vendors to acquire a 100% interest in the Jiama Mine through the purchase of 100% interest in Skyland and the assumption of shareholders' loan and accrued interests from the Vendors by issuing 170,252,294 common shares of the Company (the "Consideration Shares"), subject to the working capital adjustment mechanism (the "Purchase Price Adjustment") as mentioned below, to the Vendors at the closing date, i.e. December 1, 2010 (the "Closing Date"). This acquisition has been accounted for using the acquisition method. Skyland Group are principally engaged in the exploration, development and mining of mineral properties in the PRC. Skyland Group was acquired to continue the expansion of the Group's mining operations.

Consideration transferred

Common shares issued, without par value	170,252,294
Fair value at the Closing Date	US$4.76
Total consideration (provisional)	US$810,926,039

The fair value of the Consideration Shares was determined using the published price available at the Closing Date, adjusted by applying a discount rate of 17.1% after taking into account the lack of marketability of the Consideration Shares over the 6-month lock-up period. The valuation of the Consideration Shares was conducted by an independent qualified professional valuer using the Black-Scholes option pricing model, with 0.38% risk free interest rate and 61.50% expected volatility over the lock-up period.

As set out in the Purchase Agreement, the purchase consideration for the Skyland Group is subject to the Purchase Price Adjustment whereby if, as of the Closing Date, Skyland's working capital deficit, being current assets minus current liabilities of Skyland Group at November 30, 2010, exclusive of certain indebtedness items (including payables or accruals for acquisition of property, plant and equipment and construction payables) (the "Closing Working Capital Deficit"), as defined in the Purchase Agreement , exceeds US$786,728 (the "Target Working Capital Deficit"), the Vendors will proportionately return that number of Consideration Shares as is equivalent to the quotient of the difference of the Closing Working Capital Deficit from the Target Working Capital Deficit divided by US$4.36. Similarly, if the Closing Working Capital Deficit is less than the Target Working Capital Deficit, the Company will be obligated to issue to the Vendors, proportionately, that number of additional Consideration Shares derived from the formula described above.

27. ACQUISITION OF SUBSIDIARIES (Cont'd)

In accordance with the terms of the Purchase Agreement, the Company prepared and submitted the calculation of Purchase Price Adjustment to the Vendors in December 2010. Based on the initial calculation, the Vendors expressed their disagreement on the calculation of the Closing Working Capital Deficit and both parties subsequently agreed to resolve the dispute on the Purchase Price Adjustment by end of June 2011. Up to the date of issue of the financial statements, no agreement has been reached for the calculation of the Closing Working Capital Deficit and the Purchase Price Adjustment by the Company and the Vendors. Accordingly, the number of the Consideration Shares and the fair value of purchase consideration for acquisition of Skyland Group are not yet finalized, the fair value of purchase consideration and intangible assets acquired (and related tax effect) are determined provisionally and are subject to change pending finalisation of the valuation of the purchase consideration, intangible assets and related tax effect. For the purpose of determining the provisional fair value of purchase consideration, the directors of the Company have assumed no adjustment to the number of the Consideration Shares.

No acquisition-related costs have been recognized in the consolidated statement of comprehensive income as such costs were borne by the Vendors.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	US$
Net assets acquired	
Property, plant and equipment	164,459,186
Prepaid lease payments	6,730,498
Intangible assets (provisional)	976,092,004
Inventory	4,762,654
Accounts receivable	4,437,208
Prepaid expenses and deposits	1,602,147
Cash and cash equivalent	13,614,522
Amount due from a non-controlling shareholder	416,405
Borrowings	(161,311,824)
Accounts payable and accrued expenses	(105,625,355)
Deferred tax liabilities (provisional)	(135,556,155)
	769,621,290
Shareholders' loan	42,300,000
Non-controlling interest	(995,251)
Total consideration, satisfied by common shares (provisional)	810,926,039

The fair value of accounts receivable at the date of acquisition amounted to US$4,437,208, also its gross contractual amount. The entire balance is expected to be collectible at the acquisition date.

The non-controlling interest of 49% in Jiama Industry and Trade recognised at the acquisition date was measured by reference to the non-controlling interest's proportionate share of the net fair value of the assets and liabilities of Jiama Industry and Trade at the Closing Date which amounted to US$995,251.

27. ACQUISITION OF SUBSIDIARIES (Cont'd)

Net cash inflow on acquisition:

	US$
Cash and cash equivalent balances acquired	13,614,522
Less: cash consideration paid	—
	13,614,522

Included in the profit for the year is loss of US$695,884 attributable to the Skyland Group for the period between the date of acquisition and December 31, 2010. Revenue for the year includes US$4,792,112 generated from Skyland Group.

Had the acquisition been completed on January 1, 2010, total group revenue for the period would have been US$149.2 million, and profit for the year would have been US$11.6 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2010, nor is it intended to be a projection of future results.

28. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties during the years are as follows:

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

	2010	2009
	%	%
CNG	**39.0**	40.3

(b) Related parties transactions

Other than those transactions disclosed in Note 20(c), the Group had the following transactions with related parties:

	2010	2009
	US$	US$
Gold doré sales	**115,703,757**	77,723,334
Silver sales (netted in cost of sales)	**1,056,118**	166,214

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

28. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Related parties transactions (Cont'd)

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

	2010 US$	2009 US$
Financial services agreement	—	409,770
Interest	3,019,636	1,384,193
Total related party expenses	3,019,636	1,793,963

The financial services agreement was entered into by the Company and CNG whereby CNG would provide the Company with assistance with respect to obtaining additional financial support, including, but not limited to negotiations with respect to non-revolving credit facilities, assistance with respect to application and provision of a guarantee for bank loans to be used for the construction of the crusher and other financing options. The financial services agreement expired on December 31, 2009.

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

(c) Related parties balances

Other than those disclosed in Note 23, the Group has the following significant balances with related parties at the end of each reporting period:

	2010 US$	2009 US$
Assets		
Restricted cash received from CNG's subsidiary from sales of Dadiangou Gold Project (Note 14)	6,725,129	—
Prepaid expenses to CNG's subsidiaries	—	283,451
Listing expense receivable from Skyland, CNG's subsidiary (Note 15)	—	1,184,911
Amounts due from shareholders:		
Listing expense receivable from CNGHK, CNG's subsidiary (Note 15)	2,735,852	—
Listing expense receivable from Rapid Result (Note 15)	2,628,564	—
	5,364,416	—
Trade receivable from CNG (Note 15)	53,135	346,437
Amount due from a non-controlling shareholder (Note 19)	419,768	—
Total related party assets	12,562,448	1,814,799

28. RELATED PARTY TRANSACTIONS (Cont'd)

(c) Related parties balances (Cont'd)

Accounts receivable from CNG arose from sale of gold to CNG. There is no credit period.

	2010 US$	2009 US$
Liabilities		
Interest payable to CNG	—	166,667
Other payable to CNG's subsidiary for deposit from sales of Dadiangou Gold Project (Note 22)	6,725,129	—
Account payable to CNG	30,199	—
Accounts payable to CNG's subsidiaries	117,569	109,391
Total related party liabilities	6,872,897	276,058

Interest payable to CNG, account payable to CNG and to CNG's subsidiaries are included in accounts payable and accrued expenses.

(d) Other than those disclosed in Note 10, the Group has the following compensation to other key management personnel during the years:

	2010 US$	2009 US$
Salaries and other benefits	434,464	822,960
Stock-based compensation	4,247	—
Post employment benefits	—	11,382
	438,711	834,342

29. SEGMENT INFORMATION

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

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

Following to completion of acquisition of the Skyland Group as fully disclosed in Note 27, the CODM regularly reviews the following operations, the operating segments of the Group under IFRS 8:

(i) The mine-produced gold segment - the production of gold bullion through the Group's integrated processes, i.e., mining, extraction, production and selling of gold ore to external clients through IMP.

(ii) The mine-produced copper segment - the production of copper multi products and other by-products.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the presentation for the year ended December 31, 2010.

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by segment.

For the year ended December 31, 2010

	Mine-produced gold US$	Mine-produced copper US$	Segment total and consolidated US$
REVENUE - EXTERNAL	128,405,548	4,792,112	133,197,660
SEGMENT PROFIT	63,884,971	671,366	64,556,337
General and administrative			(5,341,038)
Exploration and evaluationexpenditure			(721,296)
Gain on disposal of subsidiaries			20,000
Foreign exchange loss			(1,479,520)
Interest income			66,852
Listing expenses			(2,101,820)
Finance costs			(5,843,484)
Fair value change on warrant liabilities			(7,155,807)
Profit before income tax			42,000,224
Income tax expense			14,860,225
Profit for the year			27,139,999

29. SEGMENT INFORMATION (Cont'd)

(a) Segment revenues and results (Cont'd)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents gross profit of each segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment after the acquisition of the Skyland Group.

For the year ended December 31, 2009, the Group had one operating segment of mine-produced gold and the relevant information was set out in the consolidated statement of comprehensive income.

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by segment:

Segment assets	**2010** **US$**
Mine-produced gold	174,669,469
Mine-produced copper	1,164,270,352
Total segment assets	1,338,939,821
Assets classified as held-for-sale	54,696
Cash and cash equivalents	301,608,717
Restricted cash	6,725,129
Accounts receivable	7,737,500
Prepaid expenses and deposits	354,089
Property, plant and equipment	202,781
Consolidated assets	1,655,622,733
Segment liabilities	
Mine-produced gold	33,832,667
Mine-produced copper	52,949,165
Total segment liabilities	86,781,832
Liabilities classified as held-for-sale	24,189
Amounts payable and accrued expenses	14,286,825
Borrowings	212,646,264
Deferred lease inducement	143,213
Deferred tax liabilities	138,310,971
Consolidated liabilities	452,193,294

As at December 31, 2009, the Group had one segment of mine-produced gold and the relevant information was set out in the consolidated statement of financial position.

29. SEGMENT INFORMATION (Cont'd)

(c) Other segment information

	2010				
	Mine-produced gold US$	Mine-produced copper US$	Segment total US$	Unallocated US$	Total US$
Amount included in the measure of segment profit or loss or segment assets					
Additions of property, plant and equipment	24,562,343	3,661,029	28,223,372	521,153	28,744,525
Depreciation of property, plant and equipment	8,808,446	602,013	9,410,459	224,564	9,635,023
Amortization of intangible assets	—	1,182,643	1,182,643	—	1,182,643
Release of prepaid lease payment	—	7,447	7,447	—	7,447
Gain on disposal of property, plant and equipment	15,777	—	15,777	—	15,777

For year ended December 31, 2009, the Group had one operating segment and relevant information was set out in the relevant notes to the consolidated financial statements.

(d) Geographical information

The Group operated in two geographical areas, Canada and China. The Group's corporate division located in Canada only earns revenues that are considered incidental to the activities of the Group and therefore does not meet the definition of an operating segment as defined in IFRS 8 Operating Segments. During the year ended December 31, 2010, the Group's revenue was generated from gold sales and copper multi products (2009: gold sales) to customers in China.

29. SEGMENT INFORMATION (Cont'd)

(e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

	2010	2009
	US$	US$
Revenue from customers attributable to gold sales		
- CNG	**115,703,757**	77,723,334

The Group sells approximately 90.1% and 95.9% of its gold to one creditworthy customer, CNG who is also the Group's substantial shareholder for the years ended December 31, 2010 and 2009, respectively. The sales to CNG do not constitute economic dependence for the Group as there are other customers in China to whom gold can be sold.

30. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash investing and financing activities

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

	2010	2009
	US$	US$
Value of warrants transferred to share capital upon exercise	**12,441,930**	2,175,105
Transfer of share option reserve upon exercise of options	**554,814**	1,297,570

31. CAPITAL RISK MANAGEMENT

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

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

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

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

32. FINANCIAL INSTRUMENTS

The following table does not include financial assets and financial liabilities carried at amortized cost and classified as held for sale as at December 31, 2010 and 2009 (see Note 20(c) and (d)).

	Financial instrument classification	**2010 US$**	2009 US$
Financial assets			
Cash and cash equivalents	Loans and receivables	**301,608,717**	23,984,660
Restricted cash	Loans and receivables	**6,725,129**	—
Accounts receivable	Loans and receivables	**9,050,490**	1,681,880
Amount due from a non-controlling shareholder	Loans and receivables	**419,768**	—
Long-term receivable	Loans and receivables	**—**	49,689
Financial liabilities			
Accounts payable and accrued expenses*	Other financial liabilities	**60,187,364**	19,588,345
Notes payable	Other financial liabilities	**—**	10,633,386
Long-term loans	Other financial liabilities	**148,178,600**	82,299,950
Syndicated loan	Other financial liabilities	**64,467,664**	—
Warrant liabilities	FVTPL	**—**	5,286,123

* Excluded advances from customers, other tax payables and accruals.

32. FINANCIAL INSTRUMENTS (Cont'd)

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

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

The Group's financial instruments are exposed to certain financial risks including market risk (currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The following disclosure does not include the effect of financial assets and liabilities classified as held for sale as at December 31, 2010 and 2009 as the amounts involved and the risk exposure are considered insignificant.

(a) Currency risk

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates. Certain subsidiaries of the Company operate in China and Canada and their functional currency is US$. A significant change in the currency exchange rates between CAD and RMB relative to US$ could have a significant effect on the Group's results of operations, financial position or cash flows. The Group has not hedged its exposure to currency fluctuations.

The Company is exposed to currency risk through the following assets and liabilities denominated in CAD and RMB against US$:

CAD monetary assets and liabilities

	2010	2009
	US$	US$
Cash and cash equivalents	**1,123,829**	5,812,185
Accounts receivable	**72,427**	99,839
Accounts payable and accrued expenses	—	(1,487,292)
Borrowings	—	(10,633,386)
Warrant liabilities	—	(5,286,123)
	1,196,256	(11,494,777)

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2009:10%) depreciation/appreciation of the CAD against the US$ would result in a decrease/increase in the Group's profit before tax of approximately US$60,000 for the year ended December 31, 2010, and a decrease/increase in the Group's loss before tax of approximately US$1,149,000 for the year ended December 31, 2009.

32. FINANCIAL INSTRUMENTS (Cont'd)

(a) Currency risk (Cont'd)

RMB monetary assets and liabilities

	2010 US$	2009 US$
Cash and cash equivalents	36,034,047	16,361,908
Restricted cash	6,725,129	—
Accounts receivable	153,251	397,130
Accounts payable and accrued expenses	(8,557,847)	(32,347,188)
Borrowings	(42,481,528)	(42,299,950)
	(8,126,948)	(57,888,100)

Based on the above net exposures, and assuming that all other variables remain constant, a 4% (2009:10%) depreciation/appreciation of the RMB against the US$ would result in an increase/decrease in the Group's profit before tax of approximately US$325,000 for the year ended December 31, 2010 and a decrease/increase in the Group's loss before tax of approximately US$5,789,000 for the year ended December 31, 2009.

HK monetary assets

	2010 US$	2009 US$
Cash and cash equivalents	250,882,024	—

A linked exchange rate system is implemented in Hong Kong to stabilize the exchange rate between the US$ and HK$. As such, no sensitivity analysis on the change in the HK$ against US$ is prepared as the impact on the profit of the Group is not material.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate bank balances and restricted cash and interest-bearing borrowings. Certain of the Group's borrowings have fixed interest rates and therefore, are subject to fair value interest rate risk.

Sensitivity analysis

The following analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant. A 25 basis point (2009: 30 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. A positive number below indicates an increase in profit before tax of the Group for the year ended December 31, 2010 (2009: a decrease in the Group's loss before tax) where the interest rate increases. For a decrease in the interest rate, there would be an equal and opposite impact on the Group's profit or loss.

For bank balances, the analysis below reflects the sensitivity that the interest rate may drop by 25 basis points (2009: 30 basis points) or limit to 0 %.

32. FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

	2010 US$	2009 US$
25 basis points (2009: 30 basis points) higher	**345,000**	(72,000)
25 basis points (2009: 30 basis points) lower	**(282,000)**	72,000

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

(c) Price risk

At December 31, 2009, the Group was exposed to price risk of the Group's shares through its financial liabilities at FVTPL - warrant liabilities (as disclosed in Note 26(c)). Therefore, the Group was exposed to price risk because of changes in market prices of its shares.

Price sensitivity analysis

The sensitivity analysis has been determined based on the exposure to price risks for warrant liabilities fluctuating in the TSX stock market at the end of the reporting period.

If the Company's share price had been 50% higher/lower at the end of December 31, 2009 and all other variables were held constant, the Group's loss before tax would increase/decrease by approximately US$4.8 million/US$3.5 million for the year ended December 31, 2009.

No sensitivity analysis is presented for the year ended December 31, 2010 as the warrants have been fully exercised.

(d) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Group sells approximately 90.1% (2009: 95.9%) of its gold to one creditworthy customer, CNG, who is also the Group's substantial shareholder for the years ended December 31, 2010 and 2009 and exposes the Group to concentration of credit risk. The failure of this customer to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from this customer. The Group's cash and short-term bank deposits are held in large Chinese and Canadian banks. These investments mature at various dates within 3 months. The Group does not have any asset backed commercial paper in its short-term bank deposits. The Group's accounts receivable consists of GST refund due from the Federal Government of Canada and VAT recoverable from the PRC tax authority, all of which are not outstanding for more than 180 days.

The Group had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in PRC or Canada for the years ended December 31, 2010 and 2009.

Other than the concentration of the credit risk on bank balances, restricted cash and accounts receivable, the Group does not have any other significant concentration of credit risk.

32. FINANCIAL INSTRUMENTS (Cont'd)

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 31.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities (see Note 33 for other commitments). The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

	Weighted average interest rate %	**Within 1 year US$**	**1 - 2 years US$**	**2 - 5 years US$**	**Total undiscounted cash flow US$**	**Carrying amount US$**
At December 31, 2010						
Accounts payable and accrued expenses	**—**	**60,187,364**	**—**	**—**	**60,187,364**	**60,187,364**
ABC loan (Note 23 (ii))	**5.18**	**3,904,278**	**11,354,609**	**33,612,883**	**48,871,770**	**42,481,528**
BOC loan (Note 23(iii))	**3.96**	**34,384,767**	**33,188,880**	**47,989,491**	**115,563,138**	**105,697,072**
Syndicated loan (Note 23(ii))	**3.96**	**2,552,920**	**2,552,920**	**70,033,622**	**75,139,462**	**64,467,664**
		101,029,329	**47,096,409**	**151,635,996**	**299,761,734**	**272,833,628**

	Weighted average interest rate %	Within 1 year US$	1 - 2 years US$	2 - 5 years US$	Total undiscounted cash flow US$	Carrying amount US$
At December 31, 2009						
Accounts payable and accrued expenses	—	19,588,345	—	—	19,588,345	19,588,345
ABC loan (Note 23 (ii))	5.18	3,660,480	3,583,815	42,946,690	50,190,985	42,299,950
CNG loan (Note 23 (ii))	6.00	2,433,333	42,433,333	—	44,866,666	40,000,000
Note payables (Note 23 (i)(b))	12.00	11,373,917	—	—	11,373,917	10,633,386
		37,056,075	46,017,148	42,946,690	126,019,913	112,521,681

32. FINANCIAL INSTRUMENTS (Cont'd)

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

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

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

The Group's financial liabilities at FVTPL include warrant liabilities and are categorized into Level 3. There has been no transfer between Level 1 and Level 2 of the financial instruments at FVTPL throughout the years ended December 31, 2010 and 2009 and the details are as follows:

	2010 **US$**	2009 US$
Financial liabilities at FVTPL		
Warrant liabilities (Level 3)	—	5,286,123

33. COMMITMENTS AND CONTINGENCIES

Operating leases commitments

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

	2010	2009
	US$	US$
Within one year	**230,476**	95,482
In the second to fifth year inclusive	**679,583**	391,307
Over five years	**740,485**	—
	1,650,544	486,789

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for a term of 3 to 17 years with fixed rental.

	2010	2009
	US$	US$
Capital commitments		
Capital expenditure in respect of acquisition of property, plant and equipment in the consolidated financial statements - contracted but not provided for	**38,552,671**	10,465,453

Other commitments and contingencies existed at the end of each reporting period

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

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

34. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2010 are as follows:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at December 31, 2010	2009	Principal activities
Pacific PGM Inc.	British Virgin Islands ("BVI") May 17, 2001	US$100	**100%**	100%	Investment holding
Pacific PGM (Barbados) Inc.	Barbados September 6, 2007	US$80,000 (2009: US$45,000)	**100%**	100%	Investment holding
IMP	Ningxia, PRC April 29, 2002	US$37,500,000	**96.5%**	96.5%	Engaged in exploration and development of mining properties in China
Gansu Mining Company (Barbados) Ltd.	Barbados September 7, 2007	US$69,000 (2009: US$45,000)	**100%**	100%	Investment holding
Gansu Pacific	Gansu, PRC September 18, 2006	RMB30,365,345	**71%**	71%	Engaged in exploration and development of mining properties in China
Yunnan Southern Copper(Barbados)	Barbados September 7, 2007	US$45,000	**N/A***	100%	Investment holdingInc.
Yunnan Xindian	Yunnan, PRC March 18, 2003	US$4,100,045	**N/A***	99%	Engaged in exploration and development of mining properties in China
Skyland	Cayman Islands October 6, 2004	US$47,380,700	**100%**	N/A	Investment holding
Tibet Jia Ertong Minerals ExplorationLtd .	PRC October 31, 2003	US$55,000,000	**100%**	N/A	Exploration, development and mining of mineral properties and investment holding

34. PARTICULARS OF SUBSIDIARIES (Cont'd)

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at December 31, 2010	2009	Principal activities
Huatailong	PRC January 11, 2007	RMB371,800,000	100%	N/A	Exploration, development and mining of mineral properties
Jiama Industry and Trade	PRC December 1, 2009	RMB5,000,000	51%	N/A	Mining logistics and transport business
Skyland Mining (BVI) Limited	BVI October 26, 2010	Nil	100%	N/A	Inactive

* The subsidiaries were disposed on May 25, 2010 as disclosed in note 20(d).

35. FINANCIAL SUMMARY OF THE COMPANY

	2010 US$	2009 US$
Current assets		
Cash and cash equivalents	**252,340,437**	7,578,529
Accounts receivable	**5,547,875**	1,284,750
Prepaid expenses and deposits	**354,089**	502,284
	258,242,401	9,365,563
Non-current assets		
Long-term receivable	—	49,689
Property, plant and equipment	**209,415**	297,630
Loan receivables from subsidiaries	**43,591,892**	—
Investment in subsidiaries	**784,433,603**	17,570,491
Amounts due from subsidiaries	**67,264,999**	67,197,502
	895,499,909	85,115,312
Total assets	**1,153,742,310**	94,480,875
Current liabilities		
Accounts payable and accrued expenses	**6,546,556**	2,706,028
Borrowings	—	10,633,386
	6,546,556	13,339,414
Non-current liabilities		
Deferred lease inducement	**143,213**	193,758
Borrowings	—	40,000,000
Warrant liabilities	—	5,286,123
	143,213	45,479,881
Total liabilities	**6,689,769**	58,819,295
Net current assets (liabilities)	**251,695,845**	(3,973,851)
Total assets less current liabilities	**1,147,195,754**	81,141,461
Owners' equity		
Share capital	**1,228,098,150**	99,186,918
Reserves	**2,775,872**	3,125,447
Deficit	**(83,821,481)**	(66,650,785)
Total owners' equity	**1,147,052,541**	35,661,580
Total liabilities and owners' equity	**1,153,742,310**	94,480,875

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