



中國黃金國際資源有限公司  
China Gold International Resources Corp. Ltd.



# CHINA GOLD INTERNATIONAL RESOURCES

(Incorporated in British Columbia, Canada with limited liability)

HK Stock Exchange Stock Code: 2099

Toronto Stock Exchange Stock Code: CGG

**2011**  
ANNUAL REPORT



# COMPANY HIGHLIGHTS

## THE COMPANY

### Overview

China Gold International is a gold and base metal mining company based in Vancouver, Canada. The Company's main business involves the acquisition, development and exploration of gold and base metal mineral properties.

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("CSH Gold Mine" or "CSH Mine" or "CSH"), 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 ("CJV") partner holds the remaining 3.5% interest. China Gold International began producing gold at the CSH Gold Mine in July 2007 and commercial production commenced on July 1, 2008. The Company acquired 100% interest in the Jiama Mine on December 1, 2010. Jiama hosts a large scale copper-gold polymetallic deposit consisting of copper, gold, molybdenum, silver, lead and zinc. The Jiama Mine commenced commercial production in September 2010.

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.

## PERFORMANCE HIGHLIGHTS

- The Company's revenue increased by 134% from US\$133.2 million in 2010 to US\$311.3 million in 2011.
- The Company's total comprehensive income increased by 217% from US\$27.4 million in 2010 to US\$86.8 million in 2011.
- Gold production from the CSH Mine increased by 20% from 111,289 ounces in 2010 to 133,541 ounces in 2011.
- The Jiama Mine produced 9,781 tonnes (21,563,193 pounds) of copper in copper concentrate in 2011, the first full year of commercial production from the mine.
- The Jiama 2010 drill program upgraded a significant amount of Jiama's inferred resource to the measured and indicated ("M&I") resources. As a result the total M&I resources increased to 1,006.0 million tonnes, containing 4.08 million tonnes of copper.

## MESSAGE FROM THE CHAIRMAN



**Mr. Zhaoxue Sun, Chairman of the Board, Executive Director**

2011 is another successful year for us, as the Company continued with its goal of expanding productions at both the CSH Gold Mine located in Inner Mongolia, and the Jiama Copper-Gold Polymetallic Mine located in the Tibet Autonomous Region. The resource upgrade and increase based on exploration activities also set a consolidated basis for the future development of the two mines.

The Company's mandate is to be the only overseas listing vehicle and flagship company of China National Gold, which is a Chinese state owned enterprise and the largest gold producer in China. We intend to pursue an aggressive growth strategy to meet this mandate. We believe our strategy to acquire additional resources while expanding and upgrading

resources at both our CSH Gold Mine and our Jiama Mine, 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, in order to improve operations, optimize production and reduce costs at our CSH Gold Mine and Jiama Mine.

Our employees are the Company's core value and the key to our success at our mine operations and corporate offices globally. The dedication and hard work of each employee is evident throughout the Company, and has contributed to ensuring 2011 was another year of success for the Company. Together with the Board of Directors and our contractors at each operation, we have been able to set new production records and initiate expansion plans to create further value in the years going forward.

We continue to insist on the highest standard of health, safety, environmental protection and cultural practices. Our Company is recognized as a leader in the industry in both supporting equal employment opportunities, and developing educational programs in the communities where we operate. We are focused on fostering local social heritage and culture, being involved in community activities in the areas and working closely with all groups in which our mine sites operate.

I look forward to working with our Board of Directors to maximize shareholder wealth and to continue to build upon our successes achieved during 2011. We are working hard to ensure 2012 is another year of growth for the Company. I would like to thank our shareholders for their continued support as we continue forward.

**Zhaoxue Sun**  
**Chairman of the Board, Executive Director**

## MESSAGE FROM THE CEO



**Mr. Xin Song, Chief Executive Officer, Executive Director**

I am pleased to provide a status report on China Gold International's operational accomplishments for the past year. First and foremost, I would like to thank our employees and shareholders for their continued support and confidence in the Company and its management.

At the CSH Gold Mine, the increase of the recovery rate and the optimization of the operation set a record production for the fourth consecutive year at 133,541 ounces of gold. The 59,135.4 meter drill campaign was completed on schedule in November. The results indicated, as expected, the mineralization at depth increased in tonnages, in addition to the improvement in grade. The results provided further confidence of an increase of resources and production capacity. The improvement of the infrastructure, including the increase of the mine's water supply, also assist in the future planned expansion of the operation.

The Jiama Copper-Gold Polymetallic Mine, which was acquired in late 2010, continued to see record production rates throughout 2011 with a total of 8,133 ounces gold, 9,781 tonnes of copper and 736,192 ounces silver produced in the first full year of production. Significant progress on the operational performance has been made and high Health, Safety and Environmental protection standards have been achieved at the mine site. During 2011, the resource has been further upgraded and expanded. The total Measured and Indicated copper resource has increased from 1.38 million tonnes to 4.08 million tonnes. The Company is now finalizing the expansion studies, and expects in 2012 to announce an updated operational plan to significantly increase production at the mine. Furthermore, a long term permanent power supply has been secured providing sufficient electrical power for the present requirements to operate the Jiama mine as well as any additional requirements for expansion.

Our results this year reflect not only progress at the mines themselves, but underscore China Gold International's focus on steadily building value through consistent development. We also achieved this with the great support from our partners, contractors, local governments and communities.

In 2011, the Company was added to the S&P/TSX Composite Index. We are honored to be included in the Index, as it is an important benchmark index in the global capital markets. We believe that this inclusion is a key milestone for the Company and will further enhance our presence in the global capital market. Our inclusion to these indexes reflects the outstanding growth and operating performance of the Company and will create an opportunity to be recognized by a whole new audience of potential shareholders.

**Xin Song**  
**Chief Executive Officer, Executive Director**

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

## BOARD OF DIRECTORS

### Zhaoxue Sun

*Chairman Of The Board, Executive Director*

Mr. Sun, 49, 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 and serves as a director and Chairman of China National Gold Group Hong Kong Limited, since February 2008. Mr. Sun has over 28 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 and Chairman 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.

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.

### Xin Song

*Chief Executive Officer, Executive Director*

Mr. Song, 49, 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 international operations. Mr. Song serves as Chairman of the Board of Skyland Mining Limited, since December 2007 and serves as Chairman of the Board of Tibet Jia Ertong Minerals Exploration 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 serves as a director of China National Gold Group Hong Kong Limited, since March 2008 and serves as a director of China Gold Hong Kong Holding Corp. Limited, since August 2011. He serves as a director of Mundoro Mining Inc., a private British Columbia based junior natural resource company, since October 2011.

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, 49, 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 and serves as a director of China National Gold Group Hong Kong Limited, since March 2008 and serves as a director of China Gold Hong Kong Holding Corp. Limited, since August 2011. 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. Mr. Liu serves as a director of Mundoro Mining Inc., a private British Columbia based junior natural resource company, since October 2011. 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, 36, 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. Mr. Wu serves as President of China National Gold Group Hong Kong Limited, since March 2008 and as a director of China Gold Hong Kong Holding Corp. Limited, since August 2011. 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. Mr. Wu serves as a director of Mundoro Mining Inc., a private British Columbia based junior natural resource company, since October 2011. 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 management information systems from Tsinghua University.

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

### **Xiangdong Jiang**

#### *Vice President Of Production, Executive Director*

Mr. Jiang, 53, 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 25 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, 50, joined the Company on May 31, 2000 as a non-executive director and serves as an independent director. Mr. He has approximately 28 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, as a director of Zhongrun Resources Investment Corporation (formerly, Shandong Zhongrun Investment Holding Group Co. Ltd.), a public company listed on the Shenzhen Stock Exchange, since December 2010 and as Chairman of Huaxing Machinery Corp., a public company listed on the TSX Venture Exchange, since January 2011. 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, 40, 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 a director of Sino Mining Investment Limited, a private company. Previously, Mr. Chen worked for Deutsche Bank Hong Kong from July 2001 to August 2007, where he served as a director and managing director in charge of general industries and mining for Asia at various times. Prior to joining Deutsche Bank, Mr. Chen was 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, 62, 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 36 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 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, 61, 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 Chairman of Simba Energy Inc., a public company listed on the TSX Venture Exchange, since September 2009, as a director of Corazon Gold Corp., a public company listed on the TSX Venture Exchange, since January 2011 and as Chairman of Dolly Varden Silver Corporation, a public company listed on the TSX Venture Exchange, since March 2011. Mr. Burns serves as senior advisor for Potomac Energy and Strategic Resources Fund, since September 2010 and as Chairman of the Advisory Board of Lockwood Financial Group, since September 2010. 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, 51, 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**

##### *Chief Financial Officer*

Mr. Zhang, 43, joined the Company on January 4, 2010 and serves as Chief Financial Officer responsible for the planning and management of the Company's accounting and financial reporting, since August 10, 2011. Mr. Zhang served as interim Chief Financial Officer of the Company from February 28, 2011 to August 10, 2011 and served as Controller of the Company from January 4, 2010 to February 28, 2011. Mr. Zhang has over 19 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.

**Songlin Zhang***Chief Engineer*

Mr. Zhang, 51, joined the Company on February 15, 2012 and serves as Chief Engineer. Mr. Zhang has over 20 years of experience in the mining industry in both North America and China and is experienced in mine project evaluation, reserve and resource estimation, and mine economic analysis. Prior to joining the Company, Mr. Zhang served as a technical director for White Tiger Gold where he managed all aspects of reserve and resource evaluation activities for various projects. Mr. Zhang was formerly a consulting engineer for Newmont Gold Corp. where he was involved in valuating production drilling and developing mine planning and ore grade control protocols in Newmont Northern Nevada and Peru Yanacocha operations. He was formerly a senior mine engineer for Echo Bay Mines Ltd. (which merged with Kinross Gold Corporation) at the McCoy/Cove mine where he developed methodology for reserve and resource estimation, served as a member of the reserve committee for the company and conducted a full due diligence study of the Nevada Phoenix project. Mr. Zhang conducted various research projects for open-pit and underground mines in China while working as an assistant professor at the University of Science and Technology Beijing, China.

Mr. Zhang holds a Master's Degree in Mining Engineering from Mackay School of Mines, University of Nevada-Reno in Nevada, USA, a Master's Degree in Mining Engineering from the University of Science and Technology Beijing, China and a Bachelor's Degree in Mining Engineering from the University of Science and Technology Beijing, China. Mr. Zhang is a registered member of The Society for Mining, Metallurgy and Exploration, and is a Qualified Person as defined in National Instrument 43-101 of the Canadian Securities Administrators.

# 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, 2011 (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 35 of the Financial Statements and the activities of the Company's principal subsidiaries at December 31, 2011 are set out below:

<b>Name of subsidiary</b>	<b>Country of incorporation</b>	<b>Issued and fully paid share capital</b>	<b>Principal activities</b>
Pacific PGM Inc.	British Virgin Islands	US\$100	Holding company
Pacific PGM (Barbados) Inc.	Barbados	US\$130,000	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\$119,000	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\$41,305,016 plus RMB182,992,800	Holding company
Tibet Jia Ertong Minerals Exploration Ltd.	People's Republic of China	US\$178,920,000	Exploration, development and mining of properties in China and investment holding
Tibet Huatailong Mining Development Co. Ltd.	People's Republic of China	RMB1,170,000,000	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	US\$1.00	Holding company

## RESULTS

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 56 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, 2011 are set out in the Consolidated Statement of Changes in Equity on page 59 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 18, 2012.

## 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 and special meeting has a service contract with the Company for his 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

Mr. Zhaoxue Sun, Mr. Xin Song, Mr. Bing Liu and Mr. Zhanming Wu are considered to have a conflict of interest in the transactions under the Technology Development Agreement, Geological Reserves Verification Contract, First Lease Contract and Second Lease Contract (details as set out in the section headed "Connected transactions and continuing connected transactions" below) due to their senior management positions in China National Gold. The 2008 Contract for Purchase and Sale of Dore (details as set out in the section headed "Connected transactions and continuing connected transactions" below) was entered into between the Company's subsidiary and China National Gold, the ultimate controlling shareholder of the Company. Save as aforesaid, 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, 2011 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, 2011, 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 stock options held to purchase shares
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, 2011.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

### Connected transactions

On November 7, 2011, Inner Mongolia Pacific Mining Co. Limited (“**Inner Mongolia Pacific**”), a cooperative joint venture company and subsidiary of the Company which operates the Company’s CSH Gold Mine, entered into a technology development agreement (the “**Technology Development Agreement**”) with Changchun Gold Research Institute (長春黃金研究院) (the “**Changchun Institute**”) whereby the Changchun Institute would provide research and development services on gold ore cyanidation, flotation and heap leaching processes at the Company’s CSH Gold Mine for a service fee of RMB960,000. The Technology Development Agreement would remain in effect until the provision of the final research report by the Changchun Institute, which shall be completed by December 31, 2012. Details of the connected transaction are as stated in the Company’s announcement dated November 7, 2011.

As Inner Mongolia Pacific is controlled by the Company, and both the Company and the Changchun Institute are ultimately controlled by China National Gold, the Changchun Institute is a connected person of the Company by virtue of Rule 14A.11 of the Hong Kong Listing Rules. Based on the applicable percentage ratios, the transaction contemplated under the Technology Development Agreement constitutes a connected transaction of the Company which is subject to the reporting and announcement requirements, but is exempt from the independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

On November 16, 2011, Inner Mongolia Mining entered into a geological reserves verification contract (the “**Geological Reserves Verification Contract**”) with Beijing Jinyou Geological Surveillance Company Limited (北京金有地質勘測有限責任公司) (“**Beijing Jinyou**”) whereby Beijing Jinyou would provide geological reserves verification services and prepare a reserves verification report for Inner Mongolia Pacific in respect of the Company’s CSH Gold Mine, for a service fee of RMB350,000. The Geological Reserves Verification Contract would remain valid until the reserves verification report to be prepared by Beijing Jinyou has been examined and approved by the relevant authorities, and such report should be completed within 60 working days following execution of the Geological Reserves Verification Contract. Details of the connected transaction are as stated in the Company’s announcement dated November 16, 2011.

## DIRECTORS' REPORT

As Inner Mongolia Pacific is controlled by the Company, and both the Company and Beijing Jinyou are ultimately controlled by China National Gold, Beijing Jinyou is a connected person of the Company by virtue of Rule 14A.11 of the Hong Kong Listing Rules. As the transaction under the Geological Reserves Verification Contract and the transaction under the Technology Development Agreement will be completed within a 12-month period, and the Changchun Institute is associated with Beijing Jinyou, the transactions contemplated under the Geological Reserves Verification Contract and the Technology Development Agreement are aggregated pursuant to Rule 14A.25 of the Hong Kong Listing Rules. As a result, the transaction under the Geological Reserves Verification Contract constitutes a connected transaction of the Company which, based on the applicable percentage ratios, is subject to the reporting and announcement requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

### Continuing connected transactions

On October 24, 2008, China National Gold and Inner Mongolia Pacific entered into a non-exclusive contract for the purchase and sale of dore (the “2008 Contract for Purchase and Sale of Dore”) pursuant to which Inner Mongolia Pacific 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 2008 Contract for Purchase and Sale of Dore.

China National Gold indirectly holds 39.33% of the issued share capital of the Company and is able to exercise significant influence over the Company. China National Gold is therefore a connected person of the Company by virtue of Rule 14A.11 of the Hong Kong Listing Rules.

The Hong Kong Stock Exchange had granted a waiver in favour of the Company, before the listing of the shares of the Company on the Hong Kong Stock Exchange, to waive, subject to certain conditions, the transactions under the 2008 Contract for Purchase and Sale of Dore from compliance with the announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules for a period up to December 31, 2011.

Payments made by China National Gold pursuant to the 2008 Contract for Purchase and Sale of Dore were approximately RMB1,325 million for year ended December 31, 2011 which accounted for 65.90% of the total sales of the Group for the year then ended.

The Company’s independent non-executive directors have confirmed that the continuing connected transactions carried out under the 2008 Contract for Purchase and Sale of the year ended December 31, 2011 have been entered into:

- (a) in the ordinary and usual course 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.

The Company’s directors wish to report that for the continuing connected transactions under the 2008 Contract for Purchase and Sale of Dore, the sales amount during the year ended December 31, 2011 had slightly exceeded RMB1,300 million (the “**2011 Annual Cap**”) by approximately RMB25.3 million, representing approximately 1.94% of the 2011 Annual Cap. The 2011 Annual Cap had been exceeded mainly due to factors beyond the Company’s control. The primary factor was the substantial increase in the price of gold. During the period from the beginning of 2009 to the end of 2011, the price of gold increased by a compound annual growth rate of approximately 19%. As such, even though the Company’s production rate of gold dore bars was maintained within its estimated level, the unexpected substantial increase in the price of gold led to an actual sales amount which went above the 2011 Annual Cap. The 2011 Annual Cap was the Company’s best estimate at the time when it was determined in 2010 based on historical figures and information then available, and the substantial increase in the price of gold was not anticipated.

The Company’s auditor, Deloitte Touche Tohmatsu, was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor’s letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Hong Kong Listing Rules has been provided to the directors of the Company, and was qualified in respect of the above matter. A copy of the auditor’s letter has been provided by the Company to the Hong Kong Stock Exchange



On December 30, 2011, Inner Mongolia Pacific entered into two lease contracts with China Gold Beijing Property Management Center (北京中金物業管理中心), a wholly-owned subsidiary of China National Gold. The two lease contracts are (a) in relation to the lease of the office premises which was then used by the Beijing operating centre of the Group, for a term from January 1, 2011 to December 31, 2011 retrospectively for an annual rental payment of RMB1,314,000 (the "First Lease Contract"), and (b) in relation to the lease of the office premises to which the Beijing operating centre of the Group will be relocated, for a term from January 1, 2012 to December 31, 2012 for an annual rental payment of RMB6,719,395 (the "Second Lease Contract"). The annual cap for the rental payment to be paid under the First Lease Contract for the period from January 1, 2011 to December 31, 2011 is RMB1,314,000, and the annual cap for the rental payment to be paid under the Second Lease Contract for the period from January 1, 2012 to December 31, 2012 is RMB6,719,395. Details of the continuing connected transactions are as stated in the Company's announcement dated December 30, 2011.

As Inner Mongolia Pacific is controlled by the Company, and both the Company and China Gold Beijing Property Management Center are ultimately controlled by China National Gold, China Gold Beijing Property Management Center is a connected person of the Company by virtue of Rule 14A.11 of the Hong Kong Listing Rules. Based on the applicable percentage ratios, the transaction contemplated under the First Lease Contract and the Second Lease Contract constitute continuing connected transactions of the Company subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rule.

### MANAGEMENT CONTRACTS

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

### STOCK OPTION PLAN

#### 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 695,000 common shares were issuable upon the exercise of outstanding stock options granted under the 2007 Stock Option Plan, representing approximately 0.18% 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
- (a) 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 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	250,000	Nil	Nil	Nil	Nil	250,000 <sup>(1)</sup>
Yunfei Chen	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(2)</sup>
Gregory Hall	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(2)</sup>
John King Burns	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(2)</sup>
Xiangdong Jiang	Director and Vice President of Production	80,000	Nil	Nil	Nil	Nil	80,000 <sup>(3)</sup>
Total for directors and senior executives		630,000	Nil	Nil	Nil	Nil	630,000
Total for other option holders		150,000	Nil	(37,000)	(48,000)	Nil	65,000 <sup>(4)</sup>
TOTAL		780,000	Nil	(37,000)	(48,000)	Nil	695,000

Notes:

- 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.
- 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.
- 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.
- Consists of 65,000 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 CAD\$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, 2011 or the period following December 31, 2011 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

Save as disclosed below, as of December 31, 2011, the Company's directors were not aware of any other person (other than a director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register kept pursuant to Section 336 of the SFO:

Name	Nature of interest	Number of Shares held	Approximate percentage of outstanding shares
China National Gold Group Corporation <sup>(1)</sup>	Indirect	155,794,830 <sup>(1)</sup>	39.33%
China National Gold Group Hong Kong Limited	Registered Owner	155,794,830	39.33%

Note:

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.

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

During the year ended December 31, 2011, 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, 2011, the Company had 396,163,753 shares outstanding of which 240,345,423 shares were included in the public float, representing 60.67% 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 65.88% of the Company's sales.

The five largest customers accounted for 98.72% 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 three largest customers.

### SUPPLIERS

The largest supplier accounted for 36.43% of the Company's purchases.

The five largest suppliers accounted for 68.55% 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 RMB549,000.

## EVENTS AFTER REPORTING PERIOD

There are no significant events occurring after December 31, 2011 as set out in the Financial Statements.

## INDEPENDENT AUDITORS

A resolution will be submitted at the Company's upcoming annual and special 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 27, 2012

# 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, in particular, the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. 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, 2011 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 ( <i>Chairman</i> ) <sup>(1)</sup>
Yunfei Chen	Xin Song ( <i>Chief Executive Officer</i> ) <sup>(2)</sup>
Gregory Hall	Bing Liu <sup>(3)</sup>
John King Burns	Zhanming Wu ( <i>Vice President of Business Development</i> ) <sup>(4)</sup>
	Xiangdong Jiang ( <i>Vice President of Production</i> ) <sup>(5)</sup>

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 39.33% 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.

## CORPORATE GOVERNANCE REPORT

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 four 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. The Nominating and Corporate Governance Committee met during the Financial Year to review its charter, to review the articles of the Company, to assess the competencies and characteristics represented on the Board, to review the results of a Board effectiveness survey and self assessments and to confirm compliance with regulatory, corporate governance and disclosure requirements.

### **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. The Compensation and Benefits Committee met during the Financial Year to review its charter, to assess the performance and compensation of the Chief Executive Officer, to review the compensation and benefits for senior executives and directors of the Company and to complete self assessments. The Compensation and Benefits Committee made recommendations to the Board for adjustments to compensation for the Company's senior executives on various occasions throughout the Financial Year.

### **Health, Safety and Environmental Committee**

The Board has 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 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. In addition, the independent directors meet regularly on a formal and informal basis to facilitate the exercise of their independent judgment.

During the Financial Year, four Board meetings, four Audit Committee meetings, one Nominating and Corporate Governance Committee meeting, one Compensation and Benefits Committee meeting, one Health, Safety and Environmental Committee meeting and one meeting of the Independent Directors was held. 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	Meetings of the Independent Directors	Number of Attendances/Number of Meetings									
<b>Executive Directors</b>																
Zhaoxue Sun ( <i>Chairman</i> )	3/4	N/A	N/A	N/A	N/A	N/A										
Xin Song	3/4	N/A	N/A	N/A	N/A	N/A										
Zhanming Wu	4/4	N/A	N/A	N/A	N/A	N/A										
Xiangdong Jiang	3/4	N/A	N/A	N/A	N/A	N/A										
<b>Non-Executive Directors</b>																
Bing Liu	4/4	N/A	N/A	N/A	N/A	N/A										
<b>Independent Non-Executive Directors</b>																
Ian He	4/4	4/4	1/1	1/1	1/1	1/1										
Yunfei Chen	4/4	3/4	1/1	1/1	1/1	1/1										
Gregory Hall	4/4	4/4	1/1	1/1	1/1	1/1										
John King Burns	4/4	4/4	1/1	1/1	1/1	1/1										

### **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](http://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. For the Financial Year, the Company paid additional cash compensation of AUD24,000 to Mr. Hall, in his capacity as an independent director, as consulting fees for geological advice on planning exploration programs and project generation activity. 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 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.

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

The auditor of China Gold International is Deloitte Touch Tohmatsu of Hong Kong. Deloitte Touch Tohmatsu were first appointed as auditor of China Gold International on April 1, 2010. 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 2012 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 55.

Deloitte & Touche LLP of Canada served as auditor of China Gold International until April 1, 2010. The Company continues to use the services of Deloitte & Touche LLP from time to time for tax compliance advice relating to transactions and proposed transactions of the Company and its subsidiaries.

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 <sup>(1)</sup>	\$699,000
Non-audit fees <sup>(2)</sup>	\$32,414
<b>Total</b>	<b>\$731,414</b>

Notes:

1. Fees for audit services consisted of fees paid to Deloitte Touche Tohmatsu US\$699,000 in connection with the audit of the Company's annual financial statements, review of the Company's interim financial statements and other services related to securities regulatory matters.
2. Fees for non-audit services consisted of fees paid to Deloitte Touche Tohmatsu US\$2,569 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 and fees paid to Deloitte & Touche LLP US\$29,845 in connection with tax planning and related advice.

## 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

## COMPANY 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  
Industrial and Commercial Bank of China (Asia) Limited

## 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](http://www.chinagoldintl.com)

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# MANAGEMENT'S DISCUSSION AND ANALYSIS



The following Management Discussion and Analysis of financial condition and results of operations (“MD&A”) is prepared as of March 27, 2012. It should be read in conjunction with the annual audited consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as “China Gold International”, the “Company”, “we” or “our” as the context may require) for the year ended December 31, 2011 and the year ended December 31, 2010, respectively. 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 the Company’s plans, objectives, expectations and intentions, which are based on the Company’s 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 the Company’s Annual Information Form dated March 27, 2012 on SEDAR at [www.sedar.com](http://www.sedar.com). For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the 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.

## **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 Mine and the Jiama Mine; 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 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 income and other tax rates and other assumptions underlying China Gold International's financial performance as stated in the Technical Reports as defined below; China Gold International's ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labor 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. 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.



### THE COMPANY

#### Overview

China Gold International is a gold and base metal mining company based in Vancouver, Canada. The Company's main business involves the acquisition, development and exploration of gold and base metal mineral properties.

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("CSH Gold Mine" or "CSH Mine" or "CSH"), 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 ("CJV") partner holds the remaining 3.5% interest. China Gold International commenced gold production at the CSH Gold Mine in July 2007 and commercial production on July 1, 2008. The Company acquired a 100% interest in the Jiama Mine on December 1, 2010. Jiama hosts a large scale copper-gold polymetallic deposit consisting of copper, gold, molybdenum, silver, lead and zinc. The Jiama 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 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](http://www.sedar.com) as well as Hong Kong Exchange News at [www.hkexnews.hk](http://www.hkexnews.hk).

#### Performance Highlights

- Revenue increased by 134% from US\$133.2 million in 2010 to US\$311.3 million in 2011.
- Comprehensive income increased by 217% from US\$27.4 million in 2010 to US\$86.8 million in 2011.
- Gold production from the CSH Mine increased by 20% from 111,289 ounces in 2010 to 133,541 ounces in 2011.
- Jiama was in production for the full year in 2011 compared to one month in 2010. The Jiama Mine produced 9,781 tonnes (21,563,193 pounds) of copper in 2011.
- The Jiama 2010 drill program upgraded a significant amount of Jiama's inferred resources to measured and indicated ("M&I") resources. As a result, the total M&I resources increased to 1,006.0 million tonnes containing 4.08 million tonnes of copper.

**Selected Annual Information**

	<b>Year ended December 31</b>		
	<b>2011</b>	2010	2009
US\$ Millions except for per share			
Total revenue	<b>311.3</b>	133.2	81.0
Profit (loss) from continuing operations	<b>109.9</b>	58.5	19.2
Net profit (loss)	<b>82.0</b>	27.1	(8.4)
Basic earnings (loss) per share (cents)	<b>20.04</b>	13.82	(5.58)
Diluted earnings (loss) per share (cents)	<b>20.04</b>	13.76	(5.58)
Total assets	<b>1,744.5</b>	1,655.6	174.6
Total non-current liabilities	<b>321.1</b>	321.8	89.3
Distribution or cash dividends declared per share	—	—	—

**OUTLOOK**

- For 2012, the Company has budgeted production of 130,000-135,000 ounces of gold from the CSH Mine.
- For 2012, the Company has budgeted production of 9,800-11,500 tonnes (21,599,200 - 25,346,000 pounds) of copper from the Jiama Mine.
- At the CSH Mine, a 59,000 metre (108 holes) drilling program was completed at the end of October 2011 in the mining permit area. A full evaluation on the mine's potential for gold mineralization is in progress, for both down depth and surrounding the mining permit area. The Company is doing preparatory work and preparing an expansion feasibility study and reserve analysis on the receipt of a positive feasibility study. The Company will make a decision to expand the mining and processing capacity at CSH under the schedule defined in the feasibility.
- At the Jiama Mine, a 37,000 metre (71 holes) drilling program was completed in the fourth quarter of 2011 in the mining permit area. The Company is doing preparatory work and is now preparing a feasibility study and updating the reserve estimate with a view to increase the Jiama Mine Phase II capacity. This process is expected to culminate in an updated feasibility study. The feasibility study and reserve analysis are expected to be completed in 2012. On receipt of a positive feasibility study the Company will make a decision to expand the mining and processing capacity under the schedule defined in the feasibility.
- The Company will continue to leverage the technical and operating experience of the Company's controlling shareholder, China National Gold Group ("CNG"), to improve operations at the CSH Mine and the Jiama Mine. In addition, the Company continues to focus its efforts on increasing and optimizing production while minimizing costs at both mines.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining opportunities, namely projects outside of China, that can be readily and quickly brought into production with the possibility of further expansion through continued exploration.

### HISTORICAL FINANCIAL INFORMATION

The consolidated financial statements of the Company include the annual consolidated financial statements of China Gold International and its subsidiaries. The Company's 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 gold dore bars and the principal product at the Jiama Mine, which is copper concentrate with gold and silver credits.

The sales price of gold dore bars is primarily determined by spot gold prices in the market, with reference to prices on the Shanghai Gold Exchange. The sales price of copper concentrate is based on a sales contract which is primarily based on spot copper prices in the market, with reference to prices on the Shanghai Futures Exchange Sight Contract. The sales price for copper concentrate is then reduced by approximately 10% to 16% to cover the shipping and smelting cost of the contained copper value in the copper concentrate.

Historically, the market prices for these metal have fluctuated significantly influenced by numerous factors beyond the Company's control such as world demand and supply, 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. The Company does not currently employ any financial instruments to hedge market fluctuations. Fluctuations in market prices will lead to fluctuations in the Company's financial results.

The Company's gold production volume is primarily determined by ore grade, mining and processing capacity and metal recovery rates. Production volume at the CSH Mine is also adversely affected by the low temperature during the winter months as the leaching of gold slows.

The Jiama Mine commenced production in September 2010 and was in production for the entire 2011 year. The Company was able to ramp up the production of copper concentrate month over month since the beginning of 2011. Revenue generated by the Jiama Mine represents 31% of the Company's total revenue in 2011 compared to 3.6% in 2010.

**Cost of sales** primarily includes mining costs (primarily fees paid to third-party contractors for providing mining services), ore processing costs (primarily costs of crushing, chemicals, drip metres, labor and utilities costs), other mine operating costs (primarily administrative and management staff salaries, benefits and office expenses), taxes, depreciation and depletion. Historically, mining costs have been the largest component of the costs of sales. Increases in depreciation and depletion expenses due to additional capital expenditures also increased the cost of sales.

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 mineral deposits are economically recoverable and commercial production has already commenced at such mineral deposits. For the accounting treatment of exploration expenditure incurred at other stages, see "Exploration and evaluation expenditures" below.

**General and administrative expenses** primarily consists of staff salaries, benefits and travel expenses of administrative and management staff of the Company's head office in Canada and at the mine sites, office expenses, investor relations, professional fees, and other miscellaneous expenses relating to the 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 operating mines 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 it is determined that a mineral property has economically recoverable reserves. For the criteria used when assessing economic recoverability, see Note 3 in the Company's annual audited consolidated financial statements for the year ended December 31, 2011. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and are 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 translation of the balances of RMB-denominated term loans and the syndicated loan facility into U.S. dollars, and the translation of the RMB-denominated financial statements of the foreign subsidiaries into U.S. dollars.

With the exception of the subsidiaries in the Skyland Group, the Company's reporting currency and the functional currency of the operations is the U.S. dollar. Transactions in currencies other than the U.S. dollar are initially recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are translated at the exchange rate 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 currency other than the U.S. dollar are translated using exchange rates at the dates when fair values are determined. All gains and losses realized on translation of these foreign currency transactions are included in the Company's consolidated statements of comprehensive income.

**Interest and other income** primarily consist of interest earned on bank deposits.

**Finance costs** consist of interest on the Company's borrowings recognized using the effective interest method and accretion of environmental rehabilitation liabilities, net of capitalized interest. Interest is capitalized if the borrowings underlying the interest expenditures are for the construction or development of qualifying assets.

The Company expects its working capital and capital expenditures will continue to be partially funded with bank loans. Accordingly, the Company expects finance costs will continue to affect the results of operations. Fluctuations in interest rates in the future will affect the Company's finance costs, which in turn will affect the results of operations.

**Fair value change on warrant liabilities** represents the change, between reporting periods, in the estimated fair value of warrants that were granted and outstanding as of the end of the 2009 fiscal year. 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 the Company's share price and expected per share dividends. All of the outstanding warrants were exercised by the end of the second quarter of 2010, and thus no fair value changes were recognized in 2011.

**Income taxes** for the Company are provided at the combined Canadian federal and provincial income tax rates of 26.5% and 28.5% for the years ended December 31, 2011 and 2010, respectively. The Company is incorporated in Canada; however, it has had no taxable profits since incorporation. During the same periods, the Company's CSH Chinese Joint Venture was subject to the PRC enterprise income tax at a rate of 25% for the years ended December 31, 2011 and 2010. The Company's subsidiaries, Tibet Huatailong Mining Development Co., Ltd and Jiama Industry and Trade, established in Tibet, PRC, are subject to a preferential enterprise income tax rate of 15%, applicable to enterprises in western China.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Selected Quarterly Financial Data

QUARTER ENDED (US\$ in thousands except per share)	31-Dec	2011			2010			
		30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues	<b>93,544</b>	89,407	92,938	35,423	48,886	46,631	27,181	10,499
Cost of sales	<b>61,428</b>	53,017	52,519	23,587	26,824	23,179	13,330	5,308
Mine operating earnings	<b>32,114</b>	36,391	40,419	11,837	22,063	23,452	13,850	5,191
General and administrative expenses	<b>4,624</b>	3,590	5,217	3,937	1,828	1,396	1,171	946
Exploration and evaluation expenses	<b>173</b>	160	70	64	559	69	70	23
Income from operations	<b>34,250</b>	32,640	35,132	7,836	19,675	21,987	12,610	4,222
Foreign exchange gain (loss)	<b>1,596</b>	326	397	34	(595)	(631)	(872)	618
Finance costs	<b>4,798</b>	3,862	2,882	2,511	2,164	1,450	1,489	740
Listing expenses	—	—	—	—	43	514	1,194	351
Profit (loss) before income tax	<b>33,805</b>	30,520	34,713	5,444	16,923	19,405	8,205	(2,533)
Income tax expense	<b>6,597</b>	6,689	7,293	1,941	4,392	5,581	3,235	1,652
Net income (loss)	<b>27,209</b>	23,830	27,420	3,503	12,530	13,825	4,970	(4,185)
Basic earnings (loss) per share (cents)	<b>6.86</b>	5.79	6.78	0.82	5.89	7.71	2.82	(2.60)
Diluted earnings (loss) per share (cents)	<b>6.86</b>	5.79	6.78	0.81	5.85	7.69	2.81	(2.60)

#### Selected Quarterly and Annual Production Data

CSH Mine	Three months ended		Year ended	
	December 31		December 31	
	2011	2010	2011	2010
Gold produced (ounces)	<b>41,297</b>	35,582	<b>133,541</b>	111,289
Gold sold (ounces)	<b>41,954</b>	32,998	<b>136,290</b>	103,673
Total cost of gold sold per ounce	<b>931</b>	688	<b>876</b>	633
Cash cost* per ounce of gold	<b>836</b>	609	<b>778</b>	542

\* Non-IFRS measure

Jiama Mine	Three months ended		Year ended	
	December 31		December 31	
	2011	2011	2011	2010
Copper produced (tonnes)	2,964	9,781		226
Copper produced (pounds)	6,534,987	21,563,193		498,046
Copper sold (tonnes)	2,998	9,854		519
Copper sold (pounds)	6,609,967	21,725,105		1,144,198
Gold produced (ounces)	3,083	8,133		145
Gold sold (ounces)	2,790	8,631		623
Total cost of copper sold per tonne	9,274	9,166		5,842
Total cost of copper sold per pound	4.21	4.16		2.65
Total cost of copper equivalent per tonne**	6,383	6,517		—
Total cost of copper equivalent per pound**	2.90	2.96		—
Cash cost* per tonne of copper	7,099	6,727		4,805
Cash cost* per pound of copper	3.22	3.05		2.18
Cash cost* per tonne of copper equivalent**	4,886	4,783		—
Cash cost* per pound of copper equivalent**	2.22	2.17		—

\* Non-IFRS measure

\*\* Copper equivalent = weight of copper sold + [(weight of gold sold \* gold price / copper price)] + [(weight of silver sold \* silver price / copper price)]  
The prices for the respective metals used in this copper equivalent calculation were the weighted average of actual sales price from January 2011 to December 2011

## Review of Quarterly Data

*Three months ended December 31, 2011 compared to three months ended December 31, 2010*

**Revenue** increased by 91%, or US\$44.7 million, from US\$48.9 million for the three months ended December 31, 2010, to US\$93.5 million for the three months ended December 31, 2011. The additional revenue from the newly acquired Jiama Mine accounted for 27%, or US\$25.5 million (2010: US\$4.8 million), of total revenue for the quarter. Revenue for the CSH Mine accounted for 73%, or US\$68 million (2010: US\$44.1 million), of total revenue for the quarter. The increase in revenue was also attributed to the 33% increase in gold sold (ounces) from 33,621 in 2010 as compared to 44,744 for the same period in 2011. The weighted average price of gold increased by approximately US\$380 per ounce for the comparative periods. Total copper sold increased by 478% from 519 tonnes to 2,998 tonnes.

**Cost of sales** increased by 129% or US\$34.6 million, from US\$26.8 million for the three months ended December 31, 2010 to US\$61.4 million, for the same period in 2011. Jiama's cost of sales contributed US\$22.3 million, or 36%, which included US\$6.5 million in depletion and amortization costs which were not applicable in 2010. Jiama's cost of sales for 2010 was US\$4.1 million which included only one month of costs as it was acquired by the Company in December 2010. Cost of sales as a percentage of revenue was higher for the Company at 66% for the three months ended December 31, 2011 (three months ended December 31, 2010: 55%) due to the addition of the Jiama Mine and the increased production at both mines.

**Mine operating earnings** for the Company increased by 46%, or US\$10 million, from US\$22.1 million for the three months ended December 31, 2010 to US\$32.1 million for the three months ended December 31, 2011. Mine operating earnings as a percentage of revenue decreased to 34% for the three months ended December 31, 2011 compared to 45% for the three months ended December 31, 2010. The decrease was mainly due to the addition of the Jiama Mine and the overall increase in cost of sales.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

**General and administrative expenses** increased by 153%, or US\$2.8 million, from US\$1.8 million for the three months ended December 31, 2010 to US\$4.6 million for the three months ended December 31, 2011. The increase was primarily attributable to the addition of Jiama's expenses, totaling US\$4.0 million, of which US\$1.6 million related to salaries and benefits and US\$1.8 million related to administration and office expenses. As the Company acquired Jiama on December 1, 2010, only one month of general and administrative expenses were included in the Group's 2010 consolidated total.

**Exploration and evaluation expenditures** decreased by 69%, or US\$386,000, from US\$559,000 for the three months ended December 31, 2010 to US\$173,000 for the three months ended December 31, 2011. (The capitalized exploration expenditures for the CSH Mine and the Jiama Mine can be found in the section titled "Mineral Properties.")

**Income from operations** for the fourth quarter of 2011 increased by 74%, or US\$14.6 million, from US\$19.7 million for the three months ended December 31, 2010 to US\$34.3 million for the three months ended December 31, 2011. The increase was primarily attributable to an increase of US\$8.5 million in CSH's mine operating earnings.

**Listing expenses** decreased by 100% from US\$43,000 for the three months ended December 31, 2010 to nil for the three months ended December 31, 2011. This decrease was due to the completion of the listing on the HKSE in December 2010.

**Finance costs** increased by 122%, or US\$2.6 million from US\$2.2 million for the three months ended December 31, 2010 to US\$4.8 million for the three months ended December 31, 2011, primarily attributed to the addition of Jiama's finance costs of US\$3.2 million. There was no capitalized interest for the three months ended December 31, 2011.

**Foreign exchange gain** increased by 368%, or US\$2.2 million from a loss of US\$595,000 for the three months ended December 31, 2010 to a gain of US\$1.6 million for the three months ended December 31, 2011. The current period's gain is related to the translation of the foreign subsidiaries' books of account denominated in Chinese RMB to US dollar.

**Interest and other income** increased from US\$51,000 for the three months ended December 31, 2010 to US\$2.8 million for the three months ended December 31, 2011. This increase was primarily due to the addition of Jiama's interest and other income of US\$1.6 million consisting of bank interest and government subsidies received. The additional increase is also attributable to interest income earned on term deposits.

**Income tax expense** increased by 50%, or US\$2.2 million, from US\$4.4 million for the three months ended December 31, 2010 to US\$6.6 million for the same period in 2011. The increase was due to higher mine operating earnings resulting in an increase in taxable income.

**Net income** of the Company increased by US\$14.7 million from US\$12.5 million for the three months ended December 31, 2010 to US\$27.2 million for the three months ended December 31, 2011.

### Review of Annual Data

#### *Year ended December 31, 2011 compared to year ended December 31, 2010*

**Revenue** increased by 134%, or US\$178.1 million, from US\$133.2 million for the year ended December 31, 2010, to US\$311.3 million for the year ended December 31, 2011. The significant increase is attributed to improved recovery rates for gold and copper, increased production at both mines and higher average commodity prices in 2011 compared to 2010. Revenue from the Jiama Mine accounted for 31%, or US\$96.8 million, of total revenue for the year ended 2011, compared to US\$4.8 million in 2010. As the Jiama Mine was acquired in December 2010, only one month of its revenue contributed to the Group's overall revenue in 2010. Revenue from the CSH Mine accounted for 69% of total revenue, with an increase of 67%, or US\$86.07 million from 2010 to 2011, due to a 31% increase in total gold sold (2011: 136,290oz, 2010: 103,673oz) and an increase of the weighted average price of gold by approximately 25%.

**Cost of sales** increased by 178% or US\$121.9 million, from US\$68.6 million for the year ended December 31, 2010 to US\$190.6 million for the year ended December 31, 2011. Jiama's cost of sales accounted for US\$71.2 million, or 37%, which included US\$24.0 million in depletion and amortization costs which were not applicable in 2010. Jiama's cost of sales for 2010 was US\$4.1 million which included only one month of costs as it was acquired by the Company in December 2010. Cost of sales as a percentage of revenue was higher for the Company at 61% in 2011, compared to 52% in 2010.

**Mine operating earnings** for the Company increased by 87%, or US\$56.2 million, from US\$64.6 million for the year ended December 31, 2010 to US\$120.8 million for the year ended December 31, 2011. Mine operating earnings as a percentage of revenue decreased to 39% for the year ended December 31, 2011 compared to the year ended December 31, 2010 at 48%. The decrease was mainly due to the increase in the cost of sales attributed to the addition of Jiama.

**General and administrative expenses** increased by 225%, or US\$12.1 million, from US\$5.3 million for the year ended December 31, 2010 to US\$17.4 million for the year ended December 31, 2011. The addition of Jiama's general and administrative expenses contributed US\$11.3 million (2010: US\$1.5 million), which include significant costs of salaries and benefits of US\$5.8 million and US\$4.6 million in administration and office expenses. As a result of the Company's acquisition and dual listing in December 2010, additional expenses related to professional fees, investor relations costs, and various business operating expenses also attributed to the increase in 2011.

**Exploration and evaluation expenditures** decreased by 35% or US\$254,000 to US\$467,000 for the year ended December 31, 2011 compared to US\$721,000 for the year ended December 31, 2010. (The capitalized exploration expenditures for the CSH Mine and the Jiama Mine can be found in the section titled "Mineral Properties.")

**Income from operations** increased by 88%, or US\$51.4 million, from US\$58.5 million for the year ended December 31, 2010 to US\$109.9 million for the year ended December 31, 2011. The addition of Jiama contributed US\$14.4 million for the year ended December 31, 2011. The overall increase is attributable to higher production and increased revenue from both the CSH and Jiama mines.

**Listing expenses** decreased by 100% from US\$2.1 million for the year ended December 31, 2010 to nil for the year ended December 31, 2011. This decrease is due to the completion of the listing on the HKSE in December 2010.

**Finance costs** increased by 140%, or US\$8.2 million from US\$5.8 million for the year ended December 31, 2010 to US\$14 million for the year ended December 31, 2011, primarily attributable to the addition of Jiama's finance costs of US\$9.4 million. There was no capitalized interest for the year ended December 31, 2011.

As all the issued and outstanding stock-purchase warrants were exercised by the end of May 2010, there is no expense relating to the change in the fair value of stock-purchase warrants in 2011. The change in fair value of stock-purchase warrants in the comparative period was US\$7.2 million.

**Foreign exchange gain** increased by US\$3.8 million from a loss of US\$1.5 million for the year ended December 31, 2010 to a gain of US\$2.4 million for the year ended December 31, 2011. The gain in 2011 is due to the foreign subsidiaries' translation of their RMB-denominated accounts into their US dollar functional currency. Fluctuations in exchange rates during the period also had a direct affect on foreign exchange gain/loss.

**Interest and other income** increased from US\$66,852 for the year ended December 31, 2010 to approximately US\$6.3 million for the year ended December 31, 2011. This increase was primarily due to government grants of US\$1.98 million received by Jiama and interest income of US\$2.1 million earned on term deposits. During the second quarter of 2011, modifications were made to the CSH loan due to the Agricultural Bank of China, which resulted in the recognition of a gain on modification of borrowing of US\$1.9 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Income tax expense** increased by 52%, or US\$7.6 million, from US\$14.9 million for the year ended December 31, 2010 to US\$22.5 million for the year ended December 31, 2011. The increase was due to an increase in taxable income for the year ended December 31, 2011. Income tax expense for the CSH Mine totaled US\$21.3 million, and US\$635,000 was realized for the Jiama Mine, for the year ended December 31, 2011.

**Net income** of the Company increased by US\$54.8 million from US\$27.1 million for the year ended December 31, 2010 to income of US\$82.0 million for the year ended December 31, 2011.

### NON-IFRS MEASURES

The following table provides certain unit cost information on a cash cost of production per ounce (non-IFRS) basis for the CSH Gold Mine for the three months and year ended December 31, 2011 and 2010:

	CSH Mine			
	Three months		Year ended	
	ended December 31,		December 31,	
	2011	2010	2011	2010
	US\$	US\$	US\$	US\$
Cost of mining per tonne of ore	<b>2.41</b>	1.25	<b>1.81</b>	1.24
Cost of mining waste per tonne of ore	<b>4.23</b>	3.04	<b>2.52</b>	1.74
Other mining costs per tonne of ore	<b>0.50</b>	0.53	<b>0.40</b>	0.38
Total mining costs per tonne of ore	7.14	4.82	4.73	3.36
Cost of reagents per tonne of ore	<b>1.84</b>	1.13	<b>1.15</b>	0.90
Other processing costs per tonne of ore	1.19	1.04	<b>0.96</b>	0.59
Total processing cost per tonne of ore	3.03	2.17	2.11	1.49

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

The Company has included cash cost per gold ounce data to supplement its consolidated 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 for the CSH Mine or per copper concentrate tonne for the Jiama Mine:

	CSH Mine (Gold)							
	Three months ended December 31,				Year ended December 31,			
	2011		2010		2011		2010	
	US\$	per	US\$	per	US\$	per	US\$	per
US\$	ounce	US\$	ounce	US\$	ounce	US\$	ounce	
Total Production Costs	<b>39,080,104</b>	<b>932</b>	22,702,707	688	<b>119,399,429</b>	<b>876</b>	64,520,576	633
Adjustments	<b>(4,027,019)</b>	<b>(96)</b>	(2,592,229)	(79)	<b>(13,365,102)</b>	<b>(98)</b>	(8,945,174)	(91)
Total cash costs	<b>35,053,085</b>	<b>836</b>	20,110,478	609	<b>106,034,327</b>	<b>778</b>	55,575,402	542

	Jiama Mine (Copper)					
	Three months ended			Year ended		
	December 31, 2011			December 31, 2011		
	US\$	per	US\$	US\$	per	US\$
US\$	tonne	pound	US\$	tonne	pound	
Total Production Costs	<b>27,805,992</b>	<b>9,274</b>	<b>4.21</b>	<b>90,324,105</b>	<b>9,166</b>	<b>4.16</b>
Adjustments	<b>(6,521,490)</b>	<b>(2,175)</b>	<b>(0.99)</b>	<b>(24,029,544)</b>	<b>(2,438)</b>	<b>(1.11)</b>
Total cash costs	<b>21,284,502</b>	<b>7,099</b>	<b>3.22</b>	<b>66,294,561</b>	<b>6,728</b>	<b>3.05</b>

The production costs above include the expenditures incurred on the mine sites for the activities directly related to the production. The adjustments above include depreciation and depletion, amortization of intangible assets, and selling expenses included in total production costs. The total cash costs per gold ounce above differ from the unit cash costs disclosed in the Behre Dolbear ("BD") Independent Technical Report ("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. This means that the cost of sales above includes an allocation of costs incurred over time while the BD ITR does not. Second, the BD ITR is prepared based on units produced while the calculations above are based on units sold.

## MINERAL PROPERTIES

### The CSH Mine

The CSH Mine is located in Inner Mongolia Autonomous Region of 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 Mine is owned and operated by Inner Mongolia Pacific Mining Co., a Chinese Joint Venture in which China Gold International holds a 96.5% interest and Ningxia Nuclear Industry Geological Exploration Institution (formerly known as Brigade 217) holds the remaining 3.5%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the exploration expenditures expensed and capitalized during the years ended December 31, 2011 and 2010

	CSH Mine	
	Year ended December 31, 2011	2010
	US\$	US\$
Exploration expensed	467,251	594,453
Exploration capitalized	6,381,602	—
<b>Total</b>	<b>6,848,853</b>	594,453

### Mineral Resources and Ore Reserves

An updated mine plan for the CSH Mine was developed and reported as at June 30, 2010 in the BD ITR dated November 17, 2010. This plan was prepared based on heap leaching with a crushing plant at a throughput of 30,000 tonnes per day ("tpd") which was achieved as planned, by March 31, 2010. The detailed technical information can be found in the technical report filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

Mineral reserves were calculated in 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 the 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. After two years of mining, the remaining reserves at CSH are summarized in the table below:

*CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2011:*

CSH Gold Mine Total Reserves at December 31, 2011					
Classification	Cutoff	Insitu Ore	Grade Au (g/t)	Contained	Contained Au (Million oz)
	Au (g/t)	(Million tonnes)		Au (Kg)	
Proven	0.3	67.2	0.70	47,150	1.51
Probable	0.3	47.6	0.66	31,603	1.02
<b>Total</b>	0.3	114.8	0.69	78,753	2.53

The latest CSH mine resource estimate was also reported in the BD 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 of the mineralization. Mineralization at depth in the Northeast (NE) has been confirmed, with increases in both tonnages and confidence.

At December 31, 2011, the project's Measured and Indicated Gold Resources, using 0.3 grams per tonne ("g/t") Au cut-off grade, stand at 219 million tonnes averaging 0.64 g/t gold. This translates into 4.53 million ounces of contained gold (inclusive of reserves) in the deposit.

Details of the resources update based on the BD ITR dated June 30, 2010 after depletion in the balance of 2011 are summarized in the following table:

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

Cutoff (g/t)	Resource Estimates for the CSH Mine at December 31, 2011									
	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
<b>0.30</b>	<b>89.71</b>	<b>0.68</b>	<b>129.71</b>	<b>0.62</b>	<b>219.41</b>	<b>0.64</b>	<b>4.53</b>	<b>0.51</b>	<b>0.44</b>	<b>0.007</b>
0.35	81.26	0.71	114.87	0.65	196.13	0.68	4.28	0.35	0.49	0.005
0.40	72.97	0.75	99.80	0.70	172.77	0.72	4.00	0.24	0.54	0.004
0.45	64.82	0.79	85.96	0.74	150.78	0.76	3.70	0.18	0.57	0.003
0.50	57.01	0.84	73.87	0.78	130.88	0.81	3.40	0.12	0.62	0.002

### Production Update

According to the most recent column leach test completed by Metcon Research of KD Engineering, gold recovery greatly improves when ore is crushed. Higher gold grades also result in better gold recovery rates. As of March 2010, mine production has consisted almost entirely of crushed ore and the crusher facility has consistently operated at its design capacity of 30,000 tpd.

	CSH Mine			
	Three months ended December 31,		Year ended December 31,	
	2011	2010	2011	2010
	US\$	US\$	US\$	US\$
Ore mined and placed on pad (tonnes)	<b>2,636,332</b>	2,489,654	<b>11,461,617</b>	12,421,839
Average grade of ore (grams per tonne)	<b>0.57</b>	0.59	<b>0.53</b>	0.67
Recoverable gold at 49% recovery rate (ounces)	<b>41,670</b>	20,371	<b>114,487</b>	111,552
Ending ore inventory (ounces)	<b>37,140</b>	58,994	<b>37,140</b>	58,944
Waste rock mined (tonnes)	<b>9,698,462</b>	8,129,131	<b>31,487,783</b>	22,417,577

For the year ended December 31, 2011, the total amount of ore put on the leach pad was 11,461,617 tonnes, with total contained gold of 6,119,588 grams (196,749 ounces). The accumulative project-to-date gold recovery rate has increased from approximately 43% to 49% from 2010 to 2011. The Company continues to carefully monitor the behavior of gold inventory in the process.

### Exploration

The Company commenced a major drilling campaign at its CSH Mine in Inner Mongolia, China on May 20, 2011. Approximately 59,000 metres of (108 holes) drilling was completed by the end of October 2011 within the mining permit area. The focus of the drill program is to delineate more resources at depth within the expectation to further expand the current mining capacity. The drill program is also required under the Chinese regulation in order to renew the CSH mining permit, which will expire on August 13th, 2013.

Exploration outside of the mining permit area continued at the CSH Mine during the 2011 field season within the company's licensed area. The 2011 program included about 17 square kilometers of soil geochemical survey, 54 square kilometers of gravity survey and 33 line kilometers of IP (Induced Polarization) survey. Various anomalies were found on the property and further drilling is planned for the 2012 field season.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### The Jiama Mine

The Company acquired the Jiama Mine on December 1, 2010. Jiama is a significant copper-gold polymetallic deposit containing copper, gold, silver, molybdenum, and other metals located in the Gandise metallogenic belt in Tibet, Autonomous Region of China.

The Jiama Mine presently has both open-pit and underground mining operation. The open-pit mining operation includes two open pits, being the smaller Tongqianshan pit and the larger Niumatang Pit. The underground mining operation is accessed through two shafts having an initial 355 metre depth which is planned to extend to a final depth of 600 metres. Phase I of the mine development includes the open-pit infrastructure at the Tongqianshan pit, an underground ore transportation system, and a 6,000 tpd mineral processing plant. Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its name-plate capacity of 6,000 tpd in early 2011. For Phase II development, which was originally planned for a 12,000 tpd mining operation, the Company has retained engineering firms to conduct a feasibility study in contemplation of building a larger scale mining operation using the additional drilling results as the basis for the conceptual and then operational mine model.

The following table shows the exploration expenditures expensed and capitalized during the years ended December 31, 2011:

	<b>Jiama Mine Year ended December 31, 2011</b>
	US\$
Exploration expensed	—
Exploration capitalized	15,396,450
	<b>15,396,450</b>

### Mineral Resources and Ore Reserves

On October 6, 2011, Behre Dolbear completed a technical review and, as part of its engagement, produced a Canadian National Instrument 43-101 compliant technical report ("the Jiama Technical Report") on the Jiama Mine as at June 30, 2011. Set forth below are the mineral resource estimates for the Jiama Mine. Further information can be found in the technical report filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

The 2010 drill program was completed at the Jiama project in December 2010 with 76 drill holes totaling 45,537 meters. The 2010 drill program defined and upgraded a significant amount of Jiama's inferred resources to measured and indicated resources. As a result, the total measured and indicated resources increased by 443% from 185.1 million tonnes mineralized materials averaging 0.74 percent copper and containing 1.38 million tonnes of copper to 1,006.0 million tonnes averaging 0.41 percent copper and containing 4.08 million tonnes of copper.

The resources for the Jiama project as of June 2011 are summarized in tables 1.1 and 1.2.

**TABLE 1.1**  
**BEHRE DOLBEAR'S JORC MEASURED AND INDICATED MINERAL RESOURCES**  
**ESTIMATES FOR THE JIAMA PROJECT AS OF JUNE 2011**  
**(CUT OFF GRADE FOR THE RESOURCE ESTIMATE IS 0.3% COPPER OR 0.03% MOLYBDENUM)**

Model	Category	Tonnes (kt)	Average grade			
			Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)
Shallow Skarn	Measured	60,579	0.82	0.057	0.33	15.47
	Indicated	210,722	0.75	0.061	0.29	14.07
	Meas+Ind	271,301	0.77	0.060	0.30	14.38
Steep Skarn	Measured	4,012	0.76	0.031	0.27	17.59
	Indicated	18,971	0.76	0.032	0.26	17.62
	Meas+Ind	22,983	0.76	0.032	0.26	17.61
Hornfels	Measured	0	0.00	0.000	0.00	0.00
	Indicated	655,089	0.27	0.037	0.03	1.04
	Meas+Ind	655,089	0.27	0.037	0.03	1.04
Porphyry	Measured	0	0.00	0.000	0.00	0.00
	Indicated	56,596	0.11	0.056	0.01	0.74
	Meas+Ind	56,596	0.11	0.056	0.01	0.74
All Models	<b>Total</b>	<b>1,005,969</b>	<b>0.41</b>	<b>0.044</b>	<b>0.10</b>	<b>5.00</b>

**TABLE 1.2**  
**BEHRE DOLBEAR'S JORC INFERRED MINERAL RESOURCE ESTIMATES FOR THE**  
**JIAMA PROJECT AS OF JUNE 2011**  
**(CUT OFF GRADE FOR THE RESOURCE ESTIMATE IS 0.3% COPPER OR 0.03% MOLYBDENUM**  
**OR 1% LEAD OR 1% ZINC)**

Model	Category	Tonnes (kt)	Average grade			
			Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)
Shallow Skarn	Inferred	94,325	0.61	0.056	0.23	11.66
Steep Skarn	Inferred	26,012	0.71	0.026	0.21	17.88
Hornfels	Inferred	39,460	0.23	0.039	0.03	1.02
Porphyry	Inferred	10,356	0.13	0.058	0.01	0.74
All Models	<b>Total</b>	<b>170,153</b>	<b>0.51</b>	<b>0.048</b>	<b>0.17</b>	<b>9.48</b>

### Mineral Reserves

The reserve for the Jiama project will be updated following completion of the ongoing feasibility study to support the contemplated Phase II mine expansion at the Jiama Mine.

On September 17, 2010, Behre Dolbear completed a technical review and produced an NI 43-101 technical report on the Jiama Property as at June 30, 2010. Set forth below are the mineral reserve estimates for the property as of December 31, 2011. Further information can be found in the technical report filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the reserves remaining as at December 31, 2011:

**Reserve Estimated for the Jiama Mine as at December 31, 2011**  
(Cut Off grade for the resource estimate is 0.3% Copper or 0.03% Molybdenum)

Type	Grade					Contained Metals			
	Kt	Cu %	Mo %	Au g/t	Ag g/t	Cu Kt	Mo Kt	Au t	Ag t
Total Proven and Probable	103,440	0.84	0.039	0.31	16.4	868.90	40.34	32.07	1,696.42

### Results of Exploration Program

The exploration program in 2011 consisted of 37,000 metres of drilling with a total of 71 diamond drill holes in three phases. It focused on four targets in a 3 kilometre long three-in-one complex system consisting of the Hornfels, Skarn and Porphyry mineralized bodies. The first target is the 100x100 metre to 200x100 metre spacing in-fill drilling in the central part of the Skarn type mineralized body. The purpose is to upgrade the current inferred and indicated resources to the indicated and measured categories. The second drilling target is the peripheral area of the existing standalone quartz-diorite porphyry gold mineralized body and gold rich Skarn type mineralized body which has been confirmed by the drilling program in 2010. The drilling program is to define a reasonable size gold or gold rich deposit. The third target is to define the extension of the Skarn type mineralized body by drilling holes along the North-East strike extension of the major Skarn mineralized body. The fourth target is the porphyry mineralized body in the center of the mineralized zone. One or more 2000-3000 metre deep holes, will be drilled to determine the depth of the porphyry mineralization. Along with the drilling program, a magnetotelluric geophysical survey may be conducted to define the extent of the deep porphyry system. The 2011 drilling program began in April 2011 and was completed by the end of 2011.

### Commissioning and Production during the Commissioning Process

The Jiama Mine went into commissioning for commercial production in September 2010 and by early 2011, the mine reached its designed capacity of 6,000 tpd. The mine is presently producing its principal product of copper concentrate with gold and silver credits. Commercial production was affected by interruptions or shortages in power supply until January 23, 2011. The Jiama Mine is now connected to the recently completed DC Qinghai-Tibet Power Grid Interconnection Project ("QTPGI"), a 2,530 kilometers-long, 400 kV transmission line. QTPGI can now provide sufficient electrical power to satisfy the present requirements at the Jiama Mine as well as any future requirements for the contemplated Phase II expansion.

### LIQUIDITY AND CAPITAL RESOURCES

The Company operates in a capital intensive industry. The Company's 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. The Company's principal sources of funds have been proceeds from the issuance of promissory notes, borrowing from commercial banks in China, equity financings, and cash generated from operations. The Company's liquidity will primarily depend on its ability to generate cash flow from operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

At December 31, 2011, the Company had an accumulated surplus of US\$40.2 million and working capital of US\$260.9 million. China Gold International's cash balance at December 31, 2011 was US\$354.3 million.

For the CSH Mine, the third principal repayment of RMB20 million (approximately US\$3.1 million) on the Company's RMB290 million (approximately US\$44.8 million) term loan from the Agricultural Bank of China ("ABC") was made in September 2011. The aggregate of three principal repayments due in 2012 are RMB80 million (US\$12.6 million). Interest payments of approximately US\$200,000 are paid monthly on the ABC loan and will continue to be paid in 2012.

For the Jiama Mine, the first principal repayment on the loan for RMB200 million (approximately US\$31.4 million) from the Bank of China ("BOC") was paid on December 28, 2011. Interest payments of approximately US\$312,000 in 2012 will be made monthly on the BOC loan prior to the second repayment which is due on December 28, 2012. During the year ended December 31, 2011, an additional RMB478.05 million was drawn down from the syndicated loan facility. In June 2011, the Jiama Mine secured a RMB203 million to repay the principals of the syndicated loan, bringing the total loan to RMB702 million (approximately US\$111.4 million) as at December 31, 2011. The first payment of RMB100 million on the syndicated loan facility ("SLF") balance with various banks is due in June 2013. Interest payments of approximately US\$402,000 are paid monthly on the SLF and will continue to be paid next year in 2012.

Management believes that its forecasted operating cash flows from the Company are sufficient to cover the next twelve months of the CSH Mine and Jiama operations factoring in its planned capital expenditures and current debt repayments. Revenue and related expenses should increase as production increases. Some of the Company's available cash will be used to fund the capital expenditures being planned for Phase II of Jiama as well as other business expenses. The Company may seek further financing to fund the balance of capital expenditures being contemplated for Phase II of Jiama's expansion.

### **Restrictive covenants**

The Company is subject to various customary conditions and covenants under the terms of its financing agreements.

Under the loan agreement between the CSH CJV and the 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 a reduction of registered capital, disposal of assets, mergers and acquisitions and provision of guarantee or creating charges over its material assets in favor of third-parties.

Under the loan agreements between Jiama and the Bank of China and between Jiama and the various banks providing the syndicated loan facility, Jiama is prohibited from distributing dividends before offsetting accumulated losses of the prior accounting year, repaying the principal, interest, and other expenses due under the loan agreement in the current fiscal year, and repaying the principal, interest and other expenses due under the loan agreement in the next fiscal year. In addition, Jiama is required to obtain the lender's written approval prior to reducing registered capital, processing one or more transactions or a series of transactions in the form of a sale, lease, transfer or other way leading to the disposal of assets that together total over RMB5.0 million, entering into any merger or acquisition, providing a guarantee or creating charges over its material assets in favor of third parties.

As of June 1, 2011, the lenders (ABC, BOC, and a syndicate of banks comprised of the BOC, China Development Bank, and ABC) of the Company's RMB1.74 billion (US\$254.51million) loan facilities agreed to release CNG, the Company's controlling shareholder, from its guarantees on the ABC, BOC, and syndicated loans. The guarantees have been replaced by a direct security interest over relevant mining rights at the CSH Mine and relevant mining rights and assets at the Jiama Mine in favour of the lenders.

### **COMMITMENTS AND CONTINGENCIES**

Commitments and contingencies include principal payments on the Company's bank loans and syndicated loan facility, material future aggregate minimum operating lease payments required under the operating leases and capital commitments in respect to the future acquisition of property, plant and equipment and construction for both the CSH Mine and the Jiama Mine.

The Company has leased certain properties in China and Canada, which are all under operating lease arrangements and are negotiated for terms of between three and seventeen years. The Company is required to pay a fixed rental amount under the terms of these leases.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's capital commitments relate 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. The Company has entered into contracts that prescribe such capital commitments, however, liabilities relating to them have not yet been incurred. Therefore, capital commitments have not been included in the Company's consolidated financial statements.

The following table outlines payments for commitments for the years indicated:

	Total US\$	2012 US\$	2013 US\$	Payment Due by Year				Thereafter US\$
				2014 US\$	2015 US\$	2016 US\$		
Principal repayment on ABC term loan	<b>36,546,804</b>	12,711,932	15,889,915	7,944,957	—	—	—	
Principal repayment on BOC loan (RMB500,000,000)	<b>79,449,573</b>	31,779,829	23,834,872	23,834,872	—	—	—	
Principal repayment on Syndicated loan (RMB702,000,000)	<b>111,547,201</b>	—	15,889,915	23,834,872	31,779,829	40,042,585	—	
Operating leases Vancouver(a)	<b>1,398,971</b>	1,169,024	102,199	102,199	25,549	—	—	
Operating leases CSH Mine(a)	<b>519,176</b>	33,051	33,051	33,051	33,051	33,051	353,921	
Operating leases Jiama(a)	<b>1,529,043</b>	213,145	153,663	153,663	153,663	153,663	701,246	
Capital commitments of CSH Mine(b)	<b>1,964,115</b>	1,964,115	—	—	—	—	—	
Capital commitments of the Jiama Mine(b)	<b>56,476,538</b>	56,476,538	—	—	—	—	—	
<b>Total</b>	<b>289,431,421</b>	104,347,634	55,903,615	55,903,614	31,992,092	40,229,299	1,055,167	

(a) Operating leases are primarily for premises and production.

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

In addition to the table set forth above, the Company has 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 fees for such work performed and to be performed each year varies depending on the amount of work performed. The Company has similar agreements with third party contractors for the Jiama Mine.

## Cash flows

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the years ended December 31, 2011 and 2010

	Years ended December 31	
	2011	2010
	US\$	US\$
Net cash flows from operating activities	115,603,422	10,908,799
Net cash flows from (used in) investing activities	(71,032,141)	6,858,877
Net cash flows from financing activities	5,727,327	259,854,092
Effect of foreign exchange rate changes on cash and cash equivalents	2,405,580	2,289
Net increase in cash and cash equivalents	52,704,188	277,624,057
Cash and cash equivalents, beginning of period	301,608,717	23,984,660
<b>Cash and cash equivalents, end of period</b>	<b>354,312,905</b>	<b>301,608,717</b>

## Operating cash flow

For the year ended December 31, 2011, net cash flow from operating activities was US\$115.6 million which was primarily attributable to (i) profit before income tax US\$104.5 million, and (ii) depreciation and depletion of US\$21.9 million, (iii) amortization of intangible assets of US\$15.7 million, and (iv) finance costs of US\$14.0 million, offset by (i) a decrease in inventory of US\$10.9 million, (ii) interest paid of US\$14.1 million, (iii) income tax paid of US\$18.5 million, (iv) a decrease of US\$8.7 million in accounts payable and (v) an increase in prepaid expenses and deposit of US\$5.5 million.

For the year ended December 31, 2010, net cash flow 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 tax paid of US\$5.9 million, and (iv) a decrease of US\$26.7 million in accounts payable.

## Investing cash flow

For the year ended December 31, 2011, net cash outflow from investing activities was US\$71.0 million, which was primarily attributable to the acquisition of property, plant and equipment

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 Dadiangou project of US\$5.2 million, offset by (i) the cash of US\$13.6 million from the acquisition of Jiama and (iii) the deposits of US\$11.6 million from the disposal of the Dadiangou Gold project.

## Financing cash flow

For the year ended December 31, 2011, net cash from financing activities was US\$5.7 million, which is primarily attributable to the proceeds from the syndicated loan facility of US\$74.0 million for the Jiama mine offset by repayment made on both ABC and syndicated loans totaling US\$68.3 million.

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 a term loan from CNG of US\$40.0 million and (ii) repayment of borrowings of US\$12.7 million.

## RELATED PARTY TRANSACTIONS

China National Gold (CNG) owns the following percentages of outstanding common shares of the Company

	<b>December 31, 2011</b>	December 31, 2010
	<b>%</b>	<b>%</b>
CNG	<b>39.3</b>	39.0

The Company had related party transactions with the following companies related by way of shareholders and shareholder in common:

On October 24, 2008, CNG and Inner Mongolia Pacific Mining Co. Ltd., which is a subsidiary of the Company and operates the Company's CSH Gold Mine, entered into a non-exclusive contract for the purchase and sale of dore pursuant to which Inner Mongolia Pacific Mining Co. Ltd. shall sell gold doré bars to CNG from time to time through to December 31, 2011, with prices equal to the daily average price of Au9995 gold ingot as quoted on the Shanghai Gold Exchange at the time of each transaction during the contract period minus a refinery charge.

Revenue from sales of dore bars to CNG increased from US\$115.7 million for the year ended December 31, 2010 to US\$205.0 million for the year ended December 31, 2011. Silver sales to CNG decreased by US\$1.0 million to nil for the same period as silver was sold to a third party rather than to CNG during 2011.

The purchase and sale of dore is approved by the Company's independent shareholders of the Company (excluding CNG) and is based on the applicable ratios and transactions pursuant to the terms of the 2008 contract for the purchase and sale of dore within the monetary cap of RMB 1,300 million for 2011. During the year, the Company exceeded its monetary cap on the sale of doré to CNG by RMB25,279,333. The Company held an Extraordinary General Meeting on March 16, 2012 to approve the CSH gold sales contract to CNG from 2012 to 2014.

Henan Zhongyuan Gold Refinery of Zhonglin Gold Company, 100% owned by CNG provides refinery and other related services to the Company pursuant to an agreement entered into between the Company and CNG. Refinery fees for the year ended December 31, 2011 were US\$1.8 million compared to US\$1.05 million for the same period ended December 31, 2010.

The Company incurred no interest expense to CNG during the year ended December 30, 2011 compared with approximately US\$3.0 million in the same period in 2010, as the loan from CNG was repaid in December 2010.

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 of 170,252,294 common shares, of which 86,828,670 common shares were issued to CNGHK to complete the acquisition. 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 Securities Inc., an independent securities firm. The Skyland Purchase Agreement included a post-closing adjustment mechanism based on the net working capital of Skyland as at November 30, 2010 which could adjust the total consideration paid. An independent international auditing firm was retained to provide a report on the working capital adjustment and calculation. The working capital adjustment was reviewed by the Company, the Company's auditors and the Skyland vendors who all agreed with the report's findings. The report calculated a working capital adjustment of US\$2.66 million. As the amount was determined to be immaterial in relation to the size of the transaction and factoring in other parameters, the Company and the Vendors proposed to waive the application of the working capital adjustment and a Board resolution was approved to that effect. A written legal opinion was obtained from the Company's lawyers confirming the waiver of the working capital adjustment, which was delivered according to the Purchase Agreement.

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 was completed in October 2011 and the Company has received its share of the cash proceeds.

### **PROPOSED TRANSACTIONS**

The Company does not have significant asset and/or business acquisitions proposed and/or approved by the Board of Directors. The Company is in the process of closing Gansu Pacific Mining Ltd., a subsidiary in China, subsequent to the disposal of the exploration permit of Gansu Pacific Mining Ltd. in October 2011. The Board has given the Company approval to conduct reviews of a number of potential asset and/or business acquisitions.

### **CRITICAL ACCOUNTING 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 a significant effect on the amounts recognized in the consolidated financial statements.

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 described in Note 3 of the consolidated financial statements.

### **CHANGE IN ACCOUNTING POLICIES**

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the consolidated financial statements.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company holds a number of financial instruments, the most significant of which are accounts receivable, accounts payable, cash and loans. The financial instruments are all recorded at fair values on the balance sheet.

The company did not have any derivatives as of December 31, 2011.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of December 31, 2011, the Company had not entered into any material off-balance sheet arrangements.

### **DIVIDEND AND DIVIDEND POLICY**

The Company has not paid any dividends since incorporation and does not currently have a fixed dividend policy. The Directors will determine any future dividend policy on the basis of, among others things, the results of operations, cash flows and financial conditions, operating and capital requirements, the amount of distributable profits and 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 the 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.

### OUTSTANDING SHARES

As of December 31, 2011, the Company had 396,163,753 common shares issued and outstanding.

### 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 relating to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's DC&P and ICFR as of December 31, 2011 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the design of the Company's ICFR as of December 31, 2011 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 is 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, 2011, there were no changes in the Company'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 of this MD&A should give careful consideration to the information included in this document and the Company's audited annual consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company's mineral properties, and litigation. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks. For details of risk factors, please refer to the Company's annual audited consolidated financial statements, and Annual Information Form filed from time to time on SEDAR at [www.sedar.com](http://www.sedar.com).

### QUALIFIED PERSON

The scientific and technical information in respect of the CSH Gold Project contained in this section of the MD&A represents a summary from the CSH Technical Report. A complete copy of the CSH Technical Report is available on SEDAR at [www.sedar.com](http://www.sedar.com). Disclosure of a scientific or technical nature in this section of the MD&A in respect of updates at the CSH Gold Project since the date of the CSH Technical Report was prepared by or under the supervision of Mr. Mario Rossi and Mr. Songlin Zhang, each a qualified person for the purposes of NI 43-101.

Disclosure of a scientific or technical nature in this MD&A in respect of the Jiama Mine was 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 dated October 6, 2011 for the Jiama Mine filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

March 27, 2012

# INDEPENDENT AUDITOR'S REPORT

## **TO THE MEMBERS OF CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.**

*(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 56 to 120, which comprise the consolidated statement of financial position as at December 31, 2011 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, 2011, 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 27, 2012



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

	Notes	2011 US\$	2010 US\$
Revenues	29	311,311,791	133,197,660
Cost of sales		(190,550,767)	(68,641,323)
Mine operating earnings		120,761,024	64,556,337
(Expenses) income			
General and administrative	5	(17,368,370)	(5,341,038)
Exploration and evaluation expenditure	6	(467,251)	(721,296)
Gain on disposal of a mining project	20(c)	6,932,324	—
		(10,903,297)	(6,062,334)
Income from operations		109,857,727	58,494,003
Other income (expenses)			
Foreign exchange gain (loss), net		2,353,506	(1,479,520)
Gain on disposal of a subsidiary		—	20,000
Interest and other income		6,324,073	66,852
Finance costs	7	(14,053,411)	(5,843,484)
Fair value change on warrant liabilities	26(c)	—	(7,155,807)
Listing expenses		—	(2,101,820)
		(5,375,832)	(16,493,779)
Profit before income tax		104,481,895	42,000,224
Income tax expense	8	(22,519,501)	(14,860,225)
Profit for the year	9	81,962,394	27,139,999
Other comprehensive income for the year			
Exchange difference arising on translation		4,859,863	237,244
Total comprehensive income for the year		86,822,257	27,377,243
Profit for the year attributable to			
Non-controlling interests		2,554,730	913,296
Owners of the Company		79,407,664	26,226,703
		81,962,394	27,139,999
Total comprehensive income for the year attributable to			
Non-controlling interests		2,554,730	913,296
Owners of the Company		84,267,527	26,463,947
		86,822,257	27,377,243
Basic earnings per share	12	20.04 cents	13.82 cents
Diluted earnings per share	12	20.04 cents	13.76 cents
Basic weighted average number of common shares outstanding	12	396,153,549	189,770,654
Diluted weighted average number of common shares outstanding	12	396,307,689	190,669,565

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	Notes	2011 US\$	2010 US\$
<b>Current assets</b>			
Cash and cash equivalents	13	354,312,905	301,608,717
Restricted cash	14	—	6,725,129
Accounts receivable	15	5,844,620	9,050,490
Prepaid expenses and deposits	16	6,371,619	3,418,499
Prepaid lease payments	17	192,425	137,808
Inventory	18	27,104,701	34,154,278
		<u>393,826,270</u>	<u>355,094,921</u>
Assets classified as held for sale	20(c)	—	54,696
		<u>393,826,270</u>	<u>355,149,617</u>
<b>Non-current assets</b>			
Prepaid expense and deposits	16	5,442,920	2,395,882
Prepaid lease payments	17	6,731,565	6,634,081
Amount due from a non-controlling shareholder	19	415,839	419,768
Inventory	18	14,292,189	17,838,819
Deferred tax asset	8	769,493	—
Property, plant and equipment	20	361,060,501	297,901,855
Mining rights	21	962,004,395	975,282,711
		<u>1,350,716,902</u>	<u>1,300,473,116</u>
<b>Total assets</b>		<u>1,744,543,172</u>	<u>1,655,622,733</u>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	22	70,535,963	90,836,277
Borrowings	23	44,491,761	31,861,146
Tax liabilities		17,838,522	7,631,847
		<u>132,866,246</u>	<u>130,329,270</u>
Liabilities classified as held for sale	20(c)	—	24,189
		<u>132,866,246</u>	<u>130,353,459</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2011

	Notes	2011 US\$	2010 US\$
<b>Non-current liabilities</b>			
Deferred lease inducement		109,516	143,213
Deferred tax liabilities	8	132,865,648	138,310,971
Deferred income	24	864,958	712,610
Borrowings	23	183,051,817	180,785,118
Environmental rehabilitation	25	4,253,314	1,887,923
		<u>321,145,253</u>	<u>321,839,835</u>
<b>Total liabilities</b>		<u>454,011,499</u>	<u>452,193,294</u>
<b>Net current assets</b>		<u>260,960,024</u>	<u>224,796,158</u>
<b>Total assets less current liabilities</b>		<u>1,611,676,926</u>	<u>1,525,269,274</u>
<b>Owners' equity</b>			
Share capital	26	1,228,183,687	1,228,098,150
Reserves		16,451,333	11,397,030
Retained profits (deficits)		40,161,164	(39,246,500)
		<u>1,284,796,184</u>	<u>1,200,248,680</u>
Non-controlling interests		5,735,489	3,180,759
<b>Total owners' equity</b>		<u>1,290,531,673</u>	<u>1,203,429,439</u>
<b>Total liabilities and owners' equity</b>		<u>1,744,543,172</u>	<u>1,655,622,733</u>

The consolidated financial statements on pages 56 to 120 were approved and authorized for issue by the Board of Directors on March 27, 2012 and are signed on its behalf by:

(signed by) Xin Song

**Xin Song**  
Director

(signed by) Zhanming Wu

**Zhanming Wu**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

Notes	Number of shares	Share capital US\$	Equity reserve US\$ (c)	Exchange reserve US\$	Retained profits (deficits) US\$	Subtotal US\$	Non- controlling interests US\$	Total owners' equity US\$
At January 1, 2010	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
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
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)
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
Profit for the year	—	—	—	—	79,407,664	79,407,664	2,554,730	81,962,394
Exchange difference arising on translation	—	—	—	4,859,863	—	4,859,863	—	4,859,863
Total comprehensive income for the year	—	—	—	4,859,863	79,407,664	84,267,527	2,554,730	86,822,257
Exercise of stock options (note a)	26	37,000	85,537	(33,405)	—	52,132	—	52,132
Stock-based compensation (note a)	—	—	227,845	—	—	227,845	—	227,845
<b>At December 31, 2011</b>	<b>396,163,753</b>	<b>1,228,183,687</b>	<b>11,354,226</b>	<b>5,097,107</b>	<b>40,161,164</b>	<b>1,284,796,184</b>	<b>5,735,489</b>	<b>1,290,531,673</b>

Notes:

- Amounts represent equity reserve arising from stock-based compensation provided to employees during the years ended December 31, 2011 and 2010.
- 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.
- Amounts represent reserves arising from stock-based compensation provided to employees and deemed contribution from shareholders set out in Note (a) and (b).

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	Notes	2011 US\$	2010 US\$
<b>Operating activities</b>			
Profit before income tax		104,481,895	42,000,224
Items not requiring use of cash and cash equivalents:			
Depreciation		21,852,779	9,635,023
Amortization of mining rights		15,710,119	1,182,643
Release of prepaid lease payments		162,687	7,447
Release of deferred lease inducement		(33,697)	(50,545)
Release of deferred income		(28,378)	(2,000)
Fair value change on warrant liabilities		—	7,155,807
Finance costs		14,053,411	5,843,484
Gain on disposal of a subsidiary		—	(20,000)
Loss (gain) on disposal of property, plant and equipment		283,439	(15,777)
Stock-based compensation		227,845	205,239
Foreign exchange (gain) loss		(1,652,803)	1,054,859
Gain on disposal of a mining project		(6,932,324)	—
Change in non-cash operating working capital items:			
Accounts receivable		3,260,566	2,484,407
Prepaid expenses and deposits		(5,494,459)	(2,478,053)
Inventory		10,949,908	(18,211,328)
Deferred income		143,739	714,610
Accounts payable and accrued expenses		(8,715,669)	(26,690,220)
Cash generated from operations		148,269,058	22,815,820
Interest paid		(14,124,695)	(6,040,060)
Income taxes paid		(18,540,941)	(5,866,961)
<b>Net cash from operating activities</b>		<b>115,603,422</b>	<b>10,908,799</b>
<b>Investing activities</b>			
Payment for acquisition of property, plant and equipment		(70,999,776)	(13,230,847)
Deposits paid for acquisition of property, plant and equipment		(221,336)	—
Proceeds from disposal of property, plant and equipment		188,971	39,760
Acquisition of subsidiaries	27	—	13,614,522
Disposal of a subsidiary		—	20,000
Deposits from disposal of Dadiangou Gold Project	20(c)	—	11,597,414
Deposits paid to joint venture counterparty	20(c)	—	(5,181,972)
<b>Net cash (used in) from investing activities</b>		<b>(71,032,141)</b>	<b>6,858,877</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	Notes	2011 US\$	2010 US\$
<b>Financing activities</b>			
Proceeds from borrowings		73,952,323	7,549,791
Repayments of borrowings		(68,277,128)	(12,684,148)
Issuance of common shares		52,132	304,988,449
Repayment of term loan from CNG		—	(40,000,000)
<b>Net cash from financing activities</b>		<b>5,727,327</b>	<b>259,854,092</b>
Effect of foreign exchange rate changes on cash and cash equivalents		2,405,580	2,289
Net increase in cash and cash equivalents		52,704,188	277,624,057
Cash and cash equivalents, beginning of year		301,608,717	23,984,660
<b>Cash and cash equivalents, end of year</b>		<b>354,312,905</b>	<b>301,608,717</b>
Cash and cash equivalents are comprised of cash in bank		354,312,905	301,608,717
Supplemental cash flow information	30		

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

## 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 reserves in the People’s Republic of China (“PRC”). Particulars of the subsidiaries of the Company are set out in Note 35. The directors of the Company consider that China National Gold Group Corporation (“CNG”), a state owned company registered in Beijing, PRC which is controlled by State-owned Assets Supervision and Administration Commission of the State Council of the PRC, is able to exercise significant influence over the Company.

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 Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied the following new and revised standard, interpretation and amendments to standards issued by the International Accounting Standard Board and IFRS Interpretations Committee (“IFRIC”) which are effective for the financial year beginning January 1, 2011:

Amendments to IFRSs	Improvements to IFRSs issued in 2010
International Accounting Standard (“IAS”) 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The Group has applied IAS 24 Related Party Disclosures (as revised in 2009) for the first time in the current year. The application of IAS 24 (as revised in 2009) has resulted in changes in related party disclosures on the following aspect:

The Group is a government-related entity as defined in IAS 24 (as revised in 2009). IAS 24 (as revised in 2009) provides a partial exemption from the disclosure requirements for government-related entities whilst the previous version of IAS 24 did not contain specific exemption for government-related entities. Under IAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of IAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the government that has significantly influence over the Group and (b) other entities that are significantly influenced by the same government. Rather, in respect of these transactions and balances, IAS 24 (as revised in 2009), requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

IAS 24 (as revised in 2009) requires retrospective application. The application of IAS 24 (as revised in 2009) has had no effect on the amounts recognized or recorded in the consolidated financial statements for the current and prior years. However, the related party disclosures set out in Note 28 to the consolidated financial statements have been changed to reflect the application of IAS 24 (as revised in 2009).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Cont’d)

Except as described above, the application of the other new or revised IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on disclosures set out in these consolidated financial statements.

The Group has not early applied the following new or revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets <sup>1</sup>
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date and Transition Disclosures <sup>3</sup>
IFRS 9	Financial Instruments <sup>3</sup>
IFRS 10	Consolidated Financial Statements <sup>2</sup>
IFRS 11	Joint Arrangements <sup>2</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
IFRS 13	Fair Value Measurement <sup>2</sup>
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income <sup>5</sup>
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets <sup>4</sup>
IAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
IAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2011

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2013

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2015

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2012

<sup>5</sup> Effective for annual periods beginning on or after July 1, 2012

<sup>6</sup> Effective for annual periods beginning on or after January 1, 2014

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for the Group for annual period beginning on January 1, 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Cont’d)

#### IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). Under the Interpretation, the costs from this waste removal activity (“stripping”) which provide improved access to ore are recognized as a non-current asset (“stripping activity asset”) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with transitional provisions. The directors anticipate that the Interpretation will be adopted in the Group’s consolidated financial statements for the annual period beginning January 1, 2013. The Directors anticipate that the adoption of IFRIC 20 in the future may affect the period in which the stripping costs is charged to profit or loss. Under the existing policy, during the production phase, stripping costs are included in the costs of inventories based on the expected average stripping ratio.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance 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.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Basis of consolidation (Cont'd)

##### *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.

#### Business combination

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 share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; 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.

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, which cannot exceed one year from the acquisition date, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### 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 goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### 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.

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. 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 directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### Taxation

Income tax expense represents the sum of the current tax charge and 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 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 3. 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. Current and deferred tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

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.

#### 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.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

#### 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### 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.

#### 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

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method. 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.

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 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; stripping costs; and allocated indirect costs, including depreciation and depletion of mining interests.

##### *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. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 3. 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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 and the carrying amount of the component being replaced is derecognized. 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. 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 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 the condition necessary for it to be capable of operating in the manner intended by management, therefore, such costs incurred are capitalized as part of mineral assets 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. For those areas being developed which will be mined in future periods, the costs incurred are capitalized as part of mineral assets and depleted when the related mining area is mined.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 3. 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 actual production volume over the estimated total proven and probable reserves of the ore mines.

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.

Leasehold improvements are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

#### Mining rights

Mining rights are depreciated using the unit-of-production method based on the actual production volume over the estimated total proven and probable reserves of the ore mines.

##### *Mining rights 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 assets and mining rights

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and mining rights to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years.

### 3. 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) 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### 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", 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.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### *Financial assets (Cont'd)*

##### Impairment of financial assets (Cont'd)

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.

##### *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 acquisition 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### *Financial liabilities and equity instruments (Cont'd)*

##### Financial liabilities at FVTPL

Warrant liabilities, with exercise prices denominated in other than the Company's functional currency, and to acquire a fixed number of the entity's own equity instrument that were not offered on pro rata basis to all of the Company's existing non-derivative equity holders 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 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.

#### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Leases

Lease are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. 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 unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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.

#### 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. KEY SOURCES OF ESTIMATION UNCERTAINTY

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 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.

**4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)****(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. 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, the management of the Group (the "Management") reassessed the assumptions used in the valuation of gold in process and the costing of production of gold doré bars, particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads (the "Estimated Recovery Rate"). Based on the reassessment, the Management revised the Estimated Recovery Rate used in its inventory model from 43% to 48.8%. The increase in Estimated Recovery Rate led to a decrease in the average production cost of gold doré bars. The financial impacts resulted from the change in Estimated Recovery Rate on the consolidated statements of comprehensive income and consolidated statement of financial position are insignificant.

The carrying amount of gold in process as at December 31, 2011 is US\$23,407,804 (December 31, 2010: US\$34,391,977). And the carrying amount of gold doré bars as at December 31, 2011 is US\$8,506,475 (December 31, 2010: US\$9,044,958).

**(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 which amount is included in the technical report from independent valuer and assumed that the mining rights as able to be renewed by the Group without significant cost until the end of the of 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.

The directors of the Group believe that the Group is able to renew the mining rights without significant cost until the end of the life of the mine. If the estimates for the renewal of mining rights fail, the Group could be required to write down the recorded value of its property, plant and equipment.

The carrying amount of property, plant and equipment as at December 31, 2011 is US\$361,060,501 (December 31, 2010: US\$297,901,855).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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

#### (c) Mining rights

The Group's 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 mining rights is based on the amount of reserves expected to be recovered from the Jiama Mine which amount is included in the technical report from independent valuer and assumed that the mining rights as able to be renewed by the Group without significant cost until the end of the of the 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 mining rights, or to increase the amount of future amortization expense.

The directors of the Group believe that the Group is able to renew the mining rights without significant cost until the end of the life of the mine. If the estimates for the renewal of mining rights fail, the Group could be required to write down the recorded value of its mining rights.

The carrying amount of mining rights as at December 31, 2011 is US\$962,004,395 (December 31, 2010: US\$975,282,711).

#### (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, 2011, reduction of US\$127,101 were made due to change in discount rate (2010: addition of US\$55,528 was 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.

The carrying amount of environmental rehabilitation as at December 31, 2011 is US\$4,253,314 (December 31, 2010: US\$1,887,923).

### 5. GENERAL AND ADMINISTRATIVE

	2011 US\$	2010 US\$
Administration and office	5,469,635	1,366,027
Investor relations	640,579	290,157
Professional fees	2,217,123	716,682
Salaries and benefits <sup>(1)</sup>	7,444,560	1,984,132
Shareholder information, transfer agent and filing fees	264,786	381,892
Travel	997,725	402,565
Others	333,962	199,583
	<hr/>	<hr/>
Total general and administrative	<b>17,368,370</b>	<b>5,341,038</b>

<sup>(1)</sup> Stock-based compensation (a non-cash item) of US\$221,542 (2010: US\$397,825) has been included in salaries and benefits for the year ended December 31, 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 6. EXPLORATION AND EVALUATION EXPENDITURE

	2011 US\$	2010 US\$
Chang Shan Hao mine ("CSH Gold Mine") (Note 20(a))	467,251	594,453
Jiama Mine (Note 20(b))	—	39,111
Dadiangou Gold Project (Note 20(c))	—	73,167
Generative exploration	—	14,565
	<u>467,251</u>	<u>721,296</u>
Total exploration and evaluation expenditure <sup>(1) (2)</sup>	<u>467,251</u>	<u>721,296</u>

<sup>(1)</sup> Stock-based compensation (a non-cash item) of a US\$6,303 (2010: a credit of US\$93,752) has been included in exploration and evaluation expenditures for the year ended December 31, 2011. The negative stock-based compensation in 2010 is due to forfeitures.

<sup>(2)</sup> Salaries and benefits of US\$8,615 (2010: US\$101,546) has been included in exploration and evaluation expenditures for the year ended December 31, 2011.

### 7. FINANCE COSTS

	2011 US\$	2010 US\$
Effective interests on borrowings:		
– wholly repayable within 5 years	13,874,221	6,588,875
Accretion on environmental rehabilitation (Note 25)	179,190	164,096
	<u>14,053,411</u>	<u>6,752,971</u>
Less: Amount capitalized	—	(909,487)
Total finance costs	<u>14,053,411</u>	<u>5,843,484</u>

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. No interest has been capitalized for the year ended December 31, 2011 since there was no borrowing cost directly attributable to the acquisition, construction or production of qualifying assets (average capitalization rate in borrowing of 6.39% for the year ended December 30, 2010).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 8. INCOME TAX EXPENSE

The Company was incorporated in Canada and is subject to Canadian federal and provincial tax which are calculated at 26.5% (2010: 28.50%) of the estimated assessable profit for the year ended December 31, 2011. The Company had no assessable profit subject to Canadian federal and provincial tax since its incorporation.

PRC Enterprise Income Tax (“EIT”) is calculated at the prevailing tax rate of 25% on the estimated taxable profit of the group entities in the PRC for the years ended December 31, 2011 (2010: 25%) except as described below.

Tibet Huatailong Mining Development Co. Ltd. (“Huatailong”) and 墨竹工卡縣甲瑪工貿有限公司 (“Jiama Industry and Trade”), subsidiaries acquired in December 2010 (Note 27), was established in the westward development area of the PRC and subject to preferential tax rate of 15% of taxable profit until year 2020.

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\$156,872,000 and US\$67,300,000 at December 31, 2011 and 2010, 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:

	2011 US\$	2010 US\$
Current tax expense	28,734,317	13,498,808
Deferred tax expense	(6,214,816)	1,361,417
	<u>22,519,501</u>	<u>14,860,225</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 8. INCOME TAX EXPENSE (Cont'd)

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

	2011 US\$	2010 US\$
Profit before income tax	<u>104,481,895</u>	<u>42,000,224</u>
PRC EIT tax rate	<u>25%</u>	<u>25%</u>
Tax at the PRC EIT tax rate	<b>26,120,474</b>	10,500,056
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(990,073)</b>	(1,768,217)
Tax effect of tax losses not recognized	<b>484,737</b>	3,685,985
Tax effect of deductible temporary differences not recognized	–	250,178
Utilization of deductible temporary differences previously not recognized	<b>(2,710,764)</b>	–
Tax effect of non-deductible expenses	<b>1,738,050</b>	1,829,924
Tax effect of non-taxable income	<b>(2,182,969)</b>	–
Others	<u>60,046</u>	<u>362,299</u>
	<u><b>22,519,501</b></u>	<u>14,860,225</u>

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Property, Plant and equipment US\$	Environmental rehabilitation US\$	Mining Rights US\$	Inventory US\$	Prepaid lease payments US\$	Others US\$	Total US\$
At January 1, 2010	(2,563,002)	(399,780)	–	4,989,052	–	(686,669)	1,339,601
(Credit) charge to profit or loss	(1,822,666)	(72,200)	(171,105)	1,897,387	–	1,530,001	1,361,417
Acquisitions	<u>(4,491,264)</u>	<u>–</u>	<u>139,644,458</u>	<u>–</u>	<u>102,100</u>	<u>354,659</u>	<u>135,609,953</u>
At December 31, 2010	(8,876,932)	(471,980)	139,473,353	6,886,439	102,100	1,197,991	138,310,971
(Credit) charge to profit or loss	<u>(248,482)</u>	<u>(368,935)</u>	<u>(2,069,938)</u>	<u>(1,278,413)</u>	<u>(1,463)</u>	<u>(2,247,585)</u>	<u>(6,214,816)</u>
At December 31, 2011	<u>(9,125,414)</u>	<u>(840,915)</u>	<u>137,403,415</u>	<u>5,608,026</u>	<u>100,637</u>	<u>(1,049,594)</u>	<u>132,096,155</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 8. INCOME TAX EXPENSE (Cont'd)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2011 US\$	2010 US\$
Deferred tax assets	769,493	—
Deferred tax liabilities	<u>(132,865,648)</u>	<u>(138,310,971)</u>
	<u>(132,096,155)</u>	<u>(138,310,971)</u>

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

	2011 US\$	2010 US\$
Deferred income tax assets		
Tax loss carryforwards	12,546,726	12,061,989
Other tax deductible temporary differences	<u>1,786,061</u>	<u>4,496,825</u>
Total unrecognized deferred income tax assets	<u>14,332,787</u>	<u>16,558,814</u>

Other deductible temporary differences primarily comprise of share issue costs and cumulative eligible capital expenditures 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

## 9. PROFIT FOR THE YEAR

	2011 US\$	2010 US\$
Auditor's remuneration	<u>699,000</u>	<u>451,028</u>
Depreciation included in cost of sales	21,518,817	9,431,256
Depreciation included in administrative expenses (Note 5)	<u>333,962</u>	<u>199,583</u>
Total depreciation	<u>21,852,779</u>	<u>9,630,839</u>
Release of prepaid lease payments (included in cost of sales)	<u>162,687</u>	<u>7,447</u>
Amortization of mining rights (included in cost of sales)	<u>15,710,119</u>	<u>1,182,643</u>
Loss (gain) on disposal of property, plant and equipment	<u>283,439</u>	<u>(15,777)</u>
Staff costs		
Directors' emoluments (Note 10)	586,240	742,885
Retirement benefit contributions	396,704	52,500
Other staff costs <sup>(1)</sup>	<u>6,461,616</u>	<u>1,188,747</u>
Total salaries and benefits included in administrative expenses (Note 5)	7,444,560	1,984,132
Stock-based compensation	6,303	(93,752)
Other staff costs <sup>(1)</sup>	<u>8,615</u>	<u>101,546</u>
Total salaries and benefits included in exploration and evaluation expenditure (Note 6)	14,918	7,794
Staff costs included in cost of sales	<u>11,333,847</u>	<u>4,385,583</u>
Total staff costs	<u>18,793,325</u>	<u>6,377,509</u>
Operating lease payment	<u>547,889</u>	<u>131,629</u>
Bank interest income	<u>(2,417,327)</u>	<u>(64,852)</u>
Government subsidies <sup>(2)</sup>	<u>(2,006,746)</u>	<u>(2,000)</u>

(1) Amounts represent staff salaries and benefits.

(2) Government subsidies of approximately US\$1,978,000 have been received in 2011 to support the daily operation at Jiama mine from the local Finance Bureau in Tibet. There is no condition attaching to the subsidies and thus whole amount is recognised as other income in 2011. In addition, approximately US\$29,000 has been credited to other income from deferred income during the year ended December 31, 2011 (2010: US\$2,000) (Note 24).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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, 2011				Total US\$
	Fees US\$	Salaries and other benefits US\$	Retirement benefit contributions US\$	Stock-based compensation US\$	
Xiangdong Jiang*	—	229,857	2,181	10,773	242,811
Zhangming Wu*	—	75,741	1,897	—	77,638
Yunfei Chen	12,035	—	—	49,999	62,034
Ian He	18,177	—	725	60,772	79,674
Gregory Hall	12,042	—	—	49,999	62,041
John King Burns	12,043	—	—	49,999	62,042
	<u>54,297</u>	<u>305,598</u>	<u>4,803</u>	<u>221,542</u>	<u>586,240</u>

	For the year ended December 31, 2010				Total US\$
	Fees US\$	Salaries and other benefits US\$	Retirement benefit contributions US\$	Stock-based compensation US\$	
Xiangdong Jiang* (appointed on June 17, 2010)	—	226,944	2,101	24,706	253,751
Zhangming Wu*	—	—	—	—	—
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
	<u>114,621</u>	<u>226,944</u>	<u>3,495</u>	<u>397,825</u>	<u>742,885</u>

\* Executive director

None of the directors of the Company has waived any emoluments during the years ended December 31, 2011 and 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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

#### (b) Employees' emoluments

The five highest paid individuals included one (2010: two) directors for the year ended December 31, 2011. The emoluments of the remaining four (2010: three) individuals for the year ended December 31, 2011, are as follows:

	2011 US\$	2010 US\$
Employees		
Salaries and other benefits	478,999	446,909
Retirement benefit contributions	6,542	4,202
	<u>485,541</u>	<u>451,111</u>

Their emoluments were within the following bands:

	No. of individuals	
	2011	2010
HK\$Nil to HK\$1,000,000 (equivalent to approximately US\$Nil to US\$128,205)	3	1
HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately US\$128,206 to US\$192,307)	1	2
	<u>1</u>	<u>2</u>

During the years ended December 31, 2011 and 2010, 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 were paid or proposed during 2011, nor has any dividend been proposed since the end of reporting period (2010: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 12. EARNINGS PER SHARE

Earnings used in determining earnings per share (“EPS”) are presented below:

	2011 US\$	2010 US\$
Profit attributable to owners of the Company for the purpose of basic earnings per share	<u>79,407,664</u>	<u>26,226,703</u>
Weighted average number of shares, basic	396,153,549	189,770,654
Dilutive securities		
– Options	154,140	405,983
– Warrants	<u>—</u>	<u>492,928</u>
Weighted average number of shares, diluted	<u>396,307,689</u>	<u>190,669,565</u>
Basic earnings per share	<u>20.04 cents</u>	<u>13.82 cents</u>
Diluted earnings per share	<u>20.04 cents</u>	<u>13.76 cents</u>

### 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 which are denominated in the foreign currencies other than the respective group entities’ functional currencies are presented below:

	2011 US\$	2010 US\$
Denominated in:		
Canadian dollars (“CAD”)	454,821	1,123,829
Renminbi (“RMB”)	192,234,105	36,034,047
US\$	13,076,431	526,303
Hong Kong dollars (“HK\$”)	<u>52,963,486</u>	<u>250,853,579</u>
Total cash and cash equivalents	<u>258,728,843</u>	<u>288,537,758</u>

The bank balances carry interest rates ranging from 1.10% to 1.80% (2010: 0.001% to 0.95%) per annum for the year ended December 31, 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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 (net of business tax) (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 carrying interest at 0.36% per annum.

During the year ended December 31, 2011, such transaction was completed and the balance has been released from restricted cash to cash and cash equivalents (Note 20(c)).

### 15. ACCOUNTS RECEIVABLE

The Group's accounts receivable arise from the following sources: trade 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:

	2011 US\$	2010 US\$
Trade receivables	703,673	744,193
Less: allowance for doubtful debts	<u>(50,038)</u>	<u>(41,590)</u>
	653,635	702,603
VAT recoverable	—	2,085,831
GST receivable	20,802	72,427
Other receivables	1,036,019	825,213
Amounts due from shareholders (Note 28(a)) <sup>(1)</sup>	2,735,852	5,364,416
Amount due from a related company (Note 28(a)) <sup>(2)</sup>	<u>1,398,312</u>	<u>—</u>
Total accounts receivable	<u>5,844,620</u>	<u>9,050,490</u>

(1) Amount represents listing fee receivable from CNG and Rapid Result Investment Ltd ("Rapid Result"), amount is unsecured, interest free and repayable on demand.

(2) Amount represents consideration receivable from Gansu Zhongjin Gold Mining Co. Ltd, CNG's subsidiary, regarding the disposal of Dadiangou Gold Project set out in Note 20(c), amount is unsecured, interest free and repayable on demand.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 15. ACCOUNTS RECEIVABLE (Cont'd)

The Group's other receivables mostly represents employees' cash and travel advances as at December 31, 2011 and December 31, 2010. The employees' cash and travel advances are unsecured, interest free and repayable upon written notice from the Group.

At December 31, 2011 and 2010, nil trade receivable is from the gold dofe sale to CNG (note 28(a)). The Group allows an average credit period of 90 days and 180 days to its trade customers for gold dofe sales and copper sales, respectively.

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

	2011 US\$	2010 US\$
Less than 30 days	68,160	103,988
31 to 90 days	162,936	169,870
91 to 180 days	119,080	184,275
Over 180 days	<u>303,459</u>	<u>244,470</u>
	<u>653,635</u>	<u>702,603</u>

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of US\$422,539 and US\$244,470 at December 31, 2011 and 2010, 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:

	2011 US\$	2010 US\$
At January 1	41,590	—
Addition	<u>8,448</u>	<u>41,590</u>
At December 31	<u>50,038</u>	<u>41,590</u>

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.

The Group holds no collateral for any receivable amounts outstanding as at December 31, 2011 and 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 16. PREPAID EXPENSES AND DEPOSITS

	2011 US\$	2010 US\$
Deposits for mine supplies and services (note a)	3,151,621	2,006,484
Deposits for environmental protection (note b)	4,109,291	1,640,902
Deposits for spare parts	2,235,833	881,343
Deposit for acquisition of property, plant and equipment (note c)	221,336	—
Prepayment for the land use rights (note d)	794,496	754,980
Prepaid property insurance	303,533	331,621
Rent deposits	22,589	19,272
Other	975,840	179,779
	<hr/>	<hr/>
Total prepaid expenses and deposits	11,814,539	5,814,381
Less: Amounts that are utilized within one year shown under current assets	(6,371,619)	(3,418,499)
	<hr/>	<hr/>
Amounts that are utilized for more than one year shown under non-current assets	5,442,920	2,395,882
	<hr/>	<hr/>

Notes:

- a. The amount represents deposits paid to third party vendors for purchasing of raw materials and inventory consumable. Included in the deposits, as at December 31, 2011 US\$317,797 (December 31, 2010: nil) is expected to be received after one year and therefore shown as a non-current asset.
- b. The amount represents deposits paid to the PRC local land administration bureau for undertaking the restoration of land when the lease term is expired. Such amount is receivable upon the end of the mine life by contractual terms and is expected to be repaid after one year and subject to the approval of the PRC local land administration bureau, therefore it is shown as a non-current asset at both year end.
- c. The amount represents deposits paid to third party contractors for the acquisition of property, plant and equipment to expand its mining capacity in Tibet, the PRC. The amount is shown as non-current asset.
- d. The amount of RMB5,000,000 represents full amount paid to the PRC local land administration bureau for acquisition of land use rights in Tibet, the PRC as at December 31, 2011 and 2010, respectively. The approval procedure of the PRC government is still in progress and expected to be completed in the year 2012. The amount is shown as non-current asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 17. PREPAID LEASE PAYMENTS

	US\$		US\$
At January 1, 2010	—		
Acquired on acquisition of subsidiaries (note 27)	6,730,498		
Release to profit or loss	(7,447)		
Exchange realignment	<u>48,838</u>		
At December 31, 2010 and January 1, 2011	<b>6,771,889</b>		
Release to profit or loss	<b>(162,687)</b>		
Exchange realignment	<b><u>314,788</u></b>		
At December 31, 2011			<b><u>6,923,990</u></b>
		<b>2011</b>	2010
		<b>US\$</b>	US\$
Analyzed for reporting purpose:			
Current portion		<b>192,425</b>	137,808
Non-current portion		<b><u>6,731,565</u></b>	<u>6,634,081</u>
		<b><u>6,923,990</u></b>	<u>6,771,889</u>

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.

In 2010, the Group was in the process of obtaining the land use right certificate of a parcel of land included in prepaid lease payments with carrying amount of approximately US\$2,400,000 at December 31, 2010. The land use right certificate was subsequently obtained in 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 18. INVENTORY

	2011 US\$	2010 US\$
Gold in process	23,407,804	34,391,977
Gold dore bars	8,506,475	9,044,958
Consumables	4,355,930	3,616,043
Copper	2,071,173	2,608,811
Spare parts	3,055,508	2,331,308
	<hr/>	<hr/>
Total inventory	41,396,890	51,993,097
Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets)	(14,292,189)	(17,838,819)
	<hr/>	<hr/>
Amounts shown under current assets	27,104,701	34,154,278
	<hr/>	<hr/>

Note:

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

Inventory totaling US\$174,677,961 (2010: US\$67,555,131) for the years ended December 31, 2011 was recognized in cost of sales.

### 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 (“Jiama Cooperatives”), a non-controlling shareholder of Jiama Industry and Trade, a 51% owned subsidiary of the Company. 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 Jiama Cooperatives 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 Jiama Cooperatives, Jiama Cooperatives can use future distribution of dividend by Jiama Industry and Trade to settle the amount. The directors consider that the amount due from Jiama Cooperatives will not be repayable within one year; therefore, it is classified as non-current asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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\$
<b>COST</b>									
At January 1, 2010	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
Reversal of accrual	—	(196,539)	—	—	—	—	—	—	(196,539)
Additions	—	—	261,998	2,783,274	1,248,451	—	26,296,470	40,606,122	71,196,315
Disposals	—	—	(8,438)	—	(716,347)	—	—	—	(724,785)
Transfer from CIP	44,148,160	—	—	1,323,430	—	—	27,552,125	(73,023,715)	—
Environmental rehabilitation adjustment (Note 25)	—	—	—	—	—	—	2,097,037	—	2,097,037
Exchange realignment	5,783,202	—	21,746	2,076,164	208,534	—	2,616,040	2,096,273	12,801,959
At December 31, 2011	141,402,423	72,282,943	1,572,657	79,031,549	5,373,236	100,458	87,215,283	16,123,407	403,101,956
<b>ACCUMULATED DEPRECIATION</b>									
As at January 1, 2010	(864,813)	—	(503,867)	(5,152,288)	(479,685)	(4,566)	(3,412,040)	—	(10,417,259)
Provided for the year	(383,518)	(4,343,825)	(161,369)	(2,638,504)	(272,513)	(18,265)	(1,812,845)	—	(9,630,839)
Eliminated on disposals	—	—	19,070	—	29,911	—	—	—	48,981
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)
Provided for the year	(3,082,953)	(5,316,903)	(214,350)	(7,427,958)	(772,267)	(18,265)	(5,020,083)	—	(21,852,779)
Eliminated on disposals	—	—	2,532	—	249,843	—	—	—	252,375
Exchange realignment	(147,018)	—	(7,597)	(202,020)	(36,511)	—	(21,791)	—	(414,937)
At December 31, 2011	(4,487,893)	(9,660,728)	(866,648)	(15,432,683)	(1,285,059)	(41,096)	(10,267,348)	—	(42,041,455)
<b>CARRYING VALUE</b>									
At December 31, 2011	136,914,530	62,622,215	706,009	63,598,866	4,088,177	59,362	76,947,935	16,123,407	361,060,501
At December 31, 2010	90,213,139	68,135,657	650,118	65,045,976	3,906,474	77,627	23,428,137	46,444,727	297,901,855

Included in the cost above is US\$15,983,922 (2010: US\$15,983,922) as at December 31, 2011 in relation to finance costs which have been capitalized as crusher and mineral assets.

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

The above items of property, plant and equipment, except for constructions in progress (“CIP”) and mineral assets, are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	Over the shorter of the term of lease, or 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 assets mainly represent drilling and related costs incurred on sites with an existing mine and on areas within the boundary of a known mineral deposit which contains proven and probable reserves are capitalized prior to the commencement of production at the mine site. Mineral assets are depreciated using the unit-of-production method based on the actual production volume over the estimated total proven and probable reserves of the mines.

**Mineral Assets***(a) CSH Gold Mine*

The CSH Gold Mine consists of a licensed area of 36 square kilometers (“km<sup>2</sup>”) in the western part of Inner Mongolia, northern China. It is centrally positioned within the east-west-trending Tian Shan Gold Belt. The site is approximately 650 kilometers (“km”) northwest of Beijing. The carrying value of the CSH Gold Mine in relation to mineral assets is US\$36,354,701 as at December 31, 2011 (December 31, 2010: US\$22,658,972).

*(b) Jiama Mine*

The 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). The Jiama Mine holds two exploration and extraction permits covering an area of approximately 76.9 km<sup>2</sup> and 66.4 km<sup>2</sup>, respectively. The carrying value of the Jiama Mine in relation to mineral assets is US\$40,593,234 as at December 31, 2011 (December 31, 2010: US\$769,165).

*(c) Dadiangou Gold Project*

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

The Group decided to sell its interest in Gansu Pacific Mining Company Limited (“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, a company listed on the Shanghai Stock Exchange, in relation to the disposal of its entire interest in Gansu Pacific. Zhongjin Gold Corporation Limited is a subsidiary of CNG. As a result, the Group recorded the assets and liabilities of Gansu Pacific as assets classified as held for sale and liabilities classified as held for sale at December 31, 2009, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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

#### Mineral Assets (Cont'd)

##### (c) Dadiangou Gold Project (Cont'd)

On April 28, 2010, the Group and Nuclear Industry Northwest Economic Technology Company (“Nuclear Industry”), the non-controlling shareholder of Gansu Pacific, entered into an agreement to sell the Dadiangou Gold Project owned by Gansu Pacific to Gansu Zhongjin Gold Mining Co. Ltd. (the Purchaser), a subsidiary of Zhongjin Gold Corporation Limited. The sale of Dadiangou Gold Project is considered as a related party transaction. The consideration is RMB88 million (approximately US\$13.1 million), of which the Group entitled to 53%, or RMB46.6 million (approximately US\$7,215,012). The transaction was completed in November 2011 and the gain on disposal of this mining project was US\$6,932,324 (net of business tax).

At December 31, 2010, the Group had received deposit from the Purchaser of RMB79,200,000 (approximately US\$11,597,414) of which RMB35,400,00 (approximately US\$5,181,972) was paid to Nuclear Industry. The deposit kept by the Group of RMB43,800,000 (approximately US\$6,725,129) cannot be used until the completion of the disposal transaction, and thus such amount was included as restricted cash as at December 31, 2010. Along with the completion of this transaction, the amount was released from restricted cash to cash and cash equivalents at December 31, 2011.

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

##### Assets classified as held for sale (note)

	2011 US\$	2010 US\$
Cash	—	2,289
Accounts receivable	—	1,704
Property, plant and equipment	—	50,703
	<u>—</u>	<u>54,696</u>

##### Liabilities classified as held for sale

	2011 US\$	2010 US\$
Accounts payable	—	24,189

Note: Along with the completion of disposal of Dadiangou Gold Project in 2011, the related assets and directly related liabilities were disposed and respective amounts have been derecognised from the consolidated statement of financial position as at December 31, 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 21. MINING RIGHTS

	<b>Mining rights US\$</b>
<b>COST</b>	
At January 1, 2010	—
Acquired on acquisition of subsidiaries (Note 27)	976,092,004
Exchange realignment	<u>374,486</u>
At December 31, 2010 and January 1, 2011	976,466,490
Exchange realignment	<u>2,455,588</u>
At December 31, 2011	<u>978,922,078</u>
<b>ACCUMULATED AMORTIZATION</b>	
At January 1, 2010	—
Additions	(1,182,643)
Exchange realignment	<u>(1,136)</u>
At December 31, 2010 and January 1, 2011	(1,183,779)
Additions	(15,710,119)
Exchange realignment	<u>(23,785)</u>
At December 31, 2011	<u>(16,917,683)</u>
<b>CARRYING VALUE</b>	
At December 31, 2011	<u>962,004,395</u>
At December 31, 2010	<u>975,282,711</u>

Mining rights represent mining rights in the Jiama Mine acquired through the acquisition of the 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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:

	2011 US\$	2010 US\$
Accounts payable	48,388,211	49,913,680
Advances from customers	1,736,483	13,779,971
Deposit from sale of Dadiangou Gold Project (Note 20(c))	—	6,725,129
Mining cost accrual	2,118,338	1,510,257
Other accruals	2,320,585	8,580,665
Payroll and benefit accruals	5,143,046	3,185,045
Other tax payables	8,388,783	3,592,975
Other payables	2,440,517	3,548,555
	<u>70,535,963</u>	<u>90,836,277</u>

The following is an aged analysis of the accounts payable presented based on the invoice date at the end of the reporting period:

	2011 US\$	2010 US\$
Less than 30 days	14,281,536	16,212,997
31 to 90 days	5,827,444	11,991,558
91 to 180 days	7,297,733	13,875,510
Over 180 days	20,981,498	7,833,615
	<u>48,388,211</u>	<u>49,913,680</u>
Total accounts payable	<u>48,388,211</u>	<u>49,913,680</u>

Included within the Group's accounts payable are construction costs payable of approximately US\$29,588,300 (2010: US\$30,012,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 23. BORROWINGS

	Effective interest rate		Maturity	2011	2010
	2011	2010		US\$	US\$
	%	%			
Current					
Current portion of long-term loan – Agricultural Bank of China (“ABC”) (a)	6.56	5.18	December 9, 2012	12,711,932	1,517,197
Current portion of long-term loan – Bank of China (“BOC”) (b)	4.62	3.96	December 28, 2012	31,779,829	30,343,949
				<u>44,491,761</u>	<u>31,861,146</u>
Non-current					
Long-term loan – ABC (a)	6.56	5.18	March 9, 2013 to September 9, 2014	23,834,872	40,964,331
Long-term loan – BOC (b)	4.62	3.96	December 28, 2013 to December 28, 2014	47,669,744	75,353,123
Syndicated loan (c)	4.82	3.96	June 4, 2013 to June 4, 2016	111,547,201	64,467,664
				<u>183,051,817</u>	<u>180,785,118</u>
				<u>227,543,578</u>	<u>212,646,264</u>

#### (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. Supported by a guarantee from CNG. 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 was 5.18% per annum and adjusted to 6.56% per annum at December 31, 2011). The Term Loan principal is repayable through instalments of RMB20,000,000 due in June 2012 and further instalments of RMB30,000,000 each due in September 2012 and December 2012, RMB20,000,000, RMB20,000,000, RMB30,000,000 and RMB30,000,000 will be repayable for each of the quarters ended December 31, 2013, respectively. The remaining outstanding balance of the Term Loan is scheduled to be repaid in full in 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 23. BORROWINGS (Cont'd)

#### (b) BOC Loan

The loan was acquired through the acquisition of Skyland. 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 adjusted to 4.62% per annum of December 31, 2011) and is repayable in four annual installments starting from December 28, 2011. RMB200,000,000 has been paid during the year ended December 31, 2011. RMB200,000,000, RMB150,000,000 and RMB150,000,000 will be repayable on December 28, 2012, December 28, 2013 and December 28, 2014, respectively.

#### (c) Syndicated Loan

Skyland entered into a syndicated loan facility agreement with various banks on June 4, 2010 which is available for Skyland to draw down up to June 4, 2013. As at December 31, 2011, Skyland has drawn down the amount of the loan of RMB702,000,000 (equivalent to approximately US\$111,547,000) (December 31, 2010: RMB426,950,000 equivalent to US\$64,468,000). The unutilized facility was RMB48,000,000 (equivalent to approximately US\$7,620,000) (2010: RMB323,050,000 (equivalent to approximately US\$48,779,000)) as at December 31, 2011. The loan carries interest at the rate based on the People's Bank of China base rate (the interest rate at date of inception of loan agreement was 3.96% per annum and adjusted to 4.82% per annum at December 31, 2011). RMB100,000,000, RMB150,000,000, RMB200,000,000 and RMB252,000,000 will be repayable in June 2013, June 2014, June 2015 and June 2016, respectively.

	<b>December 31, 2011 US\$</b>	December 31, 2010 US\$
Within one year	44,491,761	31,861,146
More than one year, but not exceeding two years	55,614,702	39,447,133
More than two years, but not exceeding five years	<u>127,437,115</u>	<u>141,337,985</u>
	<b>227,543,578</b>	212,646,264
Less: Amounts due for settlement within 12 months (Shown under current liabilities)	<u>(44,491,761)</u>	<u>(31,861,146)</u>
	<u><b>183,051,817</b></u>	<u>180,785,118</u>

The loans were all supported by guarantees from CNG at December 31, 2010, which were all released during the year ended December 31, 2011. CNG's guarantees on the loans were replaced as the Group pledged certain assets to secure the loans. The carrying values of the pledged assets are as follows:

	<b>December 31, 2011 US\$</b>
Property, plant and equipment	246,992,832
Mining rights	<u>962,004,395</u>
	<u><b>1,208,997,227</b></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 24. DEFERRED INCOME

Pursuant to the approval notices issued by the Ministry of Finance Department of the PRC in July 2010 and by the 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. In addition, approximately RMB930,000 (equivalent to approximately US\$144,000) was further granted to IMP by local Finance Bureau in Inner Mongolia of the PRC in May 2011, in relation to construction of property, plant and equipment of the Group. 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, 2011, deferred income of approximately US\$29,000 (2010: US\$2,000) has been credited to profit or loss.

#### Movement in the deferred income:

	2011 US\$	2010 US\$
At January 1	712,610	—
Addition	143,739	714,610
Charged to other income	(28,378)	(2,000)
Exchange realignment	36,987	—
	<u>864,958</u>	<u>712,610</u>
At December 31		

### 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 and Jiama 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\$24,429,000 (2010: US\$9,905,000), discounted at 10.1% (2010: 9.8%) per annum at December 31, 2011. No assets have been legally restricted for the purposes of settling the environmental rehabilitation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 25. ENVIRONMENTAL REHABILITATION (Cont'd)

The following is an analysis of the environmental rehabilitation:

	2011 US\$	2010 US\$
At January 1	1,887,923	1,599,120
Additions to site reclamation	2,224,138	—
Reductions resulted from change in discount rate during the year	(127,101)	55,528
Accretion incurred in the current year	179,190	164,096
Exchange realignment	89,164	69,179
	<u>4,253,314</u>	<u>1,887,923</u>
At December 31		

### 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\$
Issued & fully paid:		
At January 1, 2010	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)
	<u>396,126,753</u>	<u>1,228,098,150</u>
At December 31, 2010 and January 1, 2011		
Exercise of stock option	37,000	85,537
	<u>396,163,753</u>	<u>1,228,183,687</u>
At December 31, 2011		

- (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 China National Gold Group Hong Kong Limited ("CNGHK") and Rapid Result, (collectively referred to the "Vendors"), to acquire 100% of Skyland from the Vendors. The Purchase Agreement provided that the Company would 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. The acquisition was completed on December 1, 2010 as more fully described in Note 27.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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

#### (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, 2011, there were 38,921,375 (2010: 38,832,675) options available for future grants.

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

	2011		2010	
	Number of options	Weighted average exercise price CAD	Number of options	Weighted average exercise price CAD
Balance at January 1	780,000	3.71	1,547,000	2.04
Options granted	—	—	400,000	5.12
Options exercised	(37,000)	1.45	(525,000)	1.76
Options forfeited	(48,000)	3.95	(642,000)	2.16
Options expired	—	—	—	—
Balance at December 31	695,000	3.93	780,000	3.71

295,000 stock options were granted during the year ended December 31, 2007 at exercise price of CAD2.2. These options will expire on July 20, 2013. 199,000 stock options are vested at December 31, 2011 while the remaining 96,000 stock options will vest on July 20, 2012.

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\$258,000 and US\$348,000 were charged to the profit or loss for the year ended December 31, 2011 and 2010 respectively.

No stock options were granted during the year ended December 31, 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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

#### (b) Stock options (Cont'd)

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

Expiring in	Options outstanding			Options exercisable	
	Number of stock options	Remaining contractual life (years)	Weighted average exercise price CAD	Number of stock options	Weighted average exercise price CAD
2013	295,000	1.56	2.20	199,000	2.20
2015	400,000	3.42	5.30	160,000	4.78
	<u>695,000</u>		<u>3.98</u>	<u>359,000</u>	<u>3.35</u>

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

Expiring in	Options outstanding			Options exercisable	
	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
	<u>780,000</u>		<u>3.71</u>	<u>216,500</u>	<u>2.16</u>

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

	On June 1, 2010
Risk free interest rate	1.996% to 2.599%
Expected life (years)	2.5 to 4.5
Expected volatility	82% to 88%
Expected dividend per share	\$Nil
Fair value per option granted	\$2.04 to \$2.41

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended December 31, 2011*

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

#### (c) Warrants

The following is a summary of number of warrants outstanding:

	2011 US\$	2010 US\$
Balance at January 1	—	4,060,000
Exercised	—	(4,060,000)
	<u>—</u>	<u>—</u>
Balance at December 31	—	—

The following is a summary of warrants amounts outstanding:

	January 1, 2011 to December 31, 2011 US\$	January 1, 2010 to December 31, 2010 US\$
Balance at January 1	—	5,286,123
Exercised	—	(12,441,930)
Fair value change on warrant liabilities	—	7,155,807
	<u>—</u>	<u>—</u>
Balance at December 31	—	—

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 to acquire a fixed number of the Company's own equity instrument were not offered on pro rata basis to all of the Company's existing non-derivative equity holders, the 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 and upon conversion. All the warrants had been exercised as at June 30, 2010 and the fair values of the warrants as at June 30, 2010 was determined based on a risk free annual interest rate of 1.44%, an expected life of 2.5 years, an expected volatility of 94.57%, and a dividend yield rate of Nil. Upon exercise of the warrants, the fair value of warrants included in derivative liabilities were reclassified to equity.

No warrants were outstanding at December 31, 2011 and 2010.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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	<u>US\$4.76</u>
Total consideration	<u>US\$810,926,039</u>

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.

The Company and the Vendors have reached agreement in respect of the calculation of the Purchase Price Adjustment during the year ended December 31, 2011 and no adjustment is required to make on the number of Consideration Shares issued upon the closing date of the acquisition (i.e. December 1, 2010).

The number of Consideration Shares and the fair value of purchase consideration for the acquisition of the Skyland Group, and the fair value of mining rights acquired (and related tax effect) as disclosed in the Group's consolidated financial statements for the year ended December 31, 2010 are then determined to be finalized without making any adjustments hereafter.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended December 31, 2011*

### 27. ACQUISITION OF SUBSIDIARIES (Cont'd)

**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
Mining rights	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	<u>(135,556,155)</u>
	769,621,290
Shareholders' loan	42,300,000
<b>Non-controlling interest</b>	<u>(995,251)</u>
	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 recognized 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.

**Net cash inflow on acquisition:**

	US\$
Cash and cash equivalent balances acquired	13,614,522
Less: cash consideration paid	<u>—</u>
	<u>13,614,522</u>

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 year 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 28. RELATED PARTY TRANSACTIONS

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significant influenced by the PRC government (hereinafter collectively referred to as “Government-related entities”). In addition, the Group itself is a Government-related entity. CNG, a substantial shareholder with significant influence over the Group, is a state owned company registered in Beijing, PRC, which is controlled by State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

During the year, except as disclosed below, the Group did not have any individually significant transactions with other Government-related entities in its ordinary and usual course of business.

Name and relationship with related parties during the years are as follows:

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

	December 31, 2011 %	December 31, 2010 %
CNG	<u>39.3</u>	<u>39.0</u>

#### (a) Transactions/balances with government-related entities in the PRC

##### (i) Transactions/balance with CNG and its subsidiaries

Other than those transactions disclosed in Note 20(c), the Group had the following transactions with CNG and CNG's subsidiaries:

	December 31, 2011 US\$	December 31, 2010 US\$
Gold dore sales	205,015,134	115,703,757
Silver sales (netted in cost of sales)	—	1,056,118
Interest expense	—	3,019,636
	<u>                    </u>	<u>                    </u>

Interest expense was paid to CNG for a borrowing which was fully repaid in 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

## 28. RELATED PARTY TRANSACTIONS (Cont'd)

### (a) Transactions/balances with government-related entities in the PRC

#### (i) Transactions/balance with CNG and its subsidiaries (Cont'd)

The Group has the following significant balances with CNG and its subsidiaries at the end of each reporting period:

	December 31, 2011 US\$	December 31, 2010 US\$
<b>Assets</b>		
Restricted cash received from CNG's subsidiary from sales of Dadiangou Gold Project (Note 14)	—	6,725,129
Listing expense receivable (Note 15)	2,735,852	2,735,852
Other receivables (Note 15) <sup>(1)</sup>	1,398,312	—
Deposits for mine supplies and services (Note 16)	730,301	—
	<u>4,864,465</u>	<u>9,460,981</u>
Total amounts due from CNG and its subsidiaries	<u>4,864,465</u>	<u>9,460,981</u>

The amounts due from CNG and its subsidiaries, which are included in accounts payable, are non-interest bearing, unsecured and have no fixed terms of repayments.

	December 31, 2011 US\$	December 31, 2010 US\$
<b>Liabilities</b>		
Other payable to CNG	31,780	30,199
Consideration received from sales of Dadiangou Gold Project <sup>(1)</sup>	—	6,725,129
Other payable to CNG's subsidiaries <sup>(2)</sup>	1,158,600	117,569
	<u>1,190,380</u>	<u>6,872,897</u>
Total amounts due to CNG and its subsidiaries	<u>1,190,380</u>	<u>6,872,897</u>

(1) Amount represents considerations receivable from the buyer of the Dadiangou Project, Gansu Zhongjin Gold Mining Co. Ltd, subsidiary of CNG.

(2) Amount as at December 31, 2011 represents mainly disposal proceeds due to Nuclear Industry Northwest Economic and Technology Company, subsidiary of CNG, the non-controlling shareholder of Dadiangou Project, after the sale of the project.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 28. RELATED PARTY TRANSACTIONS (Cont'd)

#### (a) Transactions/balances with government-related entities in the PRC (Cont'd)

##### (ii) Transactions/balances with other government – related entities in the PRC

Apart from the transactions with CNG and its subsidiaries disclosed above, the Group also conduct business with other government – related entities. The Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities which are government – related entities in its ordinary course of business. Over 79% (2010: over 99%) of its bank deposits and borrowings are with government related entities.

#### (b) Transactions/balances with other non-government related parties/entities

The Group has the following significant balances with related parties at the end of each reporting period:

	2011 US\$	2010 US\$
<b>Assets</b>		
Listing expense receivable from Rapid Result Investment Ltd., the shareholder of the Company with significant influence	—	2,628,564
Amount due from a non-controlling shareholder with significant influence over a subsidiary	<u>415,839</u>	<u>419,768</u>
Total amounts due from related parties	<u>415,839</u>	<u>3,048,332</u>

The amounts due from the related parties are non-interest bearing, unsecured and have no fixed terms of repayments.

Other than director's emoluments disclosed in Note 10(a), the Group has the following compensation to other key management personnel during the years:

	2011 US\$	2010 US\$
Salaries and other benefits	411,071	434,464
Post employment benefits	<u>6,543</u>	<u>4,247</u>
	<u>417,614</u>	<u>438,711</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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.

#### (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, 2011

	Mine- produced gold US\$	Mine- produced copper US\$	Segment total and consolidated US\$
<b>REVENUE – EXTERNAL</b>	<u>214,479,512</u>	<u>96,832,279</u>	<u>311,311,791</u>
<b>SEGMENT PROFIT</b>	<u>95,080,083</u>	<u>25,680,941</u>	120,761,024
General and administrative			(17,368,370)
Exploration and evaluation expenditure			(467,251)
Gain on disposal of a mining project			6,932,324
Foreign exchange gain, net			2,353,506
Interest and other income			6,324,073
Finance costs			<u>(14,053,411)</u>
Profit before income tax			<u>104,481,895</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 29. SEGMENT INFORMATION (Cont'd)

#### (a) Segment revenues and results (Cont'd)

For the year ended December 31, 2010

	Mine- produced gold US\$	Mine- produced copper US\$	Segment total and consolidated US\$
<b>REVENUE – EXTERNAL</b>	<u>128,405,548</u>	<u>4,792,112</u>	<u>133,197,660</u>
<b>SEGMENT PROFIT</b>	<u>63,884,971</u>	<u>671,366</u>	64,556,337
General and administrative			(5,341,038)
Exploration and evaluation expenditure			(721,296)
Gain on disposal of a subsidiary			20,000
Foreign exchange loss, net			(1,479,520)
Interest and other income			66,852
Finance costs			(5,843,484)
Fair value change on warrant liabilities			(7,155,807)
Listing expenses			<u>(2,101,820)</u>
Profit before income tax			<u>42,000,224</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the mine operating earnings earned by each segment representing the revenues less direct cost of sales as shown on the consolidated statements of comprehensive income. 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 in 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

## 29. SEGMENT INFORMATION (Cont'd)

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by segment:

<b>Segment assets</b>	<b>2011</b>	<b>2010</b>
	<b>US\$</b>	<b>US\$</b>
Mine-produced gold	179,358,098	174,669,469
Mine-produced copper	<u>1,205,136,024</u>	<u>1,164,270,352</u>
Total segment assets	<b>1,384,494,122</b>	1,338,939,821
Assets classified as held-for-sale	—	54,696
Cash and cash equivalents	354,312,905	301,608,717
Restricted cash	—	6,725,129
Accounts receivable	4,435,819	7,737,500
Prepaid expenses and deposits	412,019	354,089
Property, plant and equipment	118,814	202,781
Deferred tax assets	<u>769,493</u>	—
Consolidated assets	<u><b>1,744,543,172</b></u>	<u>1,655,622,733</u>
<b>Segment liabilities</b>		
Mine-produced gold	43,675,240	33,832,667
Mine-produced copper	<u>47,602,072</u>	<u>52,949,165</u>
Total segment liabilities	<b>91,277,312</b>	86,781,832
Liabilities classified as held-for-sale	—	24,189
Amounts payable and accrued expenses	2,215,445	14,286,825
Borrowings	227,543,578	212,646,264
Deferred lease inducement	109,516	143,213
Deferred tax liabilities	<u>132,865,648</u>	<u>138,310,971</u>
Consolidated liabilities	<u><b>454,011,499</b></u>	<u>452,193,294</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 29. SEGMENT INFORMATION (Cont'd)

#### (c) Other segment information

	2011				
	Mine-produced gold US\$	Mine-produced copper US\$	Segment total US\$	Unallocated US\$	Total US\$
<i>Amount included in the measure of segment profit or loss or segment assets</i>					
Additions of					
property, plant and equipment	23,224,286	47,972,029	71,196,315	—	71,196,315
Depreciation of property, plant and equipment	(12,544,318)	(9,308,461)	(21,852,779)	—	(21,852,779)
Amortization of mining rights	—	(15,710,119)	(15,710,119)	—	(15,710,119)
Release of prepaid lease payments	—	(162,687)	(162,687)	—	(162,687)
Gain (loss) on disposal of property, plant and equipment	25,224	(308,663)	(283,439)	—	(283,439)

	2010				
	Mine-produced gold US\$	Mine-produced copper US\$	Segment total US\$	Unallocated US\$	Total US\$
<i>Amount included in the measure of segment profit or loss or segment assets</i>					
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 mining rights	—	(1,182,643)	(1,182,643)	—	(1,182,643)
Release of prepaid lease payments	—	(7,447)	(7,447)	—	(7,447)
Gain on disposal of property, plant and equipment	15,777	—	15,777	—	15,777

#### (d) Geographical information

The Group operated in two geographical areas, Canada and the PRC. The Group's corporate division located in Canada only earns revenue 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, 2011 and 2010, the Group's revenue was generated from gold sales and copper multi products to customers in the PRC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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:

	2011 US\$	2010 US\$
Revenue from customers attributable to gold sales		
– CNG	<u>205,105,134</u>	<u>115,703,757</u>

The Group sells approximately 95.6% and 90.1% of its gold to one creditworthy customer, CNG who is also the Group's substantial shareholder for the years ended December 31, 2011 and 2010, respectively.

### 30. SUPPLEMENTAL CASH FLOW INFORMATION

#### Non-cash investing and financing activities

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

	2011 US\$	2010 US\$
Value of warrants transferred to share capital upon exercise	—	12,441,930
Transfer of share option reserve upon exercise of options	<u>33,405</u>	<u>554,814</u>

### 31. CAPITAL RISK MANAGEMENT

The Group manages its common shares and stock options 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's overall strategy remains unchanged from prior years.

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 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 fixed bank deposits with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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, 2011 and 2010 (see Note 20(c)).

	<b>Financial instrument classification</b>	<b>2011 US\$</b>	<b>2010 US\$</b>
<i>Financial assets</i>			
Cash and cash equivalents	Loans and receivables	<b>354,312,905</b>	301,608,717
Restricted cash	Loans and receivables	—	6,725,129
Accounts receivable	Loans and receivables	<b>5,844,620</b>	9,050,490
Amount due from a non-controlling shareholder	Loans and receivables	<b>415,839</b>	419,768
<i>Financial liabilities</i>			
Accounts payable*	Other financial liabilities	<b>50,828,728</b>	60,187,364
Long-term loans	Other financial liabilities	<b>115,996,377</b>	148,178,600
Syndicated loan	Other financial liabilities	<b>111,547,201</b>	64,467,664

\* Excluded advances from customers, other tax payables and accruals.

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 Group's financial instruments are exposed to certain financial risks including market risk (currency risk and interest rate 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, 2011 and 2010 as the amounts involved and the risk exposure are considered insignificant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 32. FINANCIAL INSTRUMENTS (Cont'd)

#### (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 PRC and Canada and their functional currency is US\$. A significant change in the currency exchange rates between 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.

#### RMB monetary assets and liabilities

	2011 US\$	2010 US\$
Cash and cash equivalents	192,234,105	36,034,047
Accounts receivable	190,147	153,251
Accounts payable and accrued expenses	(18,145,765)	(8,557,847)
Borrowings	(36,546,804)	(42,481,528)
	<u>137,731,683</u>	<u>(14,852,077)</u>

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2010: 4%) appreciation/depreciation of the RMB against the US\$ would result in an increase/decrease in the Group's profit for the year of approximately US\$5,165,000 for the year ended December 31, 2011 and a decrease/increase in the Group's profit for the year of approximately US\$446,000 for the year ended December 31, 2010.

#### (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 variable-rate bank borrowings (see note 23 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the 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 (2010: 25 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 for the year of the Group for the year ended December 31, 2011 and 2010 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 32. FINANCIAL INSTRUMENTS (Cont'd)

#### (b) Interest rate risk (Cont'd)

For bank balances, the analysis below reflects the sensitivity that the interest rate may drop by 25 basis points (2010: 25 basis points).

	2011 US\$	2010 US\$
25 basis points (2010: 25 basis points) higher	<u>138,000</u>	<u>(291,000)</u>
25 basis points (2010: 25 basis points) lower	<u>(138,000)</u>	<u>291,000</u>

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

#### (c) 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 95.6% (2010: 90.1%) of its gold to one creditworthy customer, CNG, who is also the Group's substantial shareholder for the years ended December 31, 2011 and 2010 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 PRC 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 had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in the PRC or Canada for the years ended December 31, 2011 and 2010.

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.

#### (d) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 32. FINANCIAL INSTRUMENTS (Cont'd)

#### (d) Liquidity risk (Cont'd)

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.

To the extent that interests flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Closing interest rate %	Within 1 year US\$	1 – 2 years US\$	2 – 5 years US\$	Total undiscounted cash flow US\$	Carrying amount US\$
<b>At December 31, 2011</b>						
Accounts payable and accrued expenses	—	50,828,728	—	—	50,828,728	50,828,728
Floating-rate borrowings:						
ABC loan (Note 23 (ii))	6.56	14,937,160	17,098,152	8,218,958	40,254,270	36,546,804
BOC loan (Note 23(iii))	4.62	35,544,203	26,100,430	25,000,278	86,644,911	79,449,573
Syndicated loan (Note 23(ii))	4.82	5,466,185	20,962,472	103,524,421	129,953,078	111,547,201
		<u>106,776,276</u>	<u>64,161,054</u>	<u>136,743,657</u>	<u>307,680,987</u>	<u>278,372,306</u>
<b>At December 31, 2010</b>						
Accounts payable and accrued expenses	—	60,187,364	—	—	60,187,364	60,187,364
Floating-rate borrowings:						
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
		<u>101,029,329</u>	<u>47,096,409</u>	<u>151,635,996</u>	<u>299,761,734</u>	<u>272,833,628</u>

#### (e) Fair value

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

#### *Fair value measurement recognised in the statement of financial position*

The measurement of warrants derivatives is categorised as Level 3 fair value measurements based on the degree to which the fair value is observable. 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). Reconciliation of Level 3 fair value measurement was made in Note 26(c).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 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:

	December 31, 2011 US\$	December, 31, 2010 US\$
Within one year	1,415,220	230,476
In the second to fifth year inclusive	976,804	679,583
Over five years	1,055,166	740,485
	<u>3,447,190</u>	<u>1,650,544</u>

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for a term of 3 to 5 years.

	December 31, 2011 US\$	December 31, 2010 US\$
Capital commitments		
Capital expenditure in respect of acquisition of property, plant and equipment in the consolidated financial statements		
– contracted but not provided for	<u>58,440,653</u>	<u>38,552,671</u>

#### 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.

### 34. RETIREMENT BENEFITS SCHEME

The employees of the Group's subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute 10% of the total monthly basic salaries of the current employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to the consolidated statements of comprehensive income of approximately US\$723,354 and US\$176,299 for the years ended December 31, 2011 and 2010, respectively, represent contributions payable to the scheme by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 35. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2011 and 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,		Principal activities
			2011	2010	
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\$130,000 (2010: US\$80,000)	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\$119,000 (2010: US\$69,000)	100%	100%	Investment holding
Gansu Pacific	Gansu, PRC September 18, 2006	RMB30,365,345	53%	53%	Engaged in exploration and development of mining properties in China
Skyland	Cayman Islands October 6, 2004	US\$41,305,016 RMB182,992,800	100%	100%	Investment holding
Tibet Jia Ertong Minerals Exploration Ltd.	PRC October 31, 2003	US\$178,920,000 (2010: US\$55,000,000)	100%	100%	Exploration, development and mining of mineral properties and investment holding
Huatailong	PRC January 11, 2007	RMB1,170,000,000 (2010: RMB371,800,000)	100%	100%	Exploration, development and mining of mineral properties
Jiama Industry and Trade	PRC December 1, 2009	RMB5,000,000	51%	51%	Mining logistics and transport business
Skyland Mining (BVI) Limited	BVI October 26, 2010	US\$1.00	100%	100%	Inactive



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

### 36. FINANCIAL SUMMARY OF THE COMPANY

	2011 US\$	2010 US\$
<b>Current assets</b>		
Cash and cash equivalents	155,975,456	252,340,437
Accounts receivable	20,802	5,547,875
Prepaid expenses and deposits	412,019	354,089
	<u>156,408,277</u>	<u>258,242,401</u>
<b>Non-current assets</b>		
Property, plant and equipment	127,060	209,415
Loan receivables from subsidiaries	46,491,824	43,591,892
Investment in subsidiaries	886,988,225	784,433,603
Amounts due from subsidiaries	45,197,204	67,264,999
	<u>978,804,313</u>	<u>895,499,909</u>
<b>Total assets</b>	<u>1,135,212,590</u>	<u>1,153,742,310</u>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	1,421,253	6,546,556
<b>Non-current liabilities</b>		
Deferred lease inducement	109,516	143,213
Total liabilities	<u>1,530,769</u>	<u>6,689,769</u>
<b>Net current assets</b>	<u>154,987,024</u>	<u>251,695,845</u>
<b>Total assets less current liabilities</b>	<u>1,133,791,337</u>	<u>1,147,195,754</u>
<b>Owners' equity</b>		
Share capital	1,228,183,687	1,228,098,150
Reserves	2,970,312	2,775,872
Deficits	(97,472,178)	(83,821,481)
<b>Total owners' equity</b>	<u>1,133,681,821</u>	<u>1,147,052,541</u>
<b>Total liabilities and owners' equity</b>	<u>1,135,212,590</u>	<u>1,153,742,310</u>

### 37. EVENT AFTER THE REPORTING PERIOD

The Group has no material event after the end of the reporting period.



**中國黃金國際資源有限公司**  
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